Digital Transformation in Financial Management: Security and Efficiency

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ABSTRACT

Digital transformation has changed the business landscape in various sectors, including in the field of financial management. This article aims to explain the role of digital transformation in financial management, focusing on two essential aspects: data security and operational efficiency. Through literature review and case analysis, this article provides deep insights into how companies can adopt digital technologies to protect their data better and improve operational efficiency.
INTRODUCTION

In the ever-evolving digital era, digital transformation has become necessary for organizations in various sectors, including financial management. Digital transformation in financial management involves applying digital technologies to transform how companies manage and optimize their economic functions. This process has been the subject of numerous studies and articles, focusing on various aspects such as financial risk identification, management strategies, and the role of digital transformation in small and medium-sized enterprises (SMEs). The emergence of digital technology has changed the traditional path of financial risk identification, and companies can now rely on data mining and analysis to anticipate relevant risks holistically (Jing, 2023a). Digital transformation enables companies to be more adaptive, responsive, and proactive in managing risk, opening up opportunities to engage data more efficiently.

Digital transformation has led to new management models, internal communication strategies, and organizational cultural changes (Jutte et al., 2021). Digital transformation has resulted in the developing of new management models with the adoption of technologies that enable faster and more accurate decision-making and efficient management of business processes. In addition, internal communication strategies have changed with the use of digital collaboration tools and communication platforms that facilitate more effective and integrated teamwork. All these changes have shaped a new culture in organizations, where innovation, adaptability, and the use of technology are at the core of how employees work and think.

Successful adoption of digital technologies requires careful consideration of various factors such as system design, business operations, implementation plans, data governance, and technical infrastructure readiness. Companies need to understand the level of digital enthusiasm in various aspects of their operations before implementing digital technologies. This understanding can help address challenges such as lack of data integration, interoperable integration, compatibility, and readiness of technical infrastructure (Ogbevoen, 2023). In addition, professional project management, strategic focus, and transparency are critical to the successful adoption of digital technologies (Olmstead, 2022)

A systematic review identified eight main digital transformation guidelines, each expanding with several best practices for implementing these guidelines (Ragazou et al., 2022). Applying best practices in digital transformation is the key to success for organizations. Seven best practices include a deep understanding of organizational issues, hiring experienced talent, developing a clear digital strategy, emphasizing innovation, data-driven decision-making, effective team collaboration, and proactive risk management. These practices cover many aspects, from customer-focused to solving business problems, ensuring the sustainability of successful digital transformation. The importance of prioritizing collaboration and risk management provides a strong foundation for digital transformation projects to achieve their goals better (Dilmegani, 2023)
By adopting the right digital technology, companies can improve operational efficiency, reduce costs, increase accuracy, and accelerate data-driven decision-making (David et al., 2023). However, the successful adoption of digital technologies requires careful consideration of various factors such as system design, business operations, implementation plans, data governance, and technical infrastructure readiness. Companies need to understand the level of digital enthusiasm in various aspects of their operations before implementing digital technologies. This understanding can help overcome challenges such as lack of data integration, interoperable integration, compatibility, and readiness of technical infrastructure. In addition, professional project management, strategic focus, and transparency are critical to successfully adopting digital technologies.

Digital transformation enables enterprises to face increasingly complex data security challenges in a digitally connected business environment (Jing, 2023b). The emergence of digital technologies such as artificial intelligence, cloud services, big data analytics, and the Internet of Things (IoT) devices has made operations smoother. Still, it also gives hackers more ground to cover, making companies more vulnerable to cyberattacks. Digital transformation security challenges include a broader attack surface, a lack of cybersecurity programs, insufficient security budgets, and a lack of strategic planning. To overcome these challenges, companies need to craft secure digital transformation strategies that consider all the security implications and support these strategies with resources that eliminate the risks of cyberattacks and data breaches. It is also essential to bring IT personnel and C-level executives together to ensure an efficient and secure digital transformation process (Sabu, 2023).

Digital transformation is crucial for improving operational efficiency in financial management. It involves integrating digital technologies into various business areas to enhance effectiveness, efficiency, and customer satisfaction. This transformation enables companies to reduce reliance on repetitive and time-consuming manual tasks, speed up workflows, reduce human error, and increase overall productivity. By automating core processes such as bookkeeping, accounts payable, invoicing, and accounts receivable, companies can achieve operational efficiency and free up human resources to focus on more strategic and value-added tasks (Bhatti, 2023).

Digital technology, such as data analytics and automation tools, can significantly improve operational efficiency in the banking industry, leading to cost reduction, improved customer satisfaction, and increased competitiveness (LORENTE, 2023). Additionally, automation helps coordinate all the moving parts in finance departments by eliminating manual tasks, enhancing collaboration, and keeping work items in motion, ultimately reducing errors and increasing productivity (Corona, 2023). Digital workflows and automation are essential for the finance function, enabling organizations to streamline operations, reduce manual errors, and allocate resources strategically. Therefore, embracing automation and digital transformation has become
imperative for organizations striving to enhance operational efficiency and stay competitive in modern business (Getty, 2023)

Thus, this article aims to analyze the role of digital transformation in improving data security and operational efficiency in financial management. That is, we will explore how companies can best adopt digital technologies to protect their data and improve efficiency in managing financial aspects. Hopefully, this article will provide readers with valuable insights into the benefits and challenges of digital transformation in financial management.

**METHODOLOGY**

This study used a descriptive qualitative research method. This research type focuses on collecting and analyzing descriptive data without any manipulation or other treatment of data (Rusandi & Muhammad Rusli, 2021). Descriptive analysis through literature study involves exploration and in-depth understanding of a phenomenon or topic through literature review (Bahasoan et al., 2023).

Through qualitative research with descriptive analysis through literature studies, researchers can comprehensively understand a phenomenon or topic without collecting primary data. This can provide a foundation for further study or assist in formulating a conceptual framework (Stone, III & Doe, 2004).

A conceptual framework represents the relationship between variables or the characteristics or properties researchers want to study. It is developed based on a literature review of existing studies about the topic and illustrates the expected relationship between variables (Doyle et al., 2020).

**DISCUSSION**

**How can digital transformation affect data security in financial management?**

Digital transformation has a significant impact on data security in financial management. Here are some of the ways digital transformation affects data security:

- **Encrypted Data Storage**

  Companies often use cloud computing technology to store their financial data in digital transformation. In this case, it is essential to implement robust encryption methods to protect data as it is stored and transmitted. Encryption converts data into an unreadable format without proper encryption keys, thus protecting financial information from unauthorized access (Kidd, 2022).

  In digital transformation, companies often use cloud computing technology, namely data storage and processing through the internet network, to store their financial data. However, by storing financial data in the cloud, there are security risks associated with unauthorized access or data theft by unauthorized parties. It is essential to implement robust encryption methods to protect sensitive financial data. Encryption is the process of converting data into a form that cannot be read or understood by people who do not have the proper encryption key. In encryption, data is transformed using encryption algorithms into an incomprehensible format without a valid encryption key (Shaik & K, 2022).
When financial data is encrypted before it is stored in the cloud, even if an unauthorized party manages to access it, they cannot read or understand its contents without the proper encryption key. This provides an additional layer of protection against sensitive financial information. In addition, when economic data is sent or transmitted over a network, for example, when users access or update data through a web or mobile application, it is essential to ensure the data transmission is encrypted. By using secure communication protocols such as HTTPS, data is encrypted before being sent over the network, thus minimizing the risk of eavesdropping or falsification of data during transmission (Munjal & Bhatia, 2023).

Companies can increase security and protect their financial information by implementing robust encryption methods when storing and transmitting financial data. However, it is also essential to ensure that proper security policies are followed, encryption keys are stored securely, and other security measures are implemented thoroughly to maintain the integrity and confidentiality of financial data in a cloud computing environment (Banani et al., 2021).

- **Network Security**

  Digital transformation involves the use of extensive computer networks and internet connections. It is essential to ensure network security by implementing sophisticated firewalls, intrusion detection systems, and appropriate security protocols. This helps prevent cyberattacks that could result in financial data theft or other security vulnerabilities (Zerlang, 2022).

  Following are some of the steps that can be taken to ensure network security in the context of digital transformation:

1. **Firewall**: A firewall is the first defense mechanism that protects a corporate network from unauthorized access. This can prevent unauthorized access from outside the web and limit data traffic entering and leaving the network. Firewalls can be configured to block or allow access based on specific rules, such as protocols, ports, and IP addresses, helping protect financial data from cyberattacks (Fu et al., 2022).

2. **Intrusion Detection System (IDS) and Intrusion Prevention System (IPS)**: IDS and IPS detect and prevent unauthorized cyberattacks on networks. The IDS will monitor and analyze network traffic for signs of attack, such as suspicious activity or unusual patterns. While IPS will take automated action to prevent detected attacks. Both of these systems help in detecting and protecting the network from cyber attacks that can threaten the security of Financial data (Zhou et al., 2022).

3. **Use of Appropriate Security Protocols**: Security protocols such as Secure Sockets Layer (SSL) and Transport Layer Security (TLS) are essential in protecting financial data during transmission over the network. This protocol provides data encryption and authentication to ensure that data transmitted between users and cloud servers is encrypted and cannot be read by unauthorized parties (Liu et al., 2021).
4. Security Monitoring: Implementing an effective solution is essential to monitor network activity and quickly detect security threats. It involves monitoring security logs, network traffic analysis, and anomaly detection. With careful monitoring, cyberattacks and suspicious activities can be identified early so that appropriate precautions can be taken to protect financial data (et al., 2023)

In addition to the above measures, it is also essential to have a strict security policy, implement regular software updates to address discovered security vulnerabilities, and provide security training to employees to raise awareness about good security practices.

- **Security Awareness and Training**

  Digital transformation requires efforts to increase security awareness across the organization. Regular security training and awareness campaigns help improve employees’ understanding of good security practices, such as using strong passwords, being cautious about clicking suspicious links or attachments, and reporting suspicious activity. By raising this awareness, risks to data security can be reduced (Oliveira et al., 2020)

  Companies should conduct regular safety training for employees. This training can cover a wide range of topics, such as the importance of data security, identification of common cyberattacks, good security practices, and risk mitigation measures. Through this training, employees will be given a better understanding of the security threats they may face and know how to protect the company’s financial data (BLEICH, 2022)

  Employees should also be informed of good security practices. This includes using strong and unique passwords, two-factor authentication, secure and up-to-date devices, and prudent usage policies regarding email and third-party applications. By understanding these security practices, employees can reduce the risk of cyberattacks such as identity theft, phishing attacks, and malware-based attacks. (Dataprise, 2023)

  Educate employees about the importance of reporting security incidents or suspicious activity. Employees should know the procedures to follow if they encounter a security incident or any indication of an attack. Quick and precise reporting can help security teams take the necessary steps to protect a company’s financial data (Murphy, 2022). Companies can create a strong security culture by increasing security awareness and knowledge. Employees will be partners in protecting the company’s financial data and acting responsibly to prevent cyberattacks and report potential threats.

**How can digital transformation improve operational efficiency in financial management?**

Digital transformation can provide many benefits in improving operational efficiency in financial management. Here are some ways in which digital transformation can have a positive impact in terms of efficiency:

1. Process Automation: Digital transformation allows automation of processes previously done manually. For example, accounting software and integrated financial management systems allow automation in
recording transactions, making financial statements, and managing cash flow. This reduces reliance on error-prone manual work and speeds up the time it takes to complete financial tasks (Yitmen et al., 2021).

2. Use of Data Analytics: Digital transformation enables more effective data collection and analysis. Companies can use data analytics tools and artificial intelligence to identify patterns, trends, and essential insights from their financial data. This helps in better and faster decision-making, such as identifying cost-saving opportunities, improving operational efficiency, and optimizing financial strategies (Lutfi et al., 2022).

3. Real-time Access to Information: Digital transformation enables real-time access to critical financial information. Using an integrated software system and cloud computing, economic data can be accessed easily and quickly from various devices anywhere and anytime. This allows for more efficient financial management, faster decision-making, and better company performance monitoring (Rajput & Singh, 2020).

4. Enhanced Collaboration and Communication: Digital transformation facilitates more effective collaboration and communication between finance teams and stakeholders. By using digital collaboration tools such as cloud-based platforms, finance teams can work together in real-time, share information, and better coordinate activities. This reduces delays and errors in communication and speeds up the decision-making process (Wilms et al., 2017).

5. Use of Advanced Technology: Digital transformation enables advanced technologies such as artificial intelligence (AI), predictive analytics, and robotic process automation (RPA). For example, AI can perform complex data analysis, identify fraud patterns or financial anomalies, and provide recommendations to improve operational efficiency. On the other hand, RPA can be used to automate routine and repetitive tasks, freeing up time and human resources to focus on more strategic tasks (Machado et al., 2020).

What digital technology can be used to improve operational efficiency in financial management?

Several digital technologies can be used to improve operational efficiency in financial management. The following are some examples:


2. Cloud Computing: Cloud computing allows data storage and access to financial information online. Financial data can be accessed from various devices and locations using cloud services. This increases flexibility and
accessibility, enables better team collaboration, and reduces reliance on in-house IT infrastructure (Amani et al., 2020).

3. Data Analytics and Artificial Intelligence: Data analytics and artificial intelligence (AI) can help analyze financial data more effectively. Data analytics tools can be used to identify patterns, trends, and essential insights from financial data. AI can be used to perform predictive analytics, detect financial anomalies, and provide recommendations to improve operational efficiency (Dubey et al., 2020).

4. Robotic Process Automation (RPA): RPA enables automating routine and repetitive tasks previously done manually. In financial management, RPA can automate tasks such as invoice processing, data reconciliation, document archiving, and other standard transaction processing. By reducing manual work, RPA increases efficiency, reduces human error, and frees employee time to focus on more strategic tasks (Syed et al., 2020).

5. Blockchain Technology: Blockchain is a technology that enables decentralized and secure recording of transactions. Blockchain can increase payment efficiency, transaction reconciliation, and insurance claims processing in financial management. By using blockchain, transactions can be verified in real-time, reducing fees and dependence on third parties, as well as increasing security and transparency (Casino et al., 2019).

6. Mobile Apps and Mobile Access: Mobile apps can be used to speed up and facilitate access to financial information. Employees can access financial data, track cash flow, approve payments, and manage other financial tasks through mobile devices. This enables remote working, flexibility, and real-time monitoring of financial performance (Hu et al., 2020).

Adopting this digital technology in financial management can provide many benefits, such as improving operational efficiency, reducing human error, speeding up processes, and improving decision-making. However, it is crucial to choose a technology that suits the needs and resources of the company and ensure proper data security in its application.

CONCLUSION

Digital transformation has had a positive impact on financial management through two main aspects: data security and operational efficiency. Implementation of solid data encryption, network security measures, and increased security awareness are crucial steps in protecting a company's financial information. On the other hand, operational efficiency is improved through process automation, data analytics, real-time access to financial information, and enhanced team collaboration. Digital technologies such as accounting software, cloud computing, artificial intelligence, and RPA are essential in improving this efficiency. The intelligent combination of tight data security and the proper application of digital technology can give companies a
solid foundation for efficient and secure financial management in this digital transformation era.

**SUGGESTION**

To maximize the benefits of digital transformation in financial management, here are some suggestions:

1. **Data Security Evaluation:** Continuously update and evaluate data security policies. Ensure the implementation of data encryption and network security measures follow the latest security standards to protect financial information effectively.

2. **Security Training for Employees:** Provide regular security training for employees. Improve their understanding of security practices, such as using strong passwords, avoiding suspicious links or attachments, and reporting suspicious activity.

3. **Proper Digital System Integration:** Select and integrate digital technologies that suit the company's needs. Ensure systems can communicate seamlessly to support operational efficiency without compromising security.

4. **Continuous Security Monitoring:** Implement effective security monitoring solutions to detect and respond quickly to security threats. This monitoring includes security log analysis, network traffic analysis, and anomaly detection.

5. **Process Optimization with Technology:** Apply technologies like RPA to automate routine tasks. This reduces human error and frees resources to focus on higher strategic tasks.

6. **Provision of Resources and Managerial Support:** Ensure the company provides sufficient resources and managerial support for implementing digital transformation. The involvement of upper management and the emphasis on safety and efficiency will motivate employees to adopt change.

By paying attention to these suggestions, companies can design a holistic and sustainable digital transformation strategy in their financial management.
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