

# Local Cultural Values, Managerial Overconfidence, and SME Performance: The Mediating Role of Debt Financing

*Valores culturales locales, exceso de confianza gerencial y desempeño de las PYME: el papel mediador del financiamiento de deuda*

*Gusti Ayu Sri Oktaryani*

*University of Mataram, Indonesia*

oktaryani@unram.ac.id

 <https://orcid.org/0009-0000-2256-1616>

*Ni Luh Putu Wiagustini*

*Udayana University, Indonesia*

wiagustini@gmail.com

 <https://orcid.org/0000-0002-4042-337X>

*Luh Gede Sri Artini*

*Udayana University, Indonesia*

lg\_artini@yahoo.com

 <https://orcid.org/0000-0003-1246-8113>

*Ica Rika Candraningrat*

*Udayana University, Indonesia*

candraningrat@unud.ac.id

 <https://orcid.org/0000-0002-2580-1926>

Recepción: 25 Junio 2025

Aprobación: 21 Noviembre 2025



Acceso abierto diamante

## Abstract

This study examines the relationship between local cultural values, managerial overconfidence, small and medium enterprise (SME) performance, and the use of debt in funding decisions. The indicators of the constructs were measured using a 7-point semantic differential scale. Data were collected from 140 handicraft SME owners in Central Lombok and analysed using SEM PLS. The results of this study reveal that Tastura culture does not directly affect SME performance. The use of debt in funding decisions fully mediates the influence of the Tastura culture on SME performance, and funding decisions partially mediate the impact of managerial overconfidence on SME performance. These findings indicate that local cultural values are insufficient without funding decisions. The findings provide insights into the role of cultural values in influencing financing decisions that ultimately enhance firm performance. Furthermore, this study gives valuable information to the government to develop plans for SMEs in Central Lombok that are grounded in local culture.

Jel Code: L2, G4, Z1

**Keywords:** Local cultural values, Tastura culture, Managerial overconfidence, SME performance, Debt financing.

## Resumen

Este estudio examina el efecto de la cultura Tastura y el exceso de confianza gerencial en el desempeño de las pequeñas y medianas empresas (pymes). Los indicadores de los constructos se midieron mediante una escala diferencial semántica de 7 puntos. Los datos se recopilaron de 140 propietarios de pymes artesanales en Lombok Central y se analizaron mediante SEM PLS. Los resultados de este estudio revelan que la cultura Tastura no afecta directamente el desempeño de las pymes. El uso de deuda en las decisiones de financiación media completamente la influencia de la cultura Tastura en el desempeño de las pymes, y las decisiones de financiación median parcialmente la influencia del exceso de confianza gerencial en el desempeño de las pymes. Estos hallazgos indican que los valores culturales locales resultaban insuficientes sin las decisiones de financiación. Los hallazgos brindan información para comprender el papel de los valores culturales en las decisiones de financiamiento que, en última instancia, contribuyen a mejorar el rendimiento empresarial. Además, este estudio ofrece al gobierno información valiosa para elaborar un plan de desarrollo para las pymes artesanales en el centro de Lombok, basado en la cultura local.

Código JEL: L2, G4, Z1.

**Palabras clave:** Valores culturales locales, Cultura Tastura (Tatas Tuhu Trasna), Exceso de confianza gerencial, Desempeño de las pymes, Financiamiento mediante deuda.

## INTRODUCTION

Small and medium-sized enterprises (SMEs) contribute significantly to economic development in developing countries. SMEs are crucial in improving income distribution and generating employment (Amoah et al., 2021; Ye & Kulathunga, 2019). The role of SMEs in predominantly rural areas, such as Lombok Island, is crucial due to the absence of large-scale industry. Lombok attracted global media attention when the MotoGP world championship was hosted at the Pertamina Mandalika International Circuit for the first time in 2022. Mandalika, located in Central Lombok Regency, Indonesia, is a Special Economic Zone established to enhance the tourism sector on Lombok Island. More than 50% of small industries in Central Lombok are craft-based SMEs that support regional tourism development. The crafts produced are closely related to the local culture. Although SMEs in Central Lombok make a substantial contribution, they face challenges that affect their performance, including market penetration and financial difficulties.

The current global conditions have created high uncertainty. This requires managers or business owners to remain responsive to changes in the dynamic business environment. Emphasising business performance is essential as it reflects an enterprise's achievements or shortcomings. Business performance assessment generally concerns an organization's ability to effectively utilise its resources to accomplish predetermined objectives (Taouab & Issor, 2019). Managers and stakeholders can better understand a firm's accomplishments by assessing performance through a combination of financial and non-financial measurements. The evaluation process performance in SMEs differs from that of larger corporations.

SME achievement is determined by entrepreneurs' cognitive processes, behaviors, and actions (Singh et al., 2013). These cognitive processes can be shaped by cultural values, which may influence individuals' beliefs about their abilities and their confidence levels (Culpepper & Romero, 2017). Culture is an essential aspect of organisations because it affects the personal characteristics of entrepreneurs or managers responsible for making financial decisions. Consequently, cultural values affect both financial decisions and firm performance (Yogantara et al., 2025).

Before entering an organisation, leaders internalise values and conventions derived from their family, community, nation, educational system, tribe, and religion, which subsequently shape their behaviour. Culture influences individuals' cognitive and emotional aspects in decision-making (Statman, 2008). It is an important aspect to consider within an organisation, as it influences the personal characteristics of entrepreneurs or managers. Overconfidence is a trait among entrepreneurs and managers (Reyes et al., 2022). Prior research has shown a relationship between culture and overconfidence (Bhaskar & Thomas, 2019; Cieřlik et al., 2018; Culpepper & Romero, 2017; Moore et al., 2018).

Managerial overconfidence can have both positive and negative effects on firm performance. It often leads entrepreneurs to underestimate risks and disregard competition, potentially increasing the likelihood of business failure when accompanied by weak control mechanisms (Gudmundsson & Lechner, 2013). Conversely, it can positively affect business sustainability, as high self-confidence fosters greater ambition in setting targets and motivates managers or entrepreneurs to work harder to achieve their goals (Vitanova, 2021).

According to Behavioral Decision Theory, cultural values and managerial overconfidence affect financial decisions, which in turn influence business performance. A classic issue faced by SMEs concerns capital or funding constraints. The analysis of mediation in behavioural studies is further supported by the framework developed by Baron and Kenny (1986). Therefore, this research proposes that funding decisions mediate the relationship between culture and managerial overconfidence regarding SME performance. Most studies on culture and managerial overconfidence focus on large corporations. This study addresses that gap by examining small and medium-sized enterprises. It contributes to the evolving literature on behavioural finance

by exploring how cultural values and overconfidence influence SMEs' performance through the use of debt in funding decisions.

## REVIEW OF LITERATURE AND HYPOTHESES

Conventional finance theories posit that individuals are rational (Baker et al., 2018). Nevertheless, reality differs from these assumptions, as individuals are not entirely logical. Studies in behavioural finance show that decision-making is influenced by cognitive biases and limited rationality, leading to deviations from the optimal model proposed by neoclassical finance (Abdeldayem & Sedeek, 2018).

According to Behavioral Decision Theory, decision-making is related to an individual's cognitive processes (Takemura, 2014). Entrepreneurs' cognitive processes may be influenced by their cultural values. Cultural differences lead to variations in perception, expectations, cognitive elements, and emotions. Hence, culture is an essential aspect of financial decision-making (Statman, 2008; Zhou et al., 2022). The fundamental assumption of Behavioural Decision Theory is bounded rationality. In practice, rationality is constrained by limited information, personal motivations, and cognitive capacity. Limited rationality, along with psychological biases and non-standard preferences, affects financial decisions, including funding decisions. The concept of bounded rationality explains that managerial decision-making is limited by biases, cultural values, abilities, and habitual behaviors (Esghaier, 2017). Cultural values shape human behavior and vary across regions. Cultural values also influence the personal characteristics of business leaders. Moreover, culture plays a critical role in dynamic business decisions, where appropriate choices enhance business achievement.

### *Tastura Culture*

The cultural values of a business owner or leader influence their perspective and decisions (Farooq et al., 2020). These values affect individuals' cognitive and emotional dimensions in decision-making (Statman, 2008). Therefore, culture is a crucial factor to consider within a firm, as it shapes financial decisions, which, in turn, determine its outcomes.

Indonesia is known for its cultural diversity, stemming from various ethnicities, tribes, and religions. The cultures of numerous tribes across Indonesia have evolved into forms of local wisdom supported by the local communities. The Central Lombok development concept focuses on protecting environmental quality and cultural values. The majority of Central Lombok's population are descendants of the Sasak tribe. *Tatas Tuhu Trasna* (Tastura) represents the indigenous knowledge and cultural heritage of the Sasak tribe in Central Lombok and serves as the slogan of Central Lombok Regency.

The majority of preceding articles are written from a macro perspective, with most studies focusing on country-level or overall economy and banking sector analysis. However, research from the user's perspective, such as that from SMEs, remains relatively scarce. This study makes a substantial contribution and presents novel insights from the user standpoint, specifically SMEs, whose numbers remain relatively small, particularly in terms of leveraging unique local genius values to enhance the interaction between financial inclusion and SMEs' financial performance.

*Tatas Tuhu Trasna* has distinct meanings (Marijo, 2019). *Tatas* implies a broad perspective and a progressive outlook. *Tuhu* implies endurance, an entrepreneur's unwavering spirit, and work dynamism. *Trasna* implies compassion, respect for others, and a willingness to collaborate. In Hofstede's cultural dimensions, *Tatas* signifies long-term orientation, *Tuhu* reflects adaptability in the face of uncertainty, and *Trasna* embodies collectivism. Adaptability in the face of uncertainty reflects the audacity to embrace opportunities and take risks.

### *Managerial Overconfidence*

Overconfidence is the most common and potent cognitive bias in decision-making (Burkhard et al., 2018; Navis & Ozbek, 2016). Overconfident managers tend to overlook competition, underestimate risks, and implement control functions with diminished rigour due to exaggerated self-evaluation (Gudmundsson &

Lechner, 2013). Managerial overconfidence is a distorted impression among company managers who overestimate their capabilities or knowledge (Moore & Schatz, 2017). Malmendier et al. (2023) reconceptualize overconfidence as an inflated assessment of the value a manager believes can be generated. Thus, managerial overconfidence refers to the tendency of managers to overrate their competencies and experiences, thereby exaggerating the organization's potential. Most SME owners in Central Lombok also serve as managers; therefore, managerial overconfidence is inherent among SME owners. Baker et al. (2018) found that SME owners tend to be overconfident, and such proprietors depend more on trade credit and government-supported programs than those who do not exhibit overconfidence.

#### *Funding decisions*

Funding decisions concern the choice between debt and owner's equity. These decisions are vital for enterprises, as they determine how they finance operational activities and investments. Balancing debt and equity remains a key challenge for enterprises, as capital structure influences the cost of capital, risk profile, liquidity, and returns (Bajaj et al., 2020). While optimal funding decisions support an ideal capital structure, suboptimal ones may result in financial difficulties (Zhang & Chen, 2017).

Conventional modal structure theories, such as trade-off theory and pecking order theory, assume that managers act as rational agents. These models typically emphasize comparing the costs and benefits of debt versus equity. The pecking order theory posits that internal financing is less costly than debt and external equity, leading firms to prefer internal financing (Zhang & Chen, 2017). However, empirical evidence (Arrieta et al., 2020; Canto et al., 2019; Ishikawa & Takahashi, 2010) shows that many small and medium-sized enterprises in the European Union rely on trade credit and various debt instruments to survive during the global financial crisis.

Lam et al. (2013) propose the norm theory of capital structure, which highlights the relationship between cultural values and funding decisions. The theory posits that managerial norms, shaped by interactions among managers, subordinates, and the surrounding environment, affect funding decisions. Lam et al. (2013) further find that managerial norms have a stronger association with leverage ratios in small firms than in large corporations.

#### *SME performance*

Performance measurement is a key element of the control process, enabling management to clarify the enterprise's capabilities. It helps anticipate both internal and external conditions and supports timely decision-making (Taouab & Issor, 2019). Enterprise performance displays a relationship between outcomes and the resources utilised in operations. Therefore, the enterprise's performance must consider the efficiency of resource utilization in production (Nguyen et al., 2021).

Performance measurement can be undertaken using objective and subjective measures. Objective measures typically employ financial ratios derived from financial statements, while subjective measures require managers or financial analysts to evaluate the firm's performance based on their perceptions (Singh et al., 2016). Collecting financial data from the sample entities, particularly SMEs, is often challenging.

In Indonesia, SMEs are not required to conduct audits or disclose financial statements, making it difficult to obtain objective financial data. Non-financial performance is also necessary to assess the company's overall performance. However, obtaining information on non-financial performance, such as market share and development in human resource capabilities, is challenging to extract from a firm's annual reports. Hence, subjective measures provide a practical solution. Singh et al. (2013) show that managers can precisely evaluate their organisation and compare performance with competitors by cross-examining secondary data. Subjective performance measurement, including financial and non-financial indicators, has been used in prior studies to assess SME performance (Hidayati et al., 2021; Palmer et al., 2019; Singh et al., 2013; Sinha & Dhall, 2020).

#### *Hypotheses*

Cultural values play an essential role in shaping an individual's behavior. The local culture values adopted by SME owners influence managerial overconfidence. Prior studies confirm the influence of culture on

overconfidence (Cieřlik et al., 2018; Culpepper & Romero, 2017; Moore et al., 2018). Management practices aligned with cultural values influence the decision-making processes of business owners or managers (Gaganis et al., 2019). For example, Culpepper and Romero (2017) show that Chinese cultural values shape decision-making within the Chinese community.

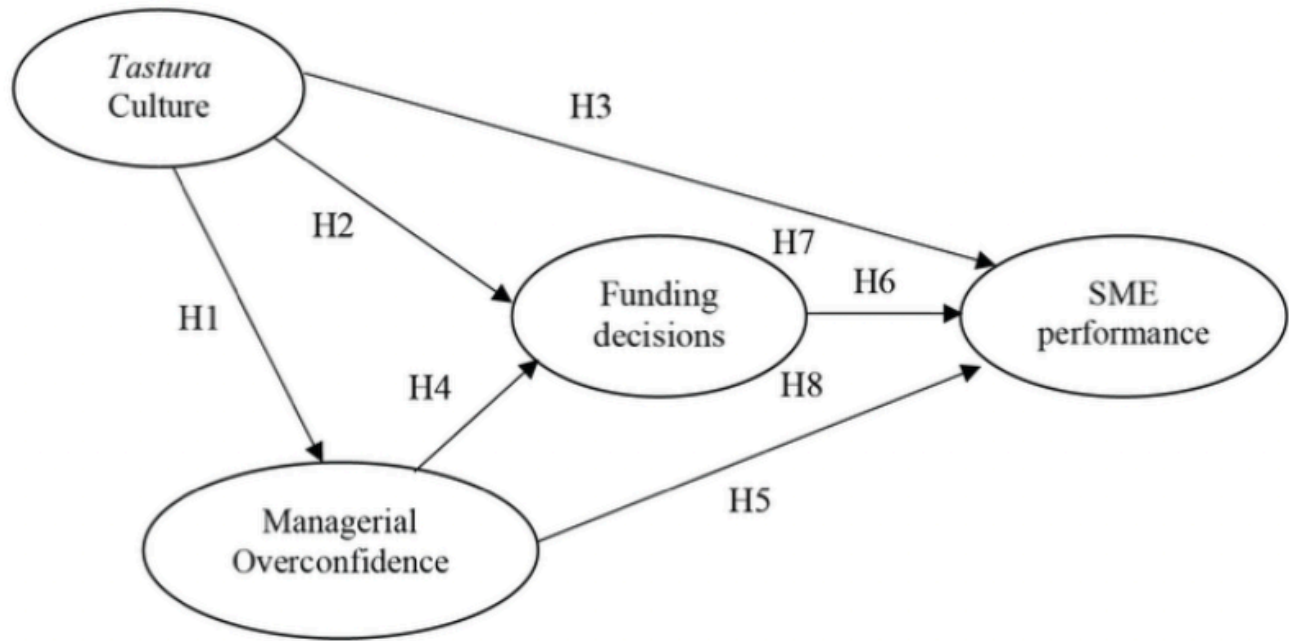
Prior research (Farooq et al., 2020; Mogha & Williams, 2021) confirms the role of culture in funding decisions, whereas Antonczyk and Salzmann (2014) show that a firm's choice of external funding is influenced by overconfidence-related behavioural biases stemming from cultural differences. Ultimately, the local cultural values in which managers are raised affect their attitudes and behaviours.

Superior cultural values may enhance firm performance (Farooq et al., 2020). Managers act with the expectation of achieving a greater strategic benefit. The local cultural values adopted by enterprise leaders shape a mental framework that guides reasoning and responses to stimuli from the business environment. Cross-cultural studies demonstrate the effect of culture on firm performance (Boubakri et al., 2017; Farooq et al., 2020; Gaganis et al., 2019). The Tastura culture, a local culture of Central Lombok, may influence the performance of local craft SMEs.

The cognitive style of managers, particularly managerial overconfidence, helps managers gather information and knowledge that guide the organisation toward creative performance, which can determine the company's future growth and success (Kouaib et al., 2022). Excessive self-confidence leads managers to believe they can realise their ambitions, motivating them to work harder to achieve their goals. Their knowledge and experience are beneficial in identifying trends and opportunities to sustain or improve firm performance. Prior studies have confirmed the advantageous effects of managerial overconfidence on firm performance (Kim et al., 2022; Kim & Jang, 2021; Mundi & Kaur, 2019; Reyes et al., 2022; Salehi & Moghadam, 2019; Vitanova, 2021).

Behavioral Decision Theory (Becker & McClintock, 1967; Slovic et al., 1977) clarifies the interplay between cultural values, managerial overconfidence, funding decisions, and business performance. According to this theory, SME owners' values and managerial overconfidence influence funding decisions, which, in turn, affect business performance.

The mediation analysis is supported by the model developed by Baron and Kenny (1986). Behavioral Decision Theory justifies positioning funding decisions as a mediating variable that explains the indirect effect of Tastura culture and managerial overconfidence on SME performance. A persistent challenge for SMEs is access to capital. Overconfident managers often opt for higher debt levels (Esghaier, 2017; Hackbarth, 2008; Jude & Adamou, 2018; Malmendier et al., 2023; Mefteh & Oliver, 2010). Although debt financing entails greater risk than equity financing, overconfident managers are more inclined to take such risks, making debt a preferred funding source. This study highlights funding decisions as the mechanism bridging the influence of organisational culture and managerial overconfidence on SME performance.



**Figure 1**  
**Research Model**  
 Source: Own elaboration.

Source: Own elaboration.

H<sub>1</sub>: Tastura culture significantly affects managerial overconfidence.

H<sub>2</sub>: Tastura culture significantly affects the use of debt in funding decisions.

H<sub>3</sub>: Tastura culture significantly affects SME performance.

H<sub>4</sub>: Managerial overconfidence positively affects the use of debt in funding decisions.

H<sub>5</sub>: Managerial overconfidence positively affects SME performance.

H<sub>6</sub>: The use of debt in funding decisions positively affects SME performance.

H<sub>7</sub>: The funding decisions can mediate the effect of the Tastura culture on SME performance.

H<sub>8</sub>: The funding decisions can mediate the effect of managerial overconfidence on SME performance.

## RESEARCH METHODOLOGY

This study was conducted on 140 SMEs in the handicraft industry of Central Lombok, one of the region's leading sectors. The flagship products include woven fabrics and songket, rattan, ketak, and bamboo weaving, silver crafts, and pottery. The research participants were owners of handicraft SMEs who also acted as managers. Data were collected through questionnaires distributed to the sample group in 2023.

The Tastura culture questionnaire was developed through in-depth interviews and focus group discussions (FGD). In-depth interviews were conducted with two community figures who understand Tastura culture, focusing on its values in relation to business aspects. Tastura culture is treated as a unidimensional variable. Findings from the interviews indicate that *Tatas Tuhu Trasna* (Tastura) represents an inseparable unity, although each word carries its own meaning.

The FGD was conducted in Praya City on Thursday, August 3, 2023, involving community leaders, government officials, management experts, and SME owners. The FGD aims to confirm the indicators of the

Tastura culture. The participants reached an agreement on the Tastura culture construct instrument, which consists of twelve indicators.

Business performance of SMEs includes both financial and non-financial performance. Funding decision refers to the decision made by the SME owner or manager to utilise loan financing. The SME performance questionnaire was developed based on studies of Hidayati et al. (2021) and Palmer et al. (2019). Managerial overconfidence reflects the perception among SME owners or managers who are highly self-assured and believe they possess above-average abilities in the use of debt and in firm performance. Self-assessment surveys were employed, requiring SME owners or managers to rate their confidence levels to capture these subjective perceptions. Funding decisions serve as a mediating variable that bridges Tastura culture and managerial overconfidence with SME performance.

The managerial overconfidence and the funding decisions questionnaire were developed based on prior research by Hidayati et al. (2018). The constructs of the research model were measured using a 7-point semantic differential scale. A pilot test was conducted by distributing a questionnaire to 35 SME owners outside the sample group. The purpose of the pilot test was to assess the validity and reliability of the Tastura culture construct before distribution to actual respondents, using SPSS for analysis. We applied PLS-SEM to analyse the data from the sample group. The first step was to confirm the measurement scale by testing indicator validity and construct reliability. The second step was to assess the structural model, which explains the relationship among Tastura culture, managerial overconfidence, funding decisions, and SME performance.

## RESULTS

In the pilot test, validity was tested using Pearson product-moment correlation, while reliability was tested using Cronbach's alpha. The validity test results indicated that three items of the Tastura culture were invalid, as their correlation values were  $r < 0.325$  and their p-values were  $> 0.05$ . These invalid items were prudent and disciplined in financial management and maintained good relationships with government agencies. Consequently, 9 items were considered as valid indicators of the Tastura culture construct. The Cronbach's alpha coefficient for the nine items was 0.802, exceeding the threshold of 0.7, indicating that the Tastura culture construct is reliable.

In PLS, validity is assessed through convergent validity. For reflective constructs, convergent validity is evaluated by the outer loadings of their indicators. An indicator is considered valid if its outer loadings exceed 0.708 (Hair et al., 2019). Table 1 shows that all indicators have outer loading values  $> 0.708$ , confirming their validity.

**Table 1**  
**Experts agree on the validity of the content of the Catur Purusa Artha culture**

No	Indicator
1	The importance of adequate knowledge and insight
2	Innovation is driven by trends
3	Prudence in financial management
4	Improving human resource capabilities
5	Working hard to achieve targets
6	Considering customer feedback
7	Discipline in financial management
8	Dare to take risks to increase profits
9	Maintaining good relationships with government agencies
10	Cooperating with suppliers and other industry members
11	Paying attention to employee welfare
12	Maintaining good relationships with customers

Source: Own elaboration

Reliability in PLS is assessed by comparing Cronbach's alpha and composite reliability values, both of which should exceed 0.7 (Hair et al., 2019). As shown in Table 2, all constructs have Cronbach's alpha and composite reliability values above 0.7, with composite reliability consistently higher than Cronbach's alpha. This confirms the reliability of the Tastura culture, managerial overconfidence, funding decisions, and SME performance constructs. In addition, the average variance extracted (AVE) values for all constructs exceed 0.50, thereby meeting the validity criteria.

**Table 2**  
**Indicator Loadings**

Construct	Indicator	Outer Loadings
<i>Tastura</i> Culture	The importance of adequate knowledge and insight	0.869
	Innovation is driven by trends	0.754
	Improving human resource capabilities	0.766
	Working hard to achieve targets	0.853
	Considering customer feedback	0.719
	Dare to take risks to increase profits	0.770
	Cooperating with suppliers and other industry members	0.755
	Paying attention to employee welfare	0.863
	Maintaining good relationships with customers	0.835
Managerial Overconfidence	overconfidence in the ability to manage a business	0.774
	overconfidence in the ability to seize opportunities	0.723
	overconfidence in the ability to pay debts and interest expenses	0.850
	overconfidence in the ability to increase sales	0.905
	overconfidence in the ability to increase profits	0.847
Funding decisions	Debt financing support business financial condition	0.762
	The benefits of debt surpass the risks	0.725
	Prudence in financial management	0.734
	Debt enhances productivity and discipline	0.825
SME performance	Sales growth	0.952
	Profit growth	0.862
	Develop new products	0.930
	The increase of market share	0.917
	Human resource development	0.721

Source: Smart PLS results.

The SRMR value of our research model is 0.074 (below 0.08), indicating that the model meets the criteria for goodness of fit. The coefficient of determination ( $R^2$ ) for management overconfidence is 0.625, indicating that 62.5% of its variance is explained by the *Tastura* culture. The  $R$ -square for funding decisions is 0.458, implying that *Tastura* culture and managerial overconfidence account for 45.8% of the variance in funding decisions. The  $R$ -square of SME performance is 0.319, indicating that the *Tastura* culture, managerial overconfidence, and funding decisions explain 31.9% of SME performance.

Hypothesis testing in SmartPLS uses bootstrapping. In our research, the value of  $\alpha$  is set at 0.05. Therefore, the hypothesis is accepted if the  $p$ -value is  $< 0.05$  and the  $t$ -statistic  $> 1.96$ . The results in Table 3 show that the  $t$ -statistic for hypothesis 1 is 20.831. The significance of H1 is further supported by a substantial effect size ( $f^2$ ) of 1.668. An effect size  $> 0.35$  signifies a strong relationship between the exogenous and endogenous variables (Hair et al., 2019). The *Tastura* culture exhibits an intense beneficial relationship with managerial overconfidence:

Table 3 shows that the  $t$ -statistic for hypothesis 2 is 3.012 with a  $p$ -value of 0.003. This confirms that the *Tastura* culture has a significant positive direct effect on funding decisions, thus H2 is accepted. Conversely,

hypothesis 3 is rejected because the t-statistic value is < 1.96, indicating that the relationship between the Tastura culture and SME performance is unsupported.

**Table 3**  
Construct reliability and validity

Variable	Cronbach's Alpha	Composite Reliability	AVE	R-Square
Tastura Culture	0.929	0.941	0.640	
Managerial Overconfidence	0.879	0.912	0.676	0.625
Funding decisions	0.760	0.847	0.582	0.458
SME performance	0.925	0.930	0.775	0.435

Source: Smart PLS results.

**Table 4**  
Hypothesis Testing

Hypothesis	Direct / Indirect Path	Path Coefficient	P-value	T-statistic	Empirical remark
H <sub>1</sub>	Tastura culture => Managerial overconfidence	0.791	0.000	20.831	Supported
H <sub>2</sub>	Tastura culture => Funding decisions	0.345	0.003	3.012	Supported
H <sub>3</sub>	Tastura culture => SME performance	0.022	0.843	0.198	Not Supported
H <sub>4</sub>	Managerial overconfidence => Funding decisions	0.370	0.001	3.342	Supported
H <sub>5</sub>	Managerial overconfidence => SME performance	0.404	0.000	4.022	Supported
H <sub>6</sub>	Funding decision => SME performance	0.303	0.001	3.451	Supported
H <sub>7</sub>	Tastura culture => Funding decisions => SME performance	0.104	0.042	2.034	Supported
H <sub>8</sub>	Managerial overconfidence => Funding decisions => SME performance	0.112	0.010	2.575	Supported

Source: Smart PLS results.

The t-statistics for hypotheses 4 and 5 exceed 1.96, indicating that Managerial overconfidence exhibits a favourable direct effect on funding decisions and SME performance. Hypothesis 6 is supported, as the t-statistic of 3.451 (> 1.96) indicates that funding decisions have a significant, beneficial direct effect on SME performance. Hypothesis 7 is accepted, with a t-statistic > 1.96, suggesting that Tastura culture indirectly affects SME performance through funding decisions. Moreover, the indirect effect of managerial overconfidence on SME performance (H8) is supported by its t-statistic and p-value.

## DISCUSSION

The findings show that the Tastura culture significantly affects managerial overconfidence (H<sub>1</sub>). This aligns with the research outcomes of Culpepper and Romero (2017), Cieslik et al. (2018), and Bhaskar and Thomas (2019). The handicrafts produced by SMEs in Central Lombok are closely related to the local culture. For instance, Central Lombok's woven fabrics feature distinctive, meaningful motifs passed down through generations. Craft SMEs owned by the Sasak tribe incorporate local cultural values and the Tastura culture in their business practices. The Tastura culture thus plays a crucial role in developing the overconfidence of craft SME business leaders.

The results of PLS–SEM indicate that the Tastura culture significantly affects funding decisions (H<sub>2</sub>), positively influencing the use of debt as a funding source. This result supports the findings of Culpepper and Romero (2017), Farooq et al. (2020), and Mogha and Williams (2021). It demonstrates that SME owners are willing to take risks to boost business profits, while also working hard to achieve targets.

The decision to use debt to increase working capital reflects this risk-taking attitude. SME owners perceive debt as facilitating productive activities, where its benefits outweigh the risks. Debts also foster greater caution in managing cash and motivate owners to be more productive and disciplined. The combination of diligence and prudent financial management helps mitigate default risk, thereby enabling debt to facilitate business growth. Hence, the Tastura culture enhances the tendency to rely on debt as a source of finance.

Managerial overconfidence positively affects the use of debt in funding decisions (H<sub>4</sub>), consistent with prior research (Esghaier, 2017; Hackbarth, 2008; Malmendier et al., 2023; Mefteh & Oliver, 2010). Excessive confidence in managing a business, settling debts, seizing business opportunities, and enhancing sales and profits encourages craft SME owners to utilise debt as a funding source. They act as dependable leaders in managing their business operations and strive to meet capital needs to sustain continuous production. When enterprises expand production capacity, working capital requirements increase. If equity is insufficient, debt becomes a viable alternative. Consequently, overconfident craft SME owners are more likely to choose debt financing.

Managerial overconfidence positively affects SME performance (H<sub>5</sub>). The personality traits of managers as decision-makers influence organizational outcomes (Kouaib et al., 2022). Small and Medium Industries typically have a simpler organizational structure than corporate entities, with owners frequently assuming managerial roles. Consequently, managerial overconfidence, as an entrepreneurial trait, affects organizational performance.

The findings of our study confirm prior studies (Kim et al., 2022; Kim & Jang, 2021; Mundi & Kaur, 2019; Reyes et al., 2022; Salehi & Moghadam, 2019; Vitanova, 2021). Managerial overconfidence can enhance entrepreneurs' resilience, particularly during crises (Puerta et al., 2023). High self-confidence drives craft SME owners to believe they can achieve their goals, motivating them to improve business performance. Accordingly, managerial overconfidence encourages persistence in business development and positively influences firm performance.

The use of debt in funding decisions positively affects SME performance (H<sub>6</sub>). This finding aligns with studies by Zhang and Chen (2017), Cole and Sokolyk (2018), Ramli et al. (2019), Farooq et al. (2020), and Suroso et al. (2021). Our study highlights the significance of the funding decisions in small enterprises, particularly craft SMEs. Adequate cash availability facilitates the enterprise's activities, enabling organisations to generate and increase earnings. When craft SMEs deplete their financial resources, they seek external funding. Appropriate debt utilisation, along with prudent cash management, can enhance SME performance.

Tastura represents a cultural heritage encompassing the values, perspectives, and wisdom of Central Lombok society. However, because Tastura culture is abstract and not specifically designed for business

organizations, it does not directly enhance the performance of craft SMEs in the region (H3). The results align with those of Ifada et al. (2019), Utomo and Budiastuti (2019), and Stasa Ouzký and Machek (2024).

Utomo and Budiastuti (2019) found that the influence of culture on firm performance is mediated by firm competitiveness; meanwhile, Stasa Ouzký and Machek (2024) demonstrated that culture has an indirect effect on firm performance through social capital. According to Behavioral Decision Theory, the cultural values adopted by SME owners and managers influence funding decisions, which in turn affect performance. While Tastura values are embedded in organizational practices, their impact on company performance remains limited. Thus, appropriate strategies are required to achieve optimal results. Furthermore, cultural values are not the sole determinants of performance, as external factors such as industry competition and global market dynamics also play a significant role.

The relationship between Tastura culture and business performance is complex and requires the presence of mediating factors. Funding decisions made by SME owners are a crucial aspect of financial management that enhances firm performance. Our findings indicate that funding decisions mediate the impact of the Tastura culture on SME performance (H7). Tastura's values emphasize mentality, diligent work behavior, and dedication to maintaining harmonious stakeholder relationships, which shape funding decisions and, in turn, influence performance. Cultural values are foundational to institutional frameworks and financial decision-making in different countries.

Our research findings confirm that funding decisions can mediate the impact of managerial overconfidence on SME performance in Central Lombok (H8). The considerable direct and indirect effects of managerial overconfidence on performance indicate partial mediation. Overconfidence influences decision-making regarding the utilisation of debt as a funding source for production and investment activities, thereby affecting business performance. As a result, this study contributes to behavioural finance research in small and medium enterprises by examining how funding decisions mediate the influence of Tastura's cultural values and managerial overconfidence on enterprise performance.

Managerial overconfidence is a behavioral trait observed across cultures but expressed differently depending on societal norms, tolerance for uncertainty, and risk preferences. The behavioral variations can lead to significantly different performance outcomes across national contexts. The international relevance of this study becomes increasingly important in the context of globalization and the strengthening economic integration, where SMEs play a strategic role in economic growth and job creation in many countries.

## CONCLUSIONS

This study develops a new research instrument to examine the link between Tastura culture and managerial overconfidence, funding decisions, and SME performance. The result demonstrates a positive relationship between Tastura culture and managerial overconfidence toward the use of debt as the funding source. Funding decisions also positively affect SME performance. Tastura culture does not directly affect SME performance; instead, funding decisions fully mediate its influence, as the direct relationship is insignificant. Additionally, funding decisions partially mediate the impact of managerial overconfidence on SME performance.

This study provides empirical evidence that enriches Behavioral Decision Theory by demonstrating the mediating role of funding decisions in connecting local cultural values and managerial overconfidence to firm performance. However, this study is limited to the local cultural context of the research sample in Central Lombok. This is important because the unique cultural characteristics and economic structure in Lombok may limit the generalizability of these findings to other regions or to different national and international contexts. Therefore, future research is recommended to expand the scope of the study to other areas of Indonesia with different cultural characteristics, such as Java, Sumatra, or Papua, to test the consistency of the relationship between cultural values, funding decisions, and SME performance.

Cross-country research is also essential, particularly in developing and developed countries that exhibit significant differences in cultural values, financial institutional structures, and the maturity levels of SMEs. By comparing results across countries and sectors, future research can make important contributions to the global debate on how cultural factors influence SME competitiveness amid market pressures, technological integration, and shifts in economic policy. Furthermore, expanding this study to different industrial sectors—such as manufacturing, technology, or services—can reveal how cultural values interact with sectoral characteristics in influencing funding decisions and business performance.

The results of this study provide insights for SME owners or managers on the crucial role of cultural values in shaping managerial overconfidence and influencing financing decisions, ultimately enhancing firm performance. Additionally, this study offers valuable information for policymakers and financial institutions to establish a craft SME development strategy in Central Lombok that leverages local culture (Tastura) and designs more contextual and responsive interventions to meet entrepreneurs' needs.

## REFERENCES

- Abdeldayem, M., & Sedeek, D. (2018). Managerial Behavior and Capital Structure Decisions: Do Overconfidence, Optimism, and Risk Aversion Matter? *Asian Economic and Financial Review*, 8(7), 925–945. <https://doi.org/10.18488/journal.aefr.2018.87.925.945>
- Amoah, J., Jibril, A., Luki, B., Odei, M., & Yawson, C. (2021). Barriers of SMEs' Sustainability in Sub-Saharan Africa: A PLS-SEM Approach. *International Journal of Entrepreneurial Knowledge*, 9(1), 10–24. <https://doi.org/10.37335/ijek.v9i1.129>
- Antonczyk, R., & Salzmann, A. (2014). Overconfidence and optimism: The effect of national culture on capital structure. *Research in International Business and Finance*, 31, 132–151. <https://doi.org/10.1016/j.ribaf.2013.06.005>
- Arrieta, M., Hallsworth, A., & Coca, J. (2020). Small shop survival – The financial response to a global financial crisis. *Journal of Retailing and Consumer Services*, 53, 101984. <https://doi.org/10.1016/j.jretconser.2019.101984>.
- Bajaj, Y., Kashiramka, S., & Singh, S. (2020). Application of capital structure theories: a systematic review. *Journal of Advances in Management Research*, 18(2), 173–199. <https://doi.org/10.1108/JAMR-01-2020-0017>
- Baker, H., Kumar, S., & Singh, H. (2018). Behavioural biases among SME owners. *International Journal of Management Practice*, 11(3), 259–283. <https://doi.org/10.1504/IJMP.2018.092867>
- Becker, G., & McClintock, C. (1967). Value: Behavioral decision theory. *Annual Review of Psychology*, 18(1), 239–286.
- Bhaskar, V., & Thomas, C. (2019). The Culture of Overconfidence. *American Economic Review: Insights*, 1(1), 95–110. <https://doi.org/10.1257/aeri.20180200>
- Boubakri, N., Mirzaei, A., & Samet, A. (2017). National culture and bank performance: Evidence from the recent financial crisis. *Journal of Financial Stability*, 29, 36–56. <https://doi.org/10.1016/j.jfs.2017.02.003>
- Burkhard, B., Sirén, C., Van Essen, M., & Grichnik, D. (2018). A Meta-Analytic Approach to Understanding the Effects of CEO Overconfidence on Firm Performance. *Academy of Management Proceedings*, 12894. <https://doi.org/https://doi.org/10.5465/AMBPP.2018.91>
- Canto-Cuevas, F. J., Palacín-Sánchez, M. J., & Di Pietro, F. D. (2019). Trade credit as a sustainable resource during an SME's Life Cycle. *Sustainability (Switzerland)*, 11(3), 670. <https://doi.org/10.3390/su11030670>
- Cieslik, J., Kaciak, E., & van Stel, A. (2018). Country-level determinants and consequences of overconfidence in the ambitious entrepreneurship segment. *International Small Business Journal: Researching Entrepreneurship*, 36(5), 473–499. <https://doi.org/10.1177/0266242617748201>
- Cole, R. A., & Sokolyk, T. (2018). Debt financing, survival, and growth of start-up firms. *Journal of Corporate Finance*, 50, 609–625. <https://doi.org/10.1016/j.jcorpfin.2017.10.013>
- Culpepper, R. A., & Romero, A. (2017). The Role of Asian Overconfidence in Decision-Making. *The Journal of International Management Studies*, 12(2), 38–43.
- Esghaier, R. (2017). Capital structure choices and behavioral biases: An application to a panel of US industrial companies. *International Journal of Economics and Financial Issues*, 7(4), 608–622..

- Farooq, U., Ahmed, J., Ashfaq, K., Khan, G. ul H., & Khan, S. (2020). National culture and firm financial performance: A mediating role of firm financing decision. *Cogent Business and Management*, 7(1), 1858640. <https://doi.org/10.1080/23311975.2020.1858640>
- Gaganis, C., Pasiouras, F., & Voulgari, F. (2019). Culture, business environment and SMEs' profitability: Evidence from European Countries. *Economic Modelling*, 78, 275–292. <https://doi.org/10.1016/j.econmod.2018.09.023>
- Gudmundsson, S., & Lechner, C. (2013). Cognitive biases, organization, and entrepreneurial firm survival. *European Management Journal*, 31(3), 278–294. <https://doi.org/10.1016/j.emj.2013.01.001>
- Hackbarth, D. (2008). Managerial Traits and Capital Structure Decisions. *Journal of Financial and Quantitative Analysis*, 43(4), 843–881.
- Hair, J., Risher, J., Sarstedt, M., & Ringle, C. (2019). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. <https://doi.org/10.1108/EBR-11-2018-0203>
- Hidayati, S., Wahyulina, S., & Suryani, E. (2018). Behavioral Finance dan Pengaruhnya Terhadap Pengambilan Keputusan Hutang (Studi Pada Usaha Kecil Dan Menengah (UKM) di Pulau Lombok). *JMM Unram*, 7(1), 1–19. <https://doi.org/10.29303/jmm.v7i1.398>
- Hidayati, S., Wahyulina, S., & Suryani, E. (2021). The Effect of Financial Attitude and Financial Knowledge on Company Performance With Financial Decisions as Intervening Variables: a Behavioral Finance Perspective. *Jmm Unram - Master of Management Journal*, 10(1), 1–14. <https://doi.org/10.29303/jmm.v10i1.635>
- Ifada, L. M., Ghozali, I., & Faisal, F. (2019). Islamic organizational culture, Islamic corporate social responsibility, and corporate performance: Evidence from Sharia Bank in Indonesia. *International Journal of Financial Research*, 10(6), 118–123. <https://doi.org/10.5430/ijfr.v10n6p118>
- Ishikawa, M., & Takahashi, H. (2010). Review of Behavioural Finance Pension Plan Decisions Article information : *Review of Behavioral Finance*, 2(1), 37–58.
- Jude, F., & Adamou, N. (2018). Bank Loan Financing Decisions of Small and Medium-Sized Enterprises: The Significance of Owner/Managers' Behaviours. *International Journal of Economics and Finance*, 10(5), 231–241. <https://doi.org/10.5539/ijef.v10n5p231>.
- Kim, H., Choi, S., & Choi, W. (2022). Managerial overconfidence and firm profitability. *Asia-Pacific Journal of Accounting & Economics*, 29(1), 129–153. <https://doi.org/10.1080/16081625.2019.1673190>
- Kim, H., & Jang, S. (2021). CEO Overconfidence and Firm Performance: The Moderating Effect of Restaurant Franchising. *Cornell Hospitality Quarterly*, 62(2), 276–292. <https://doi.org/10.1177/1938965519899926>
- Kouaib, A., Bouzouitina, A., & Jarboui, A. (2022). CEO behavior and sustainability performance: the moderating role of corporate governance. *Property Management*, 40(1), 1–16. <https://doi.org/10.1108/PM-01-2021-0009>
- Lam, S., Zhang, W., & Lee, R. (2013). The Norm Theory of Capital Structure: International Evidence. *International Review of Finance*, 13(1), 111–135. <https://doi.org/10.1111/j.1468-2443.2012.01154.x>
- Malmendier, U., Pezone, V., & Zheng, H. (2023). Managerial Duties and Managerial Biases. *Management Science*, 69(6), 3174–3201. <https://doi.org/10.1287/mnsc.2022.4467>
- Marijo, M. (2019). Pribadi Orang Sasak Dalam Teater Tradisional Kemidi Rudat Lombok. *Jurnal Elementary*, 2(2), 34–38.

- Mefteh, S., & Oliver, B. (2010). Capital structure choice: the influence of confidence in France. *International Journal of Behavioural Accounting and Finance*, 1(4), 294–311. <https://doi.org/10.1504/IJBAF.2010.032844>
- Mogha, V., & Williams, B. (2021). Culture and capital structure : What else to the puzzle ? *International Review of Financial Analysis*, 73(May 2020), 101614. <https://doi.org/10.1016/j.irfa.2020.101614>.
- Moore, D., Dev, A., & Goncharova, E. (2018). Overconfidence across cultures. *Collabra: Psychology*, 4(1), 36. <https://doi.org/10.1525/collabra.153>
- Moore, D., & Schatz, D. (2017). The three faces of overconfidence. *Social and Personality Psychology Compass*, 11(8), e12331. <https://doi.org/10.1111/spc3.12331>
- Mundi, H., & Kaur, P. (2019). Impact of CEO Overconfidence on Firm Performance: An Evidence from S&P BSE 200. *Vision*, 23(3), 234–243. <https://doi.org/10.1177/0972262919850935>
- Navis, C., & Ozbek, O. (2016). The right people in the wrong places: The paradox of entrepreneurial entry and successful opportunity realization. *Academy of Management Review*, 41(1), 109–129. <https://doi.org/10.5465/amr.2013.0175>
- Nguyen, V., Nguyen, T., Nguyen, V., & DO, D. (2021). Internal Factors Affecting Firm Performance: A Case Study in Vietnam. *Journal of Asian Finance, Economics and Business*, 8(5), 303–314. <https://doi.org/10.13106/jafeb.2021.vol8.no5.0303>.
- Palmer, C., Niemand, T., Stöckmann, C., Kraus, S., & Kailer, N. (2019). The interplay of entrepreneurial orientation and psychological traits in explaining firm performance. *Journal of Business Research*, 94, 183–194. <https://doi.org/10.1016/j.jbusres.2017.10.005>
- Puerta, M., Pindado, J., & González, E. (2023). The resilience of corporate tourism: Bleisure, digitalization, and sustainability. *Mercados y negocios*, 24(48), 53-74.
- Ramli, N., Latan, H., & Solovida, G. (2019). Determinants of capital structure and firm financial performance —A PLS-SEM approach: Evidence from Malaysia and Indonesia. *Quarterly Review of Economics and Finance*, 71, 148–160. <https://doi.org/10.1016/j.qref.2018.07.001>
- Reyes, T., Vassolo, R., Kausel, E., Torres, D., & Zhang, S. (2022). Does overconfidence pay off when things go well? CEO overconfidence, firm performance, and the business cycle. *Strategic Organization*, 20(3), 510–540. <https://doi.org/10.1177/1476127020930659>
- Salehi, M., & Moghadam, S. (2019). The relationship between management characteristics and firm performance. *Competitiveness Review: An International Business Journal*, 29(4), 440–461. <https://doi.org/10.1108/CR-11-2018-0070>
- Singh, S., Pathak, R., Shee, H., Kazmi, A., & Parker, D. (2013). Interplay between entrepreneurial characteristics, organisational structure, corporate culture and SME performance: Empirical results from Fiji Islands. *International Journal of Entrepreneurship and Small Business*, 18(2), 229–246. <https://doi.org/10.1504/IJESB.2013.052076>.
- Sinha, N., & Dhall, N. (2020). Mediating effect of TQM on relationship between organisational culture and performance: evidence from Indian SMEs. *Total Quality Management and Business Excellence*, 31(15–16), 1841–1865. <https://doi.org/10.1080/14783363.2018.1511372>
- Slovic, P., Fischhoff, B., & Lichtenstein, S. (1977). Behavioral decision theory. *Annual Review of Psychology*, 28, 1–39.
- Stasa, M., & Machek, O. (2024). Family firm performance: the effects of organizational culture and organizational social capital. *Journal of Family Business Management*, 14(2), 353–373. <https://doi.org/10.1108/JFBM-06-2023-0089>.

- Statman, M. (2008). Countries and Culture in Behavioral Finance. *CFA Institute Conference Proceedings Quarterly*, September 2008, 38–44. <https://doi.org/10.2469/cp.v25.n3.6>
- Suroso, A. I., Tandra, H., & Wahyudi, I. (2021). The Impact of Sustainable Certification on Financial and Market Performance: Evidence from Indonesian Palm Oil Companies. *International Journal of Sustainable Development and Planning*, 16(8), 1495–1500. <https://doi.org/10.18280/ijstdp.160810>
- Takemura, K. (2014). *Behavioral Decision Theory: Psychological and Mathematical Descriptions of Human Choice Behavior* (Vol. 12). Springer Japan.
- Taouab, O., & Issor, Z. (2019). Firm Performance: Definition and Measurement Models. *European Scientific Journal ESJ*, 15(1), 93–106. <https://doi.org/10.19044/esj.2019.v15n1p93>
- Utomo, P., & Budiastuti, D. (2019). Practiced culture toward firm competitiveness performance: Evidence from Indonesia. *Pertanika Journal of Social Sciences and Humanities*, 27(1), 113–124.
- Vitanova, I. (2021). Nurturing overconfidence: The relationship between leader power, overconfidence, and firm performance. *The Leadership Quarterly*, 32(4), 101342. <https://doi.org/10.1016/j.leaqua.2019.101342>
- Ye, J., & Kulathunga, K. (2019). How does financial literacy promote sustainability in SMEs? A developing country perspective. *Sustainability*, 11(10), 1–21. <https://doi.org/10.3390/su11102990>
- Yogantara, K. K., Yadnyana, I. K., Sudana, I. P., & Sujana, I. K. (2025). Culture is a moderator of the interaction between financial inclusion and financial performance. *Mercados y negocios*, (56), 3–28. <https://doi.org/10.32870/myn.vi56.7880>
- Zhang, K., & Chen, H. (2017). Environmental Performance and Financing Decisions Impact on Sustainable Financial Development of Chinese Environmental Protection Enterprises. *Sustainability*, 9, 2260. <https://doi.org/10.3390/su9122260>
- Zhou, J., Deng, L., & Gibson, P. (2022). SMEs' changing perspective on international trade credit risk management in China: a cultural values evolution approach. *Asia Pacific Business Review*, 28(3), 333–353. <https://doi.org/10.1080/13602381.2020.1853936>

## Información adicional

*redalyc-journal-id*: 5718



**Disponible en:**

<https://www.redalyc.org/articulo.oa?id=571883227008>

Cómo citar el artículo

Número completo

Más información del artículo

Página de la revista en redalyc.org

Sistema de Información Científica Redalyc  
Red de revistas científicas de Acceso Abierto diamante  
Infraestructura abierta no comercial propiedad de la  
academia

Gusti Ayu Sri Oktaryani, Ni Luh Putu Wiagustini,  
Luh Gede Sri Artini, Ica Rika Candraningrat  
**Local Cultural Values, Managerial Overconfidence, and  
SME Performance: The Mediating Role of Debt Financing**  
*Valores culturales locales, exceso de confianza gerencial y  
desempeño de las PYME: el papel mediador del  
financiamiento de deuda*

*Mercados y Negocios*  
vol. 27, núm. 57, p. 29 - 48, 2026  
Universidad de Guadalajara, México  
[revistamercadosynegocios@ucea.udg.mx](mailto:revistamercadosynegocios@ucea.udg.mx)

**ISSN:** 1665-7039

**ISSN-E:** 2594-0163

**DOI:** <https://doi.org/10.32870/myn.vi57.7918>



**CC BY-NC 4.0 LEGAL CODE**

**Licencia Creative Commons Atribución-NoComercial 4.0  
Internacional.**