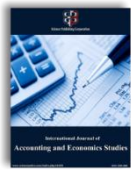
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Research paper



Overconfidence Bias in Financial Decision-Making: Evidence from Culinary MSMEs in Banjarmasin, Indonesia

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Abstract

This study examines the role of overconfidence bias in shaping financial decision-making among culinary MSMEs in Banjarmasin, Indonesia. Although overconfidence has been recognized as a behavioral bias influencing financial decisions, empirical evidence in the context of MSMEs in developing countries is still limited. This study used a quantitative approach, collecting data from 80 culinary MSMEs, which were then analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). Overconfidence was operationalized as a multidimensional construct consisting of overestimation, overprecision, and illusion of control. The results showed that only the illusion of control dimension had a positive and significant effect on financial decision-making, while overestimation and overprecision did not show a significant effect. This finding indicates that MSMEs tend to rely on subjective perceptions of self-control rather than measurable financial analysis in making financial decisions. This study contributes to the behavioral finance literature by highlighting the heterogeneity of overconfidence dimensions in the micro-enterprise context and providing practical implications for the development of behavior-based financial literacy programs for entrepreneurs in emerging markets.

Keywords: *Overconfidence Bias; Financial Decision-Making; Illusion of Control; Culinary Micro-Enterprises; Behavioral Finance; Banjarmasin.*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a fundamental role in supporting Indonesia's economy. In addition to being the largest employer, MSMEs also contribute significantly to expanding economic opportunities, maintaining social stability, and promoting innovation and entrepreneurial independence. (Kadin.id, 2025). In Banjarmasin City, the culinary sector has emerged as one of the most dynamic MSME segments, showing consistent growth. Its relatively low entry barriers, fast daily cash turnover, and strong connection to local consumption culture make this sector highly attractive to entrepreneurs. Data from the Banjarmasin City Office of Cooperatives and SMEs shows an increase in the number of culinary MSMEs over the past two years, reflecting the resilience, creativity, and adaptability of business actors in responding to changes in consumer demand. (Dinas Kebuadayaan, 2025; Dinas Komunikasi, 2024).

The rapid growth of culinary MSMEs underscores the importance of quality financial decision-making for business sustainability. In principle, financial decisions should be based on accurate information, structured cash flow analysis, and careful risk considerations. (Damodaran, 2014) emphasized that sound financial evaluation requires consideration of the time value of money, sensitivity to risk, and realistic profitability projections. However, the assumption of complete rationality in decision-making often does not align with reality, especially for MSMEs operating under limited information, daily operational pressures, and highly volatile market environments.

In practice, MSMEs' financial decisions are often influenced by intuition, accumulated experience, and personal beliefs, rather than formal and systematic financial analysis. The concept of bounded rationality, introduced by (Simon, 1955) explains that individuals tend to make "satisfying" decisions due to limitations in cognitive capacity, time, and information. This perspective is the main foundation of behavioral finance, which views financial decision-making as not entirely driven by rational calculations but also influenced by psychological factors such as emotions, perceptions, and cognitive biases. (Ricciardi & Simon, 2000).

Among the various cognitive biases identified in the behavioral finance literature, overconfidence bias is widely recognized as a key psychological factor influencing financial decision-making, particularly in entrepreneurial and MSME contexts. (Nadhila et al., 2024) stated that overconfident individuals tend to rely more on intuition and are less motivated to seek additional information. Similarly, (Ariefin Addinpujoartanto & Darmawan, 2020) found that entrepreneurs who feel experienced often make quick and aggressive financial decisions without adequately considering market uncertainty and risk variability. Awais et al. (2016) also showed that overconfidence significantly influences risk-taking behavior, especially when individuals believe their personal judgment is sufficient to predict financial outcomes.

This behavioral tendency is increasingly prominent in culinary MSMEs, where business owners are faced with numerous pressing daily decisions, such as raw material procurement, inventory control, pricing, cash flow management, and business expansion decisions. Given time constraints, fluctuating demand, and a lack of adequate financial documentation, MSME owners often rely heavily on experience and

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subjective beliefs to assess the accuracy of their decisions. While these beliefs can enhance entrepreneurial assertiveness and agility, they can also potentially cloud risk perception and reduce the quality of financial decision-making if not balanced with rational analysis and adequate information (Puspita & Wardani, 2022).

Various empirical findings also indicate that overconfidence can trigger excessive risk-taking behavior, unrealistic financial expectations, and a tendency toward overly aggressive decision-making. (Barber & Odean, 2001). In the context of the real sector, such as MSMEs, this bias can be reflected in disproportionate purchasing decisions, overly optimistic sales projections, and financing decisions that fail to objectively consider cash flow conditions. Therefore, understanding the role of overconfidence bias is important not only academically but also practically in encouraging wiser and more sustainable financial management in MSMEs.

However, empirical studies on overconfidence bias in MSMEs in Indonesia are still relatively limited. Most previous studies have used a simple regression approach, which is unable to fully capture the latent and complex relationship between psychological factors and financial decision-making behavior. (Benayad & Aasri, 2023; Karki et al., 2024). To fill this gap, this study uses the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach, an analytical method capable of simultaneously examining complex relationships and providing a deeper understanding of the psychological mechanisms that influence financial decision-making. (Hair et al., 2017). By focusing on culinary MSMEs in Banjarmasin City, this research is expected to provide contextual empirical evidence regarding the role of overconfidence bias in shaping financial decisions in a dynamic local business environment.

2. Literature Review

2.1. The concept of behavioral finance

The concept of behavioral finance developed in response to the limitations of classical financial theory, which assumes that individuals always act rationally. In paradigms like the Efficient Market Hypothesis (Fama, 1970)Financial decisions are assumed to be shaped by perfect information and objective analysis. However, findings (Kahneman & Tversky, 1979) Prospect Theory indicates that individuals assess risk and return subjectively through emotional frameworks and personal perceptions. (Ricciardi & Simon, 2000) Expand this understanding by emphasizing that financial decision-making is heavily influenced by psychological mechanisms, experience, and cognitive biases. This perspective is reinforced by (Simon, 1955) The theory of bounded rationality explains that individuals tend to make satisfactory, rather than optimal, decisions due to limited information, time, and cognitive capacity. This situation is particularly relevant for MSMEs, where financial decisions are often influenced by the business owner's intuition and self-confidence rather than systematic data analysis. (Thaler, 1985).

2.2. Overconfidence bias

Overconfidence bias is a cognitive bias commonly found in financial contexts. This bias describes an individual's tendency to overestimate their abilities and knowledge, resulting in overly optimistic beliefs when making decisions. (Barber & Odean, 2001). In the context of MSMEs, overconfidence is reflected when business actors rely on intuition or experience without adequate analysis of information.

Contemporary literature emphasizes that overconfidence is not a single construct, but rather a multidimensional construct consisting of overestimation, overprecision, and the illusion of control. (Showcase et al., 2007) explain that these three dimensions represent distinct but interrelated forms of overconfidence that shape biased decision-making behavior. Overestimation refers to an individual's tendency to overestimate their own abilities or performance relative to actual conditions. Individuals with overestimation tend to overestimate outcomes beyond objective reality, such as overly optimistically predicting profits or business success.

Meanwhile, overprecision describes excessive confidence in the accuracy of estimates or predictions made. Individuals with high levels of overprecision believe their judgments are highly accurate and often set overly narrow confidence ranges, even when the environment they face is dynamic and uncertain. (Showcase et al., 2007) demonstrated that overprecision causes individuals to ignore the possibility of error and variation in outcomes, potentially resulting in financial decisions that are less adaptive to change.

The third dimension, illusion of control, refers to the tendency of individuals to believe they have a greater degree of control over an outcome than they actually do. This concept was first introduced by (Langer, 1975), who demonstrated that individuals often perceive control over situations that are actually influenced by external or random factors. In the context of business and finance, the illusion of control can lead business actors to underestimate external risks such as market fluctuations, changes in consumer preferences, and competitive pressures.

2.3. Financial decision-making in MSMEs

Financial decision-making in MSMEs includes cash flow management, financing source selection, working capital decisions, and investments. Limited financial literacy, incomplete business records, and limited information often lead to intuitive financial decisions. (Damodaran, 2014) emphasizes that sound financial decisions must consider the time value of money, risk, and realistic cash flow projections. (Awais et al., 2016) Add that financial literacy, experience, and risk perception also influence decision-making behavior. Income uncertainty and fluctuating demand make MSMEs prone to short-term decisions. Therefore, increasing financial capacity through training, access to information, and financial record-keeping is necessary to encourage more rational decisions.

2.4. Overconfidence bias and financial decision-making

Overconfidence bias influences financial decision-making through heightened confidence in personal abilities, greater reliance on intuition, and a diminished perception of risk. (Barber & Odean, 2001) explain that overconfident individuals tend to engage in more aggressive decision-making, particularly when evaluating uncertain outcomes. Consistent with this perspective, research by (Saputri Indah & Setyaningsih, 2024) On fashion-sector MSMEs demonstrates that overconfidence significantly shapes financial management behavior, including a greater willingness to take risks despite limited information availability.

In the context of culinary MSMEs, overconfidence may manifest in everyday financial decisions such as raw material purchasing, financing choices, pricing strategies, and business expansion plans, often undertaken without adequate risk assessment. Under conditions of limited financial literacy and restricted access to reliable data, this cognitive bias can systematically influence the quality of financial decisions.

Unlike investor-oriented studies, which frequently highlight the significance of overconfidence dimensions such as overprecision supported by higher information availability, continuous market exposure, and formal analytical decision-making frameworks (Bakar & Yi, 2016; Barber & Odean, 2001), MSME decision-makers typically operate in environments characterized by information constraints, time pressure, and informal financial practices. Within such contexts, behavioral tendencies related to perceived personal control over business outcomes become more pronounced, thereby exerting a stronger influence on financial decision-making among micro-entrepreneurs.

2.5. Conceptual framework

This research's conceptual framework is based on the argument that overconfidence bias is a psychological determinant that influences the quality of financial decisions. This bias is understood as a multidimensional construct encompassing overestimation, overprecision, and the illusion of control, which collectively lead business actors to overestimate their competence, believe in unrealistic estimation accuracy, and assume a level of control that exceeds actual conditions. This conceptual framework is strongly supported by (Camerer & Lovallo, 1996), who demonstrated that overconfidence not only increases optimism about opportunities but also reduces sensitivity to risk, resulting in rapid decision-making patterns that are less grounded in analytical evaluation of the phenomenon, a finding also reinforced by (Barber & Odean, 2001).

In culinary MSMEs in Banjarmasin, this bias manifests itself in behaviors such as setting prices without cost analysis, taking out loans without cash flow projections, and disproportionate raw material purchases. Therefore, empirical testing of this model is relevant for understanding the dynamics of financial decisions in the small business sector.

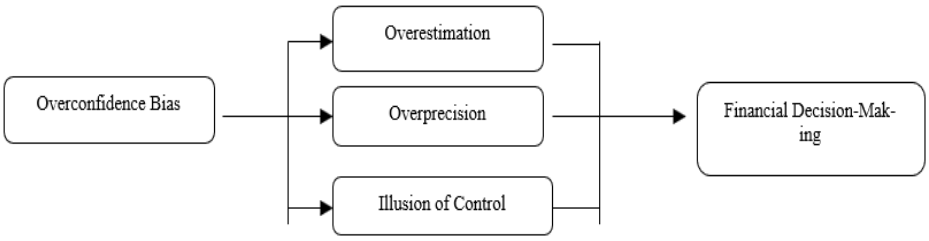


Fig. 1: Conceptual Framework of the Research.

2.6. Research hypothesis

Based on the theoretical description and conceptual framework above, the following research hypotheses are formulated:

H1: Overconfidence bias has a positive effect on financial decision-making among culinary MSMEs in Banjarmasin City.

H1a: Overestimation has a positive effect on financial decisions.

H1b: Overprecision has a positive effect on financial decisions.

H1c: Illusion of control has a positive effect on financial decisions.

3. Methodology

This study used a quantitative causal-associative design to examine the effect of overconfidence bias on financial decision-making among culinary MSME owners. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) because this method is suitable for prediction-oriented models, remains reliable on non-normally distributed data, and can be applied to relatively small sample sizes. (Hair et al., 2017). This study is grounded in behavioral finance, which states that financial decisions are not only shaped by economic rationality but also influenced by psychological factors and cognitive biases. (Barberis & Thaler, 2003; Ricciardi & Simon, 2000). In the context of culinary MSMEs, overconfidence is expected to influence how business owners perceive risk and make decisions related to investment, financing, and pricing.

Data collection was conducted in Banjarmasin City, South Kalimantan, a key economic hub in the region. The location was selected based on official regional data indicating that the culinary sector is a major contributor to MSME growth in the city. (Dinas Koperasi Usaha Mikro Kecil di Kota Banjarmasin Tahun 2024, 2025). This research included instrument development, content validation, field data collection, and statistical analysis using SmartPLS 4.0. The target population included all MSMEs operating in Banjarmasin City (26,824 units) as reported by the local cooperative and MSME agencies; however, this study focused on culinary MSMEs because financial decisions in this sector are generally made directly by business owners.

A total of 80 culinary MSME owners were selected using purposive sampling with the following criteria: (1) the business has been operating for at least one year, (2) the owner is directly involved in financial decision-making, and (3) the respondent is willing to complete the questionnaire completely. Referring to PLS-SEM guidelines that emphasize statistical power and the number of predictors, a sample size of around 70–100 is often considered adequate to detect a moderate effect at a power level of 0.80 in comparable predictive models; therefore, a sample size of 80 is considered sufficient for PLS-SEM estimation. (Hair et al., 2017). Primary data were collected through a closed-ended structured questionnaire with a 5-point Likert scale (1 = strongly disagree; 5 = strongly agree), while secondary data were obtained from official regional publications and relevant academic literature.

The independent variable, overconfidence bias, is operationalized as a multidimensional construct encompassing overestimation, overprecision, and illusion of control, representing excessive self-assessment, overconfidence in the accuracy of predictions, and excessive perceptions of control over outcomes. (Barberis & Thaler, 2003; Kahneman & Tversky, 1979; Langer, 1975; Simon, 1955). The dependent variable, financial decision-making, reflects the propensity of business owners to make key financial decisions (e.g., investment, expansion, rejection of others' advice, and pricing) without adequate objective evaluation, in line with behavioral and financial perspectives. (Barber & Odean, 2001; Damodaran, 2014; Thaler, 1985). Evaluation of the measurement model includes outer loadings, Average Variance Extracted (AVE), Composite Reliability (CR), and discriminant validity using HTMT. (Hair et al., 2017). Structural model evaluation included R^2, effect size (f^2), predictive relevance (Q^2), and the significance of path coefficients tested through bootstrapping with 5,000 subsamples. (Hair et al., 2017). Content validity was established through expert judgment from two experts in finance and organizational behavior, while initial reliability testing was conducted using Cronbach's alpha and corrected item-total correlation; indicators with correlations below 0.30 were removed to strengthen construct measurement. (Hair et al., 2017).

4. Results and Discussion

4.1. Research results

4.1.1. Descriptive statistics

This study involved 80 culinary MSMEs in Banjarmasin City. The demographic profile shows that 41.25% of respondents were male and 58.75% were female. Based on business scale, 82.50% were classified as micro, 13.75% as small, and 3.75% as medium. The diversity in age and length of service of the MSMEs indicates that financial decisions in the culinary sector are shaped by varying experiences and varying levels of financial literacy among individuals.

Descriptive statistics show that all indicators of the Overestimation, Overprecision, and Illusion of Control constructs are in the moderate to high range (mean 3.25–3.95) with a standard deviation of 0.70–0.92. The latent composite values are also normally distributed without extreme outliers, making the data suitable for further analysis using PLS-SEM.

Correlation analysis (Table 1) indicates that Illusion of Control has the strongest relationship with Financial Decision-Making (r = 0.328). Meanwhile, the relationship between Overestimation (r = 0.031) and Overprecision (r = 0.023) and financial decisions is very weak. These preliminary findings indicate that the subjective sense of control plays a more prominent role in influencing the financial behavior of MSMEs.

Table 1: Correlations between Latent Constructs

Construct	OVER	PREC	CTRL	IMP
OVER	1.000	0.252	0.169	0.031
PREC	0.252	1.000	0.225	0.023
CTRL	0.169	0.225	1.000	0.328
IMP	0.031	0.023	0.328	1.000

Source: Processed data (2025).

4.1.2. Measurement model testing

Most outer loading values were in the range of 0.69–0.77, indicating adequate convergent validity. Composite Reliability values for Overestimation (0.810), Overprecision (0.800), and Illusion of Control (0.794) exceeded the minimum threshold of 0.70. Although the Financial Decision-Making construct exhibited modest reliability (CR = 0.698; AVE = 0.378), the indicators remained contextually appropriate for capturing MSME financial behavior, reflecting the informal and practice-oriented nature of micro enterprise decision-making.

The HTMT values between constructs (Table 2) were all below 0.85, demonstrating discriminant validity, and each overconfidence dimension can be viewed as a distinct psychological construct.

Table 2: Heterotrait–Monotrait Ratio (HTMT) Values between Constructs

Construct Pair	HTMT Value	Criteria	Description
OVER – PREC	0.459	< 0.85	Discriminant validity met
OVER – CTRL	0.355	< 0.85	Discriminant validity met
PREC – CTRL	0.370	< 0.85	Discriminant validity met

Source: Processed data (2025).

4.1.3. Structural model testing

The results of the structural model test (Table 3) show that only Illusion of Control has a significant effect on Financial Decision-Making (β = 0.293; t = 3.056; p = 0.003). On the other hand, the effects of Overestimation (β = –0.012; p = 0.899) and Overprecision (β = –0.043; p = 0.662) were insignificant.

Table 3: Path Analysis Results (OLS Path Coefficients on Latent Composites)

Path Coefficient Construct	Relationship (β)	t-Statistical	p-Value	t-p-Description
OVER → IMP	- 0.012	- 0.127	0.899	Not significant (H1a Not supported)
PREC → IMP	- 0.043	- 0.439	0.662	Not significant (H1b Not supported)
CTRL → IMP	0.293	3.056	0.003	Significant positive (H1c supported)

R^2 (IMP) = 0.110; Adjusted R^2 = 0.075; Q^2 (proxy CV-R^2) = –0.164.

Although the R^2 value is relatively modest, similar levels of explanatory power are commonly reported in behavioral finance research on MSMEs. In practice, financial decision-making in these enterprises is shaped by a complex interplay of factors, including contextual conditions, institutional arrangements, and environmental influences such as market uncertainty, regulatory pressures, and operational limitations, which go beyond the role of psychological biases alone.

When the three dimensions were combined into a second-level construct (Table 4), overconfidence showed a positive but insignificant effect (β = 0.225; p = 0.104) with an R^2 value of 0.034. This indicates that, in aggregate, overconfidence only explains approximately 3–4% of the variability in MSMEs' financial decisions.

Table 4: Results of the Path Analysis of Second-Level Constructs (Overconfidence → Financial Decision-Making)

Relationship Inter-Construct	Coefficient Path (β)	t-Statistics	p-Value	R^2	Adjusted R^2	Description
OC → IMP	0.225	1.645	0.104	0.034	0.021	Not Significant (H1 not supported)

Source: Processed data (2025).

4.2. Discussion

4.2.1. The dominant influence of the illusion of control

The main findings of this study indicate that the Illusion of Control is the only dimension that significantly influences the financial decisions of culinary MSMEs. This aligns with behavioral finance theory. (Kahneman & Tversky, 1979), which explains that individuals often feel able to control outcomes even in uncertain situations.
For culinary MSMEs, this sense of control over business outcomes is reflected in their boldness in setting prices, deciding on financing, and managing cash flow, even though these decisions are not always supported by comprehensive financial analysis. This suggests that the Illusion of Control is a crucial psychological driver that motivates swift action amidst market dynamics.

4.2.2. Insignificant overestimation and overprecision

The insignificance of overestimation and overprecision indicates that overconfidence in knowledge or predictive ability is not always reflected in financial decisions. This condition can be explained by the theory of bounded rationality. (Simon, 1955), which states that business actors make decisions based on intuition and experience due to limited information and time. In culinary MSMEs that face daily changes in demand, financial decisions generally follow routine work patterns, rather than in-depth analysis, so these two dimensions do not appear to be significant factors.

4.2.3. Comparison with previous research

The results of this study are consistent with findings. (Karki et al., 2024) In Nepal, where Illusion of Control was a key predictor of financial decisions in small businesses. Conversely, these results differ from those. (Bakar & Yi, 2016), who found a significant role for Overprecision in Malaysian investors. Differences in socioeconomic context, financial literacy levels, and business sector characteristics explain the variation in these findings.

4.2.4. Theoretical implications

This research expands the behavioral finance literature in the developing world by demonstrating that overconfidence is not a homogeneous construct. The dominant role of the Illusion of Control confirms that psychological dynamics such as perceived control are more relevant in informal business environments than technical skills in assessing risk or reading the market.

4.2.5. Practical implications

The research results emphasize the importance of MSME empowerment programs that encompass psychological aspects in addition to technical ones. Financial management training should emphasize:

- managing behavioral biases,
- reflective decision-making skills,
- understanding risks and long-term impacts.

This way, MSMEs can balance confidence and caution in their actions.

4.2.6. Low R^2 value and further implications

The relatively low R^2 value suggests that financial decision-making among MSMEs is shaped by a broad range of factors beyond those examined in this study, including financial literacy, accumulated business experience, access to relevant information, and prevailing market dynamics. This finding highlights the inherently complex and context-dependent nature of financial behavior in micro-enterprises.
Consistent with this interpretation, prior behavioral finance studies focusing on MSMEs have also reported modest explanatory power, reflecting the multifaceted decision environments in which small business owners operate. (Benayad & Aasri, 2023; Karki et al., 2024). Accordingly, the level of explanatory power observed in this study remains theoretically acceptable within an exploratory, prediction-oriented, and context-specific behavioral framework. To further enrich understanding, future research is encouraged to incorporate moderating or mediating variables and to expand the sectoral and regional scope of analysis, thereby offering a more comprehensive depiction of MSME financial decision-making.

5. Conclusion

This study provides empirical evidence on the role of overconfidence bias in shaping financial decision-making among culinary MSMEs in Banjarmasin City. The findings indicate that, among the three dimensions examined, only Illusion of Control exerts a significant influence on financial decision-making, while Overestimation and Overprecision show no statistically significant effects. This result suggests that a subjective perception of control over business outcomes plays a more dominant role in guiding financial decisions than excessive confidence in personal knowledge or predictive accuracy.
These findings reflect the contextual characteristics of the culinary MSME sector, where decision-making is often driven by intuition, accumulated experience, and routine operational practices rather than formal financial analysis or systematic forecasting. In such an environment, confidence derived from perceived control over daily operations appears to translate more directly into financial actions than abstract confidence in analytical or predictive abilities.
Furthermore, the relatively modest explanatory power of the model, as indicated by the R^2 value, suggests that MSME financial decision-making is influenced by a wide range of factors beyond overconfidence bias. Elements such as financial literacy, business experience, access to relevant information, institutional support, and prevailing market conditions also play an important role in shaping financial behavior. In addition, the borderline reliability of the Financial Decision-Making construct represents a limitation of this study and highlights the behavioral and context-dependent nature of financial practices among MSMEs.
From a practical perspective, the findings underscore the importance of MSME development strategies that go beyond enhancing technical and managerial competencies. Policy interventions and capacity-building programs should also address behavioral aspects of decision-making, particularly by helping entrepreneurs recognize and manage cognitive biases. Initiatives such as data-driven decision-making

training, financial literacy enhancement, and risk awareness education may support MSME owners in balancing confidence with prudent financial judgment.

Finally, this study is subject to several limitations. The findings are context-specific to culinary MSMEs in Banjarmasin City and should be interpreted cautiously when generalized to other sectors or regions. Future research is encouraged to employ larger and more diverse samples, incorporate moderating or mediating variables, and expand the sectoral and geographical scope of analysis to provide a more comprehensive understanding of MSME financial behavior within the Indonesian context.

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