INTERNATIONAL JOURNAL OF
ENTREPRENEURSHIP
AND BUSINESS INNOVATION

NAWALA

Volume 1, Number 2, 2022

Innovation in Financial Governance and Accountability for Small Business Growth

Syalaisha Alifia Jauhari[1*]

[1] Universitas Negeri Yogyakarta, Yogyakarta, Indonesia

Article history:
Received: July 17, 2022
Revised: August 28, 2022
Accepted: October 23, 2022
Published: December 30, 2022

Keywords:
Accountability,
Business Growth,
Financial Innovation,
Governance,
Small Enterprises.

Identifier:
Nawala
Page: 114-132
https://nawala.io/index.php/ijebi

Abstract

Innovation in financial governance and accountability forms a crucial foundation for supporting the sustainable growth of small enterprises. Through adaptive and technology-driven managerial approaches, small business actors can enhance efficiency, transparency, and access to financial resources. This study presents a literature review drawn from various academic journals to evaluate the role of governance innovation in strengthening financial accountability and improving the competitiveness of small businesses. The findings indicate that the adoption of financial technologies, the integration of accountable reporting systems, and the enhancement of managerial capacity significantly contribute to the stability and expansion of small enterprises. These innovations are not only instrumental in mitigating operational and financial risks but also in building investor trust and facilitating better decision-making. The review underscores that effective financial governance combined with innovation enables small businesses to navigate dynamic market conditions and fosters inclusive economic development. Therefore, continuous improvement in financial accountability and governance is essential for ensuring long-term business growth.

*Corresponding author:
syalaishaalifia.2022@student.uny.ac.id (Syalaisha Alifia Jauhari)

1. Introduction

Small businesses play a central role in the structure of the global economy. Their contribution is not only seen in the dominant number of business units, but also in their ability to absorb labor, create local innovation, and act as a driver of inclusive economic growth. The existence of small businesses provides an alternative source of income for communities, especially in areas with high unemployment rates. In many cases, small businesses also serve as the spearhead of economic equalization and are able to reach markets untouched by large businesses. However, small businesses also face serious challenges in terms of financial governance and accountability, which directly affects their sustainability and ability to grow. The absence of a structured system and a lack of awareness of the importance of transparency are obstacles for most small businesses in achieving long-term growth.

One of the main challenges often faced by small businesses is low financial literacy and a weak internal governance system (Yakob et al., 2021). Many business owners do not have a basic understanding of accounting principles, budget planning, or financial statement analysis. This leads to an inability to prepare credible financial reports, difficulty in obtaining access to formal financing, and vulnerability to the risk of business failure. In addition, reliance on manual records and minimal transaction recording makes it difficult for small businesses to objectively show their financial performance. The lack of an efficient financial management structure further exacerbates this problem, making it difficult for small businesses to manage cash flow, prepare budgets, or accurately measure performance. Irregularities in managing business funds also lead to the potential for waste, internal conflict, and the loss of opportunities for expansion into a wider market.

In the last decade, the development of technology and information systems has opened up new opportunities to overcome these challenges. Financial innovations such as the use of cloud-based accounting software, the adoption of automated audit systems, and the integration of blockchain technology in transaction recording have been proven to be able to increase transparency, efficiency, and accountability in the small business sector (Illmeyer et al., 2017). This technology not only makes it easier for business owners to record transactions in real-time, but also enables digitally verifiable reporting. These governance innovations not only improve internal control, but also strengthen the trust of external parties, such as investors and financial institutions. Business owners who implement a digital-based financial system are also better prepared to face external audits and evaluations, and are more responsive to rapidly changing market dynamics.

In addition to the technical aspects, it is also important to consider the institutional and regulatory roles in creating an ecosystem that encourages healthy governance. Adaptive regulations and government incentive programs can be a catalyst for increasing the adoption of financial innovation in the small business sector. Policy reforms that support financial digitalization, as well as community-based financial literacy programs, are key to expanding the adoption of innovative governance practices. These efforts need to be supported by cross-sectoral collaboration, including from financial institutions, academics, and technology providers. Such initiatives are becoming increasingly relevant amid global economic dynamics that demand high adaptability from small business owners. Small businesses that are able to transform managerially and technologically will be more competitive and have greater opportunities for expansion.

Recent literature shows that good governance practices characterized by accountability, transparency, and data-driven decision-making are positively correlated with small business growth. Innovation in financial management provides a stronger foundation for facing market fluctuations, increasing operational efficiency, and accelerating the expansion process. Healthy governance also minimizes the potential for financial misuse and strengthens business integrity. Therefore, it is important for stakeholders, both from the public and private sectors, to continue to encourage innovation within the framework of financial governance and accountability, in order to support a resilient and competitive small business ecosystem.

2. Literature Review

2.1. The Concept of Financial Governance and Accountability

Good financial governance refers to the structures and processes that enable effective, efficient, and transparent financial management. This involves a systematic arrangement for accountable financial planning, implementation, and evaluation. Important aspects of this governance include accurate financial reporting, regular internal audits, and an objective oversight system (Muhammad et al., 2019). Timely and accurate financial reporting assists in strategic decision-making, while internal audits provide assurance of the integrity of financial processes. In addition, a good oversight system ensures that financial practices are carried out in accordance with applicable standards and regulations, thereby preventing deviations or misappropriation of funds. Financial accountability, on the other hand, emphasizes the obligation of a business entity to account for the use of its resources and its financial results transparently.

This reflects integrity and transparency in every financial process, both to business owners, business partners, customers, and external parties such as financial institutions and regulators. High accountability increases the level of trust and reputation of the business in the public eye. The application of these principles is still a challenge for small businesses due to limited resources and a lack of accounting knowledge. Research by Chrisman et al. (2018) highlights that many small business owners are not aware of the importance of a good accountability system in improving the business's viability in the eyes of investors and creditors. This lack of awareness means that reporting systems are often ignored or not implemented optimally, thus hindering the business's growth potential.

2.2. Technological Innovation in Financial Governance

The development of digital technology opens up various opportunities for innovation in small business financial governance. This digital transformation not only changes how business owners manage information, but also accelerates the process of recording, reporting, and evaluating financial performance more systematically. One of the most prominent innovations is the use of cloud-based financial recording applications and automated accounting software. This technology helps business owners to prepare financial reports in real-time and minimizes errors from manual recording. In addition, cloud-based applications enable direct data synchronization and give business owners access to monitor financial conditions anytime and anywhere, without having to depend on a physical system.

A study by Abdouli and Hammami (2018) found that the digitalization of financial processes has a direct impact on operational efficiency and data-driven decision-making. When financial data is available accurately and instantly, management can respond more quickly to changes in market conditions and internal business needs. In addition to efficiency, digitalization also contributes to higher data accuracy and security. The use of blockchain is also starting to be explored as a tool for transparent transaction recording, although it is still in the early stages of implementation in the small business sector. Blockchain technology is considered promising because of its ability to create a recording system that is unchangeable, decentralized, and protected from manipulation. If implemented widely, this could increase trust from investors and other stakeholders in the integrity of the small business financial system.

2.3. The Relationship Between Governance and Business Growth

Solid governance has a close relationship with the performance and growth of small businesses. A well-structured governance system allows business owners to manage resources optimally, conduct regular evaluations, and design sustainable business strategies. Poor governance is often associated with the risk of bankruptcy, manipulation of financial reports, and a weak internal decision-making structure. The absence of a transparent oversight and reporting mechanism can lead to decisions that are not based on valid data, which ultimately harms the business's sustainability. On the other hand, small businesses that implement a good reporting system tend to find it easier to get access to capital from financial institutions and have more consistent growth (Quintiliani, 2019). The credibility of financial reports is a key indicator in assessing the health and prospects of a business by external parties such as banks, investors, and strategic business partners.

Governance innovation also acts as a catalyst in creating added value and market expansion. The application of modern financial management technology can increase competitiveness and accelerate adaptation to market changes. The performance of small businesses that implement technology-based financial systems and participatory governance shows a higher growth rate compared to businesses that still rely on manual systems (Burchi et al., 2021). The participatory approach allows for the involvement of various parties in decision-making, strengthens accountability, and creates synergy in achieving business goals. Therefore, innovation in the aspect of governance is an important element in encouraging the sustainable success of small businesses.

3. Method

This research uses a literature study approach to comprehensively analyze the role of innovation in financial governance and accountability on the growth of small businesses. The literature study approach was chosen because it provides a broad and in-depth space to critically and comprehensively reflect on the results of previous research from various relevant academic perspectives. Through this method, researchers can explore secondary data originating from trusted scientific publications to formulate a strong and evidence-based conceptual synthesis. Secondary data sources were systematically taken from journal articles indexed in Google Scholar, with the main criteria being a publication last 5 year. This time range was chosen to ensure that the references used are up-to-date and relevant to the latest developments in financial technology and governance policies. The keywords used in the literature search process include "financial governance innovation", "accountability in small business", "SMEs financial transparency", "technology in financial reporting", and "financial literacy and small enterprise growth". After the initial search process was completed, a further selection was made based on the relevance of the topic to the research focus, the accessibility of the full text, and the methodological quality of the journals concerned.

A total of 12 scientific articles that met these criteria were finally selected as the main sources for the analysis. These articles were then categorized based on their respective thematic focus, namely: financial technology innovation, effective governance practices, and the relationship between financial accountability and business growth. To explore the contents of these articles, content analysis techniques were used to evaluate the arguments, main findings, and methodological approaches used in each study. In addition, an interpretive approach was also applied to compile a synthesis of the findings in the form of a systematic academic narrative. This aims to produce a deep understanding of the patterns, relationships between variables, and the contribution of each innovation in governance and finance to the dynamics of small business growth.

The validity of the findings was strengthened by comparing the results between articles, and by consistently referring to established governance and financial theories in scientific studies. With this approach, the research is expected to be able to make a significant conceptual contribution to understanding the close relationship between financial governance and small business growth through the lens of innovation. In addition, the results of this study are also expected to be a valuable reference for business owners, academics, and policymakers in designing strategies to strengthen managerial capacity and more effective accountability systems in the small business sector.

4. Results

The results of the analysis of the 12 scientific journals reviewed show that innovation in financial governance and accountability has a significant influence on the growth of small businesses. The literature analyzed in this study consistently emphasizes that innovative financial governance is one of the key factors in encouraging the success and resilience of small businesses amid increasingly complex economic dynamics. In this literature review, five main patterns were found that show a strong connection between digital transformation, transparent financial management, and the adaptive capabilities of small businesses to technological and regulatory changes.

First, the implementation of digital technology-based accounting information systems is the most significant form of innovation widely adopted by small business owners (Agus Pramuka & Pinasti, 2020). This transformation reflects a shift from conventional manual and error-prone recording methods to a digital system that is more structured, accurate, and efficient. A study by Illmeyer et al. (2017) shows that the use of cloud-based applications in daily transaction recording and financial reporting can reduce manual errors by up to 35%. These applications enable real-time recording, automatic data processing, and ease in preparing reports that comply with accounting standards. In addition, digitalization also encourages the internal audit process to be more efficient and accurate, because electronically stored data is easier to trace and audit. A study by Abdouli and Hammami (2018) states that small business owners who use integrated accounting software are 2,5 times more likely to access financing from formal financial institutions than business owners who do not. This shows that financial digitalization not only strengthens internal management, but also increases the credibility of small businesses in the eyes of external parties.

Second, financial accountability is increasingly strengthened through the development of a governance system based on good governance principles. In this context, practices such as periodic reporting, independent audits, transparency in the use of funds, and the involvement of stakeholders become an integral part of creating a trustworthy financial system. Business owners who apply these principles show a tendency to build long-term relationships with investors, business partners, and funding institutions. Accountability-based governance practices have a positive impact on customer loyalty, investor trust, and improved financial performance. High accountability also becomes a key indicator in assessing the stability and adaptive capacity of a small business in facing external changes.

Third, managerial skills and financial literacy are important variables in the successful implementation of governance innovation. Small businesses led by individuals with a good managerial understanding and adequate financial literacy tend to be faster and more accurate in responding to technological and policy changes. A study by Burchi et al. (2021) asserts that small businesses whose owners have a management education background or have participated in financial training have a higher survival rate compared to businesses that do not have this advantage. Strong managerial capacity allows business owners to not only adopt new technologies, but also to integrate them strategically into their business operations. In the long run, strengthening this capacity creates a business ecosystem that is able to absorb innovation more quickly and is more adaptive to macroeconomic policies and competitive market pressures.

Fourth, the results of the study also show that the existence of a conducive public policy support significantly accelerates the process of innovation adoption by small businesses. Supporting regulations, government incentives, and digitalization training are major external factors that play a large role in encouraging the governance transformation of small businesses. Examples of policies often mentioned in the literature include the digitalization of tax administration, incentive programs for the use of accounting technology, and the provision of community-based financial transparency platforms. In a study by Quintiliani (2019), it was found that government interventions in the form of training and digital onboarding significantly increased the participation of small business owners in the formal financial system. This institutional support also broadens the understanding of business owners of internationally recognized accountability standards, thereby increasing their opportunities to access wider markets and capital.

Fifth, the integration of sustainability principles and social accountability in financial governance is starting to show a positive trend in encouraging ethical and long-term business practices. Social responsibility reflected in financial reporting is not just a formality, but becomes part of a business strategy that supports reputation and consumer loyalty. In a study by Bai et al. (2020), small businesses that integrate sustainability reports into their financial reports tend to have easier access to markets and financing from social investors. Social investors tend to prioritize business entities that not only pursue financial profits, but also have a commitment to environmental sustainability and community welfare. Therefore, accountability in the context of sustainability is becoming increasingly important as a form of strategic innovation in the governance of small businesses.

In addition to these five main findings, the results of several studies also show the important role of high-tech innovations such as blockchain, especially in the context of immutable transaction recording and audit automation. This technology is believed to be able to increase transparency and reduce the risk of fraud in the financial management of small businesses. Blockchain provides a decentralized and encrypted recording system, which makes financial data more resistant to manipulation or misuse. However, its implementation is still limited due to the high cost of implementation and the limited access to technology in some areas or among small business owners who are not yet ready in terms of infrastructure and human resources. Nevertheless, the potential of this technology to create a more accountable and trustworthy small business environment remains a promising long-term prospect.

From the business performance side, a strong correlation was found between the application of technology-based accounting systems and the revenue growth of small businesses. A study by Chrisman et al. (2018) shows that small businesses that integrate digital financial management systems experience an average revenue increase of 31% in two years. This increase is not only due to administrative efficiency, but also because business owners have a better ability to plan strategies, project profits, and manage risks. With accurate and up-to-date data available, decision-making becomes more information-based, and not just on intuition. This makes digitalized small businesses more responsive to market fluctuations and more capable of quickly taking advantage of new business opportunities.

Not only that, the adoption of innovation in accountability also helps in mitigating business risks. Small businesses that implement a policy of periodic reporting and data-based financial evaluation are proven to be more resilient to external shocks, such as market fluctuations, regulatory changes, and supply chain disruptions. By having a transparent and responsive financial monitoring system, business owners can make early corrections to potential losses and design appropriate countermeasures. This strengthens the argument that good financial governance does not only function as a mere administrative complement, but also as a strategic protection mechanism that can ensure the sustainability of the business in the long term.

Overall, the findings from this literature study confirm that innovation in financial governance and accountability not only directly supports the growth of small businesses, but also creates a more stable, inclusive, and sustainable entrepreneurial ecosystem. Innovative governance practices enable the creation of more adaptive organizational structures, stronger oversight systems, and more measured decision-making. Business owners who are able to adopt modern and accountable financial systems tend to have higher competitiveness in the increasingly competitive and dynamic global market. Thus, the role of innovation in financial governance cannot be seen as a complement, but rather as a strategic element in the transformation of small businesses towards sustainable and economically and socially resilient growth.

5. Discussion

The results of the literature study show that innovation in financial governance and accountability is a key factor in supporting the growth of small businesses. This innovation is not only technical in nature, but also reflects a renewal in the mindset and managerial strategy of small business owners in managing their financial resources. The relationship between this innovation and the growth of small businesses emerges in various interconnected dimensions, ranging from increased operational efficiency, better financial transparency, increased access to formal financing sources, to increased trust from customers and external stakeholders. This creates a strong foundation for small businesses to grow in a dynamic and competitive business environment. However, the challenges in implementing this innovation cannot be ignored and should be a major concern in the formulation of policies and internal business strategies (Mazzucato et al., 2021).

One of the biggest challenges that still hinders the adoption of innovation in governance is the low level of financial literacy among small business owners (Liu et al., 2021). Although various accounting technologies and digital reporting systems are widely available, without a sufficient understanding of the principles and objectives of their use, these tools are often not utilized optimally. Many business owners still rely on inconsistent manual recording, which complicates the process of evaluating business performance. Therefore, human capacity building initiatives are very important and urgent. These efforts include continuous training programs, field technical assistance, and the integration of financial literacy and management modules into small business incubation and acceleration programs.

The discussion also highlights the importance of a holistic approach in the application of governance innovation. The implementation of financial technology will not be successful if it is not accompanied by a change in organizational culture that supports the principles of transparency and accountability (Sofyani et al., 2020). In many cases, small business owners tend to focus more on operational technical aspects such as production or marketing, and ignore the importance of systematic financial recording and reporting. Therefore, education that emphasizes the direct benefits of a good governance system on profitability, business survival, and credibility in the eyes of business partners is a crucial thing to instill from the beginning.

In addition, there are great opportunities in the use of cutting-edge technologies such as blockchain and big data analytics. This technology can improve the accuracy of financial data, transparency of transactions, and provide strategic insights based on data analysis. However, this technology still requires adequate digital infrastructure and human resources, both in terms of skills and a mental readiness to change. Therefore, a collective effort from various parties including the government, the private sector, financial institutions, and academics is needed to create an inclusive, affordable, and sustainable innovation ecosystem.

It is also important to note that governance innovation not only has an impact on the internal growth of the business, but also strengthens the position of small businesses in the supply chain and wider economic network. Small businesses that have good governance are more easily trusted by large business partners, distributors, and institutional clients, and are thus better prepared to expand into new markets or participate in long-term collaborative projects (Yermack, 2017). Thus, the formation of innovative and accountable governance must be a priority in the development strategy of small businesses. Directed policy interventions, investment in technology that is appropriate to the scale and needs of small businesses, and the systemic capacity building of human resources are mutually supportive foundations for encouraging the growth of the small business sector in a sustainable, inclusive, and competitive manner in the long term.

6. Conclusion

This study concludes that innovation in financial governance and accountability has a significant influence on the growth of small businesses. Through a review of literature from various international journals, it was found that the use of modern financial technology, such as digital accounting software and cloud-based reporting systems, demonstrably increases efficiency, accuracy, and access to financing. In addition to the technological aspect, the application of transparent and accountable governance principles has also been proven to strengthen the business's resilience to external risks, expand the business network, and increase trust from various stakeholders. The factors of financial literacy and the managerial capacity of business owners are important components in ensuring the success of the implementation of this innovation.

Policy support and a regulatory environment that encourages digitalization and financial transparency also play a role in accelerating the adoption of good governance practices. Therefore, there needs to be collaboration between the government, the private sector, and educational institutions to create an ecosystem that supports the growth of small businesses based on financial innovation. Strengthening financial governance and accountability through an innovative approach not only improves the individual performance of small businesses, but also strengthens the contribution of this sector to inclusive and sustainable economic development

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