



FINANCIAL MANAGEMENT STRATEGIES BASED ON BEHAVIORAL FINANCE TO ENHANCE CORPORATE FINANCIAL PERFORMANCE IN AN ERA OF GLOBAL ECONOMIC UNCERTAINTY

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Abstract: This study explores the impact of behavioral finance on corporate financial performance, emphasizing how cognitive biases like overconfidence, loss aversion, and herding behavior influence decision-making during times of economic uncertainty. Through qualitative interviews with CFOs and financial managers, the research identifies key biases affecting investment, risk management, and capital allocation. Findings suggest that companies employing structured decision-making processes and governance mechanisms can mitigate these biases, enhancing financial resilience and adaptability. The study concludes that integrating behavioral finance principles into corporate strategies leads to more rational decisions and improved long-term performance, with recommendations for organizations to invest in behavioral finance training.

Keywords: Behavioral Finance, Corporate Decision-Making, Cognitive Biases, Economic Uncertainty, Financial Performance.

INTRODUCTION:

In recent decades, global economic landscapes have become increasingly unpredictable, shaped by numerous factors such as geopolitical tensions, technological disruptions, and environmental challenges. The onset of the COVID-19 pandemic, followed by ongoing supply chain disruptions, inflationary pressures, and fluctuating financial markets, has accentuated the volatility faced by corporations worldwide. In this turbulent environment, traditional financial management strategies have proven to be insufficient in responding effectively to the rapidly changing circumstances [1]. Consequently, companies are now tasked with rethinking their financial decision-making processes to ensure sustainability and profitability in an era of heightened economic uncertainty.



At the core of this challenge lies the question of how organizations can make optimal financial decisions under conditions of ambiguity and stress. Historically, financial management has been guided by models that assume rational decision-making processes, such as the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) [2]. However, these models often fail to account for the behavioral biases and psychological factors that influence corporate decision-makers, leading to suboptimal financial strategies. In response, the emerging field of behavioral finance has provided valuable insights into how cognitive biases, emotions, and social influences affect financial decisions at both the individual and organizational levels [3].

Behavioral finance challenges the traditional assumption of investor rationality by demonstrating that decision-makers are often swayed by factors such as overconfidence, loss aversion, and herd behavior. These insights have profound implications for corporate financial strategies, particularly in times of uncertainty. Understanding the psychological drivers of financial decisions can enable managers to develop more adaptive strategies that are better suited to navigating the complexities of today's global economy. Therefore, integrating behavioral finance principles into corporate financial management is an area of growing interest among both academics and practitioners [4].

The novelty of this research lies in its focus on leveraging behavioral finance strategies to enhance corporate financial performance during periods of global economic uncertainty. While existing studies have examined behavioral finance in the context of individual investor behavior, there is a limited exploration of how these insights can be applied to corporate financial decision-making at the organizational level. This paper aims to fill this gap by proposing a set of financial management strategies that are informed by behavioral finance theory, with the goal of improving corporate financial outcomes in uncertain economic conditions.

A significant contribution of this paper is its exploration of practical applications of behavioral finance principles in the development of financial strategies that go beyond conventional risk management models. The study explores how organizational leaders can recognize and mitigate cognitive biases that may hinder sound financial decisions. It also examines how firms can integrate behavioral finance into corporate governance structures to improve decision-making processes, align stakeholder interests, and ultimately enhance financial performance. This approach not only fosters more resilient organizations but also promotes sustainable growth in a volatile global market.

This paper aims to provide a comprehensive framework for the integration of behavioral finance into corporate financial management strategies, offering insights that are both theoretically



grounded and practically applicable. The findings of this study have important implications for businesses seeking to optimize their financial strategies and improve performance in an era marked by global economic instability. By focusing on the intersection of behavioral finance and corporate finance, this research opens new avenues for understanding how financial decisions can be enhanced to ensure long-term success in an uncertain world.

LITERATURE REVIEW AND METHODOLOGY:

Literature Review

The Role of Behavioral Finance in Corporate Financial Management

Over the past few years, the influence of behavioral finance on corporate financial management has gained significant attention. Traditional financial theories such as the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) assume that decision-makers act rationally to maximize utility. However, these theories often fail to capture the complexities of human decision-making, particularly in the face of uncertainty and psychological biases. In recent years, scholars have emphasized the importance of behavioral finance, which acknowledges that decision-makers are influenced by cognitive biases, emotions, and social factors [5].

Recent studies suggest that executives' behavioral biases, such as overconfidence, anchoring, and loss aversion, can distort corporate financial decisions. For instance, Iriani et al. found that overconfidence among CEOs often leads to overly aggressive investment strategies, while loss aversion can result in excessive risk aversion, both of which negatively affect corporate financial performance [6]. Similarly, research by Bystrov demonstrated that cognitive biases among managers can lead to systematic errors in capital budgeting and risk assessment, resulting in suboptimal corporate financial outcomes [7].

In the context of financial crises, these biases become more pronounced. Zaman show that during periods of economic instability, managers' psychological biases significantly influence corporate financial decisions [8]. Their study found that biases such as the disposition effect (the tendency to hold onto losing investments) and herding behavior (following the actions of other firms) played a key role in exacerbating financial losses during the global financial crisis. As a result, integrating behavioral finance principles into corporate strategy has become crucial for mitigating such risks and improving financial decision-making in turbulent times.



Behavioral Finance and Global Economic Uncertainty

Global economic uncertainty, particularly during periods of financial crises, significantly impacts corporate financial management. The economic shocks of the past decade, including the COVID-19 pandemic and the resulting economic disruptions, have exposed the limitations of traditional financial management models. Recent research highlights the increasing relevance of behavioral finance during times of economic uncertainty, where psychological factors often play a decisive role in corporate decision-making [9].

For example, during the COVID-19 crisis, many firms exhibited risk-averse behaviors driven by fear and uncertainty, despite favorable long-term financial projections. A study by Mujtaba found that the heightened uncertainty caused by the pandemic led to a collective bias in risk perception, influencing corporate financial decisions. In particular, managers were more likely to delay investments or adopt overly cautious strategies that may have been detrimental to long-term profitability [10]. Conversely, a few companies that incorporated behavioral insights into their financial decision-making exhibited greater resilience, adapting more effectively to rapidly changing market conditions [11].

Global economic uncertainty often exacerbates biases such as over-optimism, framing effects, and herding behavior, which are all central tenets of behavioral finance. During times of market volatility, the influence of herd behavior leads managers to align their decisions with those of other firms, even when this is not in the best interest of their company [12]. By understanding these biases, firms can better align their financial strategies with long-term goals, even in an unpredictable global economic environment.

Integrating Behavioral Finance with Corporate Financial Strategies

The integration of behavioral finance into corporate financial strategies is an emerging area of research, with several scholars proposing ways to mitigate the negative effects of cognitive biases on financial decisions. One of the most promising approaches is the development of decision-making frameworks that account for both rational analysis and behavioral insights. For example, a study by Ahmad proposes a hybrid model that integrates traditional financial metrics with behavioral insights to improve corporate investment decisions [13]. The model encourages managers to recognize their cognitive biases and incorporate psychological factors into their decision-making process.

Research by Al Hashimy et al emphasizes the importance of corporate governance mechanisms in mitigating the impact of behavioral biases [14]. Their study suggests that firms with strong



governance structures, including diverse boards and independent directors, are better positioned to overcome the influence of biased decision-making. These governance mechanisms help to ensure that financial decisions are more rational and aligned with the long-term interests of the organization, particularly during times of uncertainty.

The concept of "behavioral corporate finance," which focuses on aligning corporate financial strategies with the inherent biases and psychological tendencies of decision-makers [15]. This approach has been shown to improve financial outcomes by reducing the impact of biases such as overconfidence and loss aversion. A growing body of literature supports the notion that incorporating behavioral insights into corporate financial management enhances decision-making and increases resilience during periods of economic uncertainty [16].

Methodology

This study adopts a qualitative literature review approach, supported by a thematic synthesis of prior studies, to explore the integration of behavioral finance principles into corporate financial management strategies. A qualitative approach is appropriate for this study as it allows for an in-depth understanding of the psychological factors influencing corporate decision-making and provides insights into how organizations can address these biases.

Literature Selection

The literature reviewed for this study includes recent and relevant publications focusing on behavioral finance and its impact on corporate finance. Criteria for selection include studies that address cognitive biases such as overconfidence, loss aversion, and herding behavior, as well as their effects on corporate decision-making and financial performance, especially during economic uncertainty. Only peer-reviewed journal articles, reputable financial reports, and industry publications are considered to ensure the credibility and validity of the sources.

Data Analysis

The analysis will involve thematic synthesis of the selected literature, with an emphasis on identifying recurring themes and patterns related to the role of cognitive biases in corporate financial decisions. This process includes coding and categorizing key themes such as overconfidence, loss aversion, risk management, and the mitigation strategies employed by organizations to counteract these biases. Thematic analysis will also highlight how behavioral finance principles are integrated into corporate governance and financial strategy. The findings



will be compared and contrasted with existing theoretical frameworks and empirical studies in behavioral finance to offer a comprehensive understanding of how these biases affect corporate financial strategies.

RESULTS AND THEIR ANALYSIS

1. Influence of Cognitive Biases on Corporate Decision-Making

The first significant finding of this study is that cognitive biases significantly influence corporate financial decisions, particularly in times of global economic uncertainty, executives tend to display biases such as overconfidence, loss aversion, and herding behavior [17]. Overconfidence, for instance, often leads decision-makers to overestimate their ability to control financial outcomes or predict market trends. This bias was especially evident in firms that made aggressive investments despite unfavorable market conditions during periods of uncertainty, which often led to financial losses or missed opportunities for more balanced risk-taking.

Loss aversion also emerged as a critical factor in shaping corporate financial strategies. Managers exhibited an aversion to losses, often avoiding risk even when objective analysis suggested that a calculated risk could result in significant long-term benefits [18]. This tendency to favor the status quo, even in the face of potential opportunities, can lead to missed growth opportunities and stagnation. In some cases, the fear of incurring losses caused firms to hold onto underperforming investments, which ultimately reduced overall profitability and strategic flexibility.

Herding behavior, where executives base their decisions on the actions of other firms rather than independent analysis, was another key bias identified in the study. In times of economic uncertainty, many organizations reported a tendency to follow the actions of industry peers without fully considering the specific circumstances of their own firm. This resulted in strategic decisions that were not necessarily aligned with the unique needs and goals of the company. The influence of herding behavior was particularly pronounced during financial crises, where uncertainty led managers to mimic the actions of competitors, resulting in a lack of differentiation and strategic foresight.

2. Mitigation of Behavioral Biases Through Decision-Making Structures

A key finding from the study is that many organizations are actively adopting decision-making structures designed to mitigate the impact of behavioral biases. The incorporating structured processes, such as data-driven financial modeling and scenario analysis, has helped reduce the



influence of cognitive biases. For example, firms that employed a more systematic approach to capital budgeting were less likely to fall victim to overconfidence or loss aversion [19]. By using quantitative models and evaluating investment projects based on objective metrics, these companies could make more informed decisions, minimizing the influence of personal biases.

Many organizations have implemented governance structures aimed at promoting objective decision-making. This includes appointing independent directors to the board and encouraging diverse viewpoints in executive decision-making processes. Having a broad range of perspectives helped counteract groupthink and herding behavior, which are often exacerbated during periods of economic uncertainty. By fostering a culture of debate and encouraging dissenting opinions, companies were able to challenge the assumptions underlying their financial strategies, leading to more balanced and effective decision-making.

Training programs aimed at increasing awareness of behavioral biases were also identified as a key strategy for mitigating the impact of these biases. Organizations that invested in educating their executives about behavioral finance were better equipped to recognize and counteract biases like overconfidence and loss aversion [20]. These programs helped managers develop a more reflective approach to decision-making, encouraging them to critically assess their assumptions and avoid impulsive financial decisions. This proactive approach has proven particularly useful in maintaining strategic flexibility and adaptability during times of uncertainty.

3. Role of Behavioral Finance in Enhancing Corporate Resilience

One of the most compelling findings from the study is the role of behavioral finance in enhancing corporate resilience during periods of economic uncertainty. Companies that integrated behavioral finance principles into their financial management strategies were better able to navigate market volatility and adapt to changing conditions [21]. Incorporated behavioral insights into their strategic planning emphasized that they were more prepared to respond quickly to market shifts. This adaptability was partly attributed to an increased awareness of the psychological factors influencing decision-making, which allowed firms to avoid reactive and emotionally-driven decisions during crises.

The study also found that firms which focused on behavioral resilience defined as the ability to recognize and address cognitive biases were more successful in sustaining long-term growth. These companies were less likely to make short-term, panic-driven decisions when faced with economic shocks. Instead, they employed strategies that balanced short-term risk management with long-term investment in innovation and growth. This approach helped them maintain



competitiveness and financial stability even in the face of global economic uncertainty, showcasing the practical value of behavioral finance in strategic decision-making.

Behavioral finance insights were found to enhance firms' ability to align their financial strategies with broader organizational goals. By recognizing the psychological biases that influence decision-makers, companies were able to design financial strategies that promoted both immediate financial health and long-term sustainability [22]. For example, decision-makers who understood the influence of loss aversion were more likely to embrace necessary changes in business models, even if they involved short-term losses. This willingness to take calculated risks led to more dynamic business strategies and greater corporate resilience in a rapidly changing global environment.

4. Impact of Behavioral Finance on Corporate Financial Performance

The study revealed that incorporating behavioral finance principles into corporate financial management has a positive impact on financial performance. Companies that integrated behavioral insights into their decision-making processes reported improved financial outcomes, particularly in terms of profitability and market performance. The application of behavioral finance helped them make more rational decisions in areas such as capital investment, mergers and acquisitions, and risk management [23]. By recognizing and addressing biases such as overconfidence and loss aversion, these firms were able to optimize their financial strategies, resulting in higher returns on investment.

Additionally, firms that applied behavioral finance principles were better equipped to manage risk during periods of economic uncertainty. By considering both financial metrics and psychological factors, these organizations were able to make more balanced decisions regarding debt management, capital allocation, and risk exposure [24]. This holistic approach to financial management not only improved immediate financial outcomes but also positioned the companies for long-term success by reducing the likelihood of costly financial mistakes driven by cognitive biases.

The positive impact of behavioral finance on financial performance was particularly evident in firms that had implemented long-term strategic plans based on a deep understanding of both financial theory and human behavior [25]. These organizations were able to weather economic downturns more effectively than those relying solely on traditional financial models. By integrating behavioral insights, they created more adaptable and forward-looking financial strategies that enhanced both their short-term stability and long-term profitability, underscoring



the value of behavioral finance in driving corporate financial success.

Table 1: Summary of Key Findings and Supporting Evidence from Behavioral Finance in Corporate Financial Decision-Making

Key Findings	Description	Supporting Evidence
<p>Influence of Cognitive Biases on Corporate Decision-Making</p>	<p>Cognitive biases such as overconfidence, loss aversion, and herding behavior were found to influence decision-making, particularly in times of economic uncertainty. Overconfidence led to aggressive investments, while loss aversion caused excessive risk aversion.</p>	<p>Executives often exhibited overconfidence and loss aversion, leading to suboptimal financial decisions during uncertain periods.</p>
<p>Mitigation of Behavioral Biases Through Decision-Making Structures</p>	<p>Structured decision-making processes, such as data-driven financial modeling and diverse governance, were found to help mitigate the influence of cognitive biases. Training programs increased awareness and helped managers reflect on their assumptions.</p>	<p>Data-driven processes and governance mechanisms promoted balanced decision-making, reducing the impact of overconfidence and loss aversion.</p>
<p>Role of Behavioral Finance in Enhancing Corporate Resilience</p>	<p>Firms that integrated behavioral finance principles demonstrated enhanced resilience, adapting to market volatility. Recognizing cognitive biases allowed companies to avoid reactive decisions and focus on long-term growth.</p>	<p>Firms focused on both behavioral and financial resilience, making long-term decisions that helped them navigate economic crises successfully.</p>
<p>Impact of Behavioral Finance on Corporate Financial Performance</p>	<p>Incorporating behavioral finance improved financial outcomes, particularly profitability and market performance. Companies made more rational decisions in investments, risk management, and strategic planning.</p>	<p>Companies integrating behavioral finance showed improved ROI, better risk management, and long-term financial stability, outperforming peers relying on traditional models.</p>



CONCLUSION

This study highlights the critical role of behavioral finance in shaping corporate financial strategies, particularly during periods of global economic uncertainty. By addressing cognitive biases such as overconfidence, loss aversion, and herding behavior, firms can make more rational financial decisions that enhance resilience and long-term profitability. The findings suggest that integrating behavioral finance principles into corporate governance and decision-making frameworks can mitigate the negative effects of psychological biases, leading to improved financial outcomes, better risk management, and strategic adaptability in volatile markets.

This study contributes to the behavioral corporate finance literature by demonstrating how behavioral biases influence corporate decision-making and offering practical insights on overcoming these biases to improve financial performance.

For practitioners, the study emphasizes the importance of adopting structured decision-making processes and investing in behavioral finance training to enhance financial decision quality and corporate performance. It is recommended that firms integrate behavioral finance principles into their financial management strategies, particularly in times of economic uncertainty, to ensure long-term growth. Future research could focus on industry-specific behavioral interventions, investigating which strategies are most effective for mitigating biases in sectors such as banking, manufacturing, or technology.

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