

Financial Behavior and Debt Decision-Making: The Role of Sharia Compliance of Muslim Entrepreneurs in Pekanbaru

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Abstract

Debt decision-making is an alternative funding source solution for MSME entrepreneurs to meet business capital. This research aims to examine financial behavior that influences debt decision-making by moderating Sharia compliance. This research uses primary data through structured questionnaires from 200 Muslim MSMEs. The distribution of questionnaires used convenience sampling techniques. Partial Least Square Structural Equation Modeling (PLS-SEM) was used to analyze data via SmartPLS software. The research results show that, overall financial behavior does not influence debt decision-making. However, each dimension of financial behavior, namely overconfidence, herding, and risk aversion, influences debt decision-making. Apart from that, Sharia compliance and its dimensions in the form of religious knowledge and religious motivation enhance the financial behavior and debt decision-making. Therefore, the research results indicate that Sharia compliance moderates the influence of financial behavior on debt decision-making.

Keywords: Debt Decision-Making, Financial Behavior, Sharia Compliance

INTRODUCTION

For entrepreneurs, debt is a solution to overcome the problems of meeting business capital (Abe, Troilo, & Batsaikhan, 2015; Padachi, Howorth, & Narasimhan, 2012; Wasiuzzaman & Nurdin, 2018). With debt, an entrepreneur will get additional working capital that can support in generating profits and developing the business involved. However, to make debt decisions, it is necessary to consider the impacts and risks that will be faced, such as the high-interest costs and difficulties in paying installments. Apart from that, Muslim entrepreneurs also need to consider Sharia compliance factors in taking out debt, especially in conventional financial institutions (Demirguc-Kunt, Beck, & Honohan, 2008).

In Riau Province, Indonesia, the amount of micro, small, and medium enterprise (MSME) debt always increases yearly. Data from the Central Statistics Agency shows that MSME credit only decreased in 2020 because of the COVID-19 pandemic, namely IDR 28,791 billion or a decrease of IDR 95 billion from the previous year. Total MSME Credit increased again in 2021 to IDR 32,445 billion and grew to IDR 36,091 billion in 2022. The increase in credit disbursement for MSMEs, which are predominantly Muslim, is dominated by conventional banks that apply an interest system to their loan products. It is contrary to the teachings of Islam which prohibit *riba* (bank interest) transactions as stated in Surah Al-Baqarah verses 275-276.

In behavioral finance studies, the research conducted focuses more on the study of investment decision-making, such as research by Virlics (2013), Kumar & Goyal (2015), Riaz & Iqbal (2015), Gill, Khurshid, Mahmood & Ali (2018), Wali & ur Rehman (2019), Dominic & Gupta (2020), Ramashar, Sandri & Hidayat (2022), etc. Meanwhile, studies on debt decision-making are still very limited and relatively few, especially in Indonesia. Apart from that, studies on Sharia compliance focus more on financial institutions as collectors and distributors of public funds.

Individual attitudes toward personal finance will impact their financial behavior, including debt behavior (Goyal, Kumar, & Xiao, 2021). A person's tendency to behave in debt or not in debt shows in their affective response to debt as an attitude object. Supramono & Putlia (2010) say that individuals with a positive attitude towards debt tend to make debt decisions because it can help meet their needs. On the other hand, individuals

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with a negative attitude towards debt tend to avoid using debt, because debt becomes a burden and will make entrepreneurs feel pressured by debt installments.

One form of financial behavior that can influence financial decision-making is overconfidence. Overconfidence is the attitude of someone who feels excessively confident and self-confident in their abilities and knowledge in making a decision. Managers with excessive levels of self-confidence tend not to think about the risk of financial difficulties in the future and will take on higher levels of debt. Previous research conducted by Rihab & Lotfi (2016) and Hidayati, Wahyulina & Suryani (2018) has proven that a manager's overconfident attitude influences the use of debt. Contrary to the results of research conducted by Sarimatua & Husaini (2017) and Tomak (2013), they concluded that overconfidence does not play a role in debt decision-making.

Herding attitude is a cognitive factor that can also influence a person's financial decision-making. Devadas & Vijayakumar (2019) argue that someone tends to behave in herding because they are confused about making decisions in solving problems, so they choose to irrationally follow the decisions or actions of other people or particular groups. The relationship between herding behavior and financial decision-making has been proven in research by Qasim, Hussain, Mehboob & Arshad (2019) and Sabir, Mohammad & Shahar (2019), which states that herding behavior influences a person's financial decision-making. Contrary to the research results of Javaira & Hassan (2015) and Alda & Ferruz (2016), which found no evidence of herding behavior in financial decisions.

Another factor that influences financial decision-making is risk aversion behavior. Risk aversion is the act of avoiding risk or choosing options with less risk. Kijkasiwat (2021) states that entrepreneurs who avoid risk prefer not to use debt as a source of funding. It means that the higher a person's level of risk aversion, the less they use debt or even avoid using debt. Rad, Yazdanfar & Öhman (2014), Hernandez-Nicolas, Martín-Ugedo & Mínguez-Vera (2015), Basiglio, De Vincentiis, Isaia & Rossi (2019), and Li, Deng & Li (2020) have proven that risk aversion influences debt decision-making. However, contrary to the research by Michailova, Mačiulis & Tvaronavičienė (2017) states that risk aversion does not influence financial decision-making.

Apart from that, Muslim entrepreneurs must pay attention to Sharia principles in carrying out their business activities, including the sources of capital used (Setiawati, Nidar, Anwar, & Masyita, 2018; Yarmunida, 2018), namely avoiding the elements of *riba*, *gharar*, and *maysir*. Products and services traded must be *halal* and provide benefits. Therefore, an entrepreneur must have good religious knowledge. It is supported by research by Alnori & Alqahtani (2019) and Gestapiani, Hidayat & Hidayat (2019) which found that religious knowledge plays a crucial role in determining debt decisions as a capital structure. Ramashar & Muhammad (2023) say that someone with good religious knowledge will tend to choose a Sharia bank as a place for transactions that are believed to comply with Sharia principles. Besides that, religious motivation also plays a role in fostering a person's compliance with Sharia principles. According to Usman, Sobari & Wathani (2017), entrepreneurs with strong religious drive will be better able to understand Islamic finance and make more informed financial decisions.

This research aims to determine the influence of financial behavior (with dimensions consisting of overconfidence, herding, and risk aversion) on debt decision-making and to determine the influence of Sharia Compliance (with dimensions of religious knowledge and religious motivation) on debt decision-making (Islamic debt or vice-versa). The respondent of this research is Muslim's MSME entrepreneurs in Pekanbaru City-Riau. This respondent was selected because Pekanbaru, which has a predominantly Muslim population and the very rapid development of MSMEs, has been designated as a Sharia economic zone.

LITERATURE REVIEW

Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) is a development of the Theory of Reasoned Action (TRA) which was coined by Ajzen (1985). TPB focuses studies on individual rationality in making decisions and on individual beliefs that assume that the targets and goals of the behavior carried out are within their control. Ajzen (2005) said that individual behavior is affected by the individual's intentions and other factors that are not under his

control. This theory can support studies of factors that influence decisions to use debt. It is because in the TPB it is explained that three components affect a person's desire to behave, namely behavioral beliefs, normative beliefs, and control beliefs. These components are affected by personal, social, and information factors (Hermawan & Biduri, 2019). Personal factors can include attitude, personality, emotions, and intelligence. Social factors include education, income, and religion. Meanwhile, information factors include knowledge and experience.

Prospect Theory

Kahneman & Tversky (1979) proposed the prospect theory, which explains how humans make decisions when faced with risk. This idea clarifies the decision-making process that individuals go through. Barberis (2013) discovered evidence that humans frequently act irrationally while making economic decisions, leading to biased and incorrect outcomes. Consequently, this theory can be applied to this study to explain how risk aversion and debt decision-making are related.

The Influence of Financial Behavior on Debt Decision Making

Financial behavior is related to a person's desires which can predict the emergence of this behavior (Shohib, 2015). Sometimes, financial behavior is affected by psychological factors, which can lead to biased decisions. Overconfident entrepreneurs will tend to use debt as a source of funding for their business. It is because they feel confident and able to repay the loan (Grežo, 2021; Hidayati et al., 2018; Murhadi, 2018). Financial behavior can also be affected by herding behavior that has become accustomed to debt. Devadas & Vijayakumar (2019) say this behavior usually occurs due to a lack of information obtained by entrepreneurs, so they are hesitant and confused about choosing the right type of financing. On the other hand, debt behavior can be affected by risk aversion. Individuals with a high level of risk aversion tend to avoid using debt or use low debt because they are reluctant to bear the burden for a long time and are afraid of facing the risk of default (Basiglio et al., 2019; Li et al., 2020). Thus, it means that the better the financial behavior, the better the debt decision-making.

Based on the description above, the hypothesis formulated is as follows:

H1 : Financial behavior has a significant effect on debt decision-making.

H1a: Overconfidence has a significant effect on debt decision-making.

H1b: Herding has a significant effect on debt decision-making.

H1c: Risk Aversion has a significant effect on debt decision-making.

The Influence of Sharia Compliance on Debt Decision Making

In carrying out mu'amalah activities, Muslim entrepreneurs must apply Sharia principles. One form of implementing Sharia compliance is avoiding the practices of *riba*, *gharar*, and *maysir* (Yarmunida, 2018). A person's high level of Sharia compliance cannot be separated from their religious knowledge. Entrepreneurs with good religious knowledge will always consider Sharia elements in making financial decisions (Gestapiani et al., 2019). Apart from that, religious motivation also plays a crucial role in implementing Sharia compliance. Mostafa & Ibrahim (2020) and Kaakeh, Hassan & van Hemmen Almazor (2018) said that strong religious motivation will influence an entrepreneur's decision to use financial products and services such as financing (debt) in Sharia financial institutions. Thus, the higher the level of sharia compliance, the better the debt decision-making.

Based on the description above, the hypothesis formulated is as follows:

H2 : Sharia compliance has a significant effect on debt decision-making.

H2a: Religious knowledge has a significant effect on debt decision-making.

H2b: Religious motivation has a significant effect on debt decision-making.

Moderate Effect of Sharia Compliance on The Relationship Between Financial Behaviour and Debt Decision-Making

Bizri, Jardali & Bizri (2017) argue that the decision-makers personal attitudes influence financial decisions involving religious beliefs or adherence to Sharia standards. When an entrepreneur or manager has a high level of overconfidence, he or she is more likely to take on debt (Hidayati et al., 2018). However, if an entrepreneur follows Sharia rules, they can reduce overconfidence and avoid borrowing from traditional financial institutions, even if they are confident that they would be able to repay their debt.

Muslim entrepreneurs with high Sharia compliance rates can make better debt decisions autonomously. They will not follow the choices of other individuals or groups about debts that do not adhere to Sharia standards in their implementation. Entrepreneurs who follow Sharia principles and norms will avoid incurring interest-based debt. It is because they are aware of the restrictions outlined in Islamic teachings and are unwilling to take chances and endure the consequences of their misdeeds. This remark is confirmed by Handayani, Azman & Ismail (2019) research findings, which show that religious considerations modify the association between attitudes and behavior when choosing a Sharia bank to save and borrow.

Based on the description above, the following hypothesis is proposed:

H3: Sharia compliance moderates the influence of financial behavior on debt decision-making.

Thus, the conceptual framework proposed in this research can be described as follows:

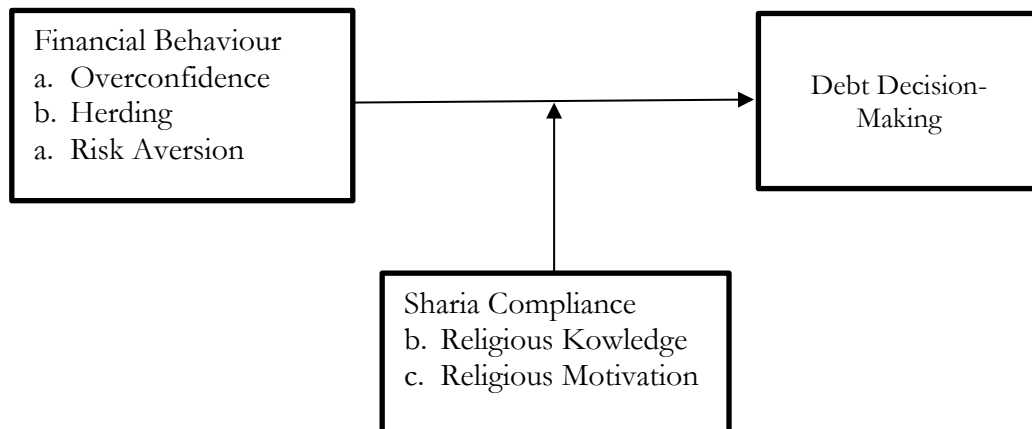


Figure 1: Conceptual Framework

Source: Create by the Author

RESESARCH METHODOLOGY

This study is quantitative and makes use of primary data that was gathered from respondents using questionnaires. The population in this study were Muslim MSME entrepreneurs in Pekanbaru City. It follows one of the research objectives, namely to see the influence of financial behavior which moderated by Sharia compliance on debt decision-making. The sampling technique uses a non-probability sampling method with the convenience sampling category. This method is employed because the precise number of populations is unknown (Sekaran & Bougie, 2016). The sample size was determined using power analysis via G*Power software. Based on the power analysis findings, a minimum sample size of 99 respondents was obtained. However, Two hundred (200) questionnaires were distributed to anticipate the occurrence of damaged/defective, incomplete questionnaires and respondents who did not meet the research objectives, with 171 responses received for the study.

In this study, the research instrument used a questionnaire adopted from existing literature (Abou-Youssef, Kortam, Abou-Aish, & El-Bassiouny, 2011; Ahmad, Ab Rahman, Che Seman, & Ali, 2008; AN, 2017; Hidayati

et al., 2018; Supramono & Putlia, 2010) and developed independently according to the research variables. Indonesian is the language used in the questionnaire so that participants may fully comprehend each question. The survey instrument was distributed directly to all respondents. Before the commencement of data collection, a pilot test was carried out to verify the prepared questionnaire, using convergence validity.

This study's data analysis technique employed the inferential statistical test method. The hypothesis is tested using Structural Equation Modeling - Partial Least Squares Approach (SEM-PLS) via SmartPLS 3.0 software.

RESULTS

In this study, a measurement model analysis was carried out to examine the model's reliability and validity using Confirmatory Factor Analysis. According to Hair et al. (2014), reliability tests are carried out to assess the consistency of research instruments used to measure a variable or construct. Meanwhile, the validity test assesses the quality of the instrument under development and how well the concept is evaluated using a measuring instrument.

Table 1. Results of Validity and Reliability Test

Construct	Indicator	Factor Loading	Cronbach Alpha
Overconfidence	My decision to use debt for business capital is the right decision.	0.901	0.878
	I believe in my ability to pay off the debts I use	0.892	
Herding	I can bear all the interest burden from the debt I use.	0.897	0.899
	My decision to open/develop a business by obtaining a loan at an Islamic financial institution was influenced by other people's experiences.	0.890	
	I chose a financial institution to get a loan on the advice of family/friends/work colleagues regardless of the sharia compliance of the financial institution.	0.923	
	A friend recommended taking out a conventional bank loan to finance the business I am working on.	0.923	
Risk Aversion	I do not want to go into debt with the bank because it will become a burden in my life	0.810	0.886
	I would consider going into debt at the bank for fear of being unable to pay.	0.883	
	I worry that debt will bear the burden for a long time	0.901	
Religious Knowledge	I do not owe the bank because of the high-interest expense	0.860	0.924
	Zakat, infaq, and alms are very important for Muslims who can afford it.	0.895	
	I know who is entitled to receive zakat	0.915	
	I believe in Giving to charity will increase my fortune.	0.926	
Religious Motivation	I understand that what is included in riba is all additional principal in a debt	0.873	0.895
	I like to read books or literature about Islam.	0.874	
	I watch or listen to religious programs on TV or radio.	0.903	
	I always listen to or follow religious da'wah in the masjid.	0.819	
Debt Decision-Making	I do not imitate the nature of the Prophet Shalallaahu 'Alaihi Wassalam in running a business.	0.893	0.923
	Funding from debt supports the finances of my business.	0.865	
	Debt makes me productive and disciplined in doing business.	0.892	
	I feel the benefits of using Debt	0.888	
	Getting debt means that other parties still trust me.	0.745	
	Debt makes me careful in the management and use of money.	0.863	
I understand how to identify the costs of obtaining a loan.	0.843		

Table 1 shows the measurement model results by focusing on validity and reliability values. According to Hair, Hult, Ringle, Sarstedt, Danks & Ray (2021), the standard loading value is greater than 0.708. The test results obtained show that the loading factor value for each indicator ranges from 0.761 to 0.940. It means that every question item in the questionnaire is valid. Besides that, the standard reliability value is if the Cronbach alpha value is greater than 0.7. The test results show that the Cronbach alpha value is 0.879 for overconfidence, 0.907 for herding, 0.896 for risk aversion, 0.932 for religious knowledge, 0.903 for religious motivation, and 0.928 for debt decision-making. Thus, all variables in the questionnaire are reliable because the Cronbach alpha value for each variable is greater than 0.7.

The next stage is structural path testing. Evaluate the independent path variable on the dependent variable by looking at the R-Square, and to test the hypothesis, evaluate the path coefficient between variables and compare the t-statistic value to the t-table.

Coefficient of Determination

Table 2. Results of Coefficient of Determination (R² Value)

	R Square	R Square Adjusted	Result
Debt Decision-Making	0.902	0.900	Strong

Based on Table 2, the results of the coefficient of determination show that the debt decision-making variable can be explained by the financial behavior variable (with the dimensions of overconfidence, herding, and risk aversion) and the sharia compliance variable (with the dimensions of religious knowledge and religious motivation) of 90%. The remaining 10% is explained by variables other than those analyzed. Based on the R² value, it shows that debt decision-making is strong.

Hypothesis Testing

Hypothesis testing involves comparing t-statistics to t-tables using a two-tail test at a significance threshold of 0.05 (p-value < $\alpha = 0.05$). If the t-statistic of the structural path variable exceeds the t-table value (1.960), the hypothesis is accepted, and vice versa if the t-statistic of the variable's structural route is less than 1.960, the hypothesis is rejected.

Table 3. Results of Hypothesis Testing

Effect	Loading	Standard Deviation	T Statistic	P Values	Result
Financial Behavior -> Debt Decision-Making	0.002	0.059	0.069	0.397	No Supported
Overconfidence -> Debt Decision-Making	-0.070	0.033	2.088	0.037	Supported
Herding -> Debt Decision-Making	-0.073	0.035	2.070	0.039	Supported
Risk Aversion -> Debt Decision-Making	-0.090	0.044	2.061	0.040	Supported
Sharia Compliance -> Debt Decision-Making	0.551	0.042	12.230	0.000	Supported
Religious Knowledge -> Debt Decision-Making	0.610	0.069	13.066	0.000	Supported
Religious Motivation -> Debt Decision-Making	1.057	0.086	8.841	0.000	Supported

Testing Moderating Effect

Table 4. Results of Testing Moderating Effect

Effect	Loading	Standard Deviation	T Statistic	P Values	Result
Financial Behavior * Sharia Compliance -> Debt Decision-Making	0.114	0.045	2.514	0.012	Supported

In Table 4, it can be seen that the relationship between financial behavior and Debt Decision making, which is moderated by Sharia Compliance is significant (t=2.514, P= 0.012). Sharia compliance in this interaction is classed as a quasi-moderation type, which means that it moderates the link between the independent and dependent variables while simultaneously acting as an independent variable (Sharma, Durand, & Gur-Arie, 1981).

DISCUSSION

The Influence of Financial Behaviour on Debt Decision Making

The findings of hypothesis testing revealed that financial decision did not affect debt decision-making. Although all the three dimensions were significant. This is because of most respondents are entrepreneurs over 35 years of age. Individuals at this age were mature in their financial management skills. Aside from that, they have extensive expertise in operating enterprises. As a result, mature and experienced entrepreneurs are less impacted by psychological or emotional elements while making business decisions. So they can limit the impact of these impacts. Thus, changes in financial behavior do not affect debt decision-making (Safryani, Aziz, & Triwahyuningtyas, 2020).

This study also discovered that certain entrepreneurs exhibit an attitude of overconfidence. They are confident in their capacity to handle funds. They also believe that the amount of debt they incur may be offset by the business results they generate and paid off. Similarly, with the herding mentality, entrepreneurs follow other people's suggestions and choose a financial institution to receive loans or company capital financing. Despite

this, they possess good financial understanding and skills. They still consider economic calculations when seeking loans. Muslim entrepreneurs consider Sharia conformity when doing transactions. Apart from that, the decision to repay is familiar to them, and they have had good experience taking out debt in financial banking institutions (Heru, Nilmawati, & Hasa, 2020; Koropp, Kellermanns, Grichnik, & Stanley, 2014; Lusardi & Tufano, 2015).

The results of this study contradict the TPB theory. In the TPB, it is explained that a person's behavioral tendencies will influence the decisions they will take. Meanwhile, in this research, a person's financial behavior cannot determine decisions regarding the use of debt. The results of this research are supported by research by Safryani et al. (2020), which states that financial behavior does not influence investment decisions. On the contrary, this research contradicts the results found by Oliveira (2021), Rahman, Azma, Masud, Kaium & Ismail (2020), and Doosti & Karampour (2017), who concluded that financial behavior influences financial decision-making.

The Influence of Overconfidence on Debt Decision Making

The hypothesis test results showed that overconfidence influences debt decision-making. Overconfident business owners typically finance their ventures by appropriately taking on debt. They consider their knowledge of potential funding sources to be sufficient. They also think they have good knowledge and skills in managing finances. As a result, they believe they will be able to pay back the loan each month until it is paid off.

Overconfident business owners with a finance and business background are more at ease selecting the kind of loan or financing at a financial institution. Because they feel that all transactions and financial products from Sharia financial institutions are safeguarded from the issues of *riba*, *gharar*, and *may*, well-informed Muslim businesses will select Sharia financial institutions. Therefore, a person's propensity to use debt increases with their level of overconfidence.

The findings of this study support the TPB theory, which holds that a person's decision-making is influenced by their attitudes toward behavior. These findings also support studies by Rihab & Lotfi (2016) and Hidayati et al. (2018) that discovered evidence of the influence of overconfidence on financial decisions, particularly loan decisions.

The Influence of Herding on Debt Decision Making

The findings of hypothesis testing revealed that herding effects debt decision-making. This is because most entrepreneurs choose to take on debt due to the influence of colleagues, partners, or relatives. They use debt in the same way as the preceding group profited from debt to a financial institution. They also believe that the debt decision made by many individuals is the correct decision, and that by following the group's decision, they may reduce the problems that may arise.

The rapid development of sharia banking in Indonesia has provided an alternate opportunity for Muslim entrepreneurs seeking usury-free business capital financing. Furthermore, Sharia banking provides funding for MSMEs, therefore many Muslim MSMEs seek loans for business capital. The growing number of Muslim SMEs transacting with a financial institution demonstrates that there is herd behavior in financial decisions such as saving, investing, and acquiring financing.

TPB theory explains that one of the elements that determines decisions is attitude toward behavior. This assertion is consistent with the research findings, which discovered that the attitude of following the herd influenced the likelihood to behave in debt. This study also confirms the findings of Qasim et al. (2019) and Sabir et al. (2019), who found that herding behavior effects financial decision-making.

The Influence of Risk Aversion on Debt Decision Making

The findings of hypothesis testing revealed that risk aversion influences debt decision-making. This is because Muslim entrepreneurs do not want to face complications in the future. As a result, they minimize risks by taking

on too much debt since they are worried about being unable to pay their installments and repay all their bills. They also only want to use debt for consumer reasons in emergency situations.

Muslim entrepreneurs who are highly religious are familiar with Sharia-compliant financial management. They prefer Sharia financial organizations for business capital financing while avoiding traditional banking institutions. They know and understand the risks they will encounter if they conduct transactions through conventional financial institutions. As a result, the better an individual's risk aversion, the better the debt-related decisions. The debt taken is debt whose transactions and contracts follow Islamic law, with a debt level appropriate for their requirements and ability to repay.

This study's findings are consistent with Kahneman & Tversky (1979) prospect theory, which explains decision-making under risk and uncertainty. Decisions are prioritized based on the impact of their outcomes, whether profitable or not. Thus, when considering debt, Muslim entrepreneurs look into alternative funding solutions to avoid risks. Besides that, the findings of this study lend support to previous studies by Kijkasiwat (2021); Li et al. (2020); and Rad et al. (2014). This research demonstrated a link between risk aversion and debt decision-making.

The Influence of Sharia Compliance on Debt Decision Making

The findings of hypothesis testing revealed that Sharia compliance affects debt decision-making. Entrepreneurs have a solid theological understanding of debt and receivable transactions. With religious understanding and strong religious motivation, all everyday actions will be guided by Islamic Sharia law. The transactions in mu'amalah demonstrate Sharia compliance, including the use of loans for company capital. The majority of respondents would relatively use Sharia financial institutions because they believe they are free of *riba*, *gharar*, and *maysir*.

The findings of this study are consistent with the TPB Theory (1985), which identifies subjective standards as one of the elements influencing decision-making. Subjective norms in this study are equivalent to adherence to sharia elements. As a result, the greater a person's level of Sharia compliance, the better their debt decisions. The results of this study support those of (Alnori & Alqahtani, 2019). These data suggest that Sharia compliance is critical in making debt decisions as a capital structure.

The Influence of Religious Knowledge on Debt Decision Making

The results of hypothesis testing revealed that religious knowledge influences debt decision-making. This is because Muslim entrepreneurs with strong Islamic understanding will be more prudent and responsible in their financial management. They are aware that debt is prohibited in Islam, save in emergencies. As a result, they are more likely to avoid debt, particularly for consumption-related expenses that contribute to a luxury lifestyle. They understand that debt is a commitment that must be paid off promptly before death, or it will prevent them from accessing heaven and enjoying good fortune. They also think that offering charity leads to subsistence.

Debt decisions by religious Muslim entrepreneurs are more likely to be used for beneficial goals, such as increasing firm capital. They also investigate Sharia norms about debt, looking for financial alternatives such as loans or financing that do not include usury. Furthermore, the long-term implications of loan utilization are considered. Thus, the more religious knowledge that entrepreneur had, the better their debt decisions.

The findings of this study lend support to the TPB theory, which states that attitude is one of the elements influencing behavior decisions. This attitude is the consequence of evaluating the conduct to be carried out based on the knowledge possessed. An entrepreneur's religious understanding will help him assess his attitude toward debt and whether or not to take on debt based on Sharia standards.

This study also supports the findings of Ahmad et al. (2008) and Gestapiani et al. (2019) on financial decisions. According to this study, a person with a high religious understanding is more likely to use a Sharia bank for transactions such as saving or borrowing money.

The Influence of Religious Motivation on Debt Decision-Making

The results of hypothesis testing revealed that religious motivation influences debt decision-making. This is because Muslim entrepreneurs with strong religious drives will follow Sharia standards in their financial activities. They are motivated to avoid financial transactions that involve *riba*, *gharar*, or *maysir* aspects. This inspiration comes from family, relatives, and friends. They are motivated by reading religious books or literature, as well as listening to and following religious studies or sermons in mosques or on television and radio.

Muslim entrepreneurs with strong religious motivation will learn a lot about Islamic law to prevent conducting all of their life activities according to Sharia, including *mu'amalah* activities. Similarly, they use Sharia compliance contracts in their corporate activities. To meet their business capital requirements, they choose to seek loans or financing that do not require *riba*. Thus, the greater an entrepreneur's religious motivation, the better their debt decisions.

The findings of this study lend support to the TPB theory, which states that individual behavior is driven by the desire to do or refrain from performing a specific activity. This desire stems from both internal and external motivations. In line with this, this study demonstrates how religious motivation can influence an entrepreneur's willingness to take on debt. Furthermore, this study validates the findings of Mostafa & Ibrahim (2020) and Kaakeh et al. (2018). This research has shown that religious motivation influences a person's decision to use Sharia banking products and services, such as debt.

The Moderating Influence of Sharia Compliance on the Relationship Between Financial Behavior and Debt Decision-Making

Based on the results of hypothesis testing, it was found that financial behavior moderated by Sharia compliance influences debt decision-making. It is because entrepreneurs with good financial behavior can manage their finances well, so they will be full of calculations and considerations when deciding to take on debt. Apart from that, by having a high level of Sharia compliance, the application of Sharia principles will be one of their concerns in carrying out debt and receivable transactions. They tend to apply for loans from Sharia financial institutions rather than conventional ones. Sharia financial institutions are chosen for transactions because they avoid *riba* transactions with interest on loans from conventional financial institutions. Thus, the better an entrepreneur's financial behavior is followed by a high level of Sharia compliance, the better his debt decisions will be.

The results of this research support the TPB Theory, which states that one of the factors that can influence a person's decision is subjective norms. Subjective norms refer to norms regarding behavior that is permitted or prohibited/prohibited in Islamic law based on the Al-Qur'an and Hadith. High Sharia compliance will strengthen the relationship between financial behavior and choosing good debt decisions.

CONCLUSION

This study was conducted to identify the factors that influence Muslim entrepreneurs' debt decision-making in Pekanbaru City. Based on the above explanation, financial behavior does not influence debt decision-making. However, the dimensions of financial behavior consisting of overconfidence, herding, and risk aversion influence debt decision-making. Furthermore, this research shows that Sharia compliance and its dimensions, namely religious knowledge and religious motivation, influence debt decision-making. This research also concludes that Sharia compliance moderates the relationship between financial behavior and debt decision-making.

The limitations of this research are that it only uses financial behavior and Sharia compliance variables, and the sample size is relatively small, with limited scope only in the city of Pekanbaru. Therefore, in future research, adding other variables, such as financial literacy, economic goal orientation, and so on, is recommended. Apart from that, research can be carried on for a broader range of objects, not only in Pekanbaru.

Theoretically, the impressive results of this research can add to the literature on behavioral finance. Meanwhile, practically, the results of this research can be used as evaluation material for MSMEs when considering using

debt. In addition, the government and financial institutions can use these findings as guidelines for creating financial regulations and consumer protection.

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