Reimagining SME finance: a social structuration approach to Islamic banking

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Abstract

This study demonstrates that SME financial inclusion is a socially mediated process where the inclusive rhetoric of Islamic banking often diverges from the lived financing realities of small and medium-sized enterprises (SMEs) in Pakistan. By foregrounding SME perspectives, the paper reveals how trust in religious authority (Shariah Boards) can override technical financial opacity, fundamentally shaping how firms interpret and respond to institutional structures. It moves beyond traditional eligibility models to show how SMEs actively navigate a complex field of Islamic banks, government policy schemes, tax authorities, and Shariah boards to secure access to finance.

The research adopts a qualitative, interpretive approach grounded in Strong Structuration Theory (SST) to analyse the recursive relationship between SME agency and institutional structures. Primary data were generated through 30 semi-structured interviews with SME owners, bank managers, regulators, and Shariah board members. SST provides the necessary lens to connect micro-level firm experiences with macro-level institutional architectures, offering a theoretically informed account of how financial access is socially structured within the context of Islamic finance in Pakistan.

The findings reveal that access to Islamic finance is governed not only by formal eligibility criteria but also by SMEs' subjective interpretations of trust, compliance risks, and institutional credibility. We find that SMEs utilise selective visibility and strategic informality as survival strategies, gaining or losing agency as they navigate perceived institutional threats. These dynamics demonstrate that financial inclusion is not a straightforward policy outcome but a contested, socially structured process in which informal practices often emerge to bridge structural gaps.

This study advances critical accounting scholarship by theorising financial access as a socially situated interaction rather than a purely technical or transaction-based outcome. Applying SST to the empirical context of Pakistan offers fresh insights into the recursive relationship between institutional visibility, informality, and religious engagement. The study contributes to global debates on governance, legitimacy, and accountability by illustrating how moral and institutional trust influence financial inclusion, with critical implications for policymakers and regulators in emerging markets.

Keywords: *Islamic financial system, financial inclusion, strong structuration theory, accounting and visibility, institutional hybridity, and resistance.*

1. Introduction

The growing role of SMEs in achieving a country's economic goals has drawn significant attention from policymakers and academics. However, despite their significant contribution to economic development, SMEs face financial constraints (Zhao et al., 2019). Banks are the primary source of formal financing for SMEs (Calabrese et al., 2021). However, banks and other lending institutions are reluctant to finance SMEs (Sharif & Baig, 2023). The difficulty in obtaining finance can be attributed to several factors, including the nature and size of the business, the firm's age, marketing challenges, and limited innovation capabilities (Santos & Cincera, 2022). This issue must be addressed by implementing innovative financing instruments to improve SMEs' access to finance (Wasiuzzaman et al., 2020). Islamic finance can therefore play a central role in funding SMEs, as it emphasises justice and equitable treatment of the financially vulnerable members of society; thus, it forbids interest and operates on the principle of profit-and-loss sharing (Riaz et al., 2017b). One of the fundamental objectives of an Islamic economic system is to promote financial inclusion by supporting the underprivileged sectors of society, including SMEs (Riaz et al., 2025).

Pakistan is currently transitioning to a comprehensive Islamic banking system, mandating that all banks adopt Shariah-compliant models by 2027, in accordance with the Federal Shariah Court's decision (Putra, 2025). These developments strongly motivate our study, as SMEs now face a rapidly changing financial landscape that requires them to adapt to Islamic banking principles and practices. However, the mainstream literature on SMEs' access to Islamic banking and finance in Pakistan primarily examines how SME characteristics influence access to finance (Rasheed et al., 2019; Bilal et al., 2020; Rasheed & Siddiqui, 2022; Sharif & Baig, 2023). Such an approach views SMEs' practices as distinct from their context. They do not investigate the potential interactions between SMEs and their social structures in shaping their practices to seek access to Islamic finance. This is a significant omission from the prior literature, which the present study attempts to address. This study's main assumption is that the immediate context of SMEs influences their access to Islamic banking and finance. This approach allows us to move beyond an internalist view of SMEs and focus on how their access to finance is conditioned by their interactions with the broader contextual field. Therefore, using the strong structuration theory, the study aims to explore the social context of Pakistani SMEs seeking to acquire Islamic banking and finance, how

SMEs interact with their context and how such interactions influence SMEs' access to Islamic banking and finance as reflected in the following research question:

> ***How do SMEs' interactions with their contextual field influence their practices in acquiring Islamic banking and finance in Pakistan?***

To investigate these interactions, this study draws on Strong Structuration Theory (SST) (Stones, 2005), which provides a conceptual framework for examining micro-level interactions in granular detail, as metaphorically described by Stones (2005) as 'fine brushstrokes'. While SST has been increasingly mobilised across disciplines to explore how agents engage with, reproduce, and transform institutional structures, its application is not without tensions. In accounting, for example, it has been used to illuminate how actors interpret, reproduce, and transform accounting practices within structured institutional environments (Huikku et al., 2024; Jubb, 2025; Uman et al., 2025). In management research, SST has been employed to explain the emergence of strategic practices through actors' interpretations of policies and regulations (Feeney & Pierce, 2016). While studies highlight SST's effectiveness in capturing the dynamic relationship between structure and agency, providing a strong framework for examining organisational behaviour in specific contexts, the emphasis on interpretive agency can, however, underplay the structural asymmetries and power relations that delimit the scope of such agency.

Building on Giddens' (1984) duality of structure and agency, Stones (2005) advances a more operational framework for investigating this relationship in empirical contexts. At its core, SST asserts that while agents' actions are shaped by external structures, they are not reducible to those structures; rather, they actively interpret, negotiate, and sometimes resist them. Stones & Tangsupvattana (2012) stress the role of reflective monitoring, whereby agents continually assess their own conduct and the evolving physical and social contexts in which they operate. This reflexivity is presented as enabling informed decision-making in response to shifting external conditions; those in practices, such as reflexivity, may be partial, strategic, or constrained by structural opacity and institutional inertia.

To conceptualise and unpack the interplay between agents' actions and context, Stones (2005) introduces the concept of the position-practice network, which maps how agents are situated within a network of social positions and practices. The distinction between 'agents-in-focus' (the primary subjects of analysis) and ‘agents-in-context’ (those with whom they interact) is analytically useful, yet it risks oversimplifying the fluidity and overlap between these categories in lived organisational settings. In this study, the “contextual field” encompasses the institutional, regulatory, cultural, and religious structures that shape the position–practice networks of Pakistani SMEs, including their engagements with Islamic banks, Shariah scholars, regulators, and community norms. However, these networks are not static backdrops; they are arenas of negotiation, contestation, and hybridisation, where formal Islamic finance principles intersect with pragmatic adaptations to market realities.

The study makes four key contributions. First, it extends mainstream debates on SMEs’ access to finance (Bhalla & Kaur, 2012; Ćehajić & Košak, 2022; Amadasun & Mutezo, 2022; Ghulam et al., 2025) by situating them within the specific institutional and socio-religious context of Pakistan (Rasheed et al., 2019; Bilal et al., 2020; Rasheed & Siddiqui, 2022; Sharif & Baig, 2023). Second, using methodological bracketing to analyse the contextual field of SMEs seeking Islamic banking and finance reveals relational and structural dynamics that influence financing interactions, which are often hidden in more economic analyses of SME finance. Third, it adds to the empirical literature on SST. (Feeney & Pierce, 2016; Makrygiannakis & Jack, 2016; Chapple, 2018; Al-Htaybat, 2018; Kholeif & Jack, 2019; Barrios, 2021; Huikku et al., 2024; Jubb, 2025) by extending its application to a setting characterised by institutional hybridity and normative pluralism. Importantly, unlike prior studies that privilege the perspectives of SME owners, this research incorporates the voices of bank managers and a Shariah board member – agents-in-context whose interpretations and practices materially shape financing outcomes. This broader evidentiary base enables a more nuanced and critical account of how position–practice networks operate in practice, revealing both the enabling and constraining forces at play. Fourth, it advances accounting scholarship by theorising a “visibility trap” in which SMEs utilise strategic informality to navigate conflicting institutional structures. By extending debates on visibility and informality (Ezzamel et al., 2007; Goretzki, 2013; Fontes, 2025), the study reveals accounting practices as a contested site of agency and resistance where formal visibility is selectively embraced or resisted based on perceived institutional threats (Mäkelä, 2021; Manyani & Maseko, 2011).

The remainder of the paper proceeds as follows: the next section reviews relevant literature on SMEs and Islamic banking and finance; Section 3 elaborates the theoretical constructs underpinning the analysis; Section 4 outlines the methodological considerations; Section 5 presents the empirical findings; and the final section offers concluding reflections.

2. Literature Review

2.1 Financing Constraints and Social Interactions of SMEs

Small and medium-sized enterprises (SMEs) are routinely celebrated as the backbone of national economies, yet such rhetoric often obscures the entrenched structural barriers that systematically constrain their growth and economic contribution. In developing economies with underdeveloped financial systems, access to finance remains not merely a "challenge" but a persistent structural exclusion (Rao et al., 2023). In Pakistan, for instance, an estimated 5.2 million registered SMEs account for 90 per cent of all businesses, employ 78 per cent of the labour force, and contribute 40 per cent of GDP and 35 per cent of value addition (SMEDA, 2023). These figures are frequently invoked to underscore their importance, yet they sit uneasily alongside the reality that 90 per cent of small businesses remain excluded from formal financing channels (Jafri, 2023), forced instead into dependence on personal savings and informal funding arrangements (Khan et al., 2021). This exclusion is not simply a byproduct of neutral market inefficiencies, such as collateral requirements or information asymmetries; it is embedded in and reproduced by the broader socio-institutional architecture that governs financial access. SME financing is mediated through complex and often unequal relationships with actors, networks, and institutions that collectively shape the distribution of financial opportunities (Zarrouk et al., 2020; Doacă, 2022). In this sense, financing decisions cannot be reduced to isolated economic calculations. They are deeply contingent on the institutional logics, power relations, and socio-political contexts in which SMEs operate (Sipahi & Artantaş, 2023). Recognising this embeddedness challenges the technocratic framing of "access to finance" as a discrete policy problem, revealing instead a systemic configuration that privileges certain actors while marginalising others.

This recognition that SME financing is embedded within and constrained by structural power relations naturally directs attention to the concrete configurations of actors, institutions, and norms through which such exclusion is enacted. It is within this dense web of position–practice relations that the formal and informal rules of the game are negotiated, contested, and reproduced, shaping not only the availability of finance but also the very terms on which SMEs can access and utilise it (Nguyen, 2022). These interactions are situated within broader position-practice networks comprising SMEs, banks, regulators, and cultural norms where financing decisions are not merely technical or economic choices but outcomes of negotiated power relations since relational configurations carry significant implications for SME financing strategies, particularly as they are mediated by regulatory compliance regimes, bureaucratic gatekeeping, and procedural burdens that often privilege established actors over smaller, less resourced enterprises (Hamarat & Broby, 2022; Aristei et al., 2024). Social and cultural norms further embed asymmetries into the system, shaping lenders' and regulators' dispositions toward SMEs and, in turn, determining the boundaries of access to both formal and informal funding channels (Asare et al., 2021). The extent to which SMEs can identify and secure appropriate financing is not simply a matter of entrepreneurial acumen but is contingent on the knowledge, awareness, and legitimacy they accrue through their embeddedness in these external contexts (Hussain et al., 2018). Navigating this environment requires SMEs to align their strategies with prevailing cultural, religious, and regulatory expectations, which may reinforce rather than disrupt existing hierarchies of access.

From the perspective of Strong Structuration Theory (Stones, 2005), these institutional, regulatory, and socio-cultural dynamics constitute external structures, such as formal rules, normative frameworks, and institutionalised expectations, that SMEs must reflexively engage with. The interactions between SMEs, financial institutions, regulators, and support organisations are not incidental but are structured encounters within position–practice networks, where SMEs act as constrained agents negotiating their roles in a field dominated by more powerful actors. This framing exposes how SME financial behaviour is shaped less by autonomous decision-making and more by the need to interpret, accommodate, and sometimes resist the contextual forces that define the possibilities of access to finance.

2.2 Islamic Finance as a Sustainable Financing Resource for SMEs

The evolution of Islamic banking in Pakistan cannot be separated from the country's contested legal and ideological framework, where the rhetoric of Islamisation has often served as much to consolidate political authority as to advance substantive ethical reform. Pakistan's claim to be the first state to embark on a wholesale Islamisation of its economy in the 1980s masks a far more uneven and politically contingent process, marked by abrupt policy reversals, selective judicial interventions, and institutional reforms whose coherence was frequently subordinated to shifting regimes' legitimacy needs (Sheikh et al., 2024). The resulting framework reflected not only divergent interpretations of Shariah compliance but also the instrumental deployment of Islamic finance as a symbolic marker of authenticity, often without resolving the structural contradictions between its formal architecture and its professed moral economy (Kamla & Rammal, 2013).

Decades of reform have failed to close the gap between the ethical claims of Islamic banking and its operational realities (Alam et al., 2022). The authenticity of financial instruments marketed as Shariah-compliant continues to face scrutiny, especially for SMEs operating in a challenging environment where they must balance trust in the system's stated principles with lingering doubts about its ability to deliver truly fair outcomes. Pakistan's historical position as the first country to announce a comprehensive Islamization of its financial system in the early 1980s (Putra, 2025) is often invoked as a point of distinction; yet the chronology reveals a pattern of aspirational mandates and partial implementation. The 1956 Constitution's call for an interest-free economy and the establishment of the Council of Islamic Ideology (CII) in 1962 (Holz, 2022) laid an early normative foundation, but subsequent measures from the introduction of interest-free counters in 1981 to the State Bank's 1985 conversion directive were undermined by inconsistent enforcement and hybridised practices (Masud, 2015). The 2002 launch of Meezan Bank as the first full-fledged Islamic bank (Holz, 2022) marked a new phase of institutional consolidation, yet even the 2022 Federal Shariah Court ruling mandating a transition to an interest-free system by 2027 (Putra, 2025) raises questions about whether the state's renewed commitment represents a transformative shift or another iteration of symbolic compliance. While this study does not reconstruct the full historical arc, it treats these legacies not as neutral background but as constitutive of the structural and ideological constraints within which SMEs' financing decisions are made, constraints that continue to blur the line between the promise of Islamic finance and its contested practice.

From a Strong Structuration Theory (SST) perspective, Islamic finance is not merely a technical alternative to conventional banking but a distinct constellation of structures, norms, and social meanings that shape SME practices within their contextual field. Its ethical foundations, including the prohibition of *riba* (interest), *gharar* (uncertainty), the use of profit and risk sharing, tangible asset backing, and promoting ethical investments (Riaz et al., 2023), are codified through institutional mechanisms such as Shariah supervisory boards (Riaz et al., 2017a) – an independent committee comprising specialists in Islamic commercial jurisprudence. These principles operate simultaneously as formal regulatory constraints and as symbolic resources that influence SMEs' internal interpretive frameworks, shaping their trust in the legitimacy of Islamic banking. The translation of these ideals into practice, however, is mediated by institutional capacity, market incentives, and the political economy of the banking sector.

Islamic finance is frequently positioned as a sustainable resource for SMEs, aligned with financial inclusion, social equity, and the Sustainable Development Goals (OECD, 2020). Its emphasis on profit-and-loss sharing, interest-free loans and support for entrepreneurship ostensibly offers a corrective to the exclusionary tendencies of conventional finance (Banna & Alam, 2020). Policymakers, including the Organisation of Islamic Cooperation (OIC), have identified SMEs as a strategic focus for Islamic finance-led development (Rasheed et al., 2019). However, empirical evidence reveals a persistent disjuncture: despite rhetorical commitments, Islamic banks' lending portfolios remain dominated by large enterprises and consumer finance, with SMEs accounting for only a marginal share (Sharif & Baig, 2023). This gap underscores the structural inertia and market logics that constrain the redistributive potential of Islamic finance.

Pakistan's renewed push toward a fully Shariah-compliant banking system by 2027, driven by the State Bank of Pakistan (SBP) and the Federal Shariah Court (Putra, 2025), further reshapes the institutional terrain SMEs must navigate[1]. While prior research has examined SME financing challenges (Hafeez & Andersen, 2014; Khandker, 2014; Bilal et al., 2016; Dar et al., 2017) and access to Islamic banking (Hassan, 2008; Gillani et al., 2016; Rasheed et al., 2019; Bilal et al., 2020), much of this work assumes that access can be explained primarily through SME characteristics. This study departs from that assumption, shifting the analytical lens to the social context of SMEs and how their embeddedness in networks of actors, institutions, and norms shapes their financing practices and constrains or enables their engagement with Islamic banking.

Within the SST framework, Islamic finance introduces a layered set of external structures, including Shariah boards, regulatory policies, institutional practices, and religious norms, that SMEs must interpret and navigate. The perceived legitimacy of Islamic finance, the authority of Shariah scholars, and the operational policies of Islamic banks all contribute to the structural environment that influences SMEs' financing decisions. At the same time, SMEs' religious

[1] Currently, there are six fully operational Islamic banks, in addition to seventeen traditional banks offering Islamic financial services through Islamic branches and windows (SBP, 2021).

commitments, cultural orientations, and knowledge of Shariah-compliant products constitute their internal structures, shaping how they respond to these opportunities and constraints. Access to Islamic finance is thus not a neutral offering but a socially negotiated process, contingent on the interplay between structural conditions and SME agency. By situating this analysis within the sociology of finance (Cetina & Preda, 2012), the study foregrounds the lived, relational, and interpretive dimensions of SME financing. It conceptualises access to Islamic banking not as a purely economic transaction but as a contextually embedded social interaction, structured by enabling and constraining features of Pakistan's institutional and cultural landscape. This framing allows for a critical examination of how Islamic finance's normative claims are realised or undermined in practice, and how SMEs navigate, adapt to, and potentially reshape the structures that govern their financial possibilities.

3. Theoretical Framework: Strong Structuration Theory and SME Financing Contexts

3.1 Strong Structuration Theory: Concepts, Critiques, and Analytical Utility

As the literature shows, SMEs operate within a web of regulatory, institutional, and cultural forces that shape their access to Islamic finance. However, prior studies have largely overlooked how SMEs interpret and respond to these forces. To address this gap, we draw on Strong Structuration Theory (SST) to examine SME–context interactions not as fixed outcomes but as dynamic, negotiated processes shaped by structure and agency. The study views SMEs' access to Islamic banking and finance as a social setting in which, according to Giddens (1984), structure and agency co-constitute interactions and practices. Structuration theory is based on the duality of structure, which implies that social actions entail structures, and those structures, in turn, entail social actions (Coad et al., 2015; Lee et al., 2023). Orlikowski and Robey (1991) argue that people's actions frame the social system's rules, routines, norms, and resources, and these structures shape their future actions. As the social world is shaped by an ongoing interplay of structures and agency, understanding and interpreting any social phenomenon requires capturing both in a single frame (Giddens, 1984).

Structuration theory faced various criticisms, as some aspects are underdeveloped (Stones, 2005; Coad et al., 2016). Among these are the theory's complex and widespread nature, the existence of duality only for routine matters, and the lack of methodological guidelines (Mouzelis & Mouzelēs, 2008; Kennedy et al., 2021). One of the key concerns about the structuration theory centres around the fact that the role of external structures, which assumes a focal part in the conceptualisation of the interaction between structures and agencies, represented by the position–practice network of relations, has been undervalued in theory (Cohen, 1989; Stones, 2005). Therefore, the notion of active agency warrants further exploration to examine its effects on structures in which both human and non-human agents, within the web of position practices, shape agents' actions (Stones, 2005; Stones & Jack, 2016). The emergence of Stones' strong structuration theory is an attempt to address the shortfalls of the structuration theory (Coad et al., 2015; Stones & Jack, 2016). Stones (2005) highlights that the interplay between structure and agency is best understood through the quadripartite structuration framework, which comprises four interwoven dimensions: external structures, internal structures within agents, active agency, and outcomes. The strong structuration theory emphasises an in-situ ontology to understand social actors' relationships with other actors in their context and their knowledge of their context at specific times and places. One of the key aspects of strong structuration theory, which differentiates it from Giddens' structuration theory, is the development of methodological details for conducting empirical research. Stones proposed two related methodological bracketings, namely agent's context analysis and agents' conduct analysis, to bring the role of agency to the forefront of the structuration process (Coad et al., 2015). Methodological bracketing allows us to examine how focal agents perceive themselves, their surrounding structures, and other actors in their context, and how these perceptions shape their actions. This emphasis on understanding agency from the actor's own perspective is what gives Strong Structuration Theory its distinctive analytical strength.

Within Strong Structuration Theory (SST), the "contextual field" is articulated through the notion of position–practice relations, a conceptual device intended to capture the broader network of social roles, patterned actions, and institutional structures that both enable and constrain agents' conduct. While this framing usefully foregrounds the embeddedness of actors within interdependent positions and the practices associated with them, it risks presenting these relations as more coherent and stable than they often are in empirical settings. The process of "structuration", whereby agents draw upon social structures (rules, norms, resources) in ways that reproduce or transform them, is central here, yet its operationalisation remains contested. Cohen's (1989) early elaboration emphasised the complexity and fluidity of these relations, noting that agents' incorporation of position–practice configurations into their conduct is rarely linear or uniform. Stones (2005) appropriated and formalised Cohen's insight, using position–practice relations to delineate the contextual field in SST and arguing that events and practices are best understood as unfolding within evolving constellations of such relations. However, this conceptual move arguably underplays the tensions, contradictions, and power asymmetries that can destabilise these constellations, particularly in contexts marked by institutional hybridity or contested legitimacy.

Applied to the case of SMEs in the financial ecosystem, "positions" denote the formal and informal roles occupied by the focal agent, while "practices" refer to the normative expectations, obligations, and patterned behaviours attached to those roles (Stones, 2005). The assumption that focal agents possess reflexive knowledge of both their positions and the surrounding network of practices (Stones & Tangsupvattana, 2012) is analytically convenient, yet empirically problematic: reflexivity may be partial, strategic, or constrained by structural opacity. Consequently, any theorised contextual framework must not only map position–practice relations in relation to the research questions but also remain alert to the ways in which such relations are fragmented, contested, and subject to ongoing renegotiation.

Understanding the agent's contextual field requires gathering evidence about various factors, including the primary actors embedded within it (Stones, 2005). It shifts the focus from the agent towards the social landscape in which they are embedded, represented by the position-practice relations of the field. The agent's context analysis depicts the external process of structuration, investigating the potential outcomes and impediments offered and posed by the agent's context. Although conditions frame external structures outside of an agent, their structural elements are subjectively understood by the agents (Stones, 2005). SMEs are not passive recipients of contextual pressures; rather, they actively navigate, reinterpret, and sometimes resist institutional constraints, for example, by shifting to informal financing when bank requirements are perceived as too rigid. For instance, a significant relation between other agents in the context can be objectively formed. Still, the focal agent's understanding and interpretation of how these agents conduct themselves will be subjective, as their hermeneutic frame of meaning influences it. In this study, examples of such external structures include collateral policies established by banks, tax requirements set by the FBR, and Shariah compliance mechanisms. This theoretical insight will guide the analysis of the relationships and interactions between SMEs and other agents in this context, as well as SMEs' perceptions of these relations.

3.2 Mapping SME–Institution Interactions in Islamic Banking through SST

The study draws on Stones' (2005) strong structuration theory to examine how Pakistani SMEs interact with their context as they access Islamic banking and finance. SMEs seeking to acquire Islamic banking and finance are viewed as embedded within a web of position-practice relations. They are believed to be reflexively knowledgeable about their particular social positions, the network of practices surrounding them, and the impact of context on their practices. At the same time, these practices influence others in the context, as SMEs actively map out and steer through it, establishing relationships and procedures. The focus of this research is guided by the position-practice network in strong structuration theory, which provides insight into the relationship between Pakistani SMEs seeking Islamic banking and finance and their context. To narrow the focus to a particular component of the research problem, Stones (2005) emphasises the use of methodological bracketing as a tool to 'blinkering out' certain aspects of the phenomenon under investigation. This study focuses on the contextual analysis of SMEs' access to Islamic banking and finance; thus, it brackets out an examination of SMEs' internal structures. The contextual analysis assumes that the empirical domain in which SMEs seek access to Islamic banking and finance can be conceptualised as a field of their position-practice relations. It assumes that SMEs interpret their social environment reflexively and use this interpretation to identify their position and construct meaning and understanding of their contextual field.

The examination of the contextual field of SMEs seeking access to Islamic banking and finance cannot be approached as an abstract exercise divorced from lived realities. It demands an analysis grounded in the specific positions, practices, and relational configurations that SMEs inhabit. These positions are not neutral; they are shaped by and in turn reproduce the asymmetries of power, resources, and legitimacy that characterise Pakistan's financial ecosystem. Understanding SMEs' financing trajectories, therefore, requires embedding other significant agents, such as Islamic banks, regulators, Shariah boards, and support organisations, into the analytical frame, not as passive background actors but as institutions actively interpreting, enforcing, and contesting the rules of the game. Consistent with the ontology of strong structuration theory, this study explores SMEs' access to Islamic banking and finance from the perspectives of both SMEs and other agents within their position-practice networks. SST is particularly appropriate for contexts marked by "complex organisational processes, agents drawing on rational, calculative tools shaped by rules and norms, certain agents being close and others more distant and a combination of both formal structures and less formal structures" (Harris et al., 2016, p. 1179) – a description that resonates strongly with the SME sector. In this sense, SST is not simply a theoretical choice but a necessary lens for exposing how formal regulations, informal norms, and relational proximities coalesce to structure the possibilities for SME financing.

Within these position-practice networks, SMEs are embedded agents whose roles are defined and constrained by the expectations, practices, and institutional logics of more powerful actors. The contextual field of position-practice relations encompasses Pakistan's financial architecture, where trust, information asymmetry, and perceived risk are not incidental frictions but structuring conditions of access. Regulatory frameworks, macroeconomic volatility, and institutional capacity operate as external structures that shape the contours of available finance, while SME owners' financial literacy, accumulated experience, and interpretive dispositions constitute the internal structures through which they navigate these constraints. Agency, in this framing, is neither autonomous nor purely reactive: SME owners deploy strategies such as mobilising social capital or engaging fintech platforms that can reproduce existing financing hierarchies or, in some cases, disrupt them.

We contend that the critical features of the SME context must be analysed relationally, within the specific configurations of positions, practices, and institutional relationships that define their operational environment. Isolating SMEs from these networks' risks obscures the very mechanisms through which access to finance is enabled or denied. The SST concepts of position–practice relations, therefore, provide more than a descriptive vocabulary; they offer a critical framework for exploring how SMEs engage with, adapt to, and potentially reshape the structures that govern their access to Islamic banking and finance.

4. The Data

The methodological framework of this study is designed to give voice to SMEs and other stakeholders in the field and to investigate how SMEs' interactions with their contextual environment influence their practices in acquiring Islamic banking and finance in Pakistan. This interpretive research focuses on understanding the phenomenon through the participants' lived experiences. This involves interaction with participants to interpret their views, representing the socially constructed realities of SMEs' access to Islamic banking and finance, and therefore requires primary data. This research philosophy led to the decision to conduct an interview-based field study.

The study has two key research design considerations. First, consistent with a circular research design, the theory was employed from the outset of the study, as adopted by Makrygiannakis & Jack (2018). Stones and Jack (2016) propose an alternative to using social theory as a sensitising device for conceptualising the research design. The researcher must have a clear objective to investigate a phenomenon before visiting the research site(s). Such an approach enables the researcher "to ask the right questions, i.e., questions that secure data of both sufficient quantity and appropriate quality around certain conceptualisations and interrelations" (Makrygiannakis & Jack, 2018, p. 78). Second, the research design considered extending the scope of interviews beyond the agent in focus (SMEs) to include the voices of Islamic bank managers involved in SME financing, a significant agent-in-context. Harris et al. (2016) argue that this approach facilitates the development of a comprehensive understanding of the phenomenon under investigation.

Thirty-five face-to-face semi-structured interviews were conducted[2]. There was a degree of purposiveness in the sample selection, suggesting that not everyone had an equal chance of being included (Stratton, 2024). The sample selection aimed to gather narratives from SME owners/managers who had previously sought Islamic finance, Islamic bank managers involved in SME financing, and a Shariah Board member. This sample selection and data analysis were guided by the approach outlined by Etikan et al. (2016), who note that this technique is suitable when knowledgeable responses are required, as it encourages expressive and reflective narratives. To preserve anonymity, participants were each assigned a unique code: Bank managers, BM 1, 2, 3, and so on; SMO, SME owners, and SBM 1 for Shariah board members. Interviews were recorded wherever possible, with participants' consent. To ensure trustworthiness, efforts were made to strengthen credibility and confirmability (Adler, 2022). Credibility was enhanced by using member checks, which allowed participants to review their transcripts and verify the accuracy of the interpretations. Additionally, an audit trail was carefully maintained to document key decisions and procedures throughout the research process (Etikan et al., 2016). Reflexive practice and peer

[2] Participants' profiles are shown in Table 1.

discussions strengthened confirmability through cross-validation of codes and interpretations with co-authors, as recommended by Rashid et al. (2023), to minimise the potential for researcher bias and ensure that the findings are grounded in participants' narratives.

An interview guide was designed to ensure consistency and reliability. While this guide provided a basic structure for the interviews, participants were also allowed to express their ideas and raise relevant issues not explicitly included in the document. To ensure the validity of the collected information, every transcript was thoroughly reviewed and cross-checked against the original audio recordings and field notes before being entered into NVivo 11 for analysis. The participants' data were then subjected to thematic analysis. At the initial stage, a basic framework evolved from the primary topics discussed in the interviews. To strengthen analytical rigour, the coding process included several rounds of refining themes. Early codes were repeatedly reviewed and adjusted in light of new insights and discussions among researchers. Themes were checked for consistency and coherence, with any differences in interpretation resolved collaboratively. For transparency, detailed memos were kept during coding, and the analysis was regularly reviewed to ensure alignment with the study's theoretical framework.

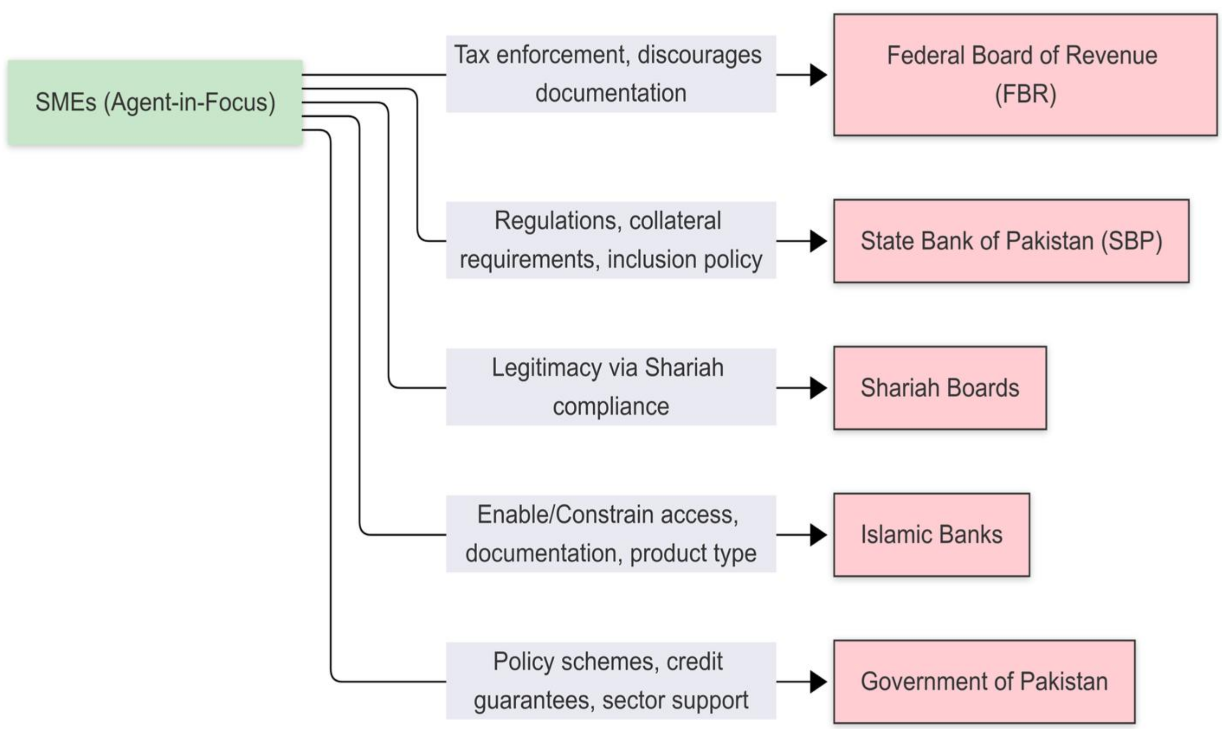
The data were coded using themes developed prior to the study, based on existing literature, and additional themes identified inductively during the research. The final stages involved revisiting the data and coding to filter critical themes while maintaining the theoretical focus. This process facilitates a systematic approach to categorisation, identifying trends, usage frequency, relationships, recurrent structures, and discourses in communication (Rashid et al., 2023). The in-depth, line-by-line examination of the text allowed identification of common terms used by participants to illustrate both concrete and abstract concepts. Frequently used words and phrases were noted as salient in participants' minds, an approach Rashid et al. (2023) utilised to analyse the interview data. The identified narratives and analyses were also validated through cross-checking with another author on this paper to ensure accuracy and completeness. Using this coding scheme, we developed unique categories that captured the participants' narratives, which are discussed in three sub-sections in Section 5.

5. Findings and Discussion

5.1 Position-Practices Mapping of SMEs

Stones (2005) emphasises the need to gather evidence about the key actors embedded within the field to better understand the contextual field. This not only allows for the position of the focal agent relative to different groups of agents in the given context, but also highlights issues such as the frequency of interactions with various actors and the perceived influence of particular agents on the focal agent's work. For example, the investigation into Pakistani SMEs' access to Islamic banking and finance helped identify key cluster actors in the SME context. The following position practices framework is mapped in Figure 1.

Figure 1: Network of Position-Practice Relations of SMEs



Source: created by authors

Consistent with Cohen (1989), the empirical evidence demonstrates that the agents are not of uniform significance, and the intensity of interactions varies from agent to agent. The supremacy could be derived, for example, from the frequency of interactions with SMEs or from the perceived impact of a specific cluster on SMEs' access to Islamic banking and finance. The evidence collected demonstrated a broad consensus about the importance of five groups of agents in the context, which influence SMEs' access to Islamic banking and finance more than the other clusters of agents. These include Islamic banks, the government of Pakistan, the Federal Board of Revenue (FBR), the State Bank of Pakistan (SBP) and the Shariah boards. Interactions between SMEs and these agents are discussed in the next section.

5.2 SMEs' Interactions with Key Agents-in-context

5.2.1 Islamic Banks as Gatekeepers: Navigating Risk, Shariah Compliance, and SME Trust

The philosophy of Islamic economics centres on social equity, inclusion, and resource sharing, promoting economic and social development (Mohieldin et al., 2011). One of the significant aspects of such development is financial inclusion and the equal distribution of wealth by serving the underprivileged sectors of society. Zhao et al. (2019) find that SMEs have limited access to formal sources of finance compared to their larger counterparts and thus face a financing gap. As key players in the Islamic financial system, Islamic banks can significantly contribute to financial inclusion by promoting Islamic financial products as alternatives to conventional financing for underprivileged SMEs.

The evidence identifies Islamic banks as a significant agent in the contextual field of SMEs with which they interact when accessing Islamic banking and finance. In this context, Islamic banks function as structured institutional agent with defined practices and expectations, while SMEs interact with them through strategic engagement shaped by their own experiences, goals, and evolving practices. They exert a significant, independent causal influence on SME activities and provide conditions that either enable or constrain SME actions. For instance, insufficient financial records are among the primary reasons SMEs face discrimination in accessing formal sources of finance (Tagoe et al., 2005). Furthermore, improving SMEs' record-keeping practices can enhance their access to finance (Dar et al., 2017). The guidance provided by Islamic banks to SMEs regarding maintaining their financial records serves as an example of the enabling feature of the banks that allows SMEs to modify their actions and helps them to gain access to Islamic finance, illustrating a structuration episode where institutional influence and SME owners' agency intersect within a contextual field of interaction. The extent of this enablement is illustrated in the following quotation:

> *"The bank manager assisted me at each stage of the application process. The bank manager helped me in preparing the required documents. They guided me about the use of accounting software, and I found it helpful in maintaining my financial records in a more organised way." (SMO12)*

The interaction here is characterised by cooperative guidance and embedded power dynamics, as bank managers influence SME practices through both formal expectations and informal support. Hence, SMEs' interactions with Islamic banks form the basis for their subsequent actions (changes in their financial record-keeping practices) that are not repetitions of what they have done before. This shift in SME practice reflects changes in internal structures, such as practical consciousness, and demonstrates how agency develops through interaction with institutional actors.

Islamic banks not only enable SMEs to access finance but also impose a degree of constraint on their actions. For instance, SMEs perceive the longer processing times Islamic banks take for SME financing applications as a growing constraint on their access to Islamic banking and finance. Customers consider fast service to be a bank's provision of high-quality service and expect transactions to be completed quickly (Ringim & Mohd, 2014). However, Islamic banks in Pakistan take longer to process financing requests from SMEs than conventional banks (Qureshi & Herani, 2011). Participants in this study reported that accessing Islamic financial instruments was more time-consuming than accessing conventional products. One of the participants shared his experience with Islamic banks and expressed:

> *"Small businesses usually do not go for external finance, but if they do, they are in immediate need of funds. I received financing after almost twelve weeks. I cannot wait so long to get trade finance. This is the main reason I prefer borrowing from friends if I need additional finance." (SMO7)*

Delays in financing reduce SMEs' responsiveness to market opportunities, thereby constraining their operational agency and forcing them to seek alternative, informal funding channels (Cehajić & Košak, 2022). Consequently, SMEs recalibrate their financial strategies in response to institutional inefficiencies, thereby reshaping their engagement with the Islamic banks. While mainstream studies often attribute these outcomes to SME-specific factors and perceived service obstacles, they also note that process delays and perceived procedural burdens discourage SMEs from using Islamic banks (e.g., Rasheed & Siddiqui, 2022; Sharif & Baig, 2023). Our SST perspective reinterprets these 'frictions' as structurally generated through the interactions between positions and practices, rather than as deficiencies within the firms.

Another illustration of the constraints imposed by Islamic banks on SMEs' access to finance is their preference for providing short-term financing. Using short-term financing products generates quick profits for banks and can be attributed to the higher risk associated with lending to the SME sector (Makhlouf, 2017). Therefore, Islamic banks usually offer short-term asset-backed products to SMEs to mitigate their risk (Makhlouf, 2017). On the other hand, SMEs perceive those difficulties in accessing finance for long-term projects as restricting their ability to expand their business (Makhlouf, 2017).

> *"They are very reluctant to provide participatory finance. They are only willing to deal with short-term products. Getting short-term loans is not a big problem; we can get them from friends or even from our creditors, even without fulfilling any requirements. So, what's the point of getting short-term finance from the bank?" (SMM21)*

The longer time Islamic banks take to process SME financing and their preference for short-term products are perceived as constraining conditions. This preference for lower-risk, shorter-tenor structures echoes evidence from Pakistani SMEs that Islamic banks' financing position remains cautious toward SMEs and skewed toward lower-risk offerings, reflecting institutional risk logics (Sharif & Baig, 2023). These constraining factors affect SMEs' actions and, at the same time, shape them. This presents a picture of human agency and structure as presupposing, which is the fundamental concept of the structuration theory. Structures shape individuals' actions, and those actions and practices, in turn, comprise and recreate the structures. For instance, banks' preference for asset-based short-term financing to SMEs stems from SMEs' practice of under-reporting actual profits. Similarly, the longer periods banks take to process transactions can be attributed to SMEs' inadequate record-keeping practices.

> *"It is difficult to assess the financial position of an SME. Usually, they do not have complete financial records, and even if they do, we are not sure how accurate they are. In such cases, we usually go for short-term financing to keep our risk under control. We need to perform additional checks for SMEs, which take more time." (BM5)*

This reflects a structural feedback loop in which SMEs' inadequate record-keeping not only constrains banks' institutional responses but also reinforces them, perpetuating the cycle of delayed financing. We find that the interaction between SMEs and Islamic banks is characterised by asymmetry and dependence, with SMEs often relying on the banks' interpretations of Shariah principles. While some SMEs adapt to product complexities with trust, others disengage due to bureaucratic delays and a perceived lack of interest. These patterns reflect varying degrees of agency from adaptive engagement to strategic withdrawal, depending on SMEs' capacity to navigate product structures. Over time, widespread disengagement among smaller SMEs may contribute to a structuration loop in which Islamic banks, perceiving low demand or high risk, further deprioritise micro-entrepreneurs, thereby reinforcing exclusion. This pattern resonates with the mainstream finding that SME engagement with Islamic finance is jointly shaped by supply-side selectivity and demand-side perceptions of usefulness, accessibility, and confidence in Islamic products (Rasheed et al., 2019; Rasheed & Siddiqui, 2022).

5.2.2 Government Schemes and Risk Mitigation: SME Re-engagement through State-Backed Guarantees

As a significant contextual actor, the government plays a central role in promoting SMEs' access to finance through policy interventions. Governments are keen to support SMEs and, therefore, aim to encourage their growth by enabling access to finance (Armeanu et al., 2015). Similarly, the Government of Pakistan attempts to create a favourable business environment for SMEs by improving their access to finance and eliminating obstacles to their growth. This reflects a structural interaction in which the government, acting as an institutional enabler, engages SMEs by designing policy instruments that reshape their financial environment. The data suggest that, rather than directly engaging with government officials, SMEs primarily experience the government's influence through policy instruments (such as credit guarantee schemes) that are operationalised by Islamic banks. These instruments restructure the risk environment, indirectly enabling SMEs to regain agency by reducing collateral constraints. SME owners who were previously excluded from Islamic finance due to a lack of collateral described reassessing their financing strategies in light of government guarantee schemes. These interventions created new enabling structures, allowing SMEs to reflexively adjust their expectations and re-enter formal financing channels, thereby regaining agency within the contextual field. Prior literature indicates that banks perceive SMEs as high-risk borrowers and apply risk-adjusted interest rates when financing them, thereby making access to finance more challenging (Gbandi & Amissah, 2014). Through the credit guarantee scheme and by prioritising SMEs in a particular sector, the government underwrites all or part of SMEs' credit risk, enabling Islamic banks to finance these businesses. This governmental intervention not only provides financial support but also shifts the institutional risk environment, reducing the structural barriers SMEs face and thereby enhancing their capacity to engage more effectively with Islamic banks.

To investigate the influence of contextual forces on SMEs' access to Islamic banking and finance, the Islamic bank managers participating in this study were asked about the impact of external conditions, particularly government policies, on their decisions to finance SMEs. Ten of the twelve managers highlighted government credit guarantee schemes as a critical external influence that facilitates SMEs' access to Islamic banking and finance. Such schemes effectively reposition SMEs within the institutional hierarchy of lending decisions, reducing their perceived risk profiles and aligning them more closely with banks' financing criteria.

> *"When the government brings any credit guarantee scheme, we can finance more SMEs because the loan is backed by the government, and SMEs' default will not increase our non-performing loans ratio." (BM4)*

Mainstream evidence also shows that risk-sharing or risk-mitigation arrangements are crucial for increasing SME participation in Islamic finance, as they influence both banks' willingness and SMEs' expectations (Rasheed & Siddiqui, 2022). Recognising the importance of credit guarantee schemes in enhancing SMEs' access to bank financing, the Pakistani government has introduced several such schemes. For instance, the 'Youth Entrepreneurship Scheme' currently aims to subsidise SMEs' financing. This government guarantee shifts SMEs' structural position within their sector, enabling them to act more intentionally and reshape their financing practices, rather than being passively constrained by perceived risks. The participating SMEs expressed their opinions and identified credit guarantee schemes as an enabling feature in their contextual field to facilitate their access to Islamic banking and finance, which they would otherwise find difficult due to inadequate collateral and high financing costs.

> *"My financing is approved under the Prime Minister's Youth Entrepreneurship Scheme. It is a very good step by the government to support small businesses, especially those which do not have assets to pledge. There should be more such schemes." (SMM19)*

This highlights how SMEs, previously constrained by a lack of collateral, re-engage with formal Islamic finance as policy shifts open new access points, reflecting an adaptive response to these changes. Along with credit guarantee schemes, the government also enables SMEs' access to Islamic banking and finance by prioritising SME growth in specific sector(s). This sector-specific approach exemplifies a selective institutional strategy, prompting SMEs in targeted industries to reorient their financing practices and engagement with banks. The evidence shows that Pakistan's government is attempting to bridge SMEs' funding gaps by prioritising access to finance for SMEs operating in specific sectors. For example, the construction sector is a particular focus of the government's SME 2020 policy[3]. To promote SMEs in the construction sector, the government is keen to improve their access to financial resources. SMEs view such a focus on a particular sector as an enabling factor that enhances their access to Islamic banking and finance.

> *"I applied for financing a few years ago, but it was not approved. But now, when the government has announced a relief package for construction businesses, the bank manager himself contacted me to avail the facility. This time bank is interested in funding my business, so their requirements and processing look quite straightforward." (SMO6)*

This change in policy structures an institutional interaction between the government and SMEs, which subsequently reshapes SMEs' access to Islamic finance, triggering new opportunities for SMEs to act upon and modifying their position within the financing landscape. We found that government interventions are mostly indirectly mediated through Islamic banks, which creates cautious optimism among SMEs. These interactions are characterised by limited awareness but high hopes, indicating passive trust. SMEs adapt by adjusting their financing strategies to meet new eligibility rules, though these adjustments remain fragile amid ongoing uncertainty. Over time, government guarantees influence SMEs' risk perceptions, leading to greater willingness to engage with formal financial channels. This shift could eventually motivate banks to develop more tailored products for smaller firms that were previously excluded from these opportunities.

[3] Available at: https://www.sbp.org.pk/smefd/PolicyPromotionSME-Finance.pdf

5.2.3 FBR and the Fear of Formalisation: Tax Discouragement and the Retreat from Record-Keeping

SMEs are the dominant part of the industrial structure in any country, and thus SME tax compliance is a concern for revenue and tax collection authorities. This structural significance places SMEs under the regulatory gaze of agents in their context, such as the FBR, whose institutional role directly shapes SMEs' practices through mechanisms of oversight and compliance enforcement. SMEs, particularly small ventures, aim to recover their investments quickly and under-report their profits to minimise tax liability, a tendency further reinforced by complex tax policies, low service quality in return for taxes, and limited tax knowledge (Saad, 2014). In Pakistan, the SME sector is largely informal, and many SMEs are not registered with the FBR. SMEs contribute 40 per cent of Pakistan's GDP, whereas their share in the government's tax revenue is only 10 per cent (Gul, 2019). This avoidance is not merely a passive outcome of complexity but a strategic response to institutional constraints shaped by FBR's tax enforcement structures. The FBR, as an agent-in-context, influences SME behaviour not only through direct regulation but also by generating a wider contextual structure of fear and avoidance, which constrains SMEs' willingness to document financial activity. This external structure, shaped by perceptions of the FBR's punitive authority, results in SMEs losing agency as they avoid formal financing channels. This noncompliance with tax is reflected mainly in SMEs' inadequate documentation and record-keeping practices. SMEs' record-keeping practices, access to finance, and taxation systems are all interrelated. Speaking at the Pakistan Innovative Forum, the chairman of FBR also linked the inadequate documentation of SMEs to perceived obstructions in the taxation system, which consequently restricts their access to formal sources of finance. It implies that SMEs' inadequate record-keeping practices are not produced or reproduced in isolation but are influenced by external forces. This interaction reflects external pressure from the agent-in-context, as fear of punitive taxation undermines SMEs' willingness to document their financial activities. As a result, SMEs' capacity to act intentionally within the formal financial system is diminished, highlighting a process of agency loss within the structuration cycle. The study participants perceive FBR as a significant contextual force that influences SMEs' financial record-keeping practices, thereby restricting their access to Islamic banking and finance.

> *"One of the major reasons for not following systematic accounting is fear of the FBR (Federal Board of Revenue). SMEs do not want to pay taxes because they are not comfortable with the tax system. So, when they come to us, their financial records*

are not enough to evaluate their repayment capacity. This is why it is very difficult for us to identify a good investment in terms of financing SMEs." (BM9)

SMEs' interactions with FBR reflect a structuration dynamic in which the FBR's institutional constraints incentivise avoidance strategies, which, in turn, restrict SMEs' ability to engage with formal financial institutions, perpetuating exclusion. Given the significant influence of FBR on SMEs' access to finance through their record-keeping practices, tax reforms are one of the major concerns in the government's SME 2020 policy.

From the SST perspective, interactions with the Federal Board of Revenue (FBR) are marked by avoidance, mistrust, and fear of penalisation. SMEs largely perceive the FBR as a threat to business continuity, often opting to remain informal to avoid scrutiny. This environment produces agency loss, not through direct coercion, but through internalised perceptions of institutional hostility and a powerful external structure. As SMEs increasingly avoid documentation and financial visibility, their practices reinforce informal norms, making formal finance less accessible. This behaviour contributes to a structuration cycle where FBR policies unintentionally entrench informality and discourage SMEs from engaging with regulated finance.

5.2.4 SBP's Regulatory Push and Collateral Policies: Enabling Access While Reinforcing Constraints

As the central bank, the SBP functions as a powerful agent-in-context, shaping the broader financial structures within which SMEs operate. Its regulatory role constitutes a key external structure that influences how Islamic banks design financing policies and how SMEs interpret their financing opportunities. One such external structure is the uniform collateral requirements imposed across both corporate and SME clients. These requirements constrain the agency of SMEs, particularly for those without sufficient physical assets or property rights. From an SST perspective, SMEs interpret these structures through their practical consciousness, often viewing Islamic banks as indistinguishable from conventional banks, despite the application of Shariah principles. This perception restricts their willingness to engage.

"Islamic banks have the same collateral requirements for SMEs as conventional banks do. So, what is Islamic in Islamic finance? (SMO16)

The study shows that the SBP, through interactions with Islamic banks, provides both constraining and enabling conditions for SMEs' access to Islamic banking and finance in Pakistan. Participants' narratives show that the requirements set by the SBP for SME financing impose constraints on SMEs' access to Islamic banking and finance. A Participant stated:

> *"The State Banks have almost the same rules and conditions for SME financing as they are for the corporate sector. These are difficult for the SMEs to fulfil, and as a result, they do not opt to use banking finance." (BM9)*

These constraints can be understood as external structures that influence SMEs' internal dispositions, including their expectations regarding eligibility, the likelihood of approval, and perceived exclusion. Participants highlighted collateral as the main hindrance to SMEs' access to Islamic banking and finance. The literature has established that SMEs' inability to provide sufficient collateral to secure bank financing is a common issue. These collaterals generally take the form of mortgaging their factory, assets, and machinery as security (Karamat et al., 2016). However, most small business units in Pakistan operate on a rental basis, and, in the absence of ownership rights, they cannot serve as collateral (Karamat et al., 2016). This creates a hurdle in SMEs' access to Islamic banking and finance. The participants expressed the following views in this regard:

> *"It is really difficult for SMEs, especially those in the trading and services sectors, to give high pledges, which deters them from approaching Islamic banks for funding. So, SBP should keep this in mind and give some relaxation to SMEs." (BM4)*

> *"Where is the principle of inclusion? When I first used the Islamic financing facility, my friend acted as my guarantor, although I had a good repayment capacity and favourable cashflows." (SMO16)*

These results support the claims presented by earlier research. For instance, Veiga and McCahery (2019) argue that one of the most common reasons for the widening financing gap for SMEs is their inability to provide collateral. Similarly, Machmud and Huda (2010) found that, due to a lack of collateral, 45 per cent of SMEs in Indonesia failed to obtain financing from formal channels. In their investigation of banks' lending criteria for SMEs in Pakistan, Kouser et al. (2012) concluded that the primary obstacle to SMEs' access to finance is inadequate documentation, including financial records. In the absence of these records, banks perceive SMEs as riskier and demand higher collateral to reduce the risk of default. However, SMEs find it challenging to fulfil this vital prerequisite of obtaining finance from banks, including Islamic banks (Kouser et al., 2012). From an SST perspective, these systemic constraints represent external structures that shape SMEs' financing preferences.

The internal structures of SMEs, shaped by past experiences and knowledge of institutional processes, lead them to reflexively reassess their engagement with these processes. This is particularly evident among SMEs operating from rented premises, which recognise they lack the capacity to meet SBP-imposed collateral requirements. As a result, many opt out of formal Islamic financing channels, thereby demonstrating a loss of agency due to perceived structural rigidity. This shows that the interactions between SMEs and SBPs create constraining and enabling conditions. For SBP's role as an enabler, its policy initiatives, such as SME financing targets and strategic goals to expand Islamic banking, reshape the contextual field to promote inclusion. These policies influence Islamic banks' behaviour, prompting them to increase outreach to SMEs. Such measures include directing a strategic roadmap for the Islamic banking sector to expand the market share of Shariah-compliant assets to 25 per cent (Ministry of Finance, 2018). The SBP aims to achieve this target by improving the regulatory framework, introducing SME targets and risk coverage, simplifying procedures for SME financing, enforcing Shariah-compliance mechanisms, providing non-financial advisory services, and creating awareness among bankers and SMEs (SBP, 2017). This interaction reflects an evolving position-practice relationship in which the SBP's indirect engagement with SMEs via Islamic banks creates conditions for agency gain. A participant also stated that:

> *"SMEs' access to Islamic banking and finance is improving as Islamic banks are more willing to expand SME financing because of the push from the State Bank." (SBM1)*

From the SST perspective, the State Bank of Pakistan (SBP) acted both as an enabler and a constraint. Its regulations regarding collateral and uniform eligibility criteria serve as rigid external factors that limit SME access. Conversely, SME financing targets and policy reforms exerted positive pressure on Islamic banks to promote inclusion. SMEs navigate these dynamics through strategic adjustments; some modify their expectations and practices, while others disengage, perceiving efforts as ineffective. These interactions illustrate a contingent process of gaining agency. Over time, as SME preferences evolve and banks respond to SBP targets, a structuration cycle develops, reshaping institutional expectations and potentially leading to more flexible product design.

5.2.5 Shariah Boards and the Authority of Legitimacy: Trust-Based Access to Islamic Finance

Islamic financial products are subject to approval by the Shariah board to ensure compliance with Shariah principles. In the SST framework, the Shariah board functions as a normative agent-in-context, shaping SMEs' financing decisions by legitimising Islamic banking products. While not always directly engaged with SMEs, these boards exert structural influence by authorising products, thereby constructing an external cognitive and ethical structure that shapes SMEs' beliefs about compliance and acceptability. Thus, banks offering Islamic financing products seek credibility by hiring prominent Islamic scholars (Kahf, 2004). For many SMEs, the internal structures that guide financial decision-making, particularly religious values and trust in religious authority, mediate their engagement with Islamic banks. Even when product mechanisms are unclear or resemble conventional finance, the endorsement of credible Shariah scholars often overrides doubts.

> *"I am not sure if the Islamic banks in Pakistan are actually doing what they say to us. How are their products completely interest-free when I have to pay a fixed amount for using them? Maybe it is difficult for me to understand because I do not have adequate knowledge of financial issues in Shariah. But I still prefer dealing with Islamic banks as they have (Islamic) scholars on their board, and they approved those products as Shariah-compliant." (SMO9)*

Tabrani et al. (2018) emphasise that trust and confidence are crucial factors influencing consumers' banking choices. In Islamic banking, trust encompasses not only the bank's operations and financial decisions but also confidence in its adherence to Shariah principles (Tabrani et al., 2018). Since ensuring Shariah compliance primarily depends on Shariah boards (Riaz et al., 2017a), these boards serve as key external influencers on SMEs' preferences for Islamic finance, thereby affecting their access to Islamic banking and finance. Participants also noted that the credibility and reputations of the Shariah board members are vital considerations when selecting an Islamic bank or branch.

> *"I had my account with a conventional bank for ten years. It was a current account, and I was not using any interest-based facility. Although they have Islamic branches as well, when I decided to obtain finance from the bank, I switched to this bank*

because I know one of its Shariah board members. He is a renowned scholar." (SMO18)

The literature debates the differences between modern Islamic banking and traditional conventional banking, as well as whether the latter is truly Shariah-compliant. Some studies suggest that customers view Islamic banks as similar to conventional banks, differing mainly in terminology (Majeed & Zainab, 2017). Participants also struggle to understand how Islamic banks meet Shariah standards and doubt their authenticity. However, these concerns are often dismissed because customers trust the credibility of the Shariah boards.

> *"I still don't quite understand how the Islamic banking products avoid interest. They sort of feel like the same (as conventional). But they (Shariah Board Members) are experts, not me, so I go with their approval." (SMO17)*

> *"What I am most concerned about is that this bank complies with Shariah principles. I'm not much of an authority on that, but I completely trust the scholars at the Shariah board of the bank; they are reputable. When they approve something, it gives me peace of mind." (SMO8)*

This illustrates reflexive monitoring, in which SMEs assess their options not solely on technical understanding but through hermeneutic frames shaped by religion and community norms. Their choice to engage with Islamic banks, despite uncertainty, reflects agency exercised through trust-based reasoning. Concurrently, this agency reinforces the authority of the Shariah board within the position-practice network. By aligning their actions with the rulings of Shariah scholars, SMEs contribute to the reproduction of the board's structural legitimacy. This reflects a structuration cycle in which agents-in-focus (SMEs) and agents-in-context (Shariah boards) co-produce a shared normative environment. Ullah and Lee (2016) identify religious motives and values as key factors influencing customers' decisions to adopt Islamic finance. These religiously motivated customers want to ensure that Islamic banks' operations align with Shariah principles (Ullah & Lee, 2016). However, aside from oversight by Shariah boards, customers lack a direct means to verify that Islamic banks' activities comply with Shariah law (Ltifi et al., 2016). Ahmed et al. (2017) note that the views of Shariah board members on Islamic banks' Shariah compliance were positively influenced. This is also exemplified by a previous statement from a participant, a small and medium enterprise (SME) owner, who found it difficult to understand how Islamic financial products work but still considers them Shariah-compliant. He supports these products because they are created and endorsed by Islamic scholars from Shariah boards, whom he trusts as credible experts in Shariah law. By repeatedly relying on Shariah board approval, SMEs engage in a structuration process that reinforces the board's authority while shaping their own financial behaviour. Therefore, Shariah boards enable SMEs' access to Islamic finance not only through institutional endorsement but by shaping internal belief systems that underpin financial choices. From the SST perspective, this reinforces the broader SST view that access to finance is not merely transactional but socially and culturally embedded. In essence, the interaction with Shariah boards is mainly symbolic and trust based.

SME owners expressed concerns about understanding Shariah compliance in Islamic banking, but these concerns were dismissed because Islamic scholars on the Shariah boards approve the operations. This limited engagement between SMEs and the boards results in SMES heavily relying on the endorsement of Islamic products.

> *"It would be great if we could actually speak to the Shariah board members themselves and do some Q&A sessions. At the moment, we just follow what is shared by the bank managers. There's a distance that makes it harder to fully understand things." (SMO17)*

Such indirect interaction influences SMEs' internal structures, especially their ethical reasoning and confidence in compliance. Even when product details are unclear, many SMEs trust the scholars' legitimacy, demonstrating reflexive agency rooted in religious trust. Over time, this reliance creates a feedback loop that strengthens the authority of Shariah boards and maintains a financing system in which moral approval takes precedence over technical understanding.

We resonate with key concerns in the accounting literature, particularly regarding how financial practices are institutionally structured and embedded in socio-political contexts. The analysis unpacks institutional structuring of calculative practices (Jack & Kholeif, 2008) by showing how Islamic banking eligibility is mediated not only by formal metrics (e.g., collateral, registration) but also by interpretive and ideological structures. The process by which SMEs become "legible" to banks is shaped by broader narratives of risk, religiosity, and legitimacy, demonstrating that practices are socially constructed and contextually framed rather than merely technical operations. The analysis illustrates how visibility and documentation practices are closely tied to financial inclusion, aligning with insights from contemporary critical accounting and finance scholars (e.g., Huang et al., 2022; Webb et al., 2009). SMEs' avoidance of formal documentation is often driven by fear of tax scrutiny or mistrust of regulators. In this way, accounting becomes not a neutral mechanism of access but a site of contestation where visibility is selectively embraced or resisted. (e.g., Ahrens & Chapman, 2007; van Helden & Uddin, 2016). The analysis also reveals how informal norms, religious trust, and state-backed regulations operate in overlapping and sometimes contradictory ways to structure SME behaviour. Rather than treating informality as a failure of accounting, this study highlights how informal responses, such as moral deference to Shariah boards or strategic disengagement from banks, can be seen as forms of agency shaped by institutional ambiguity. These insights expand accounting discussions on regulation, visibility, and calculability into new empirical areas, particularly focusing on the less-explored realm of Islamic finance and SME involvement in the Global South. The application of Strong Structuration Theory enables a more nuanced account of how agents negotiate, reproduce, or resist structured financial practices, offering a bridge between accounting theory and development-oriented financial research. While this study primarily brackets the internal structures of SMEs to focus on the contextual field, the findings suggest that the hermeneutic frame of religious trust is an inseparable internal disposition through which SMEs interpret and validate the external authority of Shariah boards

6. Conclusion and Implications

This study explored how Pakistani SMEs interact with their social and institutional environment to access Islamic banking and finance. While most existing studies emphasise SME traits, this study shifts focus to how interactions with banks, regulators, government agencies, and religious authorities influence financing methods; it views SMEs as active agents situated within an evolving network of position-practice relations, where external structures and reflexive agency continuously interact.

Using Strong Structuration Theory (Stones, 2005), the findings demonstrate that Islamic banks, the State Bank of Pakistan (SBP), the Federal Board of Revenue (FBR), the government, and Shariah boards play distinct roles in enabling or constraining access to financial resources. The participants identified Islamic banks as a significant agent within the contextual field of SMEs with which they interact when accessing Islamic banking and finance. The State Bank of Pakistan, as the controlling and monitoring authority of the banking system, is another significant agent-in-context that influences SMEs' access to Islamic banking and finance in Pakistan. The findings also show that interactions between the government and SMEs are another important element in SMEs' contextual field, influencing their access to Islamic banking and finance. This suggests that the government of Pakistan mainly affects SMEs' access to Islamic finance through credit guarantee schemes and prioritising the growth of SMEs in a particular sector. Islamic banks can both empower SMEs through guidance and discourage them through delays or risk aversion. The SBP enforces regulatory structures while also promoting inclusion through targeted policies. FBR's tax regime fosters informal behaviours, eroding SMEs' agency to engage with formal finance. Shariah boards emerge as powerful sources of normative legitimacy, shaping SME preferences through trust-based internal structures. The interactions between SMEs and SBPs create constraining and enabling conditions. For example, SBP's collateral requirements serve as a constraining condition for SMEs' access to Islamic banking and finance. Still, at the same time, their efforts to expand Islamic finance for SMEs create enabling conditions for SMEs. Sharia boards, another significant agent in the contextual field of SMEs, positively influence SMEs' access to Islamic banking and finance.

The study makes four main contributions. Firstly, it contributes to the existing literature on SMEs' access to finance (Tagoe et al., 2005; Bhalla & Kaur, 2012; Armeanu et al., 2015; Wasiuzzaman et al., 2020; Ćehajić & Košak, 2022; Amadasun & Mutezo, 2022; Ghulam et al., 2025), particularly in the context of Pakistan (Hassan, 2008; Gillani et al., 2016; Rasheed et al., 2019; Bilal et al., 2020; Rasheed & Siddiqui, 2022; Sharif & Baig, 2023). This study examines the contextual factors influencing SMEs' access to Islamic finance, thereby enriching the existing literature by highlighting the often-overlooked impact of interactions between SMEs and their environments on their access to Islamic finance. Second, the study demonstrates how Strong Structuration Theory (SST) can be utilised from the design phase to collect comprehensive evidence (Makrygiannakis & Jack, 2018). By adopting methodological bracketing, this study focused on the contextual field rather than internal SME characteristics, offering a fresh perspective on how SME financial practices are socially situated and dynamically negotiated. Third, the study broadens its scope beyond SMEs' opinions (agents-in-focus) to include the perspectives of bank managers and a Shariah board member (agents-in-context). By doing so, it extends SST to Islamic finance research, demonstrating its relevance for capturing the agent–structure interplay in contexts shaped by religious, regulatory, and institutional forces. Fourth, the study advances accounting scholarship by theorising a "visibility trap" in which SMEs intentionally utilise strategic informality to navigate conflicting institutional structures. It extends debates on visibility and informality (Ezzamel et al., 2007; Goretzki, 2013; Fontes, 2025) by showing how accounting practices, such as financial record-keeping, are shaped by SMEs' negotiations with regulators, revealing accounting as a contested site of agency and resistance (Mäkelä, 2021; Manyani & Maseko, 2011). We demonstrate that while transparency is a prerequisite for formal finance, the fear of punitive oversight by authorities such as the Federal Board of Revenue (FBR) creates a documentation paradox that forces SMEs to remain invisible to survive. Furthermore, it highlights that legitimacy in accounting is mediated not only by regulatory frameworks but also by religious authority, as evidenced by SMEs' reliance on Shariah board endorsements. These insights open new directions for accounting research on trust and informality in contexts marked by institutional hybridity and normative pluralism.

This study offers implications for practice, policy, and scholarship by reframing SME access to Islamic finance as a socially embedded, structurally conditioned process rather than merely a matter of firm-level traits or product availability. For SME owners and Islamic banking professionals, the results underscore the importance of relational engagement and understanding the local context. SMEs often base their financing choices not only on product terms but also on their perceptions of institutional credibility and regulatory risks. Therefore, financial institutions need to focus on building trust, providing transparent communication, and simplifying processes to meet SMEs' expectations and needs. SMEs can benefit from adopting adaptive strategies, such as formalisation, improved documentation, and engagement with advisory services, to improve their standing in the financial landscape.

For policymakers and regulators, particularly the State Bank of Pakistan (SBP), FBR, and government bodies, this study highlights the urgent need for "synchronised governance" to reduce structural inconsistencies and enable meaningful SME inclusion. At present, policy efforts are frequently "siloed"; while the SBP has a mandate to expand inclusion, these efforts are often undermined by aggressive or misaligned tax policies from the FBR that discourage the very documentation required for Shariah-compliant financing. Policies should not only address financial instruments but also reshape the contextual field in which SMEs evaluate risk, legitimacy, and accessibility. Regulatory reforms, such as simplifying tax filing, relaxing collateral requirements, and expanding credit guarantee schemes, must be coordinated across agencies to be effective. Ultimately, the study suggests that unless tax and banking regulations are structurally aligned, SMEs will continue to use "strategic informality" as a survival mechanism, further entrenching their exclusion from the formal financial ecosystem

Academically, this research contributes to the growing use of Strong Structuration Theory (SST) in applied accounting and management studies, particularly in under-researched contexts such as Islamic finance and the Global South. It demonstrates how SST can be operationalised to explore agent–structure dynamics within complex, multi-level systems involving religion, regulation, and market practices. By applying SST to the Islamic banking sector, the study enriches both the structuration literature through its focus on reflexivity, trust, and moral authority, and Islamic finance scholarship, by highlighting how contextual and cultural factors shape market access beyond formal product offerings. Collectively, these implications point toward a more integrated understanding of Islamic SME finance, one that attends to both institutional reform and the social realities of entrepreneurial decision-making.

Future research could further examine how internal structures, such as values, cognition, and informal networks, interact with external pressures to shape financing strategies. Ultimately, this study positions SME access to Islamic finance not as a technical issue but as a socially embedded process, shaped by evolving interactions among agents, institutions, and structures in the broader financial ecosystem.

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