BEHAVIOR FINANCE FOR DECISION MAKING OF BUSINESS

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ABSTRACT

The article titled "Behavior Finance For Decision Making Of Business " is a theoretical article and discusses the influence of the behavior financial of rational and irrational as decision making Small and Medium Enterprises (SMEs) businesses in Indonesia. Over the last few decades many researchers who found that in the decision-making businesses often act irrationally and contrary to the concepts and theories. The concept of behavioral finance says that the investment decisions made businesses more expensive irrational factors. Irrational factors discussed are the psychological factors whereas rational factors discussed is financial knowledge. Psychological factors are factors that talks about human behavior, from individual person relating to the environment, can be controlled and understood but can not be calculated because it is associated with feelings. While financial literacy is a basic science that is critical to managing a business. Factors Irrational and rational factors have combined will strengthen a person in making investment decisions in business.

Keywords : behavioral finance, SMEs, irrational factors, rational factors

INTRODUCTION

One important factor in the development process is the development of national economy of a country. The number of world business began to appear along with business competition. It can anticipate the critical condition of the State as the entry of the era of free trade in ASEAN. This business competition should be anticipated so precise in decision making an investment. Businesses should pay attention to and consider any risks that would be faced in decision making an investment.

Businesspersons here are the owner of small and medium enterprises (SMEs). small and medium enterprises (SMEs) is one of the important contributors to the contribution of business in the State, one of which is creating jobs so as to reduce unemployment and help the growth of the State's economy. Investment decisions in small and medium enterprises (SMEs) are important for Small and Medium Enterprises (SMEs) is a long-term business. SMEs also have drawbacks include the inability of management, supply instability, price competition and weak in decision-making. This decision making with regard to business owners financial behavioral Small and Medium Enterprises (SMEs) in decision making. Small and Medium Enterprises

(SMEs) is also one of the foundation for strong business in the face of free market entry of ASEAN.

Behavior finance is one of the most important factors in the decision. According to Ricciardi and Simon (2000), the financial behavior not only of human action, but also the understanding of patterns of reasoning, including emotional processes involved and the extent to which they influence the decision-making process. Behavior finance began widely studied by scientists since the 1970s. Academics develop more comprehensive models by linking finance and the psychology of human behavior in the financial markets (Shiller, 2002). Behavioral finance is the paradigm in which the financial markets are studied irrationally. Irrational behavior greatly affects the decision making process. Fama (1970), has developed a theory about the financial behavior. In traditional finance finance revealed the efficient - market hypothesis .

According to Brigham and Houston (2014), recent empirical support for the efficient - market hypothesis has declined. Experts argue that the investor is not just a machine that is rationally process all the available information, there are various psychological factors and perhaps irrational that also need to be taken into account. Behavioral finance to explain and predict the psychological aspects of a business owner in the market with the aim of making economic decisions realistically. This model is contrary to financial theory which has been used is a rational way. Businesses operating small and medium enterprises (SMEs) should have a strong science to make decisions to invest wisely, especially in behavioral finance. But in this case the government is less strict in giving attention to the development of small and medium enterprises (SMEs) from time to time that cause a lack of control of small and medium enterprises (SMEs) is.

LITERATURE REVIEW

Psychology

Psychology is a science that seeks to understand the human being as a whole, and can only be done with an understanding of one's personality (Alwisol, 2009). The concept of psychological theory, among others, about the dynamics of setting behavior, patterns of behavior, models of behavior in order to develop and discuss the complexity of human behavior. According Alwisol (2009) theory of personality psychology is descriptive in the equivalent depiction of the organization 's behavior systematically and easily understood. According Sumarwan (2001), psychographic is an instrument to measure lifestyle, which provide quantitative measurements and is usually used to analyze very large data.

Psychological factors can shape a financial behavior in decision making, especially in the decision of buying and selling transactions. Ritter (2003) argues that " Behavioral finance has two building blocks: cognitive psychology and the limits to arbitrage". Cognitive psychology regarding how people think. In some literature of psychology explained that people often make systematic errors in their way of thinking, for example overconfidence. Some researchers have suggested that psychological factors influence on decision making in a variety of activities. It is due to psychological factors are a person who is greatly affected person's personal behavior. Behavioral finance theory is very interesting to study because of the " unique ". The uniqueness is due to a blend of financial theory and the feel good factor that has existed inside a person that is a psychological factor.

Psychological Factors

Some of the psychological factors that influence the decision-making businesses small and medium enterprises (SMEs) in investing are as follows:

1. Status Quo
   Investors are more comfortable when they're in style or a style that belongs. Investors are reluctant to change its style. Investors do not want to get out of your comfort zone (Roth, 2007). Investors are already comfortable with a style which is owned as an investor in this style have earned profits. When investors are already getting the desired profit as investors will continue to use a style that he had.
2. Emotions
   Emotional factors related to the badmood or goodmood an investor that may affect the purchase transaction. Emotions are an important part in the decision-making process that has a high degree of uncertainty (Nofsinger, 2005). At the time goodmood investors can make decisions properly because investors are unable to think clearly, to the contrary at badmood investors are unlikely to take a decision properly. Hadipranata (in Psikomedia, 1991) says that women often use emotions in the shop. Emotional factors in the financial behavior is a desire to do without being based plans and requirements, but only for a gratification, fulfillment of the desire for something that was considered attractive by such person.
3. Social Interaction
   Social Interaction is the interaction between investors from one investor to another investor related to an investment. Social interaction with businesses and other investors can influence the decisions of investors in investing (Nofsinger, 2005). Social interaction with people who are considered influential or with other investors highly believed to be one of the factors that will influence the decision. That is because investors are very trusting with what has been suggested or any other investor who has done that has achieved success in the investment field.
4. Mental Accounting
   Investors who have mental accounting in decision making when trading is that investors consider the costs and benefits of decisions taken (Nofsinger, 2005). Investors feel with mental accounting can be safe in making an investment decision. That is because investors are more save in the transaction so that it can minimize the risk for their consideration of the costs and benefits that will be obtained with the decision taken for example the risk of loss in large numbers.
5. Familiarity
   Investors judge something based on familiarity already known (Nofsinger, 2005). Businesspeople tend to have more confidence to invest in companies that are already known. The decision to invest in companies that are already known is believed to be more profitable than investing in companies that are still not known although it is still unproven. The investors consider investing in a company that is better known it will not harm the investment that has been taken.
6. Considering The Past
   According to Nofsinger (2005) considering the past is the past as a result of the use of or basis for the evaluation factor in decision making at the moment. Investors are more willing to take greater risks after benefit, otherwise investors will take the risk of smaller (not risk) after getting losses. This suggests that the courage of investors to risk is influenced by the gain or loss on the previous transaction.

7. Self Control
   Richard Thaler and Hersh Shefrin (2007) describe self control as issues of interaction relationship between two things in a person that is “the doer” and the planner. Where “the doer” want to consume at this point and suspend jobs that are not pleasant while the planner wants to save and complete tasks quickly. People prefer to receive early gains and ignore the things that are not pleasant (not profit).

Financial Knowledge

According to Husnan (2013) that in order to implement and manage good financial management in the enterprise, finance managers need to understand the science of finance or financial knowledge that good anyway. Financial knowledge is not to be understood by someone who works in finance, but everyone should understand about financial knowledge. Because of financial knowledge can help a person to overcome problems in daily life.

Hilgret and Jeanne (2003) found a lack of knowledge of the principles of financial management and financial problems could explain why some families do not follow financial theory. Businesses operating small and medium enterprises (SMEs) gain financial knowledge theory of some custom made, for example, create a budget, save money, choose investments and others. With the expected financial knowledge businesses are able to make wise investment decisions. Financial behavior focused on the application of the fundamentals of economics and psychology to an increase in financial decision making (Olsen, 1998). According to Lusardi (2010), the lack of financial knowledge led to someone likely to have problems with debt and involved higher credit costs and difficult to plan for the financial future.

Investment

According to Tandelilin (2010) investment is a commitment of funds or other resources is done at this time, with the aim of obtaining a number of advantages in the future . Investing can be a real asset (land, gold, machinery, or buildings) or financial assets (deposits, stocks or bonds). These investments relate to a wide range of financial activities within the company and in private life. According to Husnan (2013), the investment is any use of the funds with the intent to earn revenue. Husnan (2013) adds that the company make investments with the hope to obtain greater results than sacrifice, in other words, expect to obtain greater profits .

Sharpe et al. (1999) explains that investors can generally be classified into two categories, namely individual investors (individual/retail investors) and institutional investors (institutional investors) . Individual investors made up of individuals who make investments, such as SME business owners. Most SME business is managed by individuals or groups that do not involve a lot of people. Meanwhile, institutional investors typically consists of insurance companies, fund depository institution (bank and savings and loan institutions), pension funds, and investment companies.

Tandelilin (2010) suggested that the basic investment decision consists of the rate of return expectations, risk levels and the relationship between return and risk. According Tandelilin (2010) there are several reasons why a person invests, among others, as follows:

1. To obtain a better life in the future,
2. Reduce inflationary pressures,
3. The urge to save on taxes.

A wise man will seek ways to improve their living standards and increase its revenue in the future. So that someone will be looking for ways to save on taxes or reduce inflationary pressures.

CONCLUSION

Small and medium enterprises (SMEs) are now quite prominent in Indonesia as one of the factors supporting the economy of the State. More and more small and medium enterprises (SMEs) the less unemployment in Indonesia. Development of small and medium enterprises (SMEs) is necessary as the container that the Indonesian economy to be strong, and growing. Problems in the development of small and medium enterprises (SMEs) is still on the capitalization, in addition SME businesses must also be accurate in making investment decisions and in the addition or creation of new products, design development, and the development of business branches.

From the description that has been said above it can be concluded that the decision, businesses small and medium enterprises (SMEs) could be irrational or rational in making investments. Many factors have been identified in various studies about the irrationality. As these factors are psychological factors, some sort of psychological factors is self-control, emotion, mental accounting, considering the past, fear and greed, and familiarity. Some of the psychological factors are recognized will influence investors in making investment decisions due to psychological factors associated with feelings of the individual itself.

Rational factors that financial knowledge is a knowledge base that must be owned by a person to earn a decent living in the future. Likewise for investors, financial knowledge is highly influential in making investment decisions. If an investor simply use any irrational factor in making investment decisions, then the result of the decision will not be perfect. Similarly, if the investor alone using only rational theory only, then the result will not be perfect because there is not in accordance with the psychological condition of investors. Decision making an investor to invest would be perfect if the use of rational factors and irrational factors into consideration.

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