


Chapter 6

The Future of Behavioral Finance: Challenges and Opportunities in the Era of Digital Transformation

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ABSTRACT

The digital transformation has changed the society and industries through digital technologies which cause the number of challenges and opportunities. These digital technologies include a broad range of technologies and innovation such as artificial intelligence, big data analytics, cloud computing, blockchain, and the Internet of Things. The application of aforesaid digital technologies re-forming the investors' behavior towards trading and making investment decisions. Therefore, this paper investigates the complex link between digital transformation and behavioral finance, discovering the challenges and opportunities in an ever-evolving technological setting. Technological advancement and demographic shifts suggest that the adaptation of digital change by distinct age groups and their behavioral impacts towards financial decision-making are crucial. This conceptual paper examines the effects of these elements and provide vision regarding organizations' navigation at this multifaceted environment to prosper in the future.

DOI: 10.4018/979-8-3693-7160-2.ch006

1. INTRODUCTION

Behavioral finance is a discipline of behavioral economics. It was developed as a response to the drawbacks of conventional theories of finance, specifically the Efficient Market Hypothesis (EMH) and rational choice theory. These theories reflect that investors are well aware of all pertinent information and act rationally on that information (Hill, 2018). However, behavioral finance illustrates that individuals may not make decisions based on a rational inquiry of all the available information¹ and financial markets are not always perfectly efficient. It recognizes that investor behavior can be influenced by psychological biases, such as overconfidence, herding behavior, and loss aversion. Psychological factors and biases can serve as a valuable source for elucidating numerous kinds of market anomalies, including those detected in the stock market, such as the rise and fall in stock prices. Behavioral finance proposes that psychological factors and biases influence the behaviors of investors and financial practitioners while making key financial decisions². In recent years, behavioral finance has attained more recognition and importance. As the world is experiencing a swift digital transformation, behavioral finance is also developing gradually.

Digital transformation can be defined as a process that aims to improve an entity by activating significant changes to its properties through combinations of information, computing, communication, and connectivity technologies (Vial, 2019). Digital transformation encompasses the profound changes taking place in society and industries using digital technologies (Agarwal et al. 2010; Majchrzak et al. 2016). At the industrial level, it refers to an array of technological innovations and evolution to novel business frameworks and revenue series comprising three vigorous pillars such as automation, upgraded manufacturing procedures, and production enhancement³. At the societal level, it alters the methods of people's interaction and living their lives (Margiono, 2021). The industrial level contains a number of digital transformation activities such as; the incorporation of the Internet of Things which was adopted by industries in order to garner actual data from some procedures and tools; automation via robotics and artificial intelligence (AI) are established across industries; industries use cloud computing facilities to store and process data; adoption of advanced analytics and machine learning algorithms, cyber security actions to guard sensitive data, supply chain optimization, use of chatbot and virtual aid to progress customer services. Whereas, digital transformation at the societal level includes online government services for tax filing, licenses, and voting to update administrative procedures; education and remote learning which was developed during COVID-19; e-commerce and online payments system; development of smart cities where data and technology are used to enhance traffic stream; decrease energy consumption, and advance public services; lastly, digital

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