

The Impact of moderate policy in determining the optimal investment on investor decisions

By

Hassanein Ali Salman

Accounting Department, Faculty of Administration and Economics, University of Karbela,
IRAQ

E.mail: hassanein.a@s.uokerbala.edu.iq

Hussen Amran Naji Al-Refiay

Accounting Department, Faculty of Administration and Economics, University of Karbela,
IRAQ

E.mail: hussen.amran@uokerbala.edu.iq

Abstract

The business world today sometimes faces unexpected challenges, such as the financial crises and the Corona pandemic, which greatly affect the optimal investment. Therefore, due to the uncertainty in the business environment, banks must maintain the necessary liquidity to be able to overcome any financial problem in times of crisis, and the choice of this policy depends largely on liquidity. This study aims to achieve two main goals: First goal is to measure the extent of the influence of moderate policy on optimal investment. Second goal is measure the impact of optimal investment on investors' decisions. To achieve these two goals, this study uses a questionnaire distributed to (13) banks, from which (120) answers were obtained from which the effect of moderate policy in determining the optimal investment was studied. Using the statistical program (Smart-PLS) the questionnaire was analyzed, where the results of this study indicated that the moderate policy affects the optimal investment in a positive way, and thus its reflection on the decisions of investors in a positive way. The two hypotheses of the study were accepted because (P value = 0.000) is the highest degree of acceptance.

Keywords: moderate policy, optimal investment, investor decisions.

1. Introduction

The moderate policy falls between the adventurous policy and the conservative policy [1]. The meaning of this policy is that the working capital of banks is optimally balanced if they take balanced risks in managing their working capital and produce balanced profits [2]. [3] Indicates that the goal of moderate politics is to reduce the disadvantages of adventurous politics and conservative politics and to maximize its advantages. Second: Moderate policy - adventurous: it is the policy designed according to the principles of adventurous politics. Medium and small-sized banks in GPOs, which have a major role in the growth of the Polish economy, may adopt a generally moderate-conservative policy from 2015 to 2020 regarding working capital management. Regarding liquidity ratios, the quick ratio the numbers actually obtained. Highlights that these banks are safe [4]. In addition, the liability turnover in days is greater than the receivables turnover, and the period of collection of receivables Inventory turnover in days is greater than the inventory turnover. The main thing that should not be overlooked is that the low efficiency of managing current assets and high costs are still disadvantages Moderate-conservative politics [5]. [6] Define optimal investment as an

Published/ publié in *Res Militaris* (resmilitaris.net), vol.13, n°2, January Issue 2023

activity with monetary values that is invested in various activities (entrepreneurial and other activities) in order to achieve profits. The theory of knowledge spread for entrepreneurial work focuses on the role of knowledge organizations such as institutes and universities in the production and dissemination Knowledge The occupational selection theory indicates that, based on the relative attractiveness of those jobs, individuals choose professions, and according to this theory, optimal investment affects the behavior of entrepreneurship by affecting the expected profits of project owners [7].

[8] Defines the optimal investment decision as a complex and dynamic process, and researchers have paid attention to many factors that affect the interaction between the entrepreneur and the investor. According to the signal theory, the profits obtained by the banks will be a signal from the management to show the level of profits obtained by the banks, so that profitability affects the value of the banks with the support of research [9]. In the statement of cash flows and the statement of financial position are useful in making investor decisions [10].

The fact that banks must take into account due to the financial crises they are facing and the subsequent drying up of liquidity in addition to the COVID-19 pandemic is that in the era of financial distress, some of the appropriate decisions to free from financial obstacles is to make appropriate choices regarding moderate policy, And the options related to moderate policy are some of the responsibilities of bank managers that enable them to improve the financial condition of banks during crises [3]. For optimal investment, banks must use moderate policy [5] And the financial crisis in 2008 led to great losses in the activities of banks [11]. These problems led to the study of the impact of moderate policy in determining the optimal investment and its reflection on investors' decisions. And decisions related to moderate policy are the most important challenge for executives, as they can play a critical role in times of crisis in improving the financial situation of banks [12].

Hence, two main research questions can be formulated as follows

First: Does the moderate policy affect the determination of the optimal investment?

Second: Does the optimal investment affect the decisions of investors?

The two main objectives of the study can be formulated as follows

First: Measuring the extent of the influence of moderate policy on optimal investment.

Second: Measuring the impact of optimal investment on investors' decisions.

The importance of the research stems from the fact that the financial crises faced by banks and the subsequent drying up of liquidity, in addition to the Corona pandemic, led these crises to study the impact of moderate policy in determining the optimal investment because of its significant impact on the growth of banks in the long term and thus reflected positively on the decisions of investors Moderate policy works to achieve an optimal balance, especially when banks produce balanced profits and take balanced risks in managing their working capital [13]. [5] Refers to a moderate policy that works to reduce the shortcomings of adventurous politics and conservative politics and to maximize its advantages.

This is the first study that examines the effect of moderate policy in determining the optimal investment. The understanding of this policy has a great role to increase the understanding of the extent of the impact of this policy in determining the optimal investment, and therefore this is added to the field of accounting knowledge by relying on results explained according to accurate scientific bases[14]. Therefore, the results of this study by providing a better understanding of the moderate policy contribute to determining

investment. Significant optimization and thus a positive impact on the decisions of investors. Moreover, the results and recommendations of this study serve to practically assist the banks in employing the moderate policy appropriately to achieve the optimal investment on the one hand. Decision makers benefit from the current results in taking the appropriate and appropriate decision, especially when this policy is applied in the banking sector on the other hand.

2. Literature Review and Hypotheses Development

It is necessary to review the previous studies that dealt with the subject of moderate policy, the issue of optimal investment and the decisions of investors to contain the subject of the study and to benefit from the most important results of the studies, their recommendations and proposals. Therefore, we include some studies related to the subject of the research, as shown below. A study [15] that dealt with the topic of "the relationship between working capital management policies and profitability", where the results of this study indicate a significant effect of moderate working capital policy and profitability, and there is a stronger relationship between working capital policy and profitability of industrial pharmaceutical companies Jordanian pharmaceutical companies that followed a moderate policy compared to those that followed an adventurous policy, the Jordanian pharmaceutical companies did not follow a conservative policy and therefore the study was not able to test the hypothesis related to the impact of conservative policy on the profitability of companies.

By discussing this study that touched on moderate politics, the first hypothesis can be formulated as follows:

H1: Moderate policy positively affects optimal investment.

[16] Found that higher reporting quality increases shareholders' ability to monitor managers and thus reduces managerial incentives to overinvest. As for the study, [17] it dealt with the topic of "analysis of net profit, dividends, debts, cash flows and net working capital that affects investment decisions in manufacturing companies. [18] The results of the study indicate that the factors of net profit and net working capital, earnings, debt, and free cash flow influence the decisions of investors in manufacturing companies on the Indonesia Stock Exchange. By discussing previous studies that dealt with optimal investment and Investors' decisions, the hypothesis of the second study can be formulated as follows:

H2: Optimum investment positively affects the decisions of investors.

3. Research Methodology and Design

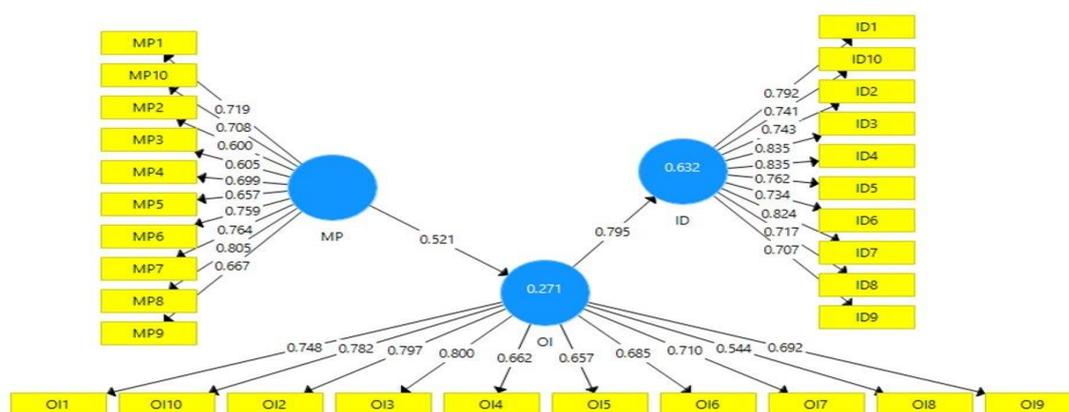
P-values of β are the most common indicators of the importance of model relationships. To test hypotheses, T-values and the smoothing confidence interval are used to confirm the interpretation of the significance of model relationships [19]. The empirical p value must be less than the intended significance level; For example, to conclude that the path coefficient is statistically significant. P-values of 0.05) must be a significance level less than (0.05). The following table presents the results of the study's hypotheses testing according to the Smart-PLS program.

Table 1. Study hypotheses test results.

Path	Original Sample	Sample Mean(M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
MP OI	0.521	0.549	0.076	6.884	0.000
OI ID	0.796	0.804	0.042	19.143	0.000

It is noted from the above table that: First: The effect of the moderate policy (MP) on the optimal investment (OI) was a statistically significant effect because the P-Value amounted to (0.000), which is less than the accepted and specified error value by (0.05), and therefore the first research hypothesis is accepted. These results can be traced back to the theoretical heritage, as [15] the results of her study, which dealt with the topic of “The Relationship Between Working Capital Management Policies and Profitability,” indicate that there is a significant effect of moderate policy and profitability in Jordanian pharmaceutical industrial companies that followed a moderate policy compared to Those that followed an adventurous policy. Second: It is noted from the above table that the impact of optimal investment (OI) on investors’ decisions (ID) was a statistically significant effect because the P-Value amounted to (0.000), which is less than the accepted and specified error value by (0.05), and therefore the second research hypothesis is accepted. These results can be attributed to the theoretical heritage, as [17] indicate in their study that investors need a lot in the stock market to determine viable stocks when making investor decisions. Moreover, the statistical analysis confirms that there is an important relationship between profitability and investor perception, but this relationship was significantly evident when the regression test and the linear relationship test were combined to analyze the other indicator of investor perception (ROE and EPS). Therefore, the study recommends the necessity of using more than one statistical method by researchers when studying the relationship between profitability and investor perception in order to understand the strength and direction of the relationship between profitability and investor perception so that they do not reach a wrong conclusion.

Figure (1) A model for measuring and testing the impact of moderate policy in determining the optimal investment and showing its impact on investor decisions



We notice from the above figure that the values on the arrows represent saturation.

According to the opinion of (Hair et al., 2017), the paragraphs with saturation of more than 0.70 are preserved, and paragraphs whose saturation is less than 0.40 are deleted, either paragraphs whose values range between 0.40 - 0.70 are deleted on the condition that they

lead to an improvement in the values of the criteria. The researcher did not delete any paragraph because the values of all criteria are good.

4. Conclusions, Recommendations and Suggestions for Future Researchers

Conclusions

1. Banks use stock investment in a moderate manner, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
2. Banks use the short-term equity investment policy in a moderate manner, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
3. Banks use the policy of investing in short-term bonds in a moderate manner, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
4. Banks maintaining moderate cash flow leads to an optimal investment of the available resources and thus improve investors' decisions.
5. The moderate level of receivables leads to an optimal investment of the available resources and thus improves investors' decisions.

Recommendations

1. Banks should use a moderate policy when investing in stocks, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
2. Banks should use a moderate policy when investing in short-term stocks, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
3. Banks should use a moderate policy when investing in short-term bonds, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
4. Banks should use a moderate policy when they decide to maintain cash flow, and this leads to an optimal investment of the available resources and thus improves investors' decisions.
5. Banks should use a moderate policy when there are receivables, and this leads to an optimal investment of available resources and thus improves investors' decisions.

Suggestions for Future Researchers

1. Encouraging researchers to study the moderate policy and to show its impact on the quality of financial reports.
2. Encouraging researchers to study moderate policy and show its impact on liquidity management strategies.
3. Encouraging researchers to study the moderate policy and to show its effect on the net profit.
4. Encouraging researchers to study the optimal investment and to show its impact on the quality of financial reports.
5. Encouraging researchers to study the optimal investment and to show its impact on liquidity management strategies.

6. Encouraging researchers to study the optimal investment and to show its impact on the net profit.

References

- M. Kowhakul, 'Personal Factors Affecting To Financial Planning Of Thai People', In Rsu International Research Conference, 2019, Vol. 4, No. 1, Pp. 1–23.
- A. Al-Khoury Et Al., 'Intellectual Capital History And Trends : A Bibliometric Analysis Using Scopus Database', Sustainability, Vol. 14, No. 16, Pp. 1–27, 2022.
- G. Zimon And H. Tarighi, 'Effects Of The Covid-19 Global Crisis On The Working Capital Management Policy: Evidence From Poland', J. Risk Financ. Manag., Vol. 14, No. 4, P. 169, 2021.
- H. H. Flayyih And W. Khiari, 'An Empirical Study To Detect Agency Problems In Listed Corporations: An Emerging Market Study', J. Gov. Regul., 2023.
- G. Zimon And R. Dankiewicz, 'Trade Credit Management Strategies In Smes And The Covid-19 Pandemic—A Case Of Poland', Sustainability, Vol. 12, No. 15, P. 6114, 2020.
- G. Umarova And S. N. Uaysovich, 'Theoretical Analysis Content And Essence Of The Concept Of" Investment', Asian J. Technol. Manag. Res. Issn, Vol. 2249, No. 0892, 2022.
- S. Shane, 'Explaining Variation In Rates Of Entrepreneurship In The United States: 1899–1988', J. Manage., Vol. 22, No. 5, Pp. 747–781, 1996.
- O. Colombo, 'The Use Of Signals In New-Venture Financing: A Review And Research Agenda', J. Manage., Vol. 47, No. 1, Pp. 237–259, 2021.
- I. Yanti And N. Darmayanti, 'The Effect Of Profitability, Firm Size, Capital Structure And Liquidation On Firm Value', Manag. E-Journal Udayana Univ., Vol. 8, No. 4, Pp. 12–21, 2019.
- Z. K. A. A, H. H. F. B, And S. I. H. C, 'The Relationship Between Audit Services And Non-Audit Actuarial Services In The Auditor ' S Report Abstract Article History : Received 30 Dezember 2021 Keywords: Despite The Lack Of Confirmed Information By Researchers Explaining Its Historical Origins A', Pp. 1–14, 2022.
- O. Aregbeyen, 'Cointegration, Causality And Wagner's Law: A Test For Nigeria 1970-2003', Econ. Financ. Rev., Vol. 44, No. 2, P. 1, 2006.
- M. Salehi, N. Mahdavi, S. Z. A. Dari, And H. Tarighi, 'Association Between The Availability Of Financial Resources And Working Capital Management With Stock Surplus Returns In Iran', Int. J. Emerg. Mark., 2018.
- H. A. N. A. A, A. S. A. B, S. S. K. Al-, C. Analysis, And C. Flow, 'The Impact Of Financial Accounting In Decision Making Processes In Business Article History : Information ', Pp. 1–13, 2022.
- H. H. Flayyih, S. M. Mutashar, And A. H. Murad, 'Measuring The Level Of Performance Of Accounting Units And Their Impact On The Control Environment Hakeem Hammood Flayyih A , Sabah Salman Mutashar B , Amjed Hamed Murad C Article History : Keywords : Performance ; Control Environment ; Excellence In Perf', Int. J. Prof. Bus. Rev., Vol. 7, No. 4, Pp. 1–23, 2022, Doi: <https://doi.org/10.26668/Businessreview/2022.V7i4.E680>.
- S. N. Maswadeh, 'An Evaluation Of Smes Satisfaction Toward Jordanian Islamic Banks Service Quality', Procedia Econ. Financ., Vol. 23, Pp. 86–94, 2015.
- S. Roychowdhury, N. Shroff, And R. S. Verdi, 'The Effects Of Financial Reporting And Disclosure On Corporate Investment: A Review', J. Account. Econ., Vol. 68, No. 2–3, P. 101246, 2019.

- A. Akinola And F. Akinsulere, 'Investors' Perception And Profitability Of Listed Companies: Evidence From Nigeria', *J. Account. Tax.*, Vol. 11, No. 9, Pp. 139–144, 2019.
- S. Sitompul And S. Khadijah, 'Analysis Net Profit, Dividend, Debt, Cash Flow, And Capital Net Working That Influence Investment Decisions On Manufacturing Companies', *Int. J. Res. Rev.*, Vol. 7, No. 3, 2020.
- J. F. Hair Jr, M. Sarstedt, C. M. Ringle, And S. P. Gudergan, *Advanced Issues In Partial Least Squares Structural Equation Modeling*. Sage Publications, 2017.