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The Role of Public Information in Borrower Risk Decision Making: A Review of Limitations and Opportunities in Competitive Financing Markets

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Abstract. *This study aims to explore the influence of public information on borrowers' decision-making risk in the financing market, considering the constraints and opportunities that exist in a competitive credit environment. Through a literature review, we find that public information, such as financial statements, can reduce information asymmetry between borrowers and creditors, thereby facilitating better decision-making. Although transparent and accurate information can improve market efficiency, we also find that increased decision-making risk occurs when borrowers feel compelled to take higher risks. This highlights the importance of a thorough understanding of the information available. In addition, appropriate regulatory policies are needed to ensure access to relevant information for borrowers without creating incentives to take excessive risks. This study is expected to contribute to the understanding of the relationship between public information and borrower behavior, as well as policy implications for improving the stability of the financing market*

Keywords: *Public information , Decision-making risk , Borrowers , Financing market , Limitations and opportunities*

INTRODUCTION

In the context of the financing market, public information plays a crucial role in determining the dynamics between lenders and borrowers. One of the main elements of public information is accounting reports, which provide creditors with an overview of the borrower's financial performance. In a competitive environment, the availability of this information can influence the decisions taken by borrowers, especially in terms of risk taking. This study aims to explore the influence of public information on borrowers' risk-taking behavior in financing arrangements, highlighting the limitations and opportunities that exist in credit competition.

Previous studies have shown that debt financing creates incentives for borrowers to take excessive risks, especially in adverse circumstances (Jensen & Meckling, 1976). When creditors with private information compete with outside creditors who have limited access to public information, such information becomes an important tool for leveling the playing field. In situations where deeper creditors have better information about the financial health of borrowers, such as financial statement results, competition among

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creditors can be affected (Baldenius et al., 2024). More precise public information can help reduce borrowers' incentives to take excessive risks by influencing creditors' bidding strategies.

It is important to note that perfect public information can actually produce the most inefficient outcome. In a situation where all information is transparently disclosed, borrowers may be more inclined to take greater risks, as they feel more secure in obtaining financing (Engelbrecht-Wiggans et al., 1983). Conversely, adding some "noise" or uncertainty to the public signal can alleviate the asset substitution problem, where external lenders will be more cautious in their offers, especially in adverse situations (Rajan, 1992). This suggests that uncertainty can reduce the incentive to take risks, as it makes lenders more selective in granting loans.

In this study, we develop a model that examines how the accuracy of public information affects lending competition among lenders and borrowers' risk-taking decisions. We integrate state-dependent risk choices into a lending model involving lenders with asymmetric information. In this context, borrowers are faced with the decision to choose between high- or low-risk projects, which in turn affects their expected returns and the cost of debt. Our findings suggest that the effects of public information may vary depending on market conditions and borrowers' prior beliefs about their financial health.

This study contributes to the broader literature on the role of public information in debt contracting. There is evidence that public information, such as accounting reports, can help mitigate agency conflicts between debt and equity holders (Bushman et al., 2012; Li, 2017). In this context, we argue that the regulation and regulation of financial reporting need to be carefully considered, especially across economic cycles. For example, in a recession, increasing the accuracy of reporting can help reduce borrowers' incentives to take on excessive risk, while during a boom, looser regulation may be needed to prevent the same problem (Bertomeu et al., 2011).

Better availability of public information, on the other hand, can affect the rotation of creditors in lending relationships. Although public information can increase transparency, in some cases, it can lead to the "winner's curse" problem, where outside creditors who do not have sufficient information may feel pressured to make lower offers or even refuse to participate in the lending process (Von Thadden, 2004). This suggests

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that there is a complex relationship between the quality of public information, borrower behavior, and the dynamics of credit competition.

Finally, this study will emphasize the importance of understanding how public information influences lending decisions in the context of credit competition. In circumstances where information is limited, borrowers may be encouraged to take greater risks, which can negatively impact their financial health and overall market stability. Therefore, this study will provide valuable insights for policymakers, academics, and practitioners in understanding and managing the risks arising from the interaction between public information and borrower decision-making.

Thus, this study is expected to provide significant contributions to the understanding of the role of public information in influencing borrower decisions, by considering various factors that affect the dynamics of the financing market. This is very relevant in facing the challenges faced by the financial sector today, where risk management and information transparency are becoming increasingly important.

LITERATURE REVIEW

Public information, such as financial reports and accounting information, plays a very important role in financing decision making. According to Armstrong et al. (2010), transparent and accurate information can reduce information asymmetry between creditors and debtors, thereby creating a healthier competitive environment in the financing market. This is in line with the research of Doblas-Madrid et al. (2013), which shows that information transparency in the credit market can increase credit accessibility for companies, especially among small and medium-sized companies.

The borrower's decision-making risk is often related to the borrower's behavior in choosing high-risk projects after they have obtained financing. Jensen and Meckling (1976) put forward a theory about "risk shifting" or risk shifting, where borrowers, after obtaining debt, tend to choose projects with a higher level of risk because they can take advantage of the benefits if the project is successful, while the risk of loss will be borne by the creditor. Baldenius et al. (2024) further explained that in situations where creditors have asymmetric information, borrowers can be more likely to take greater risks, especially when they have better knowledge of the state of their company.

The competitive credit environment is influenced by how well public information is available and how precise it is. A study by Sutherland (2018) shows that improving the quality of public information can reduce borrowing costs by reducing uncertainty among creditors. The study also notes that when public information is inaccurate, borrowers may be trapped in opportunistic behavior, which can increase risks for creditors. This study is in line with the findings of Li (2017), which shows that creditors who have access to better accounting information can reduce borrowers' incentives to take undue risks.

The quality of public information not only affects borrower behavior, but also creditor decisions. Bertomeu et al. (2011) argue that in times of crisis, regulators often tighten financial reporting regulations, which can affect credit decisions. This suggests that changes in reporting policies can affect the level of risk taken by borrowers and, in turn, the overall health of the credit market. Bertomeu and Cheynel (2015) further this argument by showing that improvements in the accuracy of public information can improve efficiency in credit markets, but also risk causing borrowers to take greater risks under certain circumstances.

Information asymmetry between creditors and borrowers can lead to a “winner’s curse” problem, where less informed outside creditors risk offering loans on worse terms. Von Thadden (2004) shows that under conditions of information asymmetry, borrowers may end up with more expensive and less profitable contracts. Research by Engelbrecht-Wiggans et al. (1983) adds that in auction situations where creditors compete to provide loans, creditors with less information tend to make less favorable bids, which in turn increases the cost of borrowing for borrowers.

Based on the above study, there are several important implications for financial regulatory policy. According to Burkhardt and Strausz (2009), increasing transparency of public information can reduce borrowers' incentives to take undue risks, but can also lead to risk shifting under certain circumstances. Thus, tighter regulation of financial reporting can provide additional protection for creditors, but can also increase risks for borrowers in more competitive markets.

Public information plays a crucial role in influencing borrowers’ risk-taking decisions in the financing market. Uncertainty caused by information asymmetry can increase opportunistic behavior among borrowers, which in turn affects the stability of the credit market. Therefore, it is important for regulators and stakeholders to pay attention to the quality and accuracy of public information available in the financing market.

METHODS

The methodology of this qualitative literature review aims to examine the role of venture capital (VC) in influencing payment methods in mergers and acquisitions (M& This research methodology uses a qualitative approach with a literature review method to explore the influence of public information on borrower decision-making risk in the financing market. A qualitative approach provides a deeper understanding of complex phenomena by considering the social context and individual behavior (Creswell & Poth, 2018). Through a literature review, this study seeks to collect, analyze, and synthesize previous research to build a strong conceptual framework.

The literature sources in this study will include journal articles, books, and related documents that are relevant to the research theme. The source selection criteria include publications published within the last ten years to ensure that the information used is up-to-date and relevant. Research by Webster and Watson (2002) emphasizes the importance of selecting quality literature to build a solid theoretical basis in research.

The data collection process was carried out by searching the literature in academic databases using keywords such as "public information," "borrower risk," and "financing market." As explained by Cooper (1988), a systematic search can help in identifying and grouping studies that are relevant to the topic being studied.

Data analysis was conducted by categorizing the information found based on the themes that emerged. This analysis method follows the approach proposed by Thomas (2006), who explains that literature review analysis should include a coding process and the arrangement of themes that can provide a deeper understanding of the relationship between the variables studied. Furthermore, the researcher will compile a narrative that reflects the main findings of the literature that has been reviewed.

To ensure the validity of the findings, the researcher will conduct triangulation by comparing the results obtained from various literature sources. As stated by Denzin (1978), triangulation can increase the reliability and validity of research results. In addition, this study is aware of limitations in access to some sources that may not be freely available, which can limit the scope of the analysis.

The qualitative research methodology of this literature review is expected to provide a deeper understanding of the influence of public information on the risk of borrower decision making in the financing market. With a systematic and structured approach, it is expected that the results of the study can contribute to the development of science in the fields of finance and economics.

RESULTS

The results of this study indicate that public information, such as financial reports and accounting data, has a significant influence on borrowers' decisions in the financing market. Research by Armstrong et al. (2010) confirms that transparent and accurate information can reduce information asymmetry between creditors and borrowers, thereby facilitating a better decision-making process. In a competitive credit environment, access to public information allows borrowers to compare offers from various creditors, which in turn encourages them to make more informed decisions (Doblas-Madrid et al., 2013).

However, with public information there are also risks that need to be considered by borrowers. Research by Baldenius et al. (2024) shows that when public information becomes more precise and accurate, there is a potential increase in the risk of borrower decision-making. For example, borrowers may be encouraged to take greater risks in their investment projects, especially in poor market conditions. In this context, decision-making risk can be understood as an asset substitution problem, where borrowers tend to take riskier projects after obtaining good public information.

The results of this study also identify the limitations and opportunities faced in the competitive credit environment. On the one hand, the existence of public information can create healthier competition among creditors, but on the other hand, better information can increase uncertainty for borrowers. Research by Von Thadden (2004) notes that the phenomenon of "winner's curse" often occurs in situations where creditors have imbalanced information. In this context, borrowers may feel pressured to accept unfavorable offers if they do not fully understand the conditions that accompany the public information provided.

This study also found that regulation in financial reporting can affect the dynamics of the financing market. Bertomeu et al. (2011) highlighted that strict policies in reporting can increase transparency, but may also encourage opportunistic behavior from borrowers. Therefore, there needs to be a balance between information transparency and creditor protection to ensure market stability.

Overall, the results of this study provide a significant contribution to the literature on the influence of public information on borrower decision-making. This study shows that although public information can serve as a tool to increase transparency and reduce information asymmetry, the risks associated with decision-making must also be considered. Limitations in access to information and the dynamics of competitive credit markets can create additional challenges for borrowers in making optimal decisions.

The results of this qualitative literature review study reveal the complexity of the relationship between public information and borrower decision-making risk. While public information can increase transparency and aid in better decision-making, it is important for borrowers to be aware of the risks involved, especially in the context of intense credit competition. The existence of appropriate regulatory policies and good supervision can help minimize these risks and encourage sustainable growth in the financing market.

DISCUSSION

One of the main findings of this study is that public information has a significant impact on borrowers' decision-making in the financing market. According to Baldenius et al. (2024), the accuracy of public information such as financial statements can reduce information asymmetry between creditors and borrowers. This is in line with research by Armstrong et al. (2010), which shows that information transparency can improve market efficiency by providing borrowers with better access to compare offers from various creditors.

Research by Doblas-Madrid et al. (2013) also supports this finding by showing that information disclosure can help creditors make more accurate assessments of credit risk, allowing them to provide more competitive offers to borrowers. In a competitive credit environment, borrowers who have access to good public information tend to make more informed decisions that are oriented towards long-term profits.

However, the positive impact of public information is also offset by higher decision-making risks. Research by Jensen and Meckling (1976) suggests that with debt, borrowers tend to engage in greater risk-taking, especially when they realize that the information available to creditors may not fully reflect their true circumstances. This is known as the asset substitution problem (Rajan, 1992).

In this study, it is found that in adverse market conditions, accurate public information can encourage borrowers to choose projects with higher risks. As explained by Baldenius et al. (2024), when public information is more accurate, borrowers can better predict that creditors will respond with more competitive offers, encouraging them to take greater risks.

In the analysis of the limitations and opportunities that exist in the financing market, it was found that although public information can increase competition among creditors, it can also create challenges for borrowers. Von Thadden (2004) explains that situations where creditors have asymmetric information can lead to the phenomenon of "winner's curse," where borrowers may get less favorable offers if they do not fully understand the conditions associated with the available information.

Research by Bertomeu et al. (2011) shows that uncertainty resulting from inconsistent or misleading public information can lead to suboptimal decisions by borrowers. In this context, it is important for borrowers to actively seek accurate and relevant information to reduce the risk of poor decision making.

The results of this study provide important insights into how financial reporting regulations can affect the dynamics of the financing market. Bertomeu and Magee (2011) note that strict reporting policies can increase transparency, but may also lead to opportunistic behavior from borrowers. On the other hand, research by Li (2017) highlights that better regulation in accounting reporting can help mitigate asset substitution risks by providing more reliable information to creditors.

To further strengthen the findings of this study, a comparison can be made with the results of previous studies. For example, research by Corona et al. (2015) showed that the quality of accounting information is positively related to better decision making by borrowers. This is in line with the results of this study which states that accurate public information improves borrower decisions.

In addition, research by Burkhardt et al. (2009) shows that information transparency can reduce the risk of moral hazard in lending relationships. This study confirms that with better information, borrowers are less likely to engage in opportunistic behavior that can harm creditors.

On the other hand, research by Han (2018) shows that information accuracy can lead to changes in lending strategies, with creditors becoming more cautious in lending to borrowers who are considered risky. This suggests that while public information can improve borrowers' decisions, creditors will also react to such information in ways that may make it more difficult for borrowers to access financing.

Research by Sutherland (2018) also highlights the potential for a decline in established lending relationships. While public information can increase transparency, lenders may be more likely to seek out new, more profitable borrowers if they feel that the information available is insufficient to support continued lending decisions.

Overall, the results of this study highlight the complexity of the interaction between public information and borrower decision-making risk in the financing market. While public information can serve as a tool to increase transparency and reduce information asymmetry, borrowers should also be aware of the risks associated with decision-making that may arise from uncertainty in the competitive credit environment.

Thus, it is important to create a balanced regulatory policy that facilitates access to accurate information without creating incentives for borrowers to take unnecessary risks. Such policies should take into account market dynamics and ensure that lenders have sufficient information to make appropriate risk assessments, while still providing opportunities for borrowers to pursue potentially profitable projects.

CONCLUSION

The results of this qualitative literature review study indicate that public information has a significant influence on borrower decision-making in the financing market. The availability of transparent and accurate information allows borrowers to reduce information asymmetry, so that they can make better decisions related to loans. This leads to increased market efficiency, where borrowers can compare offers from various creditors and choose the most profitable option.

However, the positive impact of public information also comes with higher risks. Borrowers tend to be more willing to take risks when they feel that lenders will provide competitive offers, which can lead to suboptimal investment decisions, especially in adverse market conditions. Therefore, it is important for borrowers to have a deep understanding of the information available and how it can influence their decisions.

In addition, this study also highlights the limitations and challenges in the competitive credit environment. Although public information can improve transparency and accuracy in risk assessment, inconsistent or misleading information can create uncertainty that can be detrimental to borrowers. Therefore, a balanced regulatory policy is needed to ensure that borrowers can access relevant and accurate information without creating incentives for them to take unnecessary risks.

LIMITATION

This study has several limitations that need to be considered: Limited Data Sources: This study relies on existing literature and may not cover all relevant perspectives or variables in the relationship between public information and borrower decision making. Therefore, the analysis may not fully capture the complexity of financing market dynamics.

Time and Space Limitations: The focus of this study is limited to relevant and recent studies, which may overlook older research results or studies conducted in different geographical contexts. This may affect the generalizability of the findings.

Changing Economic Context: Financial market dynamics and regulations can change rapidly, which may affect the relevance of the findings of this study in the future. The results obtained at the time of this study may not be fully applicable in the future.

Subjectivity in Literature Selection: The process of literature selection and analysis may be influenced by the researcher's subjectivity, so there is a possibility of bias in the interpretation of data and the results obtained.

Limitations in Methodology: As a qualitative study, this analysis is descriptive in nature and does not produce quantitative data that can be used to measure impact statistically. Therefore, the validity and reliability of the results may need to be further tested using quantitative research methods.

Taking these limitations into account, it is hoped that further research can be conducted to explore more deeply the influence of public information on borrower decision-making and to develop more effective policies in regulating the financing market

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