



Digital Transformation In Financial Management

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ABSTRACT

This study analyzes the impact of digital transformation on the financial management of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia in the digital economy era. MSMEs play an important role in the national economy, but face challenges such as low digital and financial literacy, limited access to technology, and uneven infrastructure. Digital transformation offers various opportunities, including operational efficiency, transparency of financial reports, and access to fintech-based financial services. However, risks such as data security and resistance to change are also concerns. Using a literature review method, this study identifies strategies that can be implemented to support the adoption of digital technology by MSMEs. The results show that digital literacy, government support, and the development of technological infrastructure are key elements in maximizing the benefits of digital transformation. This study provides practical contributions for MSME actors and policy makers to create an ecosystem that supports the sustainability and competitiveness of MSMEs in the digital era.

ABSTRAK

Penelitian ini menganalisis dampak transformasi digital terhadap manajemen keuangan Usaha Mikro, Kecil, dan Menengah (UMKM) di Indonesia dalam era ekonomi digital. UMKM memegang peranan penting dalam perekonomian nasional, namun menghadapi tantangan seperti rendahnya literasi digital dan keuangan, keterbatasan akses teknologi, serta infrastruktur yang belum merata. Transformasi digital menawarkan berbagai peluang, termasuk efisiensi operasional, transparansi laporan keuangan, dan akses terhadap layanan keuangan berbasis fintech. Namun, risiko seperti keamanan data dan resistensi terhadap perubahan juga menjadi perhatian. Dengan menggunakan metode kajian literatur, penelitian ini mengidentifikasi strategi yang dapat diimplementasikan untuk mendukung adopsi teknologi digital oleh UMKM. Hasil penelitian menunjukkan bahwa literasi digital, dukungan pemerintah, serta pengembangan infrastruktur teknologi menjadi elemen kunci dalam memaksimalkan manfaat transformasi digital. Penelitian ini memberikan kontribusi praktis bagi pelaku UMKM dan pemangku kebijakan untuk menciptakan ekosistem yang mendukung keberlanjutan dan daya saing UMKM di era digital.

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are very important for the Indonesian economy. MSMEs are the foundation of the Indonesian economy, absorbing more than 97% of the workforce and contributing more than 61% of GDP (Sinha et al., 2024). With 64 million business units, MSMEs not only make a significant contribution to national economic growth but are also the main driver of job creation (Azhari et al., 2024). We can see from its cooperation with Indonesia's GDP which reaches 60%–61%, MSMEs play an important role in advancing economic development (Sunaryono, 2024).

In addition, MSMEs contribute significantly to labor absorption, comprising around 97% of Indonesia's workforce. Therefore, MSMEs play an important role in maintaining Indonesia's social and economic stability. Micro, Small, and Medium Enterprises (MSMEs) are vital to the local and global economy as they drive innovation, job creation, and economic growth. However, MSMEs often face various obstacles that can hinder their growth, such as limited access to capital, technological advancement, and financial literacy. One of the biggest obstacles that hinders MSMEs from participating in the digital economy is limited access to technology. The fact that many MSMEs still have difficulty adapting to digital technology and are faced with unstable internet connections hinders their participation in the digital economy. (Rizki & Hendarman, 2024). Furthermore, the biggest challenge faced by MSMEs is the lack of funding. Their capacity to expand and innovate is limited by the fact that many of them have difficulty obtaining funding from financial institutions (Sumba-Bustamante et al., 2024). Low financial literacy is one of the problems often faced by MSMEs. Their ability to obtain loans and develop their businesses can be hampered by a lack of knowledge about good financial management and financial reporting. One of the main drivers of economic expansion and innovation in Indonesia is the formation of a digital economy, especially for MSMEs. In facing increasingly fierce global competition, MSMEs really need to undergo digital transformation in order to be more competitive. Digitalization allows MSMEs to reach a wider audience, increase operational efficiency, and make more informed business decisions (Purnomo et al., 2024). The implementation of digital technologies, such as e-commerce and e-payment, has shown a significant positive impact on the performance of the MSME supply chain in Indonesia. However, challenges such as digital literacy, access to technology, and data protection are still obstacles that must be overcome (Kusnanto et al., 2024). Government support and collaboration with technology providers are essential to overcome these obstacles, so that MSMEs can optimally utilize digital

technology to achieve sustainable growth and higher competitiveness (Meilariza et al., 2024). In addition, digital innovations such as the integration of GPT Chat and Management Information Systems (MIS) can increase the competitiveness of MSMEs by improving operational efficiency and enriching customer experience (Ningsih & Tjahjono, 2024). Financial literacy provides knowledge and skills to MSME actors to make the right financial decisions, manage resources effectively, and encourage sustainable development (Wahyundaru et al., 2024). The financial performance and sustainability of MSMEs have been shown to be greatly influenced by the implementation of e-commerce and digital marketing tactics in the digital era. In addition to making transactions more efficient, e-commerce helps MSMEs reach a wider audience, which improves sustainability and commercial performance. The competitiveness, productivity, and efficiency of MSMEs can be improved by implementing a combination of corporate digitalization and financial inclusion (Chaerunisak et al., 2024). However, challenges remain, especially in terms of the ability of MSMEs to fully utilize digital technology and financial literacy. Not all MSMEs have the capacity to optimally adopt e-commerce, which can hamper their growth potential.

LITERATURE REVIEW

The process of major changes in the use of digital technology to achieve business goals through optimizing business processes, using data, and developing more innovative products and services is known as digital transformation. Businesses can gain increased efficiency, productivity, and competitiveness in the market through the implementation of digital transformation (Westerman, 2011), which "states that digital transformation means the use of technology aimed at improving the performance and reach of a company using radical changes in client relationships, internal processes, and value propositions". In addition, digital transformation is the process of using digital technology to improve discovery, operational efficiency, cost reduction, and better customer experiences. There is also an additional definition (Vial, 2019) which "defines digital transformation as a process aimed at improving an exclusive organization, forming significant changes in its characteristics with a combination of problem-based technologies, computing, communications, and connectivity." So the digital transformation of the insurance industry is a process in which insurance companies adopt digital technologies to improve operational productivity, increase market reach, and enhance customer experience, as well as create innovation in their products and services. This involves the application of various technologies such as data analytics, synthetic intelligence, cloud computing, and blockchain technology to change the way insurance companies work and interact with their customers. Digitalization, according to Gartner (2014), is the use of digital technology to changing operating and business models to take advantage of new opportunities offered by technology. According to the Big Indonesian Dictionary (KBBI), "digital" is a word which refers to numbers for a particular calculation method. Digital is the process the progress of science and technology from time to time that makes it possible humans to completely automate all previous manual work. Digital also requires media such as electronic devices and internet networks to function as a liaison. (Wandi, 2021).

METHODS

This study uses qualitative methodology to better understand the digital transformation process in the Islamic finance industry. One of the qualitative research methods is library research, which collects information from books, reports, notes, and other related scientific sources (Sudarmanto et al., 2022). Mirzaqon and Purwoko (2018) stated that library research requires collecting data and information from books, scientific publication references, and other scientific sources, such as government reports and hearings. This study uses a library observation approach, which is a set of methods for researching, reviewing, and understanding all available research materials, in order to answer the research questions that have been set (Ahmad et al., 2021). In addition, making conclusions from the findings of the analytical discussion.

RESULTS

The application of advanced technologies, such as e-commerce and e-payment, has shown a significant positive impact on the performance of the MSME supply chain in Indonesia. However, there are still obstacles that must be overcome, such as digital literacy, technology access, and data protection (Kusnanto et al., 2024). Government support and collaboration with technology providers are essential to overcome these obstacles, so that MSMEs can utilize advanced technologies ideally to achieve sustainable growth and higher competitiveness (Meilariza et al., 2024). In addition, digital innovations



including the integration of ChatGPT and Information Management Systems (MIS) can increase the competitiveness of MSMEs by improving operational efficiency and enriching customer experience (Ningsih & Tjahjono, 2024). Digital transformation also enables MSMEs to compete with large businesses in the city, providing business sustainability, innovation, and opportunities to grow in the era of society 4.0 (Judijanto et al., 2023).

The purpose of this study is to analyze the changes caused by digital transformation in the context of financial management in the MSME sector in Indonesia. Simultaneously, this study also seeks to identify various strategies that can be implemented by MSME actors in adopting and integrating digital technology into their financial management system. A comprehensive understanding of the impact of digital transformation and adaptation strategies is expected to provide practical contributions to the development and sustainability of MSMEs in the digital era. This research has significant benefits in two main aspects. First, this research plays an important role in providing practical guidance and recommendations to MSME actors on how to optimize the use of digital technology in their financial management. In addition, the results of this study can be a useful reference for the government and other related parties involved in this process. Policy formulation that aims to encourage and support the digitalization of the MSME sector. Thus, this study is not only useful at a practical level for business actors, but also offers support for the development of a more digital MSME ecosystem.

DISCUSSION

Digital transformation refers to the process of integrating digital technologies into all aspects of a business, describing how a business operates and delivers information to customers. In the context of Micro, Small, and Medium Enterprises (MSMEs), digital transformation is very relevant because it can improve operational efficiency, increase market value, and increase sales in an increasingly competitive global market (Qalbia & Saputra et al., 2024). This transformation allows MSMEs to reduce operational costs, automate business processes, and improve product quality (Hendrawan et al., 2024). However, despite the many benefits offered, MSMEs often face various challenges in adopting digital transformation, such as limited resources, lack of digital infrastructure, and low digital literacy (Hendrawan et al., 2024). Support from the government and technology providers is essential to overcome these obstacles, so that MSMEs can optimally utilize digital technology to achieve sustainable growth and increase every day (Alyani et al., 2023). With an effective technology management strategy and adequate support, MSMEs can overcome these challenges and take advantage of digital opportunities for business growth and sustainability.

CONCLUSION

Digital transformation has had a significant positive impact on MSME financial management. One of the benefits is that it makes it easier to record financial transactions in real time. With the adoption of digital technology, MSMEs can take advantage of digital payment systems and big data analysis that enable more efficient and accurate transaction recording (Dewi et al., 2023). In addition, digital transformation also increases the transparency and accuracy of financial reports. The use of digital technology allows MSMEs to produce more timely and accurate financial reports, which in turn helps in strategic decision making. Future opportunities for MSMEs in the digital economy era are very promising, especially through integration with digital economy ecosystems such as e-commerce and fintech. With the implementation of digital technology, MSMEs can increase their global presence through technology-based operational efficiency. E-commerce, for example, allows MSMEs to increase market share, improve operational efficiency, and interact directly with consumers, which ultimately increases their sales in the global market (Judijanto et al., 2023). In addition, the use of digital technologies such as management information systems and business process automation can increase the productivity and operational efficiency of MSMEs, which are key to competing in the global market (Ningsih & Tjahjono, 2024). Overall, the digital economy era offers great opportunities for MSMEs to grow and develop. By utilizing digital technology, MSMEs can increase market efficiency, improve operational efficiency, and increase their global competitiveness. However, to fully utilize these opportunities, MSMEs need to address challenges such as digital literacy and access to technology, and developing a comprehensive strategy for digital transformation. Digital transformation has had a significant impact on the financial management of MSMEs in Indonesia, both in terms of opportunities and challenges. On the one hand, the adoption of digital technologies including e-commerce, digital payment systems, and big data analytics have improved operational efficiency, financial transparency, and access to financial services. However, on the other hand, challenges such as low digital literacy, limited technological infrastructure, and data security risks remain major obstacles. Therefore, collaborative support is needed from the

government, technology providers, and MSMEs themselves to overcome these obstacles and optimally utilize the potential of digital transformation for the sustainability and competitiveness of MSMEs in the global market.

SUGGESTION

It is expected that this research will serve as an implementation guide. It is also expected that practitioners who make strategic plans for organizational or business recommendations can use this research as a reference. The purpose of this research is to help organizations or companies in overcoming and responding to challenges and changes that arise in the digital era.

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