

# The Impact of Digital Transformation on Corporate Financial Capabilities

Zhengqiu Cheng

School of Accounting, Anhui University of Finance and Economics, Bengbu, China

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**Abstract:** Financial capability is an important capability in the development capability of an enterprise. Continuously improving and optimizing the financial capability of an enterprise can promote better development of the enterprise. Under the new round of digital economy, more and more enterprises are carrying out digital transformation, which enables the development of enterprises to further keep up with the changes in the external environment and form the adaptability of various capabilities, especially the optimization of management innovation capability. This paper studies the impact of digital transformation on financial capability, and strives to further and more comprehensively reveal the impact of digital transformation on financial capability, and provide some reference value for enterprises to improve their financial capabilities under the background of digital transformation.

**Keywords:** Digital Transformation; Enterprise Financial Capability; Management Innovation.

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## 1. Introduction

Digital transformation refers to the process of deepening the application of new generation information technology, stimulating the innovation-driven potential of data elements, building and enhancing new capabilities for survival and development in the digital era, accelerating business optimization, innovation and reconstruction, creating, delivering and obtaining new value, and realizing transformation and upgrading and innovative development. With the rapid development of the digital economy, the increasing integration of new generation digital technologies represented by artificial intelligence technology, blockchain technology, cloud computing technology and big data technology with the real economy has prompted more and more Chinese companies to make digital transformation a key point in their development strategy. According to the "2022 China Enterprise Digital Transformation Index" released by Accenture, the proportion of Chinese companies with significant digital transformation results has increased from 7% in 2018 to 17% in 2022. 59% of the executives of the surveyed companies said that they will increase their investment in digital transformation in the next one or two years. Therefore, digital transformation has become a "must-have" for Chinese companies to transform and upgrade. As companies accelerate the layout of digital technology, digital genes penetrate into all aspects of corporate business activities, and can then be internalized as new competitive advantages for companies. The faster the digital transformation and the richer the accumulation of digital genes, the more likely the company will become a market "leader" and gain more market share and economic benefits. The digital transformation advantages developed from digital genes will become the focus of competition for companies in the future. Digitalization has become an important driving force for the development of various departments and industries, and has even produced disruptive innovations that can change existing value propositions.

The enabling effect of digital transformation has become a focus of scholars. More and more studies, from different perspectives, use theoretical or empirical methods to point out

that digital transformation plays a role in promoting the capabilities of enterprises. Financial capabilities are an important capability among corporate capabilities and are particularly important for the operation and development of enterprises. This article, from the perspective of innovation, studies and analyzes the impact of digital transformation on corporate financial capabilities: operating capacity, profitability, and debt-paying capacity.

## 2. Digital Transformation Promotes Management Innovation

Digital transformation has brought many beneficial changes to enterprises, profoundly affected the management model of enterprises, and improved the level of management innovation of enterprises.

"Management innovation refers to the creation of a new and more effective paradigm for organizational resource integration. This paradigm can be a new full-process management of effectively integrating resources to achieve organizational goals and responsibilities, or a new detailed management of specific resources and goal setting" (Rui Mingjie, 1994); "Management innovation refers to the introduction of a more effective new management method or method that has not been adopted by the enterprise. It is the radiation of organizational innovation at the enterprise management level" (Chang Xiuzhe et al., 1994). The organizational life cycle theory also explains that organizations need to change. Due to the changes in the internal and external environments faced by various organizations at different stages of development, in order to better adapt to the environment, better utilize resources, and achieve new development goals, organizations must continuously improve and optimize in many aspects, thereby obtaining organizational adjustments and innovations. Organizational innovation is an important path for enterprises to crack sustainable growth and an important driving force for comprehensive digital transformation of enterprises. How to effectively promote organizational innovation has always been an important issue of concern to the theoretical and practical circles. In terms of organizational innovation, the

mutual independence and lack of coordination between organizations are the gaps that must be crossed in digital transformation. Digital transformation organizations can be interpreted as organizations that are affected by changes in the digital economic development environment and use data and digital technology to achieve organizational development and value enhancement. Data elements are important resources for enterprises, and data has become another important production factor after land, labor, capital, etc. In the context of digital transformation, organizational innovation can rely on a variety of rich data and technologies to provide organizations with new resources and new capabilities, and promote organizations to achieve better sharing and factor combination within time and space. Digital transformation promotes information transparency and symmetry based on data, and analyzes and organizes available information on data, which enhances the integration level of organizations and improves the overall competitiveness of organizations. Through digital transformation, enterprises can establish digital organizations, which can promote smoother team and cross-border cooperation, horizontally connect departments and eliminate independence between departments, and vertically connect quickly and directly, making organizations more agile, and enterprises can achieve effective communication and cooperation between the front, middle and back ends. The front end, middle end and back end each have their own responsibilities, and can share information, cooperate with each other, and work together as a whole. The characteristics of enterprise organization flexibility and agility are more obvious, and the organization moves from closed to open. The collaborative processing and overall advancement between organizations can give play to the competitive advantages of the organization and improve the development of the enterprise.

At present, many enterprises have low data processing efficiency, slow response speed in researching and processing enterprise-related information, and cannot submit more accurate information materials on time, which leads to poor scientificity, real-timeness and accuracy of information in enterprise management, and ultimately leads to an imbalance in the distribution of internal information. In the context of digitalization, enterprises use advanced information technology and data processing technology to fully reduce the error rate, so that enterprises can quickly and efficiently collect, integrate, analyze and process information, thereby greatly enhancing the reliability of enterprise decision-making, improving the ability of estimation analysis and forecasting management, and thus comprehensively improving the management level of enterprises. In the process of digital transformation of enterprises, the new generation of digital technology shortens the management chain and the time of information transmission, and promotes the development of management methods in the direction of scientific and precise management. The comprehensive use of "data, computing power, and algorithms" speeds up the decision-making process and makes faster response possible.

### **3. Management Innovation Promotes Financial Capacity Improvement**

Improvement of operational capacity. The low operating capacity of enterprises is often manifested in low inventory turnover, low accounts receivable turnover, and high accounts payable turnover. The lack of scientific procurement plans in

enterprises has an impact on inventory turnover. Digital transformation promotes management innovation, thereby promoting and improving digital intelligent warehouse management systems, which can accurately record raw materials and finished products in the process of enterprise procurement, production, and sales, and provide accurate basis for inventory management. Through big data, we can understand the changes in the production and operation activities of external suppliers and purchasers, and make better responses to enterprise procurement, inventory, etc. in advance. If enterprises rely too much on credit sales, it may lead to an increase in accounts receivable; low customer quality, customers' payment ability and willingness are not strong, which makes it difficult to collect accounts receivable; low collection efficiency, contract terms problems, and poor management may all lead to an increase in accounts receivable. Big data technology can analyze the age of accounts receivable and the difficulties in collecting accounts receivable, so as to formulate more reasonable recovery plans and recovery strategies. In the process of digital-driven management innovation, the management of accounts receivable can be further optimized. Through big data, the production and operation status and financial status of the debtor can be timely understood, providing real-time information judgment for further effective recovery of accounts receivable. The high accounts payable turnover rate indicates that the company's procurement channels are unreasonable, the procurement channels are limited, and the company's market position and visibility are low. Digital transformation brings about the continuous improvement of the level of management innovation, which can enhance the market competitiveness and brand influence of enterprises, better broaden the procurement channels of enterprises, enable enterprises to have more say in procurement activities, and maintain a certain level of accounts payable in the procurement process.

Inventory turnover, accounts receivable turnover, and accounts payable turnover not only involve the operation management department of the enterprise, but also the related production plans, sales strategies, procurement strategies, etc., which will involve multiple departments or organizations within the enterprise, or even all departments. The process of digital-driven management innovation has driven organizational change, formed efficient and accurate coordination of production, supply, sales and other departments and organizations, and enhanced inter-departmental collaboration and intelligent decision-making management; thereby further promoting the inventory turnover of enterprises, timely recovery of accounts receivable, and a certain level of accounts payable.

Profitability improvement. Indicators for examining corporate profitability include return on assets and return on net assets. These indicators are basically the ratio of a company's profit to assets or a certain indicator. In order to make the analysis simple and easy to see, we assume that if these indicators as the denominator remain unchanged or change very little, the current profit growth will inevitably lead to an increase in profitability. The increase in current profits depends on the increase in revenue and the reduction in costs. In the context of digital transformation, companies can significantly increase sales revenue through management innovation and update sales strategies. Traditional sales methods are mainly offline sales. The construction of digital platforms allows companies to expand sales channels,

enhance customer experience, and attract a wider range of customer groups through online platforms. Management innovation brings innovation in production technology, promotes the improvement of production efficiency, and ensures that the speed of supply of corporate products will not be a problem as sales channels are unblocked. Management innovation promotes the improvement of product technology and product quality, further meets customer quality requirements, and thus brings more high-end customer groups. The reduction of costs is another significant manifestation of management innovation in the context of digital transformation. The reduced costs include financing costs, production costs, and sales costs. Management innovation can well strengthen information communication and solve information asymmetry, thereby better promoting corporate financing and reducing financing costs. Supply chain financing is an innovative way of corporate financing. Upstream and downstream enterprises in the same supply chain can better realize mutual financing at any time based on their mutual capital needs and surplus conditions, enriching the financing channels of enterprises and reducing the cost of external financing. In the production process, enterprises adopt accurate cost tracking to timely discover specific links where production costs are unreasonable, and achieve better control and optimization of costs in advanced management methods. In the sales process, the promotion and application of new online marketing channels have significantly shortened the sales chain and saved manpower, travel and other costs of offline sales. Under the digital innovation system, by improving and applying new sales management systems, sales market analysis and sales strategy matching can be better realized, thereby reducing sales costs wasted by blind sales and inefficient sales.

Debt repayment ability is improved. Liabilities are the lever of business operations. Most enterprises will maintain a certain level of liabilities during the operation process. In the process of development and growth, enterprises must rely on increasing liabilities to meet the needs of expansion plans. Many enterprises, due to backward management tools and outdated management methods, blindly borrow money under the drive of development goals, and the amount and term of debts are not designed reasonably, which often forms huge repayment pressure when debts mature. Under the background of digital transformation, enterprises rely on big data and digital technology to form new management methods, combining the advantages and disadvantages of various debt-raising methods with the actual needs, tolerance, and risk impact of their own capital structure of the enterprise, accurately selecting the fundraising method that best suits their actual situation and future development, and improving the repayment guarantee of matured debts. In addition to the structure and term of the liabilities themselves, enterprises need to fully and reasonably consider the arrangement of funds to ensure the ability to repay debts. The bankruptcy of many enterprises may not be due to insolvency, but because of the lack of reasonable arrangements and the failure to formulate reasonable and scientific debt repayment plans in advance. With the digital transformation driving management innovation, enterprises have strengthened management and advanced management systems to closely link the normal operation and management of enterprises and the operation of funds with the debt repayment plan. According to the relevant debt contracts and agreements, the specific due date, amount, interest, etc. of the debt are listed one by one. Combined with

the actual operating conditions and capital income of the enterprise, each debt expenditure is matched to the corresponding funds, so as to achieve the goal of keeping the income within the limit and be prepared for any eventuality, so that the production and operation plan, debt repayment plan, and capital chain of the enterprise can fully cooperate with each other, and try to make the limited funds of the enterprise meet the needs of daily operations and each debt repayment point in turn through reasonable arrangements in time and conversion.

#### **4. Thoughts and Suggestions**

Strengthen the understanding of digital transformation. Digital economy has become a new economic form, and digital transformation is an inevitable choice for enterprises to adapt to the development of the external environment. At present, many enterprises have actively carried out digital transformation and achieved financial and other benefits that promote enterprise development. Enterprises that have not yet carried out digital transformation or have a low degree of digital transformation should improve their understanding of digital transformation. From management to all departments and employees of the enterprise, they must clearly see the importance of digital transformation to the development of the enterprise. Managers should deeply study the principle mechanism of digital transformation driving management innovation and thus improving efficiency.

Supporting digital transformation facilities. Digital transformation relies on big data and digital technology, and it is necessary to build or update digital infrastructure to provide perfect support for the acquisition of big data and the development of digital technology. At the same time, enterprises must also provide necessary talent support for digital transformation. Enterprise digital transformation requires compound talents. Enterprises should combine multiple angles such as trying to introduce, transfer and cultivate, and internally cultivate, and improve the corresponding treatment for digital transformation talents, and introduce incentive mechanisms for digital transformation talents to play a role.

Promote the external environment of enterprises. For enterprises to carry out digital transformation, obtaining a large amount of rich external data is a key external support, and the acquisition of external data includes both quantitative and qualitative requirements. The country has attached great importance to digital transformation and incorporated it into the important deployment of development. Governments and departments at all levels should actively lead the construction of digital platforms and let the construction of digital platforms provide sufficient high-quality data around the development of enterprises. At the same time, relevant laws and regulations to ensure the authenticity and security of data are also needed.

#### **5. Conclusion**

In the context of digital economy, relying on big data and data technology will surely further promote the management innovation of enterprises and improve their financial capabilities and other competitiveness. At present, there are differences in the degree of digital transformation in enterprises of different regions and sizes; the government and relevant departments should continue to strengthen guidance and support for all aspects of digital transformation of

enterprises; enterprises themselves should fully realize the opportunities for management innovation and efficiency improvement brought by big data and digital technology, accelerate the training of digital transformation talents, and provide supporting digital transformation facilities to better respond to the call for digital transformation, adapt to changes in the external environment, and meet their own development needs.

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