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THE ROLE OF ARTIFICIAL INTELLIGENCE IN ENHANCING FINANCIAL DECISION-MAKING FOR SMALL AND MEDIUM ENTERPRISES (SMES)

Mr. Jithin Scaria[1], Dr. A. Sengottaiyan[2]

[1]Assistant Professor, Department of Commerce Finance, Nilgiri College of Arts & Science, Thaloor- 643239.
jithinscaria.js@gmail.com

[2]Associate Professor, PG and Research Department of Commerce, Vivekanandha College of Arts and Sciences for Women (Autonomous), Tiruchengode. drsengottaiyana@vicas.org

Abstract

Small and Medium Enterprises (SMEs) are vital contributors to economic development, fostering employment and innovation. However, these businesses often face challenges in financial decision-making due to resource limitations and restricted access to advanced financial management tools. This study examines the role of Artificial Intelligence (AI) in enhancing financial decision-making for SMEs. AI-powered solutions, such as predictive analytics, machine learning algorithms, and automation tools, enable SMEs to optimize cash flow management, conduct risk assessments, and improve operational efficiency. Although AI implementation presents obstacles such as high initial investment costs and data security concerns, its long-term benefits significantly outweigh these challenges. This paper analyzes existing literature, case studies, and real-world applications to explore AI's transformative impact on SME financial management. The study concludes by offering strategic recommendations for AI adoption to ensure SMEs remain competitive in the evolving digital economy.

***Keywords**: Artificial Intelligence (AI), Financial Decision-Making, Small and Medium Enterprises (SMEs), Digital Transformation, Risk Management, Predictive Analytics.*

1. INTRODUCTION

Small and Medium Enterprises (SMEs) serve as the backbone of economic growth, accounting for more than 50% of global employment and contributing substantially to GDP, particularly in developing economies (World Bank, 2020). Despite their significance, SMEs often struggle with financial decision-making due to limited financial literacy, restricted access to expert guidance, and inadequate data-driven decision-making capabilities. These challenges hinder business growth and sustainability.

Artificial Intelligence (AI) has emerged as a game-changer in financial management, offering SMEs innovative solutions to overcome these challenges. AI facilitates data-driven decision-making by analyzing vast datasets, automating repetitive financial tasks, and mitigating financial risks. This paper delves into the role of AI in SME financial decision-making, highlighting its benefits, challenges, and strategies for successful adoption.

2. OBJECTIVES OF THE STUDY

This study aims to:

1. Examine the role of AI in enhancing financial decision-making for SMEs.
2. Identify AI-powered tools and their applications in financial management.
3. Evaluate the benefits and challenges associated with AI adoption in SMEs.
4. Analyze case studies demonstrating AI's impact on SME financial operations.
5. Provide strategic recommendations for SMEs to implement AI in financial decision-making.

3. REVIEW OF LITERATURE

Several studies underscore the increasing significance of AI in financial management. Brynjolfsson and McAfee (2017) emphasize AI's potential to enhance decision-making accuracy while minimizing human errors. Davenport and Ronanki (2018) discuss AI-driven predictive analytics, which assist businesses in anticipating financial risks and opportunities. Chen et al. (2020) highlight AI's role in fraud detection and risk mitigation, demonstrating how AI algorithms analyze vast financial datasets to detect anomalies and fraudulent transactions.

Kumar and Sharma (2021) discuss the challenges SMEs face in AI adoption, such as high costs and skill gaps. However, they argue that AI's long-term cost-efficiency and scalability make it a valuable investment. Smith (2021) examines AI's role in automating financial tasks, improving operational efficiency, and enabling SMEs to focus on strategic financial planning.

4. DATA ANALYSIS AND INTERPRETATION

4.1 AI-Powered Predictive Analytics

AI-driven predictive analytics enhance SMEs' ability to forecast financial trends, optimize cash flow management, and develop effective budgetary strategies. Tools like IBM Watson and Sage Intacct analyze historical data to provide real-time insights, improving decision-making accuracy (Davenport & Ronanki, 2018).

4.2 AI in Risk Management

AI assists SMEs in identifying financial risks by analyzing market trends, past transaction records, and industry-specific risks. AI-powered fraud detection systems, such as those employed by financial institutions, enhance security and minimize financial losses (Chen et al., 2020)

4.3 AI in Automation

Automation of financial processes significantly reduces operational costs and errors. AI-driven accounting software like QuickBooks and Xero streamline payroll, invoicing, and expense tracking, improving overall financial efficiency (Smith, 2021).

4.4 AI in Personalized Financial Advice

AI-driven financial platforms such as Kabbage and Fundbox offer tailored financial advice and credit risk assessments, enabling SMEs to access funding based on data-driven evaluations (Brynjolfsson & McAfee, 2017).

5. CASE STUDIES ON AI IMPLEMENTATION IN SMES

5.1 Case Study: AI-Enabled Cash Flow Management

A manufacturing SME in India implemented AI-based cash flow management software, reducing financial discrepancies by 30% and improving budget planning efficiency. The AI system provided real-time insights, enabling better financial control.

5.2 Case Study: AI in Fraud Detection

A retail SME in the UK integrated AI-driven fraud detection, identifying suspicious transactions and reducing fraudulent activities by 40%. The AI model enhanced security and improved financial transparency.

5.3 Case Study: AI in Loan Approval Processes

An SME in the U.S. utilized AI-powered credit assessment tools, increasing loan approval rates by 25% while minimizing credit risk exposure. The AI system enabled data-driven decision-making, improving financial sustainability.

6. FINDINGS AND SUGGESTIONS

Findings:

1. AI enhances financial decision-making by improving accuracy, reducing operational costs, and minimizing risks.
2. AI tools optimize resource allocation, enabling SMEs to focus on growth strategies.
3. Challenges such as high implementation costs and cybersecurity risks must be addressed to maximize AI benefits.

Suggestions:

1. SMEs should explore cost-effective AI solutions tailored to their financial needs.
2. Training programs and industry collaborations can help bridge the AI skill gap among SME employees.
3. Governments and financial institutions should provide incentives to encourage AI adoption among SMEs.

7. CONCLUSION

AI is revolutionizing financial decision-making for SMEs by offering predictive analytics, risk assessment, automation, and personalized financial insights. While challenges such as initial investment costs and data security concerns exist, AI's long-term advantages make it an invaluable asset for SMEs. Strategic AI adoption will empower SMEs to enhance financial management, improve efficiency, and maintain competitive advantages in the evolving digital economy.

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