

## The dynamics of perception and trust in decision-making among MSMEs: Insights from Islamic banking financing

Nida Indika Deswara <sup>1</sup>

Economics Department, Universitas Diponegoro,  
Indonesia<sup>1</sup>

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### Abstract

This study aims to investigate the impact of perception and trust on MSMEs' decisions regarding Islamic bank financing. Data were collected from 87 MSMEs in Ngaliyan District, Semarang, through surveys and questionnaires. Using a quantitative approach, the data were analyzed with IBM SPSS Statistics Version 24, employing multiple regression analysis. Surprisingly, the results show that neither perception nor trust significantly influences MSME entrepreneurs' decisions. Instead, factors like convenience and efficiency play a more critical role. The study emphasizes the need to streamline processes and improve accessibility to better serve MSMEs.

**Keywords:** MSMEs; Islamic bank; perception



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\*Corresponding author: [nidaindika96@gmail.com](mailto:nidaindika96@gmail.com)

## 1. Introduction

Currently, there are still many MSME actors who do not know and are confused about the concept of financing in Islamic banking. Sharia values are essentially something that will give meaning to human life in every role or activity carried out. The system is built in a whole series that will be very closely intertwined with each other. This value system includes a worldview and morals (Syahbudi & Sari, 2016) that influence, guide, and help humans to realize just and prosperous human goals. It is this Sharia value that makes the difference and is a solution for MSME actors who still do not have capital. There are quite basic operational differences between Islamic banks and conventional banks in carrying out their functions as intermediary institutions (Setiawan et al., 2016). Additionally, the halal concept is the most important concept that is used as the basis for every activity carried out in Islamic banking, which is the main differentiator between conventional banks and Islamic banks (Fathurrahman & Azizah, 2018). From these Sharia values, the existence of Islamic banks is a channel of capital for MSME actors with a better and halal concept.

Because there are still many MSME actors who have not been able to differentiate operationally between Islamic banking and conventional banking, researchers tried to survey to see how far MSME actors in Ngaliyan District know about Islamic banking financing. The result is 8 out of 10 MSME actors say they have never done financing in Islamic banking and 6 out of 10 don't even know the type of financing product, even some of the MSME actors do not know the concept of usury and that Islamic banking is different from conventional banking.

Although Islamic banks have been operating in Indonesia for decades, the penetration is still very low. The potential of 290,000,000 Indonesians, of which 87% of the population is Muslim, does not guarantee the growth of the Islamic banking industry properly. Additionally, 60% to 87% of the Muslim population is in the productive age category (Utami, 2017). However, the above facts are not in line with the ideals of Islamic banking knowing the account data of the Indonesian population at Islamic Banks is only 5.86% of the total population. This means that only 17,000,000 Indonesians have accounts at Islamic banks. Many factors contribute to why Islamic financial institutions are difficult to develop. One of the causes is the understanding or perception and public trust that are not right so they are not sure of the decision to choose Islamic bank products that should be able to channel capital for MSME entrepreneurs.

Perception is the process of individuals selecting, organizing, and interpreting information input to create a meaningful image (Senggetang, 2019). Perception does not only depend on the physical but also stimuli related to the surrounding environment such as ideas or concepts used and the condition of the individual concerned. Perception is a cognitive process that allows humans to interpret and understand their environment, thus affecting the choice of a product that will influence a positive perception of using Islamic banking financing products.

Trust plays an important role in relational exchange. Because trust is the expectation of the parties in carrying out a transaction that has risk. Trust is considered the most important way to build and maintain long-term customer relationships (Tjahyadi & Arlan, 2006). So that when the perception that is built is good, trust will

strengthen action in this case the MSME entrepreneurs in choosing Islamic banking financing.

To change the perception and trust of MSME actors by directing them not to choose capital that comes from family, relatives, and other institutions such as moneylenders (Faizah, 2017). Islamic banks must work harder to increase their market share among MSME players. With data on the Indonesian population, who are predominantly Muslim, it should be an easy job for Islamic banking. This potential can be seen from the perceptions and beliefs of MSME actors as the focus of this research, which affects Islamic bank products and services so that they continue to grow among MSME entrepreneurs and become their capital choice.

## **2. Method**

This study employs a quantitative approach. Quantitative research, as defined by Martono (2010), involves collecting numerical data from a population or sample under study. The variables examined in this study include perception (X), belief (X), and decision-making (Y). The research is conducted in the Ngaliyan District, Semarang. Data collection involved conducting surveys through interviews and questionnaire completion. The research subjects were determined through random sampling since all MSME actors agreed to participate. A total of 87 MSME actors were sampled and observed using the questionnaire method. The data collected will be analyzed using the IBM SPSS Statistics Version 24 application, employing multiple regression analysis for the analysis process.

## **3. Empirical Result**

### **Influence of Perception on Decision Making**

Upon analyzing data and testing hypotheses in this study (see Table 1), it becomes evident that perception does not significantly influence the decision-making process of MSME entrepreneurs regarding the utilization of Islamic bank financing. In other words, fluctuations in perceptions do not sway the decisions made by MSME actors. These findings are consistent with prior research conducted by Herodian (2019), which highlighted negative perceptions among the majority of Sharia customers due to factors such as limited office networks, complex financing procedures, intricate operational systems, and the perceived scarcity of financing opportunities. Similarly, Rizka's (2018) study yielded analogous results, indicating that customer perceptions did not play a decisive role in financing decisions. This could be attributed to the fact that customers often prioritize profit margins over perceptions associated with Islamic banking.

To delve deeper into these findings, researchers conducted interviews with ten respondents on February 9, 2020, supplementing the questionnaire data. This qualitative approach aimed to discern any disparities between initial questionnaire responses and subsequent interview insights, providing a more comprehensive understanding of respondents' perspectives. The interviewees unanimously expressed that perception was not the paramount factor influencing their decisions. Rather, they emphasized the importance of expediency in the financing process offered by Islamic

banking. This corroborates the conclusions drawn from the study's quantitative analysis.

**Table 1. Regression result**

<b>Variable(s)</b>	<b>Coeff.</b>	<b>Std. Error</b>	<b>Sig.</b>
Constant	12,173	2,932	.000
Perception	-.084	.130	.523
Trust	-.159	.160	.325

**The Impact of Trust on Decision Making**

Similar to perceptions, Table 1 reveals that trust does not exert a significant influence on the decision-making process of MSME entrepreneurs regarding the adoption of Islamic bank financing. In essence, fluctuations in trust levels do not sway the decisions made by MSME actors. These findings echo the results of previous research by Huda (2018), which similarly found no discernible effect of trust on decision variables. The lack of influence from the trust variable suggests that it is not a primary concern for customers in their decision-making process.

Further reinforcing these findings, Arifah's (2018) study also concluded that trust had minimal impact on decision variables. This indicates that while trust may increase, it does not necessarily translate into an increased likelihood of decision-making. MSME actors tend to prioritize factors other than trust when considering Islamic banking financing services. Additionally, the preference for convenient and efficient services, such as those employing streamlined processes, plays a pivotal role in decision-making among MSME entrepreneurs.

The verification process conducted on February 9, 2020, involved interviewing ten research respondents with queries beyond those included in the research questionnaire. This qualitative inquiry aimed to ascertain any disparities between initial responses and verification insights, shedding light on respondents' underlying motivations. The verification results echoed the study's main findings, highlighting that trust is not a decisive factor in decision-making among MSME actors. Rather, concerns such as perceived elements of usury in Sharia concepts often outweigh considerations of trust. This reaffirms the study's overarching conclusions regarding the negligible influence of trust on decision-making within the context of Islamic banking financing services.

**4. Conclusions**

In this study, an examination of the influence of perception and trust on the decision-making process of MSME entrepreneurs regarding the utilization of Islamic bank financing was conducted. The findings indicate that neither perception nor trust significantly affects the decisions made by MSME actors. Despite prior assumptions regarding the potential impact of these factors, the results suggest that other considerations hold greater sway in the decision-making process.

Perception, often regarded as a crucial determinant in consumer behavior, was found to have limited influence on the decisions of MSME entrepreneurs. Negative

perceptions stemming from factors such as operational complexities and limited financing opportunities did not significantly deter MSME actors from opting for Islamic bank financing. Similarly, trust, typically perceived as foundational in fostering customer relationships, did not emerge as a decisive factor in decision-making. Despite efforts to cultivate trust among MSME entrepreneurs, the study reveals that considerations such as convenience and efficiency in the financing process hold greater importance in their decision-making criteria.

Moreover, qualitative verification through interviews corroborated the quantitative findings, indicating that perception and trust were not primary drivers of decision-making among MSME actors. Instead, respondents emphasized the importance of expediency in the financing process offered by Islamic banking institutions.

These findings have significant implications for Islamic banking institutions seeking to attract MSME entrepreneurs. Rather than focusing solely on enhancing perceptions and building trust, institutions may benefit from prioritizing initiatives aimed at streamlining processes and increasing accessibility to financing opportunities. By addressing the practical needs and preferences of MSME actors, Islamic banks can better position themselves as viable options for entrepreneurial financing, thus fostering greater inclusivity and growth within the Islamic banking sector.

Overall, this study sheds light on the nuanced factors influencing decision-making in the context of Islamic bank financing among MSME entrepreneurs. Moving forward, further research exploring additional determinants and their interplay in the decision-making process can provide valuable insights for enhancing the effectiveness of Islamic banking services in catering to the diverse needs of MSME actors.

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