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The Influence of Financial Literacy, Financial Inclusion, Herding, Risk Perception and Overconfidence on MSME Investment Decision Making in Mataram City

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Abstract: Investment plays an important role in financial management and contributes to economic growth and public welfare. However, investment decision-making among business actors in Mataram City remains a concern despite improvements in financial literacy and financial inclusion. Previous studies have reported inconsistent findings regarding the effects of financial literacy, financial inclusion, herding, risk perception, and overconfidence on investment decisions, indicating a research gap that requires further investigation. This study aims to examine the effects of these five factors on investment decisions among micro, small, and medium-sized enterprise actors in Mataram City. A quantitative approach was employed, and the data were analyzed using Partial Least Squares Structural Equation Modeling. The results show that financial literacy, financial inclusion, herding, and overconfidence have positive and significant effects on investment decisions, whereas risk perception has no significant effect. The model explains 54.2% of the variance in investment decisions. The novelty of this study lies in integrating financial and behavioral factors within a single framework to explain investment decision-making among micro, small, and medium-sized enterprise actors in Mataram City, providing empirical evidence from a specific local business context.

Keyword: Financial Literacy, Financial Inclusion, Herding, Risk Perception, Overconfidence.

INTRODUCTION

Investment is one of the important strategic financial decisions to support business growth and sustainability. For Micro, Small, and Medium Enterprises (MSMEs), investment decisions are related to how limited resources are allocated to support business development, capacity building, asset procurement, and utilization of economic opportunities. The availability of access to financial services is also an important factor because it can help businesses obtain financing, manage risks, and make investments to support business growth

(World Bank, 2013). Thus, the quality of investment decisions is one of the important aspects in supporting the sustainability and development of MSMEs.

This phenomenon is relevant to investment conditions in Mataram City. Based on data from the Mataram City Investment and One-Stop Integrated Services Office (DPMPTSP) used in this study, the investment value increased until 2019, but then showed a downward trend. The investment value was recorded at IDR 932.25 billion in 2019, then decreased to IDR 712.24 billion in 2020 and decreased again to IDR 443.84 billion in 2021. This condition indicates the existence of an investment phenomenon that needs to be studied further, especially related to factors related to the investment decision-making process in business actors in Mataram City. However, changes in investment value at the regional level do not directly indicate the causative factors, so empirical testing is needed to identify factors that affect investment decisions.

One of the relevant factors in investment decisions is financial literacy. Financial literacy is related to the ability of individuals to understand financial information and concepts needed to make economic decisions. Lusardi and Mitchell (2014) show that financial literacy has important consequences for various economic decisions, including decisions related to savings, loans, and investments. Knowledge of financial concepts can help individuals understand the consequences of various financial choices and evaluate available alternatives. In the context of MSMEs, this ability is increasingly important because business actors must allocate financial resources appropriately in the midst of capital limitations and business uncertainty (Lusardi & Mitchell, 2014).

In addition to the ability to understand financial information, access to financial services is also an important aspect in supporting economic and investment decisions. Financial inclusion provides opportunities for individuals and business actors to obtain and use formal financial services, including savings, financing, payments, and risk management services (World Bank, 2013). This access can provide alternative sources of financing and allow business actors to take advantage of available investment opportunities. Thus, financial ability and access to financial services are two interrelated aspects in supporting financial and investment decision-making.

The condition of financial literacy and inclusion in Indonesia shows that there is still a gap between the level of financial understanding and the use of financial services. Based on the 2022 National Survey of Financial Literacy and Inclusion (SNLIK), the financial literacy index of the Indonesian people reached 49.68%, while the financial inclusion index reached 85.10%. At the West Nusa Tenggara Province level, the financial literacy index was recorded at 65.45%, while the financial inclusion index reached 82.34% (OJK, 2022). This difference shows that the level of access to and use of financial services is not fully in line with the level of public understanding of financial aspects. This condition is important in the context of investment decisions because access to financial products and services needs to be followed by the ability to understand and evaluate their use appropriately (OJK, 2022).

However, investment decisions are not only influenced by financial capabilities and conditions. Decision-making takes place under conditions of imperfect information, uncertainty, and the limitations of individuals in processing all available information. These conditions allow the emergence of psychological and behavioral factors in the decision-making process. The behavioral finance perspective explains that financial decisions cannot always be explained through the assumption of full rationality because individuals can be influenced by psychological factors and various behavioral biases (Barberis & Thaler, 2003). Kumar and Goyal (2015) also show that various behavioral biases are important aspects in explaining the investment decision-making process. Therefore, the assessment of investment decisions needs to consider not only aspects of financial ability and access, but also the behavioral factors inherent in the decision-maker.

In the context of MSMEs, behavioral factors can become increasingly relevant because business actors face a dynamic business environment and decisions that often have to be made

based on limited information. One form of this behavior is herding, which is the tendency of individuals to use other parties' decisions or actions as a reference in determining their choices. In conditions of uncertainty, individuals can use the behavior of other parties as a source of information to reduce uncertainty in decision-making (Kumar & Goyal, 2015). Research by Setiawan et al. (2018) also shows that herding is one of the behavioral biases that can arise in investment decision-making. This condition is interesting to study in MSME actors because the social environment and business network can be one of the sources of information in determining business and investment decisions.

In addition to herding, overconfidence is another psychological factor that has the potential to influence investment decisions. Overconfidence describes the tendency of individuals to have too high confidence in their own abilities, knowledge, or judgment. In the context of investing, overconfidence can affect the intensity and pattern of decision-making. Odean (1999), for example, shows that overconfident investors tend to trade excessively. The findings suggest that the psychological characteristics of decision-makers can influence investment behavior, so overconfidence is one of the relevant factors to be tested in explaining investment decisions (Odean, 1999).

Another psychological factor is risk perception, which is how individuals perceive and evaluate the risks inherent in a choice. Perception of risk can cause individuals to respond differently to the same investment alternative. Weber and Milliman (1997) show that risk perception has a relationship with choice to risk and that risk assessment can differ between individuals. In the context of investment decisions, individuals with different risk perceptions may have different tendencies in determining investment choices. Therefore, risk perception is a relevant factor to be considered along with financial factors and other behavioral biases.

Although theoretically these various factors are relevant, the results of empirical research on the determinants of investment decisions still show inconsistencies. In the research on which this article is based, previous studies on financial literacy showed different results. Mahwan and Herawati (2021) and Putri and Hamidi (2019) found that there was an influence of financial literacy on investment decisions, while Safryani et al. (2020) and Widiar Pradhana (2018) did not find a significant influence. The difference in findings shows that the relationship between financial ability and investment decisions still needs to be tested in the context of different respondents.

Inconsistencies are also seen in behavioral factors. Some studies have found that herding has an effect on investment decisions, while other studies have found no significant influence (Afriani & Halmawati, 2019; Pranyoto et al., 2020; Putri & Yuyun, 2020; Setiawan et al., 2018). The findings on overconfidence have also not shown uniform conclusions. Khairunizam and Isbanah (2019), Pikulina et al. (2017), and Setiawan et al. (2018) found the influence of overconfidence on investment decisions, while Afriani and Halmawati (2019) and Rakhmatulloh and Asandimitra (2019) obtained different results.

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METHOD

This study uses a quantitative approach with an explanatory research design to test the influence of financial literacy, financial inclusion, herding, risk perception, and overconfidence on the investment decisions of MSME actors. The research was conducted in Mataram City which covers six sub-districts. The research population is all MSME actors in the region, with sampling using probability sampling through cluster sampling techniques. Based on the distribution of samples by region and type of business, the study involved 162 MSME respondents.

Data were collected through surveys using questionnaires supported by literature studies, observations, and interviews. The instrument used a five-point Likert scale, from 1 (strongly disagree) to 5 (strongly agree). The research variables consisted of investment decisions as dependent variables as well as financial literacy, financial inclusion, herding, risk perception, and overconfidence as independent variables. Investment decisions were measured through return, risk, and time factors, while independent variable indicators were compiled based on constructs and instruments used in previous research.

Data were analyzed using PLS-SEM with SmartPLS 3.0. The evaluation of the outer model included outer loading, convergent validity, discriminant validity, Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability. Furthermore, the inner model was evaluated using R^2 and Q^2 , while hypothesis testing was carried out based on path coefficient, t-statistic, and p-value through a bootstrapping procedure.

Based on behavioral finance theory, financial literacy theory, and previous research results, investment decisions are seen as the result of the interaction between financial ability factors, access to financial services, and psychological factors. Financial literacy represents the ability to understand financial information, while financial inclusion represents access to and use of financial services. Meanwhile, herding, risk perception, and overconfidence represent behavioral aspects that can affect the decision-making process. Thus, the proposed research model is:

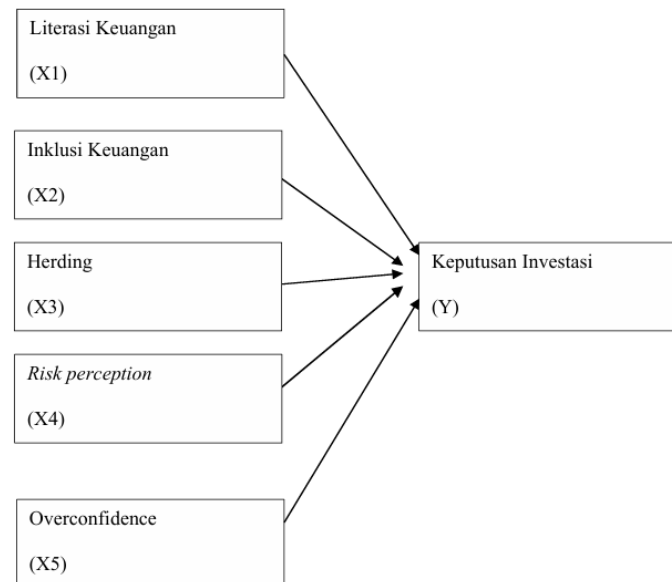


Figure 1. Conceptual Framework

RESULTS AND DISCUSSION

Result

Evaluation of the Measurement Model (Outer Model)

The measurement model was first evaluated by examining the outer loading values of each indicator. In PLS-SEM, an outer loading value of 0.70 or higher is generally considered satisfactory because it indicates that the indicator has adequate reliability in measuring its respective construct (Hair et al., 2017). As presented in Figure 1, all indicators in this study have outer loading values above 0.70, ranging from 0.714 to 0.950. Specifically, the outer loading values for Financial Literacy range from 0.803 to 0.885, Financial Inclusion from 0.860 to 0.887, Herding from 0.813 to 0.829, Risk Perception from 0.714 to 0.950, Overconfidence from 0.743 to 0.820, and Investment Decision from 0.869 to 0.917. These results indicate that each indicator demonstrates satisfactory indicator reliability and adequately represents its corresponding latent construct. The overall results of the measurement model testing are presented in the figure below.

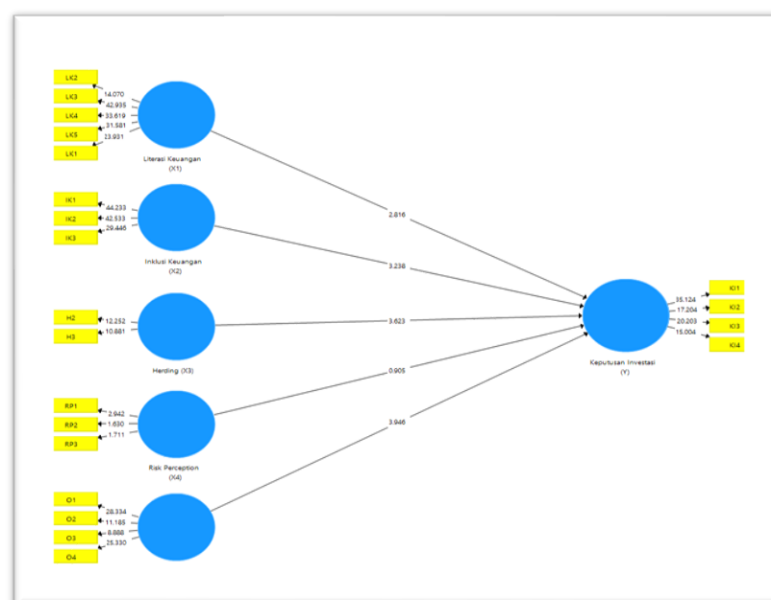


Figure 2. Full Outer Model

Based on the results of data processing using SmartPLS 3.0, the measurement model (outer model) after the indicator elimination process can be seen in Figure 4.1. The image shows the relationship between the indicator and the measured latent construct along with the significance value of the bootstrapping results. Overall, the indicators maintained have a significant relationship with their respective constructs, so that they are able to represent the latent variables studied. In addition, the results of the evaluation show that all constructs have met the criteria of convergent validity and reliability, as indicated by a Composite Reliability value above 0.70 and an Average Variance Extracted (AVE) value above 0.50. Thus, the measurement model in this study is stated to have met the requirements recommended in the SEM-PLS analysis and is suitable to be continued at the evaluation stage of the structural model (inner model) (Hair et al., 2022; Henseler et al., 2009).

Structural Model Test Results (Inner Model)

After validating the measurement model, the structural model was evaluated to examine the hypothesized relationships between variables. The analysis revealed an R^2 value of 0.542 and an Adjusted R^2 of 0.527 for Investment Decision (Y). This shows that Financial Literacy (X1), Financial Inclusion (X2), Herding (X3), Risk Perception (X4), and Overconfidence (X5) collectively account for 54.2% of the variance in investment choices, while the remaining 45.8% is driven by factors outside the model. Following Hair et al. (2022), an R^2 of 0.542 reflects a moderate explanatory power, confirming that the model effectively captures the behavior of the endogenous variable.

Table 1. Structural Model

	R Square	R Square Adjusted
Keputusan Investasi_(Y)	0.542	0.527

Source: SmartPLS Output 3 (2026).

The findings show that the investment decisions of MSME actors in Mataram City are a phenomenon that is not only related to financial ability and access, but also influenced by social and psychological factors. The significance of financial literacy and financial inclusion shows the importance of capacity and access to financial resources, while the significance of herding and overconfidence shows that the decision-making process is also influenced by behavioral factors. On the other hand, the insignificance of risk perception indicates that risk perception is not yet a strong enough factor to explain the respondents' investment decisions in this research model.

Hypothesis Testing

Hypothesis testing in this study was carried out using the bootstrapping procedure in the SmartPLS 3.0 application. The bootstrapping method is a nonparametric technique used to test the significance of relationships between latent variables without requiring normal distributed data. Through this procedure, the estimated path coefficient, t-statistics, and p-value were obtained which were used as the basis for decision-making on the research hypothesis. According to Hair et al. (2022), a hypothesis is declared acceptable if it has a t-statistics value of > 1.96 and a p-value < 0.05 at a significance level of 5%. On the other hand, if the t-statistics value ≤ 1.96 or p-value ≥ 0.05 , then the hypothesis is rejected.

Table 2 Hypothesis Test Results

Hypothesis	Variable Relationship	Original Sample (O)	T Statistics	P Values	Decision
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H1	Financial Literacy (X1) -> Investment Decisions (Y)	0.212	2.816	0.005	Supported
H2	Financial Literacy (X1) -> Investment Decisions (Y)	0.244	3.238	0.001	Supported
H3	<i>Herding</i> (X3) -> Investment Decision (Y)	0.237	3.623	0.000	Supported
H4	<i>Risk perception</i> (X4) -> Investment Decision (Y)	-0.067	0.905	0.366	Not Supported
H5	<i>Overconfidence</i> (X5) -> Investment Decision (Y)	0.274	3.946	0.000	Supported

Source: SmartPLS Output 3 (2026).

Discussion

The Influence of Financial Literacy on Investment Decisions

The test results showed that financial literacy had a positive and significant effect on investment decisions with a path coefficient of 0.212, t-statistic of 2.816, and p-value of 0.005. Thus, the first hypothesis (H1) was accepted.

These results show that an increase in the ability of MSME actors to understand financial information and concepts is followed by an increase in the tendency to make investment decisions. Substantively, business actors who have a better understanding of finance have a more adequate basis in assessing the use of funds, understanding the consequences of financial decisions, and considering available investment alternatives. This is important for MSMEs because investment decisions are made with relatively limited resources so that mistakes in allocating funds can have a direct impact on operational activities and business sustainability.

This finding is in line with the views of Lusardi and Mitchell (2014) who explain that financial literacy is a form of human capital that plays a role in various economic decisions. Financial knowledge allows individuals to understand basic concepts such as inflation, interest rates, risk, and diversification so that they can improve their ability to make more informed financial decisions. In the context of this study, this ability is reflected in the tendency of MSME actors to consider alternative uses of funds before making investments.

Empirically, the results of this study are supported by Pradnyani and Sujana (2023) who found that financial literacy affects investment decisions. Similar results were also found by Valentina and Pamungkas (2022) which show that financial literacy is one of the factors related to investor investment decisions in Indonesia.

However, this finding is different from Pradikasari and Isbanah (2018) who found that financial literacy does not affect student investment decisions in Surabaya. These differences can show that the influence of financial literacy is not always identical in each group of respondents. Thus, the results of the study provide evidence that financial literacy is one of the important foundations in the formation of MSME investment decisions in Mataram City. The implication is that increasing the financial literacy of MSME actors needs to be directed not only at the ability to record and manage finances, but also at the ability to evaluate investment alternatives, risks, and expected economic benefits.

The Influence of Financial Inclusion on Investment Decisions

The results showed that financial inclusion had a positive and significant effect on investment decisions, with a path coefficient of 0.244, a t-statistic of 3.238, and a p-value of 0.001. Thus, the second hypothesis (H2) was accepted.

These findings show that the better access and utilization of financial services by MSME actors, the greater their tendency to make investment decisions. Access to financial services provides opportunities for business actors to use various financial instruments in managing and allocating resources. Thus, investment decisions do not only depend on a person's ability to

understand financial information, but also on the availability of means that allow these decisions to be realized. This result is in accordance with the perspective of financial inclusion which places access to and use of financial services as one of the factors that support economic activities. Access to accounts, financing, savings, payment systems, and other financial services can expand the choice of business actors in managing funds and meeting investment needs (Demirgüç-et al., 2018).

In the context of this study, the influence of financial inclusion even has a slightly larger coefficient than financial literacy, which is 0.244 compared to 0.212. This shows that access to the financial system has a relatively strong role in MSME investment decisions. Financial knowledge can help business actors make choices, but without access to services and financing sources, these investment choices cannot necessarily be realized. The findings are also supported by research on MSMEs which shows that financial inclusion is positively related to investment decisions and business development. Therefore, the results of this study imply that MSME investment decision improvement programs need to integrate financial literacy and financial inclusion, not just focusing on one of them.

The Influence of Herding on Investment Decisions

The test results showed that herding had a positive and significant effect on investment decisions with a path coefficient of 0.237, t-statistic of 3.623, and p-value < 0.001. Thus, the third hypothesis was accepted.

These results show that the investment decisions of MSME actors are influenced by the decisions or experiences of other parties that are references. When facing uncertainty or limited information, business actors can use the actions of other business actors as an additional source of information. In the MSME environment, these sources can come from fellow entrepreneurs, the business community, family, or other social networks. These findings can be explained through the perspective of behavioral finance. Kumar and Goyal (2015) explained that herding is one of the behavioral biases that can cause individuals to follow the decisions of other parties under certain conditions. In situations where personal information is considered limited, the decision of the other party can be perceived as information that helps reduce uncertainty.

The results of this study are supported by Rona and Sinarwati (2021) who found that herding bias has a positive and significant effect on investment decisions. Tamara's (2022) findings also show that herding has a positive effect on stock investment decisions in Indonesia. More recent research by Ningtyas et al. (2026) also found a positive effect of herding on investment decisions in investors in Indonesia. However, these results are not always consistent. Research by Gama et al. (2023) found that herding has no effect on investment decisions, while overconfidence actually shows a positive influence. These differences suggest that the influence of herding is very likely to be influenced by respondent characteristics and decision-making environments.

In the context of MSMEs in Mataram City, the significance of herding can show that the social environment and business network are important sources of reference in determining investment decisions. However, these findings do not mean that following the decisions of others always results in optimal decisions. Herding can help reduce uncertainty when information is limited, but it can also cause business actors to ignore their own financial conditions and business characteristics.

The Influence of Risk Perception on Investment Decisions

In contrast to other variables, risk perception did not have a significant effect on investment decisions. The test results showed a path coefficient of -0.067 , a t-statistic of 0.905, and a p-value of 0.366. Thus, the fourth hypothesis (H4) is not supported.

The negative coefficient indicates a tendency that the higher the risk perception, the lower the tendency of investment decisions. However, because the relationship is not significant, the

negative direction is not strong enough to show a systematic empirical relationship. In other words, risk perception is not the dominant direct predictor of the investment decisions of MSME actors in this study. These results are supported by Barlian et al. (2022) who found that risk perception does not have a significant direct effect on investment decisions. These findings show that risk perception can have a more complex role and does not always have a direct influence on investment decisions.

On the other hand, Kaban and Linata (2024) found that risk perception can play a role in the relationship between herding, overconfidence, and investment decisions. This difference provides the possibility that risk perception is more accurately understood as a mechanism that can bridge certain behavioral factors, rather than always being a factor that directly determines investment decisions. The insignificance of risk perception in this study can also be understood from the characteristics of MSME investment decisions. Investments made by business actors are not always avoidable choice when the risk is considered high. Some investments can be a need to maintain or develop a business. Therefore, MSME actors may continue to invest even though they are aware of the risks because the benefits of the investment are considered necessary for business sustainability. Thus, the results show that risk awareness does not necessarily translate into direct changes in investment decisions. This is one of the important findings of the study because it shows a difference between risk perception and actual decision behavior.

The Effect of Overconfidence on Investment Decisions

The results showed that overconfidence had a positive and significant effect on investment decisions with a coefficient of 0.274, t-statistic of 3.946, and p-value < 0.001. Thus, the fifth hypothesis (H5) was accepted.

Overconfidence is the variable with the greatest influence in the research model. These findings show that MSME actors' confidence in their abilities, knowledge, and experience has an important role in encouraging investment decisions. Business actors who feel they are able to manage their business well tend to have greater confidence to make decisions related to development and investment. This result is consistent with the perspective of behavioral finance, especially the view that individuals can form beliefs that are not completely objective about their abilities. Odean (1999) shows that overconfidence can cause investors to carry out excessive trading activities. In the context of this study, this positive influence shows that confidence in one's own ability can increase the courage of business actors in making investment decisions.

Empirically, the results of this study are supported by Gama et al. (2023) who found that overconfidence has a positive effect on investment decisions. The same results were also found by Rona and Sinarwati (2021). In fact, the research of Ningtyas et al. (2026) found that overconfidence and herding both have a positive effect on investment decisions in Indonesia. However, Tamara's (2022) research obtained different results, namely that overconfidence has no effect on stock investment decisions during the pandemic period. These differences show that the influence of overconfidence can depend on the context of the decision, the characteristics of the respondents, and the conditions of the investment environment.

In the context of MSMEs in Mataram City, the positive influence of overconfidence can reflect the importance of experience and self-confidence in business development decisions. However, this finding cannot be interpreted that overconfidence always results in better investment decisions. The positive significance only shows that the increase in overconfidence is related to the increased tendency to make investment decisions. From a behavioral finance perspective, overconfidence still has the potential to become biased if it makes business actors ignore information that is contrary to their beliefs.

Synthesis of Results

Overall, this study shows that financial and behavioral factors both play a role in explaining the investment decisions of MSMEs in Mataram City. Financial literacy and financial inclusion show that capacity and access to the financial system are important foundations in investment decisions. Meanwhile, the significance of herding and overconfidence shows that investment decisions are also influenced by the social environment and the subjective beliefs of decision-makers. In contrast, risk perception does not show a significant direct influence.

The findings produced an interesting pattern. Overconfidence had the greatest influence ($\beta = 0.274$), followed by financial inclusion ($\beta = 0.244$), herding ($\beta = 0.237$), and financial literacy ($\beta = 0.212$). This shows that in the context of Mataram City MSMEs, behavioral factors even have a relatively strong role compared to the financial knowledge factor. This finding strengthens the main argument of behavioral finance that economic decisions cannot be fully explained through the assumption of rationality.

The R^2 value of 0.542 further strengthens the finding because the combination of the five variables is able to explain 54.2% of the variation in investment decisions. Thus, this study provides evidence that an approach that combines financial factors and behavioral factors is better able to capture the complexity of MSME investment decisions than if investment decisions are only viewed from one perspective.

CONCLUSION

Conclusion

This study concludes that financial literacy, financial inclusion, herding, and overconfidence have a positive and significant effect on investment decisions among MSME actors in Mataram City, while risk perception does not have a significant effect. These findings indicate that investment decisions are influenced more strongly by financial knowledge, access to financial services, and behavioral factors than by perceived risk. The model explains 54.2% of the variance in investment decisions, indicating that the combination of financial and behavioral factors provides a meaningful explanation of investment decision-making among MSME actors. Overall, this study contributes empirical evidence to the understanding of investment decision determinants in the MSME context and provides a basis for strengthening financial knowledge, financial access, and investment decision-making practices among MSME actors.

Limitations

This study has several limitations. First, the research was conducted only among MSME actors in Mataram City, limiting the generalizability of the findings to other regions. Second, the model included only five explanatory variables, namely financial literacy, financial inclusion, herding, risk perception, and overconfidence, while other factors may also influence investment decisions. Third, the use of self-administered questionnaires may introduce response bias. Finally, the cross-sectional design captures investment decision-making at a single point in time and does not reflect changes over time. Future studies are encouraged to examine broader samples, additional relevant variables, and longitudinal research designs.

Recommendations

Future studies should broaden the research scope, increase the sample size, and include other relevant variables, such as financial self-efficacy, risk tolerance, financial technology, investment experience, and income. Longitudinal studies or comparisons across regions are also recommended to provide a more comprehensive understanding of MSME investment decision-making.

Author Contributions

The first author was primarily responsible for conceptualizing the study, collecting and analyzing the data using PLS-SEM, and preparing the initial manuscript. The second author contributed to refining the research framework, interpreting the empirical findings, and providing critical feedback throughout the manuscript review and revision process. Both authors participated in the refinement of the final manuscript, reviewed its content, and approved the final version for submission and publication.

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