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THE INFLUENCE OF DIGITALIZATION ON THE IMPROVEMENT OF BUSINESS PROCESSES

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Abstract: *Digitization is one of the key drivers of the competitiveness of modern small and medium-sized enterprises (SMEs). The aim of this work is to analyze the ways in which digitization contributes to the improvement of business processes, increasing productivity and strengthening the market position of the SME sector. The paper examines the impact of the implementation of digital tools in order to digitize business processes, followed by digital marketing, e-commerce, cloud solutions and automation of operations. Special focus is placed on the identification of barriers that prevent SMEs from fully exploiting the potential of digital transformation, including limited financial resources, lack of digital competence and resistance to change. The results of the analysis indicate that digitization significantly improves efficiency, reduces costs and opens opportunities for innovation and access to new markets. It is concluded that a strategic approach to digital transformation, with adequate institutional support and investment in the development of digital skills, is crucial for the long-term growth and sustainability of the SME sector.*

Keywords: *digitization, digital transformation, small and medium enterprises*

Introduction

Digital technologies permeate everyday business and private activities in the 21st century. They changed the way of learning, doing business and socializing. This reliance on the use of technology in the modern world has ushered the world into the so-called digital age. Organizations and individuals are becoming increasingly connected in the digital world. (Corbin-Herbison, 2019) The digital age is also increasingly changing traditional industries and transforming the business environment. New technological developments accelerate and improve the way new innovative products and services are designed, developed, produced and accessed. They enable companies to quickly develop and market innovative products and services on the market that were previously unimaginable. Small and medium-sized enterprises (SMEs) can now operate globally, if they have innovative solutions or talented workers. Digitization is something that is

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discussed a lot, but many managers still doubt the benefit of investing in the digitization of business processes. Large corporations have long understood that the digitization of processes within the company is one of the best ways to achieve the desired growth in income and increase the quality of services and products that are placed on the increasingly demanding world market (Dabić, 2007). SMEs are also increasingly realizing the importance of information technology and speeding up processes within their own organization. It has never been more important to have the right information at the right time, as a basis for making quality and strategically important decisions on which the present and future of the company often depends. In today's liberalized market, various technologies are available, so one of the basic tasks of an SME manager is to follow the trends imposed by digitization and to adequately apply them in his organization.

Digitization of business processes

Digitization of business processes represents a fundamental change in the way SMEs work. Traditionally, many business processes were paper-based, slow and error-prone. The implementation of digital tools, business management software and process automation enables SMEs to optimize efficiency and reduce the time needed to perform tasks. It is about "the use of digital technologies to change the business model and provide new opportunities for creating income and value, that is, about the process of transition to digital business" (Kane et al., 2017:124). From a business perspective, digitization implies the process of using digitized data, in order to simplify established ways of working and maximize efficiency. Digitization enables better and faster business with data that is immediately available. Automation plays a big role in digitization, regardless of whether it is a change of individual jobs or refers to the general transformation of business processes. Digitization is revolutionizing the way business is done in industrial value chains using technologies such as the Internet of Things (IoT), predictive analytics and intensive data exchange. However, the application of new technologies alone is not enough and innovation of business models is needed. Although digitization applies to all spheres of social life, it primarily determines the transformation of entrepreneurial and business models in various industries. The main reason for this is the changed needs of the market and society as a whole (whether caused by new requirements or initiated by the industry) for products and services that determine adjustments in the process of value creation, as well as patterns of communication and cooperation (Spremić, 2017). This process in turn encourages innovative transformations of business models. Despite the fact that business leaders often use digitization as an umbrella term for digital transformation, these concepts are very different.

Digital transformation requires much more adoption of digital technology and changes in organizational culture (Brumec, 2018). Digital transformation is more

about people than digital technologies. It requires user-centered organizational changes with management support, radical challenges in corporate culture and the exploitation of technology that empowers and trains employees. "Digital transformation is a deep and accelerated transformation of business activities, processes, competencies and models, in order to fully utilize digital changes and the possibilities of technologies and their impact on society in a strategic way" (Jašarević and Kuka, 2015:65). Digital transformation looks at all aspects of business, be it customer needs, innovative new products, market opportunities or ultimately the "new economy".

Digital marketing and e-commerce

The application of digital marketing and e-commerce in small and medium-sized enterprises (SMEs) represents one of the key factors for increasing competitiveness and market visibility in the modern economy. Kotler, Kartajaya and Setiawan (2017) emphasize that the digital environment has transformed the relationship between companies and consumers, enabling two-way communication and the creation of long-term relationships. SMEs in particular benefit from digital marketing because it provides affordable tools for promotion, audience segmentation and tracking campaign results, which was previously not possible with traditional channels.

Chaffey (2015) points out that digital marketing enables precise targeting of users based on their demographic characteristics, interests and behavior on the Internet, which improves the effectiveness of advertising. Such tools are especially important for the SME sector, which often has limited marketing budgets. By using platforms such as Google Ads, Meta Ads and email marketing, SMEs can optimize spending and achieve measurable results. This is also confirmed by Ryan (2016), who states that digital marketing enables continuous testing and adjustment of communication strategies, which leads to increased conversions and customer loyalty.

In addition to promotion, digital marketing enables brand development through content marketing, social networks and online reputation management. According to Pulizi (2014), creating quality content is key to building authority and trust among consumers, which enables small businesses to compete with much larger market players. Social networks have become especially important, because SMEs can communicate directly with the audience, collect feedback and create personalized experiences. This interactivity contributes to greater user engagement and strengthening brand recognition.

E-commerce represents the second key segment of the digital transformation of SMEs. Laudon and Traver (2022) explain that e-commerce is changing the market structure by removing geographical barriers and enabling SMEs to access

global customers. This approach to the market significantly increases income potential and reduces dependence on local market restrictions. Online sales platforms such as Shopify, WooCommerce and Etsy allow small businesses to quickly enter the market with minimal initial costs.

The integration of digital marketing and e-commerce brings additional value to SMEs, as it enables the creation of a comprehensive user experience. Chaffey (2015) emphasizes the importance of the digital customer journey, where every user's contact with the brand affects the final purchase decision. The combination of social networks, an optimized website, an online store and automated marketing processes contributes to increasing the number of customers and the average order value. However, the implementation of digital marketing and e-commerce also brings certain challenges. SMEs often do not have enough knowledge, competences or human resources to effectively manage digital channels. According to Zahay (2021), successful digital transformation requires the development of digital skills, strategic planning and understanding of analytical tools. The lack of these competencies can lead to inefficient investment and poor return results. Nevertheless, research shows that SMEs that invest in education and development of digital capacities record faster growth and greater market stability (Laudon & Traver, 2022).

Overall, digital marketing and e-commerce provide SMEs with opportunities to diversify their offer, improve communication with customers and increase profitability. They enable companies to compete on a more equal footing with larger competitors, using the advantages of agility and faster adaptation to market changes. Therefore, it can be concluded that digital marketing and e-commerce are key elements of the modern business model of SMEs and represent the basis for their further development in the economy based on knowledge and technology (Zahay, 2021).

Online presence and flexible work environment

Digital transformation enables SMEs to reach a global audience via the Internet. Presence on social networks, websites and digital marketing are becoming essential for attracting new clients and maintaining relationships with existing ones. Through the smart use of SEO (Search Engine Optimization) techniques and digital advertising, SMEs can increase their visibility and reach a relevant target group. Those companies that work using digital technology and that implemented the digital transformation of the company, started some new trends in today's business (Ćirić and Raković, 2010). Trends imply speeding up business, the offer of products and services should be significantly accelerated by all possible means, channels, as well as through improving the user experience. It is important to connect with everyone and use the interactivity of available devices. More and more companies are trying to digitize their products and

services. Products and services are increasingly individualized. The needs and wishes of the customers are constantly monitored in order to create new needs for satisfactory products, and the way for the customer to be delighted with the innovation. They strive to highlight the essential information from each transaction. In fact, today's companies strive to create digital brands in order to become digital leaders, they strive to impose their digital business model using all available digital technologies.

Digitization usually first develops in the company's financial transactions, especially in financial transactions on the Internet. Payment and collection are some of the most important online transactions, which is why they are given great attention in practice because it is difficult to correct any mistakes. This is why they are constantly being improved, especially in terms of safety. The main advantage of electronic trading is the faster service delivery. This is why traditional payment methods are used less and less. Paying with cards and using digital money and smart cards has become our daily routine. Every company that has introduced the possibility for its clients to pay their obligations via the Internet has accelerated the turnover of their own financial resources and reduced collection costs. When billing is done in a traditional way, the process can take up to 90 days or more, which negatively affects the liquidity of the seller or service provider. When we pay by credit card, the payment is shortened to one day or several days. The need for standard invoicing disappears, which has led to positive consequences such as the reduction of administrative and technical collection costs. Payment security is increased because banks and card service providers are reliable business partners, which directs electronic payment users to use their services. Digital transformation also supports and promotes flexible ways of working, including remote work or hybrid work models (Hunjet and Kozina, 2014). This not only increases employee satisfaction, but also enables SMEs to attract talent from different geographies. Through the use of tools for virtual collaboration and communication, teams can collaborate effectively regardless of distance.

Application of cloud solutions

The use of cloud solutions in small and medium-sized enterprises (SMEs) represents one of the key factors in improving the flexibility, scalability and efficiency of modern business. According to Erl, Puttini and Mahdavi (2013), the cloud allows organizations to use infrastructure and software resources according to the principle of a service model, which significantly reduces the costs of investing in IT infrastructure. SMEs, as structurally sensitive organizations, especially benefit from these characteristics because they do not have the capacity to maintain complex local systems (Marinescu, 2013). Cloud solutions enable faster introduction of new applications, simpler data management and

greater availability of business services, which directly affects the productivity and quality of business processes.

The transition to the cloud eliminates the need for significant capital investments and enables the transition to operational costs, which improves the financial sustainability of the SME sector. In addition to economic advantages, cloud solutions enable improved collaboration among employees through the integration of tools for joint work, data storage and access to information in real time. Marinescu (2013) points out that cloud platforms contribute to the automation of business functions, thereby reducing the possibility of human error and increasing the security of business processes. Especially significant is the development of the Software-as-a-Service (SaaS) model, which enables SMEs to use advanced applications without the need for local installation or administration.

However, although the benefits are significant, the implementation of cloud solutions is faced with certain challenges. Erl et al. (2013) warn of the need for proper management of security aspects, including data protection and access control. SMEs often do not have specialized staff who can adequately evaluate the risks of migration to the cloud, which can slow down the digital transformation process. Despite this, research shows that the long-term benefit of cloud technologies is far greater than the initial obstacles, especially when it comes to increasing competitiveness and accelerating innovation in the SME sector (Marinescu, 2013). In conclusion, cloud solutions represent a strategic resource that enables small and medium-sized enterprises to respond to contemporary market demands and improve their business in a sustainable and scalable way.

Analytics and data-driven decision making

Digitization enables SMEs to collect extensive data about their operations, customers and market. Analytical tools help them better understand demand patterns, customer behavior and the efficiency of their processes. This enables informed decision-making, which can lead to cost reduction, resource optimization and better adaptation to market changes (Hull et al., 2006). The main capability of digital technology is extracting information from the device and analyzing it, processing it and then making decisions based on the information. Digital technology enables the creation of new business models through the application of various functionalities, such as location services, creation of digital content, online user collaboration, as well as the application of artificial intelligence tools. The feature of digital technology is the installation in devices and the possibility of separating digital content from devices, content analysis and the possibility of fast transfer of digital content. The third characteristic is the exchange of digital content, and fourth, the possibility of

digitizing business and creating a digital platform. That is why it is important for the management of every SME to know the advantages of digital technologies, so that they can successfully run that company. When it comes to the digital reorganization of the company's operations, a new organizational culture should also be introduced, the basis of which will be innovation and the use of modern digital technologies in the company's operations. The main goal of modern information systems is to collect, store, process, analyze and distribute intangible business resources, which are information and knowledge needed for the implementation of business processes (Ivanović et al., 2019). Digital technology and information and communication technology are terms that are used more in a broader sense that is not focused only on technological characteristics, but mainly refers to application in business. Digital technology becomes the driver of business and is the basis for the development and connection of different business models in order to create additional value.

Innovation and competitive advantage

Digital transformation enables SMEs to innovate their products and services to better meet market needs. Through the application of IoT (Internet of Things), artificial intelligence and other advanced technologies, SMEs can create products that are smarter, more connected and more efficient. This gives them a competitive advantage and opens up new business opportunities. Creating competitive advantage through innovation in small and medium-sized enterprises (SMEs) is critical to their long-term market success. Innovations enable SMEs to stand out from the crowd of competitors, increase their value for customers and achieve a larger market share. "Innovations represent the process of creatively changing or creating products, services, processes or business models in order to achieve additional value" (Kolaković, 2006:58). In the context of SMEs, innovation can be a key component that enables competitive advantages. Types of innovation in SMEs can be:

• Technological innovation: Involves the development of new technologies, products or processes to meet market needs.
• Process innovation: Refreshes the way SMEs do business, thereby increasing efficiency, reducing costs and improving quality.
• Innovation products: Create new or improved products that differ from the competition and offer additional functionality or benefits.
• Business innovations: They refer to changes in the business model, distribution channels or ways of interacting with customers.

Innovation in SMEs is of great importance, because it enables an increase in competitive advantage, and the way that innovation enables SMEs to offer something different and better than the competition, thus attracting more customers. Then they enable diversification of the portfolio, because various innovations enable SMEs to diversify their product or service portfolio and

reduce the risk of relying on a single product or service. They certainly influence the increase in efficiency, because process innovations can optimize internal operations, reduce losses and increase productivity. Also, innovations contribute to the creation of a recognizable brand identity, which increases recognition on the market. Certainly, creating a competitive advantage through innovation in small and medium-sized enterprises requires strategy, patience and creativity. Innovation is not only a matter of technology, but also of market access, resource management and understanding of user needs (Corbin-Herbison, 2019).

Customer Relationship Management (CRM)

CRM software enables SMEs to better manage their customer relationships. By tracking interactions with customers, MSPs can provide personalized support and improve customer satisfaction. This leads to increased customer loyalty and a better understanding of their needs. High exposure of customers to various sources of information, especially digital media, has led to the fact that today's customers are extremely well informed, that they quickly compare different offers, and that they expect to meet their general, but also very specific needs and expectations. SMEs that have a quality CRM at their disposal have the opportunity to satisfy these specific needs and significantly raise the level of user satisfaction. Certainly, a prerequisite for the development of personalized offers is the disposal of a large amount of personal data of the user, which then places a special emphasis on data security (Zahay, 2021). Digitization in general brings with it an increased need for data security. MSPs must invest in data protection against threats such as hacking, cyber-attacks and identity theft. Ensuring adequate security measures is becoming essential in order to maintain customer trust and protect sensitive business data. It is not enough to invest more in digital technologies, but the management of SMEs must devise an appropriate and good strategy for the application of digital technology in their daily work. Managers should clearly define the role of digital technology in business, according to real needs or results of strategic business analysis. A large number of startup companies use digital technologies that are cost-effective and have many of their own ideas and visions of how some work should be done. On the other hand, there are large corporations that have large financial resources to invest in digital business, but they lack ideas, vision, inspiring leadership and an innovative scenario. In such cases when companies have no idea how to properly implement digital transformation, information systems have only a technical role and are treated as a cost and burden for the company. That is why it is important to have a vision and idea of how to apply the digital transformation of the company and how to implement it. This is achieved by efficient management of IT projects, application of digital initiatives and proper assessment of the impact on business. Also, it is necessary to manage the risks that could arise from the application of digital technologies. When the management decides to carry out the digital transformation of the company, it brings much more efficient operations. But also

investments in digital technology carry certain risks and challenges. Even the most successful organizations sometimes face certain problems. Although digitalization of business has brought many advantages and more efficient operations, it also carries certain risks, which must not be replaced (Marinescu, 2013).

Conclusion

Digital transformation has a strong impact on the efficiency of small and medium-sized enterprises. Through digitalization of business processes, online presence, analytics, flexible working environment, innovation, CRM and data security, SMEs face new opportunities and challenges. Those who successfully adopt digital technologies can achieve greater competitive advantage, improved collaboration and long-term market success. However, it is important to remember that digital transformation requires continuous adaptation and learning in order to take advantage of all the advantages that technology offers. The digital economy represents new business models, and one of them is the introduction of digitization in business and its constant use. Every company today that wants to progress and remain competitive on the market must implement digitization in its operations. Great emphasis in the application of digital technologies is placed on people and their knowledge and competences related to digital technology.

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UTICAJ DIGITALIZACIJE NA POBOLJŠANJE POSLOVNIH PROCESA

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Sažetak: *Digitalizacija je jedan od ključnih pokretača konkurentnosti modernih malih i srednjih poduzeća (MSP). Cilj ovog rada je analizirati načine na koje digitalizacija doprinosi poboljšanju poslovnih procesa, povećanju produktivnosti i jačanju tržišne pozicije sektora MSP-a. Rad ispituje utjecaj implementacije digitalnih alata u svrhu digitalizacije poslovnih procesa, nakon čega slijede digitalni marketing, e-trgovina, rješenja u oblaku i automatizacija poslovanja. Poseban naglasak stavljen je na identifikaciju prepreka koje sprječavaju MSP-ove da u potpunosti iskoriste potencijal digitalne transformacije, uključujući ograničena financijska sredstva, nedostatak digitalnih kompetencija i otpor promjenama. Rezultati analize pokazuju da digitalizacija značajno poboljšava učinkovitost, smanjuje troškove te otvara mogućnosti za inovacije i pristup novim tržištima. Zaključuje se da je strateški pristup digitalnoj transformaciji, uz odgovarajuću institucionalnu podršku i ulaganja u razvoj digitalnih vještina, ključan za dugoročni rast i održivost sektora MSP-a.*

Ključne riječi: *digitalizacija, digitalna transformacija, mala i srednja poduzeća*

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