Konferensi Ekonomi Internasional Bisnis dan Akuntansi
Vol 02. No 01. Month Year 2024
E-ISSN 3047-1877

The Effect of Financial Literacy, Risk Tolerance and Overconfidence on MSME Investment Decisions

Ni Wayan Desi Lestari [1], Tri Hanani [2]

[1] Faculty of Economic and Business, University of Mataram
[2] Faculty of Economic and Business, University of Mataram

[1] lestaridesi159@gmail.com , [2] trihanani@unram.ac.id

ABSTRAK

The right investment decisions can help MSME grow and develop, while the wrong decisions can carry significant risks. It is important to understand how these factors affect investment decisions, especially among MSMEs, which have an important role in the regional economy. This study aims to determine how financial literacy, risk tolerance and overconfidence influence MSMEs investment decisions in Mataram This research method uses a quantitative approach with primary data and tests the data using path analysis with SEM-PLS 4. This research data was collected through a questionnaire with a sample size of 150 respondents from Mataram MSMEs. The results show that financial literacy, risk tolerance and overconfidence have a positive effect on investment decisions. MSMEs with good financial literacy tend to make better investment decisions. Risk tolerance also has a positive influence, where the ability to manage risk encourages business actors to be more courageous in making decisions that can increase growth. Moderate overconfidence provides a positive boost for proactive decision making, although it can increase the risk of less rational decisions. Furthermore, this study contributes to the financial management literature of MSMEs by providing empirical evidence and a more comprehensive understanding of the factors that influence their investment decisions.

Keywords: *financial literacy, risk tolerance, overconfidence, investment decision*

I. INTRODUCTION

The development of micro, small and medium enterprises (MSMEs) plays a very important role in the Indonesian economy. MSMEs not only contribute to national economic growth but also create jobs, encourage financial inclusion, and improve community welfare. In Mataram, one of the economic centers on Lombok Island, the role of MSMEs is increasingly important in supporting local economic growth. For Micro, Small, and Medium Enterprises (MSMEs), an understanding of financial literacy is essential (Afifah et al., 2021).

Based on data from the Ministry of Cooperatives and MSMEs, the number of MSMEs currently reaches 64,2 million with a contribution to PDB of 61,07% or worth 8.573,89 trillion rupiah (Junaidi, 2023). The contribution of MSMEs to the Indonesian economy includes the ability to absorb 97% of the total workforce and can collect up to 60,4% of total investment (Junaidi, 2023). However, the high number of MSMEs in Indonesia is also not free from existing challenges (ekon.go.id, 2021). One important aspect that influences the growth of MSMEs is the ability of MSME entrepreneurs to make the right investment decisions. The need for investment arises because every individual wants to gain profits that are commensurate with the risks they are willing to take (Majeed, 2023). Investment is a commitment of a certain amount of funds or other resources made at present, with the aim of obtaining a certain amount of profit in the future (Wibowo & Purwohandoko, 2019).

Investment decisions are an activity of allocating funds with the hope of getting a return in the future, which is called a return. In making investment decisions, it is necessary to pay attention to the right steps so that you can minimize the risk in investing (Nur Aini & Lutfi, 2019). The right investment decision can help MSMEs grow and develop, while the wrong decision can carry significant risks. Therefore, it is important to understand what factors influence MSMEs' decisions to invest in Mataram.

The NTB community has started to invest a lot in the capital market, both mutual funds and stocks. Even the number of capital market investors in NTB in 2023 has increased, this is followed by a fairly high transaction value with an average of IDR 440 billion per month. Based on existing records the number of investors in NTB as of December 2023 has increased. For capital market investors, there are 124.052 SID (Single Investor Identification) or an increase of 29 thousand people or 31% from December 2022 to December 2023

(Handayani, 2024). Financial knowledge is one of the factors that can influence investment decisions. Financial literacy according to (OJK, 2022) is the knowledge, skills and beliefs of a person that influence attitudes and behavior to improve the quality of decision making and managing finances to achieve well-being. The low level of financial literacy of the public regarding the capital market in Indonesia has created an opportunity for certain individuals to commit crimes in the form of offering investments. With good financial knowledge, MSME owners can make smarter and more informed investment decisions. However, poor financial literacy can hinder their ability to manage finances and invest effectively.

Based on the results of the National Survey of Financial Literacy and Inclusion (SNLIK) which is held every 3 years, it shows that the financial literacy index in 2013 was 21,84% and the financial inclusion index was 59,7% (OJK, 2022). Then 3 years later, in 2016, the financial literacy index increased to 29.7% and the financial inclusion index to 67,8%. The increase continued until 2019, which showed a financial literacy index of 38,03% and a financial inclusion index of 76,19% (OJK, 2022). In 2022, the financial literacy and inclusion index showed a percentage of 49,68% and 85,1% (OJK, 2022). Although it is still considered low, this figure has increased compared to the previous year's SNLIK results. This shows that the Indonesian people in general still do not have a good understanding of the characteristics of various financial products and services provided by formal financial service institutions, even though financial literacy is one of the critical skills in the context of community empowerment, personal welfare, consumer protection and increasing financial integration activities (OJK, 2022).

Several previous studies have revealed that financial literacy has a positive and significant impact. according to (Ningrum et al., 2023); (Sulistyowati et al., 2022); and (Dinarjito et al., 2023) stated that financial literacy can positively influence investment decisions in MSMEs. But contrary to research (Izzuddin, 2022); (Rido Mhd & Irianto Agus, 2023); and (Istanti & Lestari, 2023) which states that financial literacy does not affect a person's financial behavior. A high level of financial literacy does not guarantee that a person will have good financial behavior, and vice versa.

In addition to financial knowledge, risk tolerance also plays an important role in making investment decisions. Risk tolerance is the level of ability that is acceptable in accepting investment risks. Each investor has a different level of tolerance (Budiarto & Susanti, 2017). Investors must make decisions with certain risks and rewards to achieve the desired results. The type of investment and the selection of investment funds affect the investor's risk tolerance or what is often called risk tolerance, because each person's investment tolerance is different. Risk tolerance can also influence how people invest their resources to achieve short-term and long-term goals, such as shopping for savings and a meaningful retirement (Purnawati & Seltiva, 2022). When someone wants to get a high rate of return, then he must also be willing to bear a high level of uncertainty of return or risk. In general, in economics, especially investment science, it is assumed that investors are rational beings and certainly will not like uncertainty or what is commonly called risk. MSMEs in Mataram may face various types of risks, including market risk, credit risk, and operational risk. The ability to measure, manage and predict these risks can influence their investment decisions.

According to research (Rizky et al., 2020); (Tamara et al., 2022); (Anggraini & Mulyani, 2022); and (Rido Mhd & Irianto Agus, 2023) states that risk tolerance has a significant influence on investment decisions. This is different from research (Amanda et al., 2023); (Istanti & Lestari, 2023); and (Arisanti et al., 2022) which states that risk tolerance does not have much influence on investment decisions.

Not only that, psychological aspects such as being too confident or overconfident can also play a role in making investment decisions. An overconfident attitude can cause deviations from risk, because it will cause someone to act like they know everything and are good at predicting the investment decisions they will take so that the decisions taken are prone to errors (Listiani & Soleha, 2023). Excessive self-confidence can be seen from a person's tendency to prioritize their knowledge, abilities, and accuracy (Yulianis & Sulistyowati, 2021). MSME owners who are overconfident in their abilities tend to take greater risks than necessary, which can have a negative impact on investment results. according to (Nur Aini & Lutfi, 2019); (Fajri & Setiawati, 2023); and (Nur & Kuncara, 2023) which states that overconfidence has a significant influence on investment decisions. But different from the opinion (Jemutai et al., 2020); (Istanti & Lestari, 2023) and (Purnawati & Seltiva, 2022) which states that overconfidence does not affect investment decisions. Overconfidence is not always a factor that affects investment decisions. Because each person's level of self-confidence is different depending on their mental condition.

Thus, it can be concluded that the influence of financial literacy, risk tolerance, and overconfidence on investment decisions is still not fully understood and thus requires further research to obtain consistent results. (Farida, 2023) suggest that further research is needed by adding the overconfidence variable as a factor influencing investment decisions. (Tri & Artati, 2021) also suggests further research to add the risk tolerance variable as a factor influencing investment decisions.

In this study, researchers focus on MSMEs in Mataram. The combination of three variables, namely financial literacy, risk tolerance and overconfidence, which are rarely studied simultaneously in the context of investment decisions in MSMEs. Previous studies have only examined one or two of these variables separately, but this study provides insight into how these three variables influence investment decision making in MSMEs in Mataram.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Teori Planned Behavior

Theory of Planned Behavior (TPB) is a behavioral theory that states that a person's behavior is influenced by his or her perception. A person's behavior in carrying out an action is influenced by his or her interest in the action. This interest is influenced by a person's attitude towards the behavior, behavior influenced by subjective norms and perceived behavioral control (Izzuddin, 2022)**.**

In the Theory of Planned Behavior (TPB), the formation of a person's internal intention is influenced by three components. The first is behavioral beliefs, namely the individual's beliefs about the consequences and evaluation of his actions. This means that behavioral beliefs create positive or negative behavioral attitudes. Second, normative beliefs are a person's beliefs about the normative expectations of others and their motives to fulfill them. This means that this factor leads to the perception of social pressure and third control. Beliefs are a person's beliefs about the behavior shown, events that encourage or inhibit perceived behavioral control. In relation to this study, the Theory of Planned Behavior (TPB) is very relevant to use because each person has different traits and characteristics. In this case, financial literacy, risk tolerance and overconfidence can influence a person in making decisions for managing financial resources, so that good investment decisions are achieved and a prosperous society is realized.

Investment Decisions

With increasing investment activity, this is related to investment decision making by investors. According to (Budiarto & Susanti, 2017) An investment decision is a decision taken regarding two or more investment options with the hope of making a profit in the future. Investment decisions are a process of selecting a particular alternative from a number of existing alternatives (Ahmed et al., 2021). Investment decision is a decision in allocating or placing a certain amount of funds in a certain type of investment. It can also be called as a step where investors make educated choices in investment activities. Since the aspect of investment decisions is long-term, the decisions taken must be considered carefully (Rizky et al., 2020).

Indicators in investment decisions are that MSME owners are interested in investments that provide high returns, MSME owners seek information to find out the returns they will receive, MSME owners examine all the risks they will face, MSME owners understand how to minimize investment risks and MSME owners to meet future needs (Utami & Sitanggang, 2021).

Financial Literacy

With better financial literacy, a person will tend to choose investments with high risks and high profits. This is because by having financial literacy, a person will be more aware of their height and minimize the risks they will face (H et al., 2021). According to (OJK, 2022) Financial Literacy is the knowledge, skills, and beliefs of a person that influence attitudes and behaviors to improve the quality of decision-making and financial management to achieve prosperity. The low level of financial literacy of the community towards the capital market that occurs in Indonesia creates an opportunity for some individuals to commit crimes in the form of offering fraudulent investments. Financial literacy is the ability to analyze, read, manage, and communicate personal financial information that affects financial well-being (Amanda et al., 2023).

The indicators in the financial literacy variable according to (Dinarjito et al., 2023) are basic financial knowledge, being able to manage finances, understanding credit debt, understanding research instruments and understanding investment risks.

Risk Tolerance

Risk tolerance is the most important factor that influences a person in making investment decisions. Every investor has a unique risk tolerance, which can be categorized into three categories based on preferences: risk seeker, neutral risk, and avoiding risk (Laning & Setiawan, n.d.). Each investor has a desired risk limit, and the size of the risk depends on each investor's tolerance (Amanda et al., 2023). Risk tolerance is the level of an investor's ability to take risks in investing, and is important in making investment decisions because the higher the level of risk tolerance, the bolder the investor will be in making decisions (Purnawati & Seltiva, 2022). Risk tolerance is the level of ability that is acceptable in taking risks in investment (Listiani & Soleha, 2023). Risk tolerance is the level of ability that is acceptable in taking an investment risk. Every investor has a different level of tolerance (Rizky et al., 2020).

Indicators in risk tolerance according to (Adiputra, 2021) dan (Budiarto & Susanti, 2017) are choosing high-risk investments, profit is more important than security, investing in activities that provide large returns and being willing to accept if the investment fails.

Overconfident

Overconfidence is one aspect that influences someone in making investment decisions. Overconfidence is a condition where an investor tends to be too confident in his abilities and knowledge in making decisions. (Santini & Artini, 2021). Overconfidence is an irrational belief in one's intuitive thinking, judgment, and cognitive abilities. The concept of overconfidence comes from cognitive psychology experiments and studies in which subjects overestimate their own predictive abilities and the accuracy of information given to them (Budiarto & Susanti, 2017). Overconfidence occurs when individuals overestimate the accuracy of their personal information and believe that they have an advantage over other market participants (Poudel et al., 2024). Every individual may become overconfident as his education and experience increases (Qasim et al., 2019).

according to (Budiarto & Susanti, 2017) The indicators that form overconfidence are accuracy in choosing investments, confidence in one's own abilities, confidence in choosing investments, and confidence in the knowledge one has.

The Influence of Financial Literacy on Investment Decisions

Financial literacy is the use of an individual's knowledge and understanding of financial concepts and risks, skills, motivation, and confidence to make effective financial decisions, and the use of financial resources to improve individual and societal well-being. Literacy is a basic need for everyone to avoid financial problems. The literacy skills that people have naturally allow them to have an impact in various ways. For example, someone who understands how to use, manage, and use their money wisely to achieve financial well-being will automatically encourage that person to act financially well and appropriately. A person's literacy skills can affect everything they do. For example, someone who understands how to use, manage, and use their money wisely to achieve financial well-being will ensure that they behave appropriately and financially. In the Theory of Planned Behavior (TPB), it is explained that the emergence of behavioral intentions or intentions is determined by three factors. One of them is behavioral belief, namely the individual's belief in the results of a behavior and the evaluation of those results, meaning that behavioral belief will produce an attitude towards positive or negative investment decisions. (Budiarto & Susanti, 2017) Explains that financial literacy is knowledge about the basic concepts of finance and financial products that will be managed, which can be used as a reference in making effective decisions to achieve financial well-being in the future. This means that the influence of financial literacy in a person's decision making in investing is very significant.

H1: Financial Literacy Has a Positive Influence on Investment Decisions

The Influence of Risk Tolerance on Investment Decisions

Risk tolerance is the amount of return on capital that an investor is willing to bear. Risk tolerance is an important factor in investing. Investors who want to invest must have a realistic understanding of their abilities and expectations in order to significantly increase the value of their investment. Investors behave differently when faced with risks that may arise in the investments they invest in. Risk is closely related to the possibility of losses that may occur when investing, so investors should not be careless or too relaxed about the risks that may arise. Therefore, risk tolerance influences investment decisions. (Rizky et al., 2020) Arguing that risk tolerance is the level of a person's ability to take acceptable investment risks. Every investor has a different level of tolerance. This means that risk tolerance has an influence on a person's decision making in making investments.

H2: Risk Tolerance Has a Positive Influence on Investment Decisions

The Influence of Overconfidence on Investment Decisions

Overconfidence or excessive self-confidence is when someone has excessive confidence in their own abilities or judgment. Overconfidence is an irrational belief in one's intuitive thinking, judgment, and cognitive abilities. The concept of overestimation comes from cognitive psychology experiments and studies in which subjects overestimate their own predictive abilities and the accuracy of the information given to them. (Listiani & Soleha, 2023) It is said that Overconfidence is a feeling of excessive self-confidence experienced by investors who believe that their knowledge exceeds that of others. Overconfident investors will ignore their knowledge of their investments and ignore the risks they will face. As a result, they will make unwise decisions and take greater risks than they should. This means that when someone is too confident, it will influence someone in making decisions.

H3: Overconfidence has a Positive Influence on Investment Decisions

II. RESEARCH METHOD

This study uses a quantitative approach with primary data analysis accompanied by multiple linear regression tests using the SEM-PLS 4. analysis tool. Using a quantitative approach, this study investigates the influence of financial literacy, risk tolerance and overconfidence in making investment decisions. This study aims to determine the effect of financial literacy, risk tolerance and overconfidence in making investment decisions. This study uses primary data obtained from the results of questionnaires distributed online to respondents at MSMEs in Mataram. The population in this study were all traders in Mataram. The research sample consisted of 150 respondents. The sampling technique used was purposive sampling, and was determined by the following criteria: (1) Micro, Small and Medium Enterprises (MSMEs) in Mataram City, (2) Aged 17 years and over, (3) Already working and having an income. The data analysis method used is multiple linear regression test to see the effect of financial literacy, risk tolerance and overconfidence on investment decisions through validity test, reliability test, and goodness-fit model test. The validity test used in this study is convergent validity through cross loading and average variance extracted (AVE). Convergent validity is carried out to reveal how an indicator is positively correlated with other indicators that have the same construct. AVE score requirement above 0,5 for convergent validity. Discriminant validity assessment is done by Formell an Larcker criteria. If the square root of the AVE score is greater than the correlation value, it can be concluded that the instrument is quite valid.

III. RESULTS AND DISCUSSION

The sample consisted of 150 respondents. As shown in Table 1, males accounted for 47% of the eligible respondents, while females accounted for 53%. Most of the respondents (70%) were between 20 and 30 years old. The sample was dominated by high school/vocational high school graduates.

Table 1. Demographic profile of respondents

Variabel	N (%)
Gender	
Male	71 (47%)
Female	79 (53%)
Age	
20-30	105 (70%)
31-40	14 (9%)
41-50	20 (13%)
51-60	11 (8%)
Education Level	
Primary School	4 (3%)
Junior High School	6 (4%)
Senior High School	96 (64%)
Bachelor's	44 (29%)

The theoretical framework was tested using PLS-SEM (Partial least squares modeling) software from Smart PLS 4.1.0.4. PLS-SEM (variance-based SEM) is a causal modeling technique that focuses on maximizing the variance of dependent latent constructs explained by the independent variable (Arini et al., 2024). The reason why this study uses PLS-SEM is that the researcher wants to examine the influence of dependent variables, namely financial literacy, risk tolerance and overconfidence on investment decisions. PLS-SEM offers a more appropriate technique for analyzing complex relationships between latent variables and measured variables. Validity testing was carried out by distributing questionnaires to 150 respondents. The questionnaire consists of seventeen (17) question items and the data to be obtained will be processed on an ordinal scale. The results are as follows:

Table 2. Cross Loading, AVE, Cronbach's Alpha values

	Item	loadings	AVE	Crombach's Alpa	Composite Reliability
investment decisions	y1.1	0,779	0,690	0,888	0,918
	y1.2	0,849			
	y1.3	0,876			
	y1.4	0,870			
	y1.5	0,775			
financial literacy	X1.1	0,913	0,812	0,942	0,956
	X1.2	0,908			
	X1.3	0,926			
	X1.4	0,864			
	X1.5	0,891			
risk tolerance	X2.1	0,917	0,812	0,885	0,928
	X2.2	0,883			
	X2.3	0,902			
overconfidence	X3.1	0,884	0,763	0,896	0,928
	X3.2	0,860			
	X3.3	0,921			
	X3.4	0,826			

A variable is said to be reliable if the Cronbach Alpha value is > 0,70 and composite Reliability is > 0,70 (Muhson, 2022). Table 2 shows that the Cronbach Alpha value and composite reliability of each variable have met the requirements,which are greater than 0,70. The smallest value shown in the Cronbach Alpha risk tolerance is 0,8846. This value is still acceptable because it ranges from 0,60 to 0,70. it can be concluded that all variable factors meet the reliability test.

The Fornell Larcker value also shows that the AVE root of each variable is higher than the correlation between one variable and another. For example, the variation of risk tolerance (X2) which has an AVE root value of 0,90087 which shows the highest AVE core value compared to the correlation of other variables which have a value range of 0,65524 to 0,70267. It can be concluded that all variables in this study have good discrimination validity.

Model Suitability Test

This test is done by analyze at the R-Square value to measure the level of variation in changes in the independent variable to the dependent variable. Table 3 shows that the investment decision variable (Y) has an R-Square value of 0,5937. This shows that 59,37% of this variable is explained by the financial literacy, risk tolerance and overconfidence variables. While the remaining 40,63% is explained by other variables.

Tabel 3. Hasil R-Square

variabel	R-square
Y	0,5937

Based on Chin (1998) that the standard value of R-Square measurement, namely, the R-Square result of 0,67 identifies that the model is categorized as good. The R-Square result of 0,33 identifies that the model is categorized as moderate. While the R-Square result of <0,33 identifies that the model is categorized as weak. Table 3 above shows that the R-Square value of the investment decision variable (Y) is 0,5937 which means that this value is within the moderate measurement standard, thus it can be said that there is a fairly moderate relationship between financial literacy, risk tolerance and overconfidence on investment decisions.

Hypothesis Testing

The next test is to analyze the level of significance between variables on the Path Coefficient, in this study the hypothesis testing carried out includes testing the influence of 3 independent variables, namely financial literacy, risk tolerance and overconfidence and 1 dependent variable, namely investment decisions. Based on the test results in table 4, it shows that all variable indicators are accepted.

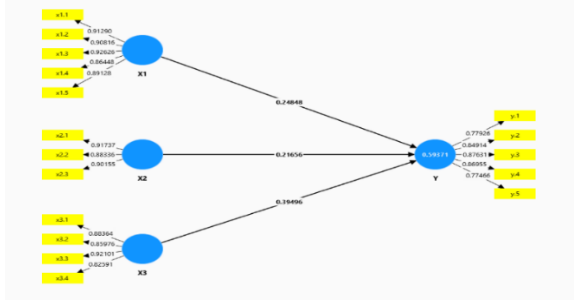

Figure 1. PLS structural model results

Table 4. Results of path coefficient variables

Hypothesis	Original Sample	P-Value	Description
financial literacy -> investment decision	0,248	0,00208	Accepted
risk tolerance -> investment decision	0,216	0,01628	Accepted
overconfidence -> investment decision	0,394	0,00006	Accepted

Based on the results of the table data above, it can be concluded that hypothesis 1 is accepted, this is because the P-Value is less than 0,05 (0,000 <0,05). Where the original sample value of 0,248 indicates a positive relationship between financial literacy and investment decisions. The higher the financial literacy of MSME actors, the better the investment decisions they make. The P-Value of 0,00208 which is less than 0,05 indicates that this relationship is significant. Thus, financial literacy has a real influence on investment decisions. The results of the study show that financial literacy significantly influence investment decisions. This is in line with research (Jemutai et al., 2020); (Safryani Ulfy et al., 2020); (Tri & Artati, 2021); (Yasa et al., 2020); (Ningrum et al., 2023); and (Dinarjito et al., 2023) which states that a good understanding of finance can help business people make better and more informed investment decisions. MSMEs with good financial literacy can evaluate various investment options more effectively and reduce unnecessary risks. However, contrary to research (Izzuddin, 2022); (Rido Mhd & Irianto Agus, 2023); and (Istanti & Lestari, 2023) which says that financial literacy does not affect a person's financial behavior.

Likewise, hypothesis 2 is accepted, this can be seen from the original sample of 0,216 which indicates a positive relationship between risk tolerance and investment decisions. This means that MSME actors who have higher risk tolerance tend to make bolder and potentially profitable investment decisions. The P-Value is 0,01628 which is also less than 0,05 which indicates that this relationship is significant. Therefore, tolerance has a significant influence on investment decisions. High risk tolerance has also been shown to have a significant influence on investment decisions. This indicates that MSMEs who are more risk tolerant tend to make bolder and more innovative investment decisions, which can result in higher profits. This results is in line with Anggraini & Mulyani (2022) and Tamara et al., (2022) which states that risk tolerance has a positive effect on investment decisions. However, it is important for them to keep an eye on potential risks so as not to experience major losses.

Likewise, hypothesis 3 is the same as hypothesis 1 and 2, it can be concluded that this hypothesis 3 is accepted. Judging from the original sample value of 0,394, it shows a strong relationship between overconfidence and investment decisions. The higher the level of self-confidence of MSME actors, the stronger the investment decisions they make. The P-Value of 0,00006, which is much smaller than 0,05 shows that this relationship is very significant. This indicates that overconfidence has a very strong and significant influence on investment decisions. This opinion is in line with research Fajri & Setiawati (2023), Nur & Kuncara (2023); Laning & Setiawan (2023); and Arisanti et al., (2022) which says that overconfidence has a positive effect on investment decisions. However, it is important for them to keep an eye on potential risks so as not to experience major losses. Overconfidence has the strongest influence on Investment Decisions among the three variables studied. Overconfident SMEs tend to take riskier decisions, which can lead to very positive or very negative outcomes. While overconfidence can drive innovation and growth, SMEs need to manage their confidence with objective data and analysis to avoid costly decisions.

IV.CONCLUSION

This study aims to determine the effect of financial literacy, risk tolerance and overconfidence on investment decisions on MSME traders in Mataram. The survey was used to collect empirical data from MSME respondents in Mataram. The findings of this study indicate that financial literacy, risk tolerance, and overconfidence have a positive effect on investment decisions.

The limitations of this study are that researchers did not interview to respondents so that the results obtained are only based on answers to questionnaire items. Data collection through questionnaires is often limited by respondents who are less serious or not careful in providing their answers, which can affect the accuracy of the data. Factors such as fatigue or indifference can cause respondent bias. From this series of studies, the researcher recommends several suggestions to further researchers, namely that further researchers are expected to add other variables related to investment decision making in MSMEs, conduct research in other areas besides Mataram to find out whether the same results apply in different geographical contexts. Further research is expected to use interview methods or open questionnaires and further research is expected to conduct research with more samples, so that the research conducted becomes better

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