

# BANKING AND TRUST-BASED SMES TOWARD CREDIT ACCESS

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## Abstract

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This study uses three dimensions — ability, virtue and integrity, and accounting information quality — to demonstrate trust's impact on small and medium-sized enterprises (SMEs) access to finance in Tanjungpinang. A questionnaire was delivered directly or via Google Form to four Tanjungpinang sub-districts. The questionnaire's Likert scale represents SME business actors' opinions. The *accounting information quality* and *availability to credit* variables included ten statements apiece, whereas the *trust* dimension had five reports. To test the hypotheses, the data were analyzed using the Statistical Package for the Social Sciences (SPSS) software. Ability, compassion, integrity, and financial information all positively and significantly affected *credit access*, according to hypothesis testing. Validates earlier findings that *trust* can overcome information imbalance between banks and SMEs when lending or borrowing. Banks use financial data and *trust* evaluations in SMEs to distribute loans. The bank recommends quality financial report information for small and medium firms to get loans. This study differs from micro-SMEs (MSMEs) research since tiny enterprises are not a critical necessity.

**Keywords:** SMEs, Trust, Ability, Virtue, Integrity, Quality of Financial Information, Access to Credit

**Authors' individual contribution:** Conceptualization — R.U. and D.S.; Methodology — R.U. and D.S.; Writing — Original Draft — R.U. and D.S.; Writing — Review & Editing — R.U. and D.S.

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## 1. INTRODUCTION

In Indonesia, micro, small, and medium enterprises (MSMEs) are stipulated in Law No. 7 of 2021 on Harmonization of Taxation Regulation as productive business that stands alone with the classification regulated in this law. According to Badan Pusat Statistik (BPS) data for 2018, MSMEs make an essential contribution to the national economy as reflected in the total number of MSMEs reaching 99.99% of the whole business units and contributing to the employment of 97% and MSMEs contributing to gross domestic product (GDP) of 57.8% (Latifah et al., 2021). Many countries, such as America, Japan, and Australia, recognize that small and medium-sized enterprises (SMEs) significantly contribute to economic development. SMEs have contributed to GDP in many countries and can reduce unemployment (Chandra et al., 2021).

In many countries, SMEs, like other areas, and MSMEs in Tanjungpinang face various problems, one of which is access to finance to obtain capital for business development (Lee & Black, 2017). In Indonesia since 2007, the government has provided solutions to overcoming capital for MSMEs with the People's Business Credit (*KUR*) program (Hutahayan & Yufra, 2019). *KUR* is a credit or financing provided to MSME-cooperatives (MSME-C) in the form of working capital and investment supported by guarantee facilities for productive businesses. This government program aims to increase access to finance for MSMEs because, so far, SMEs often experience problems when trying to access credit (Zhao & Jones-Evans, 2017). However, the *KUR* distribution has not reached all existing MSMEs. Due to the government's *KUR* distribution mainly through banks. This policy is quite problematic for MSME players to get *KUR* because to be able to enjoy this government program. Business actors must

meet existing requirements, one of which is in the form of accounting information or financial reports that MSMEs must present, while many MSMEs have not (Susan, 2020). Adequate in meeting the requirements in applying for credit.

Most MSMEs cannot provide accounting information related to the business they are running (Latifah et al., 2021), which will cause an asymmetry of information between banks and MSMEs. Therefore, in channelling bank credit, use the precautionary principle. Related to this information asymmetry, SMEs are constrained in accessing credit (Mushtaq et al., 2022). Banks use two types of information used by banks in distributing credit: soft information and hard information (Wang et al., 2019). For soft information, the technique used is relationship lending, which is based on trust and good relations between banks and entrepreneurs, while hard information includes:

1) financial statement lending, namely by using financial reports by applicable accounting standards;

2) assets based lending, which is related to assets that will be used as collateral;

3) credit scoring, with statistical techniques, uses financial report data and creditworthiness and the MSME owner's background and then gives a rating.

Using the relationship lending technique, banks must collect a great deal of qualitative information about the conditions of MSMEs to prevent information asymmetry, making it difficult for banks to differentiate between high-risk and low-risk borrowers, ultimately causing harm to the bank (Thorgren & Williams, 2020). SME asymmetry issues are more severe than large corporations (Albertazzi et al., 2016). The better-satisfied banks are with the information provided by SMEs, the simpler it will be for them to grant capital loans. From a bank's vantage point, this suggests that SMEs with a high level of trust in bank management will receive more credit and be less likely to face financial restrictions. The thoroughness of the bank's information, not the quality of the connection between SMEs and banks, inspires confidence in SMEs. According to the findings of the research by Palazuelos et al. (2018), the quality of accounting information in the form of financial reports is one of the criteria that determine banks granting access to credit to SMEs.

Based on the things presented above, this study aims to determine the effect of trustworthiness and the quality of accounting information on credit access to SMEs in the city of Tanjungpinang, Riau Islands Province. This study only focuses on small-scale enterprises (SSEs) because they are not required to attach financial reports when obtaining access to credit for micro-enterprises. The Authors hope that this research will contribute to the existing literature on MSMEs and provide strong empirical evidence from the conclusions drawn in previous research on the importance of trust in bridging the information gap between banks and MSMEs.

The structure of this paper is as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research on variables. Section 4 describes the research results, Section 5 presents the analysis of research results, and Section 6 provides conclusions, suggestions, and recommendations for further research.

## 2. LITERATURE REVIEW

### 2.1. Credit access

Access credit for MSMEs can be a gateway to deliver MSMEs in business development. With access to credit, MSMEs can overcome capital problems, which are one of the main problems of MSMEs. Access to credit can be defined as the absence of obstacles felt by MSMEs when applying for credit, both constraints related to administrative costs and procedures at credit provider institutions. With access to credit at financial institutions, it is a safe and sustainable source of financing for MSMEs (Widyastuti et al., 2023). For the country, access to credit can stabilize the economy because it can overcome income inequality and achieve the country's economic growth (Nkundabanyanga et al., 2014).

### 2.2. Trust

Trust is the foundation of a relationship. A relationship between two or more parties will occur if they trust each other. This belief cannot be just recognized by other parties but must be built from scratch and can be proven. In this study, the theoretical basis used to understand trust is defined by Mayer & Davis (1999), namely as a willingness to be vulnerable to the actions of other parties. This conceptualization differentiates the trust itself, and the result represents different risk decision-making types in the relationship with the trustee (i.e., the party to be trusted). Trust defined in this way does not involve risk but a willingness to engage in risk-taking with the focus party. These outcomes can include cooperating, sharing sensitive information, and voluntarily allowing supervisors to control matters important to guardians (i.e., trusted parties). The concept (Mayer & Davis, 1999) divides trust into three factors/dimensions: ability, virtue, and integrity. The definition of these three factors according to Mayer and Davis (1999) is as follows: *ability* is defined as a group of skills, competencies, and characteristics that allow a party to influence several domains; *virtue* is the extent to which the trustee is believed to want to do good to the guardian, apart from the egocentric profit motive; *integrity* is defined as the guardian's perception that the trustee adheres to a set of principles which, according to the guardian, is acceptable.

The theory used in analyzing the role of trust for access to credit is based on type 3 of agency theory. It is the agency problem between creditors and debtors (Diamond, 1996; Sharpe, 1990). This agency theory states that availability, terms, and structure are limited by agency problems stemming from the information asymmetry between borrowers and lenders. Agency problems for banks are exacerbated when evaluating the creditworthiness of MSMEs because the information available to them is less transparent than in the cases of large companies (Berger & Udell, 2006). Lack of information available in terms of quantity and accuracy can be detrimental to the bank in differentiating which MSMEs can repay their loans (Arnold & Riley, 2009) and (Berger & Udell, 2002). For this reason, the bank may demand more collateral and increase the cost of debt when negotiating with MSMEs. Sometimes,

lenders may not even be willing to provide loans and will eventually refuse credit submitted to MSMEs. The key factor in accessing bank credit is overcoming the problem of information asymmetry between borrowers and lenders (Berger & Udell, 2006). The literature has shown that banks can improve efficient formal information collected from the relationship between banks and SMEs (Berger & Udell, 2002). The relationship between banks and SMEs is assumed that banks can collect information through personal contact with SME management and local communities where the SMEs are located and use this information to evaluate the level of risk in lending decisions (Berger & Udell, 2006). The previous research (Moro & Fink, 2013; Palazuelos et al., 2018; Kautonen et al., 2020) shows that a high level of trust between banks and SMEs can make credit transactions possible, even if banks face information gaps. Regardless of the length and closeness of the relationship between the bank and SMEs, trust can cover uncertainty when the bank has processed all the formal information that is useful for assessing the quality of SMEs (Wihaya & Moro, 2022). For SMEs, an important mechanism to initiate trust-building is voluntarily disclosing information to banks over or above the minimum requirements required by the bank. Thus, trust is relevant from a bank perspective and an SME perspective.

Research related to MSME trust in access to credit that will be provided by banks using the concept of trust developed by Mayer & Davis (1999) written by Kautonen et al. (2020) on 160 SMEs in Finland where the results obtained show a positive relationship between trust and access to credit. In this research, the authors re-examined the relationship between trust and credit access to SMEs in Tanjungpinang, Riau Islands Province. Moreover, the following statement is the developed hypothesis:

*H1a: The ability that has a positive effect on credit access.*

*H1b: The policy that has a positive effect on credit access.*

*H1c: The integrity that has a positive effect on credit access.*

### 2.3. The quality of accounting information

Credit institutions have important information in making decisions about providing funds to companies in financial reports (Gómez-Guillamón & Vidal, 2008). However, accounting information will lose its usefulness if it does not meet the criteria of quality that enable users of financial information to make the most appropriate and appropriate decisions at any time. Accounting information must be timely, accurate, complete, relevant, and reliable to be used as a basis for decision-making. Based on Baas and Schrooten (2006), as previously explained, banks, in channeling credit to MSMEs, can use hard information in the form of financial statement lending, which is the most widely used credit-giving technique based on financial information from debtors. However, on the other hand, this becomes a different obstacle because MSMEs cannot provide the information these banks require. Berger and Udell (2002) stated that the cause of the low level of MSME credit distribution is that banks do not have sufficient information to conduct creditworthiness

assessments. Banks do not get financial information. MSMEs cannot present financial reports because most MSMEs do not understand the importance of financial reports and are unable to prepare financial reports.

The results of research (Sari et al., 2020) show that the quality of MSME financial reports does not have a positive relationship with credit received by case studies at MSMEs in Tegal. Research conducted by Rudiantoro and Siregar (2012) found that the quality of MSME financial reports in Jakarta, Bogor, Depok, and several regions on the island of Java is quite varied; this shows differences in understanding between MSME actors on the quality of financial reports. Financial reports in determining SME lending by Palazuelos et al. (2018) show that the quality of accounting information directly influences banks providing credit. So that the hypothesis developed in this study:

*H2: The accounting information quality has a positive effect on credit access.*

## 3. METHOD AND MATERIALS

### 3.1. Population, sample, and technique sampling

This research is survey research. Survey research is research with large and small populations, where the data used comes from a sample obtained from the population (Sugiyono, 2016). Retrieval of data by distributing questionnaires either directly or online using Google Forms. Respondents in this study were the owners of SMEs in the city of Tanjungpinang, which consists of 4 districts. The number of respondents was 150 in measuring the variables in the questionnaire. The writer uses a Likert scale. The Likert scale provides choices in a questionnaire on a scale of 1-5 so that respondents can choose answers directly according to their respective perceptions (Sugiyono, 2016). Apart from using a questionnaire, the researcher also interviewed SME owners to get in-depth answers about their perceptions regarding *trust*, *accounting information quality*, and *credit access*.

### 3.2. Research variables and variable operational definition

The dependent variable in this research is the perception of SME entrepreneurs about *credit access*. The dependent variable is influenced by the independent variable between positive and negative (Siyoto & Sodik, 2015). Independent variables affect the dependent variable (Sugiyono, 2016). Meanwhile, the independent variable used is *trust* in the form of perceptions of SME entrepreneurs to be trustworthy, divided into 3 dimensions: *ability*, *virtue*, and *integrity*. The next independent variable is the *accounting information quality*. The following table shows the definitions and indicators of each variable based on previous studies.

**Table 1.** Definition of variables and indicators

No.	Variable	Definition	Indicators	Scale
1	Capability	A capability is a group of skills, competencies, and characteristics that allow a party to influence several domains (Mayer & Davis, 1999).	– able to do the comment; – have knowledge about the job;	Likert
2	Benefaction	Benefaction is the extent to which the trustee is believed to want to do good to the guardian, apart from the egocentric profit motive (Mayer & Davis, 1999).	– do a good thing for the others; – fulfilled obligation;	Likert
3	Integrity	Integrity is defined as the guardian's perception that the trustee adheres to a set of principles which, according to the guardian, is acceptable (Mayer & Davis, 1999).	– commitment; – fair;	Likert
4	Accounting information quality	Accounting information can be useful for users in making decisions (Rudiantoro & Siregar, 2012).	– complete; – in accordance with the standard; – on time; – useful;	Likert
5	Credit access	There are no obstacles related to administrative costs or procedures for credit provider institutions that SMEs feel.	– easy to get credit; – get credit on what you need; – get information; – credit supports business; – relationships with banks.	Likert

This questionnaire consists of 2 sections.

1. The first section consists of several questions:

- respondent identity (name of business and name of a business owner, age of business and age of the business owner, type and address of the business, business income, gender, and latest education of business owner);

- business level (number of employees, business assets, and sales in a year);

- access to credit (how many times have SMEs applied for credit from banks, and how many credits have been obtained);

- credit guarantee (value of assets pledged as collateral).

2. The second section consists of several questions such as:

- perception of *credit access* with 10 statements;

- perception of *ability* with 5 statements;

- perception of *virtue* with 5 statements;

- perceptions of *integrity* with 5 statements;

- perceptions of the *accounting information quality* with 10 statements.

Statistical Package for the Social Sciences (SPSS) software was used to test the hypothesis.

## 4. RESEARCH RESULTS

### 4.1. Validity and reliability

The data quality test consisted of validity and reliability tests. The validity test will determine whether the questionnaire used is valid or not (Ghozali, 2018). Every statement in the questionnaire is valid if the value of  $r\text{-count} > r\text{-table}$ . While the reliability test aims to determine the extent to which measurement results using the same object will produce the same data (Sugiyono, 2016). A questionnaire is reliable if Cronbach's  $\alpha$  is above 0.60. The reliability coefficient is categorized: as if  $> 0.60$  has a strong relationship and  $> 0.80$  is very strong (Sugiyono, 2016). The following are the results of the validity and reliability tests which show that each item in the questionnaire is valid and reliable.

**Table 2.** Validity and reliability test results

Questions	r-counting	Information
<i>Capability (Cronbach's alpha = 0.751, Reliable)</i>		
Km1	0.459	Valid
Km2	0.359	Valid
Km3	0.580	Valid
Km4	0.636	Valid
Km5	0.560	Valid
<i>Benefaction (Cronbach's alpha = 0.751, Reliable)</i>		
Kb1	0.482	Valid
Kb2	0.351	Valid
Kb3	0.651	Valid
Kb4	0.698	Valid
Kb5	0.429	Valid
<i>Integrity (Cronbach's alpha = 0.683, Reliable)</i>		
In1	0.444	Valid
In2	0.542	Valid
In3	0.446	Valid
In4	0.358	Valid
In5	0.407	Valid
<i>Accounting information quality (Cronbach's alpha = 0.835, Reliable)</i>		
KIA1	0.548	Valid
KIA2	0.600	Valid
KIA3	0.438	Valid
KIA4	0.652	Valid
KIA5	0.425	Valid
KIA6	0.566	Valid
KIA7	0.544	Valid
KIA8	0.454	Valid
KIA9	0.562	Valid
KIA10	0.510	Valid
<i>Credit access (Cronbach's alpha = 0.793)</i>		
AK1	0.284	Valid
AK2	0.437	Valid
AK3	0.391	Valid
AK4	0.519	Valid
AK5	0.375	Valid
AK6	0.421	Valid
AK7	0.441	Valid
AK8	0.542	Valid
AK9	0.704	Valid
AK10	0.565	Valid

Note:  $r\text{-table} = 0.1603$ .

### 4.2. Respondent's characteristics

Based on the results of the questionnaire distribution, gender, age, and the last formal education of the respondents can be seen in the Table 3 below.

**Table 3.** Characteristics of respondents and SME

<i>Respondents</i>	<i>Total</i>	<i>Percentage (%)</i>
<i>Gender</i>		
Men	92	61.3
Women	58	38.7
<i>Age</i>		
20 to 30 years old	18	12
30 to 40 years old	46	30.7
40 to 50 years old	74	49.3
> 50 years old	12	8
<i>Formal education</i>		
Junior high school	2	1.3
Senior high school	132	88
Diploma	5	3.3
Bachelor	11	7.4
<i>SME location</i>		
District of Bukit Bestari	16	10.7
District of Tanjungpinang Kota	33	22
District of Tanjungpinang Barat	29	19.3
District of Tanjungpinang Timur	72	48
<i>Business activities</i>		
Services	128	85.3
Buy and sell (trade)	12	8
Manufacture	10	6.7
<i>Business level</i>		
Micro	114	76
Medium	36	24
<i>Have/never applied for credit</i>		
Have	113	75.3
Never	37	24.7
<i>Business establishing time</i>		
1 to 3 years	25	16.7
> 3 years	125	83.3

#### 4.3. Statistical descriptive

and average values of the statements on the questionnaire used in the study.

The following statistic shows the minimum, maximum,

**Table 4.** Descriptive statistics

<i>Statements</i>	<i>Min</i>	<i>Max</i>	<i>Average</i>
<i>Skills</i>			
Understand the market in which the business operates.	1	5	4.2
Can determine and select the required resources.	1	5	4.2
Can manage existing resources.	1	5	4.1
Understand about market evolution and be able to enter into it.	1	5	4.1
Have the ability to manage debt.	1	5	4.1
<i>Benefaction</i>			
Establish a good relationship with the bank.	1	5	4.4
Attention to employee needs.	1	5	4.2
Active in activities in the community.	1	5	4.1
Pay attention to employee welfare.	1	5	4.1
Trying to fulfill all obligations (pay debts on time).	1	5	4.2
<i>Integrity</i>			
Integrity and straightforward in providing information regarding business conditions during the process of obtaining a loan.	1	5	4.3
Be consistent between decisions made and behavior.	1	5	4.1
Reliable in keeping promises.	1	5	4.4
Carry out the commitments that have been made.	1	5	4.4
Be fair to others.	1	5	3.9
<i>Accounting information quality</i>			
Have recorded all transactions.	1	5	4.3
Have carried out routine recording.	1	5	4.3
Record standard financial reports.	1	5	4.1
There is a special division or employee related to financial accounting or reporting.	1	5	4.3
Has accounting software that supports bookkeeping.	1	5	4.3
Owned software can help improve the quality of information generated.	1	5	4.4
Complete profit and loss compilation.	1	5	3.9
Compilation of a complete financial position.	1	5	3.9
Compilation of notes to complete financial statements.	1	5	3.6
Records or bookkeeping is made to meet the goals to be achieved.	1	5	4.2
<i>Credit access</i>			
Easy to get credit from the bank.	1	5	3.9
Get credit as needed.	1	5	4
Has sufficient information about credit available for this type of business.	1	5	4.4
Access to credit frequency helps business growth.	1	5	4.4
Can access credit whenever needed.	1	5	4.1
Credit regulations influence decisions to access credit.	1	5	4.2
Collateral restricts credit access.	1	5	4
The relationship between the company and the bank is important in accessing credit.	1	5	4.2
The number of credits always increases.	1	5	4.1
Access to credit helps business growth.	1	5	4.1

## 5. DISCUSSION

Based on the results of the hypothesis test obtained for the test of each variable (t-test) using a significance level of 0.05, the t-table value is 1.976, so for the variable *t* arithmetic *ability* 20.301 > t-table 1.976 with Sig. 0.000 < 0.05, the *benefaction* variable with t-value 4.111 > t-table 1.976 with Sig. 0.000 < 0.05, *integrity* variable with t-count 6.170 > t-table 1.976 with Sig. 0.000 < 0.05 and the variable *accounting*

*information quality* with t count 10.041 > t table 1.976 with Sig. 0.000 < 0.05, it can be said that all independent variables (*ability*, *benefaction*, *integrity*, and *accounting information quality*) affect the dependent variable (*credit access*). The results of the F-test (simultaneously) with an F-value of 71.659 > F-table 2.67 concluded together (simultaneously) that the three independent variables affect *credit access*. The following table can explain the results of hypothesis testing:

**Table 5.** Hypothesis testing results

<i>Influence between variables</i>	<i>t-score</i>	<i>Sig.</i>	<i>Result</i>
<i>Skill &gt; Credit access</i>	20.301	0,000	<i>H1a</i> accepted
<i>Benefaction &gt; Credit access</i>	4.111	0,000	<i>H1b</i> accepted
<i>Integrity &gt; Credit access</i>	6.170	0,000	<i>H1c</i> accepted
<i>Accounting information quality &gt; Credit access</i>	10.041	0,000	<i>H2</i> accepted

Note: t-table = 1,976, Sig. = 0,05.

The results of testing the trust hypothesis, which consists of ability, virtue, and integrity, found that the three dimensions of *trust* affect *credit access* for SMEs in the city of Tanjungpinang. The results of this study are consistent with research conducted by Kautonen et al. (2020) on 160 SMEs in Finland, where all these dimensions of *trust* with the perception of SME entrepreneurs to be trusted have a positive effect on *credit access*. This study also supports the results of research by Moro and Fink (2013), which state that trusts positively affect loans provided by banks to SMEs in Italy. However, the dimensions of *trust* used are different from this study. This research uses the dimensions of *ability* and *virtue/integrity* (Moro & Fink, 2013). Moreover, previous research also states that *trust* can bridge banks and SMEs in overcoming information asymmetry on *credit access* provided (Palazuelos et al., 2018).

The results of hypothesis testing (*H2*) that the *accounting information quality* affects *credit access*, the results of this study support the results of research conducted by Palazuelos et al. (2018) that the *accounting information quality* has a direct effect on banks providing credit to SMEs in Spain. Several studies also show that the better the information provided by SMEs, both in terms of quantity and quality, the greater the possibility of getting access to credit (Moro & Fink, 2013). These results do not support the research by Rudiantoro and Siregar (2012), which states that the quality of MSME financial reports does not affect the amount of credit received. It is also stated that banks can provide credit to MSMEs, not making financial reports as the main source of information. This is different from the results of the research conducted by the writer; this difference may be caused by the object of observation that the writer made SMEs, while the research conducted by Rudiantoro and Siregar (2012) was MSME. Before conducting the research, the author conducted interviews with bank credit officers to determine that there is a difference between MSMEs and SMEs for the requirements of obtaining credit from banks.

The difference is that micro-enterprises are not required to submit financial reports; unlike small and medium enterprises, they are required to submit accounting information in financial reports. This is possibly the cause of the differences in the results obtained regarding the quality of financial reports in obtaining credit between MSMEs and SMEs. Based on the results of the determination test to determine the percentage of the overall influence of the independent variables on the dependent variable in this study, the coefficient of determination is obtained as indicated by the adjusted R-squared value of 0.768. This means that the effect is given by the *ability*, *benefaction*, *integrity*, and *accounting information quality* as large as 76.8% of *credit access* at 150 SMEs in Tanjungpinang.

## 6. CONCLUSION

Based on the results of hypothesis testing, it is found that the *trust* variable using 3 dimensions, namely ability, virtue, and integrity, has a positive and significant effect on credit access to SMEs in Tanjungpinang. The results of this study further strengthen that trust can bridge the problem of information asymmetry between banks and SMEs related to credit access that will be provided. While the results of hypothesis testing for the variable *accounting information quality* also have a positive and significant effect on credit access. In small and medium enterprises, financial reports are required to obtain credit, which is different for micro-businesses, which are not required to attach financial reports to credit access. One of the limitations of this study is that the sample used is only 150 SMEs, which does not represent the number of SMEs under the proportional number of each sub-district in Tanjungpinang. It is hoped that the next researchers will increase the sample used and test the hypothesis to differentiate between small and medium enterprises because the two businesses have different characteristics.

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