Overconfidence And Its Impact On Sme Performance

Renwi Noviantini (Ms. Scholar) KusdiRaharjo (Lecturer) Sri MangestiRahayu (Lecturer)

Departement of Business Administration, Faculty of Administrative Sciences, University of Brawijaya,
Indonesia
Corresponding Author; Renwi Noviantini

ABSTRACT: *This study objectives are analyzing and explainingabout overconfidence to investment decision, investment decision to SME performance and overconfidence to sme performance through mediating variable of investment decision. The research used descriptive quantitative research by using primary data. Primary data were obtained from questionnaires distributed at SMEs of bag and suitcase at Tanggulangin, Sidoarjo. Sampling technique used is purposive sampling with 79 SME samples. Data analysis was SmartPLS with significance level of 0,05. Analysis results in the research showed that overconfidence influence significantly investment decision, investment decision influence significantly to the company performance, and overconfidence influence to the company performance through mediating variable of investment decision.*
KEYWORDS :*Behavioral Finance, Overconfidence, Working Capital Management, Performance*

I. INTRODUCTION

Decision makers take on various uncertain situation during decision making. Uncertain situation decision makers, or owner SME predict into future, select one of choices and predict events based on owned limited proofs (Suhaman, 2005). The situations make financial managers make decision based on belief, valuation which is influenced various prejudices of the financial managers. Belief, valuation in the individuals often experience mistake during making decision because no accurate information. Mistakes occurred during decision making causes loss for decision makers and the company.

Behavior, belief, valuation or habit which are influenced by various prejudices or assumption in the individuals called as behavioral bias (Pompian, 2012). With other words, financial decision making influenced by bias behavior so causes the managers or decision maker experience mistake during the decision making. Behavioral bias is part of behavioral finance theory. The behavioral finance. Behavioral finance theory discusses about decision making process done by investor or financial decision makers based on bias behavior (Pompian, 2012).An overconfidence usually judges that he or she has an above average ability.

A person who overconfidence with the ability possessed then will think that he is better than the truth. A person who overconfidence also assumes his knowledge better then will think more knowing everything than actually (Pompian, 2012).Overconfidence can be bad and good if used properly. Overconfidence needs to be owned by entrepreneurs when running a business. Overconfidence is suitable for use in this study because employers must have a sense of overconfidence in the face of intense competition in the business world. Without a sense of overconfidence many entrepreneurs who failed during the introduction and difficult for businesses that have gone out of business to re-run their business. One must be able to determine when to behave in overconfidence to be beneficial to his business (Trevelyan, 2008). Therefore, it is necessary to investigate the owner of SME overconfidence used to develop the business to reduce the incidence of bias behavior, in accordance with the statements of Simon, et al. (1999) and Keh, et al. (2002) that the owners of SME are very vulnerable to overconfidence so often cause errors when making decisions, such as: owners of SME more confident predict the results that will occur when fully involved.

Behavioral finance often occurred in capital market because short time in decision making. Opportunity of Behavioral finance study not limited at study in the capital market however behavior bias can occur on organizatation profit or non profit, government, entrepreneur and individuals.Behavioral finance can be grouped into several categories: investor behavior in capital market, manager behavior in financial decision making, governmental apparatus behavior in the state financial management and household behavior in financial management (Suparmono, et al., 2010). Behavioral bias on entrepreneur are not much studied so seldom to find references in the form of studies in the scientific journal. Accordingly, opportunities for researcher want to examining the behavioral bias on entrepreneurs when they decision making about working capital management and impact to performance.

Study of behavioral finance and explains about the psychological impact of the financial decision in the domestic industry, market and organization (Bondt, et al., 2008). Behavioral finance not only at the capital market or financial market only. Behavioral finance also present at other places. Based on the matters, then the object under research is behavior of entrepreneur in working capital management decision. Working Capital Management Decision is important because limited access at the long term working capital (Weston and Copeland, 1986).Working Capital Management Decisionat the SME relates to how the entrepreneurs place the fund at the current assets such as: cash, account receivables, and stock. With other words, investment decision made by entrepreneur is funds placement for working capital.

Funding placement for working capital is said as not optimum yet, when mentatily entrepreneurs very low, example: the owner spirit to innovate, creative, tenacious, willing to sacrifice, and spirit to take risks. Mentality Entrepreneur is very important thing that should be considered. Mentality relates to the behavioral finance of SME entrepreneurs in decision making. Mentality problems in decision making also experience by owners. SMEs ownership dominated by individual cause many consideration in decision making. Decision making tend to based on intuition of entrepreneur, so it should be studied about behavioral bias of entrepreneur when decision making about working capital management.

SMEs that made as population are SMEs of bag and suitcase at Tanggulangin, Sidoarjo. The reason for research location at SME of bag and suitcase at Tanggulangin, Sidoarjo is almost 70 percent of the enterprises had ever failed and bankrupt, even though the location still 5 km from the natural disaster. SMEs of bag and suitcase at Tanggulangin, Sidoarjo has risen. The researcher also supposes that the owners of SME of bag and suitcase at Tanggulangin, Sidoarjo have behavior bias so that cause mistake in decision making of working capital management. Based on the matter then it is relevant if done study about the influence of mental overconfidence to working capital management decision and the impact to the company performance (Study at SMEs of bag and suitcase at Tanggulangin, Sidoarjo).

II. THEORITICAL REVIEW

Behavioral Finance

A Financial decision making (either educated investor or not, experienced or not, men or women, and etc) then the investors will involve their emotions (Elster, 1998). The effect of Behavioral bias or psychological bias someone in investment decision making and will impact to the company performance. Bias behavior is part of behavioral finance theory. Behavioral finance discusses about how the bias behavior of the investor in investment decision making (Pompian, 2012).

Bias behavior explaines about behavior, belief, valuation or habit which is influenced by various prejudices or assumptions. Bias behavior is factors which influence someone in financial decision making based on the behavior of the individuals. Bias behavior tend to adversely affect to the performance, not be used appropriately. Various researcher stated behavioral bias also can be defined abstractly as systematic mistake in valuation (Pompian, 2012).

Most valuation toward something based on belief toward uncertain possibilities. Belief relate to the uncertain event predicted in the form of number or as subjective probability. Several researchers called as bias behavior. Other researchers considered it as heuristic. Bias behavior usually be used to decrease the complex explanation in predicting possibilities and values in uncertain quantities. Generally, bias behavior is useful, but sometime able to direct toe systematic mistake or valuation.

Overconfidence

An overconfidence usually involved the self-view of the capabilities possessed. An overconfidence shows one's judgment of one's own ability. The person judges himself to have above average ability. An overconfidence how well a person understands the ability, knowledge and understanding of its limitations. A person who overconfidence with the ability possessed then will think that he is better than the truth. Someone who overconfidence thinks his knowledge is better then will think more knowing everything than it really is. A person's overconfidence does not mean not having the ability and knowledge, but in his view more ability and knowledge than the real (Pompian, 2012).

According to Pompian (2012) Overconfidence is an over-belief based on one's instinct, judgment and cognitive abilities. Some overconfidence investors find it unnecessary to know or understand the statistics of investment performance historically because it has the nature of underestimating existing risks so that performance results do not match expectations and beliefs. An entrepeneur mistake working capital management decision are caused by entrepreneur an overconfidence, in accordance with statement Riaz, Tabassum and Haroon Iqbal (2015) that it is too confident to have a positive and significant influence on investment returns of capital market in the Pakistan.Secondly, in accordance with research conducted by Eichholtz, et al. (2011) findings in this study say that there is a significant negative influence between

overconfidence on stock performance. Third, research conducted by Bashir, et al. (2013) findings of this study say that overconfidence has a positive and significant influence on investor decision making.

Working Capital Management (Wcm)

One of affects the company's profibability is working capital management. Every company always needs working capital in carrying out its operations, such as: cash, receivable and inventory. The funds spent are expected to come back to the company in the near future through the sale of production. Weston and Copeland (1986) also argue that investment decisions of working capital in SMEs are important, due to limitations on long-term capital. Based on the above explanation it can be concluded that the investment decision on Small and Medium Enterprises (SMEs) associated with working capital management. working capital management is related managing and place funds on current assets, such as: cash, receivable and inventory.

Nyamao, et al (2012) the research concluded that working capital managementhas influence at the financial performance of SSE, then the SSE manager should use working capital management more efficiently as strategy to improve the financial performance and obtain competitive advantage compared to the competitors. In the research done byNyamao, et al. (2012) used three measuring instruments in measuring the working capital efficiency, such as: Efficiency of Cash Management (ECM), Efficiency of Receivables Management (ERM), and Efficiency of Inventory Management (EIM).Mwangi, et al. (2014) the research findings stated that working capital management has positive significant influence toward nonfinancial company at NSE.

Performance

In this study to measure the performance of SME bye using financial and non financial. Financial measurement such as: sales and profit. Non financial measurement such as: new product development, market share and employee skill improvement. With limitation of the financial and non financial measurements, the SME owners adopt mix approach, by using financial and non financial measurement (Chong, 2008). Company performance and effectiveness of resources can be measured through four approaches with goal, resource system approach, stakeholder approach, and competitive value. Goal approach measure how far the company reach the goals, while resource approaceh measure the company capability in obtaining resources. The stakeholder approach and competitive value evaluate the company performance based on the capability in fulfilling the need and expectation of external stakeholder, such as: customers, suppliers, and competitors.

Small Medium Enterprise (Sme)

In the economic crisis in Indonesia, SME proven superior and tougher compared with big company which experience stagnation and bankrupt. SME development often be ignored because the small production and unable to compete with other bigger businesses. Even though the SME development is important thing to do, because it is the pioneer of bigger companies. Almost all big business come from SME. SME able to advance and develop so able to compete with bigger business. SME development not merely the responsibility of government, but the role of banking is also important because relate to funding, such as: loan giving or banking policy. Relate to capital availability, the investor role either domestic or foreign are important. The conclusion, those who have role in developing SME not only government but need cooperation among other stakeholders. Regulation and Criteria related of SME is in Law of The Republic of Indonesia No 20 Year 2008, contained in table below:

Table 1. Criteria of SME

No	Enterprises	Criteria	
		Net Wealth	Sales/Year
1	Small Enterprises	>50-500 Millions	>300 Millions -2,5 Billions
2	Medium Enterprises	500 Millions -10 Billions	>2,5- 50 Billions

Source: RI No 20 Year 2008

Method Of Research

The research based on quantitative approach with primary data obtained through questionnaire. Research object at SME of bag and luggage at Tanggulangin, Sidoarjo. Research samples of 79 SMEs. Respondents in the research are the SME owners. Sampling taking by purposive sampling. Data were tested by SmartPLS. The research consist of three variables are overconfidence, investment decision (working capital management), and company performance. Indicators in the research were measured with several items which established based on the previous researches which were validated by using Likert scale from the most negative to the most positive (scala 1-5).

III. RESULT AND DISCUSSION

Result

Model evaluation by using square root of average variance extractedis by comparing the root value of AVE with correlation between constructs. If AVE root higher than correlation value between constructs, then the good discriminant is achieved. Beside that, AVE value higher than 0.5 is very recommended. The next test to analyze the outer model is by looking at the construct reliability of latent variable which is measured by two criteria that is composite reliability and cronbach alpha from indicator block which measure the construct. Construct is reliable if the composite reliability value or the cronbach alpha value above 0,70. Below the output composite reliability and cronbach alpha results:

Table 2 Output Composite Reliability and Cronbach Alpha

Variable	AVE	Composite Reliability	Cronbachs Alpha
X1	0.8312	0.9365	0.8979
Y1	0.8694	0.9523	0.9250
Y2	0.8783	0.9352	0.8614

Source: Data Processing With PLS, 2018

AVE values for the four constructs more than 0.5 so can be concluded that the model measurement evaluation has good discriminant validity. Beside construct validity test, also done construct reliability by criteria test, that is composite reliability and cronbach alpha from indicator block which measuring construct. Constructs which stated as reliable if the value of composite reliability or cronbach alpha above 0.70. So can be concluded that the construct has good reliability.

Test to the structural model done by looking at R-square value as the test of goodness-fit model.

Table 3 R-Square values

Variable	R Square
Y1	0.6075
Y2	0.2457

Source: Data Processing With PLS, 2018

Principally. the research use three variables which are influenced by other variables that is investment decision (Y1) which is influence by Mental Accounting variable. Then also with company performance variable (Y2) which is influenced by Mental Accounting and investment decision variable (Y1). Table 3 showed the R-square for investment decision of 0.6075. TheR-square value showed that 60.75% variable of investment decision (Y1) can be influenced by overconfidence variable. while the remain 39.25% influenced by other variable out of the research. Table 3 showed R-square value of company performance of 0.2457 showed the company performance (Y2) is influenced by Mental Accounting variable. Overconfidence. Illusion of Control. and variable of investment decision (Y1) of 24.57% while the remain 75,43% is influenced by other variable out of the research.

Goodness of Fit Modelis measured by using dependent latent R-square variable with interpretation equal with regression; Q-Square predictive relevancefor structural model, measure how good the conservation value produced by model and also the parameter estimation. The size of Q^2 has value with range $0 < Q^2 < 1$, where the closer to 1 it means the better model. Magnitude of Q^2 equivalent with total determination coefficient at path analysis.

Based on table 5.12 then predictive relevance calculation as follow:

Value $Q^2 = 1 - (1 - R^2) \times (1 - R^2)$

Value $Q^2 = 1 - (1 - 0.6075) \times (1 - 0.2457)$

$\qquad = 0.7039$

Explanation:

$\quad Q^2 \qquad$: Predictive Relevance value

$\quad R_1{}^2 \qquad$: R-Squarevalue of investment decision variable

$\quad R_2{}^2 \qquad$: R-Squarevalue of company performance variable

From the calculation known theQ^2 value of 0.7039 which mean the data variance from the research can be explained by the structural model of 70,39%. while the remain 29.61% explained by other factor out of the model. Based on the results can be said the structural model at the research is good enough.

Table 4 Mean, STDEV, T-Values

Variable	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STERR|)	p-Value
X1 - Y1	0.2612	0.1035	2.5233	0.014
Y1 - Y2	0.4957	0.1161	4.2686	0.000

Source: Data Processing With PLS, 2018

The structural equation obtained is:
Y1 = 0.2612 X1
Y2 = 0.4957 Y1

Parameter significance estimated giving very useful information about the relation between research variables. The bases used in testing hypothesis is the value at the output result for inner weight. Hypothesis testing can be done by comparing t-statistic with t-table. T-table can be obtained from 79 respondents who finally obtained t-table of 1.960. Table 4 give estimation output for structural model test.

Discussion
Overconfidence has significant to Investment Decision
Overconfidence has positive influence to the investment decision with path coefficient of 0.2612 and t statistic of 2.5233 higher than t table (1.960) and significant or $p < 0.05$. Dari From the results above showed that H0 is rejected which showed that Overconfidence significantly to investment decision. It means the first hypothesisis accepted.

Investment Decision significant to SME performance
Investment decision influence significantly to the company performance with path analysis coefficient of 0.4957 and t statistic of 4.2686 higher than t table (1.960) and significant or $p < 0.05$. From the results above showed that H0 is rejected showed that investment decision give significant to SME performance. It means the secondhypothesisis accepted.

Investment decision mediating the relation between mental accounting with SME performance
To know the direct influence of independent variable toward company performance variable through investment decision variable can be seen in Table 5

Table 5 Indirect influence

Variable	Direct coefficient		Standard error		TL Coefficient	se Com	t Calc	p-Value
X1 - Y1 - Y2	0.2612	0.4957	0.1035	0.1161	0.129	0.061	2.130	0.017

Source: Data Processing With PLS, 2018

Based on Table above, showed that variable relation of overconfidencewithin SME performance (Y2) through investment decision showed indirect path coefficient of 0,129 with value of t statistic 2.130. The value higher than t table (1.960) or p< 0.05. The results means that the investment decision significantly in mediating the overconfidence to SME performance. The results showed that H0 is rejected which means the third hypothesis is accepted.

IV. CONCLUSIONS AND RECOMMENDATIONS

The research found that majority of SMEs has strong an overconfidence owned by entrepreneur so bad in working capital management because entrepreneur do not implement the management of working capital in the business operation and the impact the SME performance is very worsen. The research conclude that working capital management may be the cause of SME bankrupt. Researcher recommended the financial management training for the SME owners to improve the capital management efficiency. Second, the research concluded that most SMEs not develop so do not give contribution for economic development and their evolution into medium and big enterprises may be uncertain. The study showed that the small enterprises need effective and dynamic management to be success. Because of that, the emphasis to give credit to the buyers or customers also should be considered. The research also found that working capital influence significantly to the SME financial performance and recommended that SMEs should use efficient financial management and get competitive advantage compared to the competitors. The SMEs performance in the finance, form the company performance but not produce optimum SME performance. It depicts that the SME performance should be supported by the sales increase, so produce suitable profit as expected. The way can be done to increase the sales, firstly, increase promotion by using internet by making website, or blog, through social media such

as:instagram, line, bbm, facebook and etc so able to widen the product marketing. Second, increase the buyers and customers by making event or making exhibition so able to improve the sales. Third, product development either from the side of quality improvement or quality maintenance. Fourth, human resources improvement although has hot training related with SME development, but still can notimplement in the business. An overconfidence significantly to company performance through working capital management. Beside that also can be said that psychologically the manager or the SME owners are overconfidence working capital management because it is based on the background that the most entrepreneur are male.

The research recommendthat the owners of SME ensure that stock enough to fulfill the customers demand anytime while at the same time avoid surpluss stock that able to increase storing cost. The SME owners should find knowledge about working capital optimization so able to determine the appropriate stock amount to hold at certain time. Based on the results and conclusions, below is the suggestions for the next research recommendations.

1. It is expected the future researches not only consider overconfidence only, because many other psychological biases that influence the investment decision such as representativeness, availability, framing, confirmation, representativeness, loss aversion bias and conservatism.
2. The future researches are expected use samples not only at SMEs of bag and suitcase, because many other SMEs in Indonesia.
3. The future researches are expected to investigate in depth the causes for the SME managers unable to manage finance well through quantitative research.
4. The future researches are expected not only at profit organizations but also at non profit organizations, governmental apparatus and household, so can be known how the behavioral finance of the other research objects.

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