

Analyzing The Behavior Of Smes To Use External Financing Using Theory Of Planned Behavior

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ABSTRACT

This study examines the application of the theory of planned behavior (TPB) in explaining SMEs' financing decisions. The data collection was carried out by distributing questionnaires to SMEs owners or managers in Ternate City using purposive sampling and obtained 167 responses. Hypothesis testing is done using PLS-SEM analysis. The results of the analysis show that attitude, subjective norms, and perceived behavioral control are positively related to the SMEs owner or manager's intention to use external financing. In addition, the results of the analysis also show that behavioral intentions are positively related to actual behavior using external financing. Finally, the results show that behavioral intentions mediate the influence of attitude, subjective norms, and perceived behavioral control on actual behavior using external financing.

Keywords: SMEs, theory of planned behavior, financing decision

INTRODUCTION

Small and medium enterprises (SMEs) are crucial to the economic development of a nation because they contribute to job creation and are a source of national income (Tolba et al., 2014). According to Rakshit & Bardhan (2023), the lack of access to financing is one of the most significant obstacles that small and medium enterprises (SMEs) face in many countries when attempting to seize growth opportunities. Basically, SMEs operational and marketing activities are financed by two types of financing, namely internal and external (Baker et al., 2020). Furthermore, (Nguyen et al., 2022a) suggested that insufficient internal financing has led SMEs to use external sources of financing (e.g., bank credit). However, the low profitability of SMEs and the existence of information asymmetry between SMEs and lenders are some of the reasons that underlie the difficulty for SMEs to obtain external financing.

In this regard, various studies have extensively explored the factors that underlie business owners' decisions to use external financing, such as types of credit constraints (Nguyen et al., 2022b), economic growth and government intervention (Dong & Men, 2014; Du et al., 2017), SMEs performance (Wasiuzzaman & Nurdin, 2019), and SMEs characteristics (Baker et al., 2020; Kwak, 2021). Furthermore, previous studies have used various financial theories to explain corporate financing decisions, such as the trade-off and pecking order theories (Uyar & Guzelyurt, 2015; Wasiuzzaman & Nurdin, 2019). Nonetheless, Zabri et al. (2021) argued that financial theories cannot always explain SMEs financing decisions because market conditions and the characteristics of SMEs do not follow the assumptions underlying financial theories. In line with this, Balushi et al. (2018) suggested that for SMEs which are small companies, financing decisions are not heavily influenced by financial factors but are more influenced by non-financial factors. This may be why financial theories are not very good at explaining SMEs financing decisions.

Thus, this research seeks to fill the above gap by using the theory of planned behavior (TPB) from Ajzen (1991) to predict the financing decisions made by SMEs. TPB is a theory widely applied in the context of SMEs (Jafari-Sadeghi et al., 2023; Saeedi et al., 2022). Furthermore, TPB is also very useful for understanding people's behavior, especially regarding financing decisions (Badaj & Radi, 2018; Kijkasiwat, 2021). Thus, TPB will also be very useful for investigating SMEs financing decisions, especially the decision to use external financing.

THEORETICAL STUDIES

Theory of Planned Behavior (TPB)

The theory of planned behavior (TPB) is a socio-psychological model developed from the theory of reasoned action (TRA), which is used to explain the driving factors of an individual's behavior (Ajzen, 1985). TPB is a theory that researchers have widely used to explain the behavior of an individual (Bani-Khalid et al., 2022). TPB is a theory that believes that human behavior is driven by social and internal factors of the individual (Sandoval & Rank, 2022). The intention is a key part of the TPB framework, where the actual behavior of an individual is determined mainly by intention (Ajzen, 1991). TPB also contends that behavioral intentions are determined by attitudes, subjective norms, and perceived behavioral control (Balushi et al., 2018).

Attitude

Attitude reflects a person's assessment (positive or negative) of the consequences of a behavior (Balushi et al., 2018). In addition, attitude also refers to a description of a person's way of thinking and feeling toward a particular object (Bashir et al., 2019). Attitude in this study reflects the evaluation of owners or managers of SMEs that using external financing is a profitable behavior or decision. From the TPB point of view, attitude is crucial in determining a person's intention. An individual with a favorable attitude toward a particular behavior tends to actualize that behavior (Salim et al., 2015). Furthermore, previous studies have reported that in the SMEs context, behavioral intention is determined by the attitude (Laila et al., 2022; Singh et al., 2021).

H1: Attitude positively affects behavioral intention towards external financing

Subjective Norms

Subjective norms are a person's belief of social pressure when actualizing a certain behavior (Werner et al., 2019). Subjective norms reflect external factors that influence whether an individual must implement a particular behavior (Yang et al., 2017). Subjective norms in this study reflect the views of SMEs owners or managers regarding the social pressures that arise when using external financing. Subjective norms are formed from the influence of speech, behavior, assumptions, and habits from those closest to them, which allow an individual to create certain patterns of behavior based on individual perceptions of the judgments of those closest to them (Ahmmadi et al., 2021). Thus, SMEs owners or managers will consider the views or acceptance of those closest to them before actualizing certain behaviors (Sarmah et al., 2017). Several studies reveal that behavioral intention is determined by subjective norms in the context of SMEs (Huang & Lin, 2020; Salim et al., 2015).

H2: Subjective norms positively affect behavioral intention towards external financing

Perceived Behavioral Control

Perceived behavioral control (PBC) is a person's belief in his ability to control the desired behavior. (Rakshit & Bardhan, 2023). PBC can also be understood as an individual's view of the easiness of executing specific behavior (Werner et al., 2019). PBC in this study reflects the perceptions of owners or managers of SMEs regarding the level of difficulty or ease of using external financing. Mazambani & Mutambara (2020) argued that PBC depends on the level of opportunities and resources available. With abundant opportunities and resources, it will be more likely for these individuals to build great PBC, which can be seen in how easy it is for someone to carry out a particular behavior. Furthermore, Jalili & Ghaleh (2021) argued that PBC is beneficial for explaining individual behavior because an individual will avoid any behavior that leads to failure. According to Bani-Khalid et al. (2022), SMEs owners or managers with good PBC tend to have strong behavioral intentions. Several studies reveal that behavioral intention is determined by PBC in the context of SMEs (Badaj & Radi, 2018; Huang & Lin, 2020).

H3: Perceived behavioral control positively affects behavioral intention towards external financing

Behavioral Intention

Intention reflects an individual's desire or tendency to behave in a certain way (Hong et al., 2019). According to Nam et al. (2017), the intention is the subjective possibility of an individual to involve in particular behaviors. According to Lo et al. (2020), intention is a representation of the level of willingness to attempt and the effort planned to carry out a behavior. The intention in this study reflects the desire or tendency of SMEs owners or managers to use external financing. From the TPB point of view, intention is the driving force of actual behavior, where individuals with strong behavioral intentions tend to actualize that behavior (Ajzen, 2015). In line with this, several studies have revealed that behavioral intentions positively relate to actual behavior (Gieure et al., 2020; Lo et al., 2020). Behavioral intention is believed to be a good mediator (Bashir et al., 2019). This is confirmed by a study from Dorce et al. (2021) which revealed that behavioral intentions mediate the impact of attitudes, subjective norms, and PBC on actual behavior.

H4: Behavioral intention positively affects actual behavioral towards external financing

H5: Behavioral intention mediates the impact of attitude on actual behavioral towards external financing

H6: Behavioral intention mediates the impact of subjective norms on actual behavioral towards external financing

H7: Behavioral intention mediates the impact of perceived behavioral control on actual behavioral towards external financing

Based on the explanation above, the conceptual model of this study is shown in Figure 1.

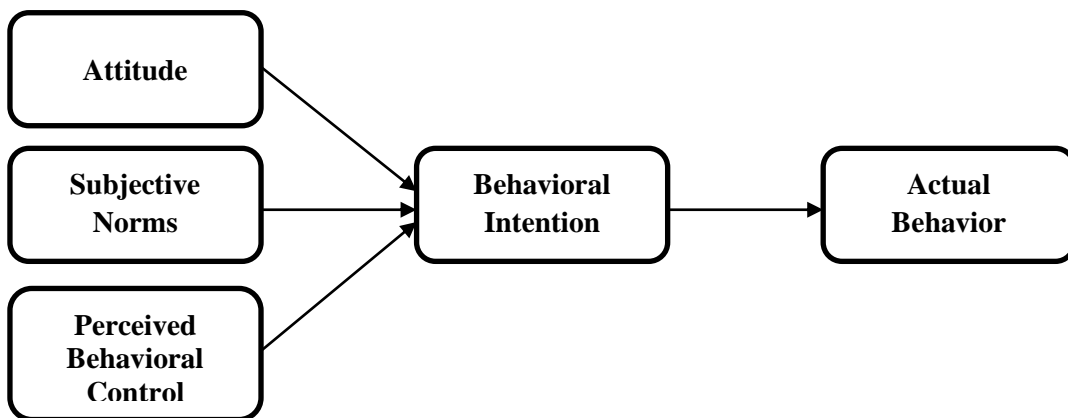


Figure 1. Conceptual Model

RESEARCH METHODS

This is a causality study examining the causal links in the research model. The subjects of this study were all SMEs owners or managers in Ternate City. Online and offline distribution of questionnaires to respondents was done to collect data. This study used purposive sampling as a data collection method using two main criteria to screen respondents: SMEs in Ternate City that has been in operation for more than two years and have used external financing at least twice. This study used the rule of 10 times the total reflective indicator from Hair et al. (2019) to determine

the minimum number of samples. With 16 indicators, the minimum number of samples in this study is 160.

Regarding the variable measurement, this study adapted variable measurement items from several previous studies where each item was measured using a Likert-5-point scale. Attitudes are measured using five items (Amarullah & Handriana, 2022). Subjective norms are measured using three items (Amarullah & Handriana, 2022). PBC was measured using three items (Singh et al., 2021). Behavioral intention is measured using three items (Fleseriu et al., 2020). Finally, actual behavior is measured using two items (Dorce et al., 2021).

RESULTS AND DISCUSSION

Demographic Data of Respondents

Data was collected by distributing questionnaires to target respondents in February 2023, and 167 responses were obtained. As shown in Table 1, the majority of respondents in this study were female (56.3%), aged 46-55 years (34.1%), and graduated from high school (40.1%).

Table 1. Demographic Data of Respondents

Characteristics	Frequency	Percentage (%)
Gender		
Male	73	43.7
Female	94	56.3
Age		
17-25	22	13.2
26-35	35	21.0
36-45	38	22.8
46-55	57	34.1
>55	15	9.0
Education		
High School	67	40.1
Diploma	8	4.8
Bachelor	34	20.4
Master	9	5.4
Others	49	29.3

Source: Processed data (2023)

Measurement Model Evaluation

Based on Hair et al. (2019), the measurement model is assessed based on loading factors, convergent validity (average variance extracted/AVE), discriminant validity (heterotrait-monotrait/HTMT), and construct reliability (Cronbach's alpha and composite reliability). As shown in Table 2, each reflective indicator has good validity, reflected by a loading value greater than 0.70 (Hair et al., 2019). In addition, each reflective indicator in this study also shows good convergent validity, which is reflected in the AVE value greater than 0.50 (Hair et al., 2019). Furthermore, each construct in this study also shows good consistency of internal reliability, which is reflected in Cronbach's alpha value and composite reliability, which is greater than 0.70 (Hair et al., 2019).

Table 2. Validity and Reliability Results

Items	Loadings	AVE	Cronbach's Alpha	Composite Reliability
ATT1	0.875	0.749	0.916	0.937

ATT2	0.840			
ATT3	0.893			
ATT4	0.911			
ATT5	0.803			
SN1	0.813	0.662	0.745	0.854
SN2	0.800			
SN3	0.828			
PBC1	0.913	0.755	0.838	0.902
PBC2	0.882			
PBC3	0.808			
BI1	0.834	0.732	0.816	0.891
BI2	0.831			
BI3	0.900			
AB1	0.922	0.823	0.786	0.903
AB2	0.891			

Source: Processed data (2023)

For the assessment of discriminant validity, as shown in Table 3, the results show that each construct in this study shows good discriminant validity, reflected in the HTMT value, which is smaller than 0.85 (Hair et al., 2019).

Table 3. Discriminant Validity Results (HTMT)

Constructs	(1)	(2)	(3)	(4)	(5)
(1) Actual Behavior	-	-	-	-	-
(2) Attitude	0.643	-	-	-	-
(3) Behavioral Intention	0.600	0.693	-	-	-
(4) Perceived Behavioral Control	0.623	0.546	0.538	-	-
(5) Subjective Norms	0.591	0.375	0.625	0.374	-

Source: Processed data (2023)

Structural Model Evaluation

Based on Hair et al. (2019), the structural model in this study is assessed based on the R^2 value and the significance of the path coefficient. As shown in Table 4, the results show that the R^2 value for construct behavioral intention is 0.482, which indicates moderate predictive power. Meanwhile, the R^2 value for the actual behavior construct is 0.235, which indicates weak predictive power. Furthermore, the results of direct influence show that attitude ($\beta=0.428$, $p=0.000$), subjective norms ($\beta=0.311$, $p=0.000$), and PBC ($\beta=0.157$, $p=0.011$) positively influence behavioral intention. Thus, H1, H2, and H3 are accepted. In addition, the results also show that behavioral intention has a positive effect on actual behavior ($\beta=0.485$, $p=0.000$). Thus, H4 is accepted.

Table 4. Direct Effect Results

Hypothesis	Path Coefficients	T Statistics	P Values	R^2
Attitude -> Behavioral Intention	0.428	5.680	0.000	0.482
Subjective Norms -> Behavioral Intention	0.311	4.901	0.000	

Perceived Behavioral Control -> Behavioral Intention	0.157	2.291	0.011	
Behavioral Intention -> Actual Behavior	0.485	6.726	0.000	0.235

Source: Processed data (2023)

For indirect effects, as shown in Table 5, the results show that behavioral intention mediates the effect of attitude ($\beta=0.208$, $p=0.000$), subjective norms ($\beta=0.151$, $p=0.000$), and PBC ($\beta=0.076$, $p=0.018$) to actual behavior. Thus, H5, H6, and H7 are accepted.

Table 5. Indirect Effect Results

Hypothesis	Path Coefficients	T Statistics	P Values
Attitude -> Behavioral Intention -> Actual Behavior	0.208	3.743	0.000
Subjective Norms -> Behavioral Intention -> Actual Behavior	0.151	3.834	0.000
Perceived Behavioral Control -> Behavioral Intention -> Actual Behavior	0.076	2.095	0.018

Source: Processed data (2023)

DISCUSSION

Using the TPB, this study aims to investigate the behavior of SMEs in their use of external financing. This study reveals that the intention of SMEs owners or managers to use external financing is positively determined by attitude. This is consistent with several study's findings, which also revealed the same thing (Laila et al., 2022; Singh et al., 2021). SMEs owners or managers with a favorable attitude toward behavior tend to intend to use external financing strongly. In addition, the results also reveal that the intention to use external financing is determined positively by subjective norms. This supports previous study's findings, which also revealed similar things (Huang & Lin, 2020; Salim et al., 2015). SMEs owners or managers with strong subjective norms relatively have great intentions to use external financing.

Furthermore, the results reveal that the intention to use external financing is determined by PBC. This is in line with several study's findings, which also revealed the same thing (Badaj & Radi, 2018; Huang & Lin, 2020). SMEs owners or managers with good PBC tend to have a strong intention to use external financing. In addition, the results also reveal that the actual behavior of SME owners or managers to use external financing is determined positively by behavioral intention. This supports several studies' findings, which also revealed the same thing (Gieure et al., 2020; Lo et al., 2020). SMEs owners or managers with a strong intention to use strong external financing will translate this intention into actual behavior.

Finally, the findings of this study reveal that behavioral intentions mediate the influence of attitude, subjective norms, and PBC on actual behavior. This aligns with the results from (Dorce et al., 2021), which also reveal something similar. The greater the influence of attitude, subjective norms, and PBC on behavioral intentions, the greater the impact of behavioral intentions on actual behavior.

CONCLUSION

Several conclusions can be drawn based on the results of the analysis and discussion. First, attitude, subjective norms, and PBC are important determinants that can strengthen the intention of SMEs owners or managers to use external financing. Second, behavioral intention is essential in reinforcing actual behavior using external financing. Third, attitude, subjective norms, and PBC indirectly affect actual behavior through the intention to act as a mediator.

This research provides important implications in both theoretical and practical domains. First, this study contributes significantly to the development of science by providing empirical evidence regarding the impact of non-financial factors on SMEs financing decisions. Second, this research offers important implications for the development of TPB in explaining the behavior of SMEs owners or managers to use external financing. Third, this study's findings offer important implications for parties providing financing for SMEs and policymakers in supporting the development of SMEs. Policymakers need to pay attention to non-financial factors in influencing SMEs financing decisions, especially external financing.

Furthermore, some limitations of this study were identified and can be important input for further research. First, this research focuses on owners or managers of SMEs in Ternate City, North Maluku, so there is a generalization problem where the findings cannot be generalized in other contexts or regions. Thus, further research can validate this research model in different contexts or regions. Second, this study only focuses on the psychological factors of SMEs owners or managers. Thus, further research is suggested to validate how the role of demographic characteristics of SMEs owners or managers in determining financing decisions.

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