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# Financing family firms in the Middle East: the choice between Islamic and conventional finance

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## Abstract

**Purpose** – The purpose of this paper is to investigate the role of non-economic factors on the financing decisions of family firms in the Middle East. To contextualize the study, the authors steer away from the traditional capital structure debate toward the choice of financing paradigm: conventional vs Islamic.
**Design/methodology/approach** – This study uses Ajzen's theory of planned behavior due to its ability to delineate the influence of non-economic motivational factors on the financing decisions of family firms. This study also examines the influence of "familial stewardship (FS)," another non-economic factor which is highly relevant in a collectivistic context. The authors initially use SEM with Amos to analyze 115 surveys of family firm owner-managers. For deeper probing, the authors undertook an additional *post hoc* qualitative analysis of six case studies using semi-structured interviews.
**Findings** – The findings of this study suggest that owner-managers' attitude toward Islamic finance plays a primary motivational role in influencing their intentions to use it. More importantly, the findings depict a significant influence of "FS" and subjective norm on the attitudes of owner-managers. This implies that financing decisions which involve religious beliefs are directly influenced by the decision maker's personal attitude, which, in turn, is significantly influenced by familial and social pressures.
**Originality/value** – This study fills a gap in the family-firm financing literature by suggesting that when choosing religion-related financial products, attitude plays a far more significant role than other motivational factors. This study also contributes to the "familiness" area of research by empirically demonstrating that FS has a significant influence on owner-managers' attitude toward financing choices.

**Keywords** Family firms, Islamic finance, Theory of planned behaviour, Familial stewardship

**Paper type** Research paper

## Introduction

Family firms are an important constituent of the economies of advanced and developing nations alike. They are commonly defined as those firms in which multiple members of the same family are involved as major owners or managers (Miller *et al.*, 2007). Studies have shown that family firms have distinct characteristics and considerations which they factor into their decision-making processes (Binacci *et al.*, 2016; Gallo *et al.*, 2002), particularly their financing decisions (Thiele and Wendt, 2017). Those factors are not only economic in nature (Ampenberger *et al.*, 2013; Santos *et al.*, 2014; Beattie *et al.*, 2006) but also non-economic (Keasey *et al.*, 2015; Koropp *et al.*, 2014; Romano *et al.*, 2001). Fortunately, the literature on family-firm finance is growing, thus allowing practitioners and scholars to better understand the factors that influence those firms' financing decisions, and how best to manage them. However, the same cannot be said about the literature on family firm financing in non-Western, developing countries context. Specifically in the Middle East, family firms constitute the vast majority of businesses in the private sector, yet few are the

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studies which examine their financing decision-making processes (Basly, 2017; El-Said *et al.*, 2013), and fewer still are those that examine them from a noneconomic, motivational perspective (Basco, 2017). This paper seeks to fill a gap in the literature by shedding light on the non-economic factors that are likely to influence family firms' financing choices in the Middle East.

The authors will rely on the theory of planned behavior (TPB) (Ajzen, 1991), as it offers deep insight into the non-economic, behavioral factors which may influence various family-firm decisions (Armitage and Conner, 2001). In an empirical study of financing choices, Koropp *et al.* (2014) used the TPB to explain how attitude, norm, and perceived behavioral control (PBC) had a significant impact on family firm capital-structure decisions. Their findings suggest that financing the family firm can be influenced by non-economic factors which should not be ignored. Though scholarly studies of financing choices have commonly relied on traditional capital structure theories like trade-off theory or pecking order theory, these theories do not serve the purpose of this particular study well, for they address the economic aspects of financing, such as tax-shields, stock prices, and debt ratios, all of which do not help to explain the non-economic considerations of family firms in making financing choices. In contrast, the TPB offers a non-economic perspective that could be particularly suitable for a study in this region – a region that places considerable emphasis on values, norms and familial commitments.

Family firms in Lebanon make up about 85 percent of the SME-dominated private sector, and their choices rarely include issuing equity to finance growth for fear of losing control of the business (UNDP, Ministry of Economy and Trade, 2014). As external debt has been the most popular means of financing for decades on end, the practical dilemma for Lebanese family firms has always focused on choosing the bank that would give the business credit at the best possible terms. It was not until the early 1990s that family firms had another option: Islamic finance. With the advent of Islamic banks, family firms had a new financing option which suited their religious beliefs and offered a wide array of financing tools (Chapra, 2014).

Though Islamic finance has witnessed remarkable growth and stability in recent years, the status of the Islamic finance industry in the MENA non-GCC region is currently not very encouraging. In Lebanon, where this study was conducted, Islamic bank deposits comprise only 0.65 percent (less than 1 percent) of total deposits in the entire Lebanese banking system (Al Emid, 2015) though the Moslem population currently exceeds 65 percent of the total Lebanese population (*Daily Star*, 2013), thus signaling serious demand issues for Islamic finance in this country. Understanding this peculiarity constituted the primary motivation for this study. What makes family firms in the Middle East choose conventional financing options when the Islamic alternative is more aligned with their religious convictions (Iqbal, 1997), and more capable of delivering superior results (Hove *et al.*, 2014)? No previous research has been done that answers this question or identifies family firms' motives behind choosing sources of finance in the Middle East, a region where such an investigation is necessary to help financial institutions offer financing options that meet the needs and aspirations of regional family firms. This makes the UNDP, Ministry of Economy and Trade (2014) report highly relevant in suggesting a search for alternative methods of financing for family-owned small- and medium-sized enterprises (SMEs) if they were ever going to move into the growth stage of their business cycle[1].

This paper also considers the possible influence of family and "familial stewardship (FS)" on the financing decisions of the family firm. FS is expected to be highly relevant in a context where collective considerations are principal, and familial commitment is particularly high. An investigation of financing decisions of Middle Eastern family firms may be incomplete without considering the influence of one's family and commitment to its best interest.

This study initially used the quantitative approach where surveys were used to collect data which were analyzed using structural equation modeling to test the hypotheses under study. Then, the qualitative approach was used to conduct a *post hoc* analysis through multiple case studies to probe deeply into some of the results of the quantitative part of the study.

The findings suggest that the owner-manager's attitude has a major influence on his intention to use Islamic finance. They also suggest that subjective norm (SN) and FS both have a significant influence on attitude, thus not only confirming the effect of noneconomic factors, but also specifying what those factors are and in what way they are likely to affect the financing choices of family firms.

This paper contributes to the literature in several ways. First, it augments our understanding of how family-firm financing decisions are made in the Middle East by employing behavioral insight from social psychology through the TPB. Second, it extends the TPB by emphasizing the predominant influence of attitude, when the issue is related to decisions guided by religious commitment. Third, it contributes to the field of family business by showing how family firms make financing decisions under the influence of non-economic considerations. Fourth, it contributes to the field of Islamic finance by drawing the industry's attention to one of the major challenges it is facing today, which is customers' negative attitude due to the lack of trust in the institutions rather than the lack of acceptance of the paradigm. Finally, this study augments our understanding of the regional context by pointing out the non-economic factors that could potentially motivate the adoption of Islamic financing tools which have been shown to positively contribute to local and regional economic development (World Bank Group-IDB, 2015).

This paper is organized as follows: The next section presents a review of the literature leading up to the hypothesized model. Next, the methodology used in the study is laid out and both quantitative and qualitative approaches are justified. Then, the findings and discussion are presented followed by the conclusion and implications of the study. Finally, the limitations of the study and recommendations for future research are discussed.

## Literature review

A family firm is defined as one that is owned by a family and managed by its members (Miller *et al.*, 2007). However, the family firm is often given a more complex meaning, adding "family vision and intention" to ownership and control, thereby accounting for the uniqueness of the family firm. The impact of "familiness" on the behavior of family firms has been closely examined starting with Habbershon and Williams (1999) who described it as the unique set of resources which arise from the interactions between the family system as a whole, the individual family members, and the business itself. These resources attach to the family firm a set of distinctive attributes which may have a strong influence on its decisions and behavior. Perhaps one of the most important decisions made by family firms are those related to the financing of growth, which is why some studies have tried to identify the determinants of family firms' financial behavior (Lopez-Garcia and Sanchez-Andujar, 2007), and have examined the influence of "familiness" on financing decisions (Baek *et al.*, 2016; Thiele and Wendt, 2017). These studies suggest that decision-making processes related to financing in the family firm are typically influenced by non-economic considerations (Koropp *et al.*, 2014), and that familial influence, as subjective as it may be, can significantly impact decisions as strategic as those related to financing.

Clearly, the vast majority of previous studies on family business financing approached the financing issue through the question of capital structure and the traditional debate of debt vs equity (Pindado *et al.*, 2015). Typically, studies of the family firm have shown that they are more indebted than non-family firms (Acedo-Ramírez *et al.*, 2017), and that they prefer debt to equity as a source of finance that does not threaten their control over the firm. This explains family firms' aversion to external financing (Sirmon and Hitt, 2003) to the point of foregoing growth opportunities (Hamelin, 2013; Wu *et al.*, 2007). And when family firms do recognize the need for external financing to support their growth potential, they tend to prefer debt to equity so as to avoid the dilution of their control over the business (Croci *et al.*, 2011), even if this may lead to sub-optimal financing choices (Croci *et al.*, 2011). This supports the notion that, in family firms, the financing decision is largely a function of non-economic considerations.

The literature is rich with studies that have identified non-economic factors, such as culture, entrepreneurial characteristics, control aspects, firm's age, size and life-cycle, altruism, in addition to the attitudes and perceptions of the decision makers themselves (Romano *et al.*, 2001). Studies have also shown that, in collectivistic cultures, family firms make decisions that meet the interests of not only the business but also the family (Bizri, 2016). Chrisman *et al.* found that family influence partially mediates the relationship between family involvement and the firm's adoption of non-economic goals, confirming the notion that not all business goals are economic and that the family does have considerable influence on the adoption of those goals. A more recent study by Thiele and Wendt (2017) revealed a significant influence of "familiness" on the capital structure decisions of family firms in Germany, suggesting that family firms are indeed influenced by familial considerations when making financing choices. However, such choices do not have to be limited to capital structure – debt or equity. Koropp *et al.* (2014) called for "even finer-grained distinction between financing choices" including additional financing options. This call opened the door to studies like the current one, which investigates family firms' choice of Islamic vs conventional financing options, in a region where both these financing options are widely available.

Family firms in the Middle East comprise the vast majority of businesses, most of which are SMEs facing the rising challenge of access to finance (World Bank Group-IDB, 2015). This report suggests that the growing financing gap could be filled by developing innovative solutions which make use of asset-based and equity-based Islamic financial instruments, thus constituting an important motivation for this study.

In the Middle East, the vast majority of family firms belong to Moslem families who value compliance to Sharia (Islamic law) in all aspects of life including financial matters. This makes Islamic Finance a favored option for financing family business operations and growth. To those who are not quite familiar with the Islamic finance paradigm, a brief overview of the literature is offered herein. The Islamic banking and finance industry has reached $2 trillion in Sharia-compliant assets (*The Economist*, 2014), is comprised of over 550 Islamic financial institutions (*The Economist*, 2009) offering financing products in over 105 countries around the world (Warde, 2010). This industry is built around principles of "Sharia," or Islamic law, which lays out the basic rules that permit or prohibit business practices. These basic rules are derived from Islam's holy book, the "Quran," and revolve around a simple philosophy: "No harm or injustice done" unto the doer or the receiver of the action. If an action would, intentionally or unintentionally, cause harm to the doer of the action or receiver of its consequences, then that action is not permitted by Sharia. To that end, lenders should not charge borrowers any interest on borrowed funds because this would entitle the lenders to gains for which they did not expend any effort or risk, thus unjustly reducing the wealth of the borrowers without legitimate cause. The time value of money is indeed recognized only when it acts as actual capital and involves economic activity, such as buying or selling – not lending. The rationale is that sharing capital and business risk legitimizes the sharing of profits, whereas charging a fixed rate of interest regardless of the business outcome does not contribute to economic or social justice. Similarly, one should not engage in an investment that involves excessive risk as this may cause undue hardship on either party. Therefore, any speculative behavior, such as gambling, is considered "non-Sharia-compliant" as it does not involve any economic activity, yet it yields uncertain outcomes leading to potentially devastating individual and social loss. Finally, one should not engage in business activities which violate rules of "Sharia" by investing in "haram" products or services like alcohol, pornography, or gambling as these activities are considered to be harmful to one's health, well-being, and to society as a whole, and are therefore prohibited. These principles of "Sharia" govern the financial practices of Moslems by prohibiting all actions that would lead to harm or injustice befalling the doer or receiver of the action (Iqbal, 1997).

Guided by these simple principles, the Islamic finance paradigm today offers several financial tools that are "Sharia-compliant" and promote social and economic activity (Bennett and Iqbal, 2013; Hussein, 2004; Ullah, 2014). According to Asutay (2012), the Islamic finance paradigm aims at economic and social development through the financial inclusion of unbankable market participants, of which family firms constitute a large proportion.

In the Middle East, religious commitment is generally high, and people's adherence to the rules of Sharia (Islamic Law) is rather strict. Therefore, when conventional financing contradicts with the basic tenets of Sharia, family firms look for another alternative that provides Sharia-compliant financing: Islamic finance. The decision to use Islamic finance is motivated by owner-managers' desire to finance the family firm in ways that are acceptable or "Halal." They would be reluctant to seek conventional financing, whose backbone is interest or "Riba," as the latter is condemned by Islam. Owner-managers of family firms in this region desire to make financing choices which fit with their religious beliefs because, to them, religion governs most of their lives' activities. To be at peace with their Creator, they feel that they have to make business choices (including financing) that adhere to the laws set by that Creator, hence the demand for Islamic finance as a Sharia-compliant alternative.

However, though the Islamic finance paradigm is perceived to be meant for all humanity regardless of religion (Khan, 2015), relatively few Moslems, let alone non-Moslems, are aware of the variety of solutions it offers (Bizri, 2014). According to a recent study on the effect of Islamic banking on business performance, it was empirically demonstrated that Islamic banking had a significant and positive effect on entrepreneurial motivation and firm competitiveness, leading to a superior business performance (Hove *et al.*, 2014). Nonetheless, perplexing as it is, most family firms in the Middle East seek financing from conventional rather than Islamic banks. To the knowledge of the authors, there are few studies that aim to explain the motivational factors behind financing choices of family firms in the Middle East, when it comes to Islamic vs conventional financing (Basly, 2017; Pistrui and Fahed-Sreih, 2010). To address this gap, the TPB was chosen as a theoretical frame of reference for this study. The TPB is a motivational theory designed to predict and understand human behavior (Ajzen, 1991), including behavior pertaining to financial choices, particularly since it takes into consideration the individual's attitude toward the behavior, individual's perception of whether referent others might approve of the behavior, and the individual's perceived control and ability to perform the behavior, all of which are non-economic considerations that focus on psychological motives for developing financial intentions and, later, behaviors.

According to Xaio (2008), the TPB has been successfully applied to investigations of financial behavior with the purpose of gaining a better understanding of the factors that affect the formation and change of those behaviors. Koropp *et al.* (2014) used the TPB to empirically confirm the influence of noneconomic factors in making capital structure decisions in family firms. It is argued that those factors may similarly influence Middle-Eastern family firms' financing intentions and behavior. Thus, the TPB is considered a suitable theoretical framework for his study.

Attitude, the first element of the TPB, was defined as the individual's evaluative judgment of the outcome of the behavior in question (Fishbein and Ajzen, 1975), indicating preference or dislike toward it. In context, having a positive attitude about Islamic finance means that one has favorable feelings about it as a concept, and about its suitability and derived benefit. It follows that owner-managers of family firms in the predominantly Islamic Middle-East are expected to have a positive attitude toward Islamic financing since they believe it fits well with their religious beliefs. Having a positive attitude toward a certain practice or process facilitates the acceptance and, consequently, the use of that process. In a previous study, consumers' attitude was found to be one of the significant factors influencing the intention to use Islamic personal financing (Amin *et al.*, 2010), and in a more recent study by Newaz *et al.* attitude was significantly related to the individuals' purchase intentions toward Islamic financial products. Therefore, it is argued that family-firm managers in the Middle East, who likely have a positive attitude toward Islamic finance, are also likely to have the intention to use it in meeting the firm's financing needs. Hence, the first hypothesis in this study is:

*H1*. In the family firm, there is a significant and positive relationship between the owner-managers' attitude toward Islamic finance and their intention to use it in the business.

The second predictor variable in the TPB is "SN" which represents an individual's perception of how significant others would view the behavior in question. SN is defined as perceived social pressures to carry out a behavior or refrain from doing so (Ajzen, 2006). Previous research has shown that SN has a strong influence on individual decision making as it applies social pressure to either perform, or not perform, a particular action (Fishbein and Ajzen, 1975). Family-firm decisions are largely influenced by family norms (Pearson *et al.*, 2008), which are accepted and shared values and beliefs, ingrained in family members' minds as they mature. How those norms are perceived by members of the family has been shown to have a profound influence over family members' decisions and actions in the firm (Sharma *et al.*, 2003), such as managing the latter's resources (Sirmon and Hitt, 2003) or making financing decisions (Romano *et al.*, 2001; Koropp *et al.*, 2014). Therefore, it is argued that family-firm owner-managers evaluate financing decisions partly according to how they perceive other family members view those decisions. In a study by Amin and Chong (2011), the influence of SN on individuals' intention to patronize the Islamic "pawn shop" was found to be significant. In 2013, Gumel and Othman found a significant influence of SN on people's intention to use Islamic banking in Nigeria. Along the same lines, and in the context of the "family business," owner-managers are expected to develop the intention to use Islamic financing if they believed that other family members would approve of this decision and regard it positively. Therefore, the second hypothesis in this study is:

*H2*. In a family firm, there is a significant and positive relationship between SNs regarding the use of Islamic finance tools, and the owner-manager's intention to use them.

The extent to which an individual feels capable of performing a behavior affects individual's intention to actually carry it out (Armitage and Conner, 2001). Ajzen (1991) named this perception of capability "PBC," and found it to affect not only the individual's intention but also behavior, in a direct relationship. A study by Alam *et al.* (2012) and another one by Amin *et al.* (2013) found a significant influence of PBC on individuals' intention to use Islamic home financing in Malaysia. Yet another study by Echchabi and Aziz (2012) in Morocco empirically showed that people's PBC predicted their intention to use Islamic banking products. Therefore, it is reasonable to expect that the more capable the owner-managers feel of choosing Islamic financing, the more likely they are to develop the intention to actually use it. Hence, the third hypothesis is:

*H3.* There is a significant and positive relationship between the owner-managers' PBC and their intention to use Islamic financing.

The TPB considers the three motivational variables (positive attitude, SNs, and PBC) to be antecedents to intention which, in turn, has been shown to predict the actual behavior in question. According to Ajzen and Fishbein (1980), intentions tend to "capture the motivational factors that influence a behavior," and the literature is rich with studies which have shown that intention can accurately predict behavior (Ajzen *et al.*, 2009), suggesting it is often adequate to establish a predictive relationship between the motivational variables and behavioral intention, since the latter serves as proxy to the behavior itself (Armitage and Christian, 2004; Buchan, 2005). This study analyzes the relationships between motivational elements and the intention to use Islamic financing tools, intention being the dependent variable in the study and a proxy for the actual behavior (use of Islamic financing in the family firm).

According to a study by Bansal and Taylor (2002), interactions between attitude and SNs significantly affect behavioral intention. In a collectivistic society like Lebanon, it would seem likely that such an interaction may prove significant, leading to the potential influence of an interaction, between SNs and attitude, on the intention to use Islamic financing tools. Therefore, the fourth hypothesis in this study is:

*H4.* The interaction between attitude and SN can significantly affect behavioral intention to use Islamic financing tools.

In the Middle East, culture plays an important role in shaping behavior. The predominant collectivistic culture has a strong influence on how people are raised and trained to think and behave. In this culture, family constitutes a primary consideration in almost all decisions, including business decisions. The influence of "family" was found to be significant on various individual decisions, ranging from the choice of a bank (Abbas *et al.*, 2003) to food consumption (Alam and Sayuti, 2011). When decisions are made in the family firm, it is not surprising that the best interest of the owning family is taken into consideration, demonstrating an act of stewardship on part of the family members toward their family. In a collectivistically-oriented culture, leaders are inclined to be good stewards (Davis *et al.*, 1997) always considering the best interest of the family. Along these lines, a study by Fahed-Sreih *et al.* (2010) suggested that Lebanese entrepreneurs were motivated by their desire for family security and familial commitment.

It follows that decision makers in family firms prefer to choose business alternatives that protect or preserve the well-being of the family as, in their view, the business is meant to serve the family and not the other way around. This view is very common in the region, and family firm owner-managers make business choices that would meet the needs and aspirations of their immediate families. This commitment to the best interest of the family was termed "FS" and was defined as "a care-taking action toward the family that grounds business decision-making in the best interest of the family itself" (Bizri, 2016). In case of competing interests, the family's best interest would supersede. The current study would be lacking if it did not examine the role "FS" plays in choosing financing options available in this region. This is why it is deemed appropriate to investigate the influence of "FS" on the financing decision of the family firm as an exogenous variable predicting owner-managers' intentions to use Islamic financing options. Therefore the fifth hypothesis in this study is:

*H5.* There is a significant and positive relationship between the strength of "FS" commitment and the intention to use Islamic financing tools.

The elements of TPB and the construct of "FS" are expected to provide a psycho-sociological perspective most suited for this type of research in a region driven by religion, and structured around collective social units. Importantly, this investigation tackles the choice of financing paradigm, Islamic vs conventional, as opposed to traditional capital-structure choices.

**Methodology**

Guided by the TPB, this study sets out to examine the relationships between the elements of TPB and intention on one hand, and the relationship between FS and intention on the other. This required the testing of several hypotheses for which structural equation modeling was deemed the best approach. SEM with AMOS is a quantitative approach known for its ability to test multiple hypotheses simultaneously, in addition to its use of several statistical techniques to confirm a theoretical model such as the TPB. However, the results of the data analysis contradicted with the theoretical logic defining this study's initial expectations, making it necessary to probe deeper by using the qualitative approach with multiple case studies. Combining quantitative and qualitative methods to explain phenomena helps produce a more realistic assessment of the questions under study (Harrison and Reilly, 2011). Mixed methods permit a "more complete and synergistic utilization of data than do separate quantitative and qualitative data collection and analysis." They named this approach Explanatory Sequential Design which involves two phases: a quantitative instrument phase followed by a qualitative data collection phase which builds directly on the results from the quantitative phase (Wisdom and Creswell, 2013). By following the mixed methods approach, the authors of the present study were able to complement the quantitative results with results from a qualitative investigation, thus providing an in-depth explanation of the issues under study. The research process is reported below.

In the first phase, 115 surveys were collected and data were analyzed using Amos (20) as CB-SEM approach since the research objective was confirmatory, i.e. to confirm that the data fit the model being tested. Though some studies recommend larger sample sizes for SEM approach, a sample ranging from $N=100$ to 150 is considered adequate for conducting SEM (Ding *et al.*, 1995). The sample size in this study ($N=115$) was within the recommended 100-400 range (Hair *et al.*, 2014) and greater than the recommended minimum of $N=50+8\times$ number of constructs (Tabachnick and Fidell, 2007), which in this study was 90 ($N=50+8\times 5$). This suggested that the sample size ($N=115$ cases) was adequate for this approach. Though a bigger sample would have enhanced the stability of the solutions, it was very difficult to obtain considering the limited willingness of family firm owner-managers to partake in a study that probed deep into their religion-related decision-making processes.

The second phase adopted the qualitative approach, after the findings of the survey suggested the need to employ a *post hoc* multiple case analyses ($N=6$ cases) for a deeper probing into the results.

*The variables in the study*

The independent variables under investigation in this study are the family-firm's owner-manager's attitude (A) toward Islamic finance, SNs toward the use of Islamic finance, the PBC of the owner-manager, and FS commitment of the owner-manager toward his or her family's best interest when making the financing choice. Further, this study controls for education, religion, and religious commitment as categorical variables. The rationale is that owner-managers' religion and religious commitment would likely have an effect on their intention to use Islamic finance. In addition, their level of education and awareness of available financing tools in the market may also have an effect on owner-managers' intentions to use them. Finally, owner-managers' intention to use Islamic finance (II) will be the dependent variable, serving as proxy to the behavior itself – the actual use of Islamic finance tools.

*The measures*. The measures used in the survey were based on previously validated scales testing the basic constructs of the TPB, namely, attitude, SNs, PBC, and intention. The scales were selected from Ajzen (2006) who provided sample scale items for each of the TPB constructs. We used the specific terms which Ajzen suggested for representing the constructs, as explained below, and we adapted the items by adding phrases as appropriate to address the financing-paradigm choices under study. First, four items were used for attitude (A) which asked evaluative statements using Ajzen's suggested adjectives "suitable, beneficial, and useful." For example, one of the items in the Attitude scale was "I believe that the tools of Islamic banking are a suitable source of finance for the family business." Second, three items were used for SNs which asked to what extent respondents believed that significant others in the family "preferred" or "expected" them to seek Islamic finance. For example, one of the items used in the SN scale was "Members of my family expect me to finance the family business through Islamic banking." Third, three items were used for PBC asking to what extent respondents felt "confident" and "in control" of making the decision, and that the decision was actually "theirs" to make. For example, one of the items used in the PBC scale was: "It is my decision which financing source is used in this family firm." Fourth, four items were used for intention to use Islamic finance (II) asking respondents to what extent they "would try," or "intend to" or would "make effort" to choose Islamic finance as a financing option. For example, one of the items used in the intention scale was: "I will make every effort to use Islamic banking tools to finance new investment in this family firm." Fifth, and to address the construct of FS for which there were no previously validated scales, the authors went back to the definition of the construct which described FS as "a care-taking action toward the family that grounds business decision making in the best interest of the family itself," and where "family members demonstrate an unwavering commitment to family goals over business goals/needs in smaller firms" (Bizri, 2016, pp. 140, 147). Based on this concept, three items were posed asking to what extent respondents were likely to choose the financing source that would "serve" the best interest of their immediate families, "consider" their family's best interest in any financing decision, and whether family interest "comes first" when making financing decisions. For example, one of the items used in this scale was: "I will choose the financing source that will serve the best interest of my immediate family." Finally, the study controlled for religion, religious commitment, and education to ensure appropriate model specification. It was expected that religiously committed Moslems were more likely to adopt Islamic financing tools or at least have the intention to do so. It was also expected that the higher the level of education and awareness of the respondents, the more their knowledge of the Islamic paradigm as a financing option, and therefore the more the likelihood of them using it. A five-point Likert scale was used ranging between 1 as "strongly disagree" and 5 as "strongly agree." The survey instrument was translated to Arabic, the language of the region, and then retranslated into English to ensure exact translation, and corrections were made accordingly. The reliabilities of the measures are reported in Table I.

*The sample*. The targeted respondents were owner-managers who have in the past or may in the near future (within three years) use Islamic financial tools to finance growth. The sample was initially chosen from the registries of the four chambers of commerce offices located around Lebanon. The firms were contacted by phone to set up dates on which to administer and collect the surveys. As mail surveys in the region are known to be discarded rather than responded to, the authors resorted to individual distribution and collection of the surveys. Though the authors had intended to use a random sample based on the registries, this was not possible. Unfortunately, the owner-managers who accepted to partake in the study were very few in each location, and a random sample was going to yield an extremely small sample size. The authors decided to include all the owner-managers who did accept to participate. Still the number was extremely low, so the authors requested from the participants to introduce them to potential participants that might be willing to partake in the study. This technique is known as the snowball technique where one participant connects the researcher to another participant and so on. Though the snowball technique has its limitations, this study did not suffer because the initial selections came directly from

| Construct | Scale | Standardized loadings | Cronbach's $\alpha$ | Composite reliability | AVE |
|---|---|---|---|---|---|
| Attitude (A) | Aone: I believe that the tools of Islamic banking are a suitable source of finance for the family business | 0.91 | 0.930 | 0.929 | 0.814 |
| | Atwo: For me, it is beneficial to use Islamic Banking tools for meeting the financing needs of the business | 0.95 | | | |
| | Athree: In my opinion, Islamic Banking is a useful method for financing the business | 0.85 | | | |
| Subjective norms (SN) | SNone: Members of my family prefer that the business be financed through Islamic banking rather than conventional banking | 0.89 | 0.881 | 0.881 | 0.787 |
| | SNtwo: Members of the family expect me to finance the family business through Islamic banking | 0.89 | | | |
| Perceived behavioral control (PBC) | PBCtwo: I can control the financing approaches for any new business investments | 0.80 | 0.866 | 0.875 | 0.779 |
| | PBCthree: It is my decision which the financing source is used in my business | 0.96 | | | |
| Familial stewardship (FS) | FStwo: In choosing the source of financing, family interest comes first, followed by the interest of the business | 0.54 | 0.650 | 0.737 | 0.602 |
| | FSthree: In choosing the source of financing, family interest comes first, followed by the interest of the business | 0.96 | | | |
| Intention (II) | IIone: I intend to use Islamic banking tools for financing any new business investment | 0.97 | 0.926 | 0.930 | 0.771 |
| | IItwo: I will make every effort to use Islamic banking tools to finance my business | 0.93 | | | |
| | IIthree: I will try to use Islamic banking tools as the financing approach used by my business | 0.88 | | | |
| | IIfour: I do not intend to use Islamic banking tools for financing any new business investment. (R) | 0.71 | | | |

**Table I.** Latent variables, items, standardized loadings, Cronbach's $\alpha$, composite reliabilities, and AVE scores

the registries which included various locations, industries, sizes, religious orientations, etc. So the snowball introductions were also derived from a diverse initial sample.

The respondents ($N = 115$ in total) were typically founders or successors, acting as owner-managers. As the study relied on self-reported data on dependent and independent variables obtained from the same participant, it was important to ensure that common method bias was not a significant problem (Podsakoff and Organ, 1986). So an exploratory factor analysis was conducted with un-rotated principal component analysis generating four distinct factors. The variance explained by the first factor was 35.7 percent, while total variance explained was 77 percent. As the first factor was not responsible for the majority of the variance, this is considered evidence that common method variance is not a significant problem. However, to further increase confidence in the results, a confirmatory factor analysis was conducted with a single latent factor to examine the fit of the CFA model. If common method variance exists, it would be responsible for most of the relationships among the variables, and the common latent factor model would fit the data well (Korsgaard and Roberson, 1995). However, the results of the CFA showed that the one-factor model did not fit the data well, as $\chi^2 = 129.25$, $p = 0.000$, GFI = 0.81, CFI = 0.89, PCLOSE = 0.000, and RMSEA = 0.111, indicating that the common latent variable was not responsible for most of the relationships in the model, and that common method bias was not a significant problem in this study.

## Findings and discussion

### *Quantitative findings*

The survey respondents were family firm owner-managers, mostly males (85 percent), their ages were almost evenly distributed with the largest category between 41 and 50-years old, of a predominantly Moslem religious orientation (84.3 percent), and moderate religious commitment (81 percent). About 45 percent of the respondents had a college degree (BA or Masters), and the firm size was mainly micro (< 10 employees) or small (< 50 employees) comprising 94.8 percent of the sample.

Based on the hypotheses in this study, it was expected that the four independent variables, attitude, SN, PBC, and FS would have a significant and positive influence on intention, the dependent variable in this study. A look at the construct means showed that the highest scores went to PBC ($x = 4.52/5.0$; $\partial = 0.76$) and FS ($x = 4.46/5.0$; $\partial = 0.85$), while the lowest scores went to attitude ($x = 2.64/5.0$; $\partial = 1.33$), SN ($x = 2.66/5.0$; $\partial = 1.34$), and Intention ($x = 2.56/5.0$; $\partial = 1.32$). The low scores for attitude, SN and intention to use Islamic financing options went against this study's initial predictions for those constructs, as it was initially predicted that, in the Middle East, the aforementioned constructs would score relatively high. To probe deeper into this, the authors proceeded with data analysis using SEM.

### *The measurement model*

The measurement model describes how the indicators are related to the underlying latent constructs (Kraft *et al.*, 2005). The measurement model fit with the data was checked with model $\chi^2$ goodness-of-fit, and approximate fit indexes. The final measurement model in this study (after deleting items with low factor loadings) was assessed for convergent validity by confirming that all factor loadings exceeded the minimum recommended 0.5 threshold (Anderson and Gerbing, 1988), ranging between 0.54 and 0.97. Discriminant validity was confirmed by checking the average variance extracted values, all of which exceeded the 0.5 recommended cutoff (Fornell and Larcker, 1981), and ranged between 0.602 and 0.814.

Further, all Cronbach's $\alpha$ scores and composite reliability scores were greater than the recommended value of 0.7 (Nunnally and Bernstein, 1994), except for FS which scored a relatively low Cronbach's $\alpha$ of 0.65 despite an acceptable composite reliability of 0.737. However, this is not a major reliability concern as many scholars consider a Cronbach's $\alpha > 0.6$ to be acceptable (Flynn *et al.*, 1994; Hair *et al.*, 2010) especially with a new construct like "FS." The measurement model's scales, standardized loadings, Cronbach's $\alpha$, CR and AVE values are all reported in Table I. Though two-item scales are less favorable than three-item scales, two-item scales are considered acceptable when they are not problematic and do not affect composite reliability or validity; however, they are not considered the rule (Raubenheimer, 2004, p. 60; Eisinga *et al.*, 2013). In this study, all composite reliability and construct validity measures were acceptable, as shown in Table I.

### *The hypothesized model*

The hypothesized model included four exogenous variables (attitude, SN, PBC, and FS), and one endogenous variable (behavioral intention to use Islamic finance), in addition to the three control variables: religion (Rel), religious commitment (Rel_C) and education (EDUC) of the owner-manager (Figure 1).

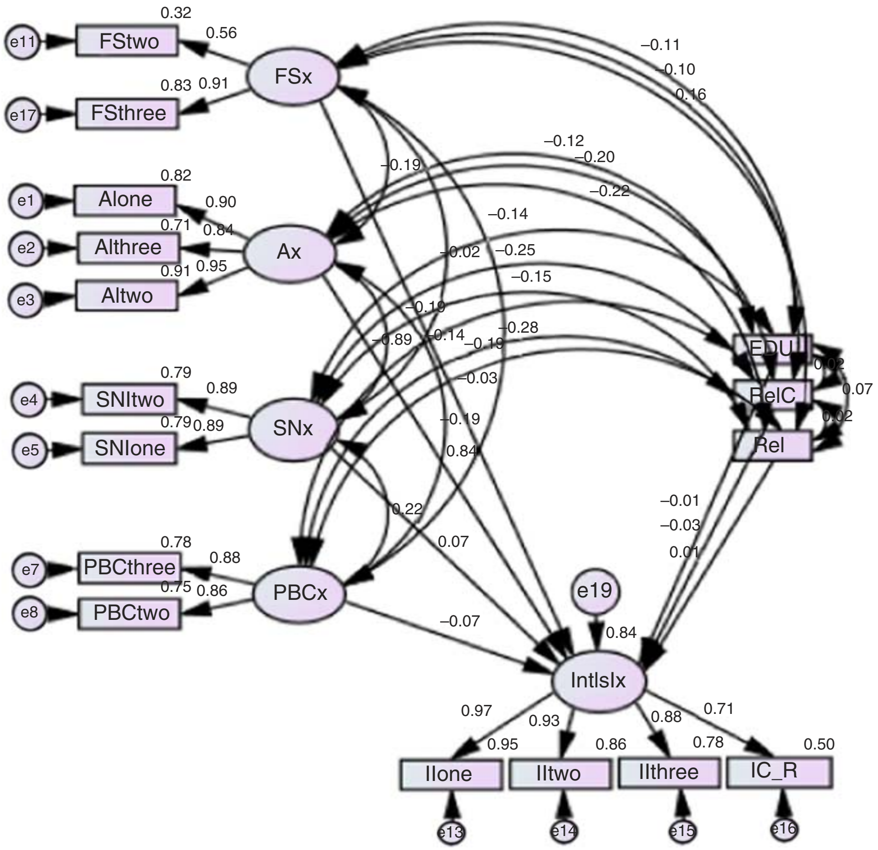


**Figure 1.**
The hypothesized model

This model was estimated and found to barely fit the data: $\chi^2 = 130.485$, CMIN/df = 1.652, GFI = 0.87, CFI = 0.96, IFI = 0.96, NFI = 0.90, PCLOSE = 0.041, RMSEA = 0.076, where all relationships were non-significant except one. However, further analysis of this model revealed two significant but unpredicted paths, so the model was re-specified and the new one estimated to produce the structural model described below.

*The accepted structural model*

The re-specified model included three exogenous variables (FS, SN, and PBC), and two endogenous variables (attitude, and intention) with Rel and Rel_C and EDUC as control variables. This final model had excellent fit to the data: $\chi^2(83, N = 115) = 132.46$ where CMIN/df = 1.59 < 3 (Hu and Bentler, 1995, 1999; Kline, 1998); CFI = 0.962; TLI = 0.945; IFI = 0.963; NFI = 0.907; PCLOSE 0.062 > 0.05; RMSEA = 0.072 < 0.08; and SRMR = 0.0457 < 0.05, and three paths in the model were found to be significant, two of which were unpredicted. The findings of this study were based on this final model from which the authors derived the direction and strength of the relationships among the variables under study (Figure 2).

In reporting the findings, the authors return to the initial five hypotheses to determine whether or not they were supported by the results of this analysis. The first hypothesis predicted a significant and positive relationship between the decision maker's attitude

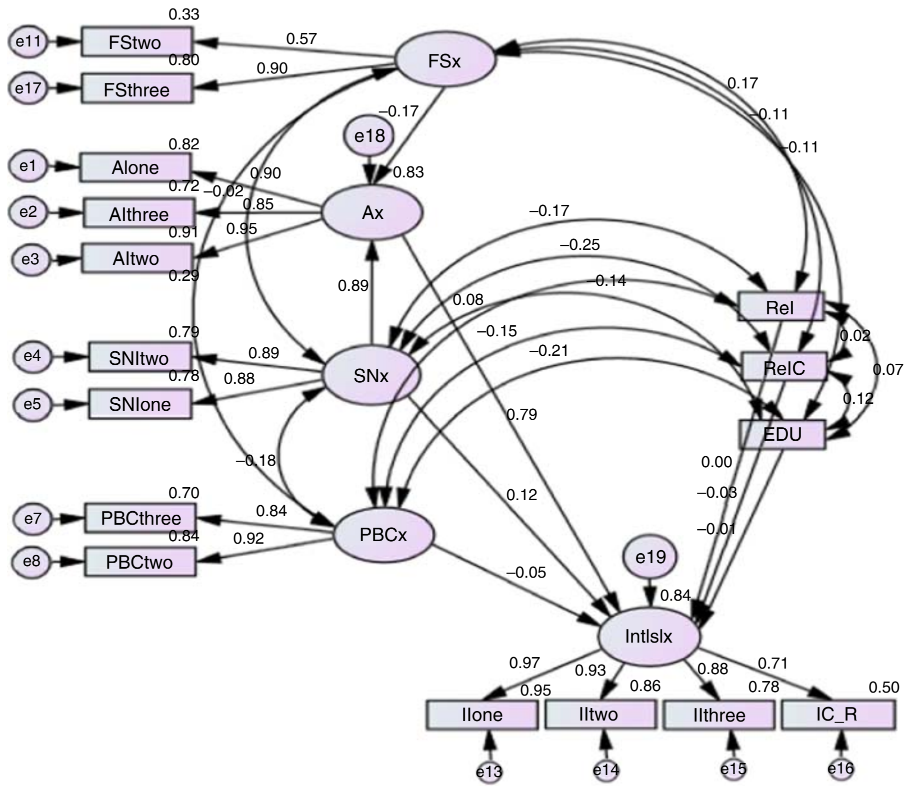


**Figure 2.**
The structural model

toward Islamic finance and his/her intention to use Islamic financing tools in the business. This hypothesis was supported as the results showed a positive and significant relationship between attitude and behavioral intention in the accepted model (standardized $\beta = 0.828$, $p < 0.001$). This suggests that a negative attitude toward Islamic finance (as is the case in this study) would likely cause owner-managers to steer away from it, and resort instead to other non-Islamic sources of funds. Therefore, it can be concluded that *H1* was supported by the data in this study.

The second hypothesis predicted a significant and positive relationship between SNs regarding the use of Islamic finance, and owner-managers' intention to use it. In this study, SNs were found to have a non-significant relationship with behavioral intention in the accepted model (standardized $\beta = 0.083$, $p = 0.609 > 0.05$) indicating that the second hypothesis is not supported by the data and that, contrary to expectations, social pressure does not have a significant influence on the owner-manager's intention to use Islamic financing tools. Therefore, there was no support for *H2* in this study.

The third hypothesis predicted a significant and positive relationship between PBC and the intention to use Islamic finance. This hypothesis was not supported by the data as the path from PBC to intention was non-significant in the accepted model ($\beta = -0.057$; $p$-value $= 0.292 > 0.05$) indicating that the owner-managers' PBC has no significant effect on their intention to use Islamic financing tools to finance the family firm. Therefore the SEM results did not support *H3* either.

The fourth hypothesis in this study predicted a significant relationship between the interaction term $A \times SN$ and the intention to use Islamic financing. However, the relationship between the interaction term and the intention to use Islamic finance was non-significant (standardized $\beta = -0.11$, $p = 0.056$, ns), and the hypothesis was not supported. The model fit was also poor: $\chi^2(170, N = 115) = 744.716$; CFI = 0.755; TLI = 0.698; IFI = 0.759; NFI = 0.709; RMSEA = 0.172 > 0.08. Therefore, including the interaction term in the model neither improve model fit, nor did it explain the relationship between motivational factors and intention, so the interaction term was dropped from the model.

The fifth hypothesis in this study predicted a significant and positive relationship between FS on one hand, and intention on the other, however, this hypothesis was not supported by the data, as the path from "FS" to intention was non-significant (standardized $\beta = 0.03$, $p = 0.627 > 0.05$, ns). However, the data analysis revealed that "FS" had a significant, albeit negative influence (standardized $\beta = -0.17$; $p$-value = 0.007 < 0.05) on the attitude of owner-managers toward using Islamic financing tools. This means that the stronger the feelings of FS, the less the likelihood that the owner-manager would have an intention to use Islamic financing tools to finance the family business. So even though *H5* was not supported, a new unpredicted path was found to be significant between FS and attitude. The unsupported path was dropped from the model.

Furthermore, the results show another unpredicted significant path between SNs and attitude (standardized $\beta = 0.89$; $p < 0.001$), indicating that though social pressure may not have a significant influence on behavioral intention, it does have a significant and positive influence on owner-managers' attitudes toward Islamic finance. Finally, the accepted model did not find any significant relationship between the control variables (religion, religious commitment, and education) and intention (II). The results of the SEM analysis are summarized in Table II and interpreted in the discussion section that follows.

*Qualitative findings*

Interestingly, the findings of this study did not confirm its initial expectations. The respondents' attitudes toward the intention to use Islamic finance were clearly negative in a region where the predominant religion is Moslem and religious commitment is high. In addition, the respondents' feelings of FS seemed to negatively influence their attitudes and indirectly deter them from using Islamic financing tools, possibly suggesting a high level of distrust in those tools or the financial institutions that offer them. It was therefore important to find out why owner-managers wished to steer away from Islamic financing driven by their feelings of FS. To that end, a qualitative investigation was deemed necessary to probe deeper into this issue. According to Creswell and Designm (2003),

| Hypothesized relationships | Standardized path coefficients | P-value | Predicted direction | Supported/not supported |
|---|---|---|---|---|
| *H1*: Attitude toward using Islamic Finance → Intention to use Islamic finance | 0.828 | $p < 0.001$ | + | Supported |
| *H2*: Subjective norm toward using Islamic finance → Intention to use Islamic finance | 0.083 | $p = 0.609 > 0.05$ | + | Not supported |
| *H3*: Perceived behavioral control → Intention to use Islamic finance | −0.057 | $p = 0.292 > 0.05$ | + | Not supported |
| *H4*: Familial Stewardship → Intention to use Islamic finance | 0.03 | $p = 0.627 > 0.05$ | + | Not supported |
| *Unpredicted significant paths* | | | | |
| Familial stewardship→Attitude toward IF | −0.17 | $p = 0.007 < 0.05$ | Unpredicted | Significant; −ve |
| Subjective norm→Attitude toward IF | 0.89 | $p < 0.001$ | Unpredicted | Significant; +ve |

**Table II.** Summary of SEM results

a study may begin with a quantitative method in which theories or concepts are tested, to be followed by a qualitative method involving a detailed exploration with a few cases or individuals. A sequential procedure, where qualitative methods are used to explain the results of quantitative methods, may be the most appropriate means of finding an accurate interpretation of unanticipated quantitative results. While quantitative research answers "what and who" questions, qualitative research answers "how and why" questions (Yin, 2009), which is precisely what this study needed at this stage of the analysis. Six interviews were conducted with owner-managers from the sample. According to Eisenhardt (1989), the number of cases could range from 4 to 10 or until the researchers felt that they have attained an acceptable level of saturation, where the data starts becoming redundant. Family firms were selected based on the SME definition suggested by UNDP, Ministry of Economy and Trade (2014) report. As the majority of the initial sample was comprised of micro and small family firms (94.8 percent), a sample of six firms was purposively selected, three of which were micro, and three were small. The insight of an external researcher was sought to review the interview data of two firms, one small and one micro, and suggest categories as she saw fit. This technique was suggested by Burnard (1991) to ensure inter-rater reliability. The collected data invariably pointed to the lack of trust in financial institutions which call themselves "Islamic" as the principal factor behind the negative attitude toward the use of Islamic finance. The interviewing process was terminated once the authors felt that an adequate level of saturation has been reached. The following questions were posed to the interviewees in semi-structured interviews:

(1) How do people in your family/community perceive Islamic financing tools?

(2) Do you know people who use Islamic financing? What can you say about their experiences with it as far as you know?

(3) Do you trust Islamic banking as a means of financing your family firm?

(4) If you do not trust it, what are your reasons?

Interviewees consistently expressed their desire for Islamic financing tools that were truly compliant with Sharia. They expressed their solid belief in the religious principles that guide business and economic transactions, specifically those related to the prohibition of interest (Riba). "We wish there were Islamic banks that are transparent and truly compliant with Sharia" and "If only we had Islamic banks that seek to materialize the ultimate goals of Sharia – development and wealth creation – we would not hesitate to seek Islamic financing" (Micro-2, Micro-3, Small-1, Small-2, Small-3). The idea of having access to true Islamic finance tools was regarded with much fervor. They expressed their dissatisfaction with the currently available Islamic banks which seems to act in the same way as conventional banks.

The interviewees explicitly expressed their low trust in Islamic financing tools and institutions. Their argument was driven by their disbelief in the true compliance of Islamic banks with Sharia (Islamic law). "I think all Islamic financing tools are made to mimic conventional tools under an Islamic name" (Micro-1, Micro-3, Small-1, Small-2). "I don't believe in Islamic banks – not the way they are today. They don't really follow Islamic principles; they only pretend they do but in reality they don't. This is what I keep hearing from family and friends" (Micro-1, Micro-2, Small-2, Small-3). This is the general impression made from practically all interviewees who gave us specific examples of friends or acquaintances whose experiences with Islamic banks were not favorable. "Why pay more for Islamic finance when what you're getting is exactly the same as conventional finance? It's all a big bluff!" (Micro-3). Interviewees expressed the lack of trust in the credibility and integrity of Islamic banks as well as in the competence of their management teams. "In a profit/loss paradigm, what prevents the management of the Islamic bank from falsely claiming a loss while they pocket sizable profits?" (Micro-1, Micro-2, Micro-3, Small-2, Small-3). Interviewees gave other reasons for their distrust such as "incidents of non-compliance and fraud that took place a long time ago," and which they learned of by hearsay, but still marred the image/reputation of the Islamic finance industry (Micro-2, Small-1) (Table III).

To integrate the quantitative and qualitative findings of this study, the authors offer a comprehensive summary of the results. This study demonstrated that though family firm owner-managers in the Middle East are by majority devout and committed Moslems, they tend to have a negative attitude toward Islamic financing, and this "attitude" was significantly affecting their intention to use Islamic finance. Furthermore, PBC was found to have no significant effect on owner-managers' intention to use Islamic finance tools. This could be explained by the fact that the respondents were all family firm owner-managers or family members in the role of financial managers who usually have explicit authority to make the financing choices they are convinced in. So their perceptions of control in choosing Islamic finance are more or less taken for granted and not factored into their decision. These results find support in previous studies which have also found a non-significant relationship between PBC and intention (Godin *et al.*, 1993; Sawang *et al.*, 2014).

Interestingly, results did not confirm a direct relationship between social norm and behavioral intention unlike previous studies in this area (Romano *et al.*, 2001; Koropp *et al.*, 2014). However, in the Middle East, individuals are highly affected by their perception of prevalent social norms, which have a durable effect on the individuals' beliefs and attitudes, so much so that SNs are internalized and integrated within their belief systems. This is supported by the literature which suggests that social norms play a strong behavioral role especially in collectivistic societies (Knabe, 2012; Sawang *et al.*, 2014) where those norms could have an indirect, though powerful influence on their behavioral intentions. The fact that this study confirms a significant and direct influence of SN on "attitude" (but not on intention) implies that

| Case | Family firm type | Head-count | Industry | Interviewee | Type of financing | Desire for true Islamic financing tools | Perceived issue with Islamic finance |
|---|---|---|---|---|---|---|---|
| 1 | Micro-1 | 9 | Retail | Brother of founder | Conventional | Moderate | Trust<br>Real Sharia Compliance<br>Mimicking conventional banks |
| 2 | Micro-2 | 8 | Furniture accessories | Founder | Conventional | High | Real Sharia compliance<br>Trust<br>Past image of non-compliance and fraud |
| 3 | Micro-3 | 5 | Retail of household appliances | Founder | Conventional | High | Trust<br>Mimicking conventional banks<br>Charging more for same products |
| 4 | Small-1 | 25 | Trade/Export | Daughter | Conventional | High | Mimicking conventional banks<br>Past image of non-compliance and fraud |
| 5 | Small-2 | 16 | Trade | Son | Islamic | High | Trust<br>Real Sharia compliance<br>Mimicking conventional banks |
| 6 | Small-3 | 18 | Food processing | 2 Sons | Conventional | High | Trust<br>Real Sharia compliance |

**Table III.**
Characteristics of interviewees

the intention to use Sharia-compliant financing is subject to attitudinal effects as related to individual conviction, personal beliefs, and trust, rather than social pressure. This constitutes an important theoretical contribution that could shed light on behavioral relationships that are guided by religion in collectivistic cultures.

Though the influence of "FS" on intention was not confirmed in this study, an unpredicted relationship between "FS" and attitude suggested that FS had a profound negative influence on an individual's attitude toward Islamic finance. In other words, the stronger the owner-managers' feelings of stewardship toward their families, the more likely they will have a negative attitude toward using Islamic finance, thereby steering away from it, driven by their strong feelings of stewardship. Therefore, in an act of care and protection of their families, owner-managers deliberately decide not to use Islamic finance tools. The rationale behind this intriguing finding was clearly explained by the *post hoc* multiple-case analysis that was later performed, and whose results showed that though family firm owner-managers harbor a strong desire for utilizing Islamic finance as a means of abiding by Sharia, they equally harbor an explicit distrust of currently available Islamic banking institutions and the financing tools they offer. The interviewed owner-managers did not seem to be convinced by the existing Islamic financing tools perceiving them as merely mimicking conventional finance instruments without being truly Sharia-compliant. This explanation finds strong support in the literature (Ashraf *et al.*, 2015; World Bank Group-IDB, 2015).

Therefore, in linking these qualitative findings to the SEM results produced by the quantitative analysis performed earlier, it is proposed that family firm owner-managers steer away from Islamic banks due to powerful feelings of distrust in currently available Islamic financing tools and institutions, and they do so driven by feelings of FS. They would willingly utilize Islamic financing tools if they had enough trust in the Sharia-compliance and managerial prudence of Islamic financial institutions.

Therefore, the problem is not related to family firm's demand for Islamic financing tools *per se*, but rather with their perceptions of those tools. The results of this study have empirically shown that family firms in the Middle East are under-served in terms of their access to finance, not because finance is lacking, but because it is not available in the way family firms want it. Islamic financing tools are perceived to mimic conventional financing tools, thus losing their only legitimate appeal in this region. The findings of this study serve to warn Islamic financial institutions that their credibility is at stake; and in the banking sector, credibility is the greatest asset.

This study has also shown that individual attitude, influenced by SN and FS, is the strongest predictor of intention when choosing financing tools. This confirms the influence of the non-economic, motivational aspects of decision making, validates the use of the TPB, and sends a strong message to policy makers of financial institutions on how to gain customer patronage by making IF tools more authentic, rather than more economic.

*Theoretical and practical implications*

This study has made several contributions. Theoretically, it has empirically identified attitude as the primary element of the TPB with a direct and significant influence on intention; and the two constructs of SN and FS as having a significant influence on attitude, but not directly on intention, indicating that intention in this context is a direct function of the individual's attitude toward those options, rather than of social pressure or perceived ability. This is a powerful theoretical implication as it considers religion-related decision making to be a function of the decision maker's internal convictions and personal beliefs rather than other external factors. Moslems believe that they are personally responsible for the decisions they make, and that their actions, whether Sharia-compliant or not, will eventually lead to individual reward or punishment. It follows that in making decisions related to religious beliefs, individuals have to be convinced, through an attitudinal adjustment, rather than pressured to act by social norm. This highlights the importance of "attitude," as opposed to other constructs, in making religion-related decisions. This implies that if Islamic finance is to become a viable option for supporting family-firm growth and entrepreneurship in the region, owner-managers must undergo a radical change of attitude toward Islamic financing tools and institutions, not through social pressure, but through being convinced in their soundness, their genuine compliance with Sharia, and their developmental long-term impact on the firm and the economy.

This study offers another important extension to theory as it confirms the influence of "FS" on the owner-manager's attitude where strong feelings of stewardship toward one's immediate family cause owner-managers to prefer to stick to conventional finance and steer away from Islamic finance for the lack of trust in the latter, regardless of the economic benefits derived from it. The implication here is that for Islamic financial institutions to become a truly viable option for family-firms, those institutions need to capitalize on owner-managers' strong feelings of FS, and thereby present Islamic financing tools as a means to serve and protect family interest rather than jeopardize it. Islamic financing institutions need to work hard in that direction and to portray their products as the beneficial means of growth and entrepreneurial financing which they essentially are (World Bank Group-IDB, 2015).

As a practical implication, so long as the Islamic financing paradigm is not clearly explained to decision makers, they will continue to have misconceptions and distrust in this paradigm and its compliance to Sharia. This distrust will continue to develop deep negative attitudes toward Islamic financing which, as empirically demonstrated by this study, will diminish the behavioral intention to use them. Family firms, in steering away from Islamic finance, are depriving themselves and their communities from substantial developmental opportunities. This is why family firms need to understand that by accepting the financing tools offered by the Islamic paradigm, they could be widening the spectrum of financing choices, leveling the competitive ground for all finance institutions and eventually contributing to the reduction of financing costs at Islamic and conventional banks (Hanif, 2014). Such an understanding could be enhanced when Islamic banks conduct awareness campaigns that do not promote Islamic finance as less expensive but rather as more aligned with family firms' attitudinal aspirations, thereby increasing trust in the paradigm as a genuinely viable option for financing family-firm growth. An important route to take in that direction is frequent and open communication between Islamic banks and the communities in which they operate (Bizri, 2014). For example, Al Barakah Bank, one of the leading Islamic Banks in Lebanon, conducts periodic meetings with community groups just to explain the Islamic financing paradigm and its available options[2]. Such practical actions could increase the awareness levels of family firms regarding IF tools which match their religious orientations and help develop their business potential in a cost-effective way by relying on profit/loss solutions rather than interest-based borrowing. It could also promote economic development in their communities by reaching the underserved segments (World Bank Group-IDB, 2015; Hove *et al.*, 2014) and facilitating startup entrepreneurship.

## Conclusion

This paper investigated the factors that influence family firm's choices of financing paradigm when seeking growth. The paper adopted the TPB as a theoretical framework, and explored the influence of "FS" on those decisions. A mixed approach was adopted such that SEM was used in the quantitative investigation and multiple case analyses were used in the qualitative investigation. The findings showed that the family firms' intention to use Islamic financing was weak and primarily subject to the influence of a negative attitude toward currently available Islamic financing tools and institutions. Findings showed that the latter were perceived as not really Sharia-compliant but rather as mimicking of conventional finance, thus making clients uneasy about placing their own family finances in the care of Islamic financing institutions, which were perceived to be not really "Sharia-compliant." These results suggested that in Middle Eastern family firms, the choice of financing paradigm was, to a large extent, directly related to non-economic considerations, such as attitude; and indirectly to familial and social pressures. Finally, this study stressed the need to promote trust in Islamic financial tools and institutions by launching awareness campaigns in which they communicate to family firms how Islamic financing tools could serve their best interest while opening new avenues for growth and development.

This study has several limitations. The first limitation is the sampling technique which was initially intended to be random but was modified when randomness could not be achieved. However, the snowball sampling technique used in this study did not cause it to suffer as the respondents were derived from an initially diverse population as listed in the chamber of commerce registries. Yet, randomness of the sample could have offered increased confidence in the quality of the sample. Second, the sample was obtained from a single Middle Eastern country, Lebanon. Future research could employ a more representative Middle Eastern sample from several other countries in the Middle East which have equally, if not more intense, collectivistic social norms, and may convey a stronger impression of FS than that conveyed in this study. A third limitation is that some constructs had only two-item scales, which may have compromised the stability of the results. Though other measures of construct validity and reliability were acceptable, it is recommended that future construct scales include a minimum of three items each. A fourth limitation is that this study did not investigate respondents' attitudes toward specific Islamic financing tools. It is recommended that future studies examine those tools individually so as to determine which ones are favored by, and meet the needs of, family businesses the most. A final important limitation was that this study was exposed to the risk of common method bias where answers about the dependent and independent variables were solicited from the same person. Though the related tests performed in this study demonstrated that this did not constitute a significant risk, it is recommended that future research follows a multiple-respondent design in order to avoid any concerns related to common method bias.

## Notes

1. The UNDP-MET report proposed a definition of SMEs which specified thresholds (in turnover) for micro-, small- and medium-sized enterprises as LBP500 million, 5 billion, and 25 billion, respectively, while specifying employee headcount as $<10$, $<50$, and $<100$ employees for micro-, small-, and medium-sized enterprises. Though it is recommended that both dimensions (headcount and turnover) be adhered to in categorizing firms, it is unfortunate that in Lebanon, as in most developing countries, family firms refrain from disclosing information about turnover or profits as they consider this type of information to be highly confidential. This is consistent with previous studies on family firms (Bjuggren and Sund, 2002). Therefore, headcount will be used as the primary dimension in categorizing the family firm to be either micro, small, medium-sized, or large.
2. Interview conducted by one of the authors with Al Barakah's Branch Manager (Mr Akoum) in Sidon, Lebanon, in February 2016.

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Marwa F. Bizri is a Research Assistant who is proficient in the use of SPSS and SEM software packages: SmartPLS and Amos, and whose assistance was instrumental in the data analysis of this study.