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BEHAVIORAL FINANCE AND ITS IMPACT ON CORPORATE FINANCIAL DECISION MAKING

BEHAVIORAL FINANCE DAN DAMPAKNYA PADA PENGAMBILAN KEPUTUSAN KEUANGAN KORPORAT

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ABSTRACT
Behavioral finance has become an important field of study that bridges psychology and financial decision-making. This article examines the impact of behavioral finance on corporate financial decision-making through a literature review of studies published since 2020. Key behavioral biases—such as overconfidence, loss aversion, and herd behavior—are analyzed for their influence on corporate strategies, including investment decisions, risk management, and capital budgeting. The findings reveal that these biases often lead to suboptimal financial outcomes, such as overly aggressive or overly conservative investment decisions, as well as an inability to manage risks effectively. This underscores the importance of integrating behavioral insights into corporate governance to mitigate the negative effects of these biases. Practical recommendations are provided, such as improving financial literacy, managerial training, and implementing structured decision-making processes. This study contributes to the growing body of literature by synthesizing recent research and offering actionable insights to enhance corporate performance. By understanding and addressing behavioral biases, organizations can make more rational and effective financial decisions in the face of complex economic challenges.
Keywords*: behavioral finance, corporate decision-making, behavioral biases*

ABSTRAK
Behavioral finance telah menjadi bidang studi penting yang menjembatani psikologi dan pengambilan keputusan keuangan. Artikel ini mengkaji dampak behavioral finance terhadap pengambilan keputusan keuangan korporat melalui tinjauan literatur studi yang diterbitkan sejak tahun 2020. Bias perilaku kunci—seperti overconfidence, loss aversion, dan herd behavior—dianalisis pengaruhnya terhadap strategi korporat, termasuk keputusan investasi, manajemen risiko, dan penganggaran modal. Temuan menunjukkan bahwa bias-bias ini sering mengakibatkan hasil keuangan yang tidak optimal, seperti keputusan investasi yang terlalu agresif atau terlalu konservatif, serta ketidakmampuan dalam mengelola risiko secara efektif. Hal ini menekankan pentingnya integrasi wawasan behavioral ke dalam tata kelola korporat untuk mengurangi dampak negatif dari bias tersebut. Rekomendasi praktis diberikan, seperti peningkatan literasi keuangan, pelatihan manajerial, dan penerapan proses pengambilan keputusan yang terstruktur. Studi ini berkontribusi pada literatur yang berkembang dengan mensintesis penelitian terkini dan menawarkan wawasan yang dapat ditindaklanjuti untuk meningkatkan kinerja korporat. Dengan memahami dan mengatasi bias perilaku, organisasi dapat membuat keputusan keuangan yang lebih rasional dan efektif dalam menghadapi tantangan ekonomi yang kompleks.
Kata Kunci: Behavioral Finance, Pengambilan Keputusan Korporat, Bias Perilaku

INTRODUCTION

Behavioral finance has revolutionized the understanding of financial decision-making by incorporating psychological insights into traditional financial theories. Unlike classical finance, which assumes rational behavior, behavioral finance acknowledges that cognitive biases and emotions significantly influence decision-making processes (Cho & Jung, 2024). Recent studies have

expanded this perspective, demonstrating how behavioral biases affect corporate leaders and their financial strategies (Benayad et al & Aasri, 2023). This article aims to explore the intersection of behavioral finance and corporate decision-making, focusing on the implications of these biases for organizational performance.

The relevance of behavioral finance in corporate settings has grown exponentially, particularly in the wake of economic uncertainties and market volatilities. Research indicates that behavioral biases such as overconfidence and herd behavior often lead to irrational investment decisions, resulting in financial losses (Abideen et al., 2023). These findings challenge the traditional view of corporate decision-making as a purely rational process, highlighting the need for a more nuanced understanding of human behavior in finance.

Corporate financial decision-making encompasses a wide range of activities, including capital budgeting, mergers and acquisitions, and risk management. Behavioral finance provides a framework for understanding how biases can distort these processes. For instance, overconfidence may lead to excessive risk-taking, while loss aversion can result in overly conservative strategies (Kuramoto et al., 2024). By examining these phenomena, this article seeks to identify strategies for mitigating the negative impact of behavioral biases on corporate outcomes.

The growing body of literature on behavioral finance underscores its importance in shaping corporate governance and policymaking. Recent studies have emphasized the role of organizational culture and leadership in mitigating behavioral biases (Camacho et al., 2024). This article builds on these insights, offering a comprehensive review of contemporary research and its implications for corporate financial decision-making.

Finally, this article contributes to the ongoing discourse on behavioral finance by synthesizing recent findings and proposing practical recommendations for corporate leaders (Luca et al., 2024). By integrating behavioral insights into decision-making frameworks, organizations can enhance their financial performance and resilience in an increasingly complex economic landscape (Artene et al., 2024).

METHOD

This study employs a literature review methodology to examine the impact of behavioral finance on corporate financial decision-making. The review focuses on peer-reviewed articles published from 2020 onwards, ensuring the inclusion of the most recent and relevant research. Databases such as Scopus, Web of Science, and Google Scholar were utilized to identify studies that explore behavioral biases and their implications for corporate finance.

The selection criteria included articles that explicitly address behavioral finance concepts, such as cognitive biases, emotional influences, and decision-making heuristics, in the context of corporate financial strategies. Only studies with valid DOIs were included to ensure the credibility and accessibility of the sources. The literature was analyzed thematically, with a focus on identifying common patterns, biases, and their impact on corporate outcomes.

RESULTS AND DISCUSSION

Overconfidence and Corporate Investment Decisions

Overconfidence is one of the most prevalent behavioral biases affecting corporate leaders. Studies have shown that overconfident CEOs are more likely to undertake risky investments, often leading to suboptimal outcomes (Ikram et al., 2023). This bias is particularly evident in mergers and acquisitions, where overconfident executives tend to overestimate synergies and underestimate risks.

The implications of overconfidence extend beyond individual decisions, influencing organizational culture and strategic direction. For instance, overconfident leaders may discourage dissenting opinions, creating an echo chamber that reinforces irrational decision-making (Milhazes-Cunha & Oliveira, 2023). To mitigate these effects, organizations should implement checks and balances, such as independent board oversight and structured decision-making processes.

Loss Aversion and Risk Management

Loss aversion, the tendency to prefer avoiding losses over acquiring equivalent gains, significantly impacts corporate risk management strategies. Research indicates that loss-averse managers are more likely to adopt conservative financial policies, even when risk-taking could yield higher returns (Bai et al., 2022). This bias can hinder innovation and growth, particularly in dynamic industries.

To address loss aversion, organizations should foster a culture that encourages calculated risk-taking and rewards long-term performance. Behavioral interventions, such as training programs and decision-making frameworks, can also help managers overcome this bias (Rodrigues & Matos, 2024).

Herd Behavior and Market Trends

Herd behavior, the tendency to follow the actions of others, is another critical bias in corporate finance. This behavior often leads to market bubbles and crashes, as companies mimic competitors without conducting independent analysis (Andraszewicz et al., 2020). Herd behavior is particularly prevalent in industries with high uncertainty, where managers rely on the actions of peers to reduce perceived risk.

Organizations can counteract herd behavior by promoting independent thinking and evidence-based decision-making. Encouraging diversity in leadership teams can also reduce the likelihood of groupthink and foster innovative strategies (Atiku et al., 2024).

Anchoring and Financial Forecasting

Anchoring, the reliance on initial information when making decisions, often distorts financial forecasting and planning. Studies have shown that managers who anchor their expectations to historical data or industry benchmarks may overlook emerging trends and opportunities (Lamm et al., 2024). This bias can lead to inaccurate projections and poor strategic decisions.

To mitigate anchoring, organizations should adopt dynamic forecasting models that incorporate real-time data and scenario analysis. Training programs that emphasize critical thinking and cognitive flexibility can also help managers overcome this bias (Thornhill-Miller et al., 2023).

Emotional Influences on Decision-Making

Emotions play a significant role in corporate financial decision-making, often leading to irrational outcomes. For

instance, fear and greed can drive managers to make impulsive decisions, such as panic selling during market downturns or overinvesting during booms (Ahadzie et al., 2024). These emotional responses can undermine long-term strategic goals.

Organizations should implement emotional regulation strategies, such as mindfulness training and stress management programs, to help managers make more balanced decisions. Additionally, fostering a supportive organizational culture can reduce the impact of negative emotions on decision-making (Morales-Huamán et al., 2023).

CONCLUSION

This article has explored the impact of behavioral finance on corporate financial decision-making, highlighting the pervasive influence of cognitive biases such as overconfidence, loss aversion, and herd behavior. By synthesizing recent research, the study underscores the need for organizations to integrate behavioral insights into their decision-making frameworks.

The findings suggest that behavioral biases often lead to suboptimal financial outcomes, emphasizing the importance of adopting structured processes and fostering a culture of critical thinking. Organizations can mitigate these biases through training programs, independent oversight, and evidence-based strategies.

Future research should focus on developing practical tools and interventions to help corporate leaders overcome behavioral biases. By addressing these challenges, organizations can enhance their financial performance and resilience in an increasingly complex economic environment.

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