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## The Mediating Effects of Attitude on the Relationships between Determinants of Intention to Adopt Islamic Finance by SMES' in Libya

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### ABSTRACT

Small and medium-sized enterprises (SMEs) are largely responsible for the positive effects of the global economy. In Libya, small & medium companies have recently started to gain more attention to restructure the national economy and reduce a limited over-reliance on the predominately large-firm oil industry. Despite recent industry changes, access to funding remains a major obstacle for these organizations. Therefore, the aim of this study was to measure the mediating effect of attitude on the adoption of Islamic finance by Libyan SMEs. A conceptual framework has been proposed with five independent variables (knowledge and awareness, religious obligation, business support, reputation, and financial constraints), one mediating variable (attitude toward Islamic finance), and one dependent variable (adoption of Islamic finance). Several theories have been reviewed to develop this conceptual framework. A snowball sampling was employed to collect data from different Libyan SMEs. A total number 305 respondents were found and used for final data collection. Structural Equation modelling techniques was applied to test the hypothesis. Results clearly revealed that all the variables significantly affect the attitude toward Islamic finance, which eventually has a significant mediating effect on adoption, too. Based on the results, knowledge and awareness and religious obligation became the two most important factors for the Libyan SMEs to create a positive attitude toward Islamic finance. The Islamic finance industry's steady growth has powered the demand for Islamic financing, especially among SMEs, which Islamic financial institutions control as the largest lender.

### INTRODUCTION

Small and medium-sized enterprises (SMEs) are important to the global economy and have become a big issue for government and decision makers around the world. Governments emphasize the importance of small and medium businesses for economic development due to their position in the private market (Kar-adag, 2015). However, SMEs in Libya also play a very significant role in the country's overall economy. However, they operate in many countries with limited access to finance which makes it difficult for them to expand (Al-wugayan & Alshimmiri, 2010; Alhajeri, 2012). Small and medium enterprises have been one of the main drivers in the growth of several different countries (Zarook *et al.*, 2013; Islam *et al.*, 2014; Zubair, 2014; Mohammed, 2015a). Harvie and Lee (2002) and Beaver and Prince (2004) argued that the importance of SMEs can be seen from various points of view that refer primarily to the important role they play in relation to job growth, innovation, export, and private-sector development, in developed countries, as well as in developing and emerging economies. Many Arab countries have acknowledged the role of small and medium-sized enterprises in work creation and the production of skilled workers. Thus, their governments have policies and initiatives to promote the growth and progress of small and medium-sized enterprises (Looi & Maritz, 2021; Megheirkouni *et al.*, 2020; Mohsin Hakeem, 2019).

The aim of the research is specifically to investigate the

attitudinal factors that can affect SME owner-managers intention to follow Islamic finance. There are different factors that affect the attitude of owners and managers of small and medium-sized enterprises, and therefore, it's difficult to research all in one study. Additionally, several studies have looked at the psychosocial aspects that affect individuals' choice of financial goods (Kanchanatanee *et al.*, 2014; Bhakar *et al.*, 2015). In the field of small companies, we have a need to elaborate this field in sense of Libya. Additionally, owner-managers play a dominant position in company financial decision-making, suggesting that the firm's financial decisions align with the managers' decisions (Lelis *et al.*, 2023). This research assumes that attitudinal influences of individual behavioral intention will affect SME financial behaviour in the same way. The determinants of owner-managers' mentality inevitably influence the financial aim of small and medium businesses to follow Islamic financial goods.

### LITERATURE REVIEW

The SME sector is significantly important in economic development due to its contributions to wealth formation, the absorption of labor, and the alleviation of poverty. According to The Organisation for Economic Co-operation and Growth, small and medium-sized enterprises (SMEs) account for around 70 percent of jobs and 55 percent of GDP in Organisation for Economic Co-operation and Development (OECD) countries. In middle-income economies, the median job rate was

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95 percent, and the median GDP per capita was 70 percent. In low-income economies, the equivalent figures were 70 percent and 60 percent. In addition to other incentives, SMEs offer an external export market and can accelerate innovation. Other positive factors associated with SMEs within an economy include the nurturing of entrepreneurship, the potential for fast returns on investment owing to their relatively rapid establishment, assisting inter- and intraregional decentralization, and their ability to serve as a countervailing force against the economic influence of larger enterprises (Harun *et al.*, 2020; Miyajima, 2020; Nurunnabi *et al.*, 2020). As a result, many nations have sponsored and funded the establishment of SMEs. This has helped to create a quantum leap in many countries in both economic and social growth. Centered on this ground, SMEs (small and medium-sized enterprises) have been the subject of study in a variety of fields including finance, creativity, and management. Access to financial instruments is essential to the sustainability, recovery, and advancement of SMEs. There is no question that access to finance is of vital importance to the continuing and sustained development of this main sector through its role in promoting the formation of new businesses and fostering the advancement of existing businesses, all of which, in turn, promote national economic growth. Generally, there is a clear positive association between overall economic growth (as measured by income per capita) and financial development (as measured by the ratio of private credit to GDP), which indicates that the degree of SME financing is affected by overall economic development (Ardic *et al.*, 2012). A working finance market is vital in delivering the sort of financial assistance that a small company requires. As is understood, while banks are the key suppliers of external funding to small businesses, bank lending is also not readily available for small businesses. In reality, much has been written about SMEs failing to obtain credit due to their limited scale. It has been generally accepted that such problems occur in both developed and emerging economies, but the latter is more prominent. There is no exception to this trend in Libya, a developed world in transition (Nomran *et al.*, 2018; Wasiuzzaman & Nurdin, 2019).

Inefficient public sector working under the weight of extraction of oil and gas, Libya is arguably one of the least diverse economies in Middle East and North Africa (IMF, 2007). However, economic growth in the transition from a managed economy to a business economy has allowed a substantial rise in the number of private companies. This field has been of concern for policymakers in recent years. In 2006, the Jobs Fund was created, and in 2007, the National Program for SMEs was introduced. The year 2010 saw the implementation of 22 new laws that radically altered legislation for trade, customs, income tax, labor, and land register, easing the development of small to medium-sized enterprises in the Libyan economy. In 2011, the Libyan government launched Libya Enterprise. Libya Enterprise's goal is to promote SMEs in the world by encouraging market culture and by offering business

support. This led to many SMEs being launched but many of them dying even before they were able to become profitable because of a lack of resources (Al Balushi *et al.*, 2019a; Roomi *et al.*, 2018).

The current research offers valuable knowledge in gaining an understanding of small- and medium-sized enterprises (SME). Over the years, there have been a variety of reports about the supply of bank funding to the Small and Microenterprises. The studies identified by these researchers have contributed significantly to the enrichment of the literature on this topic. Unfortunately, the bulk of this literature focuses on the United States, the United Kingdom, and other developed nations, with relatively little study dedicated to the developing world. According to Cook (2001), one of the most under-researched fields of emerging economies is SMEs finance. Libya, on emergence into an economy, is no different. Ahmad (2015) found that SMEs in Libya struggle with a funding deficit. Recent studies found that because of few capital markets and a thinly diversified credit system, small and medium-sized businesses mostly turn to banks to access loans sufficient to fund their operations. Although SMEs in Libya remain mainly dependent on informal financial institutions, they lack confidence in formal banking institutions (Samawi *et al.*, 2016). According to Al-Badri (2006), the majority of SMEs in Libya rely on internal funding sources, with only a small percentage able to receive financing from banks. Wahab and Abdesamed (2012) and Saleh (2009) agreed that this is valid.

The creditworthiness of SMEs is a crucial issue for the Libyan banking sector, according to an OECD report on the SME Growth Strategy Project for Libya (2014). The shortage of credit knowledge is a big obstacle for banks in Libya in disbursing loans to small and medium-sized enterprises. Libyan banks, according to the study, lack the ability to determine the creditworthiness of SMEs. Although banks offer some funding to existing SMEs, start-ups are ignored. Additionally, lack of collateral creates obstacles to small businesses' financing and borrowing.

For a long time, no one looked at Libyan SMEs. There is a lack of information about how small and mid-size firms can receive funding, and how much they are in demand. However, research has focused on issues about the distribution of economic capital for small and medium-sized businesses. Only a few articles have addressed how SMEs see themselves inside the financial system, and this is focused on the evidence obtained from SMEs themselves. As such, past surveys have not tried to provide an aggregate impression of the overall availability of SMEs' access to bank finance from both the supply- and demand-side perspectives (Md Husin & Haron, 2020; Mohd Thas Thaker, 2018). More precisely, past studies have not analyzed the perceptions of SMEs' creditors and bank loan officers with respect to how much SMEs demand for and access to bank financing. The purpose of this paper is to analyze the variables that affect SMEs

demand for financing and the decisions banks make in providing them with credit. No such analysis has yet been conducted in Libya, but such research is important to help us understand the factors that make or break small and medium enterprises' access to bank financing. The subject in bank finance for SMEs in Libya offers a specific area of research (Khan, 2019; Rahman *et al.*, 2020), in particular due to the fact that it remains relatively unexplored. Considering the critical importance of banks as finance providers for the growth of a stable and safe small business market, a research paper is required that explores and describes their position in relation to small business financing. The current study combines two aspects of bank finance vital to the success, creation, and survival of small and medium-sized enterprises, namely, the demand and availability of bank finance, with the goal of exploring the prevalent and potential position of bank finance for small and medium-sized enterprises in the Libyan context. In order to add to the understanding of small and medium business financing, the paper explores the perspectives of parties who are affected by the market (Hussain *et al.*, 2020; Meflinda *et al.*, 2018).

In Libya, small & medium companies have recently started to gain more attention as a way to re-structure the national economy and reduce a limited over-reliance on the predominately large-firm oil industry (Marhil, Masaud & Majid, 2023). Despite recent industry changes, access to funding remains a major obstacle for these organizations. Given that banks have been the primary component of the country's financial system for some time, this study is important for evaluating how banks communicate with small businesses in Libya (Salin *et al.*, 2020).

## MATERIALS AND METHODS

The aim of this investigation was to look at SMEs financing in Libya in terms of sources, uses, attitudes, and constraints. As mentioned in the above review of literature, the focal point of this investigation was on the supporting of SMEs in Libya in consistence with Islamic money regulations. The essential interest information were assembled by managing a study survey to Libyan SMEs working in the city of Benghazi.

Email surveys have been progressively normal lately. The traditional controlled survey approach was picked in the ongoing concentrate because of the deficient Libyan postal administrations, which could bring about a low reaction rate and be tedious, as well as the way that the utilization of data innovation among Libyan SMEs is as yet restricted, if not non-existent. This approach empowered the exploration to show the examination as it was required by the expected respondents, as well as being the most ideal way to get the most conceivable number of respondents, or at least, to expand the response rate. The populace designated in this examination was SMEs working in the Libyan city of Benghazi was 1097 in the latest authority evaluation (Chamber of Business and Industry, 2010). This segment depends on the Libyan idea of SMEs, which was talked about before in this

proposition, and which portrays these organizations in view of the quantity of laborers and how much capital contributed. The survey shrouded SMEs in trade, utilities, and creation, and it was not industry-explicit.

The examining technique utilized was snowball sampling, which considered specific contemplations, for example, the competitor's limited funds, the shortfall of a post-coding framework to utilize, and the way that no exact rundown of SMEs' names and ad-dresses could be gathered. This testing system incorporates tending to a gathering of unique respondents that are perceived as delegates of the populace and requesting that they assist the candidate with tracking down additional imminent respondents. Thus, various organizations that met the prerequisites were requested help with either tracking down different organizations that met the measures or sending along duplicates of the poll to them. Worth recollecting no review can be ensured to address the entire populace. Nonetheless, to guarantee that the example is all around as different as could really be expected, certain arrangements were made. Just organizations that matched the authority idea of SMEs in Libya were focused on, and firms working in each of the three significant market areas, specifically exchange, assembling, and administrations, were incorporated. The expected example size was determined in view of Krejcie and Morgan's rules (1970). The survey was additionally extensively different, as it included organizations from everywhere the examination region, as opposed to possibly a couple of regions.

Alongside the survey, there was an introductory letter with the authority logo of University's Geomatika Malaysia illustrating the reason and meaning of the examination and guaranteeing the respondents that all solutions to the inquiries would be kept secret and unknown. The covering letter likewise contained the up-and-comer's very own contact address on the off chance that any questions or issues arose while finishing up the survey. The main segment tends to the elements of the organizations that were studied overall (for example the business area, their size concerning the quantity of workers and the authoritative document of the business). Members were posed inquiries about their experiences in the subsequent part (for example age, level of schooling, long stretches of involvement). In the third part, the inquiries fixated on the subsidizing activities and encounters of SMEs' proprietor chiefs (for example fire up capital, the need of money sources and any encounters with bank finance). The fourth area's inquiries attempted to become familiar with Libyan SMEs' mindfulness, tendency, and objectives when it came to Islamic money. At last, the survey contained an inquiry regarding the variables that influence SMEs' choice to help out banks as col-leagues.

## RESULTS AND DISCUSSION

### Demographic Characteristics

Gender of the participants are summarized in table 1 where 74.4 percent of the sample is male, while 25.6 percent is female. The increased awareness of the importance of

gender and the role of women in society is expressed in the percentage of female workers. Furthermore, according to the Libyan human resource annual survey, this figure

compares to the percentage of female workers in private companies, which was 28.9% (2018).

**Table 1:** Frequency of Gender

|       |              | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|-------|--------------|------------|--------------|---------------|--------------------|
| Valid | Male         | 227        | 74.4         | 74.4          | 74.4               |
|       | Female       | 78         | 25.6         | 25.6          | 100.0              |
|       | <b>Total</b> | <b>305</b> | <b>100.0</b> | <b>100.0</b>  |                    |

Table 2 indicates that 46.50 percent of the sample is under the age of 35, showing that SME management has a strong understanding of youth abilities and skills, especially millennials who are dealing with the current technology

revolution, and the value of using those skills in concept creativity and improving SME efficiency. Elder workers, on the other hand, have a wealth of expertise that provides SMEs with the requisite supervision and support.

**Table 2:** Frequency of Age

|       |              | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|-------|--------------|------------|--------------|---------------|--------------------|
| Valid | 26-30        | 34         | 11.1         | 11.1          | 11.1               |
|       | 31-35        | 108        | 35.4         | 35.4          | 46.6               |
|       | 36-40        | 71         | 23.3         | 23.3          | 69.8               |
|       | 41-45        | 57         | 18.7         | 18.7          | 88.5               |
|       | 46-50        | 20         | 6.6          | 6.6           | 95.1               |
|       | Above 50     | 15         | 4.9          | 4.9           | 100.0              |
|       | <b>Total</b> | <b>305</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Table 3:** Frequency of Education

|       |              | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|-------|--------------|------------|--------------|---------------|--------------------|
| Valid | School       | 32         | 10.49        | 10.49         | 10.49              |
|       | Diploma      | 101        | 33.11        | 33.11         | 43.60              |
|       | Bachelor     | 132        | 43.28        | 43.28         | 86.88              |
|       | Masters      | 39         | 12.79        | 12.79         | 99.67              |
|       | PhD          | 1          | 0.33         | 0.33          | 100                |
|       | <b>Total</b> | <b>305</b> | <b>100.0</b> | <b>100.0</b>  |                    |

Table 4 displays the scale of companies relative to the number of workers. According to the results, more than half of the respondents have less than 70 employees in their companies. This is due to Libya's Small and Medium

Business (SME) culture. The second largest percentage of respondents work at businesses with 71 to 90 workers. Finally, 13 of the study's respondents work with businesses with more than 130 workers.

**Table 4:** Frequency of Number of Employees

|       |               | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|-------|---------------|------------|--------------|---------------|--------------------|
| Valid | Less than 10  | 42         | 13.8         | 13.8          | 13.8               |
|       | 10-30         | 34         | 11.1         | 11.1          | 24.9               |
|       | 31-50         | 33         | 10.8         | 10.8          | 35.7               |
|       | 51-70         | 57         | 18.7         | 18.7          | 54.4               |
|       | 71-90         | 60         | 19.7         | 19.7          | 74.1               |
|       | 91-110        | 56         | 18.4         | 18.4          | 92.5               |
|       | 111-130       | 10         | 3.3          | 3.3           | 95.7               |
|       | More Than 130 | 13         | 4.3          | 4.3           | 100.0              |
|       | <b>Total</b>  | <b>305</b> | <b>100.0</b> | <b>100.0</b>  |                    |

Most of the respondents (45.6%) were from companies having more than 1 million annual sales turn over followed by 800000 to 1 million (Table 5).

**Table 5:** Frequency of Annual Sales Turn Over

|       |                    | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|-------|--------------------|------------|--------------|---------------|--------------------|
| Valid | Less than 200000   | 3          | 1.0          | 1.0           | 1.0                |
|       | 200001-400000      | 7          | 2.3          | 2.3           | 3.3                |
|       | 400001-600000      | 24         | 7.9          | 7.9           | 11.1               |
|       | 600001-800000      | 46         | 15.1         | 15.1          | 26.2               |
|       | "800001-1 million" | 86         | 28.2         | 28.2          | 54.4               |
|       | > 1million         | 139        | 45.6         | 45.6          | 100.0              |
|       | <b>Total</b>       | <b>305</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Reliability and Validity Tests**

The quantitative approach necessitates the assessment of measurement instruments in terms of their validity and durability, as well as an in-depth analysis of the data obtained in order to reveal any possible inadequacies and to mitigate any potential errors, so that the researcher can be confident in measurement accuracy. According to previous study results, data should be submitted to a reliability test before

being included in a validity test (Hair *et al.*, 2006), and Field (2009, p11) describes reliability as “if an instrument can be represented reliably across various circumstances.” As a consequence, reliability can be described as the ability to accurately evaluate a definition such that empirical results can be verified if the test is replicated. From table 6, it is obvious that the reliability of the variables are met as all the alpha values are more than 0.7.

**Table 6:** Reliability Test

| Variable                           | Items No. | Alpha Value |
|------------------------------------|-----------|-------------|
| Awareness and knowledge            | 4         | 0.860       |
| Religion obligation                | 5         | 0.890       |
| Reputation                         | 4         | 0.791       |
| Business support                   | 5         | 0.835       |
| Financial Constraint               | 4         | 0.880       |
| Attitude toward Islamic Finance    | 5         | 0.891       |
| Intention to adopt Islamic finance | 3         | 0.899       |

**Preliminary Analysis**

Tabachnik and Fidell (2007) analyze the suitability of sample size for performing factor analysis, concluding that a sample of more than 300 cases will be sufficient, but communalities should be greater than 0.5 after extraction. In order to prevent calculation problems, Hair *et al.* (2006) say that factor analysis involves a minimum of ten observations for each component, with a minimum sample size of 50 observations. Since the sample size is greater than 300 events, this study’s sample size is suitable for performing factor analysis. The Kaiser-Meyer-Olkin metric (KMO) is an alternative method of evaluating sampling adequacy that describes the ratio of

square correlation to square partial correlation between variables (Kaiser, 1970). The values of KMO range from 0 to 1, with a value close to 0 indicating diffusion in the correlation and a value close to 1 indicating a compact correlation pattern that needs factor analysis. While Kaiser (1970) suggests a KMO value of greater than 0.5, Hutcheson and Sofroniou (1999) consider values between 0.5 and 0.7 to be mediocre, values between 0.7 and 0.8 to be good, values between 0.8 and 0.9 to be quite good, and values above 0.9 to be exceptional. The KMO value for this study is 0.843, suggesting that the sample is sufficient for factor analysis, with a relevant value of 0.000 using Bartlett’s test of sphericity, as seen in table 7 below.

**Table 7:** KMO and Bartlett’s Test

|  |                   |              |
|--|-------------------|--------------|
| <b>Kaiser-Meyer- Measure of Sampling Adequacy.</b> |                   | <b>0.843</b> |
| Bartlett's Test of                                 | Aorox. Chi-Square | 2694.482     |
|  | df                | 253          |
|  | Sig.              | 0.000        |

**Factor Analysis**

Factor analysis was carried out using the mathematical

package SPSS. The factor analysis shown in table 8 explains that all of the items loaded correctly in their

predicted factors. The names of factors with heavy loading are listed in column headings, while the key items relevant to each factor are reported in row headings. Both of the products were fully loaded. In factor analysis, factor loadings reflect how much a factor describes a variable. The factor analysis findings were sufficient since each factor loading on each component was greater than 0.50. Table 8 indicates that there are 26 elements in the table that represent six variables. The survey asks questions in six categories: AK, RO, RE, BS, FC, and Att. Examine the highest (positive or negative) loadings for each survey question to see which aspect has the most effect on the question. In the following table questions from AK 1 to AK 4 loaded on Awareness and Knowledge

(factor1), questions RO 1 to RO 5 loaded on Religious Obligation (factor2), questions REP 1 to REP 4 loaded on Reputation (factor3), questions BS 1 to BS 5 loaded on Business Support (factor4), questions from FC 1 to FC 4 loaded on Financial Constrains (factor 5) and finally questions from Atti 1 to Atti 5 loaded on Attitude toward Islamic Fianance.

Loadings will be somewhere between -1 and 1. Loadings near -1 or 1 suggest that the component has a major effect on the measure. The component has a poor effect on the variable if the loadings are near to zero. Internal accuracy of measurements and construct validity was verified by the findings of both the reliability evaluation and the factor analysis.

**Table 8:** Rotated Component Matrix<sup>a</sup>

|       | Component |       |       |       |       |       |
|-------|-----------|-------|-------|-------|-------|-------|
|       | 1         | 2     | 3     | 4     | 5     | 6     |
| AK 1  | 0.893     |       |       |       |       |       |
| AK 2  | 0.879     |       |       |       |       |       |
| AK 3  | 0.859     |       |       |       |       |       |
| AK 4  | 0.829     |       |       |       |       |       |
| RO 1  |           | 0.826 |       |       |       |       |
| R0 2  |           | 0.777 |       |       |       |       |
| R0 3  |           | 0.749 |       |       |       |       |
| R0 4  |           | 0.734 |       |       |       |       |
| R0 5  |           | 0.651 |       |       |       |       |
| REP 1 |           |       | 0.892 |       |       |       |
| REP 2 |           |       | 0.821 |       |       |       |
| REP 3 |           |       | 0.816 |       |       |       |
| REP 4 |           |       | 0.789 |       |       |       |
| BS 1  |           |       |       | 0.874 |       |       |
| BS 2  |           |       |       | 0.742 |       |       |
| BS 3  |           |       |       | 0.735 |       |       |
| BS 4  |           |       |       | 0.723 |       |       |
| BS 5  |           |       |       | 0.702 |       |       |
| FC 1  |           |       |       |       | 0.865 |       |
| FC 2  |           |       |       |       | 0.832 |       |
| FC 3  |           |       |       |       | 0.795 |       |
| FC 4  |           |       |       |       | 0.768 |       |
| ATT 1 |           |       |       |       |       | 0.863 |
| ATT 2 |           |       |       |       |       | 0.851 |
| ATT 3 |           |       |       |       |       | 0.803 |
| ATT 4 |           |       |       |       |       | 0.773 |
| ATT 5 |           |       |       |       |       | 0.702 |

Extraction Method: Principal Component Analysis. Rotation Method: .va .max with Kaiser Normalization.

a. Rotation converged in 8 iterations.

**Overall Model Fitness**

Figure 1 shows the combined measurement models (i.e. structural model) of the study. From the figure, it is observed that factor loadings of all items in all constructs

achieved the minimum required level of 0.6, therefore the unidimensional of the model is achieved. It is also observed that there is no multicollinearity issue exist in the model since correlations between constructs are less

than 0.85. Besides that, the chi square over degree of freedom of less than 5 (2.055) indicates that the model achieved parsimonious fit, RMSEA less than 0.08 (0.05)

indicates that the model achieved absolute fit and GFI, CFI and TLI of greater and approximately 0.9 indicate that the model achieved incremental fit.

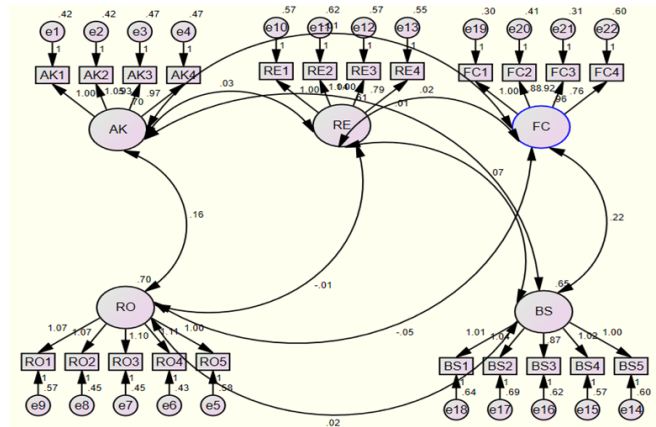


Figure 1: Overall Model Fitness

**Evaluating Main Model**

The latent variables are seen in figure 2: knowledge and awareness, religious obligation, reputation, business support, financial constraints, attitude towards Islamic finance, and intention to adopt Islamic finance. As seen in table 9, all goodness-of-fit indices were within appropriate bounds. The Normed Chi-square was less than 5, and the RMSEA and RMR were also less than

0.10. The value of the normed fit index and other fit indices were well above the optimal amount, suggesting that the logical model was supported. As a consequence, these observations suggest that the main structural model is well-fitting. In conclusion, based on model fit results, it is clear that the structural model for this research was well suited, ensuring confidence in evaluating the mediation effects.

Table 9: Goodness-of-fit indicators for Main Model

| Fit Measures      | Main Model    |
|-------------------|---------------|
| Chi Square        | 513.364       |
| Degree of Freedom | 8             |
| p                 | 0.623         |
| Normed Chi square | 1.287 (< 5.0) |
| RMR               | .011 (< 0.80) |
| RMSEA             | .043 (< 0.10) |
| GFI               | .992 (> 0.9)  |
| AGFI              | .971 (> 0.8)  |
| NFI               | .986 (> 0.9)  |

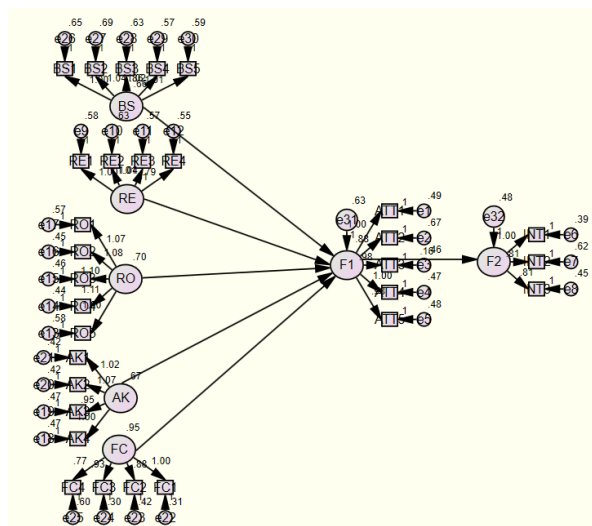


Figure 2: Main Model

**Mediating Effects**

Via five independent variables in Libyan SMEs, this research explores the mediating impact of attitude toward Islamic finance on Islamic finance adoption. This research uses direct, indirect, and overall effects

to calculate the mediating effect. Tables 9, 10, and 11 demonstrate the results. According to the findings, there is a major mediating impact of attitude toward Islamic finance on Islamic finance adoption in Libyan SMEs through five independent variables.

**Table 10:** Direct Effects (Group number 1 - Default model)

|     | KA    | RO    | RE    | BS    | FC    | ATT   | ADP   |
|-----|-------|-------|-------|-------|-------|-------|-------|
| ATT | 0.048 | 0.097 | 0.101 | 0.031 | 0.021 | 0.000 | 0.000 |
| ADP | 0.011 | 0.051 | 0.030 | 0.002 | 0.013 | 0.670 | 0.000 |

**Table 11:** Indirect Effects (Group number 1 - Default model)

|     | KA    | RO    | RE    | BS    | FC    | ATT   | ADP   |
|-----|-------|-------|-------|-------|-------|-------|-------|
| ATT | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| ADP | 0.026 | 0.031 | 0.029 | 0.018 | 0.021 | 0.000 | 0.000 |

**Table 12:** Total Effects (Group number 1 - Default model)

|     | KA    | RO    | RE    | BS    | FC    | ATT   | ADP   |
|-----|-------|-------|-------|-------|-------|-------|-------|
| ATT | 0.048 | 0.097 | 0.101 | 0.031 | 0.021 | 0.000 | 0.000 |
| ADP | 0.037 | 0.082 | 0.059 | 0.020 | 0.034 | 0.670 | 0.000 |

**CONCLUSION**

The study found that several factors significantly influence Libyan SMEs’ attitudes toward adopting Islamic finance, including awareness, religious responsibility, reputation, market support, and financial constraints. These factors collectively shape SMEs’ positive or negative outlooks toward Islamic finance, which, in turn, mediates their adoption decisions. Religious responsibility emerged as the most critical driver, highlighting its central role in promoting Islamic finance adoption among SMEs in Libya. Reputation and market support were also identified as key contributors to this process.

The study underscores the readiness of Libyan SMEs to embrace Islamic banking services, driven by a positive attitude shaped by these factors. The findings offer valuable insights for enhancing Islamic finance adoption through targeted strategies, benefiting stakeholders such as financial professionals, clients, and policymakers.

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