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IMPROVING THE QUALITY OF FINANCIAL STATEMENTS AND THE SURVIVAL OF MSMES THROUGH DIGITAL ECONOMY: THE CASE OF INDONESIA AND MALAYSIA

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ABSTRACT

This research aims to assess the extent to which the digital economy influences the quality of financial statements and the survival of MSMEs in Indonesia and Malaysia. This research used an analysis unit of 201 MSMEs registered in the Indonesian Chamber of Commerce and Industry and a literature review on the digital economy of MSMEs in Malaysia. The analytical approach was then utilized to examine validity, reliability, classical assumptions, analysis path, and hypothesis testing using the t-test in SPSS version 23.0. The results of hypothesis testing in this research show that the digital economy affects the quality of financial statements and has a unidirectional relationship with strong categories. These findings suggest that the digitalization of the economy is critical for MSMEs because it lowers operational costs and exposes them to a broader range of potential customers. MSMEs must be technologically literate for their businesses to grow and survive in response to market demands. The issue in Indonesian MSMEs is that they need direct access to financial services, resulting in lower operational profitability and difficulty obtaining profits. Technology literacy becomes a solution for ensuring business continuity. Like Indonesia, Malaysia is also concerned about MSMEs' business sustainability, which inspired them to achieve the goal of making Malaysia the center of economic digitalization. This goal would involve technological advances, indicating that MSMEs in Indonesia and Malaysia can improve their financial gain through digital transformation.

Keywords: Digital economy; quality of financial statements; MSMEs

INTRODUCTION

MSMEs are the primary drivers of economic growth and development (Šebestová & Sroka, 2020). Presently, 46.6 million MSMEs out of 64 million encounter challenges due to a shortage of funding from banks and non-bank financial institutions (Salahuddin, 2022). MSMEs must enhance their business performance to grow and survive. The goal of digitizing MSMEs is to improve access to marketing and income effectiveness and efficiency for MSME actors (Rizkinaswara, 2022). Using digital technology can assist MSME actors by allowing their products to be promoted to a larger market share. MSMEs significantly impact the Indonesian economy; MSME players support 99%

of Indonesia's economic growth, contributing to GDP reaching 60.5%.

Furthermore, the MSME sector employs 96.9% of the workforce, contributing significantly to the Indonesian economy. This has been demonstrated post-pandemic, with as many as 84.8% of MSMEs resuming operations. By 2024, as many as 30 million MSME actors will have gone digital, and in addition to entering the digital platform, MSME actors will have become global participants and export-oriented. On the other hand, Malaysian MSMEs account for 97.2% of the Malaysian GDP. However, MSMEs in Malaysia are less competitive due to a lack of technology adoption and mastery; hence it is evident that MSMEs must be technologically literate for their companies to thrive (Rahayu et al., 2023). As stated by the World Economic Forum and Bain & Company and Facebook research, 8 out of 10 customers in Southeast Asia, comprising the Philippines, Singapore, Malaysia, Indonesia, Thailand, and Vietnam, utilize digital transactions. The usage of e-commerce, e-wallets, and prepaid cards is driving the rapid growth of digital financial services (Word Economic Forum, 2022).

The Covid-19 pandemic triggers MSMEs to survive and flourish by using e-commerce to promote their products. Following the pandemic, MSMEs are encouraged to upgrade their company through validated commercial transactions to gain access to financing, which will aid in economic recovery (Anggara, 2022). MSMEs will reap numerous benefits from using digital technology, including the ability to advertise their products to a larger market share. The research also stated that MSMEs can sell their products via social media and marketplaces and keep financial records via digital platforms up to and including payment.

Numerous scholars have studied the digitization of MSMEs, prompting others to conduct comparable research to discover its relevance to financial reports. Customers in the age of e-commerce are particularly interested in discounts, satisfaction with interest, and satisfaction with services (Hasbi et al., 2022). Additionally, entrepreneurial marketing increases marketing where market volatility works as a moderator (Zaid, 2022). This study investigates the function of turbulent marketing in moderating entrepreneurial marketing and marketing performance in the MSME business. A

study has shown that the use of marketplace applications can effectively promote products in the Cibogohilir Village (Adeh Ratna Komala et al., 2023). Further research investigates the relationship between online marketing and social media applications, and the results suggest that 90% of respondents use smartphones more in their daily lives. Teenagers aged 14 to 24 spend much time on YouTube, while adults aged 25 to 45 mainly spend their time on Facebook, Instagram, and YouTube, and those aged over 45 utilize Facebook. This study provides information for business actors, particularly MSMEs, to determine market share based on age when marketing online (Vukatana et al., 2022).

According to other studies, e-commerce influences consumer behavior and the value of retail space or store rent. Because everything is done online, store rent is no longer a key issue for enterprises (Liu et al., 2022). Further research indicates that e-commerce and digital marketing impact financial performance. According to reports, the COVID-19 pandemic has significantly impacted the business processes and performance of MSMEs, and digital marketing is a viable business survival strategy for MSMEs in Bangladesh (Gao et al., 2022).

With this context in mind, Digital Economy research was conducted to improve the quality of MSME financial reports. The characteristics used for digital economy variables are the availability of the internet, global range, activity, responsiveness, data-based operation, marketing strategies, target customers, availability of financial reports, and direct, competitive, and traceable store (Amelia Rizkita, 2022). Financial report qualities include accuracy, relevance, timeliness, and completeness. Researchers resort to past studies and journals to describe the state of MSMEs in Malaysia.

LITERATURE REVIEW

There are multiple definitions of digitization. According to Webster's Dictionary, digitalization is a systematic treatment or management of anything, with techne being the beginning word of technology, which signifies expertise, skills, and knowledge. Technology is the systematic and systemic use of behavioral and natural sciences and other knowledge to address issues (Anglin, 1991). Digital technology is the outcome of human reason, thought, and intelligence being engineered, reflected in scientific advancement,

and benefits all parts of human life (Muhasim, 2017). Digitization is the rising availability of digital data made possible by breakthroughs in digital data creation, transfer, storage, and analysis, and it can shape, shape, and impact the modern world (Brennen & Kreiss, 2016).

Digitization converts analog media to digital media through technology and digital data via an automated and computerized operating system. Growth in the digital economy has been influenced by digitization. The digital economy is a virtual arena in which actual business is performed, value is created and transferred, transactions occur, and one-on-one connections are formed using the internet as a medium of exchange (Hartman, 2000).

The digital economy has many characteristics, namely: 1) knowledge; 2) digitization; and 3) molecularization, which is the ability to react to changes in the corporate environment; 4) Internetworking, which is a media linkage that forms a business network; 5) disintermediation, which is the convergence of cooperation and computing; 6) communication and content; 7) innovation, which is one of the primary sources of value that enterprises must own for their products to be difficult to mimic; 8) the assumption that there are no borders between producers and consumers; 9) immediacy, defined as the likeness of the things presented, so that clients are confronted with the same products and services; as well as 10) globalization where there is no time and space constraints as well as discordance (Don Tapscott, 1996).

Financial statements provide information obtained from financial transactions throughout a single accounting period. The primary goal of financial reports is to offer pertinent information on financial activities, financial status, financial performance, and changes in these areas. Financial statements are used to help stakeholders make decisions. Balance sheets, profit and loss statements, capital change reports, cash flow reports, and notes on financial statements are among the financial reports generated. Financial reports are financial information businesses produce that demonstrate financial conditions and performance at a specific time. Financial reporting is an integrated data system that contains information about the company's assets

and financial position, as well as the outcomes of its operations.

The financial statements are presented based on financial accounting data and transaction proof for a specific reporting date. The statements serve as an evaluation of the company's performance (Casta & Ramond, 2016). Financial reporting indicators include relevance, dependability, comparability, and clarity (Abib et al., 2015).

RESEARCH METHOD

This study employs descriptive and exploratory methodologies. The descriptive approach is a research method used to assess obtained data by summarizing it without reaching broad judgments (Sugiyono, 2019). Additionally, this study employs literature review data to characterize the factors investigated based on the literature gathered from the study's findings. The collected data were analyzed, studied, and further processed following the theories that have been described and previously studied to produce a conclusion. Verification method research method through the evidence to test the hypothesis of descriptive research results with statistical calculations so that proof results show the hypothesis is rejected or accepted (Sugiyono, 2019).

The research object is needed to acquire facts with a specific purpose and utility concerning a subjective, valid, and reliable item about a thing (Sugiyono, 2017). This study's objects are information technology and financial statements from Micro, Small, and Medium Businesses (MSME). In addition, the unit of analysis is a study unit that can be an individual, group, object, or background of social events, such as an individual's or group's behavior, as a research subject. This study's unit of analysis is MSMEs registered with the Indonesian Chamber of Commerce and Industry, as well as previous research regarding Malaysia MSMEs.

The study population consisted of people and other items and natural objects that contain every attribute or trait that the subject or object possesses. The research population is a broad category that includes items/subjects with certain attributes and characteristics that the researcher chooses to analyze and then form conclusions about (Sugiyono, 2019). This study's population comprises 201 MSMEs registered with the Indonesian Chamber of Commerce and

Industry. Primary and secondary data were employed in this investigation. A path analysis approach using SPSS was also used to acquire primary data. Secondary data is based on study literature that supports the description of factors researched based on previous research findings.

This study examines how the digital economy affects the quality of financial statements for micro, small, and medium-sized enterprises (MSMEs) in Indonesia and Malaysia. In Indonesia, researchers use quantitative descriptive methods to provide precise descriptions of the variables under analysis. Quantitative methods describe the influence between the variables studied. This study was conducted by collecting data from respondents using ordinal scales (Sekaran & Bougie, 2016). Ordinal scales categorize variables and rank the measured constructs, providing information as values in responses. The Likert scale is a method used to measure attitudes toward subjects, objects, or events used as a measurement method for each variable. The research instrument underwent validity and reliability testing, then analysed the influence between variables using the SPSS approach. The technique used by researchers in collecting related data in Malaysia is collecting documentation data or library research recorded as secondary data (Sekaran & Bougie, 2020).

Secondary data are taken from various reading materials, such as textbooks, journals, official documents, and statistics related to research problems. This technique is carried out by reviewing written material.

RESULTS

The obtained data is categorized and processed using descriptive analysis to ascertain respondents' responses to each variable analyzed, and then a fundamental linear regression analysis using a sample of 201 respondents is performed. Based on the research findings, most respondents were females, with the highest concentration in the productive age range of 20 to 25 years. Meanwhile, the digital platforms most commonly utilized in Indonesia include Bhineka, Shopee, Tokopedia, Lazada, and Bukalapak.

Validity Test Results

Validity tests are used to ensure the reliability and accuracy of a questionnaire. To be considered valid, a questionnaire needs to accurately measure its intended subject matter and have a validity coefficient value higher than 0.361 according to the r-table.

Table 1: Research Variable Validity Test Results obtained using the SPSS v21 Software and the Pearson product-moment method.

Variable		r-count	r-table	Information
(X)	P1	0,883	0,361	Valid
	P2	0,688	0,361	Valid
	P3	0,706	0,361	Valid
	P4	0,840	0,361	Valid
	P5	0,733	0,361	Valid
	P6	0,523	0,361	Valid
	P7	0,721	0,361	Valid
	P8	0,837	0,361	Valid
Financial Report Quality (Y)	P9	0,768	0,361	Valid
	P10	0,924	0,361	Valid
	P11	0,815	0,361	Valid
	P12	0,804	0,361	Valid

The validity testing results, conducted using SPSS v.21 software with the Pearson product-moment correlation method, yielded a value greater than 0.361, thus indicating its validity.

Reliability Test Results

The legitimacy of measuring instruments is only as good as their reliability. A measuring device is considered reliable when it consistently produces the same results with repeated use.

This reliability test aims to thoroughly evaluate the level of consistency demonstrated by the research measuring device. In order for a concept to be considered acceptable, it must have a reliability coefficient of 0.7 or higher.

Table 2: Research Variable Reliability Test Results

Variable	Item	Alpha	Tipping Point	Information
Digital Economy (X)	8	0,876	0,7	Reliable
Financial Report Quality (Y)	4	0,842	0,7	Reliable

Furthermore, all the statements utilized for each respective variable are deemed appropriate for use as reliable research measurement tools, as shown by Cronbach's Alpha values of 0.876 and 0.842. These values indicate that the reliability coefficients are more significant than 0.7. Based on the presented validity and reliability testing results, it can be concluded that the variables under investigation meet the criteria for validity and reliability testing.

To interpret the variables being examined, the response scores are categorized using the criteria from Umi Narimawati (2010:84), as follows: 20% - 36% indicates poor; 36.01% - 52% indicates below average; 52.01% - 68% indicates satisfactory; 68.01% - 84% indicates good, and 84.01% - 100% indicates excellent. Based on the research findings, the variable of the digital economy was measured using eight statement items that have been validated and proven reliable. Overall, the obtained percentage value for the digital economy variable is 85.5%, indicating an excellent classification. In detail, the research results indicate that the digital economy is supported by adequate internet access, is not limited by space and time (global), provides 24-hour services, offers fast services, is traceable based on power, provides direct online services, as well as competitive and easily traceable.

The variable of financial statement quality was measured using four statement items that have been validated and proven reliable. To gain an overall understanding of the respondents' perceptions regarding this variable, a summary of the respondents' responses was obtained, revealing a percentage value of 78.7%, which falls into the category of good. This indicates that the respondents' responses on the financial statement quality in MSMEs are considered good. The verification analysis in this study uses a basic linear regression statistical analysis method to examine the impact of the digital economy on the quality of MSME financial statements. When constructing a regression model, assumption testing ensures that the resulting model gives the Best Linear Unbiased Estimated (BLUE). This assumption test comprises the normality test and the heteroskedasticity test.

The normality test in the regression model is used to examine whether the residuals generated from the regression are normally distributed. A good regression model has typically distributed residuals. The normality of the data is tested using a graphical method, specifically by observing the dispersion of the data along the diagonal line in the normal probability plot (P-P Plot of Regression Standardized Residuals). Based on the decision-making process, the residual data is normally distributed if the points scatter around the line and follow the diagonal line (see Figure 1).

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Financial Reports Quality (Y)
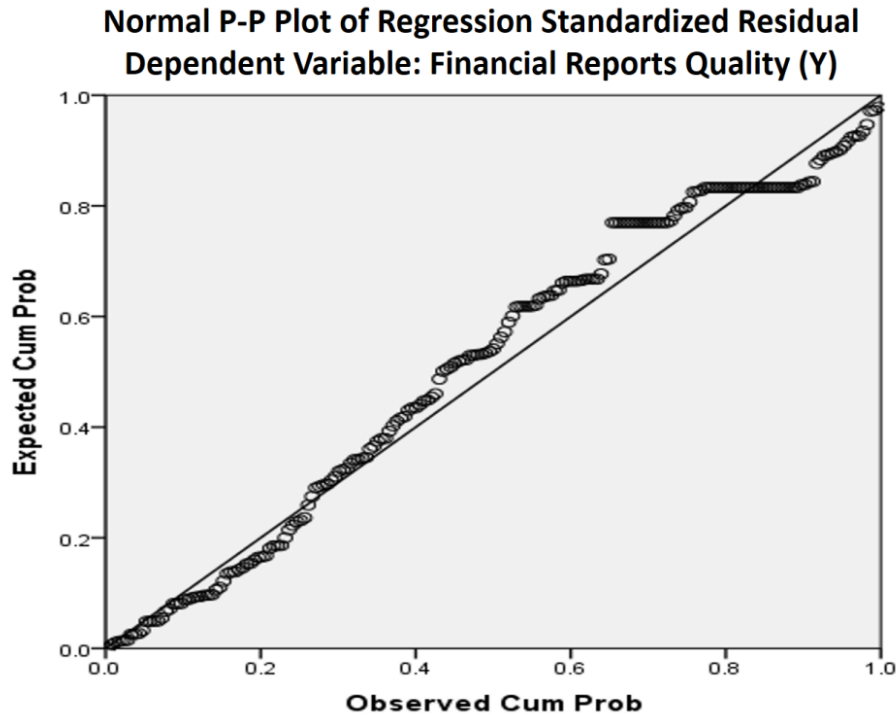
Figure 1: Normality Test Results

Based on the normality graph using the normal p-plot above is normally distributed. A statistical test is employed using the scatter plot method to identify the presence of heteroscedasticity, with the following criteria for interpreting the results (see Figure 2):

1. Heteroscedasticity is present if there is a discernible pattern, such as points forming a distinct wave-like pattern that expands and contracts.

2. heteroscedasticity is absent if there is no clear pattern or the points scatter above and below zero (0) on the Y-axis.

Scatterplot
Dependent Variable: Financial Reports Quality (Y)

Figure 2: Heteroscedasticity Test Results

Based on Figure 2 above, it can be observed that the obtained points are randomly scattered and do not form a specific pattern, nor do they scatter exclusively above or below zero (0) on the Y-axis. Therefore, it can be concluded that there is no heteroscedasticity issue in the data.

Simple Linear Regression Equation

The equation for simple linear regression used was:
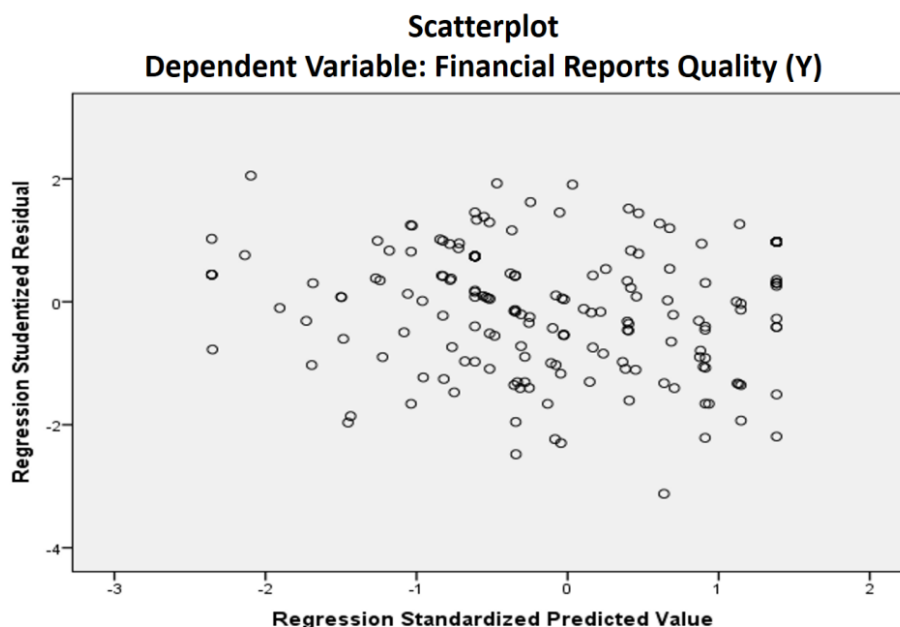
$$\hat{Y} = \alpha + bX \qquad (1)$$

Using the assistance of SPSS software version 21, a simple linear regression analysis was conducted, resulting in the Unstandardized Coefficients "b" values. Consequently, the equation for simple linear regression is obtained as follows:

Table 3: Simple Regression Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.397	.725		1.927	.055
	Digital Economy (X)	.432	.026	.765	16.746	.000

a. Dependent Variable: Financial Report Quality (Y)

$$\hat{Y} = 1{,}397 + 0{,}432X \qquad (2)$$

From the obtained regression equation, each variable can be interpreted as follows:

a. The constant value of 1.397 signifies that if the independent variable, namely digital economics, has a value of 0 (zero), meaning no change, it is predicted that the financial report quality will be 1.397.

b. The value of 0.432 for digital economics implies that if there is a 1-unit increase or improvement in digital economics, the financial report quality is predicted to increase by 0.432.

Therefore, based on the equation, it can be predicted that the better the digital economics, the better the financial report quality in MSMEs.

Table 4: Correlation Coefficient

Correlations

		Variabel X	Variabel Y
Digital Economy (X)	Pearson Correlation	1	.765[**]
	Sig. (2-tailed)		.000
	N	201	201
Financial Report Quality (Y)	Pearson Correlation	.765[**]	1
	Sig. (2-tailed)	.000	
	N	201	201

**. Correlation is significant at the 0.01 level (2-tailed).

According to the table above, research findings indicate that the R between digital economics and financial statement quality is 0.765. According to Sugiono (2014:184), a value of 0.765 falls within the range of 0.60-0.799, indicating a strong correlation. Thus, a strong relationship exists between digital economics and financial statement quality in MSMEs.

Table 5: Coefficient of Determination (R-square)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765[a]	.585	.583	1.949586

a. Predictors: (Constant), Digital Economy (X)

b. Dependent Variable: Financial Report Quality (Y)

Based on the research findings, the coefficient of determination or r^2 is 0.585 or 58.5%. This indicates that 58.5% of the financial statement quality in MSMEs can be attributed to the

influence of digital economics. In comparison, the remaining 41.5% represents the influence or contribution from other unexamined variables outside the scope of the study.

Table 6: Partial Hypothesis (Test t)

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.397	.725		1.927	.055
Digital Economy (X)	.432	.026	.765	16.746	.000

a. Dependent Variable: Financial Report Quality (Y)

The SPSS output shows a calculated t-value of 16.746 for the variable "digital economy" on the financial statement quality, with a corresponding p-value (Sig.) of 0.000. Since the calculated t-value is greater than the critical t-value (16.746 > 1.972) and the significance value (0.000 < 0.05), H_0 is rejected, and H_a is accepted. This means that the digital economy significantly impacts

improving the financial statement quality in MSMEs. The better the influence of the digital economy, the higher the quality of financial statements in MSMEs.

The calculated and t_{table} values for testing the hypothesis are shown in Figure 5.
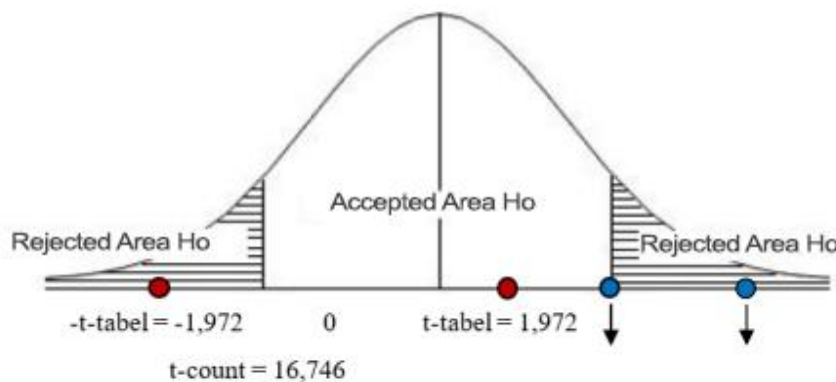

Figure 5: T-test Hypothesis Test Curve

Based on the hypothesis test curve above, it can be seen that the calculated value is greater than

the t_{table} value, so H0 is rejected, and Ha is accepted, which shows that the digital economy

has a significant effect in improving the quality of financial statements, where the improvement of the digital economy also improves the quality of financial statements on MSMEs.

DISCUSSION

According to the study findings derived from the data mentioned above processing, the digital economy impacts the quality of financial statements. 61.7% of respondents were women between 20 and 25, and 59.2% used digital media in the marketplace. The variables of the digital economy are the availability of the internet, global range, activity, responsiveness, data-based operation, marketing strategies, target customers, availability of financial reports, and direct, competitive, and traceable store. In addition, the indicators for financial statement quality variables are accuracy, relevancy, timeliness, and completeness. According to the findings, MSMEs that use technology as a medium to carry out their activities can improve the quality of their financial statements. Financial statements are a type of business language that may be used to assess the stability of MSMEs, and the quality of financial statements is one of the requirements for MSME sustainability.

According to the literature review, the growth of the digital economy in Malaysia still has a gap; thus, MSMEs are encouraged to conduct digital transactions. This is accomplished by enhancing their digital network infrastructure by deploying digital lines to obtain 83% fixed broadband coverage at gigabit speeds by 2022. Furthermore, the OECD argues that MSME participants in digital transactions, particularly Business to Consumer (B2C), must be fostered (MIDA, 2021). Malaysia's 97.2% of MSMEs are the backbone of the economy. Due to poor technology adoption, a lack of technological knowledge, and inadequate investment, Malaysian MSME players remain less competitive. With the Covid-19 outbreak, it is apparent that Malaysian MSME players must be technologically literate to sustain their businesses (Rahayu et al., 2023).

Additionally, digital technology developments greatly support Malaysian economic growth by boosting inclusivity, cutting costs to be more efficient and competitive, and fostering economic innovation. Malaysia aspires to be the economic digitalization epicenter by leveraging the Internet, smartphones, big data, the Internet of Things, artificial intelligence, and other technologies (Word Bank Group, 2018). It was also stated that Malaysian MSMEs are encouraged to expedite their embrace of digital technologies to stimulate economic growth. This action is expected to affect the profitability of MSME players as the emergence of digital transformation alters company paradigms and opens up new options. Furthermore, it is stated that more than half of MSMEs invest in IT (Anggadini et al., 2023). Malaysia promotes economic growth and investment by advancing the digital economy, advancing Industry 4.0, and expanding green technology (MIDA, 2020).

MSMEs are economic actors in Indonesia and Malaysia who contribute to the country's economic success. The viability of MSME businesses has a significant impact on their national economy. Nowadays, technical advancements cannot be prevented. Thus operations must follow technological changes. The digital economy is the result of technological breakthroughs. Therefore, economic actors, especially MSMEs, must adapt to technology to ensure company continuity and growth. Excellent financial statements are one of the benefits of leveraging the digital economy to ensure the long-term viability of MSME enterprises.

CONCLUSION & RECOMMENDATION

Based on the data analysis results and extensive discussions, the modern digital economy is highly regarded, driven by data and facilitating traceability across orders, procedures, and product delivery. Secondly, the quality of financial statements in MSMEs on digitalization platforms is deemed suitable, especially in terms of timely presentation. Moreover, the digital economy significantly influences financial statement quality, with greater digital economy impact correlating with higher quality statements in MSMEs. Lastly, integrating the digital economy enhances financial statement quality in MSMEs, improving financial performance and survival. Overall, these findings underscore the positive effects of the digital economy on financial reporting, performance, and sustainability in MSMEs. For a comprehensive research, it would be worthwhile to consider the factors of financial literacy and financial inclusion that could impact the precision of financial reports. This can be

accomplished by broadening the scope of the analysis to encompass MSMEs located in different Asian nations.

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