

FACTORS AFFECTING MSME'S INTEREST TO APPLY FOR BUSINESS FINANCING IN ISLAMIC FINANCIAL INSTITUTIONS**Mayda Miftakhur Rohmah, Nugraheni Rintasari****Corresponding author: nugraheni.rintasari@act.uad.ac.id

Universitas Ahmad Dahlan Yogyakarta

Abstract

This study aims to determine the effect of services, procedure, reputation, and promotion on the MSMEs' interest to apply for business financing provided by Islamic financial institutions. It is a quantitative research. The data were primary data obtained from questionnaires that were distributed directly to the respondents. As many as 58 MSME actors in the Manding Leather Craft Center, Bantul, Indonesia, were involved as the respondents. The sampling technique was purposive sampling as a type of the non probability sampling method. Data analysis methods included multiple linear regression, classical assumption test, and hypothesis testing (t-test and F-test). Data processing required the assistance of SPSS 17.0. The results of the t-test show that each independent variable partially affects the MSMEs' interest to apply for Islamic financing. Furthermore, the results of the F-test indicate that the variables of services, procedure, reputation, and promotion simultaneously affect the MSMEs' interest to apply for business financing provided by Islamic financial institutions.

Keywords: MSMEs, service, procedure, reputation, promotion**Introduction**

The increasing potential of MSMEs in Indonesia is highly correlated with the cooperation between banks and MSME entrepreneurs in financial terms. According to the data published by Bank Indonesia (2017), the amount of credit or loan for MSMEs is also increasing. In fact, in 2015, approximately 60 to 70 percent of MSMEs had no access to formal banks even though Bank Indonesia (BI) had already issued the regulation that stipulated the requirement for banks to disburse 5 percent of their total credit to MSMEs in 2015, 10 percent in 2016, 15 percent in 2017, and at least 20 percent by the end of 2018. Nevertheless, various supports given for the progress of MSMEs do not necessarily omit the obstacles faced by MSMEs in general. In addition to the issues related to human resource, facilities and infrastructure, and technology, the lack of capital and limited access to finance are the main factors that hinder the development of MSMEs (Tambunan, 2002).

Working capital is very vital for entrepreneurs. Those who have insufficient working capital tend to experience difficulties in carrying out their business. It will be such a drawback if a business loses its opportunity to improve the quality and quantity of its products due to capital issues.

In 2017, the Ministry of Cooperatives and Small and Medium Enterprises claimed that the proportion of total MSMEs in Indonesia has increased by 7 percent of the total population. It increased from the ratio of 1.55 percent in 2014, 1.65 percent in 2016, and 3.1 percent until the end of 2017 (<http://www.depkop.go.id/>, 2018). Nevertheless, despite the increasing number of MSMEs in Indonesia, many of them are still encountered by the complexity to obtain capital assistance for both conventional and sharia financial institutions.

In addition to convoluted procedures, the mindset of MSME actors is also an obstacle for MSMEs to obtain financial assistance from

formal institutions. In fact, most entrepreneurs are reluctant to use bank finance. Based on research conducted by the Ministry of Cooperatives and Small and Medium Enterprises in collaboration with the Central Bureau of Statistic/BPS in 2003, the factors of not applying for bank loan are: complex procedures, not interested, no collateral, no information about the procedure and high interest rates, while some have applied for it but rejected (Sulistiwati & Riskayanto, 2006).

Recently, many conventional and Islamic financial institutions have provided financial services for individuals, low income families, and MSMEs. Compared to conventional institutions, Islamic financial institutions have several advantages that can be distinguished from conventional financial institutions. The services of Islamic financial institutions impose the principles of Islam. It can attract MSME actors who build and manage their businesses in accordance with the Islamic principles.

One of the sharia-compliant financial institutions intended as a socio-religious institution is *Baitul Maal wa Tamwil* or often referred to as BMT. It is perceived of having an active role in solving the current economic problems. During the financial and monetary crisis in Indonesia, BMT had contribution in supporting people's economy as evidenced by the financial assistance from BMT to SMEs for improving and expanding their business. It is highly expected that capital assistance in the form of financing programs will be utilized effectively to increase the productivity of MSMEs. In 2017, there were approximately 62.9 million of MSME actors, yet this number had not automatically elevated the quality of MSMEs in Indonesia compared to other countries. Moreover, only 20 percent of MSMEs are currently bankable while 80 percent are less interested since they perceive MSMEs are invisible for banks in general, and they have no collateral (https://merahputih.com/post/read/html/_2018).

Several studies have discussed the topic propounded in the present study. Hutahaean (2017) suggested three factors that influenced the proposal for loans, namely Gross Regional Domestic Product (GDP), interest rates, and inflation. Furthermore, Indriyani (2007) stated that there were seven factors that influence customers' decision to take out a loan, namely: procedures, customer characteristics, bank attributes, environmental influences, business characteristics,

capital requirements and business experience. In overall, the simpler the loan procedure (in this context, *Bank Pembiayaan Rakyat Syariah/BPRS*), the higher the number of customers apply for the loans. The characteristics of customers are also influential, namely the courage to take risks and the recognition for the procedure. Furthermore, the attitude and appearance of employees, location, hours and days of operation, and credibility are the attributes of bank that affect customer to apply for loans.

Oktavi (2009) argued that there were four factors that influence customers in taking loans, namely: loan amount, installment period, income, and collateral. Previous studies reveal that the factors that affect the MSMEs' interest in using Islamic banking services or financing are very important for the consideration of the banking management for the continuity and existence of the institution.

Factors that affect the MSMEs' interest in using bank financing are Gross Regional Domestic Product (GRDP), interest rates, and inflation. Another study also includes procedure, customer characteristics, bank attributes, environmental influences, business characteristics, capital requirements and business experience. Other factors that also affect the MSMEs' interest in using bank financing are service quality, reputation and promotion.

The issues related to MSME financing are often associated with the domination of the informal sectors as the source of MSME financing. In fact, there are several possible factors that lead MSMEs to prefer the informal sector rather than the formal sector (bank). These factors include the location of banks which usually distant from MSMEs in remote areas, convoluted procedures, and the absence of information about the access to credit (Tambunan, 2002, p. 74).

The present study was carried out in the Manding Leather Craft Center, Bantul, Indonesia, by examining the MSMEs' interest in applying for Islamic financing provided by Islamic Financial Institutions. The institutions were selected because none of previous studies had discussed the interests of MSMEs in the Manding Leather Craft Center to Islamic financial institutions. Moreover, the institutions offer the concept of profit-sharing that are likely to give advantages to MSMEs. Previous studies have examined the variables of service, procedure, and reputation, while in this study, the

variable of promotion is added. Therefore, the variables that are presumed to affect the MSMEs' interests in applying for Islamic financing are: services, procedure, reputation, and promotion.

Literature Review

1. Islamic Financial Institution

According to the National Sharia Council of the Indonesian Ulama Council (DSN-MUI), Sharia Financial Institutions (*Lembaga Keuangan Syariah*, LKS) are institutions that offer sharia financial products and have an operational license as sharia-compliant financial institution. The definition emphasizes two major elements of LKS, namely: the element of conformity with the Islamic principles and the element of operational legality as a financial institution. Furthermore, the first element is centrally regulated by the DSN-MUI and is manifested in various *fatwas* issued by this council.

2. Interest

Interest is the fond or disposition towards a thing or activity. According to Wahab and Shaleh (2004, p. 263), interest can be interpreted as an inclination to give attention to and react on individual, activity, or situation that becomes the object of that interest and accompanied by feeling content. In general, the factors of interest are divided into two groups, namely:

- 1) Internal or personal factors, i.e., weight, age, gender, experience, perceived ability and personality.
- 2) External factors, i.e., family environment, school environment, and community environment.

3. Previous Studies

Chamidun (2015) investigated the factors that affected the MSMEs' interest in using Islamic financing provided by BMT Barokah. The objects of this study were 100 MSMEs that collaborated with Islamic financial institutions in Magelang, Central Java, Indonesia. Specifically, this study was carried out in BMT Barokah Magelang. The findings of this study indicate that each independent variable of services, reputation and procedure partially, significantly and positively affects the MSMEs' interest in Islamic financing. Moreover, those variables also simultaneously and positively affect the MSMEs' interest in using Islamic financing.

Rohmah (2017) examined the influence of the provision of information, promotion and service quality on the decision of using Murabahah financing. The objects of this study were 80 members of BMT Buana Mulur. This study was conducted at BMT Buana Mulur, Sukoharjo, Central Java, Indonesia. The findings show that the provision of information, promotion and service quality simultaneously have a positive and significant effect on the decision of the members of BMT Buana Mulur Sukoharjo to use Murabahah financing.

Bramantyo (2017) examined the effect of service quality, credit procedures, and promotion on the MSME's decisions in applying for credit. The objects of this study were 300 MSMEs in Salam district, Magelang, Central Java, Indonesia. This study was carried out at a non-bank financial institution (LKBB) in Salam district. The results indicate that each independent variable, namely service quality, credit procedure, and promotion, partially has a positive and significant effect on the decision for applying credit. Furthermore, service quality, credit procedure and promotion also simultaneously have positive effect on the MSME's decision in applying credit.

Nasution (2017) investigated the effect of advertising and sales promotion on the customer's decision to save money at PT Bank Sumut KCP USU. This study involved 100 respondents. The location of this study was PT Bank Sumut KCP USU. It indicates that advertising and sales promotion simultaneously have a significant effect on the customer attitude, and they partially have a significant effect on the customers' decision to save money at the bank.

In an effort to find out the factors that affect the MSMEs' interest in applying for Islamic financing to Islamic financial institutions, the present study measures, analyzes, and distinguishes two variables of dependent variable and independent variables. The variable of service (X1), procedure (X2), Reputation (X3), and promotion (X4) will be tested to find out their effects on the MSMEs' interest in applying for Islamic financing (Y).

Service is the fulfillment of the needs and willingness of the customers as well as the compliance in fulfilling the expectations. Service quality is an effort made by an individual, company or organization to fulfill the expectation of the customers (Lupiyoadi, 2006). Bramantyo (2015) has disclosed that service becomes the factor that

significantly influences the MSMEs' interest in using financing provided by formal institutions. Based on the description, the first hypothesis is developed as follows:

H1: Services affect the MSMEs' interest in applying for financing to Islamic financial institution in Yogyakarta city

Procedure is a sequence of steps prepared to ensure a uniform accounting policies for frequent transactions (Baridwan, 1992). Chamidun (2015) has shown that procedure has significant effect as well as is a dominant variable in the MSME's interest in Islamic financing. In general, MSMEs are interested to obtain financing through a simple and non-convoluted procedure. Therefore, based on the explanation, the second hypothesis is developed as follows:

H2: Procedure affects the MSMEs' interest in applying for financing to Islamic financial institution in Yogyakarta city

Reputation is a perception toward the quality related to well-known name in which it will affect customers and provide guarantees if there are small obstacles in the company (Maryani, 2005). Chamidun (2015) shows that reputation significantly affects MSMEs' interest in applying for Islamic financing since the institutions uphold and promote 'trust' to the public. Based on the description, the third hypothesis is developed as follows:

H3: Reputation affects the MSMEs' interest in applying for financing to Islamic financial institution in Yogyakarta city

Promotion is communication carried out by the marketing team to inform about and introduce a product to potential buyers. The concept used to promote a product to the public is called promotion mix, namely activities that communicate product benefits and persuade consumers to buy it (Swastha, 2005, p. 349). Bramantyo (2017) unveils the significant effect of promotion towards the interest of MSMEs in applying for financing. Based on the description, the fourth hypothesis is developed as follows:

H4: Promotion affects the MSMEs' interest in applying for financing to Islamic financial institution in Yogyakarta city

Methodology

The objects of the present study are the MSME actors of Manding Leather Craft Center (*Sentra Industri Kerajinan Kulit Manding*) located in Bantul, Indonesia. Totally, there are 68 MSMEs in this industrial center (<https://visitingjogja.com>, 2017). In this context, MSME actors are the owners or those having authority in decision-making, but not an employee of the enterprise. The source of data, the primary data, were collected and processed in the form of a questionnaire and later, distributed directly to the respondents.

There are two variables: dependent and independent variables. The factors as the independent variables are services, procedure, reputation, and promotion, while the MSMEs' interest in applying for financing to Islamic financial institutions is the dependent variable.

1. Independent Variables

a. Services (X1)

The concept of services is the fulfillment of the needs and expectations of the customers as well as the accuracy in conveying information and the quality level of the standard of services provided to the customers during the transaction. Tjiptono (2004, p. 70) suggests the indicators of services, namely: tangibility, reliability, responsiveness, assurance, and empathy.

b. Procedure

The concept of procedure is a sequence of steps prepared to ensure a uniform accounting policies for frequent transactions. Indicators for this variable are financing application, financing analysis, and financing realization (Baridwan, 1992).

c. Reputation

Reputation is defined as the perception toward the quality in association with a name/brand that will affect the customers, and the insurance if there are any small obstacles in the firm/institution. Indicators for reputation are prestige and trust from the public (Maryani, 2005).

d. Promotion
 In the context of this study, promotion is a sort of communication between Islamic financial institution and customer in the form of information intended to attract/persuade customers for using Islamic financing. According to Kotler and Armstrong (2001, p. 98), the indicators for the variable of promotion is advertising, sales promotion, personal selling, and publicity

2. Dependent Variable
 a. Interest

The concept of interest is the attraction or disposition towards a thing or activity. The indicators for this variable are internal/personal factors and external factors (Wahab & Shaleh, 2004).

All research variables were measured using a Likert scale. This scale describes a variable specifically and plainly into a variable indicator. Furthermore, this variable indicator will be used as a reference for preparing the items of the instrument in the form of statements or questions. The responses of the statements by using a 5-point Likert scale indicates:

- SS : Strongly agree (5)
- S : Agree (4)
- N : Neutral (3)
- TS : Disagree (2)
- STS : Strongly disagree (1)

Results

Based on the results of data processing using SPSS, the results of the coefficient of determination are obtained as presented in Table 1.

Table 1. Coefficient of Determination

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of The Estimate	Durbin-Watson
1	.834	.816	.806	.257	1.458

Source: Primary data (2018).

Table 1 shows the magnitude of the coefficient of determination (Adjusted R Square) or the capacity of services (X1), procedure (X2), reputation (X3), and promotion (X4) in explaining or predicting the MSMEs' interest in applying for financing to Islamic financial institution (Y). A value of 0.806 indicates that the independent

variables explain 80.6% of the variability of the dependent variable. It implies that the independent variables are relatively reliable to provide the information required to predict variations in the dependent variable. Meanwhile, the remaining 19.4% can be attributed to unknown variability not discussed in this study.

Table 2. F Test ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.525	4	0.788	24.163	0.000
	Residual	33.854	53	0.639		
	Total	65.379	57			

Source: Primary Data, 2018.

The ANOVA table below shows F -ratio = 24.163, $p = .000$, and F -table = 2.54, so F -ratio > F -table, $p < .05$. In other words, the null hypothesis is rejected implying the variables of

services, procedure, reputation and promotion simultaneously affect the MSMEs' interest in applying for financing to Islamic financial Institutions.

Table 3. T Test Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	-2,164	1.118		-1.017	.025
	PELAYANAN	.112	.221	.213	3.405	.003
	PROSEDUR	.372	.038	.254	4.543	.000
	REPUTASI	.100	0.36	.121	2.183	.014
	PROMOSI	.138	0.40	.237	3.477	.000

Dependent Variable: INTEREST

Source: Primary Data, 2018

The regression coefficient of X1 (services) is 0.112 or 11.2% of the independent variables. It means the variable of services statistically significantly predicts the MSMEs' interest in applying for financing to Islamic financial institutions. The regression coefficient of X2 (procedure) is 0.372 or 37.2% of the independent variables. It means that the variable of procedure statistically significantly predicts the MSMEs' interest in applying for financing to Islamic financial institutions. The regression coefficient of X3 (reputation) is 0.100 or 10% of the independent variables. It means that the variable statistically positively predicts the MSMEs' interest in applying for financing to Islamic financial institutions. The regression coefficient of X4 (promotion) is 0.138 or 13.8% of the independent variables. It means that the variable statistically significantly predicts the MSMEs' interest in applying for financing to Islamic financial institutions.

Conclusion, Recommendation and Research Limitation

This study has investigated the factors, both partially and simultaneously, that affect the

MSMEs' interest in applying for financing provided by Islamic financial institutions. The factors are services, procedure, reputation, and promotion. Based on the findings, it can be concluded that the most dominant factor affecting the MSMEs' interest in applying for Islamic financing program is procedure. In general, MSMEs will be more interested in Islamic financing when the procedure is simple and uncomplicated. Moreover, the factors of promotion, services, and reputation also have relatively significant effects since Islamic institutions are prestigious for the trust from the public.

As for the research limitation, the process of filling the questionnaire was not attended by the researchers hence there was the possibility of potential biases and incomplete responses for the statements. In addition, some respondents refused to fill out the questionnaire.

Based on the findings of this study, it is recommended for further studies to negotiate the respondents for having a direct meeting to fill out the questionnaire in order to eliminate errors and to gain optimal results.

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