



## **Determinants of SMEs' Adoption of Sharia Bank Products**

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### **Abstract**

This study investigates the influence of promotion on Islamic Bank product adoption among SMEs in the Kediri Residency region, employing a quantitative approach with data collected through questionnaires distributed to registered SME actors. The research reveals that while promotion does not directly positively impact product adoption decisions, it indirectly enhances Islamic Banks' image and customer trust, thereby increasing the likelihood of product adoption. By demonstrating the complex relationship between promotional strategies and SME decision-making, the study highlights the importance of comprehensive marketing approaches that focus on building institutional credibility and trust, rather than relying solely on traditional promotional techniques. The findings offer valuable insights for Islamic Banks seeking to expand their market presence and effectively engage with SME stakeholders in an increasingly competitive financial landscape.

**Keywords:** Promotion, Image, Trust, Adoption, Islamic Banking

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## INTRODUCTION

The role of small and medium-sized enterprises in driving economic growth and innovation is well-established, making their financial health and access to appropriate financial services a critical concern for policymakers and economists alike. However, existing research has highlighted the significant barriers that SMEs face in accessing formal sources of finance, particularly in developing economies (Baidoo et al., 2020; Beck & Demircug-Kunt, 2006). This constraint can impede the growth and competitiveness of SMEs, potentially limiting their contribution to broader economic development.

In recent years, Islamic financing models have gained increasing attention as a potential solution to the financing challenges faced by SMEs. The underlying principles of Sharia-compliant financing, such as risk-sharing and the prohibition of interest, may offer a more suitable alternative to traditional debt-based financing for small businesses. This study aims to investigate the determinants of SMEs' adoption of Sharia bank products, shedding light on the factors that drive or hinder their utilization of this emerging financial paradigm.

The existing literature on SME financing in developing countries has highlighted several key factors that influence their access to and usage of formal financial services. Constraints such as limited collateral, lack of financial literacy, and information asymmetries between lenders and borrowers have been identified as significant barriers to SMEs' ability to secure financing from traditional banking institutions. In the context of Sharia-compliant financing, additional considerations may include the SME's understanding of Islamic finance principles, the availability and accessibility of Sharia-based financial products, and the perceived compatibility of these offerings with the needs and preferences of the business (Fauzi & Suhartanto, 2022; Huda, 2012; Kumar & Rao, 2015; Shaikh & Khoso, 2019).

Existing research has also explored the potential benefits of Islamic financing for SMEs, including the reduction of risk perception, access to social subsidies, and the alignment of financing structures with broader sustainable development goals. These factors may serve as important motivators for SMEs to explore and adopt Sharia bank products, particularly in economies where access to traditional financing remains constrained (Niranjala & Jianguo, 2017; Shaikh & Khoso, 2019).

Religious promotion is pivotal in Islamic Banking (IB) adoption, with studies revealing complex interactions between religious factors and banking service acceptance. Research in Malaysia and Southeast Asia highlights comprehension challenges, particularly for non-Muslim customers, and demonstrates significant differences in adoption based on religious affiliation (Butt et al., 2018; Jaffar & Musa, 2016; Jamshidi & Hussin, 2016; Su'un et al., 2018). The use of Arabic terminology and adherence to Shariah principles emerge as critical elements influencing customer attitudes toward Islamic banking services.

Islamic Bank image transcends mere visual representation, encompassing comprehensive emotional and cognitive responses shaped by direct and indirect experiences. Customers' perceptions are formed through service quality, perceived value, and communication, ultimately influencing loyalty and satisfaction. The image serves as a critical determinant in customer decision-making, reflecting both the functional and emotional qualities of banking services (Charag et al., 2019; Fusva et al., 2020; Jaffar & Musa, 2014; Suhartanto, 2019).

Trust in Islamic banking represents a multifaceted construct involving public confidence in operational integrity and Sharia principle compliance. Factors such as transparency, service quality, and consistent application of Islamic economic principles significantly impact consumer trust and adoption decisions. Literature review reveals diverse determinants of Islamic Bank service adoption, including religious aspects, perceived behavioral control, profit considerations, and institutional image, with varying influences across different geographical and cultural contexts (Ashurov & Othman, 2019; Kontot et al., 2016).

By examining the key determinants of SMEs' adoption of Sharia bank products, this study aims to contribute to the ongoing discourse on alternative financing solutions for small businesses in developing countries.

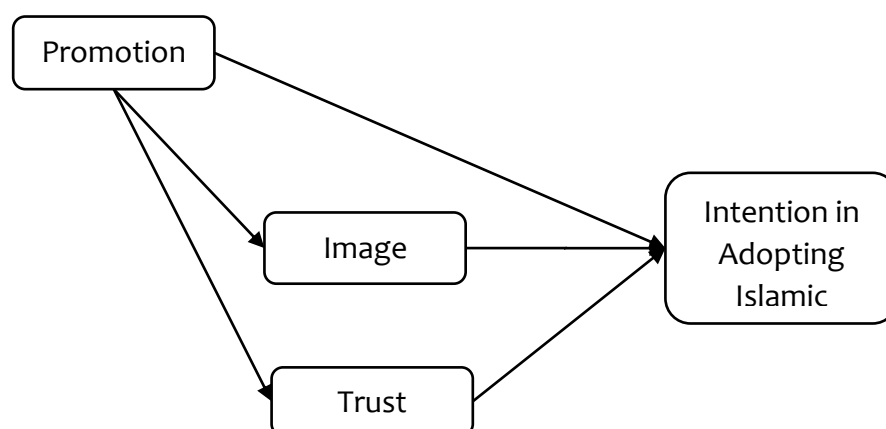
## METHOD

Quantitative research is a systematic and empirical approach that involves collecting and analyzing numerical data to understand specific phenomena, based on the belief in a relatively stable and uniform world (Bégin et al., 1979; Farrelly, 2013; Thanh et al., 2021). This method often employs questionnaires as a cost-effective and efficient tool for gathering large amounts of data from diverse geographical areas (Mertler, 2020). Researchers typically pose narrow, specific questions and collect numerical responses, contrasting with qualitative research's focus on an in-depth understanding of participants' perspectives (Austin & Sutton, 2014).

This study employs a quantitative approach to identify factors influencing industrial owners' adoption of Islamic banking services in Kediri Raya. Data collection utilized a questionnaire with a five-point Likert scale, ranging from 5 (Strongly Agree) to 1 (Strongly Disagree). The research targeted 200 registered halal industries in Kediri Raya's industry and trade offices, with respondents selected through convenience sampling. This methodology aims to provide a comprehensive understanding of the factors driving Islamic banking adoption among local industrial owners (Leavy, 2017).

Drawing from the preceding literature review regarding factors influences on Islamic banking adoption, this study anticipates that promotion, image, and trust considerations play a crucial role in shaping SMEs consumers' attitudes and behavioral intentions toward Islamic banking services. Based on this understanding, we propose the following hypotheses for examination:

- H1 : Promotion factor significantly predicts intention to adopt Islamic banking and finance by SMEs
- H2 : Promotion factor significantly predicts image towards adopting Islamic banking and finance by SMEs
- H3 : Promotion factor significantly predicts Trust towards adopting Islamic banking and finance by SMEs



**Figure 1.** Conceptual Framework

## RESULTS AND DISCUSSION

### Result

Table 1 illustrates the demographic characteristics of the respondents. The participants in this study are halal industry practitioners registered with the Department of industry. The demographic information encompasses gender, age distribution, and the types of businesses

the respondents operate. These demographic details provide a comprehensive overview of the halal industry players participating in the study.

**Table 1.** Respondent Demographic

Characteristics	Description	Frequency
Gender	Male	45
	Female	157
Age	20-29 years	79
	30-39 years	50
	> 40 years	73
Type of Business	Food and Beverage	120
	Cosmetics and Medicine	6
	Textile	34
	Service	32
	Handicraft	10
Business size	< 20 million	137
	20 - 39 million	38
	40 -59 million	15
	> 60 million	12

Validity and reliability assessments were conducted as the subsequent testing stage. This evaluation analyzed composite reliability, average variance extracted, and data normality using Cronbach's alpha. As presented in Table 2, the analysis results demonstrate that all factors fulfill the validity and reliability criteria. The AVE values for all constructs are above 0.5, while both CA and CR values surpass 0.7. Referring to Suhartanto (2020), this confirms that all variables have satisfied the reliability standards.

**Table 2.** Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Adoption	0.896	0.928	0.764
Image	0.942	0.949	0.611
Promotion	0.734	0.833	0.558
Trust	0.871	0.921	0.795

The subsequent phase involves testing the inner model. The structural model (inner model) depicts the relationship patterns among research variables. Evaluation of the structural model is conducted by examining the coefficients between variables and the coefficient of determination ( $R^2$ ) value. The coefficient of determination ( $R^2$ ) fundamentally measures how well the model explains variations in the dependent variable.

**Table 3.** R Square

	R Square	R Square Adjusted
Adoption	0.561	0.554
Image	0.263	0.259
Trust	0.197	0.193

Based on table 3, it can be concluded that 56.1% of the decision to adopt Islamic banking services by SMEs is influenced by promotion, image, and trust in Islamic banks. Meanwhile, promotion can influence the image by 26.3% and can influence trust in Islamic Banks by 19.7%.

Daud et al. (2022) state that hypothesis testing can be conducted after the research model is considered fit. The next step is to test the hypotheses that have been constructed in this study. The data test results using bootstrapping are presented below. Hypothesis testing in this study can be determined through regression weight by comparing the p-value against a significance level of 5% ( $\alpha=5\%$ ). A hypothesis is declared significant if it has a probability value (p-value)  $< 5\%$ .

**Table 4.** Hypotheses Testing

	<b>T Statistics</b>	<b>P Values</b>	<b>Result</b>
Promotion -> Adoption	0.891	0.373	Not Significant
Promotion -> Image -> Adoption	3.766	0.000	Significant
Promotion -> Trust -> Adoption	4.629	0.000	Significant

## Discussion

### The Influence of Promotional Activities on Islamic Bank Product Adoption Decisions

Promotion is a company effort to ensure consumers recognize and ultimately consume their products. The test results of the promotional value on the adoption decision of Islamic banks show insignificant results. This may be due to the limited penetration of Islamic Banks into SMEs, resulting in many SMEs not yet using Islamic Bank products. As stated by Jaffar & Musa (2014), minimal penetration of Islamic banks in Malaysia has influenced the low awareness of Islamic banks. However, these results contradict the findings of Su'un et al. (2018), which state that the consumer decision-making process always involves searching for information about the needed product. This causes the promotional efforts made by companies to become an influential factor in determining consumer decisions to consume a product.

### The Influence of Promotional Activities on Islamic Bank Product Adoption Decisions Through Image

According to Charag et al. (2019), an image is an emotional reflection emerging from personal experiences or observations of an object. Images are formed through interactive processes and deep understanding. In the context of Islamic Banks, the image encompasses a comprehensive representation of operational systems and values perceived by society (Fusva et al., 2020). Based on the above test results, promotion can influence the image of Islamic Banks, thereby increasing SMEs' decisions to use Islamic Bank products. This aligns with research conducted by Al-Omari et al. (2018), which states that promotions undertaken by Islamic Banks can build a positive image for the community. Consequently, Islamic banks must pay attention to their ability to gain a competitive advantage and build a strong brand image. To achieve this, banks must improve product quality and service quality (Rozikin & Sholekhah, 2020).

The conceptual framework suggests that image is not merely a superficial construct but a complex interplay of emotional and rational perceptions. Promotional strategies serve as critical mechanisms for shaping these perceptions, transforming potential customers' understanding of Islamic banking principles and operational excellence. By strategically communicating their unique value propositions, Islamic banks can bridge the cognitive gap between traditional banking models and their innovative, ethically driven approach. The research underscores the importance of holistic marketing strategies that go beyond transactional communication, focusing instead on building trust, demonstrating institutional integrity, and highlighting the distinctive features of Islamic financial services.

## The Influence of Promotional Activities on Islamic Bank Product Adoption Decisions Through Trust

Trust is the psychological foundation underlying an individual's beliefs when engaging in actions or transactions. In the context of Islamic Banks, trust reflects the perceptions of both customers and non-customers regarding the integrity and credibility of the financial institution. According to Ashurov & Othman (2019), trust holds fundamental significance in determining the decision-making process. The results indicate that promotion can enhance SMEs' trust in Islamic Banks, thereby increasing the likelihood of SMEs using Islamic Bank products. As noted by Basrowi et al. (2023), an increase in the level of promotion within a company is associated with a corresponding increase in customer trust. In other words, the role of promotion in enhancing customer trust is a crucial aspect of a company's growth and development. This finding suggests that customer trust in Islamic Banks is grounded in the professionalism and commitment of the institution to manage funds profitably while adhering to religious principles (Fauzi & Suhartanto, 2022).

Overall, the research underscores the importance of effective promotional strategies in building trust, which is essential for fostering long-term relationships with customers and driving the adoption of Islamic banking products among SMEs. By consistently demonstrating their integrity and commitment to ethical financial practices, Islamic Banks can cultivate a robust trust framework that supports their growth and success in a competitive market.

## CONCLUSION

### Conclusion

Research findings indicate that promotion is vital in influencing Islamic Bank product adoption decisions, although its impact is currently limited due to insufficient penetration into the SME sector. Effective promotional activities enhance the bank's positive image and significantly build trust among SMEs, with increased promotional efforts correlating with greater customer confidence. This trust stems from the bank's professional commitment to managing funds profitably and adhering to religious principles. The study emphasizes that well-crafted promotional strategies can bridge the gap between Islamic Banks and potential customers, making them essential for expanding product adoption within the SME ecosystem.

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