JIEBR
JOURNAL OF ISLAMIC ECONOMIC AND BUSINESS RESEARCH

E ISSN 2798-1304
P ISSN 2798-1207

Journal of Islamic Economic and Business Research
Vol. 1 Number (1), Page 100-113, (June) 2021

Islamic Financing Effects on Small and Medium Enterprises Competitiveness

Adelekan Saidi Adedeji[1]*
[1]*Dominican University, Nigeria*

Article History

Received: May 12th, 2021 Revised: May 27th, 2021 Accepted: June 09th , 2021

**Corresponding author:*
E-mail:
adelekan.s@dui.edu.ng

Abstract

Islamic financing has been identified as an alternative to conventional financial services. However, the extent to which the Islamic financing model could drive small and medium enterprises' (SMEs) competitiveness has been a significant concern in the existing literature. Hence, this study investigates the impact of Islamic financing on SMEs' competitiveness.
Adopting the survey research design, the study investigated 400 SME owners/managers in the Southern part of Nigeria. The study employed the ordinary least square regression in the analysis of data. The result establishes that Islamic finance is a significant driver of SMEs' competitiveness. The results specifically reveal that Islamic finance is critical in driving product price, customer experience, and quality of products. The practical implication of Islamic finance may reduce its operational cost since it comes at a no-interest rate while giving room for more innovative prices and customer-centric products at competitive prices. SMEs are to leverage on the opportunities provided by Islamic finance for them to adopt sustainable business practices

Keywords: Competitiveness, Islamic Financing, SME, Innovative, loans.

I. Introduction

Islamic finance has gained prominence as a different strategy for Muslims and non-Muslims worldwide and an alternative to the global start-up funding problem for small and medium enterprises (SMEs). Aburime and Alio (2009) posit that Islamic finance is a financial system or practice that conforms with the Islamic principles of Shariah teachings and is governed by an Islamic economic system, whose main goal is based on the concepts of socioeconomic equality and equal resource allocation. As a result, in today's business environment, the idea

How to cite:
Adedeji, A. S. (2021). Islamic Financing Effects on Small and Medium Enterprises Competitiveness. *Journal of Islamic Economic and Business Research* Volume. 1 No. (1), 100–113. DOI: 10.18196/jiebr.v1i1.11753

of Islamic financing has been designed based on offering zero-interest loans, and benefit and loss sharing, ownership of products, active participation in the exchanging, financing, and building collective bargaining agreements phase between the investment firm and the entrepreneur (Adelekan, 2021; Sonita, Miswardi & Nasfi, 2021; Buksh, 2006). The Islamic financial concept has risen in importance globally over the last three years due to the significant benefits it provides, such as investment expansion and the potential to draw and enhance a nation's incentive to invest (Shah, Sukmana & Fianto, 2021; Diallo & Gundogdu, 2021; Osman 2012; Ahmad, 2008). This is shown by the Islamic financial industry's substantially high compound annual growth rate, which coincided with the global COVID-19 pandemic (Hassan, Rabbani & Abdulla, 2021; Octrina & Mariam, 2021; Adams, 2020).

Small and medium-sized enterprises (SMEs) play an essential part in most economic systems, especially in emerging economies. In developing economies, conventional SMEs account for up to 45 percent of the overall jobs creation and up to 33 percent of gross domestic product (GDP). When informal SMEs are added, the estimates are considerably higher. According to projections, 600 million employment opportunities will be expected in the next fifteen years to accommodate the increasingly global workforce, with the majority of these jobs being located in Asia and Sub-Saharan Africa. The majority of formal employment in developing economies is with SMEs, generating four out of every five new jobs (Hassan, Rabbani & Abdulla, 2021; Octrina & Mariam, 2021; Adams, 2020).

On the other hand, access to financial services is a major stumbling block to SME growth; most SMEs would remain trapped and continue to decline without it. Despite the reality that SMEs contribute to a large portion of the Nigerian economy and provide jobs for most of the population (Thomas & Brezy, 2014). SMEs are less qualified than large businesses to successfully obtain credit facilities, so they must rely on internal or private funds to start and operate their businesses (Akande, 2016). Fifty percent of formal SMEs are unable to obtain formal financial services. When micro and informal businesses are factored in, the funding gap widens even further. Nearly about 70% of all SMEs in emerging economies do not have access to finance (Adelekan, 2021; Sonita, Miswardi & Nasfi, 2021; Shah, Sukmana & Fianto, 2021; Diallo & Gundogdu, 2021; Abdesamed & Wahab, 2014).

There has been a lot of research done on the factors that influence the success of small businesses (Batra, Kaufmann, and Stone, 2003; Kuzilwa, 2005; Mazanai & Fatoki, 2012). Batra et al. (2003) found that Islamic financing is a critical factor of SMEs' success. Numerous variables affecting the success of SMEs have been established through a thorough analysis of the literature (Shamsudeen, Keat, & Hassan, 2016). Although these elements have given valuable information into the predictors of SMEs' success, only a few studies have considered the possibility that Islamic financing could drive SMEs' competitiveness, especially in Nigeria (Adelekan, 2021; Sonita, Miswardi & Nasfi, 2021; Shah, Sukmana & Fianto, 2021; Bazza & Daneji, 2014).

Therefore the kernel of this study is to investigate the extent to which Islamic finance influences SMEs in the Nigerian context and establish which of the components of Islamic finance is the most significant driver of SMEs competitiveness in Nigeria.

II. Literature Review

2.1. Islamic Financing

Islamic finance has become a part of the international financial services sector and is gaining prominence as an innovative financial tool to provide a solution to recurring economic uncertainty in general and the funding needs of SMEs in particular (Adelekan, 2021; Sonita, Miswardi & Nasfi, 2021; Shah, Sukmana & Fianto, 2021;; Bazza & Daneji, 2014; Lawson, 2012). Iqbal (1997) stated that Islamic Finance is based on restricting any fee or receipt of any fixed, guaranteed return payment. Islamic finance promotes collaborative funding, which may help vulnerable people and small enterprises gain access to funding. It can also aid in the implementation of innovative finance, resulting in increased sustainable development. In this context, Islamic finance will improve the welfare of those who, for moral beliefs, do not currently use traditional finance (Mohammed & Obeleagu-Nzelibe, 2014). Islamic financial wealth has grown at a quicker speed than existing financial capital in many Muslim-majority countries. Ehsan & Shahzad (2015) The underlying principles of Islamic finance, which promote participation, equality, private property, and morality, are fundamental values. Notwithstanding these advantages and significant potential, Islamic finance still has a huge responsibility to go before it can reach its full potential. It now accounts for less than 1% of financial market resources and is still heavily concentrated in a few markets (Diallo & Gundogdu, 2021; Hassan, Rabbani & Abdulla, 2021; Octrina & Mariam, 2021; Man, 2009).

Despite its significant growth pace, the Islamic financial system, which operates alongside the traditional market, is subject to many of the same structural adverse outcomes and volatility as its conventional counterpart. Islamic financial wealth has grown at a quicker speed than existing financial capital in many Muslim-majority countries. The underlying principles of Islamic finance, which promote participation, equality, private property, and morality, are fundamental values. Notwithstanding these advantages and significant potential, Islamic finance still has a huge responsibility to go before it can reach its full potential (Aminu, 2009). Islamic finance is similar to the conventional financial sector in terms of goods and services. Still, its functions are primarily driven by a collection of values and beliefs that define what is morally obligatory (right), indicating acts and dealings that benefit the social interest, and 'wrong,' indicating activities and dealings that are harmful to the general welfare (Shah, Sukmana & Fianto, 2021; Diallo & Gundogdu, 2021; Hassan, Rabbani & Abdulla, 2021; Babajide, 2012). Describing the Islamic financial system as interest-free does not give a complete idea of the process and can lead to misunderstanding. However, the kernel of the scheme is preventing the reception and payment of interest.

Since non-Muslims are not excluded from using Islamic banking products, it may help close the aggregate disparity in access to finance. As a result, there is an opportunity to get better, particularly given that the characteristics of Halal financing can relate to a much broader audience. Islamic finance has created innovative financing products in the market with these concepts (Hassan, Rabbani & Abdulla, 2021; Babajide, 2012; Léon & Weill, 2016). The first two core financing items are Musharaka and Mudaraba, which are profit-and-loss-sharing relationship arrangements between the lender and the borrower. A Mudaraba transaction is focused on the borrower providing the resource and technical expertise while the lender supplies the funds. Profits are split evenly between the two parties, while the lender exclusively incurs losses. Since both participants have created a capital investment, losses and gains are distributed between the borrower and the lender in a Musharaka agreement.

2.2. Small and Medium Enterprises Competitiveness and Measurements

Intellectuals, corporations, and government entities have all been drawn to the issue of competition. According to Goldberg et al. (2003), the definition of competition is linked to dimensions of competitive edge or brand value, organisational performance, and economic, social, and cultural aspects. In comparison to industry counterparts, Man et al. (2002) looked at competition in terms of value, customer satisfaction, gross profit and the capacity to prepare and improve economic targets. According to McAdam et al. (2004), there is no general concept of a small business, making researching them difficult. SME meanings typically fall into one of two categories. Size, resources, enterprise value, asset value, sales, total equity, market dominance, and other quantitative criteria are indicators (Hossain &Kauranen, 2016). The number of employees is the most popular because it is easily accessible, easy to manage, and unaffected by economic growth (Buculescu, 2013). Conversely, according to Gibson and Van Der Vaart (2008), it can be ambiguous that when an organisation grows or becomes more effective, it does not necessarily imply hiring more employees, thus impacting the growth of SMEs. Other qualitative measures, such as profitability and valuation, have also been dismissed as inadequate explanatory indicators because they do not consider the form of economic sector or other market conditions (Hassan, Rabbani & Abdulla, 2021; Babajide, 2012; Buculescu, 2013).

When compared to industry rivals and leading competitors in a market, an enterprise may gain a long-term competitive advantage by developing unique goods and services, keeping costs down, and getting better topographies. Due to a plethora of rivals, competitors, pressures, and shifts in the external climate, it is complicated for a business company to improve its long-term competitive position. According to studies, having sufficient resources and skills allows a company to compete in competitive industries against enterprises with fewer resources (Abosede et al., 2016; Anwar, 2018). This idea can be traced to the resource-based theory (Barney 1991), which emphasises the importance of unique, tamperproof, and exceptional resources in achieving long-term competitiveness. Several studies back up the resource-based view theory (Anwar, 2018; Abosede et al., 2016). Differentiation strategy and cost leadership strategy are also synonyms for long-term competitive advantage (Anwar,. 2018) Producing innovative and differentiated goods enables enterprises to carve out a sustainable niche in the industry, resulting in high profitability.

Core competency, market rivalry, corporate strategy, and other historical and socio-cultural factors are all part of the competitiveness definition (Goldberg et al., 2003). Contingent on the study's methodology, competitiveness can be viewed as an independent variable, an intermediate variable, or an entirely dependent variable (Asree et al., 2010). SMEs sustainability can be measured in terms of price, customer experience, gross profit, strategy, and meeting market objectives as relative to their rivals (Fraj et al., 2015). SMEs competitiveness is explained as the extent of competition between clusters of customers' experience and the interest of investors through continuously improving service delivery, the capacity to leverage opportunities, adopt or react through economic clout, and respond to the market ever-evolving demands (Asree et al., 2010). According to business standards, SME is not a linear function of a large corporation (Chawla et al., 1997). SMEs vary in terms of organisational structure, capital power, labour, technology, environmental responsiveness, management style, and, most significantly, how they interact with other businesses.

When contrasted to specific industries in various regions, competitiveness is characterised as the capacity to retain or expand the market through low cost or quality levels (Porter, 2008). This study looks at the competitiveness of businesses and is primarily focused on Porter's (2008) competitiveness and strategic edge. The study adopts price, customers experience and quality as the measures of SMEs competitiveness in this study. According to Worimegbe (2020), these dimensions reveal the extent to which firms can favourably compete in the market place.

2.3. Islamic Finance and SMEs competitiveness

Faisol (2017) looked into the impact of Islamic financial institutions on the needs of SMEs. Partially least square analysis was used in the research. The study's participants were small and medium-sized businesses, especially farmers and industries in the Kediri District, who received one-year Islamic credit facilities. The findings revealed that Islamic equity financing has a substantial positive impact on the success of small businesses. This means that as the performance of Islamic lenders improves, so will the performance of SMEs. Furthermore, Islamic bank funding has a huge positive impact on the welfare of SMEs (Abosede et al., 2016).

Raza et al. (2017) investigated the impact of Islamic banking on SMEs performance in Pakistan using descriptive analysis. The study also examined SMEs who are unable to obtain traditional funding due to religious beliefs. Traditional banking's arduous and time-consuming loan application processes keep SMEs from receiving funding. This segment of the market has yet to be targeted, as many people would choose to borrow if funding options based on shariah principles were available. This study contributes to a better understanding of the conditions that stifle the expansion of Pakistan's SME sector using an existing literature approach. Finally, following the State Bank of Pakistan's (SBP) assistance in crafting the strategy, it is anticipated that financial institutions' capabilities in the industry will expand.

Hoove et al. (2014) investigated the effect of Islamic financial institutions on enterprise inspiration, firm productivity, and organisational performance of SMEs in South Africa. a survey of 150 SME proprietors in the Eastern Cape and Gauteng provinces was conducted with data collected through questionnaires. Using the Smart Partial Least Squares (PLS) program, structural equation modelling was used in the analysis of data. The results indicate that Islamic finance positively influences both opportunity recognition and firm competitiveness, but there is no substantial correlation between employee motivation and SMEs' economic success. Furthermore, the study discovered that firm competition has a major effect and strong positive impact on the performance of SMEs.

Maiwada and Daneji (2014) investigate the use of Islamic finance to solve SMEs' financing issues. Since this is an iterative approach, various pieces of literature were gathered, reviewed, and addressed. The traditional sources of financing for SMEs have been discovered to be unavailable, expensive, and infeasible. As a revolutionary funding source in the region, Islamic financing is feasible, although insufficient, but comparatively available and inexpensive. One of the suggestions is that financial firms follow an Islamic approach to financing SMEs in the region, which will go a long way toward resolving the country's SMEs financing issues.

Alhabashi (2015) examines how Islamic finance in Kuwait can assist SMEs. The research takes a qualitative approach, which is expressed in the form of a case study. The study employs two comparative situations, each of which is focused on the structure of Kuwaiti financing organisations and the interactions of SME owners with these organisations. Twenty semi-structured face-to-face surveys were performed with representatives of three different groups: SME owner-managers, credit institutions executives, and Islamic law board members, to learn about their perspectives on the role of Islamic finance in SMEs operations. The main findings show that access to finance continues to be a significant hurdle for SMEs in Kuwait. Furthermore, one of the most significant challenges they face when seeking financing from the Islamic banking system is the lack of guarantee. The results revealed that institutions would be unable to fund SMEs without government funding and that specialised SME finance institutions were more aligned with small and medium-sized businesses than other Islamic banks. Furthermore, Islamic finance measures were added, and the solution than financial services instruments in the research. It also demonstrated that combining zakat, charity, waqf, and qard Hassan would benefit Kuwait's SME market.

Adam (2020) investigated the impact of Islamic finance on the success of Nigerian SMEs. This is a cross-sectional study involving 354 SMEs owners/managers in northern Nigeria. The data were analysed using regression analysis. It has been discovered that Islamic financing has a positive impact on the success of SMEs. The study adds to our recognition of the dynamics of Islamic financing in forecasting SMEs' success in theory. Subsequent empirical evidence on this relation, according to the report, should be repeated to cover all six geopolitical areas of Nigeria.

While these study examined looked at the effect of Islamic financing on SMEs welfare and performance, there is a dearth of literature on how Islamic finance affects SMEs competitiveness. Hence the following research hypotheses were formulated:

HA1: Islamic financing does not significantly affect SMEs competitiveness in terms of price

HA2: Islamic financing does not significantly affect SMEs competitiveness in terms of customers experience

HA3: Islamic financing does not significantly affect SMEs competitiveness in terms of quality.

2.4. Theoretical Framework

Given the above approaches to economics, the assessment of Islamic financial products would be focused on the institutional framework that would substitute investment financing with incentive finance. The financial sector is preserved in Al-Jarhi's (2014) model, but enhancements that substitute interest-based finance with interest-free finance are introduced. Money production and distribution, and macroeconomic conditions, should all be covered by the institutional framework. In Al-Jarhi's model, finance is provided in the form of central bank investment deposits or central bank short-term deposits (CDs) with banks, both of which are based on profit and loss sharing. The interest earned on CDs would be returned to the central bank as seigniorage, which would support the government's budget.

Al-Jarl's model involves a total reserve scheme. The intermediary financial scheme causes unfair capital allocation in benefit of bank shareholders at the expense of the general public. It gives the central bank less than complete and explicit influence over the money supply because banks generate derivative investments in fractions of the central bank's currency. When fractional reserves are used as a monetary policy instrument, massive shifts in liquidity occur. Complete reserves are needed to prevent such drawbacks. The central bank provides central deposit certificates, which are monetary securities whose proceeds are applied to CDCs. They'd be tradeable on the secondary market and eligible for investment by banks and the general public. The central bank would base monetary policy on the return on investment on CDCs (RCDC), which, unlike interest rates, would be dictated by the marketplace. The general populace, like the central bank, invests their resources in PLS-based savings accounts. The general public may also keep CDCs.

They can also start investing in demand cash equivalents, which are used for products and services but pay no interest. On the financing aspect, people can fund their operations using one of several Islamic finance contracts. First, the government borrows money from banks to fund its revenue-generating operations. Also, infrastructure programs may be made revenue-generating in order to attract market-rate financing. Second, citizens may be encouraged to form awqaf (public foundations) to provide public services, especially in the areas of education and health. The government would restrict its developments in the country to establishing priorities for education and health care to the degree that such awqaf are encouraged.

III. Methodology

The research design to be used is a descriptive survey research design. The descriptive survey is suitable for analysing quantitative data and will help the researcher in making valid observations. The design was adopted for use because of its appropriateness in describing the current phenomenon of non-observable events such as opinions and attitudes. This study focuses on all small and medium scale enterprises in Ogun State. The population of this study was made up of all two thousand, four hundred and sixty-five (2, 465) small and medium scale business owners in Ogun State. The sample size for the study is four hundred (400) was selected from the population of 2 465 SMEs in Ogun State. A simple random sampling technique was employed in determining four hundred (400) respondents from the total population. Therefore, four hundred (400) small and medium enterprise owners were selected in the Ijebu-North Local Government Area of Ogun State, Nigeria. Related research on SMEs in Ogun State was conducted on the areas closer to Lagos and on the areas with a high concentration of industries.

The primary instrument of data collection was adopted. The application of structured questionnaires developed by the researcher was also used. In the questionnaires, open and closed-ended statements were used to ease data processing and analysis. The researcher administered the questionnaire with the help of two (2) research assistants to the selected small and medium enterprise owners in Ogun State. The questionnaire was administered to respondents to fill.

In order to ensure that the instrument measure what it is expected to be measure, the researcher presented a drafted questionnaire to a group of selected respondents outside the research group. A test-retest method was used to ensure the instruments' consistency of what it was expected to measure. Twenty (20) copies of the questionnaire were administered to twenty SME owners outside the original study sample size to ascertain the instrument's reliability. Another administration was on the same respondents a week later. The data collected from the two's administration were analysed using the Cronbach Alpha formula to determine its reliability coefficient. It gives a value of 0.81. The main statistical analysis method used in testing the research hypotheses was the regression method of analysis, while descriptive statistics were used to test respondents, personal data and responses.

3.1. Model Specification

$$SMEs\ Competitiveness = f(Islamic\ Finance)$$

SMEs Competitiveness= Price, Customers Experience, Quality of products

Model 1

$$Price = f(Islamic\ Finance)$$
$$Price = \beta 0 + \beta 1 f(Islamic\ Finance) + \mu$$

Where:

β0= Constant
β1= Coefficient of Islamic Finance
μ= Error term

Model 2

$$Customers\ Experience = f(Islamic\ Finance)$$
$$Customers\ Experience = \beta 0 + \beta 1 f(Islamic\ Finance) + \mu$$

Where:

β0= Constant
β1= Coefficient of Islamic Finance
μ= Error term

Model 3

$$Quality\ of\ Product = f(Islamic\ Finance)$$
$$Quality\ of\ product = \beta 0 + \beta 1 f(Islamic\ Finance) + \mu$$

Where:

β0= Constant
β1= Coefficient of Islamic Finance
μ= Error term

Apriori Expectation
It is expected that in the final analysis, Islamic finance will have direct and positive interaction with the dimensions of SMEs competitiveness.

3.2. Test of Hypotheses

HA3: Islamic financing does not significantly affect SMEs competitiveness in terms of quality

Hypothesis One: HA1: Islamic financing does not significantly affect SMEs competitiveness in terms of price

	SMEs Competitiveness (Price)				
Variable	B	SE.	β	T-Value	P-Value
Islamic Finance	0.817	0.013	0.824	63.385	0.000
AdjR2	0.679				
F-Stat	18.641 (p*=0.000)				

The results in table 1 show that Islamic finance significantly influences SMEs competitiveness in terms of the product's price. There is a significant and positive relationship between Islamic finance and SMEs competitiveness in terms of products price (β=0824). The coefficient of variation (R^2=0.697) shows that Islamic Finance causes 69.7% variation in SMEs competitiveness in terms of the product price. The standard error *(SE= 0.013) shows that the model is a good fit by indicating how Islamic finance accurately predicts SMEs competitiveness in terms of product price since the value falls between the accepted estimates of 2.5. The unstandardised beta (B=0.817) reveals that SMEs competitiveness in terms of the products price increase by 0.817 units when Islamic finance increases by a unit. The t-value (t=63.385, p=0.0000) indicates that Islamic finance is a significant predictor of SMEs competitiveness in terms of the products price. The F-stat (F=18.641, p=0.000) establishes that Islamic finance is reliable and influential in explaining SMEs competitiveness in terms of product price. The findings of the result established that Islamic finance significantly drives SMEs competitiveness in terms of price

Hypothesis two: HA2: Islamic financing does not significantly affect SMEs competitiveness in terms of customers experience

	SMEs Competitiveness(Customers Experience)				
Variable	B	SE.	β	T-Value	P-Value
Islamic Finance	0.783	0.009	0.787	87.444	0.000
AdjR2	0.619				
F-Sta	13.418				

(p*=0.000)

The results in table 1 show that Islamic finance significantly influences SMEs competitiveness in terms of the customers' experience. There is a significant and positive relationship between Islamic finance and SMEs competitiveness in terms of the customers' experience (β=0.787). The coefficient of variation (R^2=0.619) shows that Islamic Finance causes 61.9% variation in SMEs competitiveness in terms of the customers' experience. The standard error *(SE= 0.009) shows that the model is a good fit by indicating how Islamic finance accurately predicts SMEs competitiveness in terms of the customers' experience since the value falls between the accepted estimates of 2.5. The unstandardised beta (B=0.783) reveals that SMEs competitiveness in terms of the customers' experience increases by 0.783 units when Islamic finance increases by a unit. The t-value (t=87.444, p=0.0000) indicates that Islamic finance is a significant predictor of SMEs competitiveness in terms of the customers' experience. The F-stat (F=13.418, p=0.000) establishes that Islamic finance is reliable and influential in explaining SMEs competitiveness in terms of the customers' experience. The findings of the result established that Islamic finance significantly drives SMEs competitiveness in terms of the customers' experience

Hypothesis three: HA3: Islamic financing does not significantly affect SMEs competitiveness in terms of product quality

	SMEs Competitiveness (Product Quality)				
Variable	B	SE.	β	T-Value	P-Value
Islamic Finance	0.811	0.017	0.832	48.941	0.000
AdjR2	0.692				
F-Stat	13.418 (p*=0.000)				

The results in table 1 show that Islamic finance significantly influences SMEs competitiveness in terms of product quality. There is a significant and positive relationship between Islamic finance and SMEs competitiveness in terms of product quality (β=0.832). The coefficient of variation (R^2=0.692) shows that Islamic Finance causes 61.9% variation in SMEs competitiveness in terms of product quality. The standard error *(SE= 0.017) shows that the model is a good fit by indicating how Islamic finance accurately predicts SMEs competitiveness in terms of product quality since the value falls between the accepted estimates of 2.5. The unstandardised beta (B=0.811) reveals that SMEs competitiveness in terms of product quality increases by 0.811 units when Islamic finance increases by a unit. The t-value (t=48.941, p=0.0000) indicates that Islamic finance is a significant predictor of SMEs competitiveness in terms of product quality. The F-stat (F=13.418, p=0.000) establishes that Islamic finance is reliable and influential in explaining SMEs competitiveness in terms of product quality. The findings of the result established that Islamic finance significantly drives SMEs competitiveness in terms of product quality.

IV. Discussion of Results

In the analysis of hypothesis one, Price= β0+0.824(Islamic Finance), the result reveals that Islamic finance is a significant driver of SMEs competitiveness in terms of price. This implies that as SMEs gain access to more Islamic Finance, they can compete favourably in the market place in terms of the product price. From the results, it is established that SMEs need to have access to Islamic finance. This will reduce their operational cost, making them offer better prices than their rivals in the market. The findings of this result are consistent with the positions of Degong et al. (2018) and Anwar et al. (2018), who are of the opinion that access to Islamic finance will improve the performance of a firm in terms of cost efficiency and in the long-run profitability.

Hypothesis two, Customers Experience= β0+0.787(Islamic Finance), indicates that Islamic finance could bring about a better experience in SMEs, leading to sustainable competitiveness. The implication is that SMEs access to finance is critical for them to give customers a memorable experience. Access to funds at no cost would make SMEs meet their strategic goals and directly provide their customers with better products and services that would make them have a better experience. This position is in tandem with Hoove et al. (2014) and Raza et al. (2017) assertions that access to Islamic puts a firm above the market in terms of customer satisfaction and ability to be customer-centric. Hypothesis three, product quality= β0+0.832(Islamic Finance), shows that access to Islamic finance is important in creating quality goods. As established by Degong et al. (2018) and Anwar et al. (2018), Islamic finance positively influences opportunity recognition and firm competitiveness. This means that as the performance of Islamic lenders improves, so will the performance of SMEs. Furthermore, Islamic bank funding has a substantial positive impact on the welfare of SMEs.

4.1. Practical Implication

In order to compete favourably with contemporaries and large firms in the marketplace, there is a need for SMEs to harness and adopt the Islamic finance model in their operations. Islamic finance will reduce their operational cost since it comes at a no-interest rate while giving room for more innovative prices and customer-centric products at competitive prices. SMEs are to leverage on the opportunities provided by Islamic finance for them to adopt sustainable business practices.

V. Conclusion and Recommendation

Following the affirmation of the conclusion that Islamic banking has a positive effect on SMEs competitiveness. The corresponding suggestions are made: More banking firms should develop using Islamic banking interest-free loans to fund SMEs that are uncompetitive due to the scarcity of economic resources and high cost of capital. This would be beneficial to many SMEs in Nigeria, as prior literature has shown that high prices on bank loans hamper SMEs in the country experience liquidity concerns, and financial institutions can fund entrepreneurial activities programs through Islamic interest-free loans aimed at both current and prospective business owners. SME company owners who are equipped with appropriate entrepreneurship skills improve their chances of success.

References

Adelekan, S. A. (2021). Islamic financing and entrepreneurship development: providing an alternative model for new venture growth. *Finance, Management and Entrepreneurship* (pp. 91-104). Olabisi Onabanjo University Press. ISBN: 978-978-992-374-8

Adams, B. S. (2020). The Influence of Islamic Financing on SMEs Performance in Nigeria. *International Journal of Research and Innovation in Social Science*, 4(9), 33-56

Abdesamed, K. H., & Wahab, K. A. (2014). Financing of small and medium enterprises (SMEs): Determinants of the bank loan application. *African Journal of Business Management,* 8(17), 717–727. https://doi.org/10.5897/AJBM2013.7222

Abosede, A.J., Obasan, K.A. & Alese, O.J. (2016). Strategic management and small and medium enterprises (SMEs) development: a review of the literature. *International Review of Management and Business Research,* 5(1), 315-335.

Al-Jarhi, M.A. (2016). Islamic finance at crossroads. Presented at the *11th International Conference of Islamic Economics and Finance, Kuala Lumpur, October. Published in Intellectual Discourse, 24-43*

Alhabashi, K. (2015). *Financing for small and medium enterprises: The role of Islamic financial institutions in Kuwait.* Masters Thesis Submitted to Kuwait University,

Aminu, I. M., & Shariff, M. N. M. (2014). Mediating role of access to finance on the relationship between strategic orientation and SMEs performance n Nigeria: A proposed research framework. *International Journal of Management Research & Review,* 4(11), 1023–1035.

Anwar, M. (2018). Business model innovation and SMEs performance - Does competitive advantage mediate? *International Journal of Innovation Management,* 5(4), 56-87. https://doi.org/10.1142/S1363919618500573

Asree, S., Zain, M. and Razalli, M.R. (2010). Influence of leadership competencies and organizational culture on responsiveness and performance of firms. *International Journal of Contemporary Hospitality Management*, 22(4), 500-516.

Babajide, A. (2012). Effects of microfinance on micro and small enterprises (MSMEs) growth in Nigeria. *Asian Economic and Financial Review*, 2(3), 463–477

Barney, J., 1991. Firm resources and sustained competitive *Advantage. Journal of Management*, 17(1), 99-120.

Batra, G., Kaufmann, D., & Stone, A. H. W. (2003). *Investment climate around the world: Voices of the Firms from the World Business Environment Survey*. World Bank Publications

Buculescu, M. (2013). Harmonization process in defining small and medium-sized enterprises. Arguments for a quantitative definition versus a qualitative one. *Theoretical and Applied Economics,* 20(9), 103-114.

Chawla, S.K., Pullig, C. & Alexander, F.D. (1997). Critical success factors from an organizational life cycle perspective: perceptions of small business owners from different business environments. *Journal of Business Entrepreneurship*, 9(1), 47-58.

Diallo, A. T., & Gundogdu, A. S. (2021). *Sustainable Development and Infrastructure: An Islamic Finance Perspective*. Springer Nature.

Ehsan, A. & Shahzad, M. A. (2015). Bay Salam: A Proposed Model for Shari'ah Compliant Agriculture Financing. *Business & Economic Review, Institute of Management Sciences Hayatabad, Peshawar*, 7(1), 67-80.

Faisol, B. (2017). Islamic bank financing and it's impact on small medium enterprise's performance. E*tikonomi* 16(1), 21-33

Fraj, E., Matute, J. & Melero, I. (2015). Environmental strategies and organizational competitiveness in the hotel industry: the role of learning and innovation as determinants of environmental success. *Tourism Management*, 46 (3), 30-42.

Gibson, T. & van der Vaart, H. J. (2008). Defining SMEs: a less imperfect way of defining small and medium enterprises in developing countries. *Brookings*, 1-29.

Goldberg, A., Cohen, G. & Fiegenbaum, A. (2003). Reputation building: small business strategies for successful venture development. *Journal of Small Business Management*, 41(2). 168-186.

Hassan, M. K., Rabbani, M. R., & Abdulla, Y. (2021). Socioeconomic impact of COVID-19 in MENA region and the role of Islamic finance. *International Journal of Islamic Economics and Finance (IJIEF)*, *4*(1), 51-78.

Hoove, P. S., Sinbanda, K. & Pooe, D. (2014). The impact of corporate governance on firm competitiveness and performance of small and medium enterprises in South Africa: A case of small and medium enterprises in Vanderbijlpark. *Mediterranean Journal of Social Sciences* 5(15), 324-377

Hossain, M. & Kauranen, I. (2016). Open innovation in SMEs: a systematic literature review", Journal of Strategy and Management, 9(1), 58-73.

Isah Bazza, M., Yusuf Maiwada, B., & Ahmad Daneji, B. (2014). Islamic financing: A panacea to small and medium scale enterprises financing problems in Nigeria. *European Scientific Journal,* ESJ, 10(10), 45-68. https://doi.org/10.19044/esj.2014.v10n10p%p

Kuzilwa, J. A. (2005). The role of credit for small business success. A study of the national entrepreneurship development fund in Tanzania. *Journal of Entrepreneurship*, 14(2), 131–161. https://doi.org/10.1177/097135570501400204

Lawson, B. (2012). Financial system strategy: Access to finance for SMEs. Financial System Strategy (FSS) 2020 *International Conference, 1–21. Abuja: Central Bank of Nigeria*.

Léon F. & Weill, L. (2016). Islamic Banking Development and Access to Credit. Working *Papers of LaRGE Research Center 2016-02, Laboratoire de Recherche en Gestion et Economie (LaRGE), Université de Strasbourg.*, 1-56

Man, M. M. K. (2009). The relationship between innovativeness and the performance of small and medium-size enterprises (SMEs) of Malaysian manufacturing sector. *International Journal of Management and Innovation*, 1(2), 1–14.

Man, T.W.Y., Lau, T. & Chan, K.F. (2002). The competitiveness of small and medium enterprises A conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing,* 17(2002), 123-142.

McAdam, R., Reid, R. & Gibson, D. (2004). Innovation and organisational size in Irish SMEs: an empirical study. International Journal of Innovation Management, 8(2), 147-165.

Mazanai, M., & Fatoki, O. (2012). Access to finance in the SME sector: A South African perspective. Asian Journal of Business Management, 4(1), 58–67.

Maiwada, B.Y., & Daneji, B.A. (2014). Islamic financing: A panacea to small and medium scale enterprises financing problems in Nigeria. *European Scientific Journal*, ESJ, 10., 18-36

Mohammed, U. D., & Obeleagu-Nzelibe, C. G. (2014). Entrepreneurial skills and profitability of Small and Medium Enterprises (SMEs): Resource acquisition strategies for new ventures in Nigeria. 25th International Business Research Conference, 1–21.

Octrina, F., & Mariam, A. G. S. (2021). Islamic bank efficiency in Indonesia: Stochastic Frontier Analysis. *The Journal of Asian Finance, Economics, and Business*, *8*(1), 751-758.

Raza, H., Ahmed, F., Osama, A. & Ahmed, F. (2017). Islamic banking for small and medium enterprises (SMEs): A glance at challenges and prospects in Pakistan. *International Journal of Development and Sustainability*, 6(12), 1998-2008.

Sonita, E., Miswardi, M., & Nasfi, N. (2021). The role of Islamic higher education in improving sustainable economic development through Islamic entrepreneurial university. *International Journal of Social and Management Studies*, *2*(2), 42-55.

Shah, S. A. A., Sukmana, R., & Fianto, B. A. (2021). Integration of Islamic bank specific risks and their impact on the portfolios of Islamic Banks. *International Journal of Islamic and Middle Eastern Finance and Management*, 3(2), 201-305

Thomas, S., & Brycz, M. (2014). Nigeria Vision 20: 2020 Can dream become reality? Evidence from National Accounts. *Journal of International Studies, 7(3), 162–170.*