PROCEEDING ICONIES
FACULTY OF ECONOMICS
UIN MAULANA MALIK IBRAHIM MALANG
P-ISSN: 2476-9851 / E-ISSN: 2541-3333

PEOPLE'S BUSINESS CREDIT MEDIATES THE QUALITY OF FINANCIAL REPORTS, FINANCIAL INCLUSION, AND DIGITAL BANKING ON THE PERFORMANCE AND RESILIENCE

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ABSTRACT
The background of this paper highlights that Micro, Small, and Medium Enterprises (MSMEs) play a key role in the Indonesian economy. They contribute 61.9% to the Gross Domestic Product and support over 64.2 million business units. However, MSMEs still struggle with access to financing, the quality of financial reports, and the use of digital technology. This study aims to explore how People's Business Credit (KUR) mediates the relationship between the quality of financial reports, financial inclusion, digital banking, and the performance and resilience of MSMEs in Malang City. The research uses a descriptive quantitative approach with the Structural Equation Modeling-Partial Least Squares (SEM-PLS) version 4 method. The sample consisted of 384 MSMEs in Malang City, selected through purposive sampling. Data were gathered using a structured questionnaire with a Likert scale of 1-5. The SEM-PLS analysis reveals the following results: (1) the quality of financial reports positively and significantly affects KUR access ($\beta=0.742$, $p<0.001$), (2) financial inclusion positively affects KUR access ($\beta=0.681$, $p<0.001$), (3) digital banking positively affects KUR access ($\beta=0.723$, $p<0.001$), (4) KUR positively affects MSME performance ($\beta=0.765$, $p<0.001$), and (5) KUR positively affects MSME resilience ($\beta=0.698$, $p<0.001$). The model shows an R-square value of 0.689 for MSME performance and 0.612 for MSME resilience. The findings confirm that KUR effectively mediates the improvement of MSME performance and resilience through the quality of financial reports, financial inclusion, and digital banking. These results have significant implications for the development of sustainable MSME financing policies.

Keywords: People's Business Credit, Financial Report Quality, Financial Inclusion, Digital Banking, MSME Performance, MSME Resilience.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy. They make significant contributions. According to the Coordinating Ministry for Economic Affairs, the MSME sector has over 64.2 million business units and contributes 61.9% to Indonesia's Gross Domestic Product (GDP) (Ekon.go.id, 2024). However, MSMEs still encounter various challenges that affect their growth and sustainability. One of the government's key programs to support MSMEs is the People's Business Credit (KUR). This program aims to boost business capital through financial institutions with a guarantee system. As of December 23, 2024, KUR disbursement reached IDR 280.28 trillion. This amount represents 100.10% of the IDR 280 trillion target and shows a 7.8% year-on-year growth (Antara News, 2024). For 2025, the KUR disbursement target is increased to IDR 300 trillion, highlighting the government's commitment to the MSME sector.

In today's digital world, financial technology (fintech) and digital banking have changed how MSMEs access financial services. The government aims for digital financial inclusion to reach 90 percent by 2024 by enhancing cooperation, speeding up processes, and implementing digital solutions (OJK, 2024). However, the use of digital technology by MSMEs is still low. Only 24% of MSMEs are selling on various e-commerce platforms (Ekon.go.id, 2024). Malang City, one of the developing cities in East Java, has a range of MSME characteristics, from traditional businesses to tech-focused ones. This diversity makes Malang City an ideal place to study the effectiveness of the People's Business Credit (KUR) program regarding MSME modernization and digitalization. Based on the literature review, several research gaps were identified: 1. Methodological Gap: Previous studies mostly used qualitative descriptive methods or simple regression to examine relationships affecting MSME performance. The use of SEM-PLS for analyzing complex relationships among multiple variables is still limited. 2. Conceptual Gap: No research has thoroughly analyzed the mediating role of the People's Business Credit (KUR) in the relationship between the quality of financial reports, financial inclusion, and digital banking on MSME performance and resilience. 3. Contextual Gap: Studies on the effectiveness of KUR in relation to digitalization and financial inclusion in Indonesia, especially in Malang City, are still very few. 4. Temporal Gap: There is a scarcity of research examining the impact of the KUR program in the post-pandemic era and digital transformation.

The novelty of this research includes Integrated Model: Creating a model that combines financial report quality, financial inclusion, and digital banking, with KUR as a mediating variable. Dual Outcome Variables: Analyzing effects on both MSME performance and resilience as a way to adapt in uncertain times. Advanced Methodology: Using SEM-PLS version 4 for stronger analysis of causal and mediation relationships. Contemporary Context: Examining the current KUR program and the effects of digital transformation, targeting IDR 300 trillion by 2025.

THEORETICAL REVIEW

Resource-Based View (RBV) Theory

developed by Barney in 1991, explains that an organization's competitive advantage comes from its valuable, rare, inimitable, and non-substitutable (VRIN) resources. For MSMEs, access to financial resources through the People's Business Credit (KUR), managerial skills for preparing financial reports, and the use of digital technology are strategic resources that can improve business performance and resilience.

Financial Inclusion Theory

defines financial inclusion as having access to quality financial services in a fair and responsible way (Sarma, 2012). This theory highlights how important it is to have access to, use, and benefit from financial services to support the economic well-being of the community, especially underserved groups like MSMEs.

The Technology Acceptance Model

created by Davis in 1989, explains the factors that affect technology acceptance and use. In digital banking, the perceived usefulness and perceived ease of use of financial technology are key factors that influence MSMEs' adoption of digital banking services.

Theory Organizational Resilience

refers to an organization's ability to anticipate, address, and cope with change and disruption to maintain sustainable operations (Duchek, 2020). For MSMEs, resilience includes financial, operational, and strategic abilities that help them navigate uncertain business environments.

METHODS

Research Design

This study takes a quantitative approach with descriptive and explanatory methods. The research design is cross-sectional, using primary data collected through a structured survey. The research population consists of all registered MSMEs in Malang City. According to data from the Malang City Cooperatives and MSMEs Office, there are about 45,000 active MSMEs. The sample size was calculated using the Slovin formula with a 5% margin of error, resulting in a minimum of 384 respondents. The sampling method used purposive sampling with these criteria: a. MSMEs that have been in operation for at least 2 years, b. Access to banking services, c. Located in Malang City, d. Willing to participate in the study

Data Collection Method
Primary data was gathered through a structured questionnaire given directly to MSME owners or managers. The questionnaire was designed based on research variable indicators using a 1-5 Likert scale.

Data Analysis Method
Data analysis employed Structural Equation Modeling-Partial Least Squares (SEM-PLS) version 4, with SmartPLS 4.0 software to assist. The analysis stages include: 1. Descriptive Analysis: To detail the characteristics of respondents and research variables. 2. Measurement Model Evaluation (Outer Model): Convergent validity test (factor loading >0.7; AVE >0.5), Discriminant validity test (cross loading and Fornell-Larcker criterion), Reliability test (Cronbach's Alpha >0.7; Composite Reliability >0.7), 3. Structural Model Evaluation (Inner Model): Collinearity test (VIF <5), Coefficient of determination (R-square), Effect size (f-square), Predictive relevance (Q-square), 4. Hypothesis Testing: Using bootstrapping with 5,000 subsamples, 5. Mediation Analysis: Using the method outlined by Zhao et al. (2010).

Table 1. Operational Definition Of Variables

Variable	Indicators	Scale
Financial Report Quality (X1)	The quality of financial reports is measured by the features of useful financial information according to PSAK. These features include: - Relevance - Faithful representation - Comparability - Verifiability - Timeliness - Understandability	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)
Financial Inclusion (X2)	Financial inclusion is assessed based on dimensions developed by Sarma (2012), which include: - Access - ease of obtaining financial services - Usage - frequency of financial services use - Quality - suitability of services to needs	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)
Digital Banking (X3)	Digital banking is evaluated based on the use and adoption of digital banking services, which include: - Mobile banking adoption - Internet banking use - Digital payment system use - Online financial services integration	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)
People's Business Credit/KUR (M)	KUR as a mediating variable is measured by: - Access to KUR - Use of KUR funds - Ease of the application process - Suitability to business needs	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)
MSME Performance (Y1)	MSME performance is assessed based on both financial and non-financial indicators: - Sales growth	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)

	- Profit growth - Asset increase - Market expansion - Productivity increase	
MSME Resilience (Y2)	MSME resilience is assessed by their ability to adapt and recover: - Ability to survive a crisis - Adaptability to change - Recovery after disruption - Operational flexibility - Financial stability	Indicators are rated on a 1-5 Likert scale (1=strongly disagree, 5=strongly agree)

RESULTS

Respondent Characteristics

The study included 384 MSME respondents from Malang City, whose profiles were collected as follows:

Table 2. Characteristics of Respondents

Characteristics	Category	Frequency	Percentage (%)
Sex	Man	198	51,6
	Woman	186	48,4
Age	25 - 35 Years Old	152	39,6
	36 - 45 Years Old	143	37,2
	46 - 55 Years Old	89	23,2
Education	SMA/SMK	145	37,8
	Diploma	98	25,5
	S1	126	32,8
	S2	15	3,9
Business Duration	2 until 5 years	165	43
	6 until 10 years	128	33,3
	> 10 years	91	23,7
Business Sector	Trading	156	40,6
	Manufactur	89	23,2
	Service	50	100
	Cullinary	30	100

Source: Processed Data (2025)

Table 3. Descriptive Statistics of Research Variables

Variable	Mean	Standard Deviation	Min	Max
Quality of Financial Reports (X1)	3,42	0,89	1,00	5,00
Financial Inclusion (X2)	3,67	0,76	1,50	5,00
Digital Banking (X3)	3,58	0,82	1,25	5,00
KUR (M)	3,71	0,84	1,00	5,00
Kinerja UMKM (Y1)	3,65	0,79	1,40	5,00
Resiliensi UMKM (Y2)	3,59	0,81	1,33	5,00

Source: Processed Data (2025)

Evaluation of Measurement Model (Outer Model)

Table 4. Validity and Reliability Test Results

Variabel	Cronbach's Alpha	Composite Reliability	AVE	Description
X1	0,892	0,918	0,653	Valid and Reliable
X2	0,875	0,906	0,617	Valid and Reliable
X3	0,888	0,915	0,643	Valid and Reliable
M	0,901	0,925	0,675	Valid and Reliable
Y1	0,896	0,920	0,659	Valid and Reliable
Y2	0,883	0,912	0,634	Valid and Reliable

Source: Processed Data (2025)

All variables meet the criteria of convergent validity (AVE >0.5), discriminant validity (Fornell-Larcker criterion), and reliability (Cronbach's Alpha >0.7; Composite Reliability >0.7).

Structural Model Evaluation (Inner Model)

Table 5. Structural Model Evaluation Results

Variable Endogen	R-Square	R-Square Adjusted	Q-Square
KUR (M)	0,736	0,734	0,489
Performance of *Micro, Small, and Medium Enterprises* (Y1)	0,689	0,686	0,452
Resilience *Micro, Small, and Medium Enterprises* (Y2)	0,612	0,609	0,381

Source: Processed Data (2025)

The model showed a good R-square value, where 73.6% of the KUR variance was explained by exogenous variables, 68.9% of the MSME performance variance, and 61.2% of the MSME resilience variance were explained by the model. A Q-square value >0 indicates the model has good predictive relevance.

Hypothesis

Table 6. Hypothesis Test (Direct Effects)

Hypotheses	Path	Path Coefficient	T-Statistics	P-Values	Conclusion
H1	X1 → M	0,742	18,456	0,000	Accepted
H2	X2 → M	0,681	15,234	0,000	Accepted
H3	X3 → M	0,723	17,892	0,000	Accepted
H4	M → Y1	0,765	21,347	0,000	Accepted
H5	M → Y2	0,698	18,956	0,000	Accepted
H6	X1 → Y1	0,156	2,234	0,000	Accepted

Source: Processed Data (2025)

Tabel 7. Mediation Test (Indirect Effects)

Hypotheses	Path	Path Coefficient	T-Statistics	P-Values	Conclusion
H12	X1 → M → Y1	0,567	14,567	0,000	Partial Mediation
H13	X2 → M → Y1	0,521	13,234	0,000	Partial Mediation

H14	X3 → M → Y1	0,553	14,123	0,000	Partial Mediation
H15	X1 → M → Y2	0,518	13,456	0,000	Partial Mediation
H16	X2 → M → Y2	0,475	12,567	0,000	Partial Mediation
H17	X3 → M → Y2	0,505	13,234	0,000	Partial Mediation

Source: Processed Data (2025)

Discussion of Research Findings

The Effect of Financial Report Quality on People's Business Credit (KUR) Access

The results show that the quality of financial reports positively and significantly affects KUR access, with a path coefficient of 0.742 (p<0.001). This aligns with the Resource-Based View theory, which highlights the role of informational resources in strategic decision-making. MSMEs with high-quality financial reports show good transparency and accountability. This, in turn, builds trust with financial institutions for credit provision. For the KUR program, financial report quality is a key factor for banks assessing creditworthiness. Reports that meet key characteristics like relevance, faithful representation, and timeliness share accurate information about MSMEs' financial health and business prospects.

The Effect of Financial Inclusion on KUR Access

Financial inclusion positively and significantly affects KUR access (β=0.681, p<0.001). These findings support the government's goal of achieving 90% financial inclusion by 2024 to boost MSME access to formal financial services. MSMEs are vital in helping reach the 90% national financial inclusion target by 2024. MSMEs connected to the formal financial system usually have a strong history and relationships with financial institutions, making it easier to access the People's Business Credit (KUR) program. High access levels, utilization, and quality of financial services indicate how well MSMEs manage their financial affairs.

The Influence of Digital Banking on KUR Access

Digital banking significantly impacts KUR access (β=0.723, p<0.001). This finding is relevant given that President Joko Widodo aims for 30 million MSMEs to adopt digital tools by 2024, although only 24% of MSMEs have yet used this technology. Using digital banking helps MSMEs access financial services more efficiently and transparently. The KUR application process through digital platforms is quicker and simpler. It also creates a digital presence that enhances MSMEs' credit profiles.

The Effect of KUR on MSME Performance and Resilience

KUR has a positive and significant impact on MSME performance (β=0.765, p<0.001) and MSME resilience (β=0.698, p<0.001). These results show that the KUR program effectively supports MSMEs, with KUR disbursement reaching IDR 280.28 trillion as of December 23, 2024. This is 100.10% of the target, reflecting a 7.8% year-on-year growth. Access to working capital through KUR allows MSMEs to boost production capacity, expand markets, and invest in technology. KUR also enhances MSME resilience by providing the financial buffer needed to withstand economic challenges.

The Mediating Role of KUR

The analysis suggests that KUR partially mediates the relationship between financial reporting quality, financial inclusion, and digital banking on the performance and resilience. This mediation suggests that while these factors can directly affect outcomes, access to KUR amplifies this influence. This finding highlights that the KUR program serves not just as a source of funds but also as a driver that optimizes MSMEs' potential by improving the quality of financial reporting, enhancing financial inclusion, and promoting digital banking to boost business performance and resilience.

CONCLUSION

Based on the research results and discussion, the following conclusions can be drawn:1) The quality of financial reports has a positive and significant effect on access to the People's Business Credit (KUR), with a path coefficient of 0.742. MSMEs with high-quality financial reports have a greater chance of accessing the KUR program. 2) Financial inclusion has a positive and significant effect on access to the KUR program, with a path coefficient of 0.681. The integration of MSMEs into the formal financial system facilitates access to the KUR program. 3) Digital banking has a positive and significant effect on access to the KUR program, with a path coefficient of 0.723. The adoption of digital banking technology increases the ease and efficiency of accessing the KUR program. 4) The KUR has a positive and significant effect on MSME performance, with a path coefficient of 0.765. Access to the KUR program has been shown to significantly improve various performance indicators of MSMEs. 5) The KUR has a positive and significant effect on MSME resilience, with a path coefficient of 0.698. The KUR program strengthens the ability of MSMEs to adapt and survive in the face of uncertain business environments. 6) KUR acts as a partial mediator in the relationship between financial reporting quality, financial inclusion, and digital banking on MSME performance and resilience. All mediation effects were statistically significant. 7) The research model has good predictive power, with an R-square for KUR of 0.736, MSME performance of 0.689, and MSME resilience of 0.612.

RECOMMENDATIONS

Integrated Model Development: Future research can develop a more comprehensive model by integrating other variables such as innovation, market orientation, and dynamic capabilities. Longitudinal Study: Because this research is cross-sectional, longitudinal studies are needed to capture changes and the long-term impact of the KUR program. Multi-level Analysis: Further research can explore contextual factors at the industry, regional, and national levels that influence the effectiveness of the KUR program.

Practical Recommendations

For the Government:

Strengthening the Financial Reporting System: Developing training and mentoring programs to improve the quality of MSME financial reports as a requirement for accessing the People's Business Credit (KUR). Accelerating Digital Financial Inclusion: Speed up digital financial inclusion strategies to reach the 90% target, focusing on the MSME segment. Digitizing the KUR Process: Optimizing digital platforms to simplify the KUR application, verification, and monitoring processes. Increasing KUR Allocation: Consider raising the KUR target to IDR 350 trillion by 2026, considering the absorption capacity of MSMEs.

For Financial Institutions:

Financial Product Innovation: Developing financial products tailored to the specific characteristics and needs of MSMEs. Strengthening Human Resource Capacity: Improve employee competency in MSME services and digital technology. Digital Ecosystem Synergy: Building strategic partnerships with fintech companies and digital platforms to expand service reach.

For MSMEs

Improving Financial Literacy: Participating in training programs to improve financial reporting and financial management skills. Adopting Digital Technology: Utilizing digital banking and e-commerce platforms to improve operational efficiency and market access. Diversifying Financing Sources: Not relying solely on the People's Business Credit (KUR), but also exploring other financing sources such as venture capital, crowdfunding, and P2P lending.

Methodological Suggestions

Mixed Methods Approach: Future research can use a mixed methods approach to provide a deeper understanding of the causal mechanisms involved. Comparative Study: Conducting comparative studies across regions or countries to understand best practices in implementing microcredit programs. Mediating Variables: Exploring other mediating variables such as trust, relationship quality, and institutional support.

RESEARCH LIMITATIONS

Generalizability: This research is limited to MSMEs in Malang City, so generalizing the results to other regions requires caution. Cross-sectional Design: The cross-sectional nature of the study limits its ability to capture the true dynamics of change and causal relationships. Self-reported Data: The use of self-reported data has the potential to introduce response bias, although various efforts have been made to minimize this. Scope Variables: This study has not explored other contextual variables that may influence the effectiveness of the KUR program.

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