A night-time photograph of the Dubai skyline, featuring the Burj Khalifa and other illuminated skyscrapers reflected in the water.

Research Highlight:

DO MSME PATRONAGE FACTORS CORRESPOND TO UAE ISLAMIC BANKER PERCEPTIONS?

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INTRODUCTION

According to UAE Ministry of Economy, the SME sector represents more than 94 per cent of the total number of companies operating in the country and provide jobs for more than 86 per cent of the private sector's workforce. There are more than 350,000 companies working at the SMEs platform, and providing over 86 percent of the private sector's total workforce. They contribute to more than 60 percent of the UAE non-oil GDP.¹ According to the Central Bank of UAE's data, credit provided to microenterprises grew 26.3% during the period from December 2017 through March 2019. Total credit facilities provided to MSMEs in the UAE amounted to AED88.7 billion by the end of Q1- 2019. These statistics signify the dependence of the MSMEs on the Banking sector in the region.

It is evident that the banking sector in the UAE is extremely competitive, and it is important for the banking industry to have knowledge of the factors driving MSME patronage for Islamic over conventional banks in the dual banking system. The Islamic banking and finance industry has received a fair amount of recognition from customers, investors and institutions in recent years despite the strong competition from conventional banks in the UAE. The successful growth of the industry however, is reliant upon effective marketing strategies and expenditure in improving brand positioning and increasing patronage, especially with respect to MSMEs. The level of knowledge of bank employees about the products and services offered by them, and understanding the perception of customers towards these products and services is significant, as the lack of knowledge would not only lead to reputational risk but also operational and fiduciary risks. Tsai et al. (2011) indicate that it is critical for banks to recognize customers' inclinations and to identify the relative benefits that consumers perceive to obtain from the features of the product or service offered to them. As far as Islamic banks are concerned, one way to effectively comprehend this perception is to investigate the differences in patronage factors influencing 'MSME clients' to bank Islamically, and to identify the reasons bankers perceive that their customers bank with them in the United Arab Emirates.

¹ Retrieved from Govt. of UAE website.
<https://www.government.ae/en/information-and-services/business/crowdfunding/the-impact-of-smes-on-the-uae-economy>

Religiosity is certainly the obvious rationale, but how many MSME clients will seriously consider this as ‘the factor’ for selection or switching from the services provided by their current banks? For MSMEs, it is important to know their expectations and strategize to attract more clients that may not be inclined towards religiosity but rather to cost-effectiveness and efficiency. The bankers must provide the services expected in order to remain competitive, and the perceptions of MSMEs will certainly help Islamic banks improve their marketing strategies to acquire more business in the future. Hence, it is crucial for the Islamic banks to ascertain the perception of MSMEs as important stakeholders in contemporary practice. It is also relevant to find out whether Islamic banking is considered as just another niche-market with religious branding that provides an alternative investment and financing opportunities or is it an industry that has firm religious commitment in its operations that cater for those that are spiritually bound by the religion. This will not only help banks to improve the awareness of their products and services but improve their market penetration strategies. It is possible that the perception of all Islamic banking stakeholders may be driving the industry to convergence with the conventional banking system, consequently placing at risk its long-term survival as a niche banking industry. It is crucial though, for Islamic banks to understand the perception of their MSME clients and reconcile the perceived perception with their own employees to penetrate the market more effectively and stay competitive.

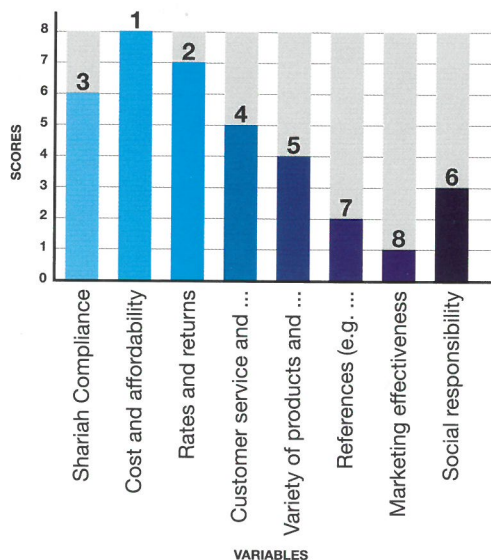
A total of 237 and 70 balanced responses were collected from Islamic bankers and MSMEs who are situated in UAE using self-administered questionnaires. Samples were collected through a stratified random sampling technique. Rank weighted average scores employed for ranking selection criteria across the data set, and paired comparison was conducted to analyse the variation of selection criteria between the data sets.

Figure 1 portrays the survey results of bankers and MSMEs perception on selection criteria factors. Figure 2 presents the graphical presentation of the paired comparison survey results between bankers’ perception towards MSME clients and MSME clients’ perception. The figure indicates that Islamic banking practitioners maintain an indistinguishable perception with MSME clients in respect of selection criteria of Islamic banks’ products and services except for two factors i.e. ‘Shariah compliance’ and ‘Customer service and convenience’. According to the Bankers’ perception, the third rank was awarded to Shariah compliance in relation to institutional clients’ selection criteria. However, the third criterion chosen by the MSMEs was Customer service & convenience instead of Shariah compliance. Consequently, the perceived lower importance awarded to Customer service & convenience criteria by bankers warranted more weightage in the selection criteria by MSME clients.



2 For the MSMEs, the strata are designed based on the industry classification indicated by central bank of UAE; For Bankers, the strata are designed based on the department in which the practitioners are employed, and the survey covered fully fledged, Islamic bank windows and foreign Islamic banks operating in UAE

**VARIABLE SCORE AND RANKING-
BANKERS'S PERCEPTION**



**VARIABLE SCORE AND RANKING-
MSME'S PERCEPTION**

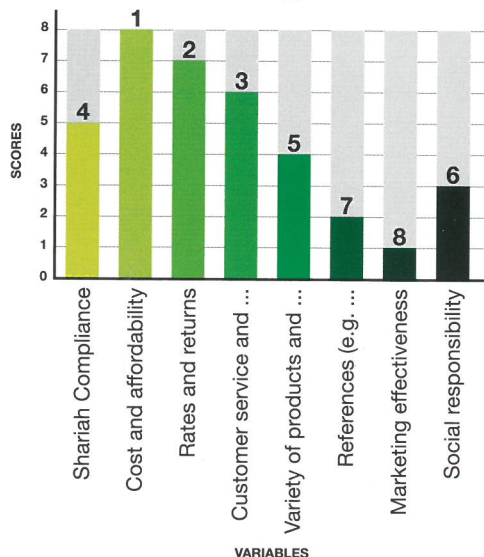


Figure 1

PAIRED COMPARISON ANALYSIS

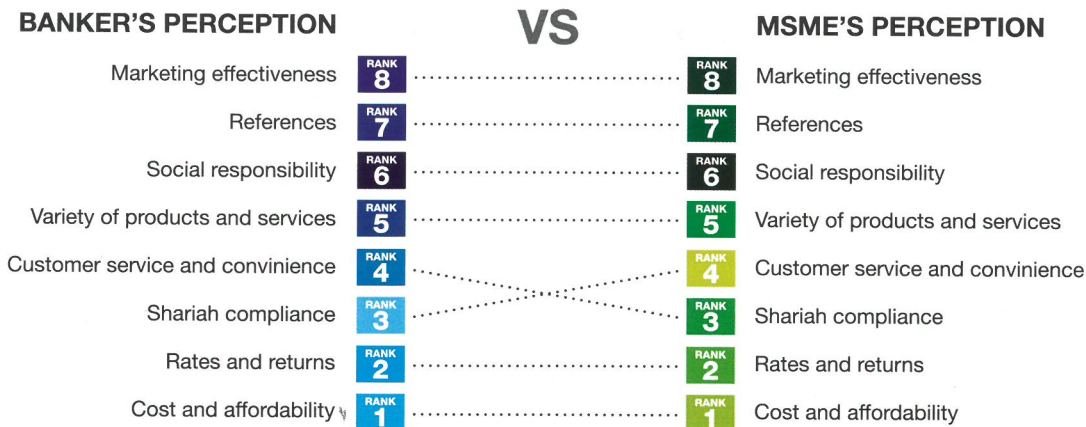


Figure 2

CONCLUSION AND POLICY IMPLICATIONS

The mixed perception between the Islamic banking industry and MSMEs requires urgent attention. In order to serve these clients more effectively and appropriately, a better understanding of their priorities and preferences is required. Further, the preference of 'Cost & affordability' and 'Rates & return' over the Shariah compliance parameter by Institutional clients is a significant indicator that the Islamic banks in the UAE can no longer rely on religious sentiments to attract institutional customers. An increased focus should be on other factors through their marketing strategy to effectively serve institutional clients and ultimately increase Islamic banking market share in the country. The findings of this study have implications for firms' strategic directions and future investments of organizations, especially when the competition in the industry is intense. Future studies are recommended in other countries where the Islamic financial market share is significant.