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Exploring the Role of Knowledge on Adoptability of Islamic Banking and Financing Options for Micro, Small and Medium Enterprises: The Mediating Role of Trialability

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Abstract

Knowledge is the act of knowing something with familiarity gained through experience or education. Prior studies have discovered that knowledge has a significant relationship with the adoption of Islamic Banking and Financing Options (IBFOs) amongst Small and Micro Enterprises (SMEs). However, this study explores the role of knowledge on adoptability of Islamic Banking and Financing Options (IBFOs) for Micro, Small and Medium Enterprises (MSMEs), with the mediating role of trialability. While trialability has been suggested as an adoption factor, it has not been considered important in adoption studies and has thus received debates. A structured questionnaire survey consisting of a Likert scale from 1 to 5 was conducted with 300 MSME owners or managers. The findings revealed that trialability has a partial mediation between knowledge and adoptability of IBFOs. This implies that when IBFOs are offered on a trial basis, it will have an impact on the level of knowledge MSMEs will have about IBFOs with the adoptability of IBFOs. As a result, the banking and financing sector should consider offering IBFOs on a trial basis to enhance the knowledge of MSMEs and lead to its adoptability. This research contributes to literature by offering trialability as a mediating variable in the adoptability of IBFOs. The authors recommend testing trialability as a mediating variable in determining the adoptability of any other product or service or even testing it as a moderating variable.

Keywords: *Islamic Banking and Financing Options, MSMEs, Knowledge, Trialability, Adoption of Islamic Banking.*

Introduction

Knowledge is the awareness and understanding of an individual about something such as a place, product, service, or person. The level of awareness can have an impact on the attitude of an individual towards the acceptance or rejection of a particular product or service (Rasheed, Siddiqui et al. 2018) whereas trialability is one of the general attributes of adoption. It refers to the opportunity that potential adopters are given to use, try or experiment with an idea or innovation for a limited time only (Mahdzan, Zainudin et al. 2017). In the case of Islamic banking, while it is a source of financing option promoting the growth of Micro, Small and Medium Enterprises (MSMEs) in countries such as Africa (Yussuf 2017), Indonesia (Faisol 2017), Pakistan (Muneer, Ali et al. 2017) and Malaysia (Husseini, Fam et al. 2019), it is still not offered in several countries including Fiji. Therefore, studying trialability as a mediating variable between knowledge and adoptability of Islamic Banking and Financing Options (IBFOs) motivates three reasons; first, to evident that knowledge and trialability are important factors in determining the adoptability of IBFOs; second, to equip the policy makers of banking and financing industry with information that offering IBFOs on a trial basis can impact the knowledge of Micro, Small and Medium Enterprises (MSMEs) and lead to positive adoptability of IBFOs. Third, to make significant contribution to literature trialability is an important factor in adoption studies particularly as a mediating variable.

While Naseri and Sharofiddin (2021) revealed that product knowledge significantly and positively influences the adoption of Islamic banking, Rashid and Waseem ul (2024) identified that trialability has a positive role to promote Islamic financial inclusion. However, there is a lack of studies which investigated trialability as a mediating variable between knowledge and adoptability of IBFOs. While IBFOs provide financing options for the poor and needy without any collateral and interest charges (Muneeza, Nurul Atiqah Nik Yusuf et al. 2011), these are not available for financing of MSMEs in many countries. This prompts for the eighth Sustainable Development (SD) goal which is to "promote sustained, inclusive and sustainable

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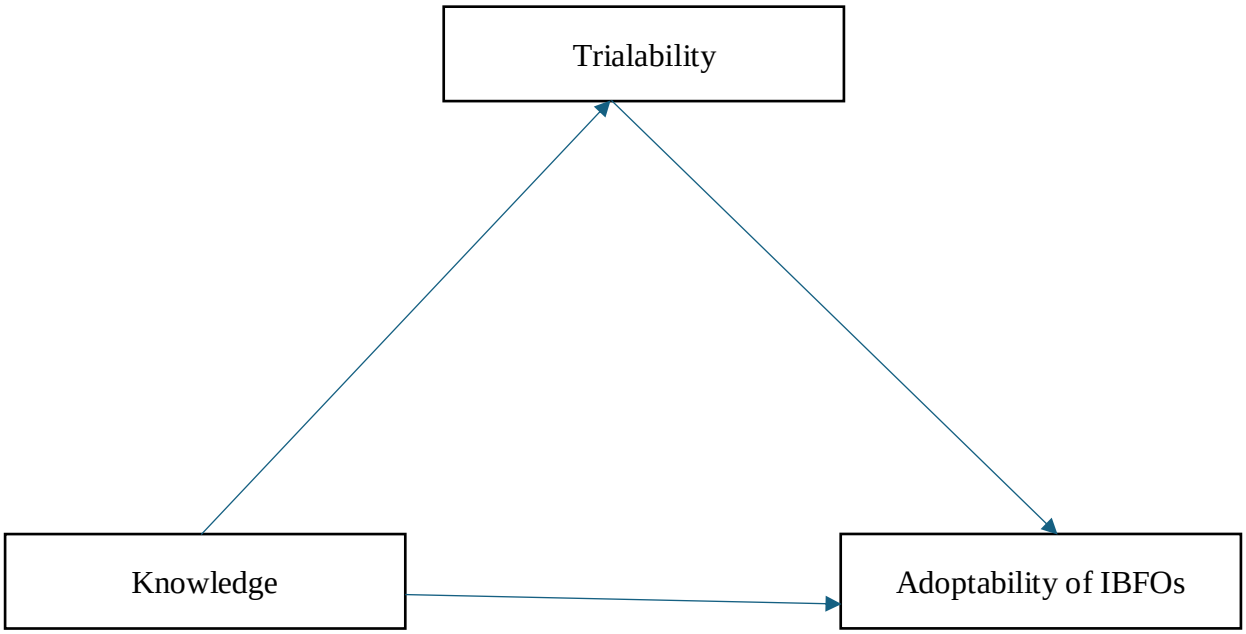
economic growth, full and productive employment and decent work for all" (United Nations 2024). To effectively push this agenda, this research suggests IBFOs as a source of finance, at least on a trial basis, for MSMEs struggling with the issue of securing finance. Thus, the current research investigates the following research questions:

RQ 1: What is the impact of knowledge on adoptability of IBFOs?

RQ 2: what is the mediating role of trialability

The present research also aims to address the research gap through Rogers Innovation Diffusion Theory (IDT) (Wani and Ali 2015). Studies in innovation have mostly been inspired by Rogers IDT. It is used to explain the reasons that motivate the consumers whether to adopt IBFOs. In studying the diffusion of innovations, the idea does not necessarily have to be new (Yahya and Junaina 2017). It can still be a pre-existing idea but presented to a new society (Wani and Ali 2015). To determine the adoptability of an idea or innovation, Rogers IDT suggests studying factors such as relative advantage, compatibility, observability, complexity and trialability (Jamshidi and Hussin 2018). However, trialability has received debates. According to Amin, Abdul-Rahman et al. (2013), it is not considered important for adoption studies, although it could be useful to some extent. While Mahdzan, Zainudin et al. (2017) dropped items of trialability for further analysis due to its lower reliability, Ezeh and Nkamnebe (2022) dropped trialability because of its intangibility. On the contrary, Jamshidi and Hussin (2018) discovered that trialability affects attitude towards adoption of Islamic credit card. Similarly, Ali and Puah (2017) revealed that trialability is positively and significantly related to the customer adoption of Islamic banking. Moreover, Ahmad, Othman et al. (2018) revealed that knowledge has a significant relationship with the adoption of IBFOs amongst SMEs in Malaysia whereas Ezeh and Nkamnebe (2022) discovered that knowledge of Islamic banking operations does not significantly influence adoption of Islamic banking. However, there is lack of research which has investigated the mediating role of trialability on the relationship between knowledge and adoptability of IBFOs for MSMEs.

Figure 1. Conceptual Framework



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This study revealed that knowledge has a significant positive impact on adoptability of IBFOs, whilst being consistent with Naseri and Sharofiddin (2021) and Ahmad, Othman et al. (2018) that knowledge has a significant relationship with the adoption of IBFOs amongst SMEs in Malaysia. The research also proved that knowledge has a significant positive impact on trialability confirming that the level of knowledge MSMEs have about IBFOs does have an impact on the trial usage of it. Thus, approving H2. Furthermore, the study also confirmed that trialability leads to adoptability of IBFOs, findings being in line with Jamshidi and Hussin (2018) and Ali and Puah (2017) that trialability is positively and significantly related to the customer adoption of Islamic credit card and Islamic banking respectively. This confirmed that offering IBFOs on a trial basis can lead to the adoption of IBFOs by MSMEs. Moreover, this study confirmed that trialability does have a partial impact on the relationship between knowledge and adoptability of IBFOs. Thus, this evidence suggests that offering IBFOs on a trial basis can have an impact on the relationship between the knowledge of MSMEs about IBFOs and the adoption of IBFOs.

As a result, this research filled the gap and confirmed that trialability can be tested as a mediating variable between factors and it is indeed an important factor in adoptability studies as dissimilar to Amin, Abdul-Rahman et al. (2013) which said that trialability is not considered important for determining adoption. Thus, future studies can consider testing trialability as a mediating variable between variables and not only while studying IBFOs but other products or services as well.

Theoretical Framework and Hypothesis Development

Knowledge and Adoptability of IBFOs

According to Naseri and Sharofiddin (2021) knowledge is the customers' awareness about the level of information they have or do not have in respect of Islamic banking. It is considered the first step in determining the adoption of any product or service. Some researchers tested knowledge as a factor in the adoption of IBFOs. While researchers (Anthony Mariadas and Murthy 2017, Ahmad, Othman et al. 2018, Naseri and Sharofiddin 2021) revealed that knowledge has a significant relationship with the adoption of IBFOs, according to Ezeh and Nkamnebe (2022) knowledge of Islamic banking operations does not significantly influence the adoption of it. For the context of the present study, knowledge refers to the level of information the MSMEs have about IBFOs. The more knowledge they have about IBFOs, the more they are willing to adopt it. Therefore, knowledge is deemed to be positively related to the adoptability of IBFOs. As a result, this research hypothesized:

H1. Knowledge has a significant positive impact on Adoptability of IBFOs.

Knowledge and Trialability of IBFOs

While existing literature has tested the impact of knowledge on adoptability of IBFOs, it has not tested its impact on trialability of IBFOs. As mentioned earlier, trialability refers to one of the general attributes of adoption. It refers to the opportunity that potential adopters are given to use, try or experiment with an idea or innovation for a limited time only (Mahdzan, Zainudin et al. 2017). Some researchers have studied trialability as a factor in determining the adoptability of IBFOs. While Rashid and Waseem ul (2024) identified that trialability has a positive role to promote Islamic financial inclusion, Jamshidi and Hussin (2018) discovered that trialability affects attitude towards adoption of Islamic credit card, whereas Ali and Puah (2017) revealed that trialability is positively and significantly related to the customer adoption of Islamic banking. According to Wani and Ali (2015) in trialability, the person experiences the innovation or applies it at a smaller scale. Thus, adopting IBFOs on a trial basis can also be cost effective as it could allow the user to experience its potential benefits and drawbacks before applying it on a large scale. In the context of the present study, the more knowledge MSME will have about IBFOs, the more they would be willing to adopt it on a trial basis. As a result, knowledge is deemed to have a positive impact on trialability. As a result, this research hypothesized:

H2. Knowledge has a significant positive impact on Trialability.

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Trialability and Adoptability of IBFOs

As mentioned earlier, existing literature (Ali and Puah 2017, Jamshidi and Hussin 2018, Rashid and Waseem ul 2024) has tested the impact of trialability on adoptability of IBFOs. However, there is a lack of literature which has tested the same undertaking MSMEs as their sample size. While MSMEs are a key factor for economic progress in both developing and developed countries (Faisol 2017), despite the offering of conventional financing options, they continue to experience the issue of financing challenges both worldwide and in Fiji (Duan, Han et al. 2009, Sharma and Gounder 2012, Tuibeqa 2015, Purnamasari and Darmawan 2017, Tuibeqa 2017). As a result, testing the impact of trialability on adoptability of IBFOs for financing of MSMEs can enable the policy makers to determine whether MSMEs are willing to adopt IBFOs on a trial basis and whether they should consider offering it on a trial basis. As a result, this research hypothesized:

H3. Trialability has a significant positive impact on Adoptability of IBFOs.

Mediating Impact of Trialability between Knowledge and Adoptability of IBFOs

Jilani, Moniruzzaman et al. (2022) demonstrated that trialability is the connecting variable between mHealth app innovations and the respondents' behavioral intention to use. Similarly, Changchun, Haider et al. (2017) revealed that trialability mediates between the relationships of trust and intention, attitude and intention and task technology fit and intention. Therefore, existing literature has tested trialability as a mediating variable. However, there is a lack of literature which has tested trialability as a mediating variable between knowledge and adoptability of IBFOs for financing of MSMEs. According to Ezeh and Nkamnebe (2022) the higher its adopters have the knowledge about an innovation, the less there will be room for its complexity. However, knowledge alone may not influence the adoption of Islamic banking, although it may assist in decision making about the adoption of Islamic banking (Ezeh and Nkamnebe 2022). Changchun, Haider et al. (2017) stated that new or innovative ideas offered on a trial basis can attract more users and thus, more possibilities of being adopted. In the context of the present study, the researchers assumed that trialability can impact the knowledge of MSMEs about IBFOs leading to its adoptability. In other words, trialability can influence the knowledge of MSMEs about IBFOs leading to its adoptability. As a result, this research hypothesized:

H4. Trialability mediates the relationship between Knowledge and Adoptability of IBFOs.

Method

Participation and Procedure

This study examines the research paradigm of positivism. According to Kumar, Ku et al. (2024) positivism aligns well with the hypothetical deductive model of scientific study, which includes formulating hypotheses, experimental designs and rigorously testing hypotheses to systematically redefine knowledge. The current study adheres to a positivist approach by utilizing the quantitative method and concentrating on big sample size to obtain empirical results. According to Kumar, Ku et al. (2024) there are about 30,000 SMEs registered in Fiji. However, the actual number of MSMEs registered in Fiji is not known. This is because micro businesses are very small in size and many of these micro enterprises operate in minor rented places or out of their houses (Biswas 2014). Thus, to examine the hypothesis, data comprising 300 was collected through purposive and area sampling, which is adopted when the research is confined to a particular area or locality (Sekaran and Bougie 2016). The data was gathered from MSME owners, managers or senior personnel operating or managing the businesses in any part of Fiji. The study reported no missing data. The retrieved data from fieldwork was entered into SPPS and eventually transferred to AMOS. To build a robust research model, the statistical significance of all constructs was thoroughly assessed. The p-value was set at 0.5, indicating that there is a 95% likelihood that the mean population lies within the specified range of values. The study included number of employees, business turnover and years of operation as a control variable (see Table 1).

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Descriptive Statistics

Table 1. Descriptive Statistics

Number of Employees	Less than 6 77.3%	6 to 20 13.3%	21 to 50 5%	More than 50 4.3%	
Business Turnover	Less than $50,000 50%	$50,000 to $300,000 31%	$300,001 to $1,250,000 12.3%	More than $1,250,000 6.7%	
Years of Operation	Less than 5 Years 29.7%	5 to 10 Years 24%	11 to 15 Years 12.3%	16 to 20 Years 10.3%	More than 20 Years 23.7%

Measures

The respondent voluntarily answered the questionnaire consisting of multiple items rated on a five-point Likert scale (1= strongly disagree to 5 = strongly agree). Knowledge was evaluated through a self-completed questionnaire. The instrument consists of seven items as suggested by Mbawuni and Nimako (2018). The items were modified to suit the current studies. The sample items for this scale are "I know Islamic banking and financing options are based on interest free banking concept" and "I know Islamic banking and financing options are based on the principles of Shariah law" with Cronbach's α of 0.933. Trialability consists of two items. Scales were adapted from Al-Jabri and Sohail (2012). The sample items included "I want to try Islamic banking and financing options for at least one month" and "I want to use Islamic banking and financing options on a trial basis to see what it can do for me" with a Cronbach's α of 0.824. The assessment of Adoptability of IBFOs (AIBFOs) consists of three items drawn from previous research known to be suitable for the evaluation of this construct (Amin, Abdul-Rahman et al. 2013). The sample item for the study includes " My general intention to choose Islamic banking and financing options is very high" and "I will think about choosing Islamic banking and financing options for financing of my business" which had an acceptable internal consistency with Cronbach's α of 0.902.

Results

Confirmatory Factor Analysis

The validation procedure and process were used to scrutinize the validity and reliability of three variables. SPSS 27.0 was used to carry out descriptive analysis. Similarly, analysis of moment structure (AMOS 27.0) version software was used to construct SEM through structural and measurement models. The model was tested using confirmatory factor analysis (CFA) to ascertain the relationship between Knowledge, Trialability and Adoptability of IBFOs as well as validation of the research data's validity and reliability. To establish Cronbach's alpha, the reliability of the three variables was first computed (see Table 5). The items (K5, K2, K6, K4, K1) which had unstandardized estimates of more than 1 (1.18, 1.34, 1.16, 1.26, 1.21 respectively) were progressively deleted until no more items with unstandardized estimates of more than 1 were left. For this study, the reliability coefficient ranging from 0.86 to 0.94, demonstrating excellent reliability (Nunnally 1978). Additionally, confirmatory factor analysis (CFA) confirmed both discriminant and convergent validity. Following the recommendation of Fornell and Larcker (1981) discriminant validity and average variance extracted (AVE) were evaluated and found to exceed the squared correlation between the construct (Table 5). The findings of this study indicate that each measurement construct is suitable for investigation (Cheung and Lau 2008). The proposed research model aligns well with observed data and was evaluated using structural equation modeling (SEM). Various indices were used to evaluate the goodness of fit, which included root mean square of approximation (RMSEA), chi-square (x2), root mean residual (RMR), incremental fit index (IFI), Comparative fit index (CFI), and Tucker-Lewis (TLI) (Anderson and Gerbing 1988). Hu and Bentler (1999) proposed the threshold value of these indices; TLI, CFI, and IFI to be ≥ 90, whereas RMSEA should be in the range of 0.05 and 0.08. The findings of the study are presented

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in Table 2. The conditional process (Hayes 2018) was employed to evaluate the mediation effect of trialability.

Table 2. The Model Fit

x2	df	RMSEA	RMR	TLI	IFI	CFI	NFI
12.012	11	0.02	0.012	0.998	0.999	0.999	1.01

Common Method Bias (CMB)

The issue of common method bias (CMB) is prevalent in behavioral research, and this poses challenges, especially when solely relying on one type of data collection method (Podsakoff, MacKenzie et al. 2012). However, this potential threat can be alleviated through statistical tools as recommended by Podsakoff, MacKenzie et al. (2012). To address these issues, the predictor variable was isolated from other observable variables, and careful attention was given to crafting the wording of individual items. In addition, confirmatory factor analysis (CFA) was used to eliminate CMB. Bagozzi and Phillips (1991) suggested that the existence of CMB is demonstrated by a correlation exceeding 0.90 between the focal constructs. The findings of the study revealed a maximum correlation of 0.535 between the measured constructs as shown in Table 3. Furthermore, Table 3 serves to further validate discriminant validity. The proposed research measurements standardized regression weight was evaluated using a common latent factor (CFL) with little variance. The statistical analysis showed no risk of common method bias. The measured construct was reliable with Cronbach alpha greater than 0.6. As suggested by Fornell and Larcker (1981) both composite reliability (CR) and average variance extracted (AVE) exceeded the threshold values of 0.5 and 0.7. The findings show that the values of AVE exceeded the recommended threshold of 0.5, ranging from 0.76 to 0.85 (refer to Table 5). Additionally, Table 5 shows the mean, standard deviation, intercorrelation of observed variables, and factor loading.

Table 3. Mean, Standard Deviation, and Correlation of Variables for the Study

Variables	Mean	SD	1.	2.	3.
1. AOIBFOs (dependent)	3.24	0.85	1		
2. Trialability (mediating)	3.22	0.78	0.535**	1	
3. Knowledge (independent)	3.23	0.63	0.432**	0.440**	1

** Correlation is significant at the 0.01 level (2-tailed).

Note: the shaded region is the AVE.

Table 4. Matrix of Cross Loading

	IBFOs	Trialability	Knowledge
DAIBFOs1	0.914**	0.498**	0.410**
DAIBFOs2	0.910**	0.467**	0.342**
DAIBFOs3	0.922**	0.504**	0.434**
Trial1	0.469**	0.915**	0.364**
Trialability2	0.517**	0.930**	0.445**
K3	0.279**	0.263**	0.878**
K7	0.478**	0.510**	0.860**

Note: Note: $p < 0.05$* $p < 0.01$ ** $p < 0.001$***

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Table 5. Composite Reliability and Average Variance Extracted

Item	Mean	Standard Deviation	Item Total Correlation	Loading	Error	Cronbach's alpha	Composite Reliability	AVE
DAIBFOs1	3.22	0.97	0.91**	0.91	0.17	0.90	0.94	0.84
DAIBFOs2	3.25	0.90	0.91**	0.91	0.17			
DAIBFOs3	3.26	0.91	0.92**	0.93	0.14			
Trial1	3.18	0.81	0.92**	0.92	0.15	0.82	0.92	0.85
Trialability2	3.25	0.88	0.93**	0.92	0.15			
K3	3.19	0.75	0.88**	0.87	0.25	0.68	0.86	0.76
K7	3.27	0.71	0.86**	0.87	0.25			

**Correlation is significant at the 0.01 level (2-tailed). Sample Size: 300

First, knowledge was hypothesized to correlate positively with AOIBFOs. The findings of the analysis (see Table 6) show that knowledge is positively correlated with AOIBFOs ($\beta = 0.5790$, $p < 0.001$), supporting H1. Second, the findings ($\beta = 0.5414$, $p < 0.001$), also confirm full support for H2, showing a positive correlation between knowledge and trialability (Table 6). Third, as anticipated, trialability will positively correlate to AOIBFOs. The findings ($\beta = 0.583$, $p < 0.001$), fully support H3 (Table 6). Fourth, it was further hypothesized that trialability will strengthen the relationship between knowledge and AOIBFOs. The subsequent outcome indicates that trialability partially mediates the relationship between knowledge and AOIBFOs with a direct effect of ($\beta = 0.3265$, $p < 0.001$), the indirect effect of ($\beta = 0.2525$, $p < 0.001$), and total effect of ($\beta = 0.5790$, $p < 0.001$), supporting H4 (Table 6).

Table 6. Mediation of Trialability between Knowledge and AOIBFOs

H	**Parameter**	**Dependent**	**R^2**	**F**	**P**	**Coefficient**	**SE**	**T**	**LLCI**	**ULCI**
H1	Constant	AOIBFOs	0.1867	68.4251	0.0000	1.3752***	0.2303	5.9724	0.9221	1.8283
	Knowledge					0.5790***	0.0700	8.2719	0.4413	0.7168
H2	Constant	Trialability	0.1939	71.6664	0.0000	1.4640***	0.2104	6.9596	1.0500	1.8780
	Knowledge					0.5414***	0.0639	8.4656	0.4155	0.6672
H3	Constant	AOIBFOs	0.3000	128.090	0.0000	1.371***	0.1760	7.781	1.024	1.718
	Trialability					0.583***	0.0530	10.940	0.478	0.688
H4	Constant	AOIBFOs	0.3344	74.6100	0.0000	0.6923**	0.2250	3.0773	0.2496	1.1351
	Knowledge					0.3265***	0.0706	4.6216	0.1875	0.4655
	Trialability					0.4664***	0.0575	8.1175	0.3534	0.5795
	Direct	Effect of	X to Y							
						0.3265***	0.0706	4.6216	0.1875	0.4655
	Indirect	Effect of	X to Y							

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		0.2525***	0.0567		0.1446	0.3634
Total	Effect of X to Y					
		0.5790***	0.0700	8.2719	0.4413	0.7168

Note: p < 0.05* p < 0.01 ** p < 0.001***

Dependent variable: Adoptability of Islamic Banking and Financing Options (AIBFOs)

Discussion

The purpose of this research was to investigate the impact of knowledge on adoptability of IBFOs (H1), knowledge on trialability (H2), trialability on adoptability of IBFOs (H3) and mediating effect of trialability on the relationship between knowledge and adoptability of IBFOs (H4). The findings of the study revealed that all the hypotheses are accepted. The findings of this study are similar with Ahmad, Othman et al. (2018) that knowledge has a significant relationship with the adoption of IBFOs amongst SMEs in Malaysia. This research also confirmed that trialability has a positive impact on adoptability of IBFOs. This is similarly discovered by Ali and Puah (2017) that trialability is positively and significantly related to customer adoption of Islamic banking. However, this research has also made new findings.

Theoretical Contribution

This research contributes to literature that knowledge has a significant and positive impact on adoptability of IBFOs and that trialability partially mediates the relationship between knowledge and adoptability of IBFOs. Thus, it contributes to literature that trialability is an important factor, does play a role and can be investigated as a mediating factor between variables. This is a new finding and contrary to researchers (Amin, Abdul-Rahman et al. 2013, Mahdzan, Zainudin et al. 2017, Ezeh and Nkamnebe 2022) that trialability is not considered important for adoption studies.

Practical Implication

This research informs the policy makers of the banking and financing industry that knowledge and trialability have a significant and positive impact on adoptability of IBFOs. Knowledge has a significant positive impact on trialability of IBFOs and trialability partially mediates the relationship between knowledge and adoptability of IBFOs. Therefore, the policy makers of the banking and financing industry could consider creating awareness or enhancing the knowledge of MSMEs about IBFOs and offering it on a trial basis to lead to its full adoption. The more the MSMEs will be knowledgeable about IBFOs, the more they would be willing to try it on a trial basis or fully adopt it. It also informs that the more IBFOs would be offered on a trial basis the more there will be chances of its full adoption. Furthermore, offering IBFOs on a trial basis can also have an impact on the knowledge of MSMEs about IBFOs which can lead to its full adoption. As a result, the policy makers of the banking and financing industry should consider offering IBFOs on a trial basis to enhance the knowledge of MSMEs about IBFOs and lead to its full adoption.

Limitation and Future Research

This research has only tested three variables to determine the adoptability of IBFOs to finance the MSMEs. Future research can consider testing trialability as a mediating variable for adoptability of other products or services; or testing other variables as independent variables whilst utilizing trialability as a mediating variable; or testing trialability as a moderating variable to determine the adoptability of IBFOs to finance the MSMEs.

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