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Behavioural Finance and Its Impact on Corporate Performance (Study on Small and Medium Enterprises in Lombok Island)

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ABSTRACT: *This study objectives are to analyze and explaining : 1) Effect of risk attitudes on corporate performance through placement decisions of working capital fund for small and medium enterprises (SMEs), 2) Effect of risk attitudes on corporate performance in SMEs, 3) Effect of mental accounting on corporate performance through placement decisions of working capital fund for SMEs, 4) Effect of overconfidence on corporate performance through placement decision of working capital fund for SMEs, 5) Effect of placement decisions of fund working capital on SMEs performance. Study population is all SMEs in Lombok Island. Sampling technique is non-probability sampling, using judgment sampling. Samples are SMEs in pottery industry and already exporting. This study respondents are owner/managers of SMEs. Data analysis method is Generalized Structured Component Analysis. Research results showed that risk attitudes, mental accounting and overconfidence are rational and have significant effect on corporate performance through placement decisions of fund working capital. This is motivated by majority of SME owners/managers are men, within productive age and experience in the field more than 10 years. Risk attitudes do not significantly affect on corporate performance in SMEs because funds placement for working capital is a perfect mediating variable, but it also related to educational background at mid-level and SMEs ownership are individual. Placement decisions of fund working capital significantly affect on corporate performance in SMEs. Placement decisions of fund working capital are shown by efficiency in cash management, accounts receivable and inventory in order to increase corporate performance.*

KEYWORDS*: behavioural finance, working capital, corporate performance, pottery SMEs*

I. INTRODUCTION

Financial science assumes that financial decision-makers will act rationally in decision making. Existence of rationality aspects in decision making when faced with uncertainty is associated with economic and financial portfolios, human intellect and reasoning. Nevertheless, because human beings could not be separated from bias, it leads to error decision-making process of decision-makers. Bias is a term that intended to explain behaviour, judgment or habits that affected by various kinds of prejudice or presumption. Bias can occur when they occurrence are realized or not realized by person who did it. Researchers in various studies successfully classify 50 types of bias that can be categorized as a psychological bias that commonly appear in investor behaviour (Pompian, 2006). Pompian (2006) revealed 20 psychological biases, such as overconfidence, representativeness, availability, self-control, mental accounting and loss aversion. Risk attitudes, mental accounting and Overconfidence are three factors of human behaviour that contrary with assumptions-assumptions underlying the classical economic models in decision making (Tversky and Brack, 1995). This phenomenon is referred to as "cognitive illusions" because it relates to perception that often can lead to errors. Decision-making that based on "cognitive illusions" is guided by irrationality while many classical economic models are based on rationality. This contradiction becomes gap theory in this study. Furthermore, cognitive illusion factors become variables in this study.

II. RISK ATTITUDES

Fundamental assumption in economic theory assumes that human beings are creatures who do not like risk. Dislike risk is quite common, but this assumption does not apply to all situations (Tversky and Brack, 1995). There is a positive relationship between the level risk and expected rate of return of investors. Investors who do not like risk (risk averse) are not rational to take a more risky investment opportunity if they can gain a higher level.

III. MENTAL ACCOUNTING

Mental Accounting can be seen in business owners tendency to classify their finances on different account based on subjective criteria, such as funding sources and income utilization intent. Technically, Mental Accounting is done by coding, categorization and evaluation of financial decisions (Pompian, 2006). Choice determination often reflects an irrational attitude of decision makers. Concept of Mental Accounting prefers to assess investment decisions (portfolio) based on potential advantages and disadvantages.

IV. OVERCONFIDENCE

According Pompian (2006), Overconfidence can be a temerity that based on intuition, judgment and cognitive ability. It undeniable that humans have a tendency to become overconfident about capabilities and predictions to success. This condition is irrational as reflection of level of confidence a person to reach or obtain something.Those three things are elements of irrational behaviour that can affect decision-making process of financial and/or investment, which ultimately also affect the results. Irrational decision making is happened in stock market, because time for decision-making is often very short. Unlike decisions made on other non-profit organization, where time is used for decision making is not as short as in stock market, so decision making can become rational. Investment analysis that uses psychological and financial sciences is known as Behavioural Finance. De Bondt, Muradoglui, Shefrin and Staikouras (2008) states that "Behavioural finance is study on how psychology impacts on households in financial decisions, market and organizations". Thus, behavioural finance attempts to explain how psychology affects financial decisions in household, market and organization. More specifically, behavioural financial try to find an answer to question of what, why and how a financial point of view from individual behaviour. Behavioural finance at 1990s appears in line with demands of business and academic world that began to address presence behaviour aspects in financial decision-making process and/or investments (Gumanti, 2009).

Behavioural finance is also associated with working capital. This is shown by research of Ramiah, Zhao, Graham and Moosa (2012) to describe behavioural aspects of working capital management as a major contribution to study. This is done to meet literature limitations that address this issue. This research findings indicate that Australian corporate treasurers often face behavioural biases, such as self-serving, overconfidence, loss aversion, and anchoring. These biases affect decisions-making. In addition, it is also said that such bias is not necessarily bad. If used properly, it can improve efficiency of working capital management.Risk Attitudes and overconfidence has a relationship with company performance. This is shown by research of Lammers, Willebrands and Hartog (2010) who analyze effect of Risk Attitudes of owner of company on profits in micro and small enterprises (MSEs) in Lagos, Nigeria. This study finding shows that greater perception of risk has a significant positive effect on profits, while tendency to take risks have a negative effect or no effect at all. Overall, these findings indicate that awareness of risks and dealing risks carefully can result in higher profitability. The relationship between overconfidence, investment decisions and corporate performance demonstrated by research of Eichholtz and Yonder (2011). It shown that CEO (Chief Executive Officer) who overconfidence in investment decisions have a negative effect on company performance. It supports research of Barber and Odean (2001), Cheng (2007) in Eichholtz and Yonder (2011). This is caused by the CEO believes that outcome of decision performs better than the optimal level of investment where ultimately bad for company performance.

Investment decisions can affect financial performance of a company. It can be seen in research of Caballero, Teruel and Solano (2011) which states that there is a strong relationship between investment in working capital and corporate performance. According to study, although working capital investment associated with company value, idea the effect of working capital management on company value can be accepted. This research supports Nyamao, Patrick, Martin, Odondo and Simeyo (2012) who look at effect of working capital management practices on financial performance. Independent variables used are efficiency of cash management (ECM), efficiency of receivables management (ERM) and efficiency of inventory management (EIM). While dependent variable used is financial performance with following indicators: growth in profits, growth in sales, growth in total assets and growth in market. This study uses perception of respondents with platform's score uses a Likert scale. Results of regression calculations indicate that working capital management practices has a significant positive effect on financial performance in small companies.SMEs are an important part of Indonesia Republic economy. These SMEs have a very important role to speed community economy. SMEs also very helpful state/government for new job creation and SMEs through too many units to create a new work that uses new personnel to support household income. In addition, SMEs have a high flexibility when compared with a business with larger capacity (Moeljadi, 1999). Investment decisions in working capital of SMEs are important, because SMEs have limited access to long-term capital (Weston and Copeland, 1986). SME investment decisions are related to how SME entrepreneurs to put their funds in liquid assets, ie cash, accounts receivable and inventory. In other words, investment decisions made by owners/managers of SMEs are placement decision of fund working capital.

Lombok is an area that has two large islands, namely Lombok and Sumbawa Island. One work program of Local Government at West Nusa Tenggara is produce 1 million new entrepreneurs. This study objects are SMEs in Lombok Island alone. It is based on data Disperindag NTB in 2013, number SMEs in Lombok island are 63 441 units, larger than Sumbawa island with amounts 9981 units. More detail figure can be seen in following table.

Table 1. Number of Small and Medium Enterprises (SMEs) Per District/City in NTB-2012

Island	District/City	Quantity (Unit)
Lombok	Mataram City	3,151
	West Lombok	5,093
	North Lombok	1,988
	Central Lombok	35,538
	East Lombok	17,671
Total		63,441
Sumbawa	West Sumbawa	1,653
	Sumbawa	2,135
	Dompu	1,310
	Bima	3,977
	Bima City	906
Total		9,981
Grand Total		73,422

Source: Disperindag of NTB Province (2013)

Table 1 illustrates that SMEs number in Lombok island is larger than Sumbawa Island. It becomes a basic consideration to choose Lombok as location of study object. Samples are SMEs that already export pottery. This is associated with psychological factors that exist in SME owners/managers. Activities to produce and selling pottery for export mainly determined by psychological factors in SME owners/managers should consider risk and level of confidence. In addition to limited testing that is directly related to behavioural finance in SMEs, so it is irrelevant if it is done research on behavioural finance SMEs. This study scope is to test behavioural finance based on risk attitudes, mental accounting and overconfidence adapted to conditions of SMEs.

Difference of this study with behavioural finance research that has been done is to use a " cognitive illusion" or three factors of twenty factors in psychological bias expressed by Pompian (2006). They are risk attitude, mental accounting and overconfidence to see its effect on investment decisions (placement of funds in working capital) and SMEs performance in Lombok island. This is consistent with Supramono; Kaudin; Mahastuti and Damayanti (2010) statement that are still a lack of research on behavioural finance on financial managers of SMEs in financial decision making. In addition, there are studies about effect of much psychological bias on investment decisions. Therefore, this research focuses on behavioural finance in form of risk attitude, mental accounting and overconfidence and its impact on SMEs performance in Lombok Island.This study objectives are: 1) Analyzing and explaining effect of risk attitudes on corporate performance through placement decisions of working capital fund for SMEs, 2) Analyzing and explaining effect of risk attitudes on SMEs performance , 3) Analyzing and explaining effect of mental accounting on corporate performance through the placement decision of fund working capital to SMEs, 4) Analyzing and explaining effect of overconfidence on corporate performance through placement decisions of working capital fund for SMEs, 5) Analyzing and explaining effect of placement decision of fund working capital on SMEs performance.

V. METHODS

This research is based on a quantitative approach with explanatory research type is used to analyze effect of one variable to another variable. Research object was SMEs in Lombok island that export pottery. Study population is SMEs in Lombok island, amounting to 63.441 units (Department of Industry and Trade of NTB Province, 2013). Sampling technique is non- probability sampling. Samples SMEs in pottery industry and are already exporting, because activity of producing and selling pottery for export is determined by psychological factors of SME owner/managers such as consideration of risk and confidence level. Samples are 28 SMEs. Unit of analysis is SMEs. Respondents are manager and owner of each of these SMEs. To achieve research objectives, the obtained data will be processed in accordance with analysis. In this study, data is tested by Generalized Structured Component Analysis.

VI. RESULTS AND DISCUSSION

3.1. Effect of Risk Attitudes on Corporate Performance that Mediated by Placement Decision of Working Capital Fund for SMEs

Prospect theory of Kahneman and Tversky (1979) show that investors are faced with loss possibility. They would prefer to choose a less risky decisions in order to avoid losses, even though they may not make overall investment. Kahneman and Tversky (1979) also describes how decisions making involve risks and uncertainties through prospect theory, which many reference in study of behavioural finance. According to prospect theory, investors tend to evaluate investment decisions in context of potential gains and losses choice by specific reference, e.g. purchase price. This has implications that investors will always deal with risk. Expected Utility theory was introduced by Bernoulli in 18th century that not everyone will choose the same alternative. It depends on each individual's attitude towards risk. Expected Utility theory regarding the selection of an alternative rational decision emphasizes that people have different behaviour towards risk. Some people behave risk averse and seek to maximize benefits of every decision made. For that man, curve concave to benefit function, suggesting additional benefits decreased for every additional expenditure. Most others are neutral towards risk (risk neutral) with benefits in form of a linear curve, and still others behave enthusiasts of risk (risk takers) with a convex benefits curve, showing an increase in additional benefits is resulted from any additional expenses (Asri, 2013). Psychology literature explain expectation benefits concept as a concept that describes the moral expectations, not just "hope " that is calculated mathematically (mathematical expectation). Some assume expected utility theory is too simplistic because it assumes that decisions are made as if someone is determined only by its attitude towards risk.Second theory suggests that Risk Attitudes are different among person. There are several factors that cause a person to belong to risk-averse or risk taker, ie gender, age, experience and level of education. Decision makers attitudes toward risk investment in SMEs were differ from those in capital market, because rate of profit risk at capital market is much greater than exist in SMEs.

This study reflect risk attitudes variable into 5 indicators, namly betting on self, capitalizing on opportunities, buying, no fear of losses and stable returns. Related to Betting on self, owner/managers of SMEs show their own creations, the belief that products creation produced is liked and popular to consumer and market. In terms of opportunities capitalization, SMEs owners/managers are able to take advantage of opportunities with belief that there is a profitable business opportunity and it not come twice. Buying or purchase activity indicates that purchase is always followed by a detailed examination of material/equipment that already purchased. The shortages are still being felt by SMEs owners/managers are not able to anticipate the loss and loss could repeat again and income can not stable so that efforts are needed to increase SME revenue. Sales increase directly affect on income received. Risk attitudes buying variable most reflected by the indicator. This means that SMEs owners/managers take risks for his efforts. When purchase, SMEs owners/managers always conduct a detailed inspection of material/equipment already purchased. Risk Attitudes of SMEs owners/managers show a rational attitude. This is indicated by the presence of their confidence in taking risks. The underlying behaviour of SMEs owners/managers in risk-taking is a pottery business experience more than 10 years in pottery. In addition, sufficient time is needed to consider what decisions will be taken and risks. This is different from decision making in capital markets that often have to make decisions in a short time.

SMEs owner/managers brave to take risk by placing a large working capital into product pottery by purchasing raw materials as well as production support equipment. Business management is not performed optimally, resulting in either company's financial performance and non-financial was not achieved as expected. There are several things to make business management in SMEs can not be optimal; one of them is mid-level education of majority SMEs owner. Therefore, decision -making for working capital placement is not followed financial arrangements discipline of SMEs. Psychologically, from affective aspects, risk-taking attitude of SMEs owners/managers is done because most them are male, age still productive and experienced in pottery field more than 10 years.

Effect of Risk Attitudes on Corporate Performance

Risk attitudes of SMEs owners/managers do not significantly affect on corporate performance. There should be "mediating variables" risk attitudes in order to affect corporate performance. Risk-taking attitude of owners/managers of pottery SMEs to purchase materials/supplies will not affect corporate performance if there are no previous placement decisions of fund working capital by processing materials/equipments to become pottery products. This was followed by SMEs to produce finished products and make sales, and then could affect corporate performance. This means that any attitude towards risk of SMEs owners/managers to do not make investment decisions for working capital fund wills no effect on corporate performance. Attitudes to Risk was taken by SMEs owners/managers can create medium performance, not show a decrease or an increase.

Effect of Mental Accounting on Corporate Performance That Mediated Placement Decision of Working Capital Fund for SMEs

Prospect theory is used in mental accounting. Mental accounting concepts is similar with prospect theory to assess choice of investment decisions in context of potential advantages and disadvantages. Many researcher adopt this theory as a mental accounting as value function. The main idea is decision-makers tend to separate different types of speculation into a separate account, and then use prospect theory in each account. Mental accounting assumes that humans divide his money into specific groups based on proposed money usage. Investors may behave differently for each group or account. Thaler (1999) showed consistency in mental accounting research, as shown in several studies from 1980, 1985, 1990, and 1999. Thaler (1999) defines mental accounting as a set of cognitive operations that used by individuals and households to organize, evaluate, and keep track of financial activities. Asri (2013) said that mental accounting is a way assess, classify and treat his fortune. Humans perceive and treat his fortune by looking at wealth relationship: a) Ability to earn current income, b) Property owned by the current (current wealth), and c) Ability to earn future income. Widyastuti (2011) says that mental accounting can be seen in tendency of investors to classify their finances into different account based on subjective criteria, such as sources of funding and income utilization. Mental accounting is often defined as coding process, categorization and results evaluation of a decision (outcomes) that are primarily financial (Henderson and Peterson, 1992; Tversky and Kahneman, 1984 in Prakoso, 2009). Description above show that mental accounting can be shown by attitude on how accounting is implemented by individual financial activity.

This study reflects mental accounting by three indicators, namely cash, accounts receivable, and inventory. Mental accounting about cash has not been executed rightly. It is proved by SMEs owners/managers have not counted cash inflow for coming period and has not made a statement of cash inflow and cash outflow. Mental accounting related to receivables has done rightly. It is shown by SMEs owners/managers already make a list of billing and accounts receivable reports. Mental accounting related inventory has not been implemented properly. It can be seen from the SMEs owners/managers have not set prices according to current prices, inventory and have not made a statement about length of product that will cause harm. This means that sales product price is not adapted to prevailing price, so that business still faced loss. SMEs owners/managers do not have inventory record about product sold. Product settlement in a long time will bring many losses. Such products become degraded or the product becomes defective (broken) so lower the selling price. Mental accounting reflected by most accounts. This means that accounts receivable is main fund and expected by SMEs. Receivable management is done by making a list of billing and accounts receivable reports. Psychologically, seen from the affective aspect, it shows strong Mental Accounting of SMEs owners/managers to raise funds for working capital investment to increase corporate performance as well. Psychomotor aspects of mental accounting are seen from collection list of accounts receivable and accounts receivable reports. Thus, it can be said that mental accounting owned by SMEs owners/managers are rational. They realized that existing accounts are main source for their business, so they make a collection list of accounts receivable and accounts receivable reports.

Effect of Overconfidence on Corporate Performance That Mediated by Placement Decision of Working Capital Fund for SMEs

Overconfidence has become one interesting topics for researchers in psychological and behavioural finance field. Overconfidence theory states that as a human being, employers or managers have a tendency to become too sure of capabilities and predictions to succeed. This condition is normal and at same time is a reflection of confidence level a person to reach or obtain something. Research of Klayman, Vallejo, Barlas (1999) and Campbell, Goodie, Foster (2004) stated that underconfidence produce low confidence and overconfidence produce high confidence. Based these two studies measurements, it can be said that study of behavioural finance have meaning about overconfidence high confidence term. in certain contexts the use of term could be interpreted as high confidence or overconfidence. Overconfidence in this study is reflected by miscalibration, It has more capabilities than the average and illusion of control. SMEs owners/managers have overconfidence on product produced. Above-average ability indicator of SMEs owners/managers is demonstrated by their feeling that their products are better than others and having business opportunities. Miscalibration indicators of SMEs owners/managers show they are not sure will get more benefit than others. Opportunities are related to control illusion indicators. SMEs owners/managers have not been convinced that opportunities in this period are more than future period that affect profit obtained. Overconfidence is most reflected by capability above average, but in fact the SMEs owners/managers do not have above average ability.

They feel their products better than others and have taken advantage of business opportunities but are not sure to get more profit than others. Lack of conviction about profit is caused by competition between SMEs to seize existing market share SMEs owners/managers have not convinced their profit more than others. Judging from respondents characteristics, there are several things that can cause a sense of overconfidence. They are majority of SME managers were men, productive age, and experience in pottery industry more than 10 years. In addition, overconfidence is definitely needed in entrepreneurship to motivate yourself to continue to grow. Psychologically, from affective aspects, overconfidence attitude held by SMEs owners/managers can improve the placement of investment funds for working capital to improve corporate performance.

Travelyan (2008) says that high confidence (even excessive) is not always become a negative connotation and sometimes necessary. He said that optimism and overconfidence (two elements confidence) would be beneficial if it is associated with a person's decision to become an entrepreneur. For an entrepreneurial, sense of optimism and self-confidence is needed to face very stiff competition in business world. Without optimism and high self-confidence, many entrepreneurs fail from early. According to Trevelyan, one must be able to determine, when optimism and overconfidence beneficial to their business. Therefore, it can be said that overconfidence in SMEs owners/managers are rational because it is based on experience and sufficient time for decision making placement of working capital funds. Overconfidence of SMEs owners/managers can improve working capital invested so that corporate performance is also increasing.

Effect of Placement Decisions of Working Capital Fund for SMEs on Corporate Performance

Investment decision (Placement decision of working capital funds) is reflected by efficiency of cash management (ECM), efficiency of receivables management (ERM), and efficiency of inventory management (EIM). ECM is indicated by SMEs owners/managers already prepare a cash budget, determine balance to be achieved and always calculate on how the amount of cash that should be available. ERM result shown that SMEs owners/managers always prepare guidelines for customer credit, checking accounts and checking of non-performing loan level. In addition, SMEs owners/managers already supplies budget preparation, checking inventory levels and anticipated amount of inventory, which consistent with EIM. Investment decisions (placement decision of working capital funds) are reflected by EIM, but efficiency is not only achieved by inventory management but also cash management and receivables management. Psychologically, psychomotor aspect judgment is indicated by cash budgeting, determining the balance to be achieved, calculation of amount of available cash, credit guidelines, and activities to support placement decision efficiency of fund working capital. Cognitive aspects of investment decision are indicated by placement decision of working capital funds that reflected by efficiency in cash management, accounts receivable and inventory.

Financial performance produce corporate performance but still not optimal. This illustrates that financial performance in SMEs should be supported by an increase in sales to generate profits as expected. It can be done by increasing promotion strategies through internet facilities by creating website or blog to expand product marketing. It is followed by development of products in terms of quantity and quality of enhancement products. Non-financial performance of SMEs is not optimal. This is because SMEs owner-managers have not realized the importance improvement in human resources quality, despite being received training related to development of SMEs, but still can not apply on their business. One example of most commonly performed on financial management is SMEs owners/managers discipline to separate personal money with company money. In addition, SMEs still have not implement a proper accounting system in overall financial management.

Overview of Behavioural Perspective (Cognitive, Affective and Psychomotor)

Human resource capability can also be viewed from behaviour perspective. According to Bloom (1908) in Notoatmodjo (2003), human behaviour perspective consists of three aspects: Cognitive, Affective and Psychomotor.

Cognitive aspect of thinking capabilities include intellectualability to think modestly, namely to remember, to solve problems. Cognitive aspect is sub taxonomy to reveal about mental activity begins from knowledge level to evaluation level. This study looks at cognitive aspects of investment decision-making, namely the placement decision of working capital funds. Interviews with SMEs owners/managers provided information that for placing decision of working capital funds, they already take into account the needs of cash, receivables and inventory. Working capital investment is largely for pottery production. Capital investment decisions for work capital is right if seen from efficiency of cash management, accounts receivable and inventory.

Affective aspects are related to attitudes and values. Affective behaviour includes character such as feelings, interests, attitudes, emotions and values. This study includes affective of risk attitudes, mental accounting and overconfidence. Based on studies results, SMEs owners/managers have risk-taking attitude, strong mental Accounting and overconfidence.

One final aspect is Psychomotor. This aspect relates to skills or person action after receiving a specific learning experience. These aspects can be seen from making a list of accounts receivable collection, accounts receivable reports, cash budgeting, determining the balance to be achieved, the calculation of available cash, credit guidelines, and activities that support the efficiency of placement decision of fund working capital.

It can be said that rational SMEs owners/managers psychologically make rational investment decisions (placement decision of working capital funds). Some contributing factors are majority of SMEs owners/managers were men, age is still productive and experience in pottery industry more than 10 years. This is different from capital markets, where decision to make an investment or portfolio must be decided in a short time with a high risk, so sometimes decision taken by the investors are not fully rational (quasi-rational) which ultimately will affect the outcome obtained.

VII. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

[1] Risk-taking attitude is reflected by buying. It makes SMEs owners/managers put relatively large funds for working capital. Business management with not optimal financial and non-financial can degrade corporate performance. SME business management can not be optimal because education level SMEs owners/managers still medium. It make placement decision does not follow discipline of working capital in SMEs financial arrangements.

[2] Attitude of SMEs owners/managers in managing business does not affect corporate performance. Investment decisions (placement decision of working capital funds) as mediation variable connects risks attitude to corporate performance. Risk attitudes could affect corporate performance. It is due education of most respondents are secondary level and SMEs ownership are individuals, whose affect decision making. Decisions making is often limited by information and without "sharing" with other parties.

[3] Strong mental accounting of SMEs owners/managers can improve placement decision of working capital funds to improve corporate performance. Mental accounting is most reflected by receivables. Working capital fund and accounts receivable are expected by SMEs. Management of accounts receivable be done by making a list of accounts receivable collection and accounts receivable reports.

[4] Overconfidence of SMEs owners/managers affect on placement decision of working capital funds, so it increase corporate performance. Overconfidence most reflected by Capability above average. SMEs owners/managers have overconfidence on product produced. Based on respondent's characteristics, there are several things that can cause overconfidence. They are majority of SME managers were men, within productive age and experience in pottery industry more than 10 years. In addition, overconfidence is definitely needed in entrepreneurship as motivation to continue grows.

[5] Higher placement decision of working capital funds can increase SMEs performance. Investment decision (placement decision of working capital funds) is reflected by EIM. Financial performance most reflects corporate performance but company has not produced optimal performance. This illustrates that financial performance in SMEs should be supported by a sales increase to generate expected profits. SMEs can increase promotion strategies using internet facilities through website creation or a blog to expand product marketing that be followed by products development in terms of quantity and quality. Non-financial performance of SMEs also is not optimal. SMEs Owner-managers have not realized the importance of human resources quality development, despite being received training related to SMEs development, but still can not apply on their business.

Behavioural finance that consists of financial risk attitudes, mental accounting and overconfidence has significant effect on Corporate performance through investment placement decision of working capital fund. Psychologically, SMEs owners/managers are rational to make investment decisions (placement decision of working capital fund). It is motivated conditions that majority of SME managers were men, within productive age and experience in pottery industry more than 10 years.

Suggestions

[1] One factor that must be considered in SMEs development is psychological factor of SME owners/managers. Psychological factors refer to Risk Attitudes, Mental Accounting and Overconfidence. Attention to these three things, mainly Mental Accounting, is expected affect on investment decisions that ultimately can

improve corporate performance. Steps that can be taken by the Government that is coordinating SME to be actively involved in organization, to relate government and SMEs owners, not just project-oriented. It can motivate SMEs owners innovate and produce continuously in order to increase sales.

[2] Future research is expected to do more research on other causes factors of suboptimal corporate performance in Small and Medium Enterprises (SMEs).

[3] Future research should not only to for profit organization but also non profit organization, government apparatus and household to know behavioural finance of different research object.

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