

## **The Influence of Financial and Non-Financial Factors on Credit Decisions in The Digital Era For Micro, Small, and Medium Enterprises (MSMEs) in Malang City**

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INDEXING	ABSTRACT
<p><b>Keywords:</b> Keyword 1; Financial Keyword 2; Non Financial Keyword 3; Factors Keyword 4; Credit Decisions Keyword 5; Influence</p>	<p>Finding out how financial and non-financial elements affect lending choices in the digital age for MSMEs in Malang City partly and concurrently was the aim of this research. The study that was carried out used quantitative research methodologies. The study sample consisted of 98 respondents, selected through the simple random sampling technique. The researcher used a questionnaire as the method of data collecting. Using the SPSS version 26 software, multiple linear regression was the data analysis technique used. With a t-value of 6.070, the study's findings demonstrated that partly financial elements significantly influenced credit choices, while non-financial factors significantly influenced credit decisions with a t-value of 5.909. The findings also show that, with an F-value of 61.009, or an impact of 56.2%, both financial and non-financial variables significantly influenced lending choices for MSMEs in Malang City in the digital age. The findings of this research make it clear that both financial and non-financial elements are present and contribute significantly to the use of credit.</p>

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## **INTRODUCTION**

Technology has brought various innovations that have changed the way people interact with financial services, both from the perspective of providers and users. One of the biggest changes is the emergence of the concept of fintech (financial technology), which offers a variety of technology-based financial services. Peer-to-Peer (P2P) lending has become one of the main innovations in fintech, providing loan services that are more easily accessible through digital platforms. This phenomenon shows that digital transformation has expanded access to credit for individuals and small businesses that previously had difficulty obtaining funding from traditional financial institutions.

According to Wahyuni et al., (2020), financial factors are one of the most significant factors that can influence credit granting decisions. Aulia et al., (2022) emphasizes that investors usually benefit from economies of scale, stability, access to capital, and diversification, making financial factors a significant element in credit granting decision-making. In addition to financial factors, non-financial data is also needed. Non-financial data consists of qualitative elements that are not directly related to financial aspects, but still influence credit decision-making, including in granting credit, investments, or performance evaluations (Sutrisno & Wulandari, 2022). Non-financial factors are increasingly considered important in credit evaluation as a complement to assess credibility, potential, or risk. According to Sutrisno and Wulandari (2022), the most important data on non-financial factors includes character profile (reputation, behavior, honesty of the borrower), loan purpose (clarity and rationality of fund usage), digital profile (activity on social media, online transaction

history), education and work experience (relevance to business/income).

Based on the explanation in the previous paragraph, this research is important because there are still differences in the literature and a lack of studies examining the role of financial and non-financial factors in loan selection. The novelty of this research lies in using both variables simultaneously, namely financial factors and non-financial factors, in relation to credit decisions in the digital era. From the statements above, the purpose of this research paper is to explain the influence of financial factors on credit decision-making in the digital era for MSMEs in Malang City and to explain the influence of non-financial factors on credit decision-making in the digital era for MSMEs in Malang City.

## **LITERATURE REVIEW**

Credit is a financial facility in which an individual, company, or institution obtains a certain amount of funds or goods from another party (the lender) with the agreement to repay within a specified period, usually accompanied by interest payments or rewards as compensation. Credit is based on the assumption that the person receiving the credit will fulfill their responsibilities according to the agreed terms. Credit is the act of providing a loan to another party in the form of cash or products, with certain conditions such as interest rates and repayment schedules (Zheng, 2025).

Peer-to-peer, fintech applications, and digital services from conventional financial institutions are examples of platforms that use digital technology to provide loan services (Najaf *et al*, 2022). Technology is used to enhance speed, transparency, and accessibility throughout the application, evaluation, approval, and disbursement process, all of which are completed online (Friday *et al*, 2022). Cash flow indicates the borrower's ability to regularly repay debt obligations, while the capital structure shows the balance between debt and equity (Anggreh *et al*, 2022). Financial factors include economic indicators that depict the financial capacity of the borrower, including sources of income, expenses, and financial obligations (Fernández-López *et al*, 2023).

Non-financial factors in credit decision-making must take into account aspects directly related to the borrower's financial condition but can affect their ability and reliability in repaying the loan. The stability of the borrower's employment, including the length of employment and the type of job, has a significant impact on credit decisions (Adisasmita, 2019). Borrowers with stable jobs tend to have lower risks, and the use of loans should be considered. Loans for productive investments are considered lower risk compared to loans for consumption, which can increase the risk of default, as well as described by Nitani *et al* (2020).

## **RESEARCH METHOD**

The methodology used in this research is quantitative. Primary data, which comes directly from the original sources and includes information from questionnaires, surveys, and interviews with users or credit service providers, is the type of data used in this study. Panel data, a form of data that combines cross-sectional and time series data, is used in this research.

The data source in this study was obtained from respondents using credit services, both as borrowers and lenders. This source is a primary data source. Based on data from the Cooperative and MSME Office of Malang City, the population of this study consists of all MSMEs in Malang City, totaling 129 active MSMEs that have either currently or previously applied for loans or credit. The sample of this study is 98 MSMEs in Malang City that have applied for loans or credit. The data collection technique used is simple random sampling, utilizing questionnaires, interviews, and observations.

## RESULT AND DISCUSSION

The characteristics of respondents can be seen based on gender, age, and education level. Validity and reliability tests were conducted, and data analysis techniques such as Classical Assumption Test, which includes Normality test, Multicollinearity test, and Heteroscedasticity test, were used.

### Multiple Linear Regression Analysis

To what extent do financial and non-financial variables affect loan choices in the digital era for SMEs in Malang City can be determined through the use of multiple linear regression analysis. The table below presents the results of the multiple linear regression test.

**Table 1. Multiple Linear Regression Test**

Variable	B Unstandardized Coefficients	Conclusion
Constant	3,962	Positive
(X <sub>1</sub> )	0,692	Positive
(X <sub>2</sub> )	0,650	Positive

Source: Processed Primary Data (2025)

Based on the table, a regression equation can be formulated to measure the extent to which the financial factor variable (X<sub>1</sub>) and the non-financial factor variable (X<sub>2</sub>) influence the credit granting decision (Y) in the digital era for MSME actors in Malang City. The regression equation is formulated as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$

$$Y = 3,962 + 0,692 X_1 + 0,650 X_2 + e$$

Based on the regression equation, the constant value of 3.962 indicates that the credit decision is classified as high even without the influence of financial factors (X<sub>1</sub>) and non-financial factors (X<sub>2</sub>). If X<sub>1</sub> and X<sub>2</sub> increase by 1.342, the credit decision increases to 5.304, indicating a significant and strong influence between the variables. The results of the multiple linear regression test show that financial factors have a dominant influence on credit decisions, with a regression coefficient of 0.692.

### Partial t test

T-test is conducted to determine the partial influence of financial factors (X<sub>1</sub>) and non-financial factors (X<sub>2</sub>) on credit decisions (Y) in MSMEs in Malang City in the digital era.

**Table 2. Results of t-test**

Variable	t count	t table	Sig t
(X <sub>1</sub> )	6,070	1,985	0,000
(X <sub>2</sub> )	5,909		0,000

Source: Processed Primary Data (2025)

Results of the t-test :

1. The financial factor variable (X<sub>1</sub>) shows a significant influence on credit decisions (Y) in MSMEs in the digital era, indicated by a t-value of 6.070 > t-table 1.985 and a significance of 0.000 (p < 0.05). Thus, hypothesis H1 is accepted, which means that financial factors positively enhance credit decisions.
2. The non-financial factor variable (X<sub>2</sub>) also has a significant influence on credit decisions (Y), with a t-value of 5.909 > t-table 1.985 and a significance of 0.000 (p < 0.05). Therefore, hypothesis H2 is accepted, indicating that non-financial factors also contribute to the increase in credit decisions.

### Test F (Simultaneous)

The results of the analysis are presented in the table below:

**Table 3. F Test**

Variable	F count	F table	Sig t
Financial Factor (X <sub>1</sub> )			
Non-Financial Factor (X <sub>2</sub> )	61,009	3,092	0,000

Source: Processed Primary Data (2025)

The results of the F test showed that F calculated is 61.009 > F table 3.092 and sig. 0.000 ( $p < 0.05$ ), meaning that X<sub>1</sub> and X<sub>2</sub> simultaneously have a significant effect on Y. H<sub>3</sub> is accepted.

### Coefficient of Determination (R<sup>2</sup>)

A high R<sup>2</sup> value indicates that the model is able to explain most of the variation in credit decisions for MSMEs in Malang City. The results of the R<sup>2</sup> test are presented in the following table:

**Table 4 Determination Coefficient Test (R<sup>2</sup>)**

Model	R Square
1	0,562

Source: Processed Primary Data (2025)

The analysis results show an R<sup>2</sup> value of 0.562, which means that financial and non-financial factors contribute 56.2% to the credit decision, while the remaining 43.8% is influenced by other variables outside the study.

### The Influence of Financial Factors on Credit Decisions in the Digital Era for MSMEs in Malang City

The results of the analysis indicate that in the digital era, financial considerations significantly influence the credit choices made by SMEs in Malang City. In other words, the presence of financial considerations will lead to an increase in credit decisions. Fixed income, the ability to pay credit on time, and the ownership of assets that can be used as collateral in credit applications are examples of financial considerations that affect credit choices. Credit is granted based on several financial considerations, such as capital, economic conditions, and payment capability.

Credit history significantly influences credit decisions in the digital era as it reflects the financial reputation of SMEs in Malang in meeting previous financial obligations. SMEs with good credit histories (for example, always paying on time) gain more trust from digital platforms. Conversely, poor credit history (late payments or defaults) will directly negatively impact the credit score. In the digital era, this has become a primary consideration because platforms use an automated scoring system.

The debt-to-income ratio significantly influences credit decisions because the higher the debt-to-income ratio, the lower the likelihood of SMEs obtaining credit approval, as they are considered to carry a heavy financial burden. Conversely, a low ratio indicates available financial space to repay new credit. On digital platforms, this ratio is often automatically calculated based on the account data or financial data uploaded by the borrowers.

The assets or collateral owned also have a significant influence on credit decisions in the digital era, as MSMEs with productive assets or those that can be pledged (such as vehicles, properties, or business machines) tend to be more trusted, as they provide a sense of security for the lenders. In several P2P lending platforms, information about assets is used to determine loan limits and risk levels.

### **The Influence of Non-Financial Factors on Credit Decisions in the Digital Era for MSMEs in Malang City**

The findings of the analysis show that for SMEs in the city of Malang operating in the digital era, non-financial variables have a significant impact on credit choices. This means that the presence of non-financial elements can lead to an increase in borrowing decisions. Non-financial factors that influence credit decisions include having a good reputation with financial institutions, having clear goals for the use of borrowed funds, a good digital footprint, and having sufficient experience in managing a business. Non-financial factors in granting credit that need to be considered include personality, ability, and economic conditions.

The borrower's character profile has a significant influence on credit decisions for MSMEs in Malang city. In the digital era, many P2P lending platforms utilize personal profile data, such as credit history, payment ethics, and business commitments. This character profile reflects the trust and integrity of the borrower, which plays a major role in strengthening credit decisions. Creditors tend to be more willing to lend to borrowers with a good reputation in terms of commitment and payment.

The purpose of the loan has a significant impact on the explanation that is clear and transparent regarding the intended use of the loan. Lenders will be more inclined to grant loans to borrowers who can demonstrate a proper and productive plan for the use of funds. The chances of credit approval will increase if MSMEs in Malang City are able to articulate the purpose of the loan, which is company growth.

The education level of business owners or managers is highly correlated with the ability to make business decisions and manage financial risks. Education level has a significant positive influence; higher education is associated with better business management and more structured financial management, making lenders more confident in the borrower's repayment ability.

Work experience in sectors relevant to the type of business being run also influences credit decisions. Business owners of MSMEs in Malang with longer work experience or experience in managing businesses have better skills to manage and be accountable for loans. This work experience serves as a guarantee that the borrower has the capacity to succeed in running their business.

### **The Influence of Financial and Non-Financial Factors on Credit Decisions in the Digital Era for MSMEs in Malang City**

Based on study findings, 56.2% of the choices for MSME loans in Malang City in the digital era are influenced by both non-financial and financial factors simultaneously. Credit decisions play a crucial role in increasing business capital and business activities to support business progress. The role of credit can help MSMEs enhance their business scale, expand their business, and improve their competitiveness. The findings of this research are supported by studies by Hidayat and Sari (2022), Anam et al., (2021) which demonstrate the importance of financial and non-financial variables in influencing borrowing choices. Credit decisions are made by lenders to approve or reject loan applications based on the analysis of financial and non-financial factors. Considerations in credit decision-making help prevent loan fraud, take into account the borrower's

ability to repay the credit, and consider the collateral that will be submitted to the financial institution.

## **CONCLUSION**

Based on the description above, it can be concluded that:

1. Financial factors have a significant influence on credit decisions in the digital era for SMEs in Malang City, meaning that the presence of financial factors will enhance credit decisions. Financial factors that affect credit decisions include stable income, the ability to pay credit installments on time, and having assets that can be used as collateral in credit applications.
2. Non-financial factors have a significant influence on credit decisions in the digital era for MSMEs in Malang City, meaning that non-financial factors can enhance credit decisions. Non-financial factors influencing credit decisions include having a good reputation with financial institutions, having clear purposes for the use of borrowed funds, a good digital footprint, and having sufficient experience in managing a business.
3. The research results prove that simultaneously, financial factors and non-financial factors influence credit decisions in the digital era for MSMEs in Malang City by 56.2%. Credit decisions play an important role in increasing business capital and business activities to support business progress. The role of credit can help MSMEs enhance their business scale, expand their business, and improve their competitiveness.

## **SUGGESTION**

1. SMEs in Malang City are expected to pay more attention to the financial feasibility of their businesses, such as maintaining cash flow stability, preparing financial reports regularly, and improving operational efficiency. In addition, non-financial aspects such as business reputation, operational consistency, and leadership profile also need to be well-managed as they also influence the assessment of credit institutions, especially in the digital system.
2. It is recommended that digital credit provision platforms be more transparent in conveying the assessment criteria, as well as providing guidance or education to MSMEs about the factors affecting credit approval. This can enhance the trust and participation of business actors in utilizing digital financial services.
3. It is hoped that the local government, especially the Cooperatives and SMEs Office of Malang City, can enhance digital transformation initiatives and financial literacy for SMEs. This aims to better prepare business actors to meet the increasingly data and technology-based requirements for accessing digital credit.
4. Next researchers are advised to broaden the scope of the research area or add other variables such as technological factors, trust in digital platforms, or macroeconomic conditions to obtain a more comprehensive picture. In addition, a mixed method approach can also be used to delve deeper into the perceptions and challenges of MSMEs qualitatively.

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