

Effect of Financial Digital Transformation on Financial Performance

Subjects: [Business](#), [Finance](#) | [Economics](#) | [Management](#)

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The ability of A-share listed companies to adhere to the digital economy and achieve long-term corporate benefits amidst an uncertain external environment through financial digital transformation remains a crucial concern for entrepreneurs and scholars. Financial digital transformation significantly boosts corporate financial performance for A-share listed companies, and this enhancement is sustainable over time. Information symmetry and operational expenses function as intermediaries in the financial digital transformation process that affects firm financial performance.

financial digital transformation

financial performance

information symmetry

1. Introduction

The digital economy has emerged as a fresh engine for economic growth in the context of China's economic change. In order to support a company's regular administration and functioning, the finance department is crucial. However, accountants of many companies have not dismissed the traditional financial management concept but still focus on the main functions of accountants: accounting and supervision. Accountancy dominated by this idea cannot escape from large workloads and a complicated process, so it has more and more difficulty adapting to modern businesses. Therefore, to the growth trend of company digital transformation, the finance department's old operating mode has been challenging to adjust and will even have a negative impact on it ^{[1][2][3]}. Facing the above problems, companies need to recognize the significance of the financial digital transformation, and improve business information transparency ^[4], reduce costs, and increase efficiency through financial digital construction ^{[5][6][7]}. Financial digitization is the process of collecting, handling, and applying business data by applying digital technologies. In this process, companies can receive more comprehensive information and improve their management levels and value-creation capabilities ^[8]. Financial digitalization can change the internal structure, operation mode, and thinking concept of companies with digital technologies, thus establishing a data-centered management system and realizing the transformation of financial management activities from measuring value to creating value ^{[8][9]}. Three strategies were suggested by the State-owned Assets Supervision and Administration Commission's Notice on Accelerating the Digital Transformation of State-owned Companies, which was published in September 2020: transformations based on IT, business, and finance. Among them, financial digital transformation is the starting point of the digital transformation of central companies. Thus, it is imperative to carry out the financial digital transformation of a company that wants to complete digital transformation successfully. According to the *Outline of the Fourteenth Five-Year Plan for Accounting Reform and Development* issued by the

Ministry of Finance, accountancy should be consistently based on digital technologies, and proactively promoting the digital transformation of accounting management and the close integration of accounting with macroeconomic management at the national level as well as corporate operation and management functions is important. Subsequently, *the Accounting Informatization Development Plan (2021–2025)* also pointed out that accountants need to aggressively embrace the digital era's coming and fiercely support the growth of accounting information technology. At present, the overall objectives of China's accounting informatization include accelerating the transformation and upgrading accounting digitization, giving accounting data its due consideration, and continually enhancing the accounting information system. Accordingly, financial digital transformation is increasingly valued by the government and companies in the tide of digital transformation.

2. Influence of Financial Digitization on Financial Performance

Currently, most scholars have studied the relation between financial digital transformation and financial performance from a resource-based perspective. In general, the conclusions of various studies could be divided into the data value theory and the productivity paradox. The former held that the more internal and external information a company has, the better its financial performance will be [\[6\]](#)[\[8\]](#)[\[10\]](#)[\[11\]](#)[\[12\]](#)[\[13\]](#), and the latter held that digital technology investment had irrelevant or insignificant influence on corporate financial performance [\[14\]](#).

Regarding data value theory, scholars generally believed that data were an independent factor of production. In a more complex business environment, data has a stronger ability to directly create value in three aspects of increasing revenue, saving expenditure and controlling risk, thus improving the productivity and financial performance of companies indirectly, such as business process optimization, service level improvement, and information system quality improvement. Data can create value in all aspects of a company [\[15\]](#). The combination between direct and indirect procedures is what causes financial digital transformation to have a beneficial effect on financial performance. Yu et al. [\[16\]](#) theoretically deduced from the existing literature that digital technologies could optimize the investment and financing decisions of companies. Herala et al. [\[17\]](#) pointed out that the digital information and datasets of companies could be converted into more added value, and more visibility could be brought to brands by opening data, which would likely appeal to many companies. Regarding the productivity paradox, Aral and Weill [\[18\]](#) proposed the theoretical model of IT resources and indicated that the total IT investment composed of IT assets and IT capabilities owned by a company had a nonlinear relationship with its business performance. Kazan et al. [\[19\]](#) pointed out that the monopoly digital platform attempts to create unique configurations through platform layers that are challenging to replicate by tight coupling to obtain monopoly power. Hence, the smaller united digital platform could only compete with it with the collective resources of the entire company. Hajli et al. [\[20\]](#) pointed out that some companies benefited from IT investment but with questionable return value, and some could not gain any benefit.

As the key department of modern business management, the degree of digital transformation of the finance department will profoundly influence the overall digitalization process of a company. Financial digital transformation is based on the financial sharing service model to help companies effectively obtain internal and external

information, alleviate information asymmetry, and guarantee the effectiveness of companies in managing and controlling financial information. Diamond ^[21] proposed that information disclosure could improve the information symmetry level and helped companies obtain more transparent and efficient information, thereby making investment and financing decisions more accurate and reducing investment and financing costs. Guo and Xu ^[22] found that a company's level of digitalization had a positive link with process-based business success and a U-shaped relationship with profit-oriented financial performance after analyzing panel data from 2254 manufacturing enterprises in China from 2010 to 2020. Stefanovic et al. ^[23] believed that banks with a higher degree of digitalization could sell more products to existing customers, obtained more new non-bank partners, and created additional profits. According to an empirical review of how well small and medium-sized businesses have performed their digital transformation, Teng et al. ^[24] found that the transformation could help improve business performance.

The majority of the research that is currently available holds that information symmetry and financial success are positively related. From the standpoint of environmental information disclosure, Wang et al. ^[25] explored the intermediate impact of visibility (such as analyst coverage) and liquidity in the influence mechanism of environmental information disclosure on financial performance, concluding that disclosure positively influences financial performance. However, some scholars believed that alleviating the information symmetry level had a negative or insignificant influence on corporate financial performance. Hassel et al. ^[26] pointed out that companies' environmental information disclosure had cost concern effect and value creation effect.

On the basis of building a financial sharing center, financial digital transformation involves integrating the business processes carried out by many information systems, constantly strengthening rules and standards and improving the interfacing efficiency of financial information and business information. With the advancement of corporate financial digital transformation, more and more digital technologies are being applied to financial information management so that the internal information of a company can be effectively collected, screened, applied, and transmitted at a higher rate. Meanwhile, the external market information of the company is integrated into its strategic layout and daily management in the form of high density and efficiency. Companies can make accurate investment and financing decisions, participate in market competition, and conduct strategic goal decomposition due to information flowing inside more accurately and efficiently. Hence, they are more likely to obtain better financial performance. Furthermore, according to signal transmission theory, companies will also disclose more reliable business-related information during financial digital transformation, which can transmit a signal of reliability and good reputation. Investors are more willing to invest in such companies, which helps them obtain more external financing to expand production and gain more profits.

3. Operating Cost Mediates the Link between Digital Financial Transformation and Financial Performance

According to the business process reengineering theory ^[27], the reform of organizational processes brought about changes not only to business processes but also to process-related elements, such as the organizational structure, the work system, and the management system. Hammer and Champy ^[28] defined business process recreation and

believed that it was helpful to improve the business process of a company by thoroughly redesigning and constructing the old model to break the old model under the premise that the low efficiency of the company was caused by the original production mode or the unreasonable management system. The key to redesigning the business process of a company is to adjust the resource structure and human resource structure and optimize the key indicators that customers care about most by improving and redesigning the business process. This greatly improves customer satisfaction with the company and ultimately improves its overall core competitiveness. Many scholars have analysed and considered process change and transformation from various dimensions after the emergence of the business process redesign theory. Grover ^[29] stated that five factors were indispensable during business process redesign: process, organization, management, human resources, and IT technology. The importance of digital technology in restructuring production factors was highlighted by Resca et al. ^[30]. Hitpass and Astudillo ^[31] pointed out that in the era of Industry 4.0, technologies triggered decentralised processes with stronger decision-making autonomy, thus leading to a new business process. Business process redesigning is not only a superficial improvement of the business performance of companies; more importantly, redesigning helped companies fundamentally transform from a function-centered traditional form to a new process-centered one, so that they have revolutionary transformation and realize the fundamental transformation of their operation and management policies.

On the one hand, financial digital transformation can help companies optimize existing business processes and achieve more effective coordination between processes and digital technologies, thereby reducing their relevant costs. Pagani and Pardo ^[32] pointed out that, in addition to technical iteration, company internal coordination, including the connection and reorganization of different resources of the companies, should be the key point of business digitalization. The appropriate organizational capability and a digital business plan, according to Nadeem et al. ^[33], were essential for a company's digital transformation. According to Mavlutova et al. ^[34], digital technology was seen as the power behind the sustainable growth of finance departments. As the fourth industrial revolution began to take off, the digital transformation of the finance department is characterized by integrating digital technologies into the business process to provide new innovation opportunities, thus directly influencing its operation. Under the influence of digitalization, the data information of companies is being generated and utilized in a more complete and accurate way, with scattered personnel, businesses, and activities in the past being integrated continuously so that the transaction costs within or between companies can be lowered.

On the other hand, financial digital transformation based on digital technologies is also conducive to accelerating internal and external information exchange, and the operating cost also decreases accordingly. Verhoef et al. ^[35] denoted that robots could replace high-cost manpower. Tiefenbeck et al. ^[36] believed that technology helped to lower the cost of collecting, transmitting, processing, and storing information and that financial digitalization had reshaped social interaction and had changed people's ability to obtain and use information. Stroumpoulis and Kopanaki ^[37] believed that technologies in digital transformation could boost the development of important capabilities of companies, such as reducing operating costs, achieving operational control, and monitoring and supporting ecofriendly innovation, thus increasing sustainable business performance and raising the companies' position in the market. Companies may enhance their external environment; successfully lower information, communication, collaboration, and marketing expenses; appropriately position client expectations; and boost their

dynamic competitiveness throughout the financial digital transformation process. Internally, they can improve work efficiency, update the cost calculation model, and optimize the management level in order to heighten performance.

4. Relationship between Information Symmetry and Operating Costs

A higher information symmetry level can promote a company's management efficiency. On the one hand, companies can obtain sufficient internal and external information and thus study the development laws of the market and the timely comprehension of their production and operation, make scientific decisions in real time, improve management efficiency, and reduce operating costs according to the information. On the other hand, by improving the information symmetry level, companies can communicate with creditors proactively and reflect on the financial situation to creditors in a timely manner, which helps companies and creditors deal with creditors' rights and debt disputes in a timely and efficient manner.

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