

Chapter 5

Digitalization of Financial Reporting: Its Role in Improving Corporate Efficiency and Transparency

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ABSTRACT

Digitalized financial processes are redefining 21st-century business landscapes. One area that has undergone significant transformation is financial reporting, which involves the preparation and presentation of essential reports that enhance strategic decision making and regulatory compliance. Automation and data processing play a crucial role in this context by enhancing the efficiency, accuracy, and transparency of the reports generated. This chapter explores in detail how advances in these two areas of digitalization are revolutionizing financial reporting and then analyzes the relevant technologies and their benefits and challenges, as well as best practices for their implementation. Regulatory guidelines are also examined in terms of their implications and future trends in digital financial reporting.

DOI: 10.4018/979-8-3693-5923-5.ch005

1. INTRODUCTION

Digital transformation has had a profound impact on the business world, producing “a change in how a firm employs digital technologies to develop a new digital business model that helps to create an appropriate . . . [added] value for the firm” (Schallmo et al., 2017; Verhoef et al., 2021). In this context, a substantial shift has been detected in consumers and other stakeholders’ expectations and behaviors (Paul et al., 2024; Plekanov et al., 2023). Traditional companies are thus under increasing pressure to redesign their products, processes, and strategies (Kraus et al., 2022; Verhoef et al., 2021).

To avoid losing their market position (Saarikko et al., 2020; Tekic & Kiriteev, 2019), firms have been compelled to examine and reinvent most areas of their operations (Fernández-Vidal et al., 2019; Schiuma et al., 2021). This process includes supply chains and workflows (Aamer et al., 2023; Guo et al., 2023), employee skills (Schwarz Müller et al., 2018; Vuchkovski et al., 2023), interactions with stakeholders (Brunetti et al., 2020; Prebanić & Vukomanović, 2021), and information disclosure (Lombardi & Secundo, 2021). In the latter area, digitalization has not only significantly impacted the methods used to prepare information (Berikol & Killi, 2021; Gonçalves et al., 2022) but also the type of data made public (Lombardi & Secundo, 2021; Salvi et al., 2021) and the modes by which they become available to stakeholders (Bhimani & Willcocks, 2014; Pratama et al., 2023).

The literature on the preparation of accounting information highlights the changes in accounting driven by technological advances (Hasan, 2021; Leitner-Hanetseder et al., 2021). This transformation has specifically materialized as task automation (Eziefuele et al., 2022; Korhonen et al., 2021), improved accuracy (Fullana & Ruiz, 2021; Gonçalves et al., 2022), and the provision of real-time information (Manita et al., 2020). The digital revolution has had significant benefits for accounting (Agostino et al., 2022; Cagle, 2020; Kusumawardhani et al., 2024) as it saves time (Gonçalves et al., 2022) and resources (Gonçalves et al., 2022) and improves cash flow management (Avira et al., 2023) by automating billing procedures and payment management (Hofbauer & Sangl, 2019; Ulas, 2019).

However, significant challenges must be overcome before these advantages are obtained (Abhishek et al., 2024). Information security is probably the most significant issue (Gebremeskel et al., 2023) since digitalization and automated systems have increased organizations’ exposure to cyber risks (Luo, 2022; Pandey et al., 2020), such as cyberattacks and fraud. Companies have been compelled to implement robust cybersecurity measures to protect the integrity and confidentiality of their financial data (Pansara, 2022), which requires continuous investment in technology and staff training (Furnell et al., 2017; He & Zhang, 2019).

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