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Theoretical Review of Financial Management, Capital Markets, and Financial Institutions in the Digital Economy Era

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Abstract

The development of digital technology has brought significant changes in the field of finance, including financial management, capital markets, and financial institutions. This study aims to conduct a theoretical review of how basic financial concepts adapt and evolve in the era of the digital economy. The method used is a qualitative literature study with content analysis of various academic sources and relevant official reports. The results of the study indicate that digitalization affects financial management through automation and data-based decision making, changes the structure of the capital market with the emergence of digital assets and new trading platforms, and demands the transformation of financial institutions in dealing with digital risks and competition. This study concludes that classical financial theory needs to be expanded and adjusted to be able to explain the dynamics of modern finance influenced by digital technology. The main contribution of this study is to build an integrative theoretical framework that connects traditional financial theory with digital innovation as a foundation for contemporary financial research and practice.

Keywords: Financial Management, Capital Markets, Financial Institutions, Digital Economy, Financial Digitalization, Fintech, Financial Theory

INTRODUCTION

The development of digital technology has brought major transformations in various aspects of life, including the global financial system. The digital economy era is marked by the integration of information technology into business and financial processes, which significantly changes the way companies manage finances, interact with capital markets, and regulate and supervise financial institutions. Digitalization has enabled operational efficiency, transaction transparency, and wider accessibility of information, but on the other hand, it has also raised new challenges in terms of security, regulation, and adaptation to new technologies (Agustina, L., & Wahyudi, S. 2021).

Financial management as an important function in managing an organization's financial resources must be able to adapt to the dynamics of technology. The use of big data, artificial intelligence, and financial automation systems are integral to strategic decision making. On the other hand, the capital market has also undergone significant changes with the presence of digital trading platforms, robo-advisors, and digital assets such as cryptocurrencies and security tokens. Meanwhile, financial institutions such as banks, insurance companies, and financing institutions are required to carry out digital transformation in order to remain competitive and relevant in the midst of an ever-changing economic ecosystem.

A theoretical review of these three aspects of financial management, capital markets, and financial institutions is very important to understand how classical concepts in finance adapt and evolve in the context of the digital economy. This is not only important from an academic

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perspective, but also crucial for policy makers, industry players, and the general public in responding to changes that occur wisely (Budiarto, H., & Santoso, B. 2020).

The digital economy era has major consequences for the global, national, and local financial systems. Amidst the acceleration of technological innovation such as fintech, blockchain, and artificial intelligence, conventional financial models are being tested for their effectiveness. Financial management is no longer just about cash management, budgeting, and financial reporting, but also involves the ability to analyze real-time data, manage digital risks, and design agile and adaptive financing strategies (Budiarto, H., & Santoso, B. 2020).

The capital market has also been affected by technological advances that provide efficiency and transparency, but also bring challenges related to investor protection, digital asset volatility, and the emergence of new entities outside the formal financial system. The digitalization process opens up wider access for retail investors, but also demands regulations that are able to keep up with the pace of innovation.

Financial institutions as pillars of economic stability are also under pressure to transform. Digital banks, peer-to-peer lending, and electronic payment systems are becoming new competitors that are shifting the role of traditional financial institutions. Therefore, a comprehensive theoretical and practical approach is needed to examine how these institutions can maintain their financial intermediation function, while increasing efficiency and financial inclusion in the digital era (Budiarto, H., & Santoso, B. 2020). With this background, this journal aims to theoretically examine how the digital economic transformation affects concepts and practices in financial management, capital markets, and financial institutions. This study is expected to provide academic contributions in enriching contemporary financial literature and providing a foundation for future empirical studies.

RESEARCH METHODS

This research is a descriptive qualitative research with a literature study approach (library research). The main focus of this research is to conduct a theoretical and conceptual review of relevant literature on financial management, capital markets, and financial institutions in the context of the development of the digital economy. This approach is used to understand the fundamental changes that occur and identify the gap between conventional theory and contemporary practice in the digital era.

This study uses secondary data obtained from various reliable sources, such as:

a) Indexed international and national scientific journals (Scopus, DOAJ, SINTA)
b) Academic books and financial theory references
c) Official reports from financial institutions such as Bank Indonesia, Financial Services Authority (OJK), International Monetary Fund (IMF), World Bank, and Bank for International Settlements (BIS)
d) Current articles on financial technology (fintech), digital banking, digital capital markets, and financial institution innovation
e) Relevant government regulatory and policy documents

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RESULTS AND DISCUSSION

1. Transformation of Financial Management in the Digital Era

The literature shows that digitalization has transformed the traditional approach to financial management into a more dynamic and technology-based one. Some of the main findings are (Iskandar, A., & Rahmawati, D. 2022):

a) Automation and Data-Based Decision Making:
Companies are starting to utilize technologies such as enterprise resource planning (ERP), business intelligence, and predictive analytics in managing finances. This accelerates the process of budgeting, forecasting, and real-time financial analysis.

b) Changes in Capital Structure and Financing Sources:
The emergence of new financing models such as crowdfunding, peer-to-peer lending, and Initial Coin Offerings (ICOs) is shifting dependence on conventional financing sources. Capital structure theory needs to consider these new dynamics in the framework of corporate financing decisions.

c) Strengthening Digital Risk Management:
Financial risks now include cyber risks, digital system vulnerabilities, and technological uncertainty. Financial risk management includes not only market and credit volatility, but also technology-based operational risks.

2. Capital Market Dynamics in the Digital Economy Era

The capital market has undergone significant changes due to advances in digital technology that affect the way trading is carried out and the types of assets traded. Important findings include (Sari, N. M., & Prasetyo, T. (2020):

a) Digitalization of Securities Trading:
Digital trading platforms, including retail investment applications and robo-advisor systems, enable massive participation of retail investors. This challenges the theory of efficient markets because market information becomes more dispersed and not always accurate.

b) The Emergence of Digital Assets:
Cryptocurrency, asset tokenization, and Non-Fungible Tokens (NFTs) are becoming new instruments in investment portfolios. Modern portfolios now consider the correlation of digital assets with traditional assets.

c) Digital Investor Behavior:
Behavioral finance is becoming increasingly relevant to understanding investor behavior on digital platforms. Psychological biases such as herding, loss aversion, and confirmation bias are more prominent due to social media interactions and access to unverified information.

3. Evolution of Financial Institutions in the Digital Ecosystem

Financial institutions, including banks, financing institutions, and insurance, must adapt structurally and operationally. Some key points discussed include (Hartono, J. 2019):

a) Digitalization of Traditional Financial Services:
Digital banks, application-based financial services, and e-wallets are changing the way people interact with financial institutions. Conventional institutions must innovate to stay relevant.

b) Digital Financial Inclusion and Literacy:

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Technology opens up opportunities for financial inclusion, but success is highly dependent on the readiness of infrastructure and the digital literacy of the community. New financial inclusion models need to consider aspects of security and affordability of technology.

c) Systemic Risk and Regulation:
The emergence of new entities such as fintech and DeFi creates new challenges for regulators. Literacy regarding systemic risks originating from digital financial innovation is still developing, and needs to be studied from a macroeconomic stability perspective.

The transformation of the digital economy has had a significant impact on the theoretical framework in finance. Classical theories that have been the foundation of financial management, capital markets, and financial institutions now face challenges and opportunities to be further developed in order to remain relevant in new contexts. This adaptation is not only needed practically, but also conceptually, so that the theory is able to reflect the changing reality caused by technology (Hartono, J. 2019).

In the context of financial management, agency theory remains the mainstay in explaining the relationship between company owners and managers. However, digitalization presents new tools such as cloud-based financial dashboards and automated reporting systems that allow for greater transparency and control. This can indirectly reduce conflicts of interest and agency costs, which are one of the main concerns in the theory. Likewise, the theory of capital structure has so far focused on the balance between debt and equity in corporate financing. The presence of digital financing alternatives such as crowdfunding and tokenization is changing the way companies access funds, so conventional capital structure theory needs to be developed to be able to explain financing preferences and strategies in the digital landscape.

In the field of capital markets, the efficient market theory which states that security prices reflect all available information, faces major challenges. The entry of large numbers of retail investors through digital platforms, coupled with the influence of social media on market sentiment, shows that information in the market is not always distributed rationally and in balance. In addition, the presence of digital assets such as cryptocurrencies also broadens the spectrum of investment instruments, which have not been fully accommodated within the framework of modern portfolio theory. Even in terms of behavior, digital finance actually strengthens the argument of behavioral finance, where investor decision-making is influenced by psychological biases that are increasingly visible in the era of fast and overloaded information.

Meanwhile, financial institutions as pillars of the financial system are experiencing structural disruption due to the entry of new actors such as fintech and digital banks. The intermediation function previously carried out by traditional banks is now also carried out by technology. In this context, the theory of financial intermediation needs to adjust its approach to changes in the landscape of players and interaction mechanisms. In addition, the issue of financial stability has also become more complex due to the emergence of new risks that are not yet fully understood, such as technology risk, data risk, and systemic risk from decentralized financial networks. Conventional financial stability theory that focuses on the liquidity and solvency risks of institutions now needs to include new dimensions of a more open and decentralized digital ecosystem (Hartono, J. 2019).

This discussion shows that financial theory can no longer be understood statically and separately from one domain to another. Instead, integration between approaches and disciplines is becoming increasingly important. The convergence between classical theories and the need to

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adapt them to digital realities creates an opportunity to form a new theoretical framework that is more inclusive, adaptive, and contextual. Therefore, updating the theory does not mean replacing the old theory, but reconstructing and adapting it to be able to explain the dynamics and complexity of modern finance in the era of the digital economy.

CONCLUSION

In the capital market sector, digitalization is changing the way investors interact with the market, accelerating the flow of information, and expanding the types of tradable assets. Phenomena such as algorithmic trading, digital investment platforms, and the emergence of crypto assets require efficient market and portfolio theories to be reviewed in a more flexible and responsive framework to digital dynamics.

Meanwhile, financial institutions are not only experiencing changes in the way they work, but are also facing competition from new technology-based actors. The intermediation function and provision of financial services can now be carried out digitally, which has implications for systemic stability and the role of regulation. Conventional theories of intermediation and financial stability need to be updated to reflect the new complexities that arise due to digitalization.

Overall, this study concludes that the development of the digital economy does not replace old financial theories, but encourages the evolution of theories. Integrating classical approaches with contemporary technology-based perspectives is an important step in building a more comprehensive and relevant understanding of today's financial phenomena. Thus, there needs to be a collaborative effort between academics, practitioners, and regulators to formulate a theoretical framework that is able to answer the needs of the times without losing its scientific footing.

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