Revolutionizing SME Management: The Digital Transformation of Financial Operations

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Abstract:

Purpose: Discussion of the importance of digitization of financial processes in the management of small and medium-sized enterprises (SMEs).

Design/Methodology/Approach: It is based on an analysis of the importance of digitization of financial processes for the management of small and medium-sized enterprises, taking into account various aspects such as the impact of modern technologies on the efficiency of companies' operations, benefits for customers and the importance of management accounting in making strategic business decisions. By discussing the characteristics of the digitization process, the SME sector in the digitization process, the importance of accounting in entrepreneurship and concluding the article, the article analyzes the importance of digitization of financial processes for the development and competitiveness of SMEs, using a literature review and case studies as the main research tools.

Findings: The conclusion of the text is the key role of the digitization of financial processes for the effective management of small and medium-sized enterprises, which brings numerous benefits, such as improved productivity, competitiveness and adaptation to the changing business environment. At the same time, the implementation of digital finance solutions is a necessary step for SMEs in the era of Industry 4.0 and the post-COVID-19 pandemic to avoid the emergence of a financing gap and ensure survival and sustainability.

Practical Implications: Implementation of digital accounting and financial management systems, which will accelerate the pace of task completion, automate processes, and improve the quality of customer service and internal communication in the company. In addition, investing in digital technologies, such as e-commerce or digital loans, will increase access to finance, improve business operations and strengthen its competitiveness.

Originality/Value: A comprehensive approach to the digitization of financial processes in small and medium-sized enterprises, including both an analysis of the benefits and challenges associated with this process, and emphasizing the importance of modern technologies in the context of the survival and development of SMEs, especially in the face of changes caused by the COVID-19 pandemic and the ongoing digital transformation.

Keywords: Management, digitization, enterprise, financing, digitalization.

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1. Introduction

In the era of digital transformation, a big challenge for companies, especially from the small and medium-sized enterprise sector, is to reconstruct business in order to adapt it to the modern world in terms of digitization of individual financial processes. The use of modern technologies is not only an improvement in the efficiency of the company's operations, but also an additional benefit for customers, a lower risk of financial loss and the possibility of obtaining new sources of income.

2. Characteristics of the Digitization Process

The advantages of digitization processes include:

- Improve operational efficiency
- a higher level of positive customer experience with the company,
- reducing costs and improving the quality of work,
- expanding the group of recipients,
- increasing the level of differentiation of the company from the competition,
- greater flexibility in the implementation of individual projects,
- innovativeness
- A better perspective for the future of business.

The market is constantly changing, and customers expect a quick response to these innovations. Therefore, the speed of adaptation to them is a condition for the customer that may influence the decision to use the services of one company and not another. The digitization of financial processes increases the chance of conversion, but also has an impact on changing the customer profile from a one-time to a permanent one.³

The customer's feelings about the services offered by the company have an impact on the customer's experience with the company. A positive perception of contact with the company is a guarantee that the customer will come back. The digitization process also increases the advantage of work efficiency and the level of competitiveness over other companies, while reducing the cost of maintaining the business. Having all of your company's data in one digital place means more

flexibility. This includes both the ability to perform professional duties from different parts of the world, as well as quick and easy access to important data.

Digitization, which shapes innovation, gives the company a chance to create new and non-standard projects, which can contribute to the growth of the company's income. Another advantage of digitizing financial processes is the ability to analyze the company's performance or financial results in detail, quickly (almost in real time). This then gives you the opportunity to draw appropriate conclusions, make changes in the functioning of the company, as well as predict trends in both the functioning of the company and the industry (Grima et al., 2020; Thalassinos and Thalassinos, 2006; Thalassinos et al., 2012).

3. Small and Medium Enterprises in Digitalisation

Small and medium-sized enterprises are called the backbone of the world's economies. However, the lack of access to modern, digital financial processes can contribute to the emergence of a kind of financial gap, which is an obstacle to the development of such companies and their potential growth. The understanding of the funding gap can also be linked to the lack of sufficient education or experience of the owners and managers of the company. It is about the way modern technologies are managed or used.

In addition, SME owners often do not have as much financial background (in the form of assets or liabilities) as the owners or managers of the largest companies. Digital financial services can help to close this funding gap, m.in. by facilitating access to various types of funding, as well as increasing access to competitors by using digital products and process automation. Both of these elements make the financial management process as efficient as possible and its costs are minimized.

The use of alternative data sources, while using big data analysis techniques, is an additional source of information in the credit risk assessment process. This gives SMEs the chance to obtain an additional source of funding. Business models using the sharing economy and e-commerce, open banking, as well as digitization of banking processes make it possible to obtain data on the activities of a given SME and its financial flows, which also contributes to the facilitation of obtaining additional sources of financing⁴.

Fintech forms of financing for SMEs include, m.in digital loans, supply chain finance platforms, securing revolving financing lines, P2P lending and financing through social investment. The digitalisation of internal financial processes also contributes to increasing access to financial support for SMEs. We are talking about internal business processes or B2B, electronic invoicing and asset tokenization.

It is also worth mentioning the obstacles that stand between SMEs and the use of digital financial products. There are mini m.in: knowledge of digital finance, regulation and supervision of financial institutions, as well as privacy and protection of personal data.

The role of digitization in the management models of small and medium-sized enterprises is very important, as it contributes to increasing the level of effectiveness of management decisions. In this process, the role of the quality of the processed information is also important, such as accuracy and timeliness, as well as the maximum reduction of the costs of implementing previously made decisions.

SMEs are the business area that generates the largest number of jobs. This relationship is particularly noticeable in developing countries, but also in Europe. Therefore, strengthening the position of SMEs in the market is a key element in the strategic planning of the development of the economies of countries.

However, small and medium-sized enterprises often face constraints in terms of development and obtaining financial resources that could enable the introduction of modern technologies in the way they run their business. These constraints are conditioned by rapid technological development (the so-called Industry 4.0) and other factors, such as the COVID-19 pandemic.

All of these factors require businesses to be able to adapt quickly to meet the challenges of the modern world. The implementation of accurate and up-to-date technologies for the digitization of financial processes is becoming an increasingly important element, conditioning the further development and even existence of SMEs.

Modern industry 4.0 is a change in the technological paradigm, which is synonymous with the digital revolution, based on progress and the growing importance of the Internet in running a business. Adapting to technological developments will contribute to benefits for small and medium-sized enterprises, such as increased productivity, operational efficiency and a wider business reach (expansion into new markets). It is worth noting, however, that not all companies from the SME sector are able to adapt their business model and financial processes to the then level of technological and industrial development.

In the context of the digitization of financial processes in the sector of small and medium-sized enterprises, it is also worth mentioning the COVID-19 pandemic.

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5Kowalski, P. 2023. Advantages and disadvantages of digitizing a company.
which had a significant impact on the level of uncertainty of entrepreneurs in this sector of activity.

The pandemic generated a digital transformation, as the precautionary measures that were in place at the time increased the importance and market share of companies that do business online. Companies have been forced to transform their technological infrastructure, including management accounting systems. The crisis situation in which companies found themselves motivated them to introduce changes in the management mechanisms used so far and to plan activities with the use of information technology, which was aimed at alleviating business uncertainty and ensuring business continuity.

4. The Importance of Accounting in Entrepreneurship

Accounting plays a significant role in the business decision-making process, as well as in recording, processing, and presenting this information. The proliferation of computer devices and the rapid evolution of information technology increase the effectiveness of accounting as a decision-making instrument. It is worth noting, however, that it is a common occurrence for small and medium-sized enterprises to operate on the basis of insufficient accounting data.

Despite this phenomenon, the decision-making processes of these companies are less likely to use a modern and technologically advanced solution than in the case of large enterprises. Small and medium-sized enterprises often face difficulties in implementing a digital accounting system due to limited human and financial resources.

The use of digital accounting systems is therefore essential in order to maintain small and medium-sized enterprise business in the era of Industry 4.0 and after the COVID-19 pandemic. Such a technological solution can mitigate the effects of these external factors, which have had a significant impact on the functioning of small and medium-sized enterprises.

Digitized accounting processes play a key role in mitigating the effects of crises and enable small and medium-sized enterprises to implement strategic objectives that can have a positive impact on the entire company in the future. The effectiveness of digitization in the modern world is also confirmed by increasing competitive advantage, efficiency, as well as saving time and money.

Management accounting is a key component in the process of effective decision-making, which can be conceptualized as a specialized software application and management process used to process and analyze data such as financial and non-financial information. A financial information system is a set of components that collect, process, store and disseminate information in order to facilitate strategic and control decisions.

The system also contributes to the operationalisation and automation of financial activities. Without this type of system, it is not possible to plan, coordinate and control decision-making activities, which to a large extent determines the functioning of corporate enterprises and which will have a significant impact on the development of small and medium-sized enterprises.

The digitization of financial processes is the use of digital technologies to change the business model and provide new sources of income. Digitization in accounting processes generates lower operating costs for the company with the use of advanced technological infrastructure. Traditional accounting procedures, e.g., paper records, receipts, registration or spreadsheets, are an outdated form of financial processes.

Digitalization is a guarantee of more benefits for the managers of a company in the sector of small and medium-sized enterprises, starting with higher quality, efficiency, speed, effectiveness of decisions made, as well as profit potential. Digitized accounting processes further affect issues such as reporting, strategy implementation and control, financial planning and analysis, and organizational structure. The digitization of accounting additionally has a positive impact on the way we do business.

5. Conclusions

In view of the above, it can be concluded that small and medium-sized enterprises need to make changes in the face of digital transformation in order to ensure their continued survival and sustainability. Their implementation is the best way to automate the processes used in running a business. Digitalization enables increased efficiency, effectiveness and timeliness of actions taken, while reducing the risk of error.

Summarizing the above considerations, the key advantages of digitization of management processes in the sector of small and medium-sized enterprises include:


- automation – previously manual processes have been automated, which has contributed to accelerating the pace of task completion and increasing efficiency;
- no bureaucracy – manually filling, checking and archiving documents takes a lot of time, thanks to digitization all these processes are streamlined;
- improving the quality of customer service – the implementation of transaction processes via the Internet has become more popular, which is largely due to the COVID-19 pandemic. Proper handling of this process guarantees customer satisfaction and changes its status from one-time to permanent;
- Improving the quality of internal communication in the company – internal communication is particularly important in the case of companies where employees work remotely or which have several branches in the country or in several countries. Good quality of communication, with the use of digital technologies, makes the implementation of projects at a high level, as well as faster and more effective;
- increasing the level of security – storing paper documents in archives may be threatened, m.in, by unauthorized access to data, the possibility of data damage as a result of threats such as fire or flood. Modern technologies ensure the security of digitized data. However, it is important to comply with all security rules, m.in. meticulous control over the provision of access data to the disk with documentation.

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