Behavioral Financial Model to Improve the Financial Performance of Small and Medium-sized Enterprise Operators in Cimahi City

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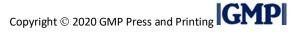Business Administration Department, Universitas Padjadjaran

ABSTRACT

This research aims at creating a behavioral finance model to improve the financial performance of small and medium-sized enterprise (SME) operators in Cimahi City. Behavioral finance studies how human as an actual living creature behaves in a financial decision. The indicators used are habit, capital, and changes. Habit shows experiences, history, and life events. Capital shows the economy, culture, and society. Changes are something done by people to achieve a target. Cimahi as a growing and developing city is in a highly strategic position. It is located at the crossroad of economic activities in West Java and it is directly adjacent to Bandung City, Bandung Regency, and West Bandung Regency. Cimahi City is known as an industrial city with service and trading sector as the main activities in its circle of economic life. In other words, the economy in Cimahi City relies on three sectors: industry, trading, and services. The population of this research is advanced small and medium-sized enterprise operators in Cimahi City which are fifty-five operators with their featured products. The method used in this research is quantitative with regression analysis. The result shows that capital, habit, and change affect the performance of advanced SME in Cimahi City.

Keywords: Financial Attitude, Financial Literacy, Behavioral Finance, SMEs

1. BACKGROUND

Small and Medium-sized Enterprises (SME) are stated as the main pillar in the economic activities of a country (Hudson, 2005). The statement is strengthened by the role of SME in advanced countries like the United State of America, Japan, Germany, and Italy. SME in advanced countries is believed to become the main pillar that decides business activities in a country. Such condition is most likely to happen if the government in the advanced countries has policies that support the emergence of the conducive circumstance for SME to be able to grow and develop properly. It is proven when the global economic crisis happening recently. SME could survive. SME is one of the industrial sectors that is slightly hit by the impact of the global economic crisis. It means the existence of SME is accountable to raise competitiveness and stability in a financial system.

To maintain the stability in a financial system, then as a city that is growing and developing, located in the highly strategic position which is in the crossroad of economic

activities in West Java, and directly adjacent to Bandung City, Bandung Regency, and West Bandung Regency, Cimahi City is known as an industrial city with service and trading sector as the main activities in its economic life. Therefore, the economy in Cimahi City relies on three sectors: industry, trading, and services.

The financial performance of SME in Cimahi City tends to lift up but not significantly because of some obstacles, which are:

1. lack of financial records,
2. the achievement of profit is not the main target,
3. less experience in managing finance, and
4. minimum time spent to do a proper cashflow.

Proper financial management becomes the key in business development, either small and medium-sized enterprises or big enterprises. The regional economic growth depends on the development of SME in a region.

To encourage regional economic growth, it is necessary to examine the financial management that has been run mainly in SME. With the obstacles above, one of the things that can affect financial performance is the behavioral finance of SME operators in Cimahi City. The behavioral finance theory is about habit and practice (Bourdieu, 1990). As a cultural study, the theory is needed to analyze the behavior of the financial management of advanced SME operators in Cimahi City beside using the theory of knowledge and management knowledge by Nonaka (2000).

Behavioral finance covers some factors: habit, capital, and change which will hypothetically be found from the advanced SME operators in Cimahi City. Based on the finding from the field, the advanced SME operators in Cimahi City lack a decent habit in financial management, have less experience in capital management, and lack of encouragement in performing changes mainly in terms of finance. It is because they think that changes would be difficult. Based on the phenomenon above, the writer is interested in conducting research entitled "Behavioral Finance Model to Improve the Financial Performance of Small and Medium-Sized Enterprise Operators in Cimahi City".

2. REFERENCE

Behavioral Finance Concept
Behavioral finance studies how psychological phenomenon affects its financial behavior (Shefrin, 2000). In addition, it investigates how human as an actual living creature behaves in a financial decision (Nofsinger, 2001).

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

Behavior Concept
According to Bourdieu in Inge (2014), there is a formula to see the relationship between practice, habit, capital, and changes. It is as in Practice = (Habits x Capital) + Field/Changes. The formula implies that someone's (financial) behavior/performance is determined by his habit which is then strengthened by his capital based on the field/changes in his environment.

Bourdieu defines habit as a conceptual space in which experience is kept as a series of memory regarding how human is behaving. Habit is a practical knowledge of an agent on how human is doing something, responding to a situation, and comprehending what is

happening. It is a kind of unconscious information that refers to routine. This sort of understanding covers behavior with a set of different situations: how people walk, eat, or talk until political categorization as in class, age, and sex.

There are three important concepts as Bourdieu has explained: habit, capital, and field/changes. The following idea will talk about those three concepts and their interaction in a society.

Habit is a mental or cognitive structure used by an actor to face his social life. Every person is given a series of internalized scheme or pattern that they will use to feel, understand, realize, and judge the society. Through the patterns, the actor produces his action and judges it. Dialectically, habit is a product of the internalized structure of society. In other words, habit is seen as an internalized social structure.

Bourdieu directs his attention to study and bridge dialect between structure and agent. The problem of structure/agent duality implicates practices. Those who believe in structure determinism emphasizes socialization, social hierarchy, and top-down or bottom-up approach to talk about public policy, social changes, or model in development. On the other hand, the agent determinism believer foregrounds social learning, the choice expansion for individuals, as well as dialogue. The main idea about habit is defined as follow:

> *"Habitus refers to assets 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)

What is meant by field according to Bourdieu is not static and without a struggle. It is a dynamic field. Struggle means there is a motive to win, occupy a disposition, and receive recognition. Therefore, someone's position in a field is highly determined by his habit and capital.

Bourdieu defines capital into four categories: material/economic, cultural, social, and symbolic. Material capital is the capital in the form of money or other assets that is exchangeable to money. It is also called economic capital. Cultural capital is the capital that is both experience and knowledge gained tacitly or explicitly. Social capital is the capital owned in the form of networking, work relationship, or friendship gained by an actor during his lifetime. Last but not least is symbolic capital. It is the capital in the form of reputation-trust from other people gained by an actor from his lifetime work.
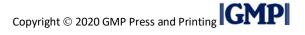
Bourdieu says that these capitals are exchangeable to each other. Amongst the capitals, symbolic capital reaches the highest position, the most affecting, and the most recognized. Therefore, each participant will look for strategy, attempt to behave and add more capital accumulation as much as he could, especially the symbolic capital.

3. RESEARCH METHOD

The method used in this research is the combination of quantitative method and qualitative with ethnography which emphasizes what happens daily, community group data, and general knowledge in a community or particular group.

Data Collection Procedures include:
1. sampling: using purposive sampling according to the writer's needs,
2. observation: gaining data based on the actual situation on the field,
3. in-depth interview: an unstructured and face-to-face interview with informants,
4. recording: using a camera and voice recorder for the interview, and

5. document study: studying documents related to the variables.

Population
To conduct this research, the writer needs to determine the population to be observed. In this research, the population is all SME in Cimahi City which is around 1.327 SME categorized in four sectors.

Sample
Sample measurement is a step done to determine the amount of sample taken for research. The sample in this research is advanced SME in Cimahi City which is fifty-five SME with their featured products.

Double Linear Regression Analysis
The equation of panel data regression used to discover a relationship quantitatively from capital, habit, and change toward financial performance is formulated as follow:

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

With:

Y_{it} = Dependent variable (financial performance) in unit cross-section i and time t

X_{1it} = Capital in unit cross-section i and time t

X_{2it} = Habit in unit cross-section i and time t

X_{3it} = Change in unit cross-section 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

4. RESEARCH FINDINGS

The result of research on the behavioral finance model can be illustrated from three aspects, namely habit, capital, and change as well as the financial performance of the advanced business operators in Cimahi City. So, the regression model is formulated as follows.

Y = 3.542 + 0.183 X₁ + 0.62 X₂ + 0.084 X₃
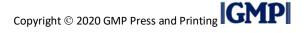
With:

Y   = Financial performance

X1   = Capital

X2   = Habit

X3   = Change

Interpretation
1. The constant at the amount of 3,542121 can be interpreted that if the whole independent variables are null, the financial performance is valued 3,542121 unit.
2. If capital raises one unit then the capital will increase the value of financial performance at the amount of 0,183145 unit.
3. If habit raises one unit then the habit will decrease the value of financial performance at the amount of 0,620135 unit.
4. If change raises one unit then the change 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) is less than 0,05 which is 0,0215. The number shows that capital affects positively significant to the financial performance of advanced SME in Cimahi City or in other words, the higher the capital is, the higher the financial performance of SME in Cimahi City is.

Based on the interview and questionnaire, the result cannot be separated from the condition of capital in the advanced SME in Cimahi City which is very good. So, it affects positively and can increase financial performance significantly. From the house ownership point of view, most of the business owners have had a house to run the business. By having a settled place to stay, they do not have to pay store rent. It means they could make financial performance getting increasing.

The Influence of Habit to Financial Performance

Based on the result of statistical analysis, it shows that the value of probability (α) is less than 0,05 which is 0,0001. The number shows that habit affects positively significant to the financial performance of advanced SME in Cimahi City or in other words, the higher the habit is, the higher the financial performance of SME in Cimahi City is.

Based on the interview and questionnaire, the result cannot be separated from the habit of the SME behavior in Cimahi City which shows that most of the SME operators are in productive age. Productive age makes the business owners excited and they can do so many things. Because of that, they have the ability to plan a good business development so the business performance 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) is less than 0,05 which is 0,0432. The number shows that change affects positively significant to the financial performance of advanced SME in Cimahi City or in other words, the higher the change is, the higher the financial performance of SME in Cimahi City is.

Based on the finding on the field, most of the business owners have working experiences. With their experiences, they have sufficient preparation to run their business activities. The experiences can become a reference to manage the business so the business owners do not have to encounter many difficulties in running the business. It is also expected that the experiences can make the business getting better and growing.

5. CONCLUSION

Based on the research conducted, it can be concluded that
1. Capital affects financial performance to advanced SME in Cimahi City.
2. Habit affects financial performance to advanced SME in Cimahi City.
3. Change affects financial performance to advanced SME in Cimahi City.
4. Behavioral finance affects financial performance partially and simultaneously to advanced SME in Cimahi City.

Suggestions
1. The advanced SME operators in Cimahi City should do financial literacy regarding saving account owned by the operators. It suggests that with the saving account, they will get easier to do the business activities.

2. The advanced SME operators in Cimahi City should control the credit owned by the operators. It suggests that with the credit, they will get easier to keep the business stable and sustainable.
3. The business owners should have an encouragement to register for insurance so the business activities can be more comfortable.
4. The owners of advanced SME should join a community to create business networking easily.
5. The SME operators should have a complete financial record to know the financial performance that has been reached.
6. The advanced SME operators in Cimahi City should maximize the use of gadgets or smartphones they have to promote their products and expand their market.

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