

# The Influence of Behavioral Finance on Corporate Performance Through Debt Decision Making (Study on Small and Medium Enterprises in Lombok Island)

<sup>1</sup>Siti Aisyah Hidayati  
Faculty of Economics & Business  
University of Mataram  
Jl. Majapahit No. 62 Mataram  
2nd line of address  
+62 370 633007  
hidayati250573@yahoo.com

<sup>2</sup>Sri Wahyulina  
Faculty of Economics & Business  
University of Mataram  
Jl. Majapahit No. 62 Mataram  
2nd line of address  
+62 370 633007  
sriwahyulina@yahoo.co.id

<sup>3</sup>Embun Suryani  
Faculty of Economics & Business  
University of Mataram  
Jl. Majapahit No. 62 Mataram  
2nd line of address  
+62 370 633007  
embunsur74@gmail.com

## ABSTRACT

*This research aims to analyze: 1) The Influence of Overconfidence on debt decision making in SMEs, 2) The Influence of Overconfidence on corporate performance through debt decision making in SMEs, 3) The Influence of Illusion of control on debt decision making in SMEs, 4) The Influence of Illusion of control on corporate performance through debt decision making in SMEs, 5) The Influence of Availability on debt decision making in SMEs, 6) The Influence of Availability on corporate performance through debt decision making in SMEs, and 7) The Influence of debt decision making on corporate performance in SMEs.*

*This research is an explanatory research with quantitative approach. The population in this research is all SMEs located in Lombok Island. The sample is selected by Non probability sampling technique with a judgment sampling method where the SMEs selected as samples are the SMEs in handicraft industry of pottery and had already exporting the products. Of the existing population, there are 25 (twenty five) SMEs that can be sampled. The Respondents in this research are the financial managers who are also the owner of the SME. The Data was collected using questionnaire. To achieve research objectives and hypothesis testing, the obtained data is processed using Generalized Structured Component Analysis (GSCA) statistic tool.*

*The results of this study indicate that Overconfidence and Availability have a significant effect on debt decision making in SMEs. Meanwhile, Illusion of control has no significant effect on SMEs' decision making. Debt decision making has no significant effect on corporate performance in SMEs. Debt decision making is not an intervening variable, so the decision-making variable does not mediate Overconfidence, Illusion of control and Availability variables on corporate performance in SMEs.*

**Keywords:** *overconfidence, illusion of control, availability, decision making of debt, corporate performance*

## 1. INTRODUCTION

Financial study rests on the assumption of rationality, in which the actors will act rationally to make financial decisions. Aspects of rationality appear in decision making when the actors face the element of uncertainty, which is related to economic and financial portfolio. However, since people are believed to be unseparable from the aspect of bias during the process of decision making, causes financial decision makers to make errors.

Some characteristics of SMEs, i.e. turnover and workforce is still fluctuating, using only simple technology, managed by individuals who act as both the owner and manager of the company, and utilize workers from family and close relatives (Hastuti, 2003 and Kuncoro, 2000). While Gibson (2001) clarified that the owner's personal views will have direct effect on business decisions made. Darmawan research result (2005) showed the success of business development was influenced by both internal and

external factors of the company. The most dominant internal problem faced by SMEs was the limitation of funding source. Reid (1997) expressed that the funding source which come from both debt and financial aid of the owner had significant effect for the business continuity. According to Gibson (2007), the relationship between funding sources derived from self-capital and debt on individuals-owned micro and small enterprises was often complex since owner's assets were used as debt guarantees, the owner was at risk for returns that have not yet explored.

## 2. RESEARCH OBJECTIVES

This research aims to:

1. Analyze the influence of Overconfidence on Debt Decision Making on SMEs.
2. Analyze the influence of Overconfidence on Corporate Performance through Debt Decision Making on SMEs.

3. Analyze the influence of Illusion of control on SME debt decision making.
4. Analyze the effect of Illusion of control on Corporate Performance through SME's debt decision making.
5. Analyze the effect of Availability on Debt Decision Making on SMEs.
6. Analyze the effect of Availability on Corporate Performance through Debt Decision Making on SMEs.
7. Analyze Debt Decision Making on Corporate Performance on SMEs.

### 3. THEORETICAL AND EMPIRICAL STUDIES

#### 3.1. Theoretical Studies

##### 3.1.1. Behavioral Finance Definition

De Bondt, et al. (2008) stated "Behavioral finance is the study of how psychology impacts financial decisions in households, markets and organizations", which means the study of how psychology has impacts on financial decisions in households, markets and organizations. While according to Pompian (2006), Behavioral Finance, commonly defined as the application of psychology to finance. Shefrin's (2005) in Forbes (2009) Behavioral finance is the study of how psychological phenomena impact financial behavior. Meanwhile, according to Lintner (1998: 7), behavioural finance "the study of humans interpret and act on information to make informed investment decisions" means, behavioral finance is the study of how humans interpret and act on information to make decisions in investing. Thus, the element of human attitude and action is a determining factor in investing. Therefore, Behavioral finance can simply be defined as the application of psychology into the financial disciplines of financial decision making in households, markets and organizations.

##### 3.1.2. Theories of Behavioral Finance

Ricciardi and Simon (2000) in Gumanti, (2009: 9) classified the four main themes covered in behavioral finance.

###### a. *Overconfidence Theory*

Overconfidence has become one of interesting topics that has gained widespread attention from researchers in the field of psychological and financial behavior. As a human being, it is undeniable that entrepreneurs or managers have a tendency to be overconfident of their ability and predictions to be successful. This condition is both a normal thing and a reflection of someone's confidence level to achieve or get something. Overconfidence also comes from the marketing field's point of view.

###### b. *Financial Cognitive Dissonance Theory*

Financial cognitive dissonance theory developed by Festinger in Morton (1993) in Gumanti (2009: 10), stated that humans feel internal pressure and doubt or fear when they face conflicts or differences of beliefs. As individuals, it is better to try reducing internal self-conflict (reducing dissonance) by doing at least one of these two ways: (1) changing past values,

feelings or opinions, and (2) trying to rationalize the choices.

###### c. *Regret Theory*

Regret theory states that the individual evaluates the expected reaction to a future event or situation. Bell (1982) described regret as an emotion caused by a comparison of a given outcome or an event with something not being chosen (foregone choice).

###### d. *Prospect Theory*

Prospect theory relates to the idea that humans do not always behave rationally. This theory assumes that there is an inherent and persistent bias which is motivated by psychological factors influencing people's choices under conditions of uncertainty. Prospect theory considers preferences as a function of decision scales and assumes that decision scales and assumes that they are not always precise with probabilities. Specifically, prospect theory holds that the scales tend to be higher than low probability and lower than moderate or high probability.

#### 3.2. Empirical Studies

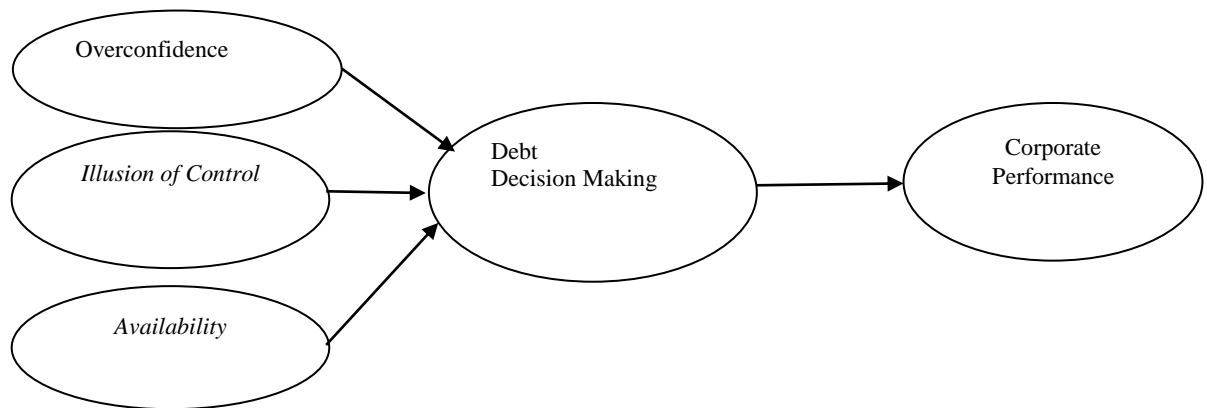
Overconfidence is one of the psychological biases in decision-making related to someone's beliefs with abilities and knowledge possessed beyond average people. This is proved by research conducted by Statman, Thorley and Vorkink (2006) which stated that overconfidence investors could be seen during high trading volume. With the bias in investors, trading volume varied with the rate of return, which means high trading volume were not always followed by high returns. Even in the research analysis conducted by Grinblatt and Keloharju (2009), no relationship found between overconfidence with trade turnover. While research conducted by Ishikawa and Takashashi, (2010) stated that managers in companies registered in Japan tend to be overconfidence. This was proved by the stable tendency to predict much higher profit compared to the actual condition. Eichholtz and Yonder (2011) also proved that overconfidence decisions had negative impact on corporate performance. Friedman's research (2007) emphasized the entrepreneur decision, which stated that overconfidence in decision making could also be seen in entrepreneur decisions when starting the business. They did not use external fund to run the business. In relation to working capital, Ramiah, et al. (2012) stated that overconfidence was one of bias aspect which might improve working capital efficiency if it was used correctly. This means that overconfidence does not always have negative interpretation.

Illusion of control is a human tendency to believe that they can control or at least affect the result, though actually they can not. Where generally someone thought to be able to control the results of decisions he took. Entrepreneur confidence might have an effect on the outcome, so investors overestimate their control over the outcome (Nofsinger, 2005). While according to Shefrin (2007), suggested that when a manager made a decision, the results obtained were combination of skills possessed and fortune.

The third bias is availability. This bias will encourage investors to make decisions based on what they remember so they do not doing thorough analysis to make financial decisions. The actual example of this bias is how workers will trust and buy corporate shares where they work since they believe they know better and are familiar with the company. The effect of this bias is when companies they workfor are in undesirable condition then they

have the chance to suffer the loss. It means that they tend not to diversify and conduct superficial analysis so their initial goal of making a profit will be useless. This bias also appearesfrom investors' decisions not to do global diversification and tend to trust domestic stocks because they are familiar and memorable although the fundamental principle stated that portfolio management was an attempt to optimize (Luong and Ha, 2011).

### 3.3. Conceptual Framework



## 4. RESEARCH METHODS

This research is quantitative approach-based research, with explanatory research type. The researchpopulation is all SMEs located on Lombok Island. The sampling technique is done by Non probability sampling, which used judgment sampling that is choosing SMEs that focus on pottery industry and had already exported the products. There were 25 (twenty five) SMEs out of the existing population which can be used as sample. Respondents in this study were financial managers who also acted as the owner of those SMEs respectively. Data collection technique used in this study was by using questionnaire. To achieve research objectives and hypothesis testing, the data obtained then will be processed based on the needs by using GSCA (Generalized Structured Component Analysis) statistical tools.

## 5. RESULT AND DECISION

### 5.1. The Analysis Result of Generalized Structured Component Analysis

The analysis method used in this research is Generalized Structured Component Analysis (GSCA). GSCA is the structural equation model (SEM) that is component and variance based. In this research, the testing of structural model and the research hypothesis was done by observing the value of path coefficient from exogenous to endogenous variable. In addition, observing significant value was done as well. The testing of structural model in GSCA was accomplished through *resampling bootstrap*. The evaluation of structural model and hypothesis aims to find out how much the information can be explained by the structural model (the relationship between latent variable). The description of the analysis and model evaluation in GSCA is described more detail as follows:

#### 5.1.1. Measure of Fit Structural Model

*Measure of Fit Structural Model* AFIT (Adjusted FIT) is similar with  $R^2$  adjusted in the regression analysis. AFIT can also be used as model comparison. Model with the highest AFIT value can be selected among the better model (Solimun, 2012).

Tabel 5.1  
The testing result *Measure of fit Structural Model*

| Model Fit |       |
|-----------|-------|
| FIT       | 0,663 |
| AFIT      | 0,635 |

The testing result of Measure of Fit Structural Model based on tabel 5.15. shows that the proportion of variant variable explained by the model is 63,5% or the diversity of *risk attitudes, mental accounting, overconfidence*, debt decision making and corporate performance explained by the model is 63,5%. Meanwhile, 36,5% is explained by other

factors such as sales volume, seasonal and cycle factor, changing in technology and company policy. It means that this model is good enough to explain the studied phenomenon.

### 5.1.2. The Measurement Model of Each Variables

*Measurement model* is measured by *loading factor value (standardize coefficient)* on each indicator to latent variable. The value of *loading factor* shows the weight of each factor as the measure of dominant variable (the strongest).

The *Overconfidence* variable (X1) has three indicators namely the Ability to pay off debt (X1.1), the Ability to bear interest expense (X1.2), and Believe able to pay off in accordance with the determined return period (X1.3). Each indicator has one statement item. This variable has reflective indicator. *Loading estimate* value for each variable indicator, AVE and alpha can be seen on the following table:

Tabel 5.2  
 The Testing Result of *Overconfidence* Variable Measurement Model(X1)

| Variable    | Loading                          |       |         | Weight   |       |       | SMC      |       |         |
|-------------|----------------------------------|-------|---------|----------|-------|-------|----------|-------|---------|
|             | Estimate                         | SE    | CR      | Estimate | SE    | CR    | Estimate | SE    | CR      |
| <b>X1</b>   | <b>AVE = 0.854, Alpha =0.840</b> |       |         |          |       |       |          |       |         |
| <b>X1.1</b> | 0.906                            | 0.038 | 23.73*  | 0.394    | 0.116 | 3.41* | 0.820    | 0.066 | 12.41*  |
| <b>X1.2</b> | 0.868                            | 0.071 | 12.15*  | 0.327    | 0.088 | 3.73* | 0.754    | 0.116 | 6.51*   |
| <b>X1.3</b> | 0.994                            | 0.004 | 256.92* | 0.361    | 0.170 | 2.12* | 0.989    | 0.008 | 128.94* |

Note: CR\* = Significant at  $\alpha = 0,05$

The computational results of the *Overconfidence* (X1) variable measurement model on tabel 4.14 shows that all three valid variables are applied in reflecting the measurement of *Overconfidence* variable. It is proved by the value of *loading estimate* of the five indicators of the overall variable which has a value greater than 0, 70 and the value of CR is significant at 95% of trust level. It is reflected that the correlation among all variable indicator is positive and significant in reflecting latent variable.

Based on the result of data analysis, the indicator of Believe able to pay off in accordance with the determined return period is the most dominant in reflecting *Overconfidence* variable if it is seen from *loading estimate* value obtained from each indicator. The *loading estimate* value on the indicator of Believe able to pay off in accordance with the determined return period is the greatest among two others indicator that is as much as 0.994. Then, that indicator is followed by the indicator of the Ability to pay off debt as much as 0,906 and the ability to bear interest expense is 0,868. Furthermore, with the obtained critical point value (CR), the indicator of Believe able to pay off in accordance with the determined return period can be used to measure *Overconfidence* variable because the value of 256.92 is significant at the trust level  $\alpha = 0.05$ .

The value of *AVE* (*Average Variance Extracted*) is 0,854. If it is compared to *square root of AVE* value owned by *Overconfidence* indicator with correlation value among other latent variables in the model, it can be said that this variable has good *discriminant validity*. It is proved by the value of *square root of AVE* is bigger than the correlation value of all other latent variables. It means that the research instrument used for measuring *overconfidence* variable fulfil the discriminat validity criteria. The result of data analysis with GSCA shows that the alpha value obtained is 0,840 which mean that the *overconfidence* variable has good internal reliability consistency since it is gretaer than 0.6.

The testing result shows that the *Overconfidence* of manager as well as the owner of SME is most reflected by the ability to pay off debt in accordance with the determined return period with the average value of 3,68. That result means that the manager as well as the owner of SME has not felt *overconfidence* to their ability to pay off debt in accordance with the determined return period. It is proved by the respondents' answer stated that to manage the operational, the amount of debt is not more than own capital.

Tabel 5.3  
 The Testing Result of Variable Measurement Model of Illusion of Control (X2)

| Variable    | Loading                          |       |         | Weight   |       |        | SMC      |       |        |
|-------------|----------------------------------|-------|---------|----------|-------|--------|----------|-------|--------|
|             | Estimate                         | SE    | CR      | Estimate | SE    | CR     | Estimate | SE    | CR     |
| <b>X2</b>   | <b>AVE = 0.820, Alpha =0.829</b> |       |         |          |       |        |          |       |        |
| <b>X2.1</b> | 0.888                            | 0.045 | 19.84*  | 0.364    | 0.022 | 16.28* | 0.789    | 0.078 | 10.11* |
| <b>X2.2</b> | 0.847                            | 0.046 | 18.22*  | 0.332    | 0.020 | 16.56* | 0.717    | 0.078 | 9.23*  |
| <b>X2.3</b> | 0.976                            | 0.009 | 112.92* | 0.405    | 0.035 | 11.73* | 0.953    | 0.017 | 56.68* |

Note: CR\* = Significant at  $\alpha = 0,05$

The *Illusion of Control* (X2) variable has three indicators, i.e. Involving actively in determining the choice (X2.1), Familiar with debt (X2.2) and Possessing the debt information completely (X2.3). Each indicator has one statement item.

The *Illusion of Control* Variable Measurement Model testing on tabel 4.16 shows that the value of *estimate loading* of the three indicators has significant CR value at  $\alpha = 0,05$ . It means that those three indicators used are valid to reflect the measurement of *Illusion of Control* variable. The analysis results also consider that the correlation between all variabel indicators is positive and significant in reflecting *Illusion of control* variable. The testing results of *loading estimate* value obtained in each indicator, the indicator of Possesing the debt information completely has a dominan role in reflecting *Illusion of Control* variable. The average value of *loading estimate* of Possesing the debt information completely indicator is the greatest than two other indicators. The average value of that indicator is 0,976. Next, it is followed by Involving actively in determining the choice indicator and Familiar with debt. Furthermore, it can be proved by the obtained critical point value (CR). The indicator of Possesing

the debt information completely is the best to be used as *Illusion of Control* variable measurement since it has the biggest CR value on 112,92 significant at  $\alpha = 0,05$ .

The value of *AVE* (*Average Variance Extracted*) is 0,820. The *Illusion of Control* variable has good discriminant validity if it is compared with the value of *square root of AVE* with correlation value between other latent variables in this model. It can be said that since this variable has bigger *square root of AVE* value than correlation value of all latent variable. In other word, the research instruments used to measure *overconfidence* variable fulfil the criteria of discriminat validity. The analysis result of data with GSCA method shows that the alpha value obtained is 0,829 which means that *Illusion of Control* has good internal reliability consistency since it is gretaer than 0,6.

The testing result shows that the *Illusion of Control* of manager as well as the owner of SME is more reflected by the indicator of Possesing the debt information completely. With the aveage value 3,04 means that the owner and the SME's manager do not feel they have enough debt information.

Tabel 5.3  
 The Testing Result of Variable measurement Model *Availability*

| Variable    | Loading                          |       |        | Weight   |       |        | SMC      |       |       |
|-------------|----------------------------------|-------|--------|----------|-------|--------|----------|-------|-------|
|             | Estimate                         | SE    | CR     | Estimate | SE    | CR     | Estimate | SE    | CR    |
| <b>X3</b>   | <b>AVE = 0.816, Alpha =0.799</b> |       |        |          |       |        |          |       |       |
| <b>X3.1</b> | 0.849                            | 0.106 | 7.99*  | 0.352    | 0.027 | 12.86* | 0.721    | 0.159 | 4.54* |
| <b>X3.2</b> | 0.907                            | 0.048 | 18.96* | 0.397    | 0.034 | 11.67* | 0.822    | 0.083 | 9.95* |
| <b>X3.3</b> | 0.951                            | 0.012 | 77.27* | 0.358    | 0.052 | 6.9*   | 0.904    | 0.023 | 38.5* |

Note: CR\* = Significant at  $\alpha = 0,05$

*Availability* variable (X3) has three indicators which are Not to search information to many parties (X3.1), Basing themselves on available information (X3.2) and Directly selecting the known party (X3.3). Each indicator has one statement.

According to data analysis, when it is viewed from the value of *loading estimate* obtained for each indicator, the indicator of Directly selecting the known party is the most dominant in reflecting *Availability* variable. The value of *loading estimate* on the indicator is the greatest among the two other indicators that is 0,951. Then, it is followed by the indicator of Basing themselves on available information as much as 0,907 and Not to search information to many parties at 0,846. Moreover, with critical point value (CR) obtained, the indicator of Directly selecting the known party can be used to measure *Availability* variable as it is obtained by a significant value of 77.27 at the trust level  $\alpha = 0.05$ .

The value of *AVE* (*Average Variance Extracted*) is 0,816. When it is compared to the *square root value of AVE* owned by *Availability* indicator with correlation value among other latent variables in model, this vatrable has good *discriminant validity* since *the square root value of AVE* is bigger than correlation value of all other latent variable. Thus, the research instrument used to measure *Availability* variable fulfil the criteria of discriminant validity. The result of data analysis with GSCA method shows the alpha value obtained is 0.799. It means that *Availability* variable has good internal reliability consistency as bigger than 0,6.

The testing result shows that the *Availability* of manager as well as the owner of SME is most reflected by the indicator of Directly selecting the known party with the average value of 3,72. It means that the manager and the owner of SME do not necessarily select the known party for making debt decision.



Tabel 5.4  
The Testing Result of Variable Masurement Model of Debt Decision Making

| Variable    | Loading                          |       |         | Weight   |       |      | SMC      |       |        |
|-------------|----------------------------------|-------|---------|----------|-------|------|----------|-------|--------|
|             | Estimate                         | SE    | CR      | Estimate | SE    | CR   | Estimate | SE    | CR     |
| <b>Y1</b>   | <b>AVE = 0.813, Alpha =0.788</b> |       |         |          |       |      |          |       |        |
| <b>Y1.1</b> | 0.921                            | 0.043 | 21.24*  | 0.129    | 0.197 | 0.66 | 0.848    | 0.077 | 11.08* |
| <b>Y1.2</b> | 0.863                            | 0.061 | 14.21*  | 0.223    | 0.147 | 1.52 | 0.745    | 0.101 | 7.39*  |
| <b>Y1.3</b> | 0.934                            | 0.035 | 26.83*  | 0.131    | 0.158 | 0.83 | 0.873    | 0.063 | 13.92* |
| <b>Y1.4</b> | 0.783                            | 0.113 | 6.95*   | 0.241    | 0.080 | 3.0* | 0.613    | 0.160 | 3.83*  |
| <b>Y1.5</b> | 0.993                            | 0.004 | 254.57* | 0.381    | 0.447 | 0.85 | 0.986    | 0.008 | 127.5* |

Note: CR\* = Significant at  $\alpha = 0,05$

The variable of Debt Decision Making (Y1) has five indicators, i.e. financial support (Y1.1), Productive and discipline (Y1.2), the Benefit of debt is bigger than the risk (Y1.3), trusted by others (Y1.4) and Be careful in the management and use of money (Y1.5). Each indicator has one statement items.

According to table 4.17, when viewed from the value of *loading estimate* obtained for each indicator, the indicator of Be careful in the management and use of money is the most dominant in reflecting the variable of debt decision making. The value of *loading estimate* on that indicator is the greatest among the four other indicators. The value of *loading estimate* is 0,993. In addition, with the critical point value (CR) obtained, the indicator of Be careful in the management and use of money can be applied to measure the variable of debt decision making variable as the value obtained is 254,57 and significant at the confidence level  $\alpha = 0.05$ .

The *AVE (Average Variance Extracted)* value is 0,813. If it is compared to *square root value of*

*AVE* owned by Availability indicator with correlation value among other latent variable in the model, it can be said that this variable has good *discriminant validity* because the *square root value of AVE* is greater than correlation value of other latent variable. Thus, the research instrument used to measure the variable of debt decision making fulfil the criteria of discriminat validity. The result of data analysis with GSCA method shows the alpha value obtained as much as 0,788 which means this variable has good internal reliability consistency as bigger than 0.6.

The result of testing explains that the manager and the owner of SME in debt decision making is mostly reflected by the Debt makes them careful in the management and use of money. The average value is 4,12. It demonstrates that the owner as well as the manager of SME has already felt the debt makes them cautious in the management and use of money.

Tabel 5.5  
The testing result of Variable Masurement Model of Company Performance (Y2)

| Variable      | Loading                          |    |    | Weight   |       |      | SMC      |    |    |
|---------------|----------------------------------|----|----|----------|-------|------|----------|----|----|
|               | Estimate                         | SE | CR | Estimate | SE    | CR   | Estimate | SE | CR |
| <b>Y2</b>     | <b>AVE = 0.000, Alpha =0.770</b> |    |    |          |       |      |          |    |    |
| <b>Y2.1.1</b> | 0                                | 0  | 0  | -1.219   | 1.348 | 0.9  | 0        | 0  | 0  |
| <b>Y2.1.2</b> | 0                                | 0  | 0  | -1.501   | 1.585 | 0.95 | 0        | 0  | 0  |
| <b>Y2.1.3</b> | 0                                | 0  | 0  | -1.561   | 1.626 | 0.96 | 0        | 0  | 0  |
| <b>Y2.2.1</b> | 0                                | 0  | 0  | -2.505   | 2.615 | 0.96 | 0        | 0  | 0  |
| <b>Y2.2.2</b> | 0                                | 0  | 0  | -1.389   | 1.648 | 0.84 | 0        | 0  | 0  |
| <b>Y2.2.3</b> | 0                                | 0  | 0  | 6.465    | 6.554 | 0.99 | 0        | 0  | 0  |

Note: CR\* = Significant at  $\alpha = 0,05$

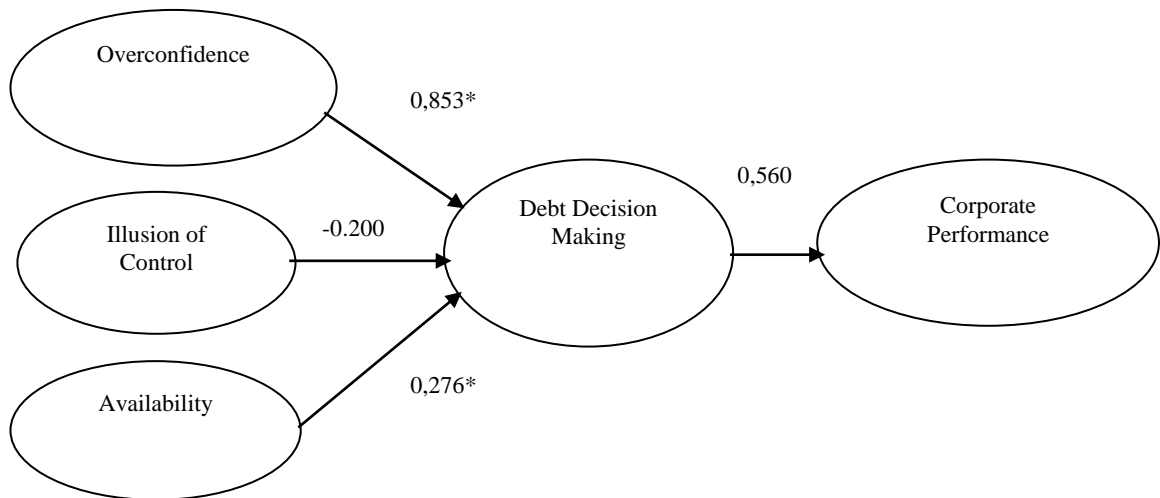
Source: Attachment 9. The Processing Result of GSCA

The variable of company performance is the only variable that is formative. This variable has two indicators with each three statements. The *weightestimate* value of those indicators, both *financial* performance and *non financial* performance, are mostly negative and no one is significant. From both indicators used with 6 (six) statement items, no one has an effect toward company performance.

### 5.1.3 Structural Model

It is tested 7 (seven) hypotheses in this structural model. From those seven hypotheses, there are 2 (two) hypotheses accepted, while the 5 (five) others are rejected. It is illustrated on figure 5.1.

**Figure 5.1**  
**Structural Model Research**



Based on figure 5.1., the explanation is as follows :

- The coefficient value of *Overconfidence* influence toward debt decision making is 0,853 and significant. It means that the more *Overconfidence* the manager as well as the SME's owner, the more courageous in debt decision making.
- The coefficient value of *Illusion of Control* influence toward debt decision making is -0,200 and not significant. It means that the SME's manager's belief in influencing the decision has no significant in debt decision making.
- The coefficient value of *Availability* influence toward debt decision making is 0,276 and significant. It means that the more confidence on the availability information, more courageous the manager as well as SME's owner in debt decision making.
- The coefficient value of Debt decision making influence toward corporate performance is 0,560 and not significant. It means that the debt decision making has no significant influence toward corporate performance.
- Based on point d, where the influence showed is not significant, means that the variable of debt decision making is not *intervening* variable. Therefore, it can be said that the variable of debt decision making does not mediate the *overconfidence, illusion of control dan availability* toward corporate performance.

## 5.2. Discussion of Research Result

### 5.2.1. The Influence of *Overconfidence* toward Debt Decision Making in SME

This finding enlarges the study of behavioral finance. In more detail, this research found that the *Overconfidence* variable which has 3 indicators, i.e. ability to pay off debt, the ability to bear interest expense, and believe able to pay off in accordance with the determined return period has the significant influence toward debt decision making.

### 5.2.2. The Influence *Illusion of Control* toward Debt Decision Making in SME

The *Illusion of Control* has no significant influence toward debt decision making. It means that whether there is ability of SME's manager or not in influencing decision has no effect on debt decision making. Most respondents feel that they are not fully able to control or influence the outcome of a decision. Therefore in debt decision making, the SME's owners cannot decide themselves. They need consideration from other parties. It is done by the consideration that the risk arising from debt decision making will be assured by themselves as the manager as well as the SME's owner.

This research result more indicates the rationality attitude of SME's manager in debt decision making. The rationalized debt decision making is reinforced by Gibson (2001). He stated that the relation between financial source derived from self-capital and debt in individual micro and small businesses is often complex because the owner's assets is used as the debt's guarantee. The owner is at risk of uncertain return.

#### 5.1.1 The Influence of *Availability* toward Debt Decision Making of SME

*Availability* has significant influence toward debt decision making. On this case, the managers as well as the owners of SME feel that the available information can be used as the basic in debt decision making. In many circumstances especially when the fast decision is needed, the *availability* is often used by the entrepreneur (Asri, 2013). For instance, the entrepreneurs make debt decision several times and the result is as they expected. This success is well remembered so that it makes the entrepreneurs rely on the available information which can be used in debt decision making. The creditor selected by the SME's owner is the creditor who has been known before so the available information and previous experience can be used as the base of debt decision

making. The background of this finding is the experience of SME's owners who have been in business for more than 10 (ten) years.

This finding also enlarges the study of behavioral finance. In more detail, this research discovers that *Availability* variable which has 3 indicators, namely Not to search information to many parties, Basing themselves on available information and Directly selecting the known party has significant influence toward debt decision making.

### **5.1.2 The Influence of Debt Decision Making toward Corporate Performance in SME**

The debt decision making has no significant influence toward corporate performance. This case means that whether there is debt decision making or not which is done by the manager as well as SME's owner does not influence the corporate performance. It is proved by respondents' answer who mostly (88%) stated that the use of debt is as big as their own capital. Thus, it shows that in conducting the operational of business, the SME's owners do not always rely on the debt as financial source.

### **5.2.5. The Influence of Overconfidence, Illusion of Control and Availability toward Corporate Performance with Debt Decision Making as Intervening Variable**

According to the result of the research, it can be stated that debt decision making is not the intervening variable of *Overconfidence, Illusion of Control and Availability* toward corporate performance. It is proved by some respondents that they do not rely on the financial source such as debt in conducting their business.

Debt decision making done by the manager as well as SME's owner make them cautious in the management and use of money. The use of debt as financial source does not affect the SME performance. The resulting performances both financial and non-financial has not optimal yet. It is indicated by the ratio of profit to investment and sales that are still categorized as "medium". Likewise, the growth sale is still in low category. Meanwhile, non-financial performance which consists of product development, market improvement and human resources development is still not optimal.

This finding urges that debt decision variable is not intervening behavioral finance variable toward corporate performance in SME. One of the financial decisions which can be used as mediation variable is investment decision. It is proved by Hidayati, et al (2014). They found that the investment decision like fund placement for work capital can mediate behavioral finance toward corporate performance in SME.

## **6. CONCLUSION AND SUGGESTION**

### **6.1. Conclusion**

Based on the result and discussion, it can be concluded that:

1. *Overconfidence* has significant influence toward debt decision making done by the manager as well as SME's owner. It means that the more Overconfidence of manager as well as the owner of SME, the more courageous in debt decision making as the financial source.
2. *Illusion of Control* has no significant influence toward debt decision making. It means that whether there is ability of SME's manager or not in influencing decision has no effect on debt decision making. Most respondents feel that they are not fully able to control or influence the outcome of a decision. Therefore in debt decision making, the SME's owners cannot decide themselves. They need consideration from other parties. It is done by the consideration that the risk arising from debt decision making will be assured by themselves as the manager as well as the SME's owner.
3. Availability has significant influence toward debt decision making. On this case, the managers as well as the owners of SME feel that the available information can be used as the basic in debt decision making. The background of this finding is the experience of SME's owners who have been in business for more than 10 (ten) years.
4. The debt decision making has no significant influence toward corporate performance. This case means that whether there is debt decision making or not which is done by the manager as well as SME's owner does not influence the corporate performance. It is proved by respondents' answer who mostly (88%) stated that the use of debt is as big as their own capital. Thus, it shows that in conducting the operational of business, the SME's owners do not always rely on the debt as financial source.
5. Debt decision making is not the intervening variable of Overconfidence, Illusion of Control and Availability toward corporate performance. It is proved by some respondents that they do not rely on the financial source such as debt in conducting their business.

### **6.2. Suggestions**

According to the result and conclusion, the following suggestions can be put forward as recommendations in subsequent research.

1. It is expected that the future research is not only observe three psychological biases. It can observe another psychological bias which may influence debt decision making such as *excessive optimism, representativeness, and affect*.
2. It is expected for future research that the sample of the research is not only limited on the exported pottery. There are many developing exported SME such as bamboo and wood.
3. It is hoped that the future research not only observe profit organization but also non profit



organization, public officers, and households so it can be known how the behavioral finance in other research objects.

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