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THE FINANCIAL BEHAVIOUR IN THE VUCA ERA: A LITERATURE STUDY

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Abstract

The concept of volatility, uncertainty, complexity, and ambiguity (VUCA) has emerged as a critical framework for understanding contemporary financial behaviour. This literature study synthesises existing research to elucidate how VUCA conditions influence financial decision-making among individuals and organisations. Despite the growing relevance of VUCA, there is a stark gap in how financial models adapt to these unpredictable environments, which traditional theories often overlook. Through a qualitative meta-analysis of peer-reviewed articles, this study reveals that cognitive biases become amplified in VUCA contexts, leading to irrational financial behaviours. Key findings indicate that stakeholders who embrace adaptive strategies—such as diversified portfolios and flexible financial models—are more likely to navigate the complexities of VUCA successfully. Additionally, advancements in technology provide opportunities for informed decision-making, albeit introducing challenges like information overload. This study concludes by highlighting the need for interdisciplinary approaches to further investigate financial behaviour across varied demographics and suggests that integrating VUCA awareness into financial education may enhance decision outcomes in unstable environments. Future research should focus on the evolving interplay between behavioural finance and technology to develop more robust financial strategies.

Keywords: financial behaviour, VUCA, literature study, financial management

Abstrak

Konsep volatilitas, ketidakpastian, kompleksitas, dan ambiguitas (VUCA) telah muncul sebagai kerangka kerja kritis untuk memahami perilaku keuangan kontemporer. Studi literatur ini menyintesis penelitian yang ada untuk menjelaskan bagaimana kondisi VUCA memengaruhi pengambilan keputusan keuangan di kalangan individu dan organisasi. Meskipun relevansi VUCA semakin meningkat, terdapat kesenjangan yang mencolok dalam cara model keuangan beradaptasi dengan lingkungan yang tidak dapat diprediksi ini, yang sering diabaikan oleh teori-teori tradisional. Melalui meta-analisis kualitatif artikel yang telah diulas melalui pendekatan peer-review*, studi ini mengungkapkan bahwa bias kognitif menjadi lebih menonjol dalam konteks VUCA, yang mengakibatkan perilaku keuangan irasional. Temuan utama menunjukkan bahwa pemangku kepentingan yang mengadopsi strategi adaptif—seperti portofolio dan model keuangan yang fleksibel—lebih mungkin berhasil menavigasi kompleksitas VUCA. Selain itu, kemajuan teknologi memberikan peluang untuk pengambilan keputusan, meskipun juga menimbulkan tantangan seperti kelebihan informasi. Studi ini menyimpulkan dengan menekankan perlunya pendekatan interdisiplin untuk menyelidiki lebih lanjut perilaku keuangan di berbagai demografi dan menyarankan bahwa integrasi kesadaran VUCA ke dalam pendidikan keuangan dapat meningkatkan hasil keputusan dalam lingkungan yang tidak stabil. Penelitian masa depan harus fokus pada interaksi yang terus berkembang antara keuangan perilaku dan teknologi untuk mengembangkan strategi keuangan yang lebih tangguh.*

***Kata kunci**: perilaku keuangan, VUCA, studi pustaka, manajemen keuangan*

1. INTRODUCTION

The concept of volatility, uncertainty, complexity, and ambiguity (VUCA) has gained prominence in understanding the modern financial landscape. Originally coined by military strategists to describe the unpredictable and dynamic nature of warfare, VUCA is now applied across various domains, including finance and economics. The global financial crisis, rapid technological changes, and socio-political unrest have made VUCA a critical framework for analysing financial behaviour. Despite the growing relevance of VUCA in finance, there is a significant gap in the literature regarding how individuals and organisations adjust their financial behaviours in such unpredictable environments. Traditional financial models often assume stable conditions, which may misrepresent the realities faced by stakeholders today. Thus, the research problem focuses on elucidating how the VUCA context reshapes financial decision-making. The primary objective of this literature study is to analyse existing research related to financial behaviour in the VUCA era. This will include identifying key themes, understanding stakeholder adaptations, and exploring the implications for practice and theory in the financial domain.

2. LITERATURE REVIEW

As Bennett and Lemoine (2014) point out, for V, volatility can manifest in various forms, such as rapid price fluctuations and sudden shifts in consumer preferences, often exacerbated by global interconnectedness; for U, uncertainty involves the unpredictability of events and outcomes, where stakeholders cannot reliably assess future possibilities (Bennett & Lemoine, 2014). This lack of predictability complicates decision-making processes, as decision-makers face difficulties in forecasting market trends or consumer behaviours due to incomplete information or unknown variables. Research indicates that uncertainty increases the perceived risk among investors and may lead to a more conservative approach in investment and operational strategies (Friedman, 2018).

Moreover, for C, complexity highlights the intricate interdependencies and multifactorial aspects of environments in which organisations operate. These complexities arise from numerous interacting components—including regulatory factors, technological changes, and evolving consumer expectations—making it challenging to fully understand or predict outcomes (Bennett & Lemoine, 2014). Such environments necessitate adaptive strategies, as organisations must navigate through layered challenges that can impact financial decision-making. The last, for A, ambiguity, the fourth dimension, refers to situations where the relationships between cause and effect are unclear (Bennett & Lemoine, 2014). In ambiguous contexts, stakeholders struggle to interpret the meaning of events and their potential implications. For example, the onset of new regulations may lead to confusion about compliance requirements, ultimately affecting investment choices and operational strategies. This ambiguity can hinder timely decision-making, forcing organisations to adopt flexible approaches that allow for quick adjustments in strategy as circumstances evolve (Davenport, 2014).

Subsequently, the behavioural finance framework illustrates how cognitive biases significantly influence financial decision-making, particularly in VUCA environments characterised by volatility, uncertainty, complexity, and ambiguity. Kahneman and Tversky (1979) introduced the concept of prospect theory, which highlights how individuals evaluate potential losses and gains differently, often leading to irrational behaviours. For instance, during periods of market volatility, investors may exhibit loss aversion—prioritising the avoidance of losses over the acquisition of equivalent gains, which can result in overly conservative investment strategies (Thaler, 2015). Additionally, emotional responses to market fluctuations can further exacerbate irrational decision-making. When faced with uncertainty, investors may resort to panic selling or herd behaviour, following peers rather than relying on analytical models (Barberis & Thaler,

2003). This illustrates the critical need for awareness of psychological factors in financial strategy formulation.

Furthermore, in a VUCA environment, traditional risk assessment models that depend on predictive forecasts are often inadequate. Researchers indicate that stakeholders are increasingly adopting heuristics—mental shortcuts that simplify decision-making processes under pressure (Friedman, 2018). Such strategies allow individuals and organisations to quickly assess risks without comprehensive data analysis, though they can lead to biases and misjudgements. For instance, in times of uncertainty, investors may overestimate the likelihood of catastrophic outcomes or underestimate the market's ability to recover. Adaptive strategies, such as scenario planning and stress testing, are essential for navigating perceived risks effectively. These tools enable stakeholders to visualise various potential outcomes and prepare for them, facilitating a more resilient approach to financial decision-making. As organisations operate in increasingly complex environments, embracing flexibility and a comprehensive understanding of behavioural finance becomes crucial for mitigating risks associated with VUCA conditions.

Moreover, recent financial crises, including the 2008 recession and the COVID-19 pandemic, provide pertinent case studies that illustrate the profound impact of VUCA conditions on investor behaviour and corporate strategies. During the 2008 financial crisis, heightened volatility and uncertainty led to panic selling among investors, which exacerbated market declines. Behavioural finance research indicated that investors exhibited significant loss aversion, where they were more sensitive to losses than to equivalent gains, leading to irrational decisions and delayed recovery (Tversky & Kahneman, 1991). Companies responded to this volatility by adopting more flexible corporate strategies, focusing on liquidity management and cost reductions (Baker et al., 2018; Angreyani et al., 2023).

Similarly, the COVID-19 pandemic introduced unprecedented levels of uncertainty and complexity, influencing both individual and institutional investment decisions. Investors shifted towards safer assets, such as gold and bonds, reflecting heightened risk aversion during uncertain times (Barberis et al., 2020; Meriam et al., 2023). Firms adapted by accelerating digital transformation and implementing scenario planning to navigate operational disruptions (Brynjolfsson et al., 2020). These adaptations highlight the necessity for companies to cultivate agility in their responses to VUCA challenges, ensuring resilience against external shocks.

Despite the increasing attention on VUCA in the financial literature, significant gaps remain regarding comprehensive frameworks that effectively integrate VUCA factors into financial behaviour and decision-making models. Traditional financial theories often overlook the psychological dimensions that influence investor actions during periods of volatility and uncertainty (Friedman, 2018). Future research should aim to bridge these gaps by employing interdisciplinary approaches that encompass insights from behavioural finance, psychology, and organisational theory to develop more holistic models of financial decision-making.

3. METHOD

Research Design. This literature study employs a qualitative meta-analysis approach, which allows for a comprehensive synthesis of findings across multiple peer-reviewed articles and books focused on financial behaviour in VUCA environments. Unlike quantitative studies that rely on statistical methods, qualitative meta-analysis emphasises the interpretation of themes and patterns from existing research (Petticrew & Roberts, 2006; Akbar et al., 2024). This approach is particularly suited for understanding complex phenomena like financial behaviour, as it accommodates the nuanced insights derived from diverse studies, enabling a holistic view of how VUCA

factors influence decision-making. By synthesising qualitative data, this research highlights variations in behavioural responses and identifies consensus around key issues affecting investors and organisations.

Data Sources. The research involved a systematic review of academic databases, including JSTOR, Google Scholar, and specialised financial journals, focusing on literature published from 2000 onwards. This temporal focus ensures the inclusion of contemporary perspectives on VUCA, capturing recent developments in behavioural finance and investment strategies amidst evolving market dynamics. By strategically selecting reputable academic sources, the study aims to provide a reliable foundation for understanding the interplay between financial behaviour and VUCA conditions, thus enriching the existing body of literature and informing future research directions.

Analysis Method. A thematic analysis was utilised to identify prevailing themes within the literature, allowing for the categorisation of key findings based on their relevance to the VUCA framework. This method enables the researcher to systematically code and interpret qualitative data, leading to the elucidation of significant trends and anomalies in financial behaviours (Braun & Clarke, 2006; Mustafa et al., 2023). By categorising themes such as risk perception, cognitive biases, and adaptive strategies, this analysis unveils how different stakeholders respond to VUCA-related challenges. This approach not only organises the findings into coherent narratives but also facilitates the integration of disparate insights into a unified understanding of financial decision-making in volatile and uncertain environments.

4. RESULT AND DISCUSSION

Summary of Key Findings. The literature consistently demonstrates that VUCA conditions instigate significant shifts in financial behaviours among both individual and institutional investors. A primary theme emerging from this research is the increased impact of psychological factors. Cognitive biases such as overconfidence and loss aversion become magnified in VUCA environments, leading to suboptimal decision-making (Kahneman, 2011). For instance, during periods of market volatility, investors may exhibit heightened irrationality, often ignoring fundamental analyses in favour of emotional reactions, which can result in panic selling or herd behaviour (Barberis & Thaler, 2003). Another key theme is the utilisation of adaptive strategies. Stakeholders who implement diversified portfolios and maintain flexible business models demonstrate greater success in navigating the challenges posed by VUCA. Research indicates that diversification not only spreads risk but also provides a buffer against sudden market shifts, allowing investors to recover more rapidly from downturns (Friedman, 2018). Such adaptability fosters resilience, enabling organisations to pivot in response to emerging threats and opportunities.

Moreover, the role of technology in enhancing decision-making is critical. Advances in data analytics and artificial intelligence allow investors to process vast amounts of information, potentially improving rationale and outcomes (Brynjolfsson & McAfee, 2014). However, this technological dependence is double-edged; it may lead to information overload, causing decision fatigue and reliance on algorithmic trading, which can exacerbate market volatility (Davenport, 2014).

Comparative Analysis. Findings from this literature reveal both consistencies and contradictions with established financial theories. While traditional finance assumes rational market behaviour, behavioural finance research underscores the prevalence of irrational actions among investors in volatile contexts. This divergence calls for a re-evaluation of existing models to incorporate psychological factors that are often overlooked in classical economic theories.

Implications for Theory and Practice. The insights gained from this study have significant implications for both academic theorists and financial practitioners. Integrating VUCA awareness into financial education can enhance investment strategies, improving decision-making outcomes. For investors, developing diversified strategies and staying attuned to market dynamics is crucial for mitigating risks. Corporations should prioritise robust scenario planning and decision-making frameworks to bolster resilience against VUCA conditions.

5. CONCLUSION

This literature study underscores the profound impact that VUCA (Volatility, Uncertainty, Complexity, Ambiguity) conditions have on financial behaviour, revealing critical insights into how both individuals and organisations are compelled to adapt their strategies in response to these fluctuating environments. The findings indicate that cognitive biases such as loss aversion and overconfidence can lead investors to make suboptimal choices during volatile periods, causing fluctuations in market dynamics (Kahneman, 2011). Additionally, the study highlights that organisations employing adaptive strategies—such as diversified portfolios and scenario-based planning—demonstrate greater resilience and success in navigating VUCA challenges (Friedman, 2018). Moreover, the role of technology in shaping financial decisions has been emphasised, showcasing both its potential to enhance decision-making and its tendency to introduce risks like information overload (Brynjolfsson & McAfee, 2014). Understanding these dynamics is essential, as the ability to adapt strategies in response to evolving VUCA conditions is not merely advantageous but necessary for survival and growth in contemporary markets.

Looking ahead, more comprehensive interdisciplinary research is essential to fully grasp how VUCA environments influence financial behaviours across various demographics and geographical contexts. Existing studies often focus on general trends but may overlook the nuances that demographic factors such as age, gender, or cultural background bring to financial decision-making (Friedman, 2018). For instance, younger investors may react differently to market volatility compared to older generations due to varying levels of risk tolerance and investment experience. Furthermore, examining the interplay between behavioural finance and technological advancements is crucial for developing effective financial strategies in the modern era. As technology continues to evolve, understanding its impact on investor behaviour—and how it can be leveraged to enhance decision-making while mitigating risks—will be vital for both practitioners and researchers. This focus could lead to innovative solutions that integrate psychological insights with technological tools, thereby improving investor outcomes and organisational strategies in an unpredictable financial landscape.

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