

Managerial Myopia Control to Improve Financial Performance in Micro-finance Institutions

A. Khoirul Anam^{a,*}, Ibnu Khajar^b and Mutamimah^c

^aFaculty of Economics, Universitas Islam Sultan Agung, Semarang, Indonesia, and Faculty of Economics and Business, Universitas Islam Nahdlatul Ulama, Jepara, Indonesia.

^{b,c}Faculty of Economics, Universitas Islam Sultan Agung, Semarang, Indonesia.

^a<https://orcid.org/0000-0002-4159-7523>.

^b<https://orcid.org/0000-0001-8112-9129>.

^c<https://orcid.org/0000-0002-4139-1955>.

Abstract: Management makes many strategic decisions that have an impact on the performance of the company. Decision-making carried out by management allows for decision-making bias. Our research seeks to gain a further understanding of the managerial phenomenon of myopia, where previous empirical research has been very limited and conceptual. This study aims to analyze the influence of managerial myopia on financial performance in microfinance institutions. This decision-making bias is a concern because of the impact it causes and is often not realized by many managers. Methodology This research uses explanatory research that emphasizes the relationship between research variables through hypothesis testing. Research variables include temporal myopia, spatial myopia, failure myopia, and financial performance. Data collection was carried out using structured questionnaires, and analysis was performed using PLS-SEM with SMART-PLS software. The results showed that managerial myopia (temporal, spatial, and failure) negatively affects financial performance. These results indicate that the biased practices of management may affect the company's financial performance. This study contributes to the financial literature on managerial myopia by analyzing the influence of managerial myopia on financial performance, thereby increasing understanding of the phenomenon of managerial myopia in microfinance institutions, where previous research was still limited. Managers can easily use the indicators we developed to assess managerial myopia as metrics for each type of myopia. These empirical results serve as an impetus for myopic managers to redirect their behavior and help convince sustainability-oriented managers to stay on track.

Keywords: Failure myopia, spatial myopia, sustainability, temporal myopia, value destruction.

JEL Classification: G40, G41.

1. INTRODUCTION

One of the problems management faces is decision-making for change with the current strategy, between pursuing current profitability (short-term goals) or focusing on long-term changes (Schuster, Nicolai, and Covin 2020). Short-term and long-term performance trade-offs impact myopic behavior in management decision-making (Tunyi, Ntim, and Danbolt 2019).

Myopic behavior in management decision-making is called managerial myopia. This decision-making bias, is a concern because of the impact it causes and is often not realized by many managers. Managerial myopia is described as maximizing short-term revenue rather than long-term performance (Laverty 1996; Levinthal and March 1993), lack of management foresight of strategic opportunities (Miller 2002),

difficulties in being oriented toward the future (Marginson and McAulay 2008), abandonment of long-term planning (Ridge, Kern, and White 2014), lack of investment in long-term value creation activities (Hamza 2022; Lee and Nawata 2020; Madyan, Kurniawan, and Firdausi 2019). This management bias leads to the destruction of the value of the enterprise (Mahajan 2019).

The destruction of value can be seen as the opposite of value creation. The destruction of value occurs because the company attaches importance to achieving short-term performance at the expense of some of the company's value (Pogach 2018). The destruction of values is also often associated with opportunistic decision-making (Schuster et al. 2020). Nevertheless, insights into value destruction are less developed than value creation.

The issue of managerial myopia is not a new thing. However, until now, managers increasingly realize that nothing can be ascertained in running a business turnaround wheel in an increasingly competitive environment. This uncertainty makes market and industry conditions difficult to understand, predict, and overcome. In response to this condition,

*Address correspondence to this author at the Faculty of Economics, Universitas Islam Sultan Agung, Semarang, Indonesia, and Faculty of Economics and Business, Universitas Islam Nahdlatul Ulama, Jepara, Indonesia; Tel: +6285290708266; E-mail: anam@unisnu.ac.id

many companies decide to be silent and not make changes to the uncertainty that occurs, only focusing on pursuing the short-term profitability of the business being run (Haessler 2020).

Levinthal and March (1993) divide three types of myopia, namely temporal myopia, spatial myopia, and failure myopia, all of which can affect executive perceptions of the competitive environment and cause varying impacts under different industrial conditions. All three types of myopia can affect executives' perception in a competitive environment and cause various effects under additional industrial requirements. Ridge et al. (2014) that each type of managerial myopia has a distinct influence on the company's performance. The study of Levinthal and March (1993), Miller (2002), and empirical studies of Capron and Pistre (2002) show the influence between managerial myopia and organizational performance. Different results from Kern (2006) where spatial myopia does not affect value destruction (net income, ROA), negative influence on the tenure of top management teams-TMT. Temporal myopia does not affect value destruction (sales, net income & ROA).

Concerning the concept of finance, financial myopia is the inability to understand or anticipate the consequences resulting from short-term financial decisions (Trent 2020). Financial decision-making oriented toward short-term goals can be seen in investment decisions where financial allocations are used to solve current problems rather than investing in future opportunities (Chen, Lin, and Yang 2015; Hamza 2022; Lee and Nawata 2020; Madyan et al. 2019).

Excessive preference for short-term investments impacts the company's ability to allocate resources for knowledge acquisition in the long term (Tunyi et al. 2019). Eventually, the company loses the ability to maintain competitiveness in a dynamic environment (Liem and Hien 2020; Schilke 2014).

Managerial myopia also results from short-term financial control (Matthias F Brauer 2013; Ji 2019). Short-term financial control encourages management to prefer risky investments with a high rate of return. The relationship between management myopia and organizational performance in previous studies has been limited to several conceptual studies (Levinthal and March 1993; Miller 2002) and empirical studies by Capron and Pistre (2002) which discuss some of the myopia. Although previous myopia studies relied on secondary data (on R&D measures and stock prices), the results were still conceptually and in terms of measuring/constructing their validity. Therefore, it is necessary to define the limits of myopia theory, whether the tendency to underestimate future orientation is a characteristic of organizations in general or only in companies in a particular country or industry. So it becomes a fundamental research question that needs to be answered, and further research needs to be done (Laverty 2004).

The existence of debates related to the causes of managerial myopia and the pressure of the capital market is often cited as the cause (Jacobs 1991). However, based on research (Laverty 2004) underestimating the long-term orientation arises from the managers themselves, not from the pressure of the stock market. In addition, concerns about increased temporal myopia by shareholders and company management

caused by the business community for some time, but empirical evidence assessing the causes and consequences of this behavior change is still limited (Erasmus 2015).

There is a debate about whether the proxies used to assess organizational behavior are oriented short or long-term (myopia), so it requires further development and research (Brauer 2013). In finance, attention is still limited to short-term sources of orientation, which focus only on market reactions (investors, analysts) and stock market reactions in response to investment and R&D decisions, implying the presence of managerial myopia in financial decision-making (Brauer 2013). Spatial myopia does not affect net income and ROA, and temporal myopia does not affect Value Net Income & ROA (Kern 2006).

This study aims to explore the influence of managerial myopia on financial performance and further identify the phenomenon of managerial myopia through empirical studies. First, this study contributes to the financial literature on managerial myopia by analyzing the influence of managerial myopia on financial performance in Microfinance Institutions, thereby increasing understanding of the phenomenon of managerial myopia in Microfinance Institutions where previous research was still limited. Second, it discusses aspects of cognitive bias that are widely discussed but little tested. Thus we provide insight into the limitations of management awareness (temporal, spatial, and failure) affecting the company's financial performance. Finally, we provide explanatory evidence of causal factors for each managerial type of myopia.

2. LITERATURE REVIEW

2.1. Managerial Myopia

Managerial myopia influences decision-making by limiting management's awareness and consideration of various strategic decision alternatives. These restrictions can drive greater exploitation levels than exploration, risk-taking variations, and misjudgments in strategic decision-making. As per Levinthal and March (1993), the general definition of myopia is a lack of a forward view or a narrow view of a thing. Managerial myopia as a behavior achieves high corporate value by emphasizing short-term income and ignoring long-term value (Lee and Nawata 2020). Managerial myopia describes management's behavior of reducing long-term investments to meet short-term earnings targets at the expense of long-term growth (Ji 2019).

Levinthal and March (1993) divided myopia into three types, namely: (a) temporal myopia, (b) spatial myopia, and (c) failure myopia. These three forms of managerial bias affect management's perception of a competitive environment. Temporal myopia is an organizational focus on short-term opportunities and a tendency to sacrifice long-term opportunities. The causes of temporal myopia are poorly understood, despite the managerial trend of myopia that receives a lot of attention (Opper and Burt 2021; Ridge et al. 2014). Spatial myopia is an organizational focus on relatively limited opportunities and a tendency to sacrifice wider opportunities (Levinthal and March 1993; Ridge et al. 2014). Finally, failure myopia is an exaggerated obsession with success that tends to overlook failure (Levinthal and March 1993).

2.2. Temporal Myopia

When oriented to short-term results causes temporal myopia. Companies experiencing temporal myopia are not oriented toward the future, instead prioritizing exploitation over exploration (Levinthal and March 1993; March 1991). Myopia results from organizational learning mechanisms and situations in which myopia becomes a limiting problem for organizations (Maciel, Sato, and Kato 2012). However, temporal myopia can hinder organizational change in such corporate policies more oriented toward performance results that tend to be easy and fast. Temporal myopia focuses on short-term decisions, considering financial and accounting allocations to solve current problems rather than investments in future opportunities.

Sato (2015) conducted temporal studies of myopia as a cause of failure in organizational changes. The results show that change occurs in organizations with a long-term and process-oriented perspective. On the contrary, focusing on short-term effects causes temporal myopia and fails to implement organizational changes.

Temporal myopia focuses on short-term decisions and considers financial and accounting allocations to solve current problems rather than investing in future opportunities (Antia, Pantzalis, and Park 2021; Ridge et al. 2014). In companies whose management displays temporal myopia, decisions are made to influence short-term performance and ignore the investment of resources that can create value in the long run. Control that demonstrates temporal myopia will be more concerned with current strategic alternatives and focus less on potential long-term possibilities. Thus, temporal myopia overrides consideration of long-term opportunities that are inherently more at risk (Ridge et al. 2014).

Oad Rajput, Marwat, and Wongchoti (2019) compare the prevention of myopic and non-myopic companies in terms of financial strength. Myopic companies differ from non-myopic companies in the level of leverage, cash ownership, sales growth, earned-to-capital ratio, dividend, age, and company size. Higher earnings accumulated (earned to capital ratio) but decreased sales growth and lower financial flexibility (higher leverage or lower cash holdings) led to unexpected cuts in R&D investments. Furthermore, larger and more mature companies tend to become myopic companies. Then volatile cash flows negatively affect economic stability (Larionov 2021).

In companies whose management displays temporal myopia, decisions are made to affect performance in the short term, ignoring the investment of resources that can create value in the long run.

Myopic management theory describes cuts to discretionary costs, such as R&D and marketing costs, and debates the decline in company value over the coming years (Chakravarty and Grewal 2011). Myopic companies face a decline in sales growth and are less financially flexible (that is, low cash holdings and higher leverage). Therefore the company cannot take advantage of future investment opportunities and forget about many valuable projects. Furthermore, unexpected cuts in R&D and marketing may indicate a positive shift in financial flexibility. The positive change in financial flexibility attracts stock premiums and provides an

incentive for overpricing, resulting in falling prices in the following years (Oad Rajput et al. 2019). Conversely, the increase in the return on the stock of non-sighted companies is most likely due to higher financial flexibility, as non-sighted companies have low leverage and high cash holdings.

Therefore the hypothesis proposed in this study is as follows:

H1: Temporal myopia negatively affects financial performance.

2.3. Spatial Myopia

Spatial myopia is a lack of awareness of technologies, business processes, and other operations inside and outside the organization (Miller 2002). Instead, learn technology and routines (Levinthal and March 1993). Spatial Myopia limits a set of alternative decisions in implementing the work program. Spatial myopia consistently focuses on dominant technologies, core competencies, and the exploitation and development of existing enterprise capabilities (Ridge et al. 2014).

Spatial myopia encourages managers and companies to focus on the current market and innovation and be consistent with the company's long-term investments. Extending from this conceptualization and other work focused on spatial myopia (Miller 2002), we define spatial myopia as a lack of awareness or rejection of technological utilities, processes, routines, and markets that are unimportant to the company. Cognitive limitations and boundaries create a lack of understanding of spatial myopia within and between organizations. It limits the set of alternatives considered for implementation and supports the technologies and routines known or unknown to the executive (Miller 2002).

Competency traps occur because previous innovative successes reinforce established routines even as technological boundaries shift to new areas (Sorensen and Stuart 2000). As the experience of companies develops, so do their competencies, becoming less able to assimilate and exploit further information.

On the other hand, Myers and Marquis (1969) found that small companies that made fewer changes in their products in a row, in terms of technology and market, performed better than companies that emphasized diversity more, thus advocating for a focus strategy. Zirger and Maidique (1990) also argues that the company should choose a development project that uses existing organizational, marketing, and technological competencies.

Therefore the hypotheses proposed in this study are:

H2: Spatial myopia negatively affects financial performance.

2.4. Failure Myopia

Managerial studies of failure myopia are based on the Behavioral Theory of The Firm (Cyert and March 1963; Hayward and Hambrick 1997; Levitt and March 1988). According to Upper Echelon Theory, a company's strategy and results are influenced by the views and wisdom of its top managers (Hayward and Hambrick 1997; Tang, Li, and Yang 2015), which are the result of past experiences, cognitions, values, and other factors (Tang et al. 2015). According to

Myopia learning, it is seen as a form of managerial bias towards the tendency to ignore failures. As a result, the lessons gained from success are privileged by organizational learning. As a result, the risks of failure are likely to be underestimated. Thus one observation was obtained that top managers tend to judge themselves too positively, a cognitive bias known as 'failure myopia' (Hiller and Hambrick 2005; Kim, Xiong, and Kim 2018; McManus 2018).

Failure myopia in the research of financial behavior was conceived in terms of the hypothesis of snobbery in the 1980s (Roll 1986), later framed as 'the hubris hypothesis' (Owen and Davidson 2009; Picone, Dagnino, and Minà 2014), then developed into 'hubristic leadership' (Akstinaite, Robinson, and Sadler-Smith 2020; Sadler-Smith et al. 2017). Failure myopia is defined as excessive self-confidence that results in overconfident and ambitious judgments and decisions by ignoring the suggestions and criticisms of others, which invites negative consequences (Owen and Davidson 2009; Picone et al. 2014; Sadler-Smith et al. 2017). Previous research has linked snobbery leadership to various negative results (Akstinaite et al. 2020).

Failure myopia attracts management and business research but is less defined in the literature (Berger et al. 2020). The management and financial literature also do not give a satisfactory scope to understand when and how preventive measures can be taken (Petit and Bollaert 2012). Research in management and finance has used the concept of snobbery to show the negative consequences of excessive self-confidence in the CEO (Chatterjee and Hambrick 2007; Hayward, Shepherd, and Griffin 2006; Hiller and Hambrick 2005; Malmendier and Taylor 2015). It has been demonstrated that arrogant CEOs are more likely to destroy the value of their company (Bertrand and Mullainathan 2001; Billett and Qian 2008).

Conceptually, snobbery is distinguished from self-esteem, core self-evaluation, or narcissism (Chatterjee and Hambrick 2007; Hiller and Hambrick 2005). Self-esteem refers to self-acceptance, liking, or self-esteem (Baumeister, Smart, and Boden 1996). Although self-esteem is in line with snobbery regarding self-admiration, self-esteem lacks the core features of pride or a sense of entitlement (Chatterjee and Hambrick 2007). Core self-evaluation contains the construction of self-esteem itself, and core self-evaluation seems to be similar to snobbery. However, core self-evaluation only involves snobbery features when self-evaluation reaches a 'hyper' level (Hiller and Hambrick 2005). Finally, narcissism differs from snobbery in that while snobbery is a psychological state caused by some combination of stimuli that awaken one's beliefs and cognitive tendencies, narcissism can be positioned better as a strong dispositional trait (Raskin and Terry 1988).

We argue that snobbery hinders the strategic outlook of the future because hubristic managers tend to see and process information with bias. Hubristic managers tend to over-view the success of the company in the context of themselves (Hiller and Hambrick 2005), have a strong sense of self-sufficiency (Hayward and Hambrick 1997), and are too confident (Hiller and Hambrick 2005). As a result, hubristic managers pay less attention to the present and future environment and are less aware of the informational cues that

appear (Mahnke, Venzin, and Zahra 2007; Malmendier, Tate, and Yan 2011). In addition, arrogant managers overestimate their organizations' resources and scan the environment less intensively for the information necessary for strategic initiatives (Tang et al. 2015). Thus, they may not pay close attention to the current climate because they consider their organizations competent, resourceful, and powerful (Tang et al. 2015). As a result, hubristic managers tend to identify and encode information cues for future trends of the present, uncertain and dynamic environment in which information quickly becomes obsolete (Li and Sullivan 2022).

On the other hand, although hubristic managers can predict future environmental conditions, they can overestimate or underestimate the validity of predictions over existing conditions, reducing the effectiveness of information absorption for future strategic views. That is, they may fail to process such information in a thoughtful and future-oriented manner, and their estimates of the relationship between current information cues and future scenarios of events can be very biased (Li and Sullivan 2022). Hubristic managers tend to be independent and less cautious. They tend to put too much weight on information that confirms their previous beliefs (Hilary and Hsu 2011), a condition called 'confirmation bias' (Galasso and Simcoe 2011). So it can limit the breadth of their views and prevent them from accepting the opinions of others, especially criticism. Consequently, they tend to be more stubborn and overemphasize their thinking (Hilary and Hsu 2011).

Based on the results of previous studies, evidence was obtained that excluding diverse information can result in decision bias, leading to the ineffectiveness of decisions (Simon and Houghton 2003). On the other hand, because arrogant managers tend to overemphasize their past achievements (Picone et al. 2014), their information may be outdated and less useful for predicting scenarios that have not yet been revealed.

Two views compete about failure myopia: the heroic versus the pessimistic view. The heroic theory holds that a dominant and powerful CEO can be a 'hero or savior' (Tang, Crossan, and Rowe 2011), as they can help the top management team promptly complete the complicated decision-making process. In addition, an efficient mode (Kisfalvi and Pitcher 2003) often suggests deviant strategies that can result in superior performance (Tang et al. 2011).

On the other hand, pessimistic views argue that overbearing CEOs are generally dangerous because of their extreme level of trust and confidence. Hiller and Hambrick (2005) conceptualize the idea of executive snobbery, arguing that overconfident CEOs use large amounts of cash available to invest in many projects they should not invest in. Such CEOs tend to overestimate their abilities to generate success. Li and Tang (2010) argue that overbearing CEOs tend to make risky decisions because they overestimate their problem-solving capabilities or underestimate the resources and uncertainties needed. Hiller and Hambrick (2005) proposes that autocratic CEOs tend to make narrow, reckless, and selfish decisions. Therefore the hypotheses proposed in this study are:

H3: Failure myopia negatively affects financial performance.

Table 1. Measurement Model Summary 1.

Latent Variable	Indicator	Convergent Validity	
		Loading	Indicator Reliability & AVE
Temporal Myopia	Orientation to short-term financial results	0,856	Indicator reliability = 0,991 AVE = 0,691
	Orientation to the quality of short-term financial planning	0,739	
	Orientation to short-term development programs	0,892	
Spatial Myopia	Orientation to current core competencies	0,964	Indicator reliability = 0,953 AVE = 0,783
	Orientation to the current business model	0,940	
Failure myopia	Decision making & carrying out activities that are quite risky	0,732	Indicator reliability = 0,914 AVE = 0,974
	Involvement in difficult activities & decision making	0,987	
	Be confident by not considering the capacity of the organization	0,987	
Financial Performance	ROA Growth	0,960	Indicator reliability = 0,870 AVE = 0,777
	Profit margin growth	0,937	
	Total revenue growth	0,700	
	Growth of disbursed financing	0,720	
	Growth of total assets	0,957	
	Operating income growth	0,967	

Source: Raw data processed, 2022.

3. MATERIALS AND METHODS

The research was conducted at a Microfinance Institution (MFI) in Jepara Regency, Central Java Province-Indonesia. The selected employees are Managers, Finance Departments, Account Officers, Marketing, and Tellers at MFIs who are members of the Artha Group cooperative association. Artha Group is a cooperative association and a secondary cooperative consisting of 13 primary cooperatives.

This study, among other things, confirms the managerial concept of myopia, which in previous studies was still very limited. Data analysis was carried out using PLS-SEM with SMART-PLS software. This SMART-PLS was chosen for its advantages compared to covariant-based modeling and for producing strong results for small sample sizes (Abdillah and Jogiyanto 2015). The statistical analysis results confirm that the measurement model is reliable and valid (Table 1). The concurrent validity test has a loading factor of more than 0.7, the Average Variance Extracted (AVE), and Communalities of more than 0.5, while for the Discriminant Validity Test where the AVE Root > Latent Variable Correlation and Cross Loading more than 0.7 in one variable. Based on the results of the statistical analysis of the measurement model, it is concluded that the indicators correspond to the established constructs.

Data collection was carried out using structured questionnaires. In addition, the research uses explanatory research that emphasizes the relationship between research variables through hypothesis testing, which in its description contains a description. Still, it focuses on the relationship between

variables (Widodo 2014). The variables in question include temporal myopia, spatial myopia, failure myopia, and financial performance.

Temporal myopia was measured using three indicators developed based on the study's results Ridge et al. (2014) and Levinthal and March (1993). Includes orientation to short-term financial results, quality of short-term financial planning, and short-term development programs. Spatial myopia was measured using three indicators developed based on studies by Ridge, Kern, and White (2014), Miller (2002), and Levinthal and March (1993). Includes orientation to current core competencies; Orientation to the current business model. Meanwhile, failure myopia is measured using three indicators developed based on studies by Levinthal and March (1993). Includes decision-making & carrying out activities that are quite risky; Involvement in strenuous activities & decision-making; Being confident by not considering the organization's capacity. Finally, the measurement of financial performance is developed based on the results of studies by Calderon, Seo, and Kim (2011). It includes ROA growth, profit margin growth, total revenue growth, disbursed financing, total assets growth, and operating income growth.

4. RESULTS AND DISCUSSION

Of the 80 questionnaires distributed, a total of 70 were returned, so the response rate is 87%. After assessing the completeness of the data, a total of 70 questionnaires were declared eligible for testing. The demographics of respondents can be seen in the following table 2:

Table 2. Demographics of Respondents.

Demography	Criteria	Sum	Percentage
Gender	Man	26	37%
	Woman	44	63%
Age	17-27	33	47%
	28-38	27	39%
	39-49	10	14%
	39-49	0	0%
	>60	0	0%
Education	High school	13	19%
	Bachelor Degree	54	77%
	Postgraduate	3	4%
Working period	1-5	3	4%
	6-10	24	34%
	11-15	3	4%
	>15	0	0%
Position	Manager	18	26%
	Finance	7	10%
	Account Officer	5	7%
	Marketing	23	33%
	Teller	17	24%

Source: Raw data processed, 2022.

The convergent validity of the measurement model is assessed based on the loading factor that measures the construct. This study had three constructs with several indicators of three indicators each. It used a scale of 1 to 5 (strongly disagree, disagree, simply agree, agree, strongly agree), with loading score parameters in the outer loading research model >0.7, AVE score >0.5, and reliability >0.5. All constructs, namely, temporal myopia, spatial myopia, failure myopia, and financial performance, have loading factors >0.7, AVE >0.5, and reliability >0.5. On the basis of the convergent validity of the measurement model, it is concluded that the indicators correspond to the established construct.

Table 3. Path Coefficient.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Value
Temporal myopia -> Financial performance	-0,260	-0,266	0,101	2,580	0,010
Spatial myopia -> Financial performance	-0,385	-0,384	0,090	4,276	0,000

Failure myopia -> Financial performance	-0,260	-0,237	0,093	2,606	0,009
---	--------	--------	-------	-------	-------

Source: Raw data processed, 2022

Temporal myopia significantly affects financial performance (coefficient = -0.260, p = 0.010) and shows T Statistics 2.580, so that, based on the results of statistical testing, supports hypothesis 1. Spatial myopia significantly affects financial performance (coefficient = -0.385, p = 0.000), and T Statistics shows a value of 4.276, so based on the results of statistical testing, support hypothesis 2. Finally, failure myopia significantly affects financial performance (coefficient = -0.260, p = 0.009) and shows t Statistics of 2.606, so based on the results of statistical testing supports hypothesis 3. In comparison, the R Square value shows a moderate value of 0.413.

Explanatory research-based research was conducted on MFIs related to managerial myopia. However, studies about managerial myopia in MFIs are still rarely undertaken. The unique characteristics of MFIs, as in the form of their institutions, usually have a simple structure, serving the community, especially in the micro, small and medium enterprises, community, and productive business sectors where banks do not operate.

Managerial myopia refers to the bias of decision-making towards various alternative decision-making. This organizational bias can drive a greater level of exploitation compared to exploration, create variations in risk-making and lead to errors in the strategic decision-making process.

The results showed that the three types of myopia negatively affect financial performance in the MFI that is used as the object of study. Spatial myopia makes the organization adapt its business strategy to the tendencies of other financial institutions where it competes. Myopic managers tend to limit themselves in program exploration and follow similar procedures to other financial institutions (examples are shown by mutual deposit programs and investments in the property business) currently run by MFIs. Meanwhile, temporal myopia is shown where organizations focus more on short-term programs that hinder long-term investment, and persistence in current strategies impedes the achievement of greater change.

The results of testing hypothesis 1 show that temporal myopia has a negative effect on financial performance. The lower the temporal myopia, the better the financial performance. Temporal myopia is operationalized through three indicators: orientation to short-term financial results, orientation to the quality of short-term financial planning, and orientation to short-term development programs. This condition indicates that there is a temporal bias in MFIs. The results of this study update the findings of previous studies by Levinthal and March (1993), Miller (2002), and the empirical studies by Brunzell, Liljebloom, and Vaihekoski (2015), and Rostami, Kargar, and Samimifard (2022).

Temporal myopia occurs in organizations that tend to be oriented toward short-term performance; excessive tendency to risk aversion, financial allocation for the fulfillment and

resolution of current problems rather than investments in future opportunities; and a relatively definite orientation of efforts and projects.

Temporal bias is shown through orientation to achieving short-term financial results, quality of short-term financial planning, and short-term development. Exposure to short-term financial results is indicated by the provision of rewards for completing short-term performance and strong pressure from the management to achieve monthly and annual targets. Meanwhile, the orientation on the quality of short-term financial planning is shown in the work program and performance targets prepared by the management (board of directors), as well as prioritizing the fulfillment of short-term needs in the working capital structure. Finally, the emphasis on short-term investments is indicated by the strong pressure from management on programs or products that quickly make a profit. Short-term investment programs are more attractive to management than long-term investments because they can directly show performance results.

Hypothesis 2 testing shows that there is a negative effect of spatial myopia on financial performance. This study advances previous research by Levinthal and March (1993), Miller (2002), and Capron and Pistre (2002) empirical studies. Spatial bias is shown through being more oriented to technology, processes, and routines that are carried out and orientation to current business areas. Management who experience spatial myopia shows a direction to focus on internal business processes and ignore the wider external industry. Responses to open-ended questions indicate that the current strategic focus is characterized by a focus on members, business areas, technology, and present administrative routines. Meanwhile, focus on the current business model, as indicated by a focus on processes (investments, programs, financial products) that are running and on existing strategies, tactics, and business models. Then, focus on the current system, indicated by a focus on routines and short-term programs rather than quality improvement, education and training, and product and service development.

Financial institutions that experience spatial myopia show a lack of awareness of changes in their organizational environment. Financial institutions tend to focus on current technology, current business processes, and currently managed administrative routines. MFIs can make efforts to control myopia and temporal bias by making efforts to change through increasing competence by running quality improvement, education, and training programs, as well as research and development (R&D) programs. Controlling spatial myopia will make the MFI more open to changes in its organizational environment.

Hypothesis 3 testing shows that there is a negative effect of failure myopia on financial performance. This study advances previous research by Levinthal and March (1993) and Akstinaite et al. (2020). Bias in failure myopia is shown through decision-making as well as activities that are quite risky, involvement in a difficult decision, or taking a difficult decision; overconfidence is shown in decision-making without taking into account the capabilities and capacities of the organization. The risky activities in question are indicated by disbursing large financing with high risk to one of the members or corporate, investment in large enough amounts

(property, land/buildings, etc.). Making decisions or engaging in more difficult choices, indicated by participation in an acquisition or joint project that, in that consideration, is difficult to make but is high-profit oriented; designing programs that are considered difficult to do but are high profit-oriented. At the same time, the confident attitude in question is shown by making important decisions only by a manager. Decision-making is often done quickly and seems rushed, making important decisions without considering the organization's current financial condition and capacity.

Controlling myopia failure is carried out through managing the causes of the emergence of this managerial bias. Myopia failure is indicated by decision-making without taking into account the ability and capacity of the organization, making decisions that are fast and seem hasty, and being often involved in more difficult choices. MFIs can combat myopia and temporal bias by implementing risk-based strategic decision-making management and establishing authority in measurable strategic decisions. The current practice in MFIs shows that there is no consistency in the application of existing rules.

5. CONCLUSIONS

Being a public debate has to do with decision-making carried out by managers who are faced with pursuing current profitability or focusing on long-term change. Short-term and long-term earnings performance trade-offs impact myopic behavior in management decision-making. As a result, the issue of managerial myopia has become a topic of discussion in corporate governance research and practices. Our study thus directly relates to the current and ongoing debates in corporate governance research and practice.

Our research seeks to gain a further understanding of the managerial phenomenon of myopia, where previous empirical research was still very limited and conceptual. We selected a sample of Microfinance Institutions to be expected to show a fairly high-risk preference as well as the considerable authority and responsibility of decision-making by management due to the simple organizational structure. Our main contribution is the development of indicators on the previously conducted research, as well as identifying the causative factors for each of them.

MFI managers can adopt a policy of controlling managerial myopia. Managerial controls on myopia are carried out through the management of the causes of the emergence of managerial bias. Short-term goal-oriented financial decision-making can be seen in investment decisions where financial allocations are used to solve current problems rather than investing in future opportunities. The policy of providing rewards is only based on meeting short-term performance targets, and management is under pressure to meet short-term performance targets. High monthly performance achievements are used as a benchmark for performance, causing management to focus on pursuing the achievement of charged monthly targets, thus neglecting long-term performance achievements. MFIs need to make efforts to control myopia's temporal bias by not only focusing on achieving short-term performance but also being oriented towards achieving long-term performance targets.

Financial institutions that experience spatial myopia show a lack of awareness of changes in their organizational environment. Financial institutions tend to focus on current technologies, current business processes, as well as currently managed administrative routines. MFIs can make efforts to control myopia and temporal bias by making change efforts through competency improvement by running quality improvement programs, education and training, and research and development (R&D). Controlling spatial myopia will make MFIs more open to changes in their organizational environment.

Controlling failure myopia is carried out through the management of the causes of the emergence of managerial bias. Failure myopia is indicated by decision-making without taking into account organizational capabilities and capacities, quick and seemingly hasty decision-making, and often engaging in more difficult choices. MFIs can make efforts to control myopia and temporal bias by implementing risk-based strategic decision-making management as well as regulating authority in measurable strategic decisions. The practice that runs in MFIs shows that there is no consistency with the application of existing rules.

This study is the first to investigate directly through empirical studies on all three types of myopia in MFIs. Thus, we contribute to the existing research. In addition, we provide evidence of how managerial bias affects the financial performance of MFIs and provide input on the underlying causal factors.

The results of this study have several limitations that require discussion. First, our temporal and spatial myopia indicators are derived from research Ridge et al. (2014) in the form of a content analysis study of letters to shareholders (LTS). It is an official statement made by the company about its strategy that is considered important by executive decision-makers to be communicated with shareholders. Although the indicators we use based on the results of the measurement model analysis are declared reliable and valid, there is a greater need to investigate the validity of our measures. In general, constructing indicators for managerial myopia from both primary and secondary survey results provides an important and much-needed avenue for future research. Second, our sample is limited to MFIs in a group, where it is possible to bias towards policies carried out by groups followed by MFIs who are members.

Beyond the possible results obtained, it may also be interesting to expand this study by identifying some antecedents of managerial myopia. Levinthal and March (1993) has provided preliminary discussions about possible causes of myopia. However, the characteristics of the company and the organizational environment may play an important role in subsequent myopia studies.

Practical Implications. We believe that our analytical approach to assessing the influence of managerial myopia on financial performance and our empirical results provide actionable knowledge for MFI managers. Managers can easily use the indicators we developed to determine managerial myopia as a metric for each type of myopia. We hope our empirical results can serve as an impetus for myopic manag-

ers to redirect their behavior and help convince sustainability-oriented managers to stay on track.

CONFLICT OF INTEREST STATEMENT

The authors declare that they have no conflict of interest.

REFERENCES

- Abdillah, Willy, and Hartono Jogiyanto. 2015. *Partial Least Square (PLS)-Alternatif Structural Equation Modeling (SEM) Dalam Penelitian Bisnis*. 1st ed. edited by D. Prabantini. Yogyakarta: Penerbit ANDI Yogyakarta.
- Akstinaitė, Vita, Graham Robinson, and Eugene Sadler-Smith. 2020. "Linguistic Markers of CEO Hubris." *Journal of Business Ethics* 167(4):687–705. doi: 10.1007/s10551-019-04183-y.
- Antia, Murad, Christos Pantzalis, and Jung Chul Park. 2021. "Does CEO Myopia Impede Growth Opportunities?" *Review of Quantitative Finance and Accounting* 56(4):1503–35. doi: 10.1007/s11156-020-00934-5.
- Baumeister, Roy F., Laura Smart, and Joseph M. Boden. 1996. "Relation of Threatened Egotism to Violence and Aggression: The Dark Side of High Self-Esteem." *Psychological Review* 103(1):5–33. doi: 10.1037/0033-295X.103.1.5.
- Berger, Joël, Margit Osterloh, Katja Rost, and Thomas Ehrmann. 2020. "How to Prevent Leadership Hubris? Comparing Competitive Selections, Lotteries, and Their Combination." *The Leadership Quarterly* 31(5):101388. doi: 10.1016/j.leaqua.2020.101388.
- Bertrand, M., and S. Mullainathan. 2001. "Are CEOs Rewarded for Luck? The Ones Without Principals Are." *The Quarterly Journal of Economics* 116(3):901–32. doi: 10.1162/00335530152466269.
- Billett, Matthew T., and Yiming Qian. 2008. "Are Overconfident CEOs Born or Made? Evidence of Self-Attribution Bias from Frequent." *Source: Management Science* 54(6):1037–51. doi: 10.1287/mnsc.1070.0830.
- Brauer, Matthias F. 2013. "The Effects Of Short-Term And Long-Term Oriented Managerial Behavior On Medium-Term Financial Performance: Longitudinal Evidence From Europe." 14(2):386–402. doi: 10.3846/16111699.2012.703965.
- Brauer, Matthias F. 2013. "The Effects of Short-Term and Long-Term Oriented Managerial Behavior on Medium-Term Financial Performance: Longitudinal Evidence from Europe." *Journal of Business Economics and Management* 14(2):386–402. doi: 10.3846/16111699.2012.703965.
- Brunzell, Tor, Eva Liljebloom, and Mika Vaihekoski. 2015. "Short-Term Expectations in Listed Firms: The Effects Of Different Owner Types." *Journal of International Financial Management & Accounting* 26(3):223–56. doi: 10.1111/jifm.12028.
- Calderon, Thomas G., Sooduk Seo, and Il-Woon Kim. 2011. "Information Technology And The Performance Of Financial Companies In South Korea." *Journal of Applied Business Research (JABR)* 17(2):83–96. doi: 10.19030/jabr.v17i2.2075.
- Capron, Laurence, and Nathalie Pistre. 2002. "When Do Acquirers Earn Abnormal Returns?" *Strategic Management Journal* 23(9):781–94. doi: 10.1002/smj.262.
- Chakravarty, Anindita, and Rajdeep Grewal. 2011. "The Stock Market in the Driver's Seat! Implications for R&D and Marketing." *Management Science* 57(9):1594–1609. doi: 10.1287/mnsc.1110.1317.
- Chatterjee, Arijit, and Donald C. Hambrick. 2007. "It's All about Me: Narcissistic Chief Executive Officers and Their Effects on Company Strategy and Performance." *Administrative Science Quarterly* 52(3):351–86. doi: 10.2189/asqu.52.3.351.
- Chen, Yu-Fen, Fu-Lai Lin, and Sheng-Yung Yang. 2015. "Does Institutional Short-Termism Matter with Managerial Myopia?" *Journal of Business Research* 68(4):845–50. doi: 10.1016/j.jbusres.2014.11.039.
- Cyert, Richard M., and James G. March. 1963. *A Behavioral Theory of the Firm*. 2nd edition. Wiley-Blackwell.
- Erasmus, PD. 2015. *Investor Short-Termism and Managerial Myopia: Irrational Behaviour or Human Nature?*

- Galasso, Alberto, and Timothy S. Simcoe. 2011. "CEO Overconfidence and Innovation." *Source: Management Science* 57(8):1469–84. doi: 10.1287/mnsc.1110.1374.
- Haessler, Philipp. 2020. "Strategic Decisions between Short-Term Profit and Sustainability." *Administrative Sciences* 10(3). doi: 10.3390/admsci10030063.
- Hamza, Fadhila. 2022. "Short and/or Long-Term Investment Choice: Artificial Intelligence Analysis of the Role of Both or-Organizational and Behavioral Determinants." *International Journal of Data and Network Science* 6(1):155–64. doi: 10.5267/j.ijdns.2021.9.012.
- Hayward, Mathew L. A., and Donald C. Hambrick. 1997. "Explaining the Premiums Paid for Large Acquisitions: Evidence of CEO Hubris." *Administrative Science Quarterly* 42(1):103. doi: 10.2307/2393810.
- Hayward, Mathew L. A., Dean A. Shepherd, and Dale Griffin. 2006. *A Hubris Theory of Entrepreneurship*. Vol. 52.
- Hilary, Gilles, and Charles Hsu. 2011. "Endogenous Overconfidence in Managerial Forecasts." *Journal of Accounting and Economics* 51(3):300–313. doi: 10.1016/j.jaccoco.2011.01.002.
- Hiller, Nathan J., and Donald C. Hambrick. 2005. "Conceptualizing Executive Hubris: The Role of (Hyper-) Core Self-Evaluations in Strategic Decision-Making." *Strategic Management Journal* 26(4):297–319. doi: 10.1002/smj.455.
- Jacobs, M. T. 1991. *Short-Term America: The Causes and Cures of Our Business Myopia*. Boston, MA: Harvard Business School Press.
- Ji, Amy E. 2019. "Internal Control Weakness and Managerial Myopia: Evidence from SOX Section 404 Disclosures." *ACRN Journal of Finance and Risk Perspectives* 8(1):71–83. doi: 10.35944/jofr.2019.8.1.004.
- Kern, David Anthony. 2006. "A Matter of Strategic Mis-Fit: Management Myopia and Value Destruction."
- Kim, MinChung, Guiyang Xiong, and Kwang-Ho Kim. 2018. "Where Does Pride Lead? Corporate Managerial Hubris and Strategic Emphasis." *Journal of the Academy of Marketing Science* 46(3):537–56. doi: 10.1007/s11747-017-0547-4.
- Kisfalvi, Veronika, and Patricia Pitcher. 2003. "Doing What Feels Right." *Journal of Management Inquiry* 12(1):42–66. doi: 10.1177/1056492602250518.
- Larionov, A. v. 2021. "Methodological Approach to the Organization of Monitoring of Cash Flow Volatility." *Finance: Theory and Practice* 25(3):150–58. doi: 10.26794/2587-5671-2021-25-3-150-158.
- Laverty, Kevin J. 1996. "Economic 'Short-Termism': The Debate, the Unresolved Issues, and the Implications for Management Practice and Research." *Academy of Management Review* 21(3):825–60. doi: 10.5465/AMR.1996.9702100316.
- Laverty, Kevin J. 2004. "Managerial Myopia or Systemic Short-termism?" *Management Decision* 42(8):949–62. doi: 10.1108/00251740410555443.
- Lee, Bor-yuh, and Kazumitsu Nawata. 2020. "Risky Innovativeness: The Role of Myopic Management." *Review of Integrative Business and Economics Research* 10(3):1–17.
- Levinthal, Daniel A., and James G. March. 1993. "The Myopia of Learning." *Strategic Management Journal* 14(S2):95–112. doi: 10.1002/smj.4250141009.
- Levitt, B., and J. G. March. 1988. "Organizational Learning." *Annual Review of Sociology* 14(1):319–40.
- Li, Anran, and Bilian Ni Sullivan. 2022. "Blind to the Future: Exploring the Contingent Effect of Managerial Hubris on Strategic Foresight." *Strategic Organization* 20(3):565–99. doi: 10.1177/1476127020976203.
- Li, Jiatao, and Yi Tang. 2010. "CEO Hubris and Firm Risk Taking in China: The Moderating Role of Managerial Discretion." *Academy of Management Journal* 53(1):45–68. doi: 10.5465/amj.2010.48036912.
- Liem, Vo Tan, and Nguyen Ngoc Hien. 2020. "Exploring the Impact of Dynamic Environment and CEO's Psychology Characteristics on Using Management Accounting System." *Cogent Business and Management* 7(1):1–20. doi: 10.1080/23311975.2020.1712768.
- Macieli, Cristiano de Oliveira, Kawana Harue Sato, and Heitor Takashi Kato. 2012. "Capacidades Dinâmicas e Rituais de Interação Entre Alta e Média Gerência: Proposta de Um Framework." *Revista de Administração Pública* 46(2):599–618. doi: 10.1590/S0034-76122012000200012.
- Madyan, Muhammad, Bayu Indra Kurniawan, and Novian Abdi Firdausi. 2019. "Myopia in Investment: Seasoned Manager's Age and Long-Term Investment Distortion." *Jurnal Keuangan Dan Perbankan* 23(4):553–65. doi: 10.26905/jkdp.v23i4.3393.
- Mahajan, Gautam. 2019. "Critically Exploring Value Destruction to Create More Value." *Journal of Creating Value* 5(1):3–10. doi: 10.1177/2394964319841944.
- Mahnke, Volker, Markus Venzin, and Shaker A. Zahra. 2007. "Governing Entrepreneurial Opportunity Recognition in MNEs: Aligning Interests and Cognition Under Uncertainty." *Journal of Management Studies* 44(7):1278–98. doi: 10.1111/j.1467-6486.2007.00730.x.
- Malmendier, Ulrike, Geoffrey Tate, and Jon Yan. 2011. "Overconfidence and Early-Life Experiences: The Effect of Managerial Traits on Corporate Financial Policies." *The Journal of Finance* 66(5):1687–1733. doi: 10.1111/j.1540-6261.2011.01685.x.
- Malmendier, Ulrike, and Timothy Taylor. 2015. "On the Verge of Overconfidence." *Journal of Economic Perspectives* 29(4):3–8. doi: 10.1257/jep.29.4.3.
- March, James G. 1991. "Exploration and Exploitation in Organizational Learning." *Organization Science* 2(1):71–87. doi: 10.1287/orsc.2.1.71.
- Marginson, David, and Laurie McAulay. 2008. "Exploring the Debate on Short-Termism: A Theoretical and Empirical Analysis." *Strategic Management Journal* 29(3):273–92. doi: 10.1002/smj.657.
- McManus, Joseph. 2018. "Hubris and Unethical Decision Making: The Tragedy of the Uncommon." *Journal of Business Ethics* 149(1):169–85. doi: 10.1007/s10551-016-3087-9.
- Miller, Kent D. 2002. "Knowledge Inventories and Managerial Myopia." *Strategic Management Journal* 23(8):689–706. doi: 10.1002/smj.245.
- Myers, S., and D. G. Marquis. 1969. *Successful Industrial Innovations: A Study of Factors Underlying Innovation in Selected Firms*. National Science Foundation.
- Oad Rajput, Suresh Kumar, Jahanzeb Marwat, and Udomsak Wongchoti. 2019. "Myopic Management Theory and R&D Investment Decisions." *SSRN Electronic Journal*. doi: 10.2139/ssrn.3491115.
- Opper, Sonja, and Ronald S. Burt. 2021. "Social Network and Temporal Myopia." *Academy of Management Journal* 64(3):741–71. doi: 10.5465/amj.2019.1026.
- Owen, D., and J. Davidson. 2009. "Hubris Syndrome: An Acquired Personality Disorder? A Study of US Presidents and UK Prime Ministers over the Last 100 Years." *Brain* 132(5):1396–1406. doi: 10.1093/brain/awp008.
- Petit, Valérie, and Helen Bollaert. 2012. "Flying Too Close to the Sun? Hubris Among CEOs and How to Prevent It." *Journal of Business Ethics* 108(3):265–83. doi: 10.1007/s10551-011-1097-1.
- Picone, P. M., G. B. Dagnino, and A. Minà. 2014. "The Origin of Failure: A Multidisciplinary Appraisal of the Hubris Hypothesis and Proposed Research Agenda." *Academy of Management Perspectives* 28(4):447–68.
- Pogach, Jonathan. 2018. "Short-Termism of Executive Compensation." *Journal of Economic Behavior and Organization* 148:150–70. doi: 10.1016/j.jebo.2018.02.014.
- Raskin, Robert, and Howard Terry. 1988. "A Principal-Components Analysis of the Narcissistic Personality Inventory and Further Evidence of Its Construct Validity." *Journal of Personality and Social Psychology* 54(5):890–902. doi: 10.1037/0022-3514.54.5.890.
- Ridge, Jason W., Dave Kern, and Margaret A. White. 2014. "The Influence of Managerial Myopia on Firm Strategy." *Management Decision* 52(3):602–23. doi: 10.1108/MD-01-2013-0037.
- Roll, Richard. 1986. "The Hubris Hypothesis of Corporate Takeovers." *The Journal of Business* 59(2):197–216.
- Rostami, Vahab, Hamed Kargar, and Mahdis Samimifard. 2022. "The Effect of Managerial Myopia on the Adjustment Speed of the Company's Financial Leverage towards the Optimal Leverage." *Journal of Risk and Financial Management* 15(12):581. doi: 10.3390/jrfm15120581.
- Sadler-Smith, Eugene, Vita Akstinaite, Graham Robinson, and Tim Wray. 2017. "Hubristic Leadership: A Review." *Leadership* 13(5):525–48. doi: 10.1177/1742715016680666.
- Sato, Hidenori. 2015. "Organizational Change and Temporal Myopia." *Annals of Business Administrative Science* 14(6):323–33. doi: 10.7880/abas.14.323.
- Schilke, Oliver. 2014. "The Contingent Value of Dynamic Capabilities for Competitive Advantage: The Nonlinear Moderating Effect of Envi-

- ronmental Dynamism.” *Strategic Management Journal* 35(2):179–203. doi: 10.1002/smj.2099.
- Schuster, Charlotte L., Alexander T. Nicolai, and Jeffrey G. Covin. 2020. “Are Founder-Led Firms Less Susceptible to Managerial Myopia?” *Entrepreneurship Theory and Practice* 44(3):391–421. doi: 10.1177/1042258718806627.
- Simon, M., and S. M. Houghton. 2003. “The Relationship Between Overconfidence and The Introduction of Risky Products: Evidence from a Field Study.” *Academy of Management Journal* 46(2):139–49. doi: 10.2307/30040610.
- Sorensen, Jesper B., and Toby E. Stuart. 2000. “Aging, Obsolescence, and Organizational Innovation.” *Administrative Science Quarterly* 45(1):81. doi: 10.2307/2666980.
- Tang, Jianyun, Mary Crossan, and W. Glenn Rowe. 2011. “Dominant CEO, Deviant Strategy, and Extreme Performance: The Moderating Role of a Powerful Board.” *Journal of Management Studies* 48(7):1479–1503. doi: 10.1111/j.1467-6486.2010.00985.x.
- Tang, Yi, Jiatao Li, and Hongyan Yang. 2015. “What I See, What I Do: How Executive Hubris Affects Firm Innovation.” *Journal of Management* 41(6):1698–1723. doi: 10.1177/0149206312441211.
- Trent, Robert J. 2020. *How Financial Myopia Increases Corporate Risk: An Industry White Paper*.
- Tunyi, Abongeh A., Collins G. Ntim, and Jo Danbolt. 2019. “Decoupling Management Inefficiency: Myopia, Hyperopia and Takeover Likelihood.” *International Review of Financial Analysis* 62(January):1–20. doi: 10.1016/j.irfa.2019.01.004.
- Widodo. 2014. *Metodologi Penelitian Manajemen*. Semarang: Unissula Press.
- Zirger, Billie Jo, and Modesto A. Maidique. 1990. “A Model of New Product Development: An Empirical Test A Model of New Product Development: An Empirical Test.” *Management Science* 36(7):867–83.

Received: Jan 25, 2023

Revised: Feb 02, 2023

Accepted: Mar 29, 2023

Copyright © 2022– All Rights Reserved

This is an open-access article.