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THE ROLE OF BEHAVIORAL FINANCE ON EMPLOYEES AND BUSINESS GROWTH

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ABSTRACT

Behavioral finance is a research area that combines finance and psychology to help investigate issues that result in the decision-making process and to explain the different natures of organizations, groups and individuals such as employees. The use of psychological factors in behavioral finance leads to better expectations and understanding of the behavior of financial markets and firms that need to make good business decisions. Thus, this study was done to analyze the role of employees in behavioral finance and business growth. The target populations for this work were financial consulting firms in Jeddah, Saudi Arabia. The sample size was 80 employees whom were selected using simple random and stratified method. Data collection was done using questionnaire method. Data were analyzed in terms of basic percentage statistics. The results showed that behavioral finance is crucial as it determines the decision-making process, the performance of employees and firms, and the extent of business growth. The use of behavioral finance will increase the financial performance of the firm and help it achieve its objectives.

CCS Concepts

• Information systems→Database management system engines • Computing methodologies →Massively parallel and high-performance simulations.

INTRODUCTION

Business growth is very important for any company that is engaged in business. This depends on how the decisions of the organization are taken and implemented [1]. In financial organizations, employees are entrusted with the decision-making process and therefore determine the performance of the business. If employees ' emotions affect their decisions and make them biased, they may be led to wrong decisions that will lead to business failure [2]. Behavioral finance is a field of behavioral economics that uses psychological-based arguments to explain how human behavior affects business performance and even investment resulting from market abnormalities [3]. The main objective of behavioral finance is to find out why people are taking certain financial decisions [3].

Behavioral finance seeks to fill this gap by taking into account both scientific insights into cognitive reasoning and convectional economics and financial theory [4]. Behavioral finance focuses on the many different types of psychological bias that are present in humans. According to Ramiah et al. [5], these biases lead decision-makers to make irrational financial decisions that may have an impact on their performance and therefore on business in general. Understanding behavioral finance gives financial advisers and other market participants a clear understanding of the causes of panics and bubbles [6]. Portfolio managers as well as investors have a great interest in understanding behavioral finance not only on the basis of capitalization, but also in order to be aware of their own decision-making processes [7].

Studies have shown that there are many concepts involved in behavioral finance [8]. Examples of such concepts include herd behavior, mental accounting, high self-rating and anchoring [8]. Herd behavior, as the name suggests, argues that people tend to follow the financial behavior followed by the majority [9]. Mental accounting is the propensity of people to allocate money for certain purposes. High self-rating refers to the tendency of people to rank themselves higher than others and to see themselves higher [8]. Finally, anchoring refers to attaching the level of expenditure to a reference, for example, by using more money on what one sees as a better item than the others [8].

Employees relate to behavioral finance in that their emotions may have an impact on the decisions they make. Employees are not always rational in taking business decisions, but are actually affected by the situations and circumstances they face [10]. Behavioral finance focuses mainly on the intersection between psychology, sociology and finance in order to understand the emotional process that influences the decision of employees and investors [11]. When employees are given the mandate to make decisions by an organization, they tend to feel superior and therefore make decisions that do not look at all the information available but base them on their views as they are overconfident of their ability [12]. This led mainly to failure and therefore poor performance, as the employees were not rational. Employees may also find themselves in the middle of two conflicting beliefs when faced with a decision-making process [13]. Furthermore, the most likely thing to do with behavioral finance is that the employee will try to justify one side by changing some of the values in order to feel that they have made a good decision [13]. Moreover, Behavioral finance also affects employees where they make decisions based on recent experience instead of focusing on long-term data [14].

A number of studies have been conducted on behavioral finance [8,13]. Behavioral finance has been said to be a link between the aspect of finance and that of psychology. Behavioral finance, in most cases, affects the financial decision of investors who use their emotions and the decision to invest in stocks [15]. Research has shown that most investors fail to recognize the effect of their behavior when it comes to decision-making where they think they are making rational decisions [15].

Despite these many investigations, none of them linked behavioral finance, employees and business growth. Most of the research focused only on individual investors and how they make irrational decisions about their investments due to the impact of behavioral finance. Employees in financial organizations are a key factor in determining the success of the business, as they are the ones entrusted with the decision-making process. The authors therefore identified the need to conduct research that would link behavioral finance, business growth and employees. Thus, this work was done to analyze the role of employees in behavioral finance and business growth.

METHODOLOGY

For this work, quantitative research method was used. The target population of this study is financial consulting firms in Jeddah, Saudi Arabia. This is because financial firms take their employees to the heart of decision-making. As the research focused on the role of behavioral finance in employees and on business growth, the employees in these firms were targeted. The sample size was 80 employees from selected financial consulting firms. Employees were selected using a simple random and stratified method from the study population. For this work, data collection was done using questionnaires. The data collected were analyzed in terms of basic statistics and presented in the form of charts. The conceptual framework for this study is shown in Figure 1.

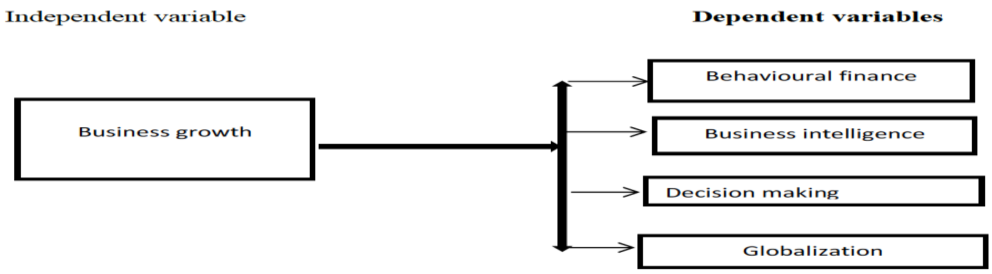

Figure 1 Conceptual Framework

Result And Discussion

Demographic Characteristics

Based on Table 1, 27.5 % of the respondents were male and the remaining 72.5 % of the respondents were female. Based on Table 1, 41.3 % of the respondents were aged below 25 years, 37.5 % were aged between 25-35 years, 18.8 % of the respondents were aged between 36 to 45 years and 2.4 % of the respondents were aged above 45 years. Based on Table 1, 43.8 % of the respondents have worked for less than 5 years for their organization, 47.4 % of the respondents have worked in for 5 to 10 years, and 8.8 % of the respondents have worked for more than 10 years.

Table 1 Demographic Characteristics

Demographic Elements	Percentage (%)
Gender	
Male	27.5
Female	72.5
Age	
< 25 years	41.3
25-35 years	37.5
36-45 years	18.8
> 45 years	2.4
Working years with the organization	
< 5 years	43.8
5 - 10 years	47.4
>10 years	8.8

Relationship Between Business Intelligence and Business Growth

The respondents were asked whether the firm uses business intelligence technology to assess the demand for its services. Based on Figure 2, 10.0 % of the respondents strongly agree, 65.0% of the respondents agree, 23.8% of the respondents were neutral, 0.0 % of the respondents disagree and 1.2 % of the respondents strongly disagree.

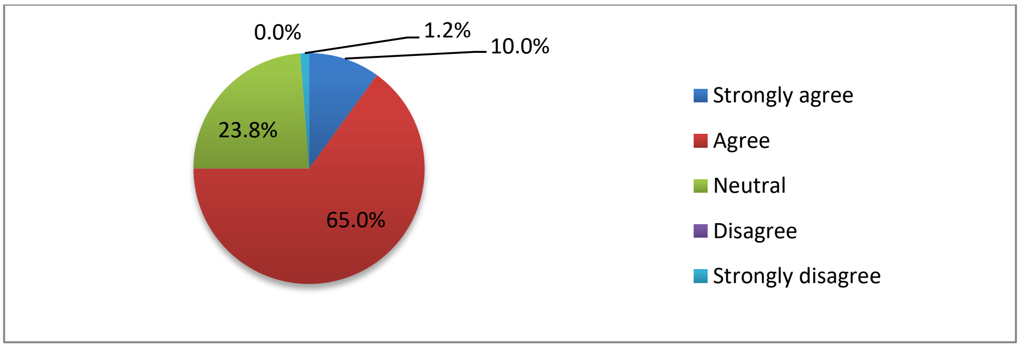

Figure 2. Firm applies business intelligence technologies to assess demand of its services

The respondents were asked whether business intelligence was a major cause of the firm's growth. Based on Figure 3, 13.8 % of the respondents strongly agree, 68.8 % of the respondents agree, 16.2 % of the respondents were neutral, 0.0 % of the respondents disagree and 1.2 % of the respondents strongly disagree.

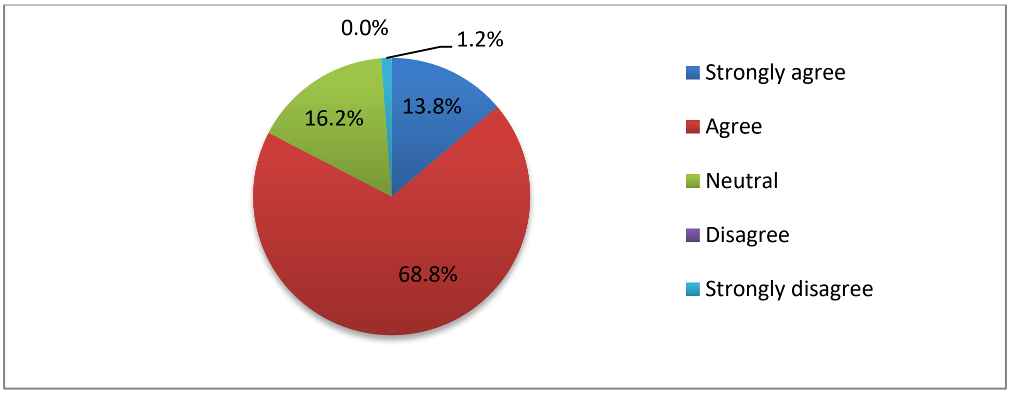

Figure 3. Business intelligence have been a great cause of growth of the firm

The respondents were asked whether data analysis using business intelligence technologies have been of great value to the firm. Based on Figure 4, 10.0 % of the respondents strongly agree, 75.0 % of the respondents agree, 15.0 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

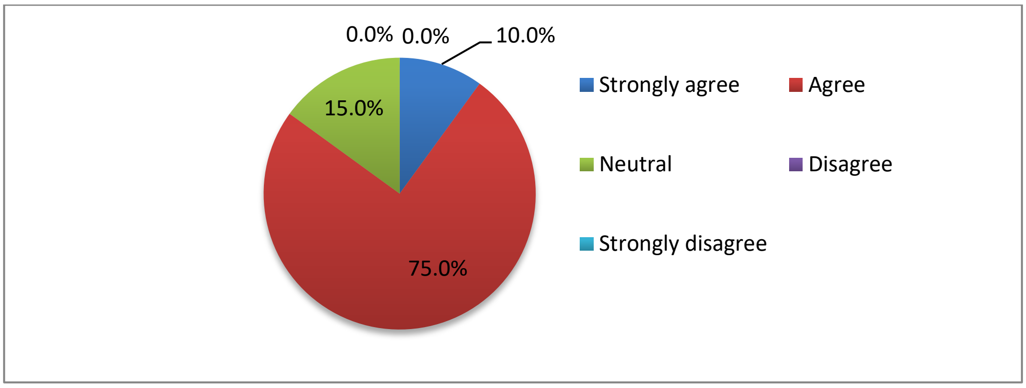

Figure 4. Data analysis using business intelligence technologies have been of great value to the firm

The respondents were asked whether the firm's business was expanding at a higher rate than when business intelligence was not being used. Based on Figure 5, 11.3 % of the respondents strongly agree, 71.3 % of the respondents agree, 16.2 % of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

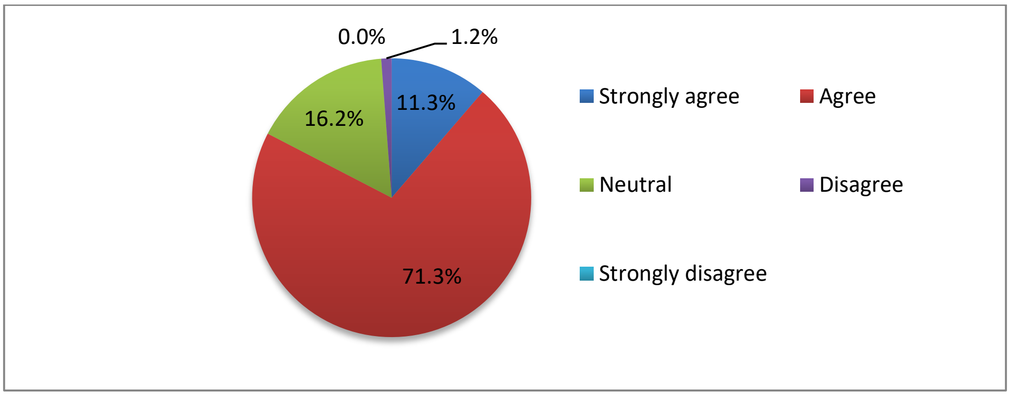

Figure 5 Firm's business was expanding at a higher rate than when business intelligence was not being used

Relationship Between Decision Making, Better Performance and Business Growth

The respondents were asked whether employees ' emotions play a greater role in their decisions, thus affecting performance. Based on Figure 6, 13.8 % of the respondents strongly agree, 76.3 % of the respondents agree, 10.0 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

The respondents were asked whether the growth of a business was affected by decisions taken. Based on Figure 7, 12.5 % of the respondents strongly agree, 67.5 % of the respondents agree, 18.8 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 1.2 % of the respondents strongly disagree.

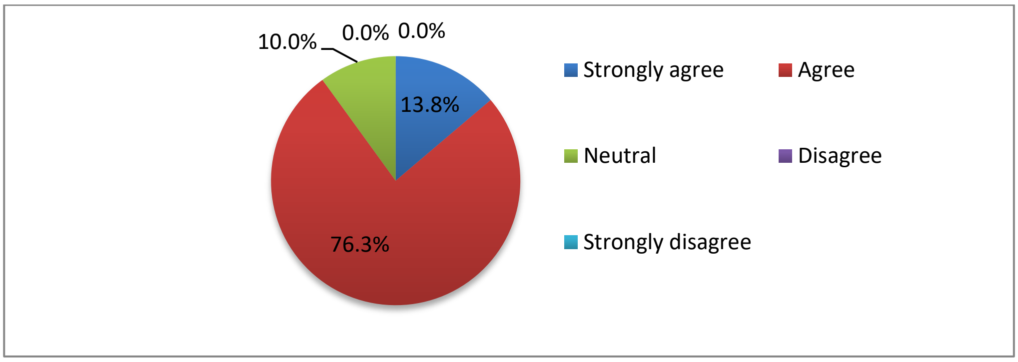

Figure 6 Employee emotions play a greater part in their decisions

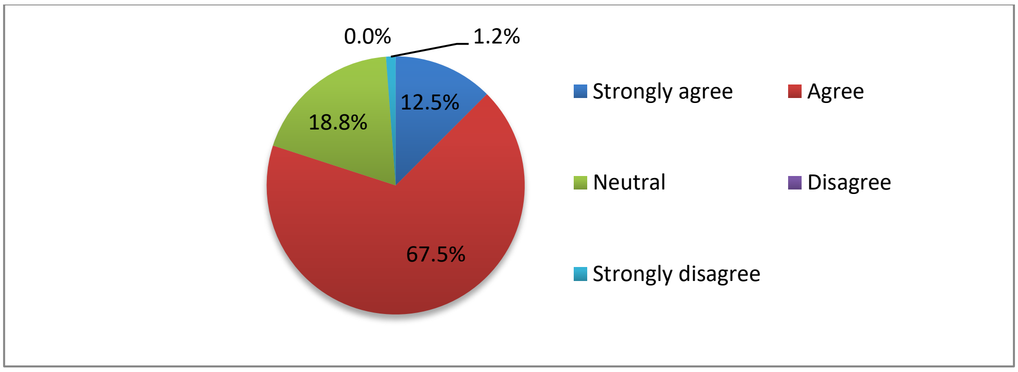

Figure 7. The growth of a business is affected by the decisions made

The respondents were asked whether poor decision-making skills led to a business failure. Based on Figure 8, 13.8 % of the respondents strongly agree, 65.0 % of the respondents agree, 21.3 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

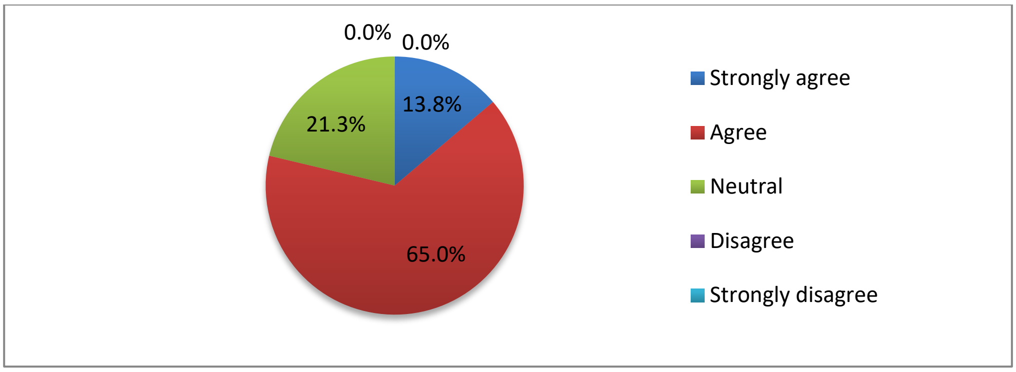

Figure 8 Poor decision-making skills led to a business failure

The respondents were asked whether managers and those in authority need to be in a stable condition when making business decisions. Based on Figure 9, 11.3 % of the respondents strongly agree, 67.5 % of the respondents agree, 21.3 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

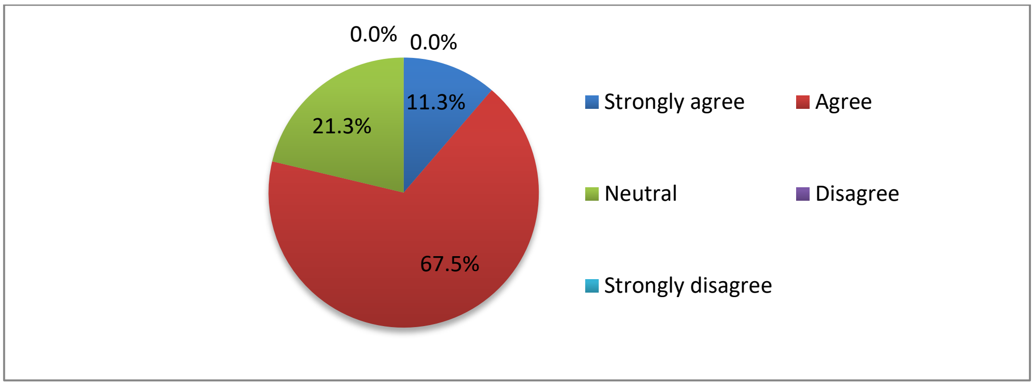

Figure 9. Managers need to be in a stable condition when making business decisions

Relationship between globalization and behavioral finance and business performance

The respondents were asked whether globalization has affected the behavior of employees. Based on Figure 10, 5.0 % of the respondents strongly agree, 75.0 % of the respondents agree, 18.8 % of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

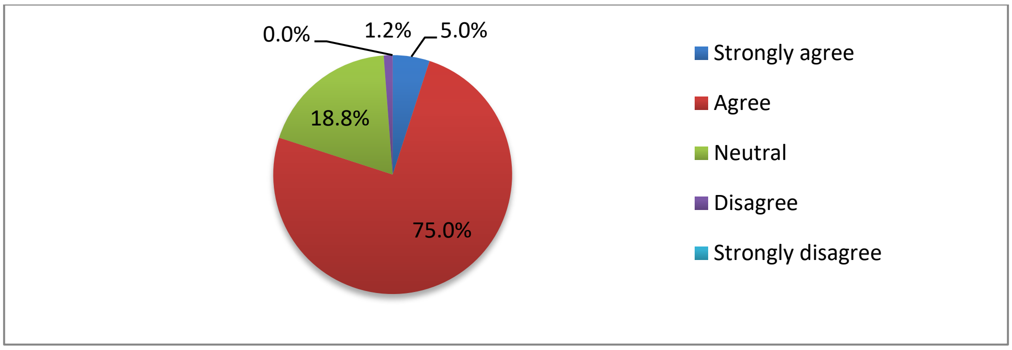

Figure 10. Globalization has affected the behavior of employees

The respondents were asked whether behavioral finance leads to business being extended to other countries. Based on Figure 11, 11.3 % of the respondents strongly agree, 71.3 % of the respondents agree, 16.2 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 1.2 % of the respondents strongly disagree.

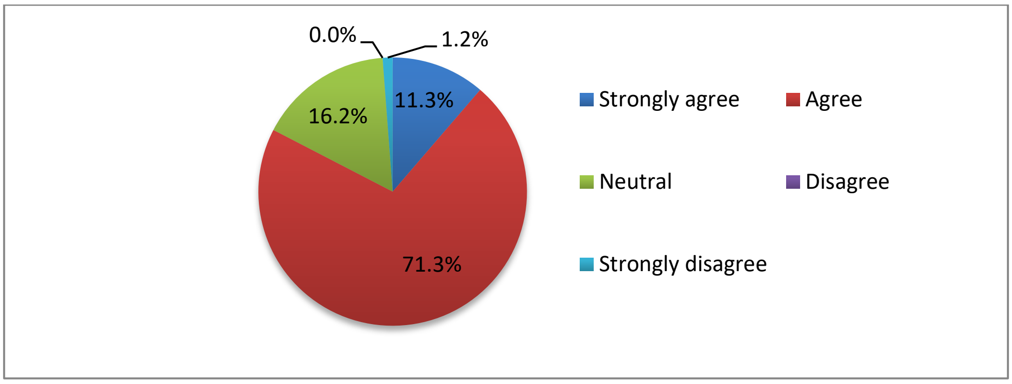

Figure 11 Behavioral finance leads to business being extended to other countries

The respondents were asked whether employees ' emotions had an impact on business expansion. Based on Figure 12, 7.5 % of the respondents strongly agree, 70.0 % of the respondents agree, 22.5 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

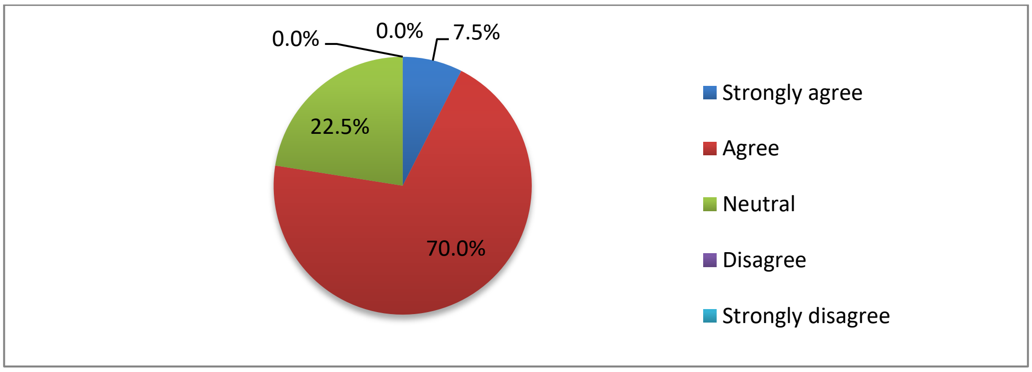

Figure 12 Employees ' emotions had an impact on business expansion

The respondents were asked whether employee bias affects the way the business operates. Based on Figure 13, 7.5 % of the respondents strongly agree, 78.8 % of the respondents agree, 12.5 % of the respondents were neutral, where as 0.0 % of the respondents disagree and 1.2 % of the respondents strongly disagree.

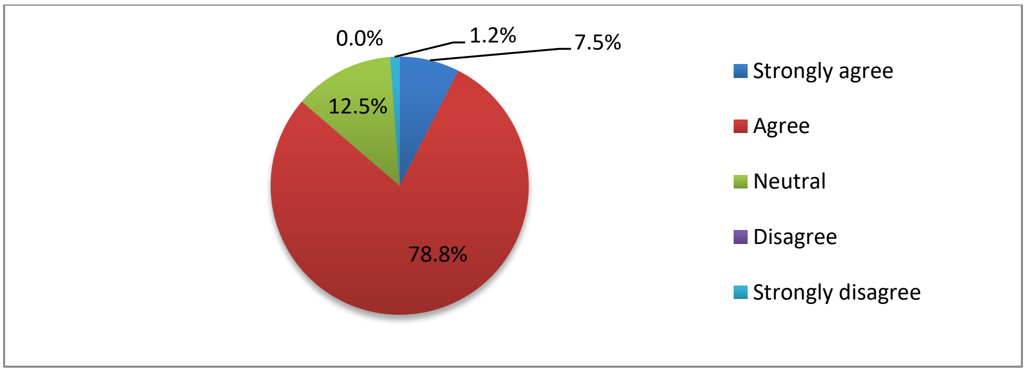

Figure 13 Employee bias affects the way the business operates

Relationship between Behavioral Finance and Business Growth

The respondents were asked whether employees who are not biased perform better. Based on Figure 14, 3.7 % of the respondents strongly agree, 73.8 % of the respondents agree, 21.3 % of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

The respondents were asked whether employees emotions had an impact on their performance and business growth. Based on Figure 15, 7.5 % of the respondents strongly agree, 76.3 % of the respondents agree, 15.0% of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

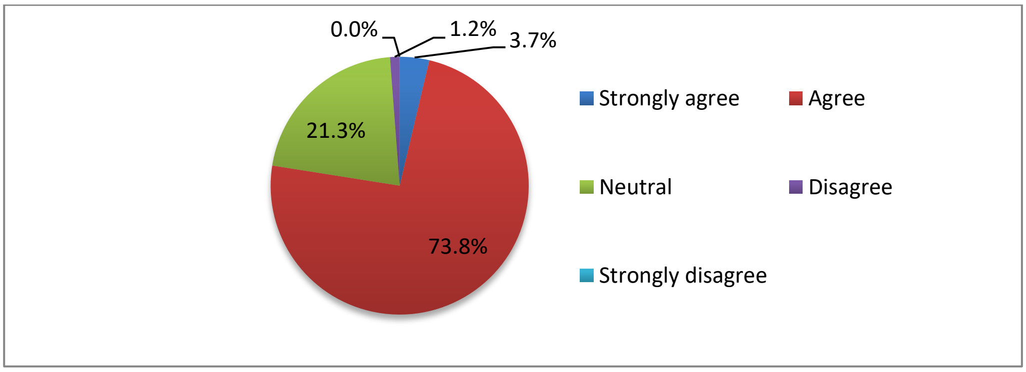

Figure 14 Employees who are not biased perform better

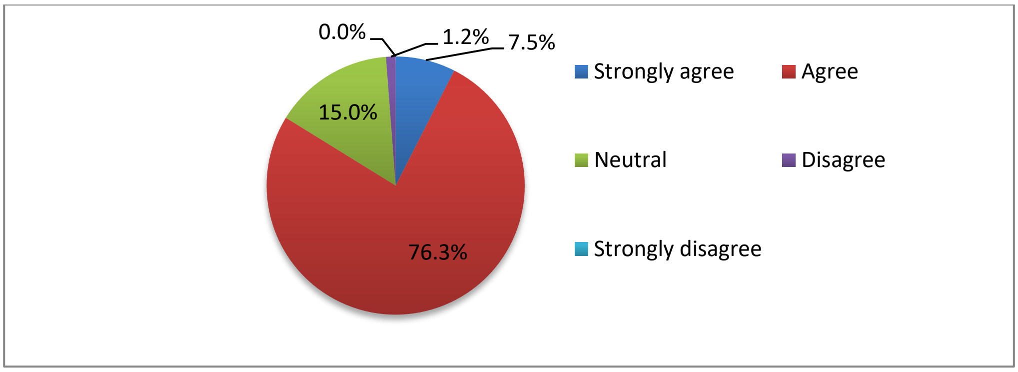

Figure 15. Employees emotions had an impact on their performance and business growth

The respondents were asked whether the personality of the managers and leaders of the organization has an impact on how other employees work and on business growth. Based on Figure 16, 8.8 % of the respondents strongly agree, 70.0 % of the respondents agree, 20.0 % of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

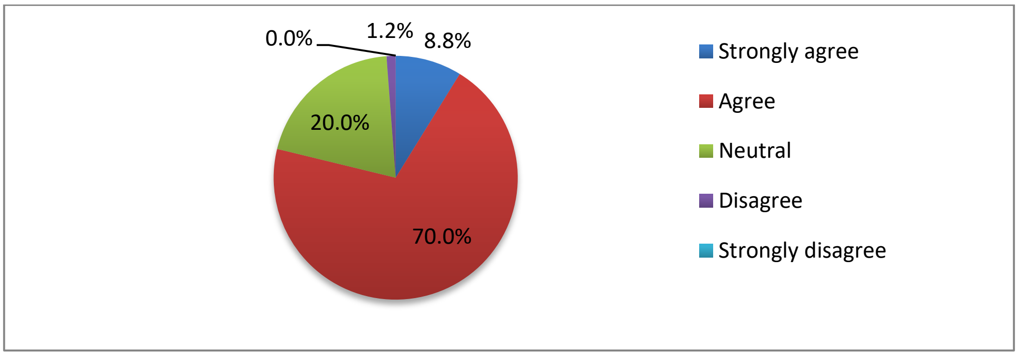

Figure 16 Personality of the managers and leaders of the organization has an impact on how other employees work and on business growth

The respondents were asked whether the business was growing faster when leaders and employees were positive about it. Based on Figure 17, 12.5 % of the respondents strongly agree, 73.8 % of the respondents agree, 12.5 % of the respondents were neutral, where as 1.2 % of the respondents disagree and 0.0 % of the respondents strongly disagree.

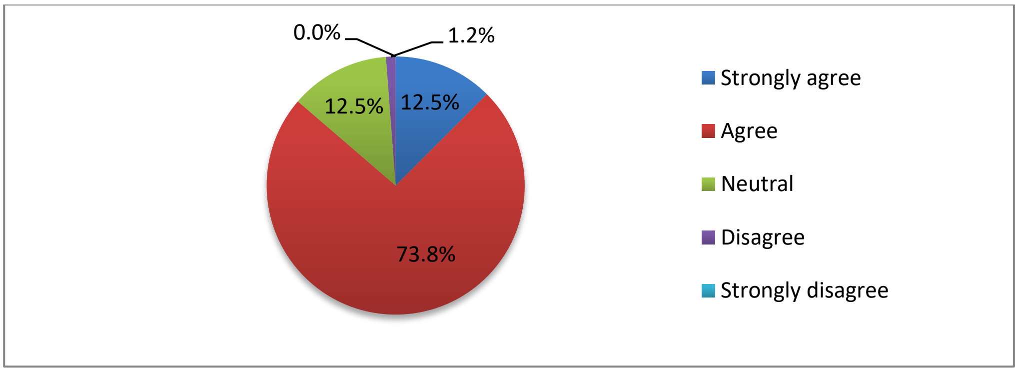

Figure 17. Business was growing faster when leaders and employees were positive about it.

Overall Discussion

The analysis looked at the relationship between business intelligence and business growth. This led to the notion that firms using business intelligence technologies are assessing the demand for their services. Firms can know the amount of demand that they have. Business intelligence is a good factor to be considered for the growth of the organization. Businesses using business intelligence are growing at a faster rate than those not using business intelligence. Firms that have been using business intelligence have showed significant importance and growth. Their value is enhanced by this business intelligence technology. The expansion rate of a company is influenced by the intelligence it has.

Furthermore, those with high business intelligence are expanding at a faster rate than those with low intelligence. The firm's competition is also analyzed using the relationship between growth and intelligence. It has been shown that firms can compete well when they have business intelligence. The data analysis also looked at the relationship between decision-making, good performance and business growth. They did this by checking the employee's emotions and decision-making processes. Employee emotions affect business performance, and the process used by the firm to make business decisions determines the fate of the organization. In addition, the result has shown that poor decision-making skills lead to poor business performance, and that the mental stability of the authorities and leaders is very influential. The relationship between globalization, business performance and behavioral finance has also been investigated. The last part of the data analysis looked at the relationship between behavioral finance and business growth. The personalities of managers and employees have shown an influence on business growth. The reasoning of the leaders and employees of the organization determines the extent of the growth rate.

Thus, the findings of this work has deduced that the role of employees in behavioral finance and business growth is very crucial and important. The findings of this work is inline with the work of Hirshleifer [16] where it was reported that employees have a significant role in determining the business growth of an organization. In addition, the work of Frydman and Camerer [17] have confirmed that financial decision making is an important element in determining the growth of an organization. This is similar to the findings of this work.

CONCLUSION

This work has scrutinized the role of employees in behavioral finance and business growth. The findings of this work have shown that there is a relationship between behavioral finance and employees, business growth, the decision-making process of the firm, and the way in which firms perform at large. Firms that have good decision-makers enjoy more behavioral finance, and their employees enjoy the benefits of a good working environment. Furthermore, the growth rate of the organization is determined by the behavioral finance rate of the firm. This determines the extent to which the company will be rated in terms of performance.

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