


Financial behavior on Investment and Financing Decisions in Indonesian SME

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Abstract

Keywords:

Risk attitudes;
Mental
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decisions;
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The SME sector experienced a decline in financial performance during the pandemic. In addition, there are changes in SME owners' financial behavior, which impact financial decision-making. The financial behavior of SME owners is presented in risk attitudes, mental accounting, and overconfidence. This study explores the relationship between risk attitudes, mental accounting, and overconfidence in investment and financing decisions. This study took the population of SMEs owners in Banyumas Regency, Central Java Province, Indonesia. The sample used in the study was 116 SME owners. The results illustrate empirical evidence that risk attitudes and mental accounting have not significantly influenced investment decisions. Overconfidence can improve the investment decisions of SME owners. The results of the study confirm that lower-risk attitudes will have an impact on enhancing financing decisions. A higher level of mental accounting will result in better financing decisions. Overconfidence does not affect financing decisions.

Abstrak

Kata kunci:

Sikap terhadap
risiko;
Mental akuntansi;
Terlalu percaya diri;
Keputusan
investasi;
Keputusan
pendanaan

Sektor UKM mengalami penurunan kinerja keuangan selama pandemi. Selain itu, terdapat perubahan perilaku keuangan pemilik UKM yang berdampak pada pengambilan keputusan keuangan. Perilaku keuangan pemilik UKM dapat dilihat pada sikap berisiko, akuntansi mental, dan terlalu percaya diri. Studi ini mengeksplorasi hubungan antara sikap terhadap risiko, mental akuntansi, dan terlalu percaya diri dalam keputusan investasi dan pendanaan. Penelitian ini mengambil populasi para pemilik UKM di Kabupaten Banyumas, Propinsi Jawa Tengah, Indonesia. Sampel yang digunakan dalam penelitian berjumlah 116 pemilik UKM. Hasilnya memberikan bukti empiris bahwa sikap terhadap risiko dan mental akuntansi tidak berpengaruh signifikan terhadap keputusan investasi. Terlalu percaya diri dapat meningkatkan keputusan investasi pemilik UKM. Hasil penelitian menegaskan bahwa sikap terhadap berisiko yang lemah akan berdampak pada peningkatan keputusan pendanaan. Mental akuntansi yang tinggi akan menghasilkan keputusan pendanaan yang lebih baik. Terlalu percaya diri tidak mempengaruhi keputusan pendanaan.

1. Introduction

Times of slumping economic conditions due to an endless pandemic will cause changes in the financial behavior of SME owners. Research by [Gourinchas et al. \(2020\)](#) on COVID-19 and the failure of SMEs states that there was an increase in the inability of SMEs to reach 9% without government support. [Brown & Rocha \(2020\)](#) noted that the COVID-19 pandemic caused investment in own capital to decline sharply by 60%. This decline was mainly in the newly established SMEs. The results of research [Juergensen et al. \(2020\)](#) also found that the COVID-19 pandemic caused SMEs to face supply and consumer demand problems.

One of the considerations for overcoming the negative impact of COVID-19 on SME finances is the SME owners' financial behavior. Behavioral finance combines psychological

and financial elements to understand how individuals and markets respond to various situations (Kahneman & Tversky, 1974). Behavioral financial research has increased both in the capital market and in SMEs. Several studies have developed behavioral theories of finance in SMEs, such as (Hoque, 2017; Kitigin, 2017; Naomi et al., 2018; Petřík & Sedláčková, 2017; Pratono, 2018; Purwidiyanti et al., 2022; Purwidiyanti & Tubastuvi, 2019; Raveendra et al., 2018).

The results of research on the financial behavior of SMEs revealed that financial behavior would influence the company's financial decisions (A. Wong et al., 2018). Individuals often behave irrationally when making financial decisions because of influenced psychological factors. It will lead to biased decision-making because the influence of individual tastes exceeds rational considerations. Safaie et al., (2024) mentions the importance of behavioral bias in making investment decisions. Managers often make decisions influenced by behavioral biases because they relate to service satisfaction for their clients. Several research results have proven behavioral finance's influence on funding and investment financial decisions. Research by Suyati & Ratnawati (2023) and Hidayati et al. (2018) found evidence of the influence of behavioral finance on debt decisions. Research results in Adil et al. (2022); Almansour et al. (2023); Goswami et al. (2022); Irfan et al. (2023); Kartini & Nahda (2021); Lather et al. (2020) and Thaker et al. (2016) have shown empirical evidence that behavioral bias factors can affect investment decision-making. The researchers also identified these factors as causing less than optimal decision-making.

Financial behavior will involve risk attitudes, mental accounting, and overconfidence (Kahneman & Tversky, 1974). Risk attitudes indicate human behavior that avoids risk. Mental accounting shows the behavior of investors who tend to group their finances based on subjectivity in different accounts, for example, grouping based on the source of financing and the purpose of using the income. Overconfidence is the tendency to be overly confident in one's abilities and predictions for success.

Investors' attitudes towards risk show different choices. Investors who avoid risk would prefer safer investments (Almansour et al., 2023). Research conducted regarding risk attitudes on investment decisions shows different influences. Lindner et al. (2019) and Raza et al. (2014) stated that risk was considered when investors make investment decisions. The influence of investors' attitudes towards risk has been found by Tubastuvi et al. (2024); Fridana & Asandimitra (2020) and Novandalina et al. (2022). The research results of Nosi (2010) and Putri et al. (2023) obtained different conclusions: individual attitudes towards risk are unable to change the investment decisions they will make.

Hoque (2017) examined the impact of mental budgeting on SME financial management. This study also found that mental budgeting is vital in SME financial management. Sumtoto & Anastasia (2015) stated that mental accounting was a factor investors consider in making investment decisions. Recent research from Santi et al. (2019) has proven that mental accounting affects investment decisions. Different research results were exhibited by Novandalina et al. (2022), who argue that mental accounting has no role in determining the investments made by investors.

Overconfidence is a cognitive bias that shows an individual's overconfidence in their ability to predict and accuracy in making investment assessments. Many previous researchers have researched the relationship between overconfidence and investment decisions. However, the research results on overconfidence and investment decisions need to be more consistent in research results. Researchers such as [Ahmad & Shah \(2020\)](#); [Bakar & Yi \(2016\)](#) and [Rahman & Gan \(2020\)](#) proved that overconfidence has a negative and significant effect on investment decisions. Overconfidence can make investors increasingly vulnerable to making mistakes in their investment decisions ([Rahman & Gan, 2020](#)). The majority of the research results show a different direction. [Adielyani & Mawardi \(2020\)](#); [Almansour et al. \(2023\)](#); [Altaf & Jan \(2023\)](#); [Fridana & Asandimitra \(2020\)](#); [Nareswari et al. \(2021\)](#); [Purwidiyanti et al. \(2023\)](#); [Sapkota \(2023\)](#); [Syarkani & Alghifari \(2022\)](#); and [Zafar et al., \(2024\)](#) proved that overconfidence can further increase accuracy in making investment decisions. Investors with overconfidence are willing to assume more significant risks in their investments. Several other researchers describe an insignificant influence between overconfidence and investment decisions ([Abul, 2019](#); [Mohanty, 2023](#); [Tubastuvi et al., 2024](#)).

[Rao & Kumar \(2018\)](#) tested the factors influencing SME financing preferences from the demand side (the behavior side of SME owners). The study's results proved that risk-averse SME owners significantly affected the demand for financing from external sources. The facts showed that most SME owners were risk averse. Good relationships with business networks, suppliers, and banks would help SMEs in finding sources of capital needed by SMEs. This study's results align with research ([Abdeldayem & Sedeek, 2018](#)), which can prove that risk will affect financing decisions. The results of this research are confirmed by [Ayad \(2024\)](#), SME owners who have a high risk aversion are less interested in taking out loans from banks.

Research findings on the relationship between mental accounting and company funding decisions are still very limited. [Hidayati et al. \(2016\)](#) shows the contribution of mental accounting behavior in making working capital decisions. Mental accounting also causes company owners to make different financial decisions ([Mahapatra & Mishra, 2020](#)).

Findings from [Hidayati et al. \(2018\)](#) conclude that the overconfidence behavior of SME owners can cause courage to take funding from debt. [Batoool et al., \(2022\)](#) states that overconfident managers will consider funding from equity to be more expensive than funding from debt. Therefore, managers prefer to obtain funding from debt rather than issue equity. The latest research from [Ayad \(2024\)](#) shows the dominant role of overconfidence behavioral bias in SME debt funding decision-making. Contradictory results are shown by [Abdeldayem & Sedeek \(2018\)](#) regarding overconfidence behavior, which cannot increase the courage of business owners to take funding from debt.

Research on behavioral finance has developed rapidly, especially on the relationship between behavioral biases and investment decisions. However, more research is still needed to examine the relationship between the impact of behavioral bias and funding decisions, especially in SMEs ([Ayad et al., 2024](#)). First, this research was conducted during the transition period of the COVID-19 pandemic and the new normal. Second, this study used

three proxies for measuring financial behavior: risk attitudes, mental accounting, and overconfidence. Previous research on financial behavior in SMEs has yet to use the three proxies together in SME research. Third, this study utilized two financial decisions following the conditions of SMEs: investment decisions and financing decisions.

Based on the above backgrounds, the problems are formulated as follows: first, how is the impact of risk attitudes, mental accounting, and overconfidence on investment decisions? Second, how do risk attitudes, mental accounting, and overconfidence impact investment and financing decisions. The subject of this study is the owner of SMEs in Banyumas Regency.

2. Literature Review

2.1. Investment Decision

Behavioral finance is a new approach that combines practical and traditional financial theories by considering aspects of investor behavior when making decisions (Kaakeh, 2018). Behavioral finance addresses the role of behavioral biases in investor decision-making. Behavioral financial research has proven that behavioral biases influence investor decisions (Itzkowitz & Itzkowitz, 2017). Individuals have psychological biases that hinder rational decision-making. In companies, owners or managers make irrational decisions, such as investment decisions. Financial behaviors that can influence investment decisions are risk attitude, mental accounting, and overconfidence.

Risk is a factor that influences people when making investment decisions. Risk-averse investors often feel threatened by risks and uncertain situations. Investors who have a high-risk perception will consider the possibility of loss. Therefore, investors will choose risk-reduction strategies and risk-adjusted investment decisions. Tubastuvi et al. (2024); Fridana & Asandimitra (2020) and Novandalina et al. (2022) have proven that risk attitude makes a significant contribution to investment decision-making.

Mental Accounting is a cognitive bias concept that refers to coding, categorizing, and evaluating financial decisions and using them to track expenses across various accounts (Pompian, 2012). Mental accounting suggests that people use resources differently based on how they are labeled. In company management, mental accounting can be reflected in the owner's tendency to classify financial management based on subjective and irrational elements.

In research, mental accounting can be demonstrated by the different assessments a person gives to two similar monetary benefits because they are encoded and evaluated through different mental accounts. The choices often reflect an attitude rather than the basis for the decision-maker's thinking. The concept of mental accounting frames investment decision choices in terms of potential profits and losses (portfolio) (Hidayati, 2016).

Hoque (2017) examined the impact of mental budgeting on SME financial management. The results also found that mental budgeting had a significant effect. Sumtoro & Anastasia (2015) stated that accounting mentality is a factor investors consider when making investment decisions. Recent research from Santi et al. (2019) proves that mental accounting will impact investment decisions.

Overconfidence is considered unreasonable beliefs, intuitive reasoning, judgment, and cognitive abilities (Pompian, 2012). Too confident investors will make irrational decisions, which impact investment decisions. The literature provides evidence that excessive confidence distorts corporate investments. It is characterized by managers making excessive investments, increasing the company's risk. Overconfidence also causes managers to have too much confidence in the company's investment opportunities (Grežo, 2020). Adielyani & Mawardi (2020); Almansour et al. (2023); Altaf & Jan (2023); Fridana & Asandimitra (2020); Nareswari et al. (2021); Purwidiyanti et al. (2023); Sapkota (2023) and Syarkani & Alghifari (2022) proves that that overconfidence behavior from business owners or managers can lead to increased courage in making company investment decisions.

2.2. Financing Decision

Bell (1982) and Loomes & Sugden (1982) introduced the theory of regret, an alternative behavioral theory that overcomes individuals' reluctance to regret. There are two assumptions underlying regret theory. First, individual experiences that lead to regret and happiness. Second, the individual's desire to avoid and consider these feelings (Yang & Wang, 2018).

Capital structure regret theory refines the past managerial limitations regarding low debt issuance decisions and low equity use due to several undervalued markets. Regret theory explains that optimal capital structure is achieved if the company's financial policy optimizes risky decisions and avoids regrets in maximizing shareholder wealth (K. P. Wong, 2015).

A manager will be reluctant to regret it because the use of debt results in a low level of leverage. Therefore, managers choose decisions that avoid risks rather than avoid regrets and vice versa (Broll et al., 2017). Managers are faced with the decision to avoid risk through all investments financed from equity. Managers are also faced with the decision to avoid risk by funding investments with a low cost of debt.

The manager's attitude towards risk will impact the company's choice of capital sources. Based on the assumptions of regret theory, managers who avoid risk will prefer to use equity rather than debt. Risk-averse managers are also reluctant to use debt because of the high cost of debt (Adeneye & Chu, 2020). The research results on risk attitudes towards funding decisions are shown by Abdeldayem & Sedeek (2018) and Rao & Kumar (2018), which prove that SME owners who avoid risk will significantly impact requests for financing from external sources. The facts show that most SME owners are reluctant to take risks. Having good relationships with business networks, suppliers, and banks will help SMEs find sources of capital that they need. Adeneye & Chu (2020) shows that managers who avoid risks that harm capital structure decisions and funding use equity rather than debt.

Until now, research examining the relationship between mental accounting and funding decisions has been very limited. One survey by Hidayati et al. (2016) proved that mental accounting influences a company's working capital. Other research by Mahapatra & Mishra (2020) states that mental accounting impacts financial decisions.

Overconfidence is a personal managerial judgment that causes excessive optimism in self-assessment, decision-making, or predictions. This excessive trust will influence financial

decisions, such as external funding decisions (Grežo, 2020). Mundi & Kaur (2022) research documents that overconfident managers prefer debt financing to equity financing. Overconfident managers also prefer short-term debt to long-term debt (Mundi & Kaur, 2022; Pham & Nguyen, 2019). Figure 1 shows the framework of the relationship between variables.

3. Method

The sample selection method uses convenience sampling. This research took place in SMEs in Banyumas Regency, Central Java Province, Indonesia, with the following considerations:

- Banyumas' economic growth rate in 2021 will reach 4 percent or above the Central Java average of 3.32 percent and the national average of 3.69 percent (Nurmoko, 2023).
- Banyumas Regency has a Micro and Small and Intermediate Entrepreneurs Association (Aspikmas), established in 2020. In 2022, Aspikmas received an award from the Central Java Province Bank Indonesia Representative Office (KPw BI) as the Most Collaborative Strategic Partner in Supporting Regional Economic Recovery/Growth in the Central Java Region.
- Based on data from the Central Statistics Agency in 2019, Banyumas Regency has several SMEs of 5.19 percent of the total SMEs in Central Java province (Azhar & Arofah, 2021).

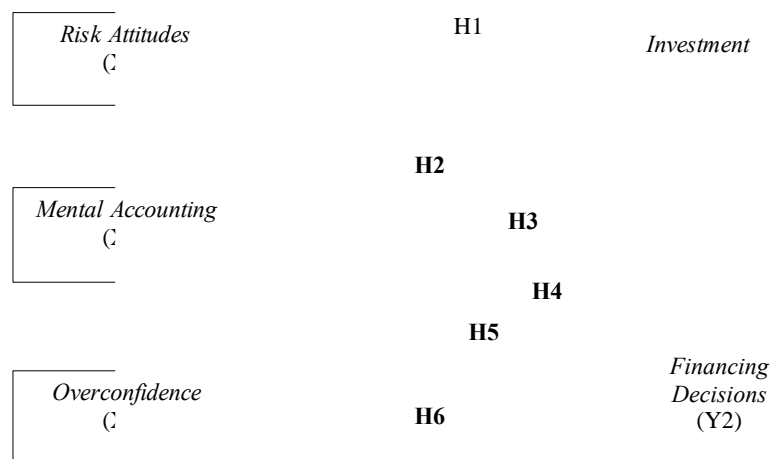


Figure 1. Conceptual framework

The number of SMEs that make up the study population is 1,604 UKM. The minimum sample size is calculated using the Slovin formula with an error rate of 10 percent. The calculation results show that the minimum sample size is 94,131 SMEs. The sampling method used is the convenience sampling method. Data is collected by distributing questionnaires to SMEs owners online or offline. Research data also comes from various kinds of literature, such as publications, journals, data from related agencies, etc. Figure 1 show the research model and Table 1 shows the question items for each research variable.

Table 1. Question Items and Measures Variable

Variable	Question Items	Scale	References
<i>Risk Attitudes</i>	The Attitude of Daring to Take High Risks Moderate Risk with A High Level of Profit Moderate Risk with A Moderate Level of Profit Unwilling To Take Business Risks	Ordinal Scale : four levels of attitude toward risk	Xiao et al., 2001
<i>Mental Accounting</i>	Allocating Money for Current Needs Managing Future Finances Balancing Expenses Avoiding Waste	Ordinal scale: 5-point Likert scale	Hoque, 2017
<i>Overconfidence</i>	The Ability to Pay Off Debt The Ability to Bear the Cost of Debt The Ability to Pay Off Debt on Time The Ability to Make Investments Belief That Actions And Knowledge Influences Investment Results Trust Your Own Opinion More Than the Opinions of Others Tendency To Buy Investments Recommended By Others	Ordinal Scale: 5-point Likert scale	Hidayati et al. (2018) and Wood & Zaichkows ky (2004)
<i>Investment Decision</i>	Preparing A Business Plan Before Making an Investment, Investment Planning Based on Future Needs, Investment Planning Based on Market Share, Investment Planning Based on Consumer Needs, Investment Planning Based on Intuition Investment Activities That Consider Environmental Interests.	Ordinal Scale: 5-point Likert scale	Gveroski & Jankuloska , 2017
<i>Financing Decisioan</i>	Debt Funding Supports the Finances Of Business Debt Makes You Productive and Disciplined In Carrying Out Business The Benefits of Debt Outweigh the Risks, Debt Proves the Trustworthiness of The Other Party Debt Makes You Careful in Managing It Money Usage	Ordinal Scale: 5-point Likert scale	Hidayati et al., 2018

This study uses multiple linear regression analysis to test the hypothesis. There are two regression equations to be tested. The first equation shows the effect of risk attitudes, mental accounting, and overconfidence variables on investment decisions. The second equation shows the impact of risk attitudes, mental accounting, and overconfidence variables on financing decisions.

$$Y_{1,2} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad (1)$$

Where:

Y1 = Investment Decision

Y2 = Financing decision

α = Constanta

$\beta_{1,2,3}$ = Coefficient

X1 = Risk Attitudes

X2 = Mental Accounting

X3 = Overconfidence
 ε = Error

The research has several steps to analyze the data: descriptive statistical testing, multiple linear regression testing, classical assumption testing, model feasibility testing, and hypothesis testing. Classical assumption testing is conducted by testing the normality of the residuals, the relationship between the independent variables, and the effect of the independent variables on the absolute value of the residuals. Testing the feasibility of the model was carried out by testing the adjusted R square and F test. Hypothesis testing was carried out using the t-test. The research hypothesis will be supported if the test results show a probability or significance number below 0.05.

4. Results and Discussion

The population of this study was the owner of SMEs in Banyumas Regency, with a minimum sample of 94 people. The sampling method employed was the convenience sampling method. The research was conducted from December 2020 to April 2021. The research utilized two methods to distribute the questionnaires: through Google Forms and direct distribution. One hundred twenty-four answers to the questionnaire were collected, but only 116 responses could be analyzed further.

Descriptive statistical tests revealed that 77.3% of the enterprises were in the manufacturing sector, 18.1% were in the service sector, and 4.1% were in the manufacturing sector. The typical respondent collected four workers. The respondents' average age was 36 years old, and their average duration of business was six years.

Reliability testing on mental accounting variables, overconfidence, investment decisions, and financing decisions shows that Cronbach's alpha was above 0.6. The figure showed the questions on the four variables in the reasonably excellent and reliable category. The validity test results for the mental accounting variables, overconfidence, investment decisions, and financing decisions resulted in a significant Pearson correlation value at the 0.001 level. Therefore, the four variables were declared valid. The risk attitudes variable was not included in the reliability and validity testing because it did not use a Likert scale.

A classical assumption test of normality, heteroscedasticity, and multicollinearity tests was carried out for the two regression equations. The first equation showed the effect of risk attitudes, mental accounting, and overconfidence variables on investment decisions. The second equation showed the impact of risk attitudes, mental accounting, and overconfidence variables on financing decisions. The normality test results showed that the Kolmogorov-Smirnov test score was 0.042 significant at 0.200 for the first equation and 0.064 significant at 0.200. The normality test results that were greater than 0.05 indicated that the residual was normally distributed.

In heteroscedasticity testing using the Glejser test, the regression equation was free from heteroscedasticity problems if the independent variable did not affect the absolute value of the residual. The test results presented a significance level greater than 0.05 for all independent variables in equations one and two. The results of this test indicated that

equations one and two were free from heteroscedasticity problems because the significant level was greater than 0.05.

The multicollinearity test used the variance inflation factor (VIF) and tolerance values. The results of the multicollinearity test in equations one and two show a VIF value smaller than ten and a tolerance value greater than 0.10. Therefore, the independent variables in equations one and two did not correlate with one variable and another.

The results of the first regression equation test are shown in [Table 1](#).

Table 1. Results of hypothesis-testing (H1-H3)

Variable	Coefficient	t-test	Probability
<i>Risk Attitudes</i>	-0,029	0,708	0,480
<i>Mental Accounting</i>	0,075	1,220	0,225
<i>Overconfidence</i>	0,445	5,710	0,000

The second regression equation shows the effect of risk attitudes, mental accounting, and overconfidence variables on financing decisions. The results of the second regression equation test are presented in [Table 2](#).

Table 2. Results of hypothesis-testing (H4-H6)

Variable	Coefficient	t-test	Probability
<i>Risk Attitudes</i>	-0,087	2,284	0,024
<i>Mental Accounting</i>	0,131	3,437	0,001
<i>Overconfidence</i>	0,164	0,956	0,331

Risk attitudes and Investment decisions

[Table 2](#) shows the risk attitudes coefficient value of -0.290 with a probability value of 0.480. The results prove that risk attitudes cannot contribute to changes in investment decisions. These results did not align with behavioral finance theory, which explained the relationship between risk attitudes and investment. Individuals who dare to take risks would be braver in making investment decisions. This research supports the results of [Putri et al., \(2023\)](#) ; [Nosi \(2010\)](#), which stated that risk attitudes did not affect investment decisions. This research was different from the research results of [Tubastuvi et al. \(2024\)](#), [Fridana & Asandimitra \(2020\)](#), and [Novandalina et al. \(2022\)](#), which stated that risk influences investment decisions.

Different results may occur because this research was conducted during the COVID-19 pandemic, [Juergensen et al., \(2020\)](#) stated that the COVID-19 pandemic caused SMEs to face high risks and uncertainty. Therefore, many SMEs need to do more in their investment decisions. The respondents' answers also support that SME owners chose a risk-averse attitude during the pandemic.

Mental accounting and Investment

Mental accounting refers to the different values a person places on the same amount of money based on subjective criteria. Individuals classify funds differently and are therefore prone to irrational decision-making in their spending and investment behavior ([Thaler, 1999](#)). Research cannot prove a relationship between mental accounting and investment

decision-making. The results of this study provide evidence that mental accounting behavior will not change the investment decisions of SME owners.

Mental accounting will have implications for SME owners regarding their allocation of funding and influence the investment decisions and timing of these decisions. Investing is usually considered a long-term financial behavior and requires a trade-off between current and future consumption (Novandalina et al., 2022). SME owner respondents in the research had an average of more than five years of business experience. Therefore, SMEs have substantial experience in their industry, so they do not need accounting considerations when deciding on investment financing. SME owners prioritize intuition and habits and trust in their business partners. The results of this research support the research results of Novandalina et al. (2022).

Overconfidence and Investment decisions

SME owners make investment decisions in situations of uncertainty and risk. Overconfidence occurs when SME owners exaggerate skills and abilities and ignore risks in investment decisions (Sabir et al., 2019). The test results show a significant favorable influence between overconfidence and investment decisions. SME owners who have high trust will be braver in making investment decisions. It follows behavioral finance theory, which states that the tendency to be overconfident in your abilities and predict success will further increase investment decisions.

The results of this research are in line with research conducted by Adielyani & Mawardi (2020); Almansour et al. (2023); Altaf & Jan (2023); Fridana & Asandimitra (2020); Nareswari et al. (2021); Purwidiyanti et al. (2023); Sapkota (2023) and Syarkani & Alghifari (2022) which prove that overconfidence can further increase accuracy in making investment decisions. The SME owners in this study have long experience running a business in their field. Therefore, they have high self-confidence when making risky investment decisions.

Risk attitudes and financing decisions

Regret theory explains that a manager avoids risk by preferring equity over debt. This research proves that risk attitudes negatively affect funding decisions. These results illustrate that SME owners who are risk averse will prefer funding sourced from equity rather than funding from debt. Sources of SME equity funding can come from family, friends, or angel investors (Purwidiyanti, Pramuka, et al., 2023).

These results follow research by Abdeldayem & Sedeek (2018) and Rao & Kumar (2018), which shows that risk attitude factors influence financing decisions. SME owners who are risk-averse will be more careful in making financing decisions. According to regret theory, a manager chooses risk-avoiding decisions because he does not want regrets due to wrong decisions (Broll et al., 2017).

Mental accounting and Financing decisions

Mental accounting proves to have a positive effect on funding decisions. These results prove that the mental accounting behavior of SME owners causes an increase in funding originating from debt. SME owners with a high accounting mentality will

increasingly use debt in their funding decisions. The rationale for mental accounting was initially logical, for example, by saving funds in budget plots based on interests. However, as a result, individuals needed to be more flexible in how to apply each of these funds. Individuals who spend money outside the budget plan are willing to take on debt to meet their needs (Pompian, 2012).

These results follow research by Mahapatra & Mishra (2020), which found that mental accounting can influence financial decisions. The results of this research follow the behavioral finance theory regarding the influence of mental accounting on financial decisions. A high accounting mentality will show a careful attitude from SME owners, improving company financing decisions. These results are by respondents' statements regarding the purpose of using debt to be more careful in managing and using finances.

Overconfidence and Financing decisions

The results of testing the overconfidence variable on funding decisions prove that there is no role of overconfidence behavior in funding decisions. Excessive confidence in the company's ability to generate income triggers managers not to hesitate to take capital from debt. Overconfident behavior can start a series of global crises because companies experience difficulty paying debts. SME owners with less self-confidence will not take on large amounts of debt because SMEs need help accessing capital that comes from debt.

The phenomenon in the field shows that SME owners, on average, have a high level of trust, but this overconfident behavior does not cause SME owners to choose debt as a funding source. SME owners consider that the risk of using debt is still greater than the benefits obtained from using this debt. This result is based on research by Abdeldayem & Sedeek (2018), which states that managerial overconfidence cannot influence funding decisions.

5. Conclusion

Risk attitude and accounting mentality are not factors that contribute to changes in investment decisions; only overconfident behavior has been proven to improve investment decisions for SME owners. Examining funding decisions shows the opposite; risk attitude and mental accounting determine funding decision-making. Meanwhile, overconfidence behavior is not able to explain funding decision-making by SME owners.

The implications of the results of this study are for SME owners and the government to take policies in the SME sector. First, investment and financing decisions in SMEs must pay attention to financial behavior factors (risk attitudes, mental accounting, and overconfidence). Second, the provision of capital assistance from the government must pay attention to the attitude and character of the SME owners, especially those related to the three variables studied. Third, the government can assist SMEs regarding investment and financing, especially during this pandemic.

The limitation of this research is the distribution of questionnaires using two methods, namely directly and using the Google Form platform. If each respondent were surveyed directly, this might impact variations in research findings. Answers using online

media often cause bias in respondents' answers. This research only uses three financial behavior variables, which means that the influence of all financial behavior biases on financial decisions has yet to be explored. Future research can add financial behavior variables such as herding bias and disposition effect.

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