Corporate Financial Control Transformation in the Conditions of Digitalization

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Abstract—This article addresses issues related to the digitalization impact on the enterprises financial management process, in particular, such a stage of management as corporate financial control. The analysis of the dynamics of the information society development factors included in the “Monitoring of the Information Society Development in the Russian Federation” is presented and it is determined that the Russian business sector does not fully meet the expectations associated with the formation of a new economy of an innovative type and many modern technologies have not been adequately distributed among enterprises. The key factors of the corporate financial control effectiveness are considered and the need to take into account the influence of specific factors related to the business digital transformation on this process is determined. In particular, the necessity of investing in digital assets is disclosed, as they are able to create additional competitive advantages and, as a result, create a positive financial effect and affect the stability, efficiency and competitiveness of enterprises. In addition, due to the tendency to transform new business models in the direction of increasing customer centricity, the factor of human capital and its development level comes to the fore in corporate governance. It is ensuring an acceptable level of development of human capital and the enterprise innovative potential in the context of the knowledge economy formation in the Russian Federation that can give an incentive to development and quality improvement of corporate governance and, as a result, the enterprise effectiveness. The company management should improve the corporate financial control organization in the direction of increasing flexibility and reducing the inertia of the reaction to control influences.

I. INTRODUCTION

The process of Russia's integration into the world economy stimulates research in the field of determining the best conditions for the effective functioning of the financial mechanism for increasing the profit of business entities. This mechanism is inextricably linked with the profits distribution between the state, founders and employees. The digitalization conditions that are typical for the present time determine the need for transformation of both business behavior models and the entire social sphere.

The profit indicator has one of the most significant values in the general system of indicators characterizing the value relationships in the framework of the modern economic structure. Profit is an important element of the management system in the field of business entities economic development and is the largest source of expanded reproduction financing. In addition, it acts as a source of forming the state budget revenue side, as well as one of the most significant criteria for evaluating the enterprises effectiveness.

The process of making managerial decisions related to the formation, distribution and use of profit at the enterprise, as well as evaluating the effectiveness of these decisions represent the profit management at the enterprise. The main goal of the profit management system at the enterprise can be defined as ensuring maximization of the enterprise owners well-being, both in the current and in the future periods. Corporate financial control reflects the final stage in the financial management system of business entities. The need to ensure the efficiency and profitability of business entities in a rapidly changing environment determines the transformation of the process, both financial management in general and the corporate control system in particular.

II. METHODOLOGY AND THEORY

Despite a large number of studies, there is still no unified concept in the “digital economy” term definition. There are
many definitions of it in the literature. For example, in [1] it is noted that the digital economy is a form of economic activity that arises from a billion examples of network interactions between people, enterprises, devices, data and processes. The basis of the digital economy is hyperconnectivity, i.e. the growing interconnectedness of people, organizations, and machines, shaped by the Internet, mobile technology, and the Internet of things.

The digital technology development is ongoing and dynamic. According to [2], the formation of The Global Competitiveness Index in the nearest future will have an extremely high impact from the use of new digital technologies, in other words, international competitiveness will be determined by this factor. The current stage of digital technologies development have a tendency to an exponential growth in the variety of relationships between all market participants. In particular, it happens due to an abrupt increase in the number of transactions and data volumes in circulations that complicates the synchronized integration between market participants [3, P. 4].

The formation of a knowledge society in the Russian Federation reflects the main goal, approved by Decree of the President of the Russian Federation No. 203 of 05/09/2017 “Strategies for the development of the information society in the Russian Federation for 2017-2030”. The following were identified as national interests in this Strategy: the digital economy formation, the human potential development, the public administration efficiency improvement, the development of the social sphere, the economy and a number of others [4, P. 8].

The priority of digitalization at the national level has determined the need for monitoring the information society development in the Russian Federation. According to this monitoring results published in [5], the factors of the information society development are human capital, innovative potential, infrastructure and accessibility of information and communication technologies (ICT), the economic environment, the information industry, and information security.

Human capital is represented by such indicators as the proportion of workers with higher education among the employed, the percentage of students enrolled in programs of various levels in the total population, the number of students admitted to study under the programs within the framework of the “Computer science and computer engineering” field of education, etc. Information literacy of the population is presented as the proportion of organizations that conducted additional training programs for employees in the field of information and communication technologies.

In relation to innovative potential, a large number of indicators, determining its level, have been analyzed. Thus the share of internal research and development costs, in % of GDP, has a positive trend, but its value exceeds 1% a little bit (1.11% by the end of 2017). Innovative goods, works, services in total and the number of patents for inventions per 1 million inhabitants have a general tendency to stagnation. Along with this, the share of technologies related to fundamentally new ones in the total number of advanced production technologies developed from 2011 to 2017 shows growth, although the value in 2018 (11.6%) is lower than in the previous year (13.6%) [ibid.].

Infrastructure and accessibility of ICTs are revealed in the availability of telephone, Internet, cable television, and affordability of ICT services for the population. Most of the indicators in this section show positive dynamics. Along with this, some of them can be estimated as unreasonably low. For example, the proportion of the population capable of receiving only one cable television program in the total population in 2017 is 43.2%, and only 21 out of 100 people had fixed broadband Internet in 2017 [ibid.].

The information industry is characterized by the share of employees in the ICT sector of the total number of employees, and at the end of 2017 it is at the level of 1.7%; negative dynamics in this indicator has been observed since 2010. Information security indicators tend to grow [ibid.].

The digital culture development acts as a key factor in the business environment digital transformation. A breakthrough in innovation is typical for today’s business environment. In such a situation, business entities need to pay attention to innovations that can enable them to respond to changes in the business environment in a timely manner [6, P. 38].

As it is noted in [7], the Russian Federation ranks 45th in terms of ICT development, 35th in the e-government development index and 10th in the global cybersecurity index. The Russian Federation business sector does not fully meet the expectations associated with the process of forming a new innovative type economy. In this situation, the business entities digitalization acts as a tool to stimulate their susceptibility to innovation, as well as the innovative activity growth [8, P. 4087].

The search for potential reserves to increase the business entities competitive advantages and ensure their stable financial condition determines the need for analytical procedures. These procedures must be aimed at identifying and studying the competitive development factors. The factors analysis is very closely associated with the formulation of a competitive strategy necessary for the development of new and maintaining existing advantages in the digital transformation context [9].

Enterprises operating in the territory of the Russian Federation have widely mastered basic digital technologies, but a much smaller number of them have carried out deep automation and business processes restructuring to modern technologies. Thus, 83% of Russian enterprises use broadband Internet, and only 63% use electronic data exchange, only 23% use cloud services, 12.2% use ERP systems, and only 5% use RFID technologies [10]. The manufacturing enterprises digitalization is still low. The introduction of digital platforms based on a unified system of knowledge, technology and competency management takes place abroad, while in Russia the concept of transition to Industry 4.0 is still under discussion. To date, virtual modeling, computer engineering, additive technologies, and achievements in the field of robotechnics and mechatronics have not received significant distribution [3].
Issues related to the corporate finance management process effectiveness have always been in the foreground, both among scientists and entrepreneurs. With the transition to market conditions for doing business, these issues importance has only increased due to the need to create mechanisms and tools for the corporate finances effective management. These mechanisms creation is determined by an attempt to take the leading positions in the struggle for investment resources, sales markets, etc.

The business sector, in fact, acts as the central core in the economic system. Issues related to corporate governance and improving its level are becoming increasingly important due to the high degree of these factors influence on the enterprise efficiency [11, P. 73]. A fairly large number of corporate governance and corporate control definitions are found in the economic literature. In particular, the interpretation of O. Y. Kirillova, presented in [12, P. 56], where it is noted that corporate control should be understood as control of external and internal processes of corporate interaction aimed at providing the corporation with resources in accordance with its strategic goal, is of interest.

In fact, corporate financial control is a component in the overall corporate governance system and is aimed at creating conditions promoting the business entity authority enhancing, security ensuring and independence developing. One of the most important functions of corporate financial control is the information accumulation, analysis and systematization. In addition, an extremely important aspect of corporate financial control is the search for potential reserves to ensure financial stability and solvency of a business entity. Financial control in the business entities activities is a set of procedures, significant from the point of view of corporate governance efficiency and enterprise capitalization growth [11].

The corporate financial control objectives include the following:

- identification and systematization of factors that can influence the economic entity financial management efficiency, as well as the development of measures aimed at reducing the business processes dependence on negative factors;
- weaknesses identification, approaches optimization and the strategy for managing the business entity’s capital improvement;
- accounting quality assessment and increasing its effectiveness, including tax, accounting, managerial ones;
- capital management concept adjustment in order to increase this process efficiency;
- weaknesses identification in terms of personnel performing their labor functions and increasing their competencies.

The financial control effectiveness at the enterprise directly depends on a number of factors and key conditions, including:

1. The presence of a developed infrastructure, including communications and software. Due to the fact that corporate financial control is, first of all, work with a lot of information, the necessary condition for its effectiveness is the presence of the developed infrastructure, including tools and means for fixing, transmitting and interpreting data.
2. The presence of a regulatory framework that determines the arrangements for conducting control procedures and the established procedure for paperwork. This condition is necessary for the control procedures legitimacy; the personnel involved in this process should be able to rely on the current local regulatory documentation.
3. The presence of the required competencies of the enterprise personnel involved in the control procedures. The financial control effectiveness at the enterprise largely depends on the competence of the personnel involved in this process. Since corporate financial control is a combination of a number of procedures and actions, many of which require a sufficiently high qualification, control measures should be carried out with the involvement of competent and qualified personnel.

III. Results

From the foregoing, it can be concluded that digital transformation affects all areas of business, including the role of factors affecting the corporate financial control effectiveness. Changes in the essence of these factors are determined by the need for the transformation of their content and the consideration of new, additional aspects in their composition.

Thus, digitalization can have a significant impact on industry markets and the market participants competitiveness. Methods of analyzing large volumes of data even in traditional industries are increasingly being used to make effective managerial decisions and gain new knowledge. In other words, the condition for providing developed infrastructure, in terms of communications and software, acquires completely new content. After all, enterprises are able to create additional competitive advantages through the acquisition and use of certain digital assets. In such a situation, the stability, efficiency and competitiveness of enterprises will be determined including the level of their digitalization.

Today the head of the enterprise has to make decisions in the uncertainty and risk conditions that forces him to constantly control various aspects of financial and economic activity, which are reflected in a large number of documents containing different information. Properly processed and systematized, it is an effective management guarantee to some extent. On the contrary, the lack of reliable data can lead to an incorrect managerial decision and, as a result, to serious losses. The use of modern digital technologies can increase the data processing efficiency and the business information reliability, as well as provide assistance in making managerial decisions. At the same time, automation of a number of processes is able to provide continuous monitoring of business
and other operations, which, ultimately, will allow the information user to get the most complete picture of the enterprise activity.

But, despite the importance of the business entity digitalization level and the ability to create additional competitive advantages thereby, among the above factors, influencing the financial control effectiveness, one can be distinguished that, according to the authors, is the most significant. Information and knowledge, as the new economic structure key components, bring significant innovative potential and change the labor market, developing the intellectual services sector and spreading new forms of employment. That is why the human capital factor and its development level come to the fore. Professionals exercising financial control, among other things, must have competencies related to business processes, within which managerial decisions, related to the company’s capital management, are made. In the labor market, the role of routine labor is decreasing, and the need for personnel with high communicative data and expert thinking is increasing [13]. According to [14] at least 30% of the functions within the professions can be automated at the current technology development level.

In order to stimulate the enterprises demand for the digital technologies introduction and use, it is extremely important not to be limited to direct financial support measures, government procurement of digital technologies and “manual” management, which are characteristic for the project management model (federal and departmental projects are chosen as the main tools for implementing the national goal). Apart from a favorable institutional environment they will not bring a multiplier effect and are unlikely to be able to ensure wide coverage of private companies, stimulate a massive increase in demand for digital technologies and volumes of off-budget investments, especially in the face of many years of enterprises innovative activity stagnation [3].

In modern conditions, the key source of value creation is the high-speed processing of large amounts of data, since transactions occur in real time and often simultaneously. That is why corporate governance, including financial control, must take into account the customer-oriented focus of new business models [15].

IV. CONCLUSION

Untimely reaction of an economic entity to changes in the external environment can cause serious damage to its financial condition. The reaction should be synchronous, anticipatory and adequate to the risks and threats of the external business environment. The company’s management should improve the corporate financial control organization in the direction of increasing flexibility and reducing the inertia of the reaction to control influences.

The development of innovative potential, a digital culture and the increase in the level of human capital development are inextricably linked with large investments, and in the conditions of economic instability it is necessary to be extremely careful about increasing costs so as not to lose financial stability in the short and medium term in the pursuit of future efficiency. In this regard, investments aimed at such purposes should be carried out in stages.

In conclusion, it should be noted that the digital assets presence is able to create additional competitive advantages for business entities, and the innovative potential allows to take into account future competitive opportunities related to the enterprise innovativeness level and the ability to compete in the future with enterprises extensively introducing innovations in their activities.

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