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SME Borrower Discourage Analysis in Indonesia and Malaysia: an Impact Analysis on Business Performance

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Abstract

Small and Medium Enterprises (SMEs) in Indonesia and Malaysia often face significant challenges in accessing finance, which can hinder their operational performance and growth. Previous studies indicate that application costs and self-efficacy contribute to the phenomenon of *Discouraged Borrowers (DB)*, which in turn affects SME performance; however, prior findings remain fragmented and do not account for the moderating role of efficiency. This study aims to (1) examine the effect of application costs on SME performance, (2) assess the impact of self-efficacy on SME performance, and (3) evaluate whether efficiency moderates the influence of application costs and self-efficacy on SME performance in Indonesia and Malaysia. A total of 282 SMEs were surveyed, with 146 SMEs from Indonesia and 136 SMEs from Malaysia. Data were analyzed using Structural Equation Modeling Partial Least Squares (SEM-PLS), while ANOVA was employed to compare SME conditions across the two countries. The results indicate that application costs significantly affect SME performance, whereas self-efficacy alone does not. Efficiency significantly moderates the effect of self-efficacy on SME performance but not the effect of application costs. Cross-country comparisons reveal that high self-efficacy coupled with high efficiency improves SME performance in both Indonesia and Malaysia, while high application costs require higher efficiency to maintain performance. These findings suggest that policymakers and financial institutions should focus on reducing application barriers and enhancing efficiency programs to support SME performance, emphasizing tailored strategies for borrowers with varying levels of self-efficacy.

Keywords: Discourage Borrower; Application Fee; efficient; self-efficacy; Indonesian SME performance; Malaysian SME

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INTRODUCTION

The role of SMEs is very large for Indonesia's economic growth, with the number reaching 99% of all business units. In 2023, SMEs will reach around 66 million. The contribution of SMEs reached 61% of Indonesia's Gross Domestic Income (GDP), equivalent to Rp9,580 trillion. SMEs absorb around 117 million workers (97%) of the total workforce. Meanwhile, the number of SMEs in Malaysia in 2023 will reach approximately 1.23 million, which is a fairly large number in percentage terms compared to the total population of Malaysia.

In recent years, there has been an increase in SMEs who do not apply for bank financing because they are afraid of rejection. SMEs like this are said to experience discouraged borrowers (DB). SMEs often face limited capital (World Bank, 2015), among other things, due to their inability to access banking credit and their reluctance to apply for banking credit. Some of the reasons why SMEs are reluctant to use banking credit or often called discouraged borrowers (DB) are because they are afraid of rejection of their applications, difficulty meeting credit requirements, inadequate collateral and high interest rates (Kon & Storey, 2003).

Several studies or literature that has developed on discouraged borrowers (DB) show that the size and age of the company are significant determinants, and smaller and newly developed SMEs usually also experience discouraged borrowers (DB). On the other hand, there is a study that states that personal characteristics such as age, women, ethnic minorities, and those who have a lower level of human resources also experience discouraged borrowers (DB). Thus, there is a possibility that there are contextual factors such as gender that play a role in strengthening or weakening the determinant effect of discouraged borrowers because gender factors have a great influence on business decision-making (Tinkler et al., 2015). For example, gender differences affect a company's decision whether or not to comply to meet its tax obligations (Amponsah, 2017; Lohse & Qari, 2014) and the decision to apply for credit (Garwe & Fatoki, 2012).

The existence of discouraged borrowers experienced by SMEs often gives rise to the creativity of SMEs to take advantage of internal funding known as financial bootstrapping (Cirillo et al., 2019; Wellalage & Fernandez, 2019). Where SMEs will creatively utilize the assets they already have, use advances from customers and debt payment extensions as a source of funding, utilize cash before the due date to repay debts to suppliers, use personal assets so that there is no need to seek external funding for investment purposes and utilize unused cash for accrued debt so that SMEs can always continue to operate but can rely on a cheap source of funding and this is expected to have a positive impact on business performance.

Initial observations also show that SMEs who have financial bootstrapping skills and are balanced with the ability to perform efficiency are strongly suspected to have an effect on the performance of SMEs (Amponsah & Adu, 2017). However, not all SMEs are able to implement financial bootstrapping effectively. Meanwhile, the results of the identification of the findings of previous research showed that the cost of application (Fraser, 2009; Gama et al., 2017; Han et al., 2009; Rostamkalaei, 2017; Howorth & Moro, 2012) and self-efficacy (Silvia, 2003) were the causes of DB. However, these findings are not only partial and what is being studied is the banking sector.

Application fee is a cost that arises due to inconvenience caused by financial costs, in kind cost which is the time needed to meet with the bank, and psychic cost in the form of inconvenience experienced by SMEs in conveying information about themselves and their business to third parties (Kon & Storey, 2003), while self-efficacy is the confidence of business actors in completing tasks (Chen et al., 1998).

Previous studies on discouraged borrowers (DB) among SMEs have highlighted partial determinants and consequences. For instance, research by Beck et al. (2006) found that firm size and age are significant determinants of DB, showing that smaller and younger SMEs are more likely to refrain from applying for formal financing due to perceived barriers. Another study by Brune et al. (2011) emphasized the role of personal characteristics, such as gender, education, and minority status, in influencing the likelihood of being a discouraged borrower, suggesting that internal and contextual factors shape financial decision-making among entrepreneurs. While these studies provide valuable insights, they remain limited in scope, primarily focusing on either structural determinants or personal characteristics, and largely in the context of individual countries' banking sectors without considering cross-country comparisons or moderating factors such as efficiency and financial bootstrapping.

The objectives of this study are to examine how application fees and self-efficacy influence SME performance and to analyze the role of efficiency as a moderating factor. This study is academically expected to contribute to producing a more comprehensive discouraged borrowers' model so that it has policy implications in the form of advice to the government in an effort to reduce discouraged borrowers for SMEs both in Indonesia and Malaysia.

RESEARCH METHOD

This study used a cross-sectional research design to explore the relationship between factors affecting Discouraged Borrowers. The population consisted of SMEs in the food and beverage, handicraft, and other service sectors domiciled in Indonesia and Malaysia.

The research sample was selected through purposive sampling. A questionnaire, developed based on relevant literature, served as the research instrument. Its validity and reliability were tested before data collection. Data were collected by distributing questionnaires to respondents either online or through face-to-face interviews, depending on the most appropriate and convenient method.

The sample included 146 SMEs in Indonesia and 136 SMEs in Malaysia. The Indonesian SMEs were located on the islands of Java, Sumatra, Sulawesi, and Kalimantan, while the Malaysian SMEs were from the districts of Johor, Kelantan, Kedah, and Kuala Lumpur. These locations were chosen due to their large SME populations.

Data analysis involved statistical techniques, Structural Equation Modeling (SEM), and ANOVA to compare results between Indonesia and Malaysia. The analysis proceeded in stages: first, testing data quality through validity (using confirmatory factor analysis or factor loading) and reliability tests (using Cronbach's alpha). Second, since hypothesis testing used covariance-based SEM (CB-SEM), goodness-of-fit indices were evaluated, including absolute fit measures (RMSEA between 0.05 and 0.08, GFI > 0.90), incremental fit measures (AGFI > 0.90), and parsimonious fit measures (PGFI > 0.80). Finally, causality tests were conducted to examine relationships between variables, followed by testing mediation hypotheses using appropriate procedures.

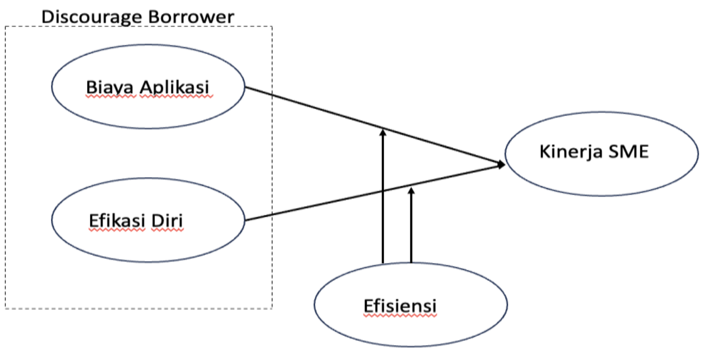

Figure 1. Developed Research Model
Source: Researcher Processing, 2024

RESULTS AND DISCUSSION

Based on the analysis of the AVE value used to measure the number of variants that can be captured by the construct compared to the variation caused by measurement errors. The average of variants with a value of >0.5 thus all variables are declared valid.

Table 1 Construct Reliability and Validity

	Cronbach	Rho_A	Composite	Average Variance Extracted (AVE)
BA	0.964	1.000	0.982	0.965
Ef_Mod_BA	1.000	1.000	1.000	1.000
Ef_Mod_ED	1.000	1.000	1.000	1.000
Self-Efficacy	0.129	0.186	0.662	0.526
Efficiency	0.253	0.883	0.637	0.532
Performance	0.966	0.972	0.983	0.968

Source; Researcher Preparation, 2024

On the other hand, the outer loading value for all variables is above 0.6 which indicates that the indicator of the variable is suitable for building variables, only the loading factor ED 1 (Self-efficacy 1) and Efficiency 2 are forced to drop considering that the loading factor is less than 0.6

Table 2 Outer Loadings

	BA	Ef_Mod_BA	Ef_Mod_ED	Self-Efficacy	Efficiency	Performance
BA*efficiency		0.880				
BA1	0.979					
BA3	0.986					
ED1				0.436		
ED3				0.928		
EF1					0.988	
EF2					0.295	
Self-Efficacy			1.088			
Performance2						0.985
Performance4						0.982

Source; Researcher Preparation, 2024

While the performance R Square value of 0.963 has a value above 0.36 (large GoF) and close to 1, it can be stated to have a strong influence

Table 3 R Square

	R Square	R square Adjusted
Performance	0.963	0.961

Source; Researcher Preparation, 2024

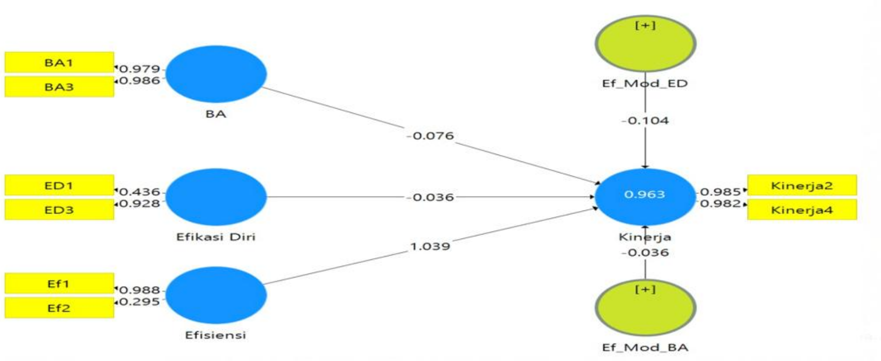

Figure 2: Processing PLS Research Model
Source; Researcher Preparation, 2024

Table 4 Mean, Standard Deviation, T Values and P Values

	Original Sample	Sample Mean	Standard Deviation	T Statistic	P Value
BA□Performance	0.076	0.056	0.031	2.470	0.014
Ef_mod_BA□Performance	0.036	0.009	0.042	0.850	0.395
Ef_Mod_ED□ Performance	0.104	0.082	0.056	1.872	0.061
Self-Efficacy□Performance	0.036	0.026	0.031	1.149	0.251
Efficiency □Performance	1.039	1.024	0.026	3.979	0.045

Based on Table 4, it shows that

(a) The determinant of discouraged borrowers, namely the application fee, has a significant effect on the performance of SMEs in Indonesia and Malaysia, this is considering that high application fees can increase the risk of rejection, because borrowers, in this case SMEs who are less able to afford to pay the fee, are likely not to continue the application process. This can make them feel unsupported by the banking system and give up faster (Garwe & Fatoki, 2012). Therefore, the determinant of discouraged borrowers, namely the application fee, has a significant effect on the performance of SMEs in Indonesia and Malaysia (Wasiuzzaman & Nurdin, 2019).

(b) The determinant of discouraged borrowers, namely self-efficacy, does not have a significant effect on the performance of SMEs in Indonesia and Malaysia. This is considering that if a borrower has high self-efficacy, they believe in their ability to manage debt and meet financial obligations. They may be more proactive in finding solutions to financial problems, planning debt payments, or negotiating with creditors commonly termed Financial boostraping (Silvia, 2003). Conversely, borrowers with low self-efficacy may feel incapable of coping with their financial or debt problems. This feeling of inadequacy can make them feel hopeless, unmotivated, or even trapped in a negative cycle that leads to unwise decisions, such as delaying payments or avoiding communication with creditors (Howorth & Moro, 2012).

(c) insignificant efficiency in strengthening the influence of application fees on the performance of SMEs in Indonesia and Malaysia. In this context, efficiency usually refers to the extent to which a process or system can minimize costs and time to produce the desired output. In this case, efficiency can include efficiency in the management of application fees, loan application processes, or financial administration (Han et al., 2009; Wasiuzzaman & Nurdin, 2019). If efficiency in application fee management is not significant in strengthening the influence of application costs on SME performance, this means that increasing efficiency in the process does not substantially reduce the negative impact of application costs on SME performance. In these cases, better efficiency in the management of application costs or administrative processes may not be enough to overcome or reduce the burden of high application costs. Remaining high application fees can still weigh on SMEs and significantly affect their performance, despite efforts to improve efficiency.

(d) efficiency strengthens the significant influence of Self-Efficacy on the performance of SMEs in Indonesia and Malaysia. When SME owners or managers have high self-efficacy and are also able to manage their businesses efficiently, they tend to be more successful in achieving positive performance outcomes. High self-efficacy provides motivation and confidence to face challenges, while operational and managerial efficiency ensures that resources are used optimally to support the achievement of goals (Wasiuzzaman & Nurdin, 2019; Petersen & Rajan, 1994). SMEs in Indonesia and Malaysia may face different challenges and opportunities. Efficiency in the context of local markets, regulations, and resources can influence how well self-efficacy can translate into successful performance (Wasiuzzaman & Nurdin, 2019).

(e) Self-efficacy does not have a significant effect on the performance of SMEs in Indonesia and Malaysia. SMEs in Indonesia and Malaysia may have very specific needs and challenges. Local factors such as market competition, consumer preferences, and access to supply chains may have more influence on performance than self-efficacy (Chen et al., 1998). To improve the performance of SMEs, it is important to adopt a holistic approach and consider various factors, not just self-efficacy. This includes upskilling, managing resources well, and adapting business strategies to market conditions (Fehr & Falk, 2002).

(f) Efficiency has a significant effect on the performance of SMEs in Indonesia and Malaysia. This means that the ability of SMEs to manage resources optimally—both in operational and managerial aspects—has a strong impact on business results (Wasiuzzaman & Nurdin, 2019). In Indonesia and Malaysia, efficiency is also affected by infrastructure and access to technology. SMEs that can take advantage of the latest technology and good infrastructure may be more efficient in their operations. Support from government policies, such as subsidies or training programs, can affect the efficiency of SMEs. Policies that support operational efficiency can strengthen the performance of SMEs in both countries.

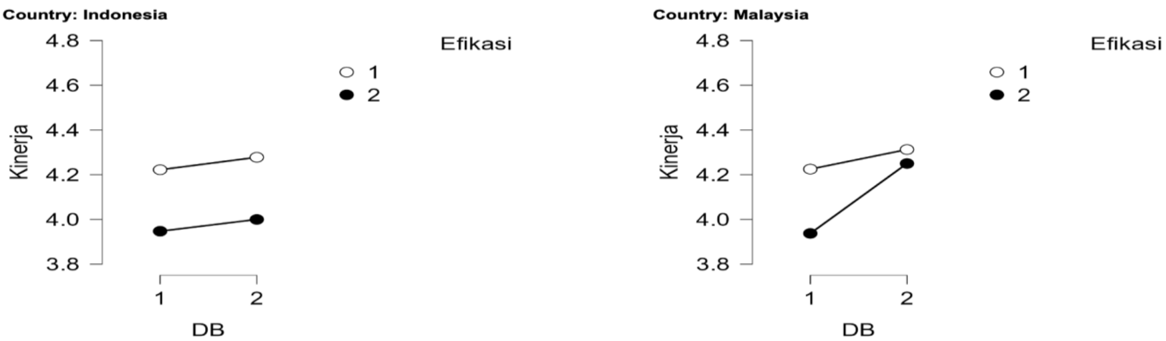

Figure 3 Comparison of DB-Performance_Efficacy SMEs Indonesia and Malaysia
Source: Researcher Processing, 2024

(g) Meanwhile, the comparison between the situation of Indonesia and Malaysia shows that if the borrower discourage is high, then high self-efficacy will improve the performance of SMEs in Indonesia and Malaysia. This indicates that in the context of borrower desperation, self-efficacy plays an important role in overcoming challenges and improving business outcomes. High self-efficacy can provide motivation and resilience to SME owners who experience despair. They may be better able to survive and adapt to challenges, and continue to look for solutions even if the situation is difficult (Wellalage & Fernandez, 2019).

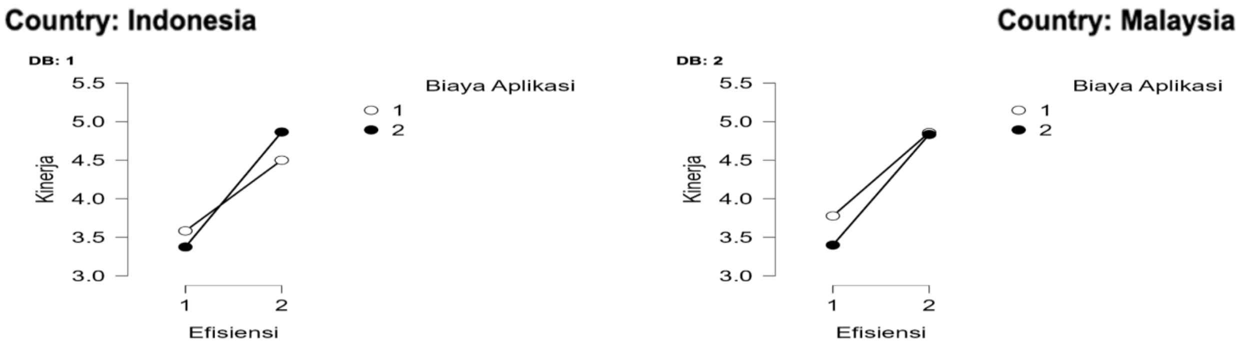

Figure 4 Comparison of Application Costs-Performance-Efficiency of SMEs in Indonesia and Malaysia
Source: Researcher Processing, 2024

(h) Meanwhile, the comparison between the situation in Indonesia and Malaysia shows that the high application cost will be high, the efficiency will be high, and the performance of SMEs in both Indonesia and Malaysia will be better. To compare the situation between Indonesia and Malaysia in terms of efficiency and performance of Small and Medium Enterprises (SMEs), there are several aspects to consider: High Application Fee and Efficiency:

Indonesia: High application fees can be a barrier for SMEs looking to adopt new technologies. However, for SMEs that can afford to invest these funds, the improvement in operational efficiency can be significant, especially with the implementation of business management software and other automation tools.

Malaysia: A similar situation is happening in Malaysia. Investments in advanced technologies and applications can increase efficiency, but only SMEs with sufficient resources can afford to make such investments.

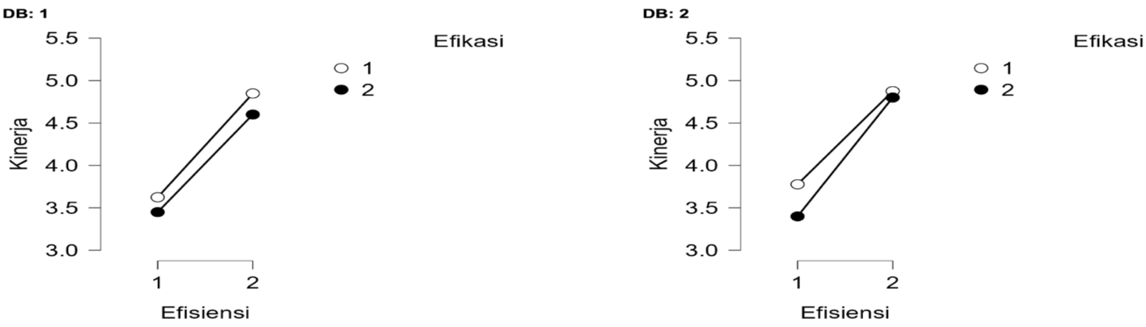

Figure 5 Comparison of efficiency-Performance_Efficacy of SMEs Indonesia and Malaysia
Source: Researcher Processing, 2024

(i) Meanwhile, the comparison between the situation of Indonesia and Malaysia shows that when the efficiency is high and the efficiency is high, the performance will be better than the low efficiency. This situation is the same in both Indonesia and Malaysia. that when efficiency and effectiveness are high, then the performance of SMEs will be better than when effectiveness is low. This situation applies in both countries. Here are some important points to understand this: Definition of Efficiency and Effectiveness: Efficiency: The ability to complete a task with minimal resources. Effectiveness: The ability to achieve goals and desired outcomes. SME Performance:
Indonesia: SMEs that are able to improve efficiency in their operations and ensure that they are effective in achieving their business goals tend to perform better. For example, SMEs that use digital technology to automate business processes can reduce operational costs and increase productivity.
Malaysia: A similar situation occurs in Malaysia, where SMEs that are efficient and effective in their management usually perform better. The Government of Malaysia provides various supports, such as training and incentives, to help SMEs achieve greater efficiency and effectiveness.

Managerial Implications

In the context of SMEs in Indonesia and Malaysia, there are various challenges and considerations related to loans or financing. Here, we can look at some of the reasons why discourage borrowers may not always be efficient and effective in managing their loans, as well as the impact on their business performance. Considering the following:

1. Unexpected Rate of Return
   a) Challenges: Many SMEs in Indonesia and Malaysia face difficulties in managing loan repayments, which often leads to financial instability. This could be due to market uncertainty, fluctuations in demand, or immature financial planning.
   b) Impact: This instability can hinder SMEs' ability to repay loans on time, which in turn can affect their reputation and their access to financing in the future.
2. Lack of Access to Affordable Financing

   a) Challenge: Many SMEs in these two countries find it difficult to access loans with reasonable interest rates and affordable terms. Financing often comes with additional costs or requirements that SMEs cannot meet.
   b) Impact: High financing costs can reduce SMEs' operational efficiency, affect profit margins, and limit their ability to invest in business development.
3. Limitations of Managerial Knowledge and Skills
   a) Challenges: Many SME entrepreneurs may not have enough knowledge in managing finances or loans, which can lead to less than optimal decisions in the use of funds.
   b) Impact: An inability to properly plan and manage loans can lead to wasted resources, poor management, and a decrease in overall business efficiency.
4. External Risks and Economic Uncertainty
   a) Challenges: External factors such as changes in government policies, economic fluctuations, and unstable market conditions can affect SMEs' ability to meet their loan obligations.
   b) Impact: This uncertainty can make it difficult for SMEs to predict income and expenses, which in turn affects their ability to pay off loans efficiently.
5. Difficulties in Credit Assessment
   a) Challenges: The rigorous and often non-transparent credit scoring process can make it difficult for SMEs to get the loans they need.
   b) Impact: Difficulties in obtaining adequate financing can hinder the growth and expansion of SMEs, limiting their performance potential.

Efforts to Improve the Efficiency and Performance of SMEs
1. Financial Education: Increasing the knowledge of SME entrepreneurs on financial and loan management through training and educational programs.
2. Access to Microfinance: Provides microfinance options that are more affordable and tailored to the needs of SMEs.
3. Government Support: Implement policies that support SMEs, such as interest subsidies or tax incentives, to reduce their financial burden.
4. Supporting Infrastructure: Improving infrastructure and platforms that make it easier for SMEs to access financial information and services.

By addressing these challenges and implementing effective solutions, SMEs in Indonesia and Malaysia can improve their operational efficiency and business performance, as well as optimize the use of loans for sustainable growth.

CONCLUSION

This study found that application fees significantly affect SME performance in Indonesia and Malaysia, while self-efficacy alone does not have a significant impact. Efficiency positively influences performance and enhances the effect of self-efficacy but does not strengthen the impact of application fees. Comparative analysis revealed that SMEs with higher self-efficacy perform better under discouraged borrowing conditions, and high application costs combined with strong efficiency improve performance in both countries. High efficiency consistently correlates with superior SME outcomes. Future research should consider clustering SMEs by scale, business type, or years of operation for more detailed insights. Policymakers are advised to simplify financing procedures and reduce application barriers, while supporting initiatives to boost SME self-efficacy and efficiency. Strengthening government programs like Indonesia's KUR and Malaysia's SME Corp digitalization efforts can further promote SME competitiveness and sustainable growth.

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