The Financial Behavior Traits Impact On Financial Distress At Small Medium Enterprise's (The Relationships Between The Industry And Sustainable Development In Indonesia)

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Abstract: The goal of this research is to identify the main factor that causes SMEs to experience financial distress. In this context, this research focus on behaviour traits which is their capacity of self control, planning and patience affect the ability to manage their finance and stay out of financial distress. Using SmartPLS Partial Least Square, data was analyzed. Data was collected by questionnaire and distributed to each of SMEs in coastal area who chosen by simple random sampling. Financial behavior has a positive and significant effect on financial distress. Furthermore, all of the three variables of financial behavior traits have a significant influence on financial distress.

Keywords: financial distress, Financial behaviour, self control, planning, patience affect, Small Medium Enterprises, behaviour traits

1. INTRODUCTION

The Indonesian economy is underpinned by Small Medium Enterprises (SMEs) that absorb labor by 97.3% of the total national workforce and contribute to the Gross Domestic Product (GDP) of about 59%. In supporting the economy, SMEs in Indonesia have produced many creative products and needed by the community. Then, the development of SMEs creates a wide market. This open market makes small entrepreneurs must show their ability to create and innovate to get into this open wide market. The more SMEs entering the market competition, on the other hand, makes many SMEs unable to continue their business and it can be said that the existence of SME's grows uncertain. The increase in the number of small businesses was not followed by robust resilience to maintain its survival so that small business soon went bankrupt. However, in Indonesia, the existing record is still limited data on increasing the number of SMEs instead of there is no report on the number of reduction of the number of SMEs that go bankrupt. (Iwanto,2001). SMEs have unique characteristics in which the nature and condition of factual inherent in business activities derived from the behavior of the entrepreneurs concerned in running their business. If the entrepreneurs have had a bad financial behaviour in his own, then it will also in financial management of his business (Ferine et al., 2017). If it happens continuously then the business of SMEs will certainly suffer losses so that the possibility of economic harm could happen.

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In this context, understanding the reasons a person engages in financial difficulties derived from financial behavior is the key to policy design that minimizes financial hardship in the future. Individuals and SMEs actors are both required to make financial decisions in many things in life, namely in personal finances such as making savings decisions, pension planning and financial decisions in a business as a small business owner or investor. Researcher have done a lot of research indicating that personality traits was an important things in economic behaviours (Parise and Peijenburg,2017) But, in financial economics, there is still a relatively little empirical evidence on the role that personality traits play in influencing individual and SME's financial decision and their exposure to financial distress. A better understanding of the determinant of personality traits is critical importance of financial behaviour traits In this paper, we provide evidence linking personality traits as it also called behaviour traits to a broad array of financial choices and, in particular, to the likelihood of financial distress. In every human life-cycle, an individual require to make financial decision. An individual should make a choice whether they make some savings in order to get future expected benefit to compensate the cost of reducing consumption today. This choice involved an action that is costly today and has an uncertain effect on the benefits later on. Therefore, individuals' subjective perception of this trade-off is likely to influence their decision (Kuhnen and Melzer, 2017).

2. LITERATURE REVIEW

2.1. Financial Behavior

The determinants of financial well-being of individuals had been an interesting factors for research in social science for a long time. In nearly any study of financial behavior or outcomes, from retirement planning to wealth accumulation, there is substantial cross-sectional variation that is not explained by standard demographic or economic variables. Although social scientists may never be able to decompose individual fixed effects fully into all their constituent parts, it is important to better understand the source of individual variation in financial behavior and outcomes so that we can better determine the extent to which they can be altered by behavioral and policy interventions to improve financial well-being. (Xu, et al, 2000) According to Shefrin, 2000, Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets. Also Baker, et al (2002) define that Financial Bahavior study how people actually behave in financial decision-making (a financial setting). Specially, to study how the psychological factors influenced financial decision in a company and financial market. These concepts explained clearly that financial behavior is an approach to identify the way of people in doing the investment or anything that related to the financial activities. In this case, the factors that took for consideration is psychological factors.

2.2. Financial Distress

Financial distress means stress caused by personal, family, and financial condition. Delafroz and Paim (2011) developed the definition of economic stress, difficulties, limitations and stress. Research conducted by Garman et.al (2005) shown by individuals experiencing financial difficulties often live with limited funds without extra funds for emergencies**,** often not confident to manage finances and not ready to fund for retirement. Likewise a business or business can suffer financial difficulties. Large companies or small companies can overcome a problem of facing financial distress or bankruptcy, it can be avoided by predicting things that can caused bankruptcy is to see the existence of financial distress. Financial distress can be interpreted as a wake up or early phenomenon of bankruptcy to the decline in financial condition experienced by a company or business, or conditions that occur prior to bankruptcy or liquidation vacations. Such bankruptcy can be caused by a failure of the company in its operational activities to generate a profit and the inability of a company in paying off its debt. Companies can make an evaluation of the signal of financial distress by looking at the state of profits that a company arise within a certain period.

2.3. Small Medium Enterprise's (SMEs)

The Indonesian government defines micro, small and medium enterprises based on their assets and revenues according to Law No. 20/2008. The SMEs consist of 3 classification that is Micro Business should have maximum asset IDR 50.000.000 and maximum revenue IDR 300.000.000. Meanwhile, Small business have maximum asset IDR 500.000.000 and maximum revenue IDR 2.500.000.000,- Medium business should have maximum asset IDR 10.000.000.000 dan maximum revenue IDR 50.000.000.000. In general, SMEs in Indonesia cab be said as a productive business own by sole proprietorship not a subsidiary or a branch of a bid company. Further more, behavioral finance theory said that financial actors are human-being with their own characteristic to make financial decision. Their decision influenced by their own behaviour and psychological condition (Lutfi, et al,2016). The measurement of personality traits come from commonly framework developed in psychology referred to as the big five personality traits (Heckman,et al, 2013). Following this frame work, the research measure conscientiousness as one of the five traits. Conscientiousness describes the tendency to work hard, control one's impulse, be organized and follow through obligation (Robert, et al, 2014). Focus on personality traits, and in particular the Big Five, as predictors of financial behavior for the reason that financial management behaviors to the extent that they reflect broader themes of plan fullness, impulse control, and persistence, are clearly linked at a conceptual level to personality traits such as conscientiousness (Roberts, Lejuez, Krueger, Richards, and Hill, 2014). There are several studies examine the effect of behavioral traits such as planning on financial outcomes (Ameriks et al, 2003 and Mc Charthy,2011). They find evidence that individuals with a high propensity to plan more likely develop financial plans and saving than the one who did not. Another traits such as individual 's level of self control, time preference is thought to capture the individual traits in managing their money. Parise and Peijenburg (2017, explore that individuals with lower non-cognitive abilities which in fact the personality traits make financial choices that increase their likelihood of financial distress.

3. METHOD

3.1. Type of Research

This research is an explanatory research to test the hypothesis on how Financial Behavior Traits consist of Capacity of self-control, Planning and Patience affect Financial Distress. This research was conducted to obtain answers to the hypothesis of the research problems that exist, so it capture which traits is more important to resolve financial distress that occur.

3.2. Population and Sample

In this study, researchers spread out questionnaires to 60 respondents that is people living and conduct small business in the coastal area of North Sumatera,

3.3. Data analysis technique

In this study, the obtained data were analyzed by using descriptive analysis and linear regression. Descriptive analysis was used to present a description of a phenomenon observed. Regression analysis was used to determine the effect of the independent variable on the dependent variable. SmartPLS application was used to analyze the data.

3.4. Characteristic of Respondents

The characteristics of the respondents are in the following Table 1:

Table 1. *Characteristic of Responsdents*

Dimension		Percentage
Education	Elementary School	6.67%
	Middle School	8.33%
	High School	73.33%
	University	11.67%
Home ownership	Self own	88.33%
	Rental	10.00%
	Family home	1.67%
Type of business	Small Stall	57.67 %
	Tailor	15.00%
	Cellular phone Quota	10.00%
	Workshop	13.33%
	Refill water depots	5.00%
Numbers of dependents	0-2 people	50.0%
	3-6 people	48.3%
	> 6 people	1.7%

3.5. Operational Definition and Method of Measurement

The operationalization of the variables is in the following Table 2:

Table 2. *Variable Operationalization*

Variable	Definition	Indicator	Scale
Financial distress	The condition in which a person run into financial difficulty.	1. Paying credit with/without difficulty. 2. Paying Credit/Bills constantly. 3. Having many Bills	Likert Scale
Financial Behavior	The actual behaviour in financial decision making of a person	1. Capacity of Self Control 2. Planning 3. Patience	Likert Scale

4. RESULT AND DISCUSSION

4.1. Result

The variables and factors for the occurrence of Financial Distress are in the following Table 3:

Table 3. *Financial Distress*

Paying Credit without difficulty	1	1.67%
Struggle in paying credit	2	3.33%
Constantly in paying credit	2	3.33%
Paying Credit with difficulty	3	5.00%
Difficult in paying many Bills	2	3.33%
Having Bills	50	83.33%

Sources: *Data tabulation (2018).*

The perpetrators of SMEs are sensitive to questions about the condition of the bills or credit they have. In general, respondents refused to tell deeper about the credit conditions they have, regardless of whether or not the credit is existed. This is an important input in the effort to formulate financial distress instruments without disturbing the respondents. As many as 83.33 percent of respondents claim to have bill or credit in running their business. Only 16.6 percent of the respondents want tell about his credit condition,

Table 4. *Test Coefficient of Determination*

Description	R Square Adjusted
Financial Behavior	0.904
Financial Distress	0.974

Source: *Output SmartPLS (2018).*

From Table 4 showed that Financial Behavior was able to explain Financial Distress of 97.4%, and the rest of 2.6% explained by other variables. The hypothesis states that financial behavior has a significant effect on financial distress is accepted. From Table 5, the results obtained that the influence of financial behavior on financial distress has a coefficient value of 0.430 with a probability value of 0.003.(Table 5).

Table 5. *Test of Hypothesis*

No	Hypothesis	Original Sample (O)	t Statistic	P Values	Conclusion
1	Financial Behavior influence significantly over Financial Disterss	-0.430	2.996	0.003	Accept

Source: *Output SmartPLS (2018).*

The structural equation is FD = -0.430FB + e. It means that if the Financial Behavior rises by 1 unit, then the Financial Distress will decrease by 0.430. Based on the results of testing done in SmartPLS, showed the three variables of financial behavior have a significant influence on financial distress. Capacity self control has p-value equal to 0.004, variable planning has p-value equal to 0.001, and variable of patience has p-value equal to 0.000.

4.2. Discussion

Then it can be concluded that the financial behavior has a positive effect on financial distress, and the effect is significant. Financial Behavior in this study using 3 indicators consists of capacity of self control, planning, and patience. The higher the financial behavior, the higher the financial distress of the actors of SMEs in the costal area of North Sumatera. This is due to increasing the way people behave in a financial determination (a financial setting), the more stress caused by the financial condition of personal, family, and other financial conditions. Garman et.al (2005) research shows that individuals with financial distress often live with limited funds without extra funds for emergency situations, are often not confident to manage finances and do not prepare funds for pensions. The results of this study support the research of Sadalia (2016) entitled Financial Management Behavior and Financial Distress On Small Medium Enterprise in Indonesia. By using 3 indicator that is evaluation, anxiety and non-generous where factor of evaluation and anxiety each have a significant effect to financial distress while non generous factor have negative effect to financial distress. And also support the research of Mc Charthy (2011) entitled Behavioral Characteristic and Financial Distress proves that behavior traits have a significant influence on financial distress in UK and New Zealand.

5. CONCLUSION AND RECOMMENDATION

Arriving at the financial behaviour has a positive effect on financial distress means that if someone wants to prevent from running into financial distress should manage themselves accordingly. In this research, financial behaviours traits include capacity of control, planning and patience. Among these traits, it concluded that patience is the highest influence on the financial distress. Everyone can find a better financial condition if everyone have the patience to manage their money in order to gain more financial in the future. Financial success requires everyone to learn the way to control their money. It means everyone should getting in control of their money that ultimately requires ongoing action taking with patience and persistence. Beside that everyone should have capacity of control means everyone should control its impulsive. People who are impulsive are more likely to get into financial difficulties than people who are not impulsive. Similarly, disorganised people are also more likely to experience financial distress. This research finding suggest that the authorize institution should go beyond solely in trying to prevent SME' s run into financial distress by making policy should not neglected to understand SME's and individual behaviour characteristic. Financial distress is a state of failure to pay obligation when become due (Kaplan,1998). Therefore, the Government policy in building financial knowledge and financial skills of the SME's must also consider policies that can change the mental and character of individuals and organizational skills so as to minimize the impact of behavior traits on financial distress.

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