Behavioral Finance Model to Increase the Financial Performance of Superior Small-and-Medium Enterprises

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ABSTRACT

This research aims at creating a behavioral finance model to increase the financial performance of superior small-and-medium enterprises in the City of Cimahi. Behavioral finance is to study how a human deliberately acts in a financial decision. The indicators used are habit, capital, and changes. Habit shows experience, history, and live incidents. Capital shows the economy and social culture. Changes show what a person performs to achieve a purpose. Cimahi City is a growing and developing city as well as a city located in a very strategic position. Cimahi is located in the intersection of economic activities in West Java and has direct borders with Bandung City, Bandung Regency, and West Bandung Regency. The city is known as the city of industry with trading and service sector as the main activity in its economy. In other words, the economy in Cimahi lies in three sectors, namely: industry, trading, and service sector. The population of this research is all small-and-medium enterprises in Cimahi consisting of four sectors. The sample of this research is the businessmen with fifty-five superior products. The method used in this research is quantitative with regression analysis. The result shows that capital, habit, and change affect to the performance of superior small-and-medium enterprises in Cimahi City.

1. BACKGROUND

Small-and-Medium Enterprise (UKM) is stated as the main foundation in economic activities in a country (Hudson, 2005). The statement is strengthened by the role of UKM in developed countries like the United State of America, Japan, Germany, and Italia. The UKM in those countries is believed to become the main basis which decides business activities. Such condition is most likely to happen if the government in those countries has policies that support the creation of conducive condition for UKM to grow and develop properly. It proves the condition when the global economic crisis happened some years ago, the UKM remains steady. UKM is one of the industrial sectors that is very less getting impacted by the global economic crisis. It means the existence of UKM could be considered to increase the competitiveness and financial system stability.

To keep the stability of the financial system, UKM has to grow and develop in a city. An industrial city like Cimahi City is one of the examples. The city is known as the city of industry with trading and service sector as the main activity in its economy. It is a growing and developing city located in the intersection of economic activities in West Java and has direct borders with Bandung City, Bandung Regency, and West Bandung Regency. Cimahi is

in a very strategic position. To sum up, the economy in Cimahi City lies in three sectors, namely: industry, trading, and service sector.

The financial performance of UKM in Cimahi tends to increase but not too significant due to some obstacles, such as:

1. Less financial record
2. Profit target is not the main purpose
3. Less financial management
4. Less operational cost record

Good financial management becomes the keyword for business development, both small-and-medium business and growing business. A regional economic development depends on the development of the small-and-medium business.

In encouraging regional economic growth, there has to be a study in financial management that has been running, mainly in the small-and-medium enterprise. For the obstacles above, it can be concluded that one thing that affects financial performance is behavioral finance by the businessmen of UKM in Cimahi.

The theory of behavioral finance is about *Habitus* and *Practice* by Bourdieu (1990) as a cultural study. It is needed to analyze the behavior of financial management of the superior UKM in Cimahi. Besides, this research is also using the theory of knowledge and knowledge management by Nonaka (2000).

Behavioral finance covers some factors, namely habit, capital, and change of superior UKM businessmen in Cimahi. Based on the findings on the field, the superior UKM businessmen have not had a good habit in managing their finance, good capital management, and a change in finance because they think changes would be difficult. Focusing on such phenomenon, the writers are attracted to conduct research entitled **"Behavioral Finance Model to Increase the Financial Performance of Superior Small-and-Medium Enterprise in Cimahi City"**.

2. REFERENCES

Behavioral Finance Concept

Behavioral finance is a concept that studies how a psychological phenomenon affects behavioral finance (Shefrin, 2000). It examines how a human deliberately acts in a financial decision (Nofsinger, 2001).

Behavioral finance has been set as a brand new theory in finance by combining the field of psychology, sociology, and other social sciences (Buss, 2009; Bernheim & Douglas, 2008).

Behavioral Concept

According to Bourdieu in Inge (2014), the behavior will be used to see the relationship amongst practice = (habit x capital) + field/changes. Bourdieu's formula implies that someone's (financial) behavior/performance is decided by his habit, strengthened by his capital, and in a line with field/change in his environment.

The formula also hints that someone's social behavior is established by his habit, strengthened by his capital, and according to his field.

Bourdieu explains that habit is a conceptual space in which experience is kept as a memory set regarding how to behave. Habit is a practical knowledge from an agent about how to do something, respond to a situation, and understand what happens. It is a kind of insight that without realizing, people do it as a routine. This understanding covers something with a range of various situation: the way of walking, eat or talk, until political categorization like class, a group of age, and sex.

There are three important concepts in Bourdieu; those are habit, field, and capital. The following explanation will elaborate on the concepts and their interaction with the community. Habit is "cognitive or mental structure" used by an actor to face his social life. Each person has a series of scheme or internalized patterns which they use to feel, understand, and judge the social world. Through those patterns, the actor generates his acts and also judges them. Dialectically, habit is "the product of internalized structure" of the social world. In other words, habit is seen as "the internalized social structure that is realized".

Bourdieu directs his attention to study and bridge the dialect between structure and agent. The problem of the duality of structure/agent carries a practical implication. Those who adhere to structural determinism emphasize socialization, social hierarchy, and top-down or bottom-up approach in talking about public policies, social changes, or model in development. In contrary, the adherents of agent determinism prioritize social learning, option expansion for individuals, as well as dialog. The main idea about habit is defined as follow:

> *"Habitus refers to a set of dispositions, created and reformulated through the conjuncture of objective structures and personal history. Dispositions are acquired in social positions within a field and imply a subjective adjustment to that position."* (Retal, 1990)

Field according to Bourdieu is not a static and without-struggle field, but a dynamic one. It is a field that has 'struggle' to win, locates a disposition, and gets recognition. It is the position gained by a person in a field. Therefore, it is determined by habit and capital that he owns.

Bourdieu defines capital in four categories: (i) material/economic, (ii) cultural, (iii) social, and (iv) symbolic. Material capital is a capital in the form of money or other assets that can be exchanged into money, so it is also called economic capital. Cultural capital is an experience and knowledge capital gained both tacitly and explicitly. Social capital is a capital owned in the form of network, working relationship or friendship that has been nurtured and gained by the actor during his life. The last one is symbolic capital that is in the form of a good name or reputation. It is a trust of other people gained by the actor during his work process or effort.

According to Bourdieu, those capitals could be exchanged with each other. From these four types of capital, symbolic capital places the highest position because it is the most affecting and recognized. Therefore, each participant would look for a strategy and attempt to behave in gaining most of the capital accumulation, mainly the symbolic capital.

3. RESEARCH METHOD

The method used in this research is the combination of quantitative method and qualitative with ethnography. It emphasizes what happens daily, community group data, and general knowledge in a community or a particular group. The principle of selection is based on the observation of the research object through the object limitation (The Emergence of Multisite Ethnography: 2004).

The data collection procedures are:
1) Purposive sampling according to what the writers need
2) Observation is done to gain the data based on the field condition
3) In-depth interview, unstructured interview, face-to-face with the informants
4) Recording using an audio-visual recorder for the interviews
5) Literature study by studying documents or literature regarding the variables

4. POPULATION

To conduct this research, the writers need to determine the population to be observed. The population in this research is all UKM in Cimahi City which is about 1,327 UKM categorized into four sectors of UKM.

Sample
Sample measurement is a step to determine the size of the sample taken in conducting research. The sample in this research is the superior small-and-medium enterprises in Cimahi which are fifty-five UKM with their superior products.

5. DOUBLE LINEAR REGRESSION ANALYSIS
The regression equation of panel data to find out the relationship between capital, habit, and change quantitatively and business financial performance is

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

Information:
Y_{it} = dependent variable (financial performance) in cross-section unit i and time t
X_{1it} = capital in cross-section unit i and time t
X_{2it} = habit in cross-section unit i and time t
X_{3it} = change in cross-section unit i and time t
β_0 = intercept value (constant)
β_1 = regression coefficient X_1
β_2 = regression coefficient X_2
β_3 = regression coefficient X_3

6. RESEARCH RESULT
Based on the result of behavioral finance model in this research, it can be described that from three aspects which are habit, change, and capital and the financial performance of superior businessmen in Cimahi, the regression model is set herein under:

$$Y = 3.542 + 0.183 X_1 + 0.62 X_2 + 0.084 X_3$$

Where:
Y = financial performance
X_1 = capital
X_2 = habit
X_3 = change

Interpretation:
1. The constant at the amount of 3.542121 can be described that if the whole independent variables are nil then the financial performance is 3.542121 unit.
2. If capital raises one unit, then it will increase the value of financial performance at the amount of 0.183145 unit.
3. If habit raises one unit, then it will increase the value of financial performance at the amount of 0.620135 unit.
4. If change raises one unit, then it will increase the value of financial performance at the amount of 0.084723 unit.

The Influence of Capital to Financial Performance
Based on the result of statistical analysis, it shows that the value of probability (α) that is less than 0.05 is 0.0215. It means capital affects positively significant to the financial performance of the superior UKM in Cimahi. In other words, the higher the capital, the higher the financial performance of UKM in Cimahi.

Based on the result of the interview and questionnaire, such condition is not separated from the capital condition of the superior UKM in Cimahi which is very good. It affects positively so it can increase financial performance significantly. From the side of house ownership, most of the businessmen have had their own house to run their business. By owning the permanent residence, it will decrease the rent cost spent by the business owner. Consequently, the financial performance is getting higher.

The Influence of Habit to Financial Performance
Based on the result of statistical analysis, it shows that the value of probability (α) that is less than 0.05 is 0.0001. It means habit affects positively significant to the financial performance of the superior UKM in Cimahi. In other words, the higher the habit, the higher the financial performance of UKM in Cimahi.

Based on the result of the interview and questionnaire, such condition is not separated from the business owners' productive age. It supports them to have high spirit and be able to do lots of jobs as well as have the ability to plan a good business development so the business performance ran is getting better.

The Influence of Change to Financial Performance
Based on the result of statistical analysis, it shows that the value of probability (α) that is less than 0.05 is 0.0432. It means change affects positively significant to the financial performance of the superior UKM in Cimahi. In other words, the higher the change, the higher the financial performance of UKM in Cimahi.

Based on the field result, most of the business owners have work experiences. The experiences become sufficient provision for the owners to run their business. The experiences also become a reference in managing the business so the owners do not feel much difficulties. They make business performance getting better and developing.

7. CONCLUSION
Based on the research result, the conclusions are:
1. Capital affects the financial performance of the superior UKM in Cimahi City.
2. Habit affects the financial performance of the superior UKM in Cimahi City.
3. Change affects the financial performance of the superior UKM in Cimahi City.
4. Behavioral finance affects partially and simultaneously to the superior UKM in Cimahi City.

8. SUGGESTIONS
1. The businessmen of superior UKM in Cimahi should do financial literacy regarding the saving account owned by the businessmen. The saving account would ease the businessmen in running their business.
2. The businessmen of superior UKM in Cimahi should be able to control credit. The credit would ease them to keep stability and business sustainability.
3. The business owners should have a willingness to create business insurance so the business activities could be more comfortable.
4. The businessmen of superior UKM should follow organizational activities to create networking.
5. The businessmen of UKM should have a complete financial record to find out the financial performance that has been achieved by the businessmen.
6. The businessmen of superior UKM in Cimahi should do the best use of their gadget or smartphone to promote their product and expand their market.

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