

## **GENDERED CONFIDENCE: EXPLORING THE IMPACT OF ENTREPRENEUR OVERCONFIDENCE ON SME BUSINESS GROWTH AMIDST COVID-19 PANDEMIC**

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### **ABSTRACT**

This explanatory research aims to examine the effect of entrepreneur overconfidence on business growth during the Covid 19 period from a gender perspective. The study was conducted on 180 SME entrepreneurs who were determined by purposive sampling technique. The data collection method is a survey with a questionnaire instrument, then the data is analyzed by Structural Equation Modeling (SEM). The results of the study show that (1) entrepreneur overconfidence has a positive and significant effect on business growth in SMEs, (2) female entrepreneurs' overconfidence is significantly different from male entrepreneurs. The overconfidence of female entrepreneurs was higher than that of male entrepreneurs during the Covid 19 period, therefore business growth was also higher. It is necessary to develop a program to increase the confidence of entrepreneurs to increase business growth through training and the application of rules that ensure a conducive business climate.

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### **INTRODUCTION**

The Corona Virus Disease 2019 (Covid-19) pandemic has caused an economic shock that has affected the global economy. The after effect creates a sense of anxiety for entrepreneurs in managing their business. The Covid-19 pandemic is a situation that cannot be anticipated (uncontrollable) but determines the survival of companies, including SMEs. This situation requires entrepreneurs to have high confidence in managing and increasing their business growth. Business growth in SMEs is directly influenced by the behavior of their entrepreneurs because there is no clear separation between owners and managers.

Business growth in SMEs is the performance achieved by entrepreneurs in running their business (Inggawati and Kaudi, 2010). Business growth is marked by an increase in the number of business units, an increase in volume and expansion of marketing areas, an

increase in the amount of capital, an increase in the number of workers, and an increase in profits on an ongoing basis. An uncertain situation in predicting the future, requires entrepreneurs to make decisions based on their confidence. Overconfidence is excessive self-confidence based on one's instincts, judgments, and cognitive abilities. Someone who is overconfident thinks that their knowledge is better, they will think that they know everything more than they actually know (Pompian, 2012).

## **LITERATURE REVIEW**

Entrepreneurs must have overconfidence in the face of intense competition in the business world (Trevelyan, 2008). Biased behavior tends to have a negative impact on performance if it is not utilized properly (Pompian, 2012). Behavioral bias is usually used to reduce complex explanations in predicting the probability and value of an uncertain number. Business growth will trigger the overconfidence of entrepreneurs to maximize their welfare, so that it is relevant to the context of SMEs (Coleman, 2007).

In addition, the gender characteristics of SME entrepreneurs also make a difference in managing their businesses (Irwin & Scott, 2010). The study of Badulescu, (2011) found that male entrepreneurs have higher self-confidence than female entrepreneurs so that they are more aggressive in financing business growth opportunities. Entrepreneur's overconfidence has a positive and significant effect on aggressive resource allocation, intention to use debt and the company's capital structure (Pompian, 2012). Therefore, the higher the entrepreneur's confidence, the more aggressive the SME entrepreneur in allocating the company's resources, thus affecting the higher the business growth. This study aims to examine the effect of overconfidence of male and female entrepreneurs on business growth during the covid 19 period. Based on the theory and empirical findings mentioned above, the following hypothesis is formulated.

Hypothesis 1: Overconfidence affects business growth in SMEs

Hypothesis 2: The effect of overconfidence of female entrepreneurs is different on business growth

## **RESEARCH METHODS**

The design of this research is explanatory research which is intended to provide an explanation of the phenomenon of business growth in SMEs in Bali Province. The variables of this study consist of 1) Entrepreneur's overconfidence as measured by the entrepreneur's perception of his or her confidence in identifying opportunities, managing resources, fostering relationships with related parties and increasing business growth 2) Business growth is the entrepreneur's perception of increasing the number of business units, workforce, capital, sales volume and increase.

The population of this research is SME entrepreneurs in Bali Province. The sample was determined by purposive sampling with the following considerations: a) SME entrepreneurs who have a business license, b) have established a business for at least three years, c) receive guidance. Based on these criteria, the number of samples was set at 180 entrepreneurs referring to the provisions of Hair et al. (2006). Data was collected using a survey method with a questionnaire instrument developed based on a Likert scale. The data were then analyzed using Structural Equation Modeling (SEM) analysis techniques. The framework of the relationship between the variables of this study is shown in Figure 01 as follows.

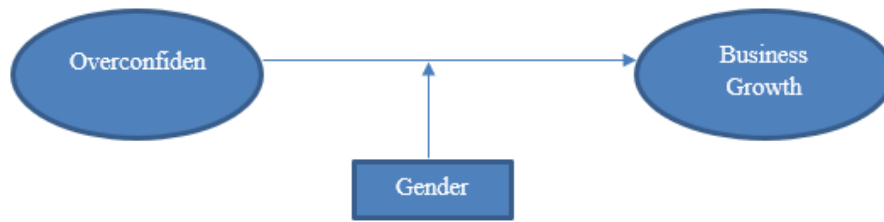


Figure 1. Framework for Relationships between Research Variables

**RESULTS AND DISCUSSION**

**Characteristics of Entrepreneurs and SMEs**

Entrepreneurs who are the subjects of this study consist of small and medium entrepreneurs in the handicraft industry sector spread across the province of Bali. The characteristics of entrepreneurs and SMEs are shown in Table 01 as follows.

Table 1. Business Characteristics and SME Entrepreneurs

No	Characteristics	Creteria	Frequensi	Percentage (%)
1	Company Age	4-10	47	26,11
		10 >	133	73,89
2	Company Size	Small business	75	41,70
		Medium Enterprise	105	58,30
3.	Gender	Male	137	76,11
		Female	43	23,89
4.	Entrepreneur's Age	25 -39	5	2,78
		40 -49	77	42,78
		50 ≥	98	54,44
5	Education	< Bachelor	69	38,3
		Bachelor ≥	111	61,7

**Discriminant validity and construct reliability test results**

(1) Validity Test

The discriminant validity test aims to determine the validity between construct variables. The convergent validity value can be seen from the Average Variance Extracted (AVE) value. The AVE value is declared satisfactory if > 0.5. The results of the AVE test are shown in Table 02 as follows.

Table 2. Average Variance Extracted (AVE) Value

Variable	AVE	Critical Value	Evaluation
OC (X1)	0,587	> 0,5	Good
PT (Y1)	0,576		

The data in Table 02 shows that the AVE value for the indicator block that measures the construct is declared to have a good discriminant validity value because all of these indicators have a higher discriminant validity value compared to the value of each indicator in measuring other construct variables.

**(2) Reliability Test**

The reliability test aims to determine the reliability of the construct variable as seen from the composite reliability values. Composite reliability is said to be good if the value is > 0.7. The results of the composite reliability test of this study are shown in Table 03 as follows.

Table 3. Composite Reliability/CR and Cronbachs Alpha

Variable	Coefisien	Cronbachs Alpha	Critical value	Evaluation
OC (X1)	0.894	0,854	> 0,7	Tinggi
PT (Y1)	0.867	0,800		

The data in Table 03 shows the value of composite reliability and the Cronbachs Alpha value of the Overconfidence variable (X1), Business growth (Y1), greater than 0.7 means the variable has very high reliability.

**Evaluation of the Structural Model (inner weight)**

The results of the structural model test (inner weight) are seen from the structural path coefficient values which show a direct relationship between exogenous and endogenous variables. This study consists of a structural model, namely 1) the effect of overconfidence (X1), business growth (Y1). The structural model is declared appropriate/Goodness of Fit if it has an R-Square coefficient > 0.5 The R-Square coefficient of this study is shown in Table 04 below:(

Table 4. Goodness of Fit Research Model

Variable	R-Square	Critical Value	Evaluation
OC (X1) -> PT (Y1)	0,748	> 0,5	Good

The data in Table 04 shows that the contribution of the overconfidence variable (X1) to business growth (Y1) is 0.748 or 91.9%. The R-Square coefficient of the relationship between these variables is greater than 0.5 so that it meets the required Goodness of Fit. Entrepreneur overconfidence has a positive and significant effect on business growth in SMEs. It is known from the path coefficient is positive at 0.748 with p value = 0.0000. That is, every time there is an increase in overconfidence of entrepreneurs by one unit, it will affect the increase in business growth in SMEs by 0.748 units. The results of this study indicate that hypothesis 1, which states that entrepreneur overconfidence has a positive and significant impact on SMEs' external financing decisions, is accepted.

**Model Sensitivity Test Results Based on Gender**

This study examines the sensitivity of the SME business growth model in a gender perspective. Gender is divided into two categories, namely male and female. The results of the sensitivity test of the business growth model in SMEs based on gender are shown in Table 05 as follows.

Table 5. Model Sensitivity Test Results

Influence	Initial coefficient	Gender	
		L	P
OC -> Growth of SMEs	0,748	0,549*	1,963**

Information: \*p value < 0,05 \*\* p <0,01

The difference in the effect of overconfidence on SME external financing decisions is shown in Table 06 as follows.

Table 6. Overconfidence Sensitivity Test Results

Variable	Category	Estimated Interval	Limit	
			Bottom	Up
Gender	Male	0,549 ± (1,65 x 0,204)	0,212	0,886
	Famale	1,963 ± (1,65 x 0,345)	1,394	2,532

The data in Table 06 shows that the effect of overconfidence on the business growth of male entrepreneurs and female entrepreneurs is different because the range of the lower and upper limits of the internal estimation of the coefficient of the effect of overconfidence on the business growth of male entrepreneurs and female entrepreneurs is not the same. In addition, the effect of overconfidence on the business growth of female entrepreneurs is higher than that of male entrepreneurs.

Entrepreneur overconfidence has a positive and significant effect on increasing SME business growth. This finding shows that the higher the overconfidence, the more external financing used by entrepreneurs to finance their business growth opportunities. High overconfidence indicates the entrepreneur's high self-confidence in the ability to identify opportunities to increase business growth, the ability to manage resources, maintain good relations with related parties, and the ability to increase business growth. This high overconfidence encourages entrepreneurs to be bolder in using financing sources to finance business growth opportunities.

Overconfidence has an effect on increasing business growth in SMEs. This can be explained from the characteristics of the entrepreneurs that most of them are 111 (61%) entrepreneurs with undergraduate and even postgraduate education and aged 50 years and over as many as 98 (54.44%) entrepreneurs. This condition indicates that entrepreneurs with a higher age and education level will be more open in receiving information, thus affecting their access to external financing sources. The results of this study support the findings of Mac An Bhaird (2010), Low and Mazarol (2006) Coleman, (2007) that age, level of education and experience of entrepreneurs are positively related to the use of debt in increasing growth. business in SMEs. This is because, capital owners view that high entrepreneur overconfidence will encourage entrepreneurs to be enthusiastic in fulfilling their debt obligations so as to facilitate access, especially to bank financing sources.

In addition, judging from the characteristics of SMEs, most of them are medium-sized entrepreneurs, namely 105 (58.30%), which have been established for more than 10 years as many as 133 (73.89%). This condition indicates that the size and age of the company is mature enough in its business growth and has a long historical performance as a consideration for banks and fund owners in providing loans to increase business growth. The results of this study support the findings of Mac An Bhaird and Lucey (2010), La Rocca et al. (2011) that business characteristics influence financing decisions and business growth in SMEs. The results of this study also support the findings of Kozubíková (2015), Abdulwahab and Al-Damen (2017), that in the study of entrepreneurship where SME entrepreneurs are identified with the behavior of an entrepreneur and one of the characteristics is having high confidence.

Entrepreneurs' overconfidence affects financing decisions and business growth in SMEs in accordance with the predictions of Social cognitive theory/SCT by Bandura, (1997) and the findings of the study of Van der Bijl and Shortridge-Baggett (2002) that a person's decision occurs through a cognitive process. That is, what a person thinks influences his

behavior and behavioral choices. This finding shows that SME entrepreneurs have high confidence starting from something they think about. Entrepreneurs with high overconfidence will imagine the success of their business, on the other hand, entrepreneurs with low overconfidence tend to imagine their business failure. Overconfidence in increasing business growth in SMEs is not about how many capabilities and resources are needed and owned but how high is the entrepreneur's overconfidence in his ability to increase business growth. Therefore, SME entrepreneurs will make decisions to increase their business growth if they have confidence in their ability to identify opportunities to increase their business growth, manage resources, maintain good relations with related parties, and have the ability to increase their business growth and vice versa.

In addition, this finding also supports the prediction of Crothers et al. (2008) that overconfidence is the cognitive aspect that plays the most role in influencing one's behavior. The higher Overconfidence encourages more sources of external financing used by entrepreneurs to finance business growth opportunities. This finding shows that entrepreneurs with high overconfidence tend to be more aggressive in allocating their resources (Cassar and Friedman, 2009). That is, entrepreneurs with high overconfidence are more aggressive in managing their business and financing business growth opportunities by using external financing sources. The results of this study support the findings of Boyd and Vozikis (1994) who developed a model of the relationship between entrepreneur overconfidence and their behavior. The findings show that someone with high overconfidence will be more persistent in their business and look for new challenges while someone with low overconfidence tends to experience stress and depression so that it limits their behavior.

The results of this study support the findings of Slevac and Prodan (2012), Kapkiyai and Kimitei (2016) that Overconfidence has a positive and significant effect on debt financing decisions and the capital structure of SMEs. This is because the higher the Overconfidence, the more entrepreneurs use debt financing sources and lenders are more interested in providing loans to entrepreneurs with high Overconfidence. In addition, the study of Gibson et al. (2012) found that high overconfidence encourages the success of entrepreneurs in managing their businesses so that they are able to pay interest and principal loans on time. This finding shows that even with different units of analysis, overconfidence can provide consistent evidence in explaining business decisions in SMEs.

The results of this study differ from those of Koropp et al. (2014), Wijaya (2008) and Adam (2012) that conceptualized overconfidence with perceived behavior control (Bandura, 1986) has a negative and insignificant effect on entrepreneurial behavior, the intention to use debt and external equity. This is because the entrepreneur's perception of his ability to control the factors that influence behavior in the previous study is still general, while in this study Overconfidence is aimed at specific behavior, namely increasing the business growth of SME entrepreneurs.

The description above provides insight into the cognitive process, namely overconfidence affects the actions and behavior of SME entrepreneurs in managing and increasing their business growth. The overconfidence of women entrepreneurs is different from that of male entrepreneurs where the overconfidence of women entrepreneurs is higher and therefore business growth is higher during the Covid 19 period. The results of this study support the findings of Muravyev et al. (2009) that gender plays an important role in

decisions on access to financial resources that affect the growth of SME businesses in developing countries such as Indonesia. In addition, the study of Kickul et al. (2004) found that the level of overconfidence is influenced by the culture and political situation in a region or country. The results of this study differ from the findings of previous studies that male entrepreneurs have higher overconfidence and therefore use more external financing sources (Treichel and Scott, 2006).

Furthermore, it can be explained that women's overconfidence is higher than male entrepreneurs in the handicraft sector SMEs in Bali Province. This can be explained from the perspective of the culture that developed in the Bali area. The patriarchal culture that places men in a higher position than women has implications for various aspects of community life, including the division and management of work. Women in work experience injustice as a result of socially constructed factors. In other words, men are generally physically stronger because they are considered more productive and men feel they have the ability to control productive economic resources. Work as a form of human self-actualization loses its meaning for Balinese women when their work is not seen by the public as much.

This condition then gave rise to the Balinese women's resistance movement in the creative industry sector and rejected job discrimination for women (Widiastuti et al., 2012). Through the resistance carried out by Balinese women in the creative industry sector, financially, women have increased personal resources. This in turn leads to increased overconfidence of women entrepreneurs in making business management decisions, including the division of labor in the production, distribution and marketing processes of their products. The resistance of women entrepreneurs in the management of the creative industry sector is driven by economic factors, educational factors, and cultural factors (Widiastuti et al., 2012). The resistance of Balinese women entrepreneurs in the active industrial sector means independence in making decisions and managing their businesses. This resistance has strengthened the confidence of Balinese women in managing their businesses.

The results of this study contradict the findings of Jain (2011), Elenurm (2009) that women entrepreneurs have a high-risk aversion that affects the growth of their companies. In addition, the findings of Mijid (2009), Coleman (2007) that women entrepreneurs experience loan discrimination and therefore use less external financing sources, which Blanchflower et al. (2003) did not find.

## **CONCLUSION**

Based on the results of research and discussion, several conclusions are formulated as follows.

1. Entrepreneurs' overconfidence has a positive and significant impact on SME business growth, showing the higher the overconfidence, the more confident entrepreneurs will be in managing and increasing their business growth during the Covid-19 period.
2. The overconfidence of female entrepreneurs is significantly different from that of male entrepreneurs. The overconfidence of female entrepreneurs was higher than that of male entrepreneurs during the Covid 19 period, therefore business growth was also higher.

Based on the conclusions of the research results above, some suggestions can be made as follows.

1. It is necessary to develop a program to increase the confidence of entrepreneurs to increase business growth through training and the application of rules that ensure a conducive business climate, especially during the Covid 19 period.
2. Further research is expected to put more emphasis on aspects of social environmental support and seek its influence on increasing the growth of SME business. This is important because business growth can be achieved properly if there are clear and firm rules for predictable macro-environmental conditions and a local social environment that supports business growth.
3. Further research is recommended to use a qualitative research design to reveal the financing behavior of entrepreneurs in SMEs more fully and in depth.
4. Overconfidence as a biased behavior does not always lead to a higher growth rate due to a number of influencing factors. Therefore, it is recommended to examine the effect of overconfidence factors on business growth in SMEs.
5. This study only examines the unidirectional relationship between overconfidence and business growth in SMEs, so that the triadic effect between variables as described in Social Cognitive Theory has not been explored and tested. Therefore, this finding does not fully reveal how these variables influence each other.

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