

BEHAVIORAL FINANCE IN DEBT DECISION MAKING

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ABSTRACT

This article explores about behavioural finance in debt decisions making on the owners of MSMEs batik in Situbondo district of East Java. Data collected using interview method, literature study and also direct observation. Data analysis technique used is an interactive model that refers to the model of qualitative data analysis techniques. The results showed that most owners of batik MSMEs in Situbondo argue that debt is a positive thing as a source of funding and stimulator. Based on the results of the study found that there are three dominant psychological factors important in debt decisions making on owners of batik MSMEs in Situbondo, namely optimistic, availability, and illusion of control.

Keywords: behavioral finance, decision making, debt

INTRODUCTION

Micro Small Medium Enterprises (MSMEs) is a business established by individuals and groups. MSMEs is one of the government's efforts to overcome the problem of poverty and unemployment in Indonesia, in addition MSMEs also has a high degree of flexibility compared to businesses that have greater capacity. Human Resources (HR) owned by MSMEs is also still limited, it can be seen that some MSMEs are hereditary efforts of the family. So the manager in the business is the owner of the business itself and not others

Many problems in MSMEs, there are internal and external problems. The internal problem in MSME owners is the capital problem used for the development of their business. The lack of capital is because MSMEs is a small business and managed by individuals, so that the capital is very limited. As for the loan capital to the bank or other financial institutions are also still difficult to obtain because constrained by administrative requirements that can not be met by business owners. In addition, because of human resources that cause less development of the business. One strategy to develop a business is to meruput the competent human resources in the field.

Internal problem by other MSMEs is the marketing network is still weak and limited. Some MSMEs in Situbondo is a home business where the goods produced are only marketed in the area only and most far only marketed out of town. Seeing the goods generated by MSME itself actually has a high quality and not less good with the results of large companies, but owners of MSMEs Situbondo still can not penetrate the international market due to lack of information, knowledge and network. In addition, the technology used by SMEs is still not bnayak, most UMKM using traditional power. MSMEs are still many who do not yet have a clear legal entity,

it is because the requirements that must be met to take care of the legality and licensing aspects still can not be met.

External problems by MSMEs one of them is the business climate is not fully conducive, as still the happening of less healthy competition occurs between small entrepreneurs and big businessmen. The second external problem is the problem of very limited facilities and infrastructure. The lack of information gained about the current technological advances that are so rapidly makes MSMEs less developed and can hurt the progress of its business.

The third problem is the implications of free trade. As it is known that AFTA which came into effect in 2003 and APEC 2020 which has wide implications for small and medium enterprises to compete in free trade. In this case, inevitably Small and Medium Enterprises (MSMEs) are required to perform production processes productively and efficiently, and can produce products in accordance with the frequency of global markets with quality standards such as quality issues (ISO 9000), environmental issues (ISO 14000) And human rights issues and employment issues. This issue is often used unfairly by developed countries as a barrier (Non Tariff Barrier for Trade). Therefore, MSMEs is expected to prepare to be able to compete both in comparative advantage and sustainable competitive advantage.

Internal and external problems greatly affect the decision of owners of MSMEs. Especially in funding issues, especially to develop a business or manage the permit and legality of the business. According to Gibson (2007) the relationship between sources of financing derived from self-capital and debt to individual micro and small businesses is often complex because the assets of the business owner are used as debt guarantees, the business owner faces the risk of obtaining uncertain returns. Preferences to debt as a source of funding are also analyzed through behavioral finance approaches that emphasize that a person often behaves strangely or irrationally when making decisions involving money because psychological factors play a greater role in financial decision making (Hirschey & Nofsinger, 2008).

Preferences of MSME owners in using debt as a source of funding may not be separated from the perception of business owners about the benefits and risks of debt used and psychological factors of business owners. Psychological factors here such as overconfidence, optimism, or lifestyle. The existence of the theory of behavioral finance is very helpful for business owners to understand their own behavior. According to Brigham and Houston (2014), behavioral finance is a psychological element incorporated in finance to better understand how individuals and markets respond to different situations. The academics develop a more comprehensive model by linking the finance and psychology of human behavior with financial markets (Shiller, 2002). Shefrin in Supramono and Putlia (2010) also argues how entrepreneurs can understand factors such as weakness of cognitive ability, personality, emotional, mood or mood and others affect behavior that deviates from expectations. Research on behavioral finance is very interesting to study because it is very useful, not only for the academic field but also useful business owners in improving business management.

RESEARCH METHODS

This research was conducted using qualitative method of interpretive model. This method is in accordance with the model outlined in the constructivist paradigm, that the researcher or writer serves to translate what has been said by the respondent. The subject of research is the owners of batik MSMEs in Situbondo. Research data were obtained through indepth interview and participant observation. Validity of data obtained by performing member check and triangulation both on data and source. All data were analyzed using an interactive analysis model, a series of interconnected since the study was designed, verified and drawn conclusions.

Results and Discussion

Batik is one of the cultural characteristics of each region. Batik motif of each region was also different. Batik motif in Situbondo Regency is marine biota such as shellfish, starfish, fish, and so on. This is because the District Situbondo is one of the regencies in the northern coastal region with a wealth of abundant sea. Batik in Situbondo has existed since the 1970's, this can be proved by the existence of batik cloth in Peleyan Village Kecamatan Kapongan (Batik Cotto'an). The development of batik in Situbondo has ups and downs, this is due to the lack of economic and capital conditions.

Various kinds of batik there are 3, namely batik tulis, batik cap and batik printing. Batik tulis is batik painted / drawn manually by hand with *canting* as a tool to paint and *lilin* batik as ink. Batik tulis higher value than batik cap because of the value of art and requires high creativity to paint batik so that the price of batik is also higher than batik cap. Batik business owners in Situbondo regency not only as craftsmen but also as traders or who market the batik. While the batik cap is batik cloth that is stamped using a mold that already has a motif like a stamp and then dipped into a hot wax. Making batik cap is faster than batik because it must be painted one by one using canting, while batik cap can be completed only with one tap only. The last is batik printing, batik printing is done directly in the print using a screen printing tool.

The price offered for batik cloth in Situbondo is very diverse, from the price below Rp. 100,000, - up to millions of rupiah. It depends on the fabric, the material / dye used and the difficulty level in painting batik motifs. Situbondo batik cloth is not only marketed around Situbondo District, but also marketed outside the city. Batik entrepreneurs in Situbondo also receive batik orders with certain motives, usually used for school uniforms or agencies - institutions in the District Situbondo. Situbondo batik business although it has been standing / formed for a long time but still often face capital problems. This is because the household industry is moving downhill since the 1970's. Business owners get capital from financial institutions such as banks, other than that batik business owners in Situbondo can also get capital from non-financial institutions.

Perceptions of Debt

The perception of MSME owners about debt causes the existence of psychological bias and debt decision making. The results show that business owners have a positive view of the existence of debt. Debt is considered as a good and positive for the business it has. The business owner said that borrowed debt can help smooth the business and be useful in meeting their business needs. The funding activity through debt is done by utilizing formal financial institutions (banks) and non formal (relatives, moneylenders and middlemen). Here is a general overview of MSMEs in Situbondo in meeting its funding.

Table 1. Funding of MSMEs in Situbondo

Description	Percentage
Bank Debt	42.35%
Non Bank Loans	20.65%
No Debt	37%

Source: MSMEs in Situbondo 2016

From the Table above shows that the owners of MSMEs Situbindo many who use debt as a source of funding with varying amounts. Debt is considered as a stimulator and not as a burden on business owners. In addition, the debt is also a motivation for business owners to develop their business so that their business can be more productive and get the desired profit in order to pay the debt obligations. The debts obtained by the owners of batik MSMEs are usually used as business development such as, the addition of products produced, purchase of raw materials and tools used for batik and to pay for labor. Funds obtained from these debts are also used to

expand the marketing network of batik cloth products produced. In addition, debt funds are also used to add or improve the infrastructure for batik. For example, a place to wash or soak batik cloth or cloth to dry batik cloth.

Debt in a business will be useful if used as needed. The amount to owe must also be calculated and estimated by the business owner not to become a burden. Given the debt or external funds earned by the business owner should be used in accordance with the needs of his business and not used for the personal needs of business owners.

Debt obtained by business owners not only from financial institutions or banks, but some are obtained from non-financial institutions such as from family or relatives. Borrowing money on non-financial institutions or to families is usually more easing because there is no interest nor guarantee. However, many business owners are not too concerned about how much interest or collateral provided by the bank. This is done because the funds obtained from the debt will be used for business development and improve business performance. According to the view of Champion (1999) states that the use of debt is one way used by companies in improving performance.

Psychological Factors in Debt Decision Making

In general, economic actors are unable to make rational considerations, but economic actors often make irrational considerations. Economic actors rely more on intuitive aspects or emotions so as to analyze the costs and benefits appropriately. Similarly, when making debt decisions, business owners more often process information quickly in order to get conclusions and results quickly so that it can lead to error bias financial practitioners psychology. In accordance with the theory of behavioral finance that is not entirely economic actors apply rationally in financial decision-making, they sometimes also behave irrational in decision-making.

According to Shefrin (2007) about the classification of psychological factors that there are three dominant psychological factors that play a role in debt decision making in the entrepreneur MSMEs air rifle that is optimistic, availability, illusion of control. Optimistic attitude is expected by all entrepreneurs because of its influence on behavior that always try to achieve targeted results. Owners of batik MSMEs in Situbondo are confident that their business prospects will grow and the product produced are accepted by community. This happens because the demand for batik production is increasing in Situbondo. In addition, business owners also believe that the debt they get will be useful for the development of business in the future. Owners of batik MSME Situbondo also stated that by thinking optimistically they will be able to grow and get the return they want and can pay or pay off the debt on time.

Optimistic attitude is needed in the development of a business, but optimism is also not too excessive. The over optimistic nature of optimism becomes excessive and makes the entrepreneur unrealistic with the real situation faced or underestimated the risk that will occur (Bratvold, Begg & Campbell, 2005). Shefrin (2008) argues that someone who is too optimistic will have a tendency to feel that he has the ability to process debts beyond the ability of his colleagues. Owners of batik SMEs Situbondo also very optimistic about the prospects of his business to the fore. These beliefs can be seen from their ability to produce high quality products and in great demand by consumers.

Owners of batik MSMEs Situbondo also included in the category of illusion of control that is, one feels confident to control or influence the outcome of a decision, but in reality is not the case (Supramono & Putlia, 2010). This is supported by employers' statements regarding their ability to conduct or process information about debt. An entrepreneur who feels confident in his ability to process information about debt, goes into the category of illusion of control. This is in line with the opinion of Taylor & Brown (1998) which revealed that illusion of control is an unrealistic perception of an event. There is a possibility that the owner of batik MSMEs

Situbondo feel familiar with the debt because it has often done decision making task (task familiarization), determine its own choice of choice (debt) and feel to have adequate information (information). Entrepreneurs feel that their ability to manage their finances is good and also feel that they have obtained adequate information about the debt. Baker and Nofsinger (2002) explain that people often prefer something that is familiar to them. Consequently, the entrepreneur will make debt decisions to the people he knows without seeking other information as a comparison. Entrepreneurs who are informed that debt to certain banks are cheaper in interest and easy to process, are likely to use the bank as a source of funding.

The next category is availability bias, ie someone rely more on information available at the time of decision making (Supramono & Putlia, 2010). Entrepreneurs who experience availability bias tend to trust the information they remember only. Some of the owners of SMEs Situbondo borrow money as business capital from members of their relatives, they do not do the information adequately, but only rely on information that is spontaneous is to borrow money from the family only. Business owners will trust the information they get from people they trust. Families and people who are already familiar, must have a strong emotional bond and usually will affect a person's ability to think. This is what often causes a person to make or produce decisions spontaneously and his thoughts are focused on something familiar.

Conclusion

Based on the results of research and discussion about behavioral finance in debt decision making on batik MSMEs in Situbondo, it can be concluded that most of them consider that debt is a positive thing as a source of funding and is considered as a stimulator rather than as a burden, and spur the MSMEs entrepreneurs in motivating themselves To advance his business. It also revealed that psychological factor bias occurs in debt decision making. The results of research there are three psychological factors that predominantly play a role in making debt decisions on entrepreneurs SMEs Situbondo namely:

1. Optimist, is the nature of assuming himself to exceed, surpass, or surpass the human average in a population.
2. Availability, is conditions where entrepreneurs will trust the information they get from people who are trusted only.
3. Illusion of control, is an unrealistic perception of an event

Three psychological aspects make the actors or entrepreneurs of MSMEs in decision making is more likely to put forward the emotional aspects without taking into account the good financial calculations that lead to biased decisions. Employers should minimize bias in their financial behavior in making debt decisions in order to minimize losses because they have a strong optimist and illusion of control. How, MSME entrepreneurs should still seek information and listen to suggestions derived from others who are judged to provide an objective view of the profit and loss of sources of debt in accordance with the needs of his business. Thus the entrepreneur will be able to minimize the risk of debt and the loss of his business.

Suggestions

Future research is expected to allow the object to be studied not only in one district but in one province to see how the differences in financial behavior of the community in the district and province. The results of study are expected to be input to business owners to be smarter in the selection of debt with low risk.

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