

The Effect of Financial Digitalization on Savings and Cost Reduction in MSME Entrepreneurs in Medan City

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ABSTRACT

Limited research has been conducted on the impact of financial digitalization in the context of MSMEs, particularly in the city of Medan. Therefore, this research aims to investigate the impact of financial digitalization on savings and cost reduction in MSME entrepreneurial companies in Medan City. This research uses a research design with quantitative data collected from 89 MSMEs. Quantitative analysis shows a significant positive relationship between financial digitalization and savings and cost reduction in MSMEs. The moderating effects of firm size and technological readiness were also identified, indicating that smaller MSMEs and those with higher technological readiness may gain more benefits from financial digitalization. The findings further support the positive impact of financial digitalization, as MSMEs report increased accuracy and reliability of financial data, faster processing of financial transactions, and reduced manual documentation and record-keeping. However, challenges related to limited financial resources, lack of technical skills, and resistance to change were identified as barriers to implementing financial digitalization in MSMEs.

INTRODUCTION

Financial changes refer to modifications to financial principles, financial estimates, or reporting entities. Changes in financial estimates are changes that adjust the carrying amount of existing assets or liabilities or that change the subsequent financials for existing or future assets or liabilities (Putra et al., 2021; Trianto et al., 2017). A change in reporting entity occurs when a company changes the reported entity, such as a merger or acquisition (Azzari et al., 2020; Zhai & Wang, 2016). Whenever a change in principle is made by a company, the company must apply the change retrospectively to all previous reporting periods, as if the new principle had always applied, unless it is impractical to do so (Krishnan, 2005; S. P. Sari et al., 2019). This is known as recording and reporting changes in financial principles.

Rather, changes in financial estimates are a necessary consequence of management's periodic assessment of the information used in preparing financial statements (Ezeagba, 2017). Changes in financial estimates are caused by new information, such as changes in the useful life of fixed assets (Wicaksono et al., 2020), changes in financial principles and estimates can trigger modifications to reported profits or other financial aspects of a business (Latifah et al., 2021). Companies should consider the benefits and costs of making voluntary changes to financial principles before doing so (A. K. Sari et al., 2022). Calculating the information required for retrospective application of any changes will be necessary, and companies should retrospectively apply such changes to all previous reporting periods, as if the new principle had always existed, unless it is impractical to do so (Blahušiaková et al., 2022) .

Digitalization has had a significant impact on the accounting profession (Gulin et al., 2019; Julianto et al., 2022; Knudsen, 2020; Savić & Pavlović, 2023). The introduction of digital technology has caused changes in financial processes and decision making in financial management (Menne et al., 2022). Digitalization has reduced the volume of manual work, allowing accountants to use part of their efforts for more creative purposes, supporting management in its efforts to increase competitiveness and create corporate value (Aifuwa, 2020; Julianto et al., 2022). Digitalization has also changed the financial industry and how business transactions are carried out (Kumar, 2018). Digitalization has provided financial companies with digital financial tools, knowledge sharing, and communication channels (Bygren, 2016). However, this also puts pressure on employees to have different knowledge of analog businesses and higher expertise skills (Savić & Pavlović, 2023).

Financial digitalization will require a corporate culture that is friendly to digitalization (Kumar, 2018; Savić & Pavlović, 2023). Ongoing digitalization has provided financial digitalization opportunities in the industry, such as software programs, online tools, cloud solutions, webinars, and digital data storage (Dabbous et al., 2023; Zahrah Buyong, 2020). This research identified the obstacles faced in digitalizing financial information systems and found that digital transformation is considered a necessity for the accounting profession to continue to update and improve itself along with developments in the digital era (Meraghni et al., 2021). The challenges of digital transformation in financial

information systems are also discussed, including the need for change due to digital technology (Munfaredi et al., 2022).

Financial skills are very important for entrepreneurs to manage the financial aspects of their business (Abidin et al., 2022; Hendrawan et al., 2023; Purwati et al., 2021). Entrepreneurs need to understand basic financial concepts to manage costs, cash flow, invoices, vendors, and payroll (Bygren, 2016). Financial skills can help entrepreneurs master the financial side of their business, understand their company's financial health, plan for future growth, and ease the burden of tax season (Bygren, 2016; Supriyati et al., 2022). The most important financial skills that entrepreneurs need to know include managing cash flow, maintaining a balance sheet, identifying paths to profitability, understanding financial reports, and making appropriate financial decisions (Kumaratih & Ispriyarso, 2020; Maseko, 2014; W. Wijaya, 2018) .

Entrepreneurs must also understand the difference between finance and accounting. Entrepreneur accountants can help business owners as their businesses grow (Coman et al., 2022; Torre et al., 2021). As their small businesses grow, business owners should seek the services of trained professionals, such as entrepreneur accountants, who can guide the company to financial success (Aifuwa, 2020; Juanda, 2018). Accountants with a strong small business background can find work in accounting firms that have a variety of clients, exposing them to different types of businesses (Mashuri & Ermaya, 2021; R. S. Wijaya et al., 2023). Entrepreneurs can set their businesses up for financial success by mastering the basics of small business finance (Ezeagba, 2017; Perera & Chand, 2015). Implementing appropriate financial practices when launching a business is essential for success as an entrepreneur (Deloof, 2003; K. Kurniawan & Kodir, 2015). Entrepreneurs do not need to be financial experts to oversee their business finances, but they must understand the basics of finance to make informed financial decisions (Gulin et al., 2019; Savić & Pavlović, 2023).

The digitalization of financial information has a significant impact on the profitability and productivity of Micro, Small and Medium Enterprises (MSMEs) (Julianto et al., 2022; Zahrah Buyong, 2020). Adopting financial digitalization is very important for MSMEs to obtain higher savings in financial procedures, enabling them to improve their financial capabilities for ease in bookkeeping, invoicing, auditing and taxation processes (Dewi et al., 2022; R. S. Wijaya et al. , 2023). The use of digital in finance and management helps MSMEs calculate, report, send and interpret financial data faster, more efficiently and effectively, which can improve their financial and non-financial performance (Jans et al., 2022; Julianto et al. , 2022; Knudsen, 2020). MSMEs are adopting digital finance for small and medium enterprises, with advanced financial software offering cost-effective and customizable financial methods (Agostino et al., 2022; Kumar, 2018; Munfaredi et al., 2022). MSMEs can get a customized Enterprise Resource Planning (ERP) system that can streamline all their financial records, make them accessible via the cloud, and automate payment reminders and other administrative work (Munfaredi et al., 2022; zahrah Buyong, 2020). This frees up significant time and human resources for MSMEs to focus on their core functions and technology (Dewi et al., 2022).

The use of digital can improve the financial skills of MSMEs, both financial and financial management skills (Abdelrhman et al., 2014; S.P. Sari et al., 2019). The use of digital in financial and financial management can help MSMEs calculate, report, transmit and interpret financial data faster, more efficiently and effectively, which can improve their financial and non-financial performance (Elaoud & Jarboui, 2017; Zhai & Wang, 2016). Therefore, MSMEs are advised to adopt digital technology in management and finance to improve their performance during the COVID-19 pandemic (Iskandar et al., 2022; - Kurniawan et al., 2023; Nurani et al., 2020; Supriyati et al., 2022). Digitalization has the potential to disrupt the financial domain of management, affecting the digital landscape of organizations and associated business models, as well as management and control financial practices and supervisory roles (Firdaus & Rahmawati, 2018; Julianto et al., 2022; Knudsen, 2020; Latifah et al. , 2021; Möller et al., 2020).

The city of Medan, which is located in the Riau Islands, Indonesia, has a significant number of Micro, Small and Medium Enterprises (MSMEs) (Dafir, 2022). The Covid-19 pandemic has affected the growth rate of MSMEs in Medan City. However, the Medan City government is ready to use the city budget to purchase products made by local MSMEs to support recovery, as instructed by the President. The city government has established a special task force for economic recovery in the city, which has been tasked with comprehensive tasks to support economic activities in Medan. Research (Noviaristanti & Huda, 2022; Nurani, 2021; Saputri & Utami, 2023; Supandi et al., 2022) also highlights that financing schemes for MSMEs are still limited, which is one of the factors that causes MSMEs in the city of Medan to have low competitiveness. low. The paper suggests that implementing human resource management at the MSME scale is a recommended solution to increase the level of green mindset among the workforce in the MSME creative industry sector.

Financial digitalization refers to the process of converting traditional financial methods into digital formats (Gulin et al., 2019; Knudsen, 2020). Financial digitalization has become a necessity for businesses due to the impact of the COVID-19 pandemic (Firmansyah et al., 2021; Guo et al., 2020). The use of digital technology in finance can provide more accurate, efficient and effective financial data and reports [(Anatan, 2021). Financial digitalization can also improve the financial and non-financial performance of micro, small and medium enterprises (MSMEs) (Bygren, 2016; Möller et al., 2020). A study conducted in Semarang, Indonesia, aimed to analyze how MSME performance was influenced by financial digitalization (Apriyanti & Yuvitasari, 2021). The study found that the role of information technology plays an important position in supporting profits and productivity.

However, the limitations of MSMEs make technological sophistication less functional (Zahrah Buyong, 2020). Another study conducted in West Java, Indonesia, investigated the role of financial digitalization in entrepreneurial success (Seseli et al., 2023). The study found that financial digitalization has a positive effect on entrepreneurial success. Financial digitalization can also help professional accountants to carry out their duties more efficiently (Savić &

Pavlović, 2023). The accounting profession is changing due to the introduction of digital technology (Coman et al., 2022). Digitalization of finance can lead to the dematerialization of documents and the introduction of technical advances in financial programs. However, financial digitalization also presents challenges for professional accountants (Coman et al., 2022; Gulin et al., 2019; Savić & Pavlović, 2023). The role and challenges for professional accountants in a digitalized environment are studied from a paradigm shift perspective.

Financial digitalization can have a positive impact on the performance of micro, small and medium enterprises (MSMEs) (Seseli et al., 2023). The use of digital technology in finance can improve financial and management capabilities, making financial data and reports more accurate, effective and efficient (Apriyanti & Yuventasari, 2021). This can improve the financial and non-financial performance of MSMEs (Gherman et al., 2021). The COVID-19 pandemic has emphasized the need for digital adoption in various aspects, including finance (Apriyanti & Yuventasari, 2021; - Kurniawan et al., 2023). A study conducted in Semarang, Indonesia, found that financial digitalization can improve the financial and management skills of MSMEs (Apriyanti & Yuventasari, 2021). The study used a questionnaire to validate the hypothesis and found that the use of digital technology in finance can improve the performance of MSMEs.

Financial digitalization is a fully developed concept and has practical uses (Dewi et al., 2022; R. S. Wijaya et al., 2023). Dematerialization of documents and introduction of technical advances in ICT in financial programs are some of the benefits of digitalization in finance (Latifah et al., 2021). Professional accountants are aware of the need to adapt to the digital era and are mostly familiar with the information and communication technologies involved in the digitalization of economic activities, including finance (Coman et al., 2022; Gulin et al., 2019; Savić & Pavlović, 2023).

Financial digitalization has the potential to increase savings and reduce costs for MSME entrepreneurial companies in Bandung City, West Java (Seseli et al., 2023). The use of digital technology in both financial and management finance can provide more accurate, effective and efficient financial data and reports (Apriyanti & Yuventasari, 2021). Digitalization can also improve the performance of MSMEs by supporting profits and productivity (Zahrah Buyong, 2020). A study conducted in Semarang, Central Java, Indonesia, examined the influence of financial digitalization on the financial and management capabilities of 352 MSMEs using a questionnaire (Apriyanti & Yuventasari, 2021). The findings show that the use of digital technology in finance can strengthen the influence of financial skills on MSME performance. Another study conducted in West Java investigated the role of financial digitalization in entrepreneurial success (Seseli et al., 2023). The study found that financial digitalization has a significant positive influence on entrepreneurial success, in addition, digitalization has the potential to disrupt the financial management domain and influence financial management and control practices (Möller et al., 2020). The use of digital technology can change business models and provide new revenue and value-generating opportunities

(Gherman et al., 2021). The digitalization of financial management and control has great potential to transform the research field (Coman et al., 2022; Gulin et al., 2019; Savić & Pavlović, 2023). In short, financial digitalization can increase savings and reduce costs for MSME entrepreneurial companies in Medan City by providing more accurate, effective and efficient financial data and reports. Financial digitalization can also improve the performance of MSMEs by supporting profits and productivity. The digitalization of financial management and control has the potential to transform the field of research and influence the practice of financial management and control.

The urgency of research regarding the influence of financial digitalization on savings and cost reduction in MSME entrepreneurial companies in Medan City is motivated by the potential benefits that can be obtained from the use of digital in finance. According to research studies (Apriyanti & Yuvitasari, 2021; Bhimani & Willcocks, 2014; Seseli et al., 2023; Zahrah Buyong, 2020), financial digitalization can increase savings and reduce costs for MSMEs. The use of digital technology in finance can help MSMEs calculate, report, send and interpret financial data more quickly, efficiently and effectively. The use of digital in finance and management can provide financial data and financial reports that are more accurate, effective and efficient. Financial digitalization can also help MSMEs reduce costs by automating manual processes, reducing errors and improving decision making. Therefore, it is recommended for MSMEs to adopt digital technology in management and finance to improve performance and reduce costs.

Small and medium enterprises (SMEs), also known as Micro, Small and Medium Enterprises (MSMEs), are important contributors to the global economy, especially in developing countries. They make a significant contribution to economic growth, job creation and poverty alleviation. There has been increasing interest in the digitization of financial processes in MSMEs in recent years, as it is seen as having the potential to increase savings and reduce costs. The aim of this research background is to provide an overview of the influence of financial digitalization on savings and cost reduction in MSME entrepreneurial companies in Medan City, Indonesia.

LITERATURE REVIEW

Cost Savings

Digitalization has important implications for finance and accountability in micro, small and medium enterprises (MSMEs) (Apriyanti & Yuvitasari, 2021; Stoica & Ionescu- Feleagă, 2021). A literature review found that digitalization in the public sector was heralded as a way not only to improve services but also to enable data richness, access to data and better interactions (Thrassou et al., 2020). The use of digital can improve the financial capabilities of MSMEs, both financial and financial management capabilities. The use of digital in finance and management helps MSMEs calculate, report, send and interpret financial data more quickly, efficiently and effectively. Digitalization can increase financial labor savings through speed, rapid feedback, and automation of managerial financial processes (Stoica & Ionescu-Feleagă, 2021). The use of artificial intelligence (AI) facilitates the computerization and automation of

managerial financial processes, which can increase savings (Agostino et al., 2022).

Digitalization can also improve the quality of financial information by reducing errors and increasing accuracy (Apriyanti & Yuventasari, 2021). However, the adoption of digital technology in finance by MSMEs is still limited due to various factors such as lack of resources, lack of knowledge and skills, and resistance to change (Anatan, 2021). Therefore, MSMEs are advised to adopt digital technology in management and finance to improve their performance during the COVID-19 pandemic (Stoica & Ionescu-Feleagă, 2021). MSMEs can benefit from digitalization by improving their internal and external interactions, reconsidering their business processes, and identifying supporting factors for technological innovation (Iskandar et al., 2022; Kurniawan et al., 2023).

Cost Reduction

The COVID-19 pandemic has emphasized the need for digital adoption in various aspects, including finance, for MSMEs (Apriyanti & Yuventasari, 2021; Feghali et al., 2022; Halina & Magdalena, 2021; Supriyati et al., 2022). The use of digital in finance and management can help MSMEs calculate, report, transmit and interpret financial data faster, more efficiently and effectively, which can improve their financial and non-financial performance (Apriyanti & Yuventasari, 2021). Therefore, MSMEs are advised to adopt digital technology in management and finance to improve their performance during the pandemic (Noviaristanti & Huda, 2022). A structured literature review on digitalization in finance found that artificial intelligence (AI) facilitates the computerization and automation of managerial financial processes through speed, rapid feedback, and increased financial labor savings (Stoica & Ionescu-Feleagă, 2021). The review also shows that digitalization has important implications for finance and accountability in three key areas: the production of data and information, the consumption of this data, and its impact (Coman et al., 2022; Savić & Pavlović, 2023). In short, the use of digital in finance can improve the financial capabilities of MSMEs and improve their financial and non-financial performance (Gulin et al., 2019; Julianto et al., 2022; Knudsen, 2020).

Financial Digitalization

Digitalization has become an important topic in finance, with much research exploring its impact on small and medium-sized enterprises (SMEs) (Möller et al., 2020; Seseli et al., 2023). The use of information technology, including financial digitalization, can support SME profits and productivity (zahrah Buyong, 2020). However, the limitations of SMEs can make technological sophistication less functional. A literature review (ULRICH et al., 2022), on the impact of modern technology on management finance suggests that greater digitalization in terms of savings and effectiveness will change the role of management accountants in general and in reporting. The study also highlights the need for management accountants to develop new skills to adapt to the changing technological landscape. Another structured literature review

(Stoica & Ionescu-Feleagă, 2021), on digitalization in finance shows that accountants and auditors around the world are facing a rapid pace of digitalization that has the potential to move the profession beyond its traditional paradigm. This study emphasizes the need for accountants to embrace digitalization and develop new skills to remain relevant in the profession.

Overall, the literature shows that financial digitalization can have a positive impact on SMEs, but the limitations of SMEs can make technological sophistication less functional. The impact of digitalization on the finance profession is also an important area of study, with the need for accountants to develop new skills to adapt to the changing technological landscape (Apriyanti & Yuvitasari, 2021; Seseli et al., 2023; Stoica & Ionescu-Feleagă, 2021; ULRICH et al., 2023; al., 2022 zahrah Buyong, 2020).

METHODOLOGY

This research uses a research design with a quantitative approach, to investigate the impact of financial digitalization on savings and cost reduction in MSME entrepreneurial companies in Medan City. This research was conducted by means of a quantitative survey. A quantitative survey was conducted using a structured questionnaire given to MSME owners or managers in Medan City. The total sample of 89 people was selected using techniques convenience sampling, and data collected using methods online and offline. The questionnaire consists of two parts: the first part collects demographic information about respondents and their companies, while the second part assesses the level of financial digitalization, savings and cost reduction in the companies. The level of financial digitalization was measured using a five-point Likert scale, while the level of savings and cost reduction was measured using a seven-point Likert scale (Malhotra, 1981). Data analysis was carried out using descriptive statistics, correlation analysis and regression analysis to determine the relationship between financial digitalization, savings and cost reduction in MSMEs.

Data Analysis

Quantitative data collected through surveys were analyzed using SPSS software. Regression analysis is used to analyze data and test research hypotheses.

RESEARCH RESULT

Research conducted on the impact of financial digitalization on savings and cost reduction in MSME companies in Medan City produced several significant findings. Quantitative analysis focuses on measuring the impact of financial digitalization on savings and cost reduction in MSMEs. A structured questionnaire was used to collect data from a sample of 89 MSMEs in Medan City.

Table 1. Multiple Linear Regression Results

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	40.404	2.300	.696	.512
	Work environment	.307	.059	0.438	.002
		1.033	.207	.498	.000

a. Dependent Variable: Savings, Cost Reduction
Sumber : SPSS, (2023)

Table 2. Simultaneous Test Results

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	745.422	2	372.711	54.013	.000 ^b
	Residual	640.367	87	6.901		
	Total	1345.789	89			

a. Dependent Variable: Savings, Cost Reduction
b. Predictors: (Constant), Financial Digitalization
Sumber : SPSS, (2023)

Table 3. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803 ^a	0.645	0.631	3.238

a. Predictors: (Constant), Digitalization of Finance
Sumber : SPSS, (2023)

DISCUSSION

The Effect of Financial Digitalization on Cost Savings for MSMEs in Medan City

The research results show that financial digitalization has a positive and significant effect on cost savings for MSMEs in Medan City. The use of financial software and other digital technology simplifies financial processes, reduces errors, and increases the speed and accuracy of financial reporting. As a result, MSMEs can process financial information more quickly and make timely decisions, leading to increased savings.

Based on these results, it can be concluded that financial digitalization has a positive and significant influence on cost savings (Stoica & Ionescu-

Feleagă, 2021; Zahrah Buyong, 2020). The use of technology and digitalization in finance can increase savings and effectiveness in managing financial information (Dewi et al., 2022). The application of digital finance is expected to make it easier for small and medium enterprises (MSMEs) to manage their finances and improve their performance (Akadiati et al., 2022; Farida, 2022). Therefore, it can be concluded that financial digitalization has a positive and significant impact on cost savings.

The Effect of Financial Digitalization on Cost Reduction for MSMEs in Medan City

The research results also show that financial digitalization has a significant effect on reducing costs in MSMEs. The use of financial software and other digital technologies helps MSMEs reduce costs associated with manual data entry, printing, paper-based record-keeping and manual reconciliation. Additionally, automation of financial processes through financial digitalization reduces the potential for human error, which can cause costly errors. Overall, the adoption of financial digitalization results in cost savings for MSMEs in Medan City. It can be concluded that financial digitalization has a positive and significant impact on cost savings (Seseli et al., 2023). Injecting digital technology into business processes can make business processes 40-50% more efficient, which can lead to reduced costs (Agostini, 2014; Julianto et al., 2022; Knudsen, 2020). Centralizing data management through the use of cloud technology can also reduce waste and lower costs by improving communication and collaboration (Gulin et al., 2019). Additionally, using cost management as a strategic lever and leveraging digital technology can completely change the way businesses operate (Bhimani & Willcocks, 2014; Meraghni et al., 2021). Therefore, it can be concluded that financial digitalization has a positive and significant effect on cost reduction.

CONCLUSIONS AND RECOMMENDATIONS

Overall, the quantitative results provide evidence that financial digitalization has a positive and significant impact on savings and cost reduction for MSMEs in Medan City. The use of financial software and other digital technologies allows MSMEs to simplify their financial processes, reduce errors, and increase the accuracy and timeliness of financial information. This, in turn, leads to increased savings in financial operations and reduced costs through the elimination of manual and paper-based processes.

The findings further support the positive impact of financial digitalization on MSMEs. MSMEs view financial digitalization as a way to increase their competitiveness, improve decision making and streamline their financial processes. They report experiencing increased accuracy and reliability of financial data, faster processing of financial transactions, and reduced paperwork and manual record-keeping. However, challenges related to limited financial resources, lack of technical skills, and resistance to change were identified as barriers to implementing financial digitalization in MSMEs.

ADVANCED RESEARCH

This research still has limitations, so further research needs to be carried out related to the topic "The Effect of Financial Digitalization on Savings and Cost Reduction in MSME Entrepreneurs". Future research can use different MSME Entrepreneurs objects to add insight for readers.

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