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The Influence of Behavioral Finance on Strategic Policy Decisions in a Textile Corporation in Beijing, China

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ABSTRACT: This study sought to establish whether there are relationships between particular elements of behavioral finance such as investor psychology, cognitive biases, emotions, and financial literacy, and strategic decision policies of a leading textile company in Beijing, China. Through the use of a quantitative comparative correlational study design, data was gathered from 280 purposely sampled respondents with the aid of a reliable and valid researcher made questionnaire. The Pearson correlation was used to determine relationships between the policy formulation, policy implementation, policy impact, and policy compliance domains. These results suggest there were no behavioral finance characteristics that resulted in changing the strategic policies of the firm, save for the previously mentioned strong negative relationship between cognitive bias and policy formation. This suggests that cognitive biases negatively hinder the strategic regard for policy formulation. The evidence suggests that decision policies of the firm are highly insulated from influences of behavioral finance since probably other factors are more important. These results provide justification for the need to mitigate the cognitive biases mentioned above and also address other factors like organizational culture, leadership, and even the regulatory environment as means of improving policy formulation.

KEYWORDS: behavioral finance, strategic policy decisions, textile corporation, Beijing, corporate strategy

I. INTRODUCTION

Behavioral finance has had a rich evolution, from a framework that classified people as largely irrational in their financial decisions to understanding them as 'normal' with diverse needs and desires (Statman, 2017; Statman, 2019). It argues that not only cognitive errors but also a myriad of multifaceted wants, including social status and responsibility, influence financial decisions. These views significantly differ from conventional financial theories, which rely on the efficient market hypothesis, that is, it is virtually impossible to earn persistently higher returns since all relevant information is reflected in asset prices (Fama, 1997). In contrast, behavioral finance assumes that there is an arbitrage limit, such that rational traders cannot frequently correct the market anomalies created by irrational traders (Barberis & Thaler, 2002).

Moreover, it is also sensitive to the importance of emotional biases and social influences which more often lead investors to focus unduly on the present rather than on future effects (Baker et al., n.d.). This multidimensional perspective encompasses psychological events such as overconfidence, herding, loss aversion, and risk perception variation that vary based on the dynamics of emotionality, and it therefore manifests as a vibrant fabric of determinants of financial choices (Alquraan et al., 2016; Baker et al., n.d.). Policy choices at a strategic level are more sensitive to the influence of various factors in the corporate world.

The landscape has been shaped by various thematic investigations such as the strategic employment of counterfactual explanations, the role of government incentives in financial results, the advent of big data in policy cycles, and the intertwining of media partisanship and corporate strategies (Tsirtsis and Gomez-Rodriguez, 2020; Cucchiella et al., 2015; Höchtl et al., 2016; Knill et al., 2019; Feldman et al., 2021). It is through the lens of behavioral finance that we seek to further understand how these nuanced psychological factors and strategic considerations interplay in the decision-making process within the corporate landscape. This synthesis explores the depths that behavioral finance offers insights and informs strategic policy through how it understands anomalies in the stock market, market efficiency, and the long-term phenomenon of returns (Fama, 1997).

It is this holistic approach of behavioral finance, encompassing both the rational and emotional facets of human behavior that can serve as a powerful tool in the current study to unravel complex dynamics at play in financial markets and investment behaviors, bridging gaps between theory, evidence, and practice. Through this, the researcher brought more depth into the corporate sector's understanding of strategic policy decisions through the latest knowledge in the area of behavioral finance.

Research Question

Is there a significant correlation between behavioral finance and strategic policy decisions in the selected textile corporation?

METHODOLOGY

This study aimed to gather data using quantitative comparative correlational research design in examining the influence of behavioral finance on strategic policy decisions in selected textile corporations in Beijing, China. The predetermined design allowed the systematic investigation of relationships among variables and offered a very broad view of the particular business environment under investigation. The research work is mainly concerned with well-established textile corporation in Beijing, which is known to be very dynamic and active in textile industry.

The study understands the research subject matter then investigates how polices get developed within structures of this corporation. The research purposefully enrolled participants belonging to that corporation with different years of experience and backgrounds to cull the depth of their insights on the study. Through the purposive sampling, 280 individuals have been put, deemed to have considerable position regarding impactful processes of decision-making and strategic policy.

The primary instrument for data collection with the selected participants was the researcher-made questionnaire. The structure defined in this instrument included a number of parts and sections, such as respondents' profile on income and demographic characteristics, assessment on extent of application of behavioral finance insights within the corporation, and strategic policy decisions assessment. The questionnaire is validated by experts in the field of behavioral finance and corporate strategy so that it applies and is relevant for the study context.

It was pilot-tested to ensure the reliability of the instrument as this rate was obtained by the test, where the instrument was administered to a small sample of selected individuals who probably had met the demands to qualify for selection but were not included in the actual study. The reliability was established using appropriate statistical measures to make sure that the measurement met the purpose repeatedly.

RESULTS AND DISCUSSION

Table 1. Correlation between Behavioral Finance and Strategic Policy Decisions in the Selected Textile Corporation

Behavioral Finance	Statistical Treatment	Strategic Policy Decisions in terms of Policy Formulation	Strategic Policy Decisions in terms of Policy Implementation	Strategic Policy Decisions in terms of Policy Impact	Strategic Policy Decisions in terms of Compliance and Regulation
investor psychology	Pearson Correlation	-.078	-.076	.042	.025
	Sig. (2-tailed)	.194	.202	.480	.680
	Decision	Accepted	Accepted	Accepted	Accepted
	Interpretation	Not Significant	Not Significant	Not Significant	Not Significant
cognitive biases	Pearson Correlation	-.123*	.058	.041	.023
	Sig. (2-tailed)	.039	.334	.499	.702
	Decision	Rejected	Accepted	Accepted	Accepted
	Interpretation	Significant	Not Significant	Not Significant	Not Significant
emotional factors	Pearson Correlation	-.066	.012	-.085	.099
	Sig. (2-tailed)	.274	.837	.155	.097
	Decision	Accepted	Accepted	Accepted	Accepted
	Interpretation	Not Significant	Not Significant	Not Significant	Not Significant
financial literacy	Pearson Correlation	-.003	.045	-.079	.050
	Sig. (2-tailed)	.956	.451	.189	.409

	Decision	Accepted	Accepted	Accepted	Accepted
	Interpretation	Not Significant	Not Significant	Not Significant	Not Significant
Behavioral Finance and Strategic Policy Decisions	Pearson Correlation	-.091			
	Sig. (2-tailed)	.129			
	Decision	Accepted			
	Interpretation	Not Significant			

The analysis of the correlation between behavioral finance and strategic policy decisions in the selected textile corporation reveals no significant relationships across all assessed dimensions. The statistical treatment used is the Pearson correlation, and the significance levels are assessed with a 2-tailed test.

For the correlation between investor psychology and strategic policy decisions in terms of policy formulation, the Pearson correlation coefficient is -.078 with a significance level (Sig.) of .194. Since the p-value is greater than the standard significance threshold of .05, the null hypothesis is accepted, indicating no significant correlation. This means that variations in investor psychology do not significantly relate to how policies are formulated in the corporation. Similarly, for policy implementation, the Pearson correlation coefficient is -.076 with a significance level of .202. Again, the p-value exceeds .05, leading to the acceptance of the null hypothesis. This suggests that there is no significant relationship between investor psychologies and the effectiveness or smoothness of policy implementation within the corporation. In terms of policy impact, the Pearson correlation coefficient is .042 with a significance level of .480. The high p-value leads to the acceptance of the null hypothesis, indicating that there is no significant correlation between investor psychology and the perceived impact of policies. This suggests that the psychological factors influencing investors do not significantly affect how policies impact the corporation. For compliance and regulation, the Pearson correlation coefficient is .025 with a significance level of .680. The acceptance of the null hypothesis indicates no significant correlation, suggesting that investor psychology does not significantly influence the corporation's adherence to compliance and regulatory standards.

The analysis of the correlation between cognitive biases and strategic policy decisions in the selected textile corporation shows mixed results, with one significant correlation and others not significant. The statistical treatment used is the Pearson correlation, and significance levels are assessed with a 2-tailed test. For the correlation between cognitive biases and strategic policy decisions in terms of policy formulation, the Pearson correlation coefficient is -.123 with a significance level (Sig.) of .039. Since the p-value is less than the standard significance threshold of .05, the null hypothesis is rejected, indicating a significant negative correlation. This means that as cognitive biases increase, the strategic effectiveness of policy formulation decreases. The presence of cognitive biases may hinder the clarity and consistency needed for effective policy formulation. Regarding policy implementation, the Pearson correlation coefficient is .058 with a significance level of .334. The p-value exceeds .05, leading to the acceptance of the null hypothesis. This suggests that there is no significant relationship between cognitive biases and the effectiveness or smoothness of policy implementation within the corporation. In terms of policy impact, the Pearson correlation coefficient is .041 with a significance level of .499. The high p-value leads to the acceptance of the null hypothesis, indicating that there is no significant correlation between cognitive biases and the perceived impact of policies. This suggests that cognitive biases do not significantly affect how policies impact the corporation. For compliance and regulation, the Pearson correlation coefficient is .023 with a significance level of .702. The acceptance of the null hypothesis indicates no significant correlation, suggesting that cognitive biases do not significantly influence the corporation's adherence to compliance and regulatory standards.

For the correlation between emotional factors and strategic policy decisions in terms of policy formulation, the Pearson correlation coefficient is -.066 with a significance level (Sig.) of .274. Since the p-value is greater than the standard significance threshold of .05, the null hypothesis is accepted, indicating no significant correlation. This means that variations in emotional factors do not significantly relate to how policies are formulated in the corporation. Similarly, for policy implementation, the Pearson correlation coefficient is .012 with a significance level of .837. The p-value exceeds .05, leading to the acceptance of the null hypothesis. This suggests that there is no significant relationship between emotional factors and the effectiveness or smoothness of policy implementation within the corporation. In terms of policy impact, the Pearson correlation coefficient is -.085 with a significance level of .155. The high p-value leads to the acceptance of the null hypothesis, indicating that there is no significant correlation between emotional factors and the perceived impact of policies. This suggests that emotional factors do not significantly affect how policies impact the corporation. For compliance and regulation, the Pearson correlation coefficient is .099 with a significance level of .097. The acceptance of the null hypothesis indicates no significant correlation, suggesting that emotional factors do not significantly influence the corporation's adherence to compliance and regulatory standards.

For the correlation between financial literacy and strategic policy decisions in terms of policy formulation, the Pearson correlation coefficient is -.003 with a significance level (Sig.) of .956. Since the p-value is greater than the standard significance threshold of .05, the null hypothesis is accepted, indicating no significant correlation. This means that variations in financial literacy do not significantly relate to how policies are formulated in the corporation. Similarly, for policy implementation, the Pearson correlation coefficient is .045 with a significance level of .451. The p-value exceeds .05, leading to the acceptance of the null hypothesis. This suggests that there is no significant relationship between financial literacy and the effectiveness or smoothness of policy implementation within the corporation. In terms of policy impact, the Pearson correlation coefficient is -.079 with a significance level of .189. The high p-value leads to the acceptance of the null hypothesis, indicating that there is no significant correlation between financial literacy and the perceived impact of policies. This suggests that financial literacy does not significantly affect how policies impact the corporation. Finally, for compliance and regulation, the Pearson correlation coefficient is .050 with a significance level of .409. The acceptance of the null hypothesis indicates no significant correlation, suggesting that financial literacy does not significantly influence the corporation's adherence to compliance and regulatory standards.

The overall correlation analysis between behavioral finance and strategic policy decisions in the selected textile corporation shows no significant relationship. The Pearson correlation coefficient is -.091 with a significance level (Sig.) of .129. Since the p-value is greater than the standard significance threshold of .05, the null hypothesis is accepted, indicating no significant correlation. This means that, overall, variations in behavioral finance factors (such as investor psychology, cognitive biases, emotional factors, and financial literacy) do not significantly relate to the strategic policy decisions made within the corporation. The lack of significant correlation suggests that the strategic policy decisions are likely influenced by other factors beyond the scope of behavioral finance. In summary, the findings indicate that behavioral finance does not have a significant impact on the strategic policy decisions in the selected textile corporation. This suggests that while behavioral finance insights might be relevant for understanding individual and group behavior, they do not play a decisive role in shaping the strategic policy decisions within this specific organizational context.

II. CONCLUSION

The research findings, to understand some of their implications for the textile firm, with the first being the absence of strong correlations in strategic policy decisions and behavioral finance elements, hence implying that the decision-making processes of companies are generally free from any individual or collective psychological and financial bias influence. Such independence can either mean a very robust approach to decision-making that compensates for subjective influences and thus enhances the consistency and reliability of policy development and execution.

Such independence can indicate a very robust decision-making procedure wherein subjective effects are ignored, and thus more consistency and reliability are built in policy development and execution.

Secondly, there is a very strong negative relationship between cognitive distortions and policy innovations Development, imply that cognitive biases influence the perceptivity of policy judgments. This is the only significant correlation observed, but it brings home the need to resolve cognitive bias through workshops and awareness-raising exercises for a higher standard of decision-making. Through seminars and tools seeking to minimize the effects of prejudices on strategic planning processes, company insiders would benefit from more objective and sounder policy formulation methods.

Furthermore, the research findings directly point to the possibility for the company to improve its strategic policy frameworks by exploring other driving influences outside behavioral finance. These could constitute organizational culture, leadership styles, market trends, technology changes, or systems of regulatory compliance. By focusing on these areas, the company can discover and tap into the major drivers, perhaps more important in producing good strategic policies.

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