

CHAPTER I

INTRODUCTION

A. Research Background

The number of micro, small, and medium enterprises (MSMEs) in Indonesia has proliferated in recent years. The existence of MSMEs has a significant impact on driving economic growth and creating jobs for local communities. According to the Ministry of Finance website, the number of MSMEs currently stands at 64.2 million, with a contribution to GDP of 61.07 percent or IDR 8,573.89 trillion. MSMEs are also capable of employing more than 117 million individuals, which is equivalent to 97 percent of the total workforce today. The large number of MSMEs is essential in strengthening the small and medium enterprise sector and supporting overall economic development.

According to Tandelilin (2010), investment is a commitment to several funds or other resources made at this time to obtain several benefits in the future. Since it relates to future interests, it requires consideration before investing. In Islam, investment is seen to increase the value of assets and create wealth, but it must comply with established rules. Investment is also discussed in Surah Yusuf verses 47-49, where Allah SWT says:

قَالَ تَزْرَعُونَ سَبْعَ سِنِينَ دَأْبًا فَمَا حَصَدْتُمْ فَذَرُوهُ فِي سُنْبُلَةٍ إِلَّا قَلِيلًا مِمَّا تَأْكُلُونَ ٤٧

ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ سَبْعَ شِدَادٍ يَأْكُلْنَ مَا قَدَّمْتُمْ لَهُنَّ إِلَّا قَلِيلًا مِمَّا تَحْصِنُونَ ٤٨ ثُمَّ يَأْتِي مِنْ
بَعْدِ ذَلِكَ عَامٌ فِيهِ يُغَاثُ النَّاسُ وَفِيهِ يَعْصِرُونَ ٤٩

Meaning:

“He (Yusuf) said, "That you should cultivate seven years (consecutively) as usual; then what you reap, you should leave on the stalk except a little for you to eat. 48. Then, after that, there will come seven (years) of great hardship, which will consume what you have stored up for them (hard years), except for a little of what you have stored up. 49. After that, there will come a year in which it will rain (sufficiently), and in that time, they will press (grapes).”

Source: <https://tafsiralquran.id/>

In Surah Yusuf, verses 47-49, it is explained that Prophet Yusuf (peace be upon him) invested for seven years to face the upcoming famine for seven years. As ordinary humans, we must do something to make our future better as exemplified by the Prophet Yusuf, which is preparing the best possible provisions to protect ourselves from unwanted things. Another piece of advice from Surah Yusuf above is that there are productive and unproductive times in life. We generate income and expenses during fertile times. Thus, according to the story of Prophet Yusuf, we should start saving and investing a portion of our income.

Generally, there are two crucial points that a person considers before making an investment decision, namely the level of profit and risk (Faidah et

al., 2020). These two things cannot be analyzed initially or only rely on luck. Before deciding to invest, investors must know whether the level of profit that will be obtained is high or not. However, the higher the profit level will be obtained, the higher the risk will be accepted.

According to Ainunnisa (2022), investment based on the level of risk is divided into several types ranging from low-risk investments such as gold, mutual funds, and deposits, to high-risk investments such as stocks and bonds. The above types of investments can also be made by MSMEs to allocate their funds so that the circulation of capital does not only stop production. MSMEs have the option to allocate their investments in assets such as gold, mutual funds, and deposits. They can also invest their funds in equipment, machinery, or other assets that can improve their production or business processes. However, before determining the type of investment to be made, planning should be done first. Investment planning is the main aspect in managing finances because choosing the right investment will be able to provide a sustainable source of income for a company or individual (Ainunnisa, 2022). With investment planning, investment decisions made will be more mature and more rational.

When making decisions, an investor should be as rational as possible so that the investment made is not categorized as gharar. Rational means thinking logically with a healthy mind and can be proven by existing data or facts. However, many MSMEs need help in making effective investment decisions.

In making investment decisions, there are several factors which can influence, and one of which is risk. Risk is an important factor that determines investors' decisions to invest (Ainunnisa, 2022).

In making investment decisions, some factors can influence it, and one of the factors is risk perception. Risk perception is a view held by an investor to see all the risks that might be accepted when deciding to invest (Mahwan & Herawati, 2021). Investor perception is very influential in decision-making related to the investor's perspective. This is discussed in research of Mahwan and Herawati (2021) which stated that risk perception has a significant positive effect on investment decisions. In their study, they also explained that knowing the perception or perspective of the possibilities that will occur will also affect the decisions that will be made. However, it is different from Ainia and Lutfi (2018), who argue that the perception of risk significantly and negatively influences the decision to invest. This implies that an individual's likelihood of investing in high-risk assets decreases with their perceived level of risk.

Risk tolerance can significantly influence investment decisions and business strategies in Micro, Small, and Medium Enterprises (MSMEs). Business owners with high-risk tolerance tend to be more open to possible risks associated with their investment or strategy decisions. Business owners with high-risk tolerance may be more willing to take risky steps, such as making significant investments, adopting innovations, or entering new, untested markets. Business owners with low-risk tolerance may tend to choose more

conservative and cautious strategies in risk management, focusing on long-term stability and sustainability. This is consistent with the findings of a study by Lestari & Istanti (2023), which show that people with higher risk tolerance tend to make bolder or higher decisions, while people with lower risk tolerance have different attitudes and are less likely to dare to make high-risk decisions. As such, investment decisions in line with risk tolerance levels can help create the right balance between ambitions for growth and protection against potentially significant losses. However, in contrast to the research results of Yulianis & Sulistyowati (2021), Risk tolerance does not have significant influence on investment decisions. This is because many people prefer to open a business rather than invest due to rampant cases of fraudulent investments.

Financial literacy is one of the key characteristics that MSME business owners need to possess when making investment decisions. The ability of a person or business owner to comprehend and grasp basic economic ideas is known as financial literacy. This includes understanding topics such as money management, investment, financial statements, and knowledge of financial instruments. In the context of Micro, Small, and Medium Enterprises (MSMEs), the financial literacy level can significantly impact business owners' ability to make informed investment decisions. Research results prove that financial literacy has a significant effect on investment decisions (Fadila et al., 2022). Therefore, good financial literacy can also help interact with external financial parties, such as banks or investors. Lestari & Istanti (2023) found in their research

that a high level of financial literacy dominated respondents but did not influence the investment decisions made. The research has different results because the subjects used are young bank customers who do not think about having financial knowledge to make investment decisions.

The next factor that can influence investment decisions is loss aversion. Loss aversion is a psychological phenomenon in which individuals tend to be more sensitive to losses than equivalent gains. Kumar and Babu's research (2021) stated that loss aversion bias did have a significant impact on investors who participated in the stock market. In this case, when someone is faced with a choice between taking risks to gain profits or avoiding losses, they prefer to avoid these losses, even if the potential gains are more significant. In contrast to the previously stated results, Aini & Lutfi (2019) stated that decision-making about investments is negatively impacted by loss aversion in a non-significant way. This implies that a person's level of loss aversion, both high and low, cannot sway an individual's decision to allocate money to high-risk vs low-risk investments.

Based on the explanation above, a study entitled "The Effect of Risk Perception, Risk Tolerance, Financial Literacy, and Loss Aversion on MSME Investment Decisions in Yogyakarta and Palembang (An Empirical Study in Yogyakarta and Palembang)" is conducted. This is a replication of the research by Lestari & Istanti (2023) and Ainia & Lutfi (2019), which discusses the factors that influence investment decisions in workers and bank customers.

However, this research focuses on the investment decisions of MSMEs in Yogyakarta and Palembang. This is because the two cities are included in the two provinces that have the largest number of MSMEs. Reported on the antaranews.com website, the number of MSMEs in DIY in 2023 reached around 341,000 and the number of MSMEs in South Sumatra was around 330,000.

The research highlights several important issues faced by MSMEs, namely a lack of understanding in managing funds, low levels of financial literacy, and a lack of understanding about investment. In addition, the report presented on finance.detik.com by Youtap Indonesia's CEO, Herman Ersu Suharto, describes the results of surveys and field observations that show that most MSMEs focus only on rotating their capital without paying attention to effective fund allocation strategies for business development. The impact of this mindset is the inability to optimally allocate financial resources, which can hinder growth and innovation in MSME businesses. While capital may be readily available, shortcomings in fund management can be a serious obstacle. Hence, sustained efforts are needed to improve financial literacy and understanding among MSMEs and provide more in-depth education on the importance of proper investment. In this way, it is hoped that MSMEs can manage funds more wisely and utilize them more productively to support sustainable and successful business growth in the long run.

By identifying the factors that shape MSME investment decisions, appropriate support mechanisms can be developed to assist MSMEs in

effectively managing risks and making informed investment choices, promoting their growth and contributing to overall economic development.

B. Research Problem

Based on this background, this research has the following problem formulations:

1. Does risk perception have a positive effect on MSME investment decisions in Yogyakarta and Palembang?
2. Does risk tolerance have a positive effect on the investment decisions of MSMEs in Yogyakarta and Palembang?
3. Does financial literacy have a positive effect on the investment decisions of MSMEs in Yogyakarta and Palembang?
4. Does loss aversion have a positive effect on the investment decisions of MSMEs in Yogyakarta and Palembang?

C. Research Objectives

The objectives of this study are to examine and find empirical evidence whether:

1. Risk perception has a positive effect on investment decisions of MSMEs in Yogyakarta and Palembang.
2. Risk tolerance has a positive effect on investment decisions of MSMEs in Yogyakarta and Palembang.
3. Financial literacy has a positive effect on investment decisions of MSMEs in Yogyakarta and Palembang.

4. Loss Aversion has a positive effect on investment decisions of MSMEs in Yogyakarta and Palembang.

D. Research Benefits

1. Theoretical Benefits

This study is expected to help understand how risk perception, risk tolerance, financial literacy, and loss aversion affect investment decisions in small and medium-sized enterprises (MSMEs). This is important as it can help business owners make better and wiser decisions.

2. Practical Benefits

- a. MSMEs: By understanding the factors that influence investment decisions, MSMEs can make better decisions that ultimately improve their performance.
- b. Government: The research results are expected to assist the government in designing more effective economic policies for the MSME sector. By understanding the factors that influence MSME investment decisions, the government can take measures that support the growth and stability of this sector.
- c. Society: By understanding the factors that influence investment decisions, people can improve their understanding of the risks and benefits of investing. Better financial literacy will help individuals make smarter decisions regarding investments and managing their finances.

- d. Academician: This research can contribute to the academic literature on investment decisions.