

Analysis of Fintech Peer-to-Peer Lending as an Alternative Financing for MSMEs in Palembang City

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Abstract

The study aims to identify factors influencing Micro, Small, and Medium Enterprises (MSMEs) in utilizing peer-to-peer lending as an alternative business financing. The object of this research is Palembang City MSME players. This type of research is descriptive quantitative using primary data obtained through a questionnaire instrument to 90 respondents. While the data analysis technique uses Structural Equation Model-Partial Least Square (SEM-PLS) with the help of SmartPLS 4.0 software. The results showed that the variables of Information Quality (IQ), Perceived Ease of Use (PEU), and Perceived Risk (PR) had a significant effect on Perceived Trust (PT). Meanwhile, the variables Perceived Risk (PR) and Perceived Trust (PT) have a significant effect on Decision (DEC). The managerial implications indicate that using peer-to-peer lending as an alternative financing can provide new benefits for MSMEs. However, users must consider several factors that will influence the decision to use peer-to-peer lending. One that must be understood is knowing valid information to make the right decision; the second is understanding the risks associated with using peer-to-peer lending, such as privacy and data security. Perceptions of convenience and trust explain that the greater the level of convenience felt by MSMEs in using peer-to-peer lending fintech, the greater the trust felt by MSMEs when using peer-to-peer lending.

Keywords

Fintech, Peer to Peer Lending, Decision, Perceived Ease of Use, Perceived of Trust, Perceived Risk, Information Quality.

1. Introduction

Micro, Small, and Medium Enterprise (MSMEs) have a very strategic role in driving Indonesia's economic growth (Rujito, 2023). Based on data from the Ministry of Cooperatives and Small and Medium Enterprises, the number of MSMEs is 59,2 million units, consisting of 58,553,525 Micro Business units, 602,195 small business units, and 44,280 medium business unit. These units are estimated to be able to absorb 97,24 percent of the workforce (Tohir, 2020).

According to the Minister of Cooperatives and MSMEs in 2022, there are 64 million MSMEs in Indonesia that still face many problems, including access to adequate financing, markets, and information technology (Masduki, 2023). MSME players set up businesses with very limited capital, making it difficult for them to grow their business even though they already have an idea of how their business will develop.

The current phenomenon for MSMEs in Palembang City is problems such as lack of access to financing, lack of product innovation, and limited access to markets. This is due to the fact that many MSMEs are not bankable, either due to the absence of transparent financial management or lack of managerial and financial capabilities.

Fintech Peer to Peer Lending (P2P Lending) is currently the best solution to overcome these financing problems, which has a fast and flexible system and can be accessed easily by MSMEs in Indonesia. As a result, Peer to Peer Lending has become very popular and in demand by the public. P2P Lending is a form of loan that utilizes information technology to manage finances or is called online lending. It can be said that the utilization of technology in payment transactions is successful. However, to ensure the success of technological advances in payment transactions, as experienced by fintech companies, payment security must be carefully considered. This research topic falls under the Technology Acceptance Model (TAM) developed in 1989 by Davis, Bagozzi, and Warshaw. The Technology Acceptance Model (TAM) is a model used to determine and explain how technology users should behave and apply technology.

Peer to Peer Lending (P2P Lending) research has been conducted by several researchers including (Januar & M, 2021; Manurung & Rahardjo, 2019; P et al., 2021; Solihat et al., 2023; Zaehira et al., 2020) in the study explained that there is support stating that peer to peer lending is highly recommended as an alternative funding for MSMEs, but researchers also provide advice that as a borrower must have a level of vigilance in analyzing risks before deciding to borrow through peer to peer lending. Meanwhile, according to research (Debora et al., 2022; Paramaramnya et al., 2021; Ruhmi & Tanjung, 2023; Tambunan et al., 2021) states that because of its requirements and ease of use, peer-to-peer lending is a non-bank financial institution that can be an alternative source of financing for MSMEs.

There are a number of variables that have the potential to influence decision making, namely Perceived Ease Of Use (PEU), Perceived Of Trust (PT), Perceived Risk (PR), and Information Quality (IQ). This research follows research conducted by Dwiyanti & Herawati (2021) but there are differences with previous research. This study uses Palembang Indah Mall MSMEs located in Palembang City as the object of research. This research was conducted to determine the factors that cause MSME players in making decisions to choose Peer to Peer Lending (P2P Lending) as their alternative financing. With the help of digital facilities, MSME players can get loan funds.

2. Theoretical Foundation

2.1 Literature Review

2.1.1 Technology Acceptance Model (TAM)

This model was invented by Davis (1989) where TAM is an application developed from the Theory of Reasoned Action (TRA) which is specific to acceptance of use. The purpose of TAM is to explain the determinants of the adoption of information-based technology in general and to explain user behavior towards information technology used with considerable variability and user population. The Technology Acceptance Model (TAM) is an information system model designed to explain how users understand and apply information technology (Davis, 1989).

2.1.2 Decision

Decision making is an important thing that people need to do in making decisions (Deby Gibson Sihombing & Andy Paul Harianja, 2022). One of the main factors, namely internal and external conditions are individual activities that drive decision making and are influenced by the environment and individual characteristics (Mothersbaugh et al., 2019).

2.1.3 Perceived Ease of Use

According to Davis (1989), perceived ease of use is the extent to which a person believes that a technology can be easy to understand so that users can find it easy to access the peer to peer lending system, which further motivates users to use peer to peer lending as a tool to assist their business, because the system provides benefits for MSME users (Kurniawan et al., 2019).

2.1.4 Perceived of Trust

Perceived trust is an assessment of one's relationship with others who will carry out certain transactions as expected in an uncertain environment. The better the perception of the usefulness of the P2P financial service system for companies, the more it encourages small and medium-sized companies to make their own decisions for business development (Kurniawan et al., 2019).

2.1.5 Perceived Risk

Risk is something that is feared by consumers when they cannot see the uncertainty of these conditions in their purchasing decisions (Gunawan et al., 2017). Therefore, consumers should consider the risks they will face when borrowing money online, both legally and illegally.

2.1.6 Information Quality

Information quality is a measure of an individual's ability to understand and use the information provided by the peer to peer lending service information system in terms of application use (Dwiyanti & Herawati, 2021).

2.2 Relationship between Variables

2.2.1 Information Quality (IQ) to Perceived of Trust (PT)

Widespread information is known as information quality which refers to the lender's perception of how accurate and complete the information provided by the borrower in his loan list is to demonstrate his credibility in repaying the loan. This research is in line with (Dwiyanti & Herawati, 2021; Zaehira et al., 2020), who argue that information quality affects trust using peer to peer lending as well as research from Sundjaja & Tina, (2019) which explains that information quality has an influence on trust when intending to use peer to peer lending. So, the hypothesis that can be built is:

H₁: Information Quality (IQ) affects Perceived of Trust (PT).

2.2.2 Perceived Ease of Use (PEU) to Perceived of Trust (PT)

Perceived convenience has a relationship with trust that arises from the interaction of parties with each other so that it can create a cooperative relationship. According to research by Pavlou & Gefen (2004) explains that when interacting with other parties, the user will search and collect existing information such as website appearance and services or products to assess how trustworthy the party is. If a company can be trusted to develop a system that can be easily used and understood by users, it means that the company is committed to maintaining relationships between parties based on trust. This research is in line with (Nangin et al., 2020; Pratama, 2021) which states that perceived ease of use affects trust in using peer to peer lending. So, the hypothesis that can be built is:

H₂: Perceived Ease of Use (PEU) affects Perceived of Trust (PT).

2.2.3 Perceived Risk (PR) to Decision (DEC)

Perceived risk is a feared expectation from consumers due to losses from the uncertainty of a decision (Gunawan et al., 2017). Seeing these conditions, consumers must consider decisions when intending to borrow money online, both legally and illegally. Because peer to peer lending has a two-sided view, one side as a solution and one side as a threat. Research (Dwiyanti & Herawati, 2021; Hendri Rahmayani Asri et al., 2022), states that risk perception affects online lending decisions through fintech lending. So, the hypothesis that can be built is:

H₃: Perceived Risk (PR) affects Decision (DEC).

2.2.4 Perceived Risk (PR) to Perceived of Trust (PT)

Perception of risk has an impact on trust, which is the main reason why people need to reconsider making digital online loans. This research is in line with several researchers including (Ali et al., 2021; Gupta et al., 2023; Purnama, 2023; Saadah, 2022) explaining that risk perception affects trust when making online loans. So, the hypothesis that can be built is:

H₄: Perceived Risk (PR) affects Perceived of Trust (PT).

2.2.5 Perceived of Trust (PT) Terhadap Decision (DEC)

One of the decisions that influence MSMEs in choosing peer to peer lending is the perception of trust, because this perception is one of the foundations in creating a relationship based on one's trust in others through certain actions in accordance with their expectations. This research is supported by (Dwiyanti & Herawati, 2021; Kurniawan et al., 2019; Zahroh et al., 2023), which states that the perception of trust can influence a decision to choose peer to peer lending. So, the hypothesis that can be built is:

H₅: Perceived of Trust (PT) affects Decision (DEC).

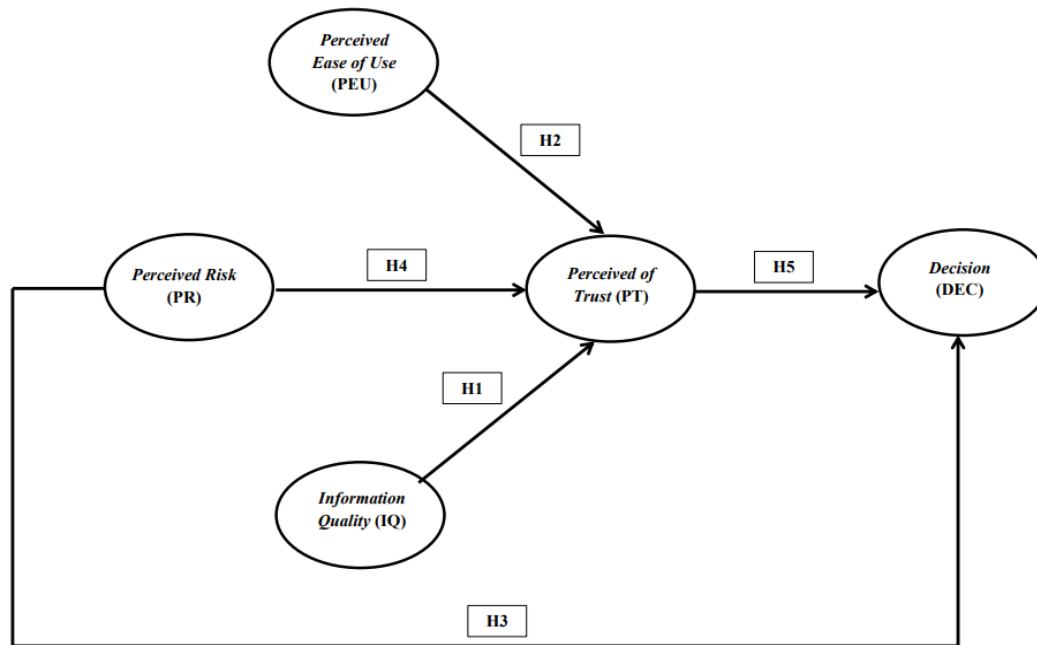


Figure 1. Framework of Thought

3. Research Methods

The object of this research is the perpetrators of Micro, Small and Medium Enterprises (MSMEs) in Palembang city. The type of research is descriptive quantitative. The data used is primary data. The sample used in this study were 90 respondents. The data collection technique used a questionnaire while the SEMPLS data analysis technique with the help of SmartPLS 4.0 software.

4. Results and Discussion

4.1 Respondent Characteristics

This study had 90 respondents, of which the majority of respondents were female respondents dominating at 64.4% compared to the number of male respondents at 35.6%. The majority of respondents were less than 20 years old as much as 12.2%, respondents aged 21-25 years as much as 60%, respondents aged 26-30 years as much as 17.8% and respondents aged 31-50 years as much as 10%. The majority of respondents' latest education is high school as much

as 50%, diploma as much as 15.6%, S1 as much as 32.2% and S2 as much as 2.2%. The majority of respondents' monthly income is less than 5 million as much as 80%, 6-10 million as much as 17.8% and 11-15 million as much as 2.2%.

4.2 Measurement Model Analysis (Outer Model)

The results of the outer model test using SmartPLS software are shown in Figure 1.

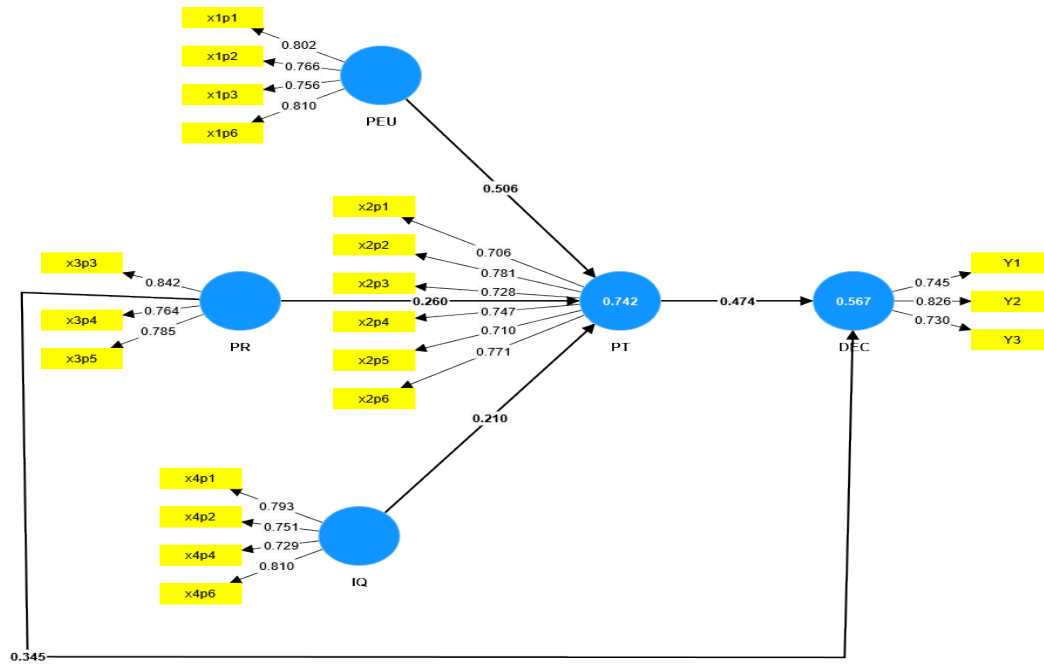


Figure 2. Initial Measurement Model Results

The results of the initial measurement model (outer loading) in Figure 2 show that the indicators of each variable in this study are all valid because they have a correlation value of more than 0.70.

An indicator is considered reliable if its correlation value is more than 0.70. However, if the correlation value is below 0.70, it is considered invalid.

Table 1. Discriminant Validity

	DEC	IQ	PEU	PR
DEC				
IQ	0,783			
PEU	0,710	0,938		
PR	0,907	0,838	0,746	
PT	0,943	0,923	0,992	0,861

Source: SmartPLS 4.0 Data Processing, 2023

The results of Table 1 show that the value of the Average Ariance Extraction (AVE) of each variable is greater than the variable value between one variable and another.

The instrument reliability test results presented in Table 2 above show that the Decision (DEC) variable has a Cronbach's alpha value of 0.657 and a Composite reliability value (ρ_c) of 0.811. The Information Quality (IQ) variable produces a Cronbach's alpha value of 0.773 and a Composite reliability value (ρ_c) of 0.854. The Perceived Ease of Use (PEU) variable has a Cronbach's alpha value of 0.790 and a Composite reliability value (ρ_c) of 0.864. The Perceived Risk (PR) variable has a Cronbach's alpha value of 0.717 and a Composite reliability value (ρ_c) of 0.840. And finally, the Perceived of Trust (PT) variable has a Cronbach's alpha value of 0.836 and a Composite reliability value (ρ_c) of 0.879. From this description it can be concluded that all constructs have good reliability values because they all have a composite reliability value greater than 0.70. Meanwhile, the Cronbach alpha value is greater than 0.60 (Ghozali, 2016).

Table 2. Construct Reability and Validity

	Cronbach's alpha	Composite reliability (ρ_a)	Composite reliability (ρ_c)	Average variance extracted (AVE)
DEC	0,657	0,680	0,811	0,590
IQ	0,773	0,776	0,854	0,595
PEU	0,790	0,790	0,864	0,614
PR	0,717	0,735	0,840	0,636
PT	0,836	0,839	0,879	0,549

Source: SmartPLS 4.0 Data Processing, 2023

4.3 Analisis Model Struktural (Inner Model)

The results of the structural model analysis using software SmartPLS 4.0 (Figure 3).

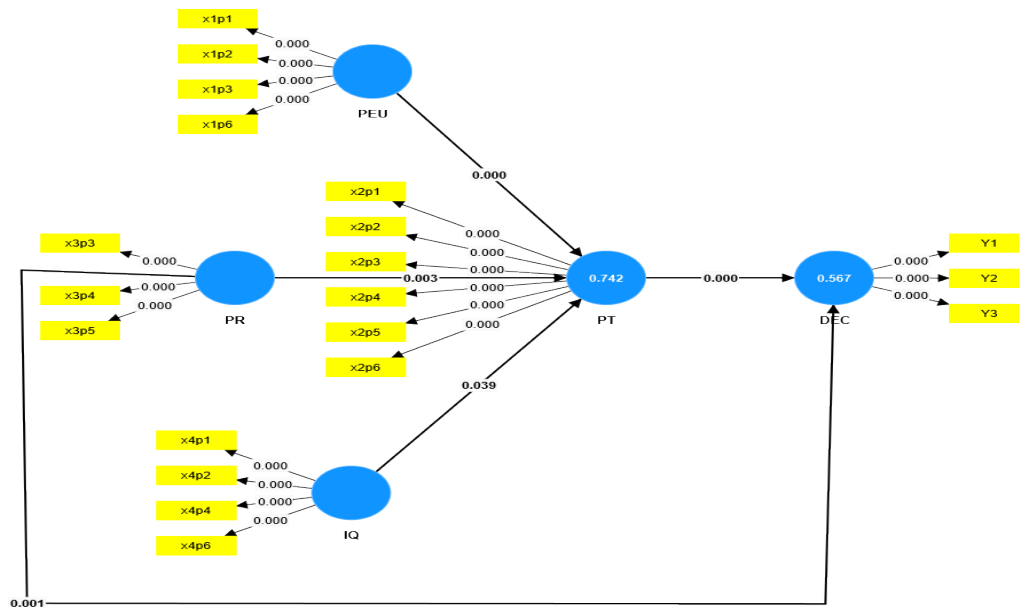


Figure 3. Results of Structural Model Analysis (Inner Model)

The relationship between constructs, significant values, and R-Square of the research model are measured through structural model testing (Ghozali, 2016). The first time it can be seen by looking at the value of R-Square for each endogenous latent variable as the predictive power of the structural model, with values of 0.75; 0.50; and 0.25 it can be concluded that the model is strong, moderate, and weak (Ghozali, 2016). The results of the R-Square test are in Table 3.

Based on Table 3, it shows that the adjusted R-square value for the Decision (DEC) variable is 0.502 which indicates that this value is in the weak category, while the R-square value of the Perceived Of Trust (PT) variable is 0.734 which indicates that this value is in the strong category. It can be concluded that the Adjusted R Square value of 0.502 indicates that the variation in the variables of information quality, perceived convenience, perceived trust, and perceived risk is only able to explain 50.2% of the variation in the decision variable to make online loans. The remaining 49.8% is influenced by other factors outside of this study that can influence the decision to borrow online through peer to peer lending.

Table 3. R-Square

	R-square	R-square adjusted
Decision (DEC)	0,519	0,502
Perceived Of Trust (PT)	0,743	0,734

Source: SmartPLS 4.0 Data Processing, 2023

4.4 Hypothesis Test Analysis

Hypothesis testing is done by looking at the path coefficient and comparing the T-Table with the T-Statistic. Hypothesis testing in this study was carried out with the provisions of the one tail test, the t-table value determined in this study is 1.663 with a significance of 0.05. Details of the hypothesis testing results are presented in Table 4.

Table 4. Path Coefficient Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
IQ -> PT	0,210	0,210	0,101	2,069	0,039
PEU -> PT	0,506	0,499	0,108	4,665	0,000
PR -> DEC	0,345	0,346	0,103	3,332	0,001
PR -> PT	0,260	0,265	0,088	2,966	0,003
PT -> DEC	0,474	0,476	0,113	4,203	0,000

Source: SmartPLS 4.0 Data Processing, 2023

H1 : Information Quality (IQ) Affects Perceived Of Trust (PT)

The test results of hypothesis 1 show that the P-Value of Information Quality (IQ) on Perceived Of Trust (PT) is 0.039 < 0.05. Therefore, the hypothesis results state that information quality (IQ) has a significant effect on Perceived Of Trust (PT). This research is based on TAM Theory which states that states that the quality of information presented by fintech peer to peer lending is a measure to see the perception of MSME actors making decisions in making peer to peer lending as business financing. This research is in line with (Nangin et al., 2020; Pratama, 2021; Pratiwi & Wahyuni, 2023) which states that information quality affects trust in using p e e r to peer lending.

H2 : Perceived Ease Of Use (PEU) Affects Perceived Of Trust (PT)

The test results of hypothesis 2 can be seen from the P-Value of Perceived Ease Of Use (PEU) on Perceived Of Trust (PT) of 0.000 < 0.05. Therefore, the hypothesis results state that Perceived Ease Of Use (PEU) has a significant effect on Perceived Of Trust (PT). This research is based on TAM Theory according to Davis, (1989), which explains that perceived ease of use is the extent to which a person believes that a technology can be easy to understand so that it can reduce a person's effort in using technology.

H3 : Perceived Risk (PR) Affects Decision (DEC)

The test results of hypothesis 3 can be seen from the P-Value of Perceived Risk (PR) on Decision (DEC) of 0.001 < 0.05. Therefore, the hypothesis result states that Perceived Risk (PR) has a significant effect on Decision (DEC). This research is based on TAM Theory which states that Perceived Risk can influence a Decision when using peer to

peer lending as an alternative financing option, because peer to peer lending can be both detrimental and beneficial to users when running it. Research results (Dwiyanti & Herawati, 2021; Hendri Rahmayani Asri et al., 2022), state that perceived risk affects online lending decisions through fintech lending as well as research by Riwayati et al., (2023), which explains that perceived risk has a positive effect on customer decisions to borrow borrower funds.

H4 : Perceived Risk (PR) Affects Perceived Of Trust (PT)

The test results of hypothesis 4 show that the P-Value of Perceived Risk (PR) on Perceived Of Trust (PT) is $0.003 < 0.05$. Therefore, the hypothesis results state that Perceived Risk (PR) has a significant effect on Perceived Of Trust (PT). This research is based on the TAM Theory proposed by Kit Lui et al., (2003) that the perception of risk associated with the use of a technology is influenced by trust. This research is in line with several researchers including (Ali et al., 2021; Gupta et al., 2023; Purnama, 2023; Saadah, 2022) explaining that risk perception affects trust when making online loans.

H5 : Perceived Of Trust (PT) Affects Decision (DEC)

The test results of hypothesis 5 show that the P-Value of Perceived Of Trust (PEU) on Decision (DEC) is $0.000 < 0.05$. Therefore, the hypothesis results state that Perceived Of Trust (PT) has a significant effect on Decision (DEC). This research is based on TAM Theory which explains that a technology can be influenced by a social group that adopts a new technology system because someone can judge a technology in terms of good and bad. When a person's assessment of technology is good, it will influence his decision to adopt new technology. The trust that a person has in high peer to peer lending fintech services will influence his decision to use peer to peer lending on an ongoing basis. The results of this study are in line with (Dwiyanti & Herawati, 2021; Kurniawan et al., 2019; Zahroh et al., 2023), which states that Perceived of Trust (PT) has a significant effect on Decision (DEC).

5. Conclusions and Implications

5.1 Conclusion

The results of this study conclude a theoretical engagement relationship that can be useful. This study seeks to measure the quality of information, perceived convenience, perceived risk, and perceived trust in a decision made by MSMEs in utilizing peer to peer lending fintech. The results stated that the Information Quality (IQ) variable has a significant effect on Perceived Of Trust (PT), which means that if the information provided by fintech is of high quality, MSME players will have more confidence in choosing peer to peer lending as financing. The Perceived Ease Of Use (PEU) variable has a significant effect on Perceived Of Trust (PT), which means that the greater the level of ease felt by MSMEs in accessing online loans, the greater the level of decision making to make online loans. Furthermore, the Perceived Risk (PR) variable has a significant effect on Decision (DEC) because peer to peer lending can be both detrimental and profitable for users when running it. And the Perceived Risk (PR) variable has a significant effect on Perceived Of Trust (PT) because a risk has a relationship with trust. And the last one shows that the Perceived Of Trust (PT) variable has a significant effect on Decision (DEC). This shows that the greater the trust of MSMEs when using peer to peer lending as an alternative financing, the greater the MSME's decision to make online loans through peer to peer lending.

5.2 Managerial Implications

Based on the results of the existing research above, this research is expected to provide the latest insights to MSME users in using peer to peer lending as an alternative funding. However, MSME users need to pay attention to several factors that will have an impact on decisions when using peer to peer lending. By knowing the existing factors, it can help MSME users in planning and implementing strategies when using it. One strategy that can be implemented by users is information quality, Information quality is determined by measuring the information that has been generated from information systems with quality as an additional value for users. As a prospective borrower before borrowing, he will definitely search for information first about the peer to peer lending service system. After searching for information carried out by prospective borrowers, the thing that must be done is to understand the information as well as possible, so as to avoid unwanted things later. Online loan service providers must provide the best possible information with good and straightforward language so that prospective borrowers can understand the information and make their decision to borrow online through peer to peer lending.

The next strategy is the perception of a risk that users tend to avoid because it can be detrimental, this is what is felt by MSME users who make online loans through peer to peer lending. The impact that often arises in risk perception, namely data security and privacy, is often something that users fear in using online loans.

Perceptions of convenience and perceptions of trust are things that are very influential on user decisions, because they have factors that are interconnected with each other. the perception of trust has the main foundation when building trust between lenders and borrowers which results in a sense of security, and mutual trust. If the borrower already feels comfortable with the lender, t h e borrower will continue to depend on his partner. The higher the image built by peer to peer lending, t h e more users' trust in making online loans through peer to peer lending will increase. Meanwhile, perceived convenience is someone who already believes that using a system can be easy to use and free from effort. Conversely, if someone believes that the information system cannot be easily used then he will not do it. Based on this, the greater the level of convenience felt by MSMEs in using peer to peer lending fintech, the greater the trust felt by MSMEs when using peer to peer lending.

5.3 Research Limitations

The limitations in this study are that no previous researchers have combined the analysis of peer to peer lending as an alternative funding for MSMEs with the TAM application and the lack of objects in this study. Therefore, future research can add other factors that are expected to influence peer to peer lending and involve MSME players to get a better understanding of peer to peer lending.

5.4 Advice

Suggestions for other studies that will investigate the same topic to add the number of respondents, expand the scope, and investigate other variables that can affect interest in use such as Perceived Usefulness (PU), security, and so on.

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