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User Competence And Business Digitalization For The Successful Performance Of The Financial Statements

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Abstract: Quality financial reports are closely related to the level of knowledge, skills, experience and use of financial technology by the business. This study aims to examine the effect of user competence and the use of financial applications on quality financial reports. This research is motivated by the problem of SME actors who don't have financial competencies and still use conventional methods. Quantitative descriptive analysis is used to describe and test the effect of the research construct. The study population is 121 SMEs who are members of the West Java Indonesian Muslim Entrepreneurs Association (IPEMI). Sample size 98 SMEs which uses a simple random sampling technique. Structural Equation Modeling (SEM) with Partial Least Square (PLS) approach uses to answer research problems and examine the effect of research variables. Research shows user competence and the use of financial applications have a significant effect on the quality of financial reports. Adequate knowledge, skills, and experience are proven to encourage the effective use of E-commerce, Marketplace, and application software by SMEs.

Keywords: User Competence; Successful Financial Digitization; Financial Report Performance.

Abstrak: Kualitas laporan keuangan berkaitan erat dengan tingkat pengetahuan, keterampilan, pengalaman dan penggunaan teknologi keuangan yang digunakan pelaku bisnis. Penelitian ini bertujuan menguji pengaruh kompetensi pengguna dan penggunaan aplikasi keuangan terhadap kualitas laporan keuangan UMKM. Penelitian ini dilandasi permasalahan terdapat pelaku bisnis tidak memiliki kompetensi tata kelola keuangan memadai, serta masih banyak menggunakan metode konvensional yang berdampak pada kerugian. Analisis deskriptif kuantitatif digunakan untuk menggambarkan dan menguji pengaruh antar konstruk penelitian. Populasi penelitian adalah 121 pelaku UKM yang tergabung dalam Ikatan Pengusaha Muslim Indonesia (IPEMI) Jawa Barat. Besar sampel adalah 98 UMKM dipilih berdasarkan teknik simple random sampling. Penelitian ini menggunakan Structural Equation Modeling (SEM) dengan pendekatan *Partial Least Square* (PLS) untuk menjawab permasalahan penelitian serta menguji pengaruh variabel penelitian. Penelitian menunjukkan kompetensi pengguna dan penggunaan aplikasi keuangan berpengaruh signifikan terhadap kualitas laporan keuangan. Pengetahuan, keterampilan, pengalaman memadai terbukti mendorong penggunaan E-commerce, Marketplace, dan software aplikasi yang efektif oleh UMKM.

Kata Kunci: Kompetensi SDM; Kesuksesan Digitalisasi Keuangan; Kinerja Laporan Keuangan.

INTRODUCTION

During the post-Covid-19 period, Micro, small and medium enterprises, especially women entrepreneurs, have been under huge pressure, especially from 2020 to 2022 (Rahadi et al., 2022). Recently, the economic circle has started moving, and entrepreneurs have started gathering their energies and resources to recover their lost businesses. Covid-



19 has also resulted in enhanced levels of digitalization than ever before. The same digitalization has emerged in the financial sector by reshaping financial reporting and successful digitalization success in entrepreneurs (Muslih, 2020). Recent research in the Indonesian context reported that human entrepreneurship competencies are among the most critical elements in successfully implementing digitalization in the financial sector, especially in SMEs (Sontoso et al., 2021). The study also indicated that Indonesia's banking and Fintech sector is much segregated regarding human resource competencies to deal with industry 4.0, especially in responding to the emerging needs of entrepreneurs and commercial actors in the economy (Sontoso et al., 2021). The current took the lead by investigating the association between human resource competency and successful implementation of digitalization in small and medium enterprises and entrepreneurship ventures.

Another important aspect addressed in this research was how the successful implementation of digitalization in the financial sector influences the quality of financial reporting by entrepreneurs, SMEs, and micro-business entities. A recent study on financial institutions cases and labour market conditions reported the need to investigate the role of successful digitalization in finance and its impact on the quality of financial reporting (Mosteanu, 2020; Moschogianni, 2022; Widilestariningtyas and Karo, 2016).

Micro, Small, and Medium Enterprises (MSMEs) face the challenge of system digitization. Entrepreneurs assess that the government's efforts are still far behind in encouraging MSMEs to be competitive in accelerating digital (go digital). In addition, the growth of digital regulation in Indonesia is slower than in other countries, which are faster. "Indonesia is lagging (digital rules) more than developed countries. Indonesian MSME players have highly creative products with large market share opportunities. An alternative route is needed to introduce products in the global arena (Sari, 2019). SMEs policy level index in ASEAN is shown in Figure 1 as follows:

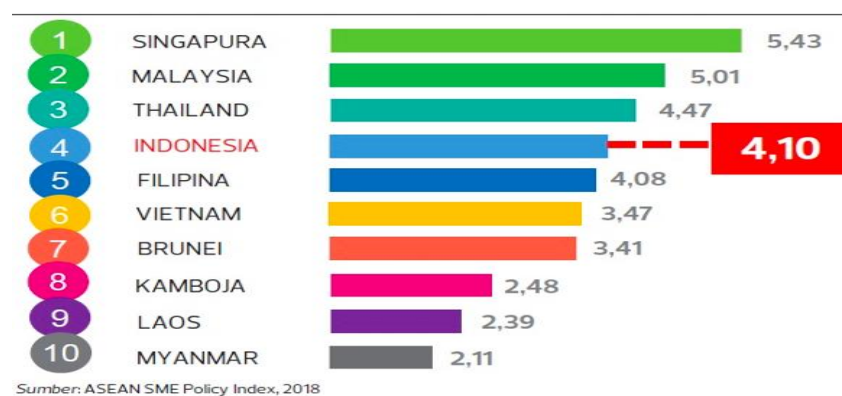


Figure 1. SMEs policy level index in ASEAN

A study explained the linkages of digitalization and inward relatedness and quality of financial performance with a firm that used financial reporting strategies (Jabr and Zheng, 2022). Another recent research conducted in the Canadian context on Big Data and its analytical methods' impact on the quality of financial reporting has suggested several benefits for businesses that may lead to competitive advantage in the market (Saleh et al.,

2022). It also pointed toward a research gap in studying the implementation challenges of digitalization and its influence on financial reporting quality (Saleh et al., 2022).

Thus, responding to this call for future research, the current study investigated the influence of the successful implementation of digitalization on the quality of financial reporting. A recent study conducted in a similar Indonesian context and similar SMEs sample concluded that digital finance and digital payments have a significant influence on the financial performance of Indonesian SMEs (Ahmad, 2022; Daud et al., 2022; Pailodze, Kutateladze, and Dzagnidze, 2020; Qadir, Ayub, Tanveer, and Yaseen, 2021). However, the process of how successful implementation of digitalization can influence the quality of financial reporting is unexplored, and this question is still unanswered. The current study attempted to fill the research gap by investigating this unanswered question. Some recent studies in the Indonesian context also highlighted the importance of MSMEs in the economic development of Indonesia (Putra et al., 2020; Wijaya et al., 2021).

Emphasizing the importance of such research in Indonesian Micro, small and medium enterprises, the studies reported the time and place match as many workers were fired and many companies went bankrupt due to declining turnover in Covid-19 times (Prahawan et al., 2021; Rombe et al., 2021; Syazali et al., 2019). Thus, investigating the influence of digitalization implementation on the quality of financial statements will be a contextual advance to bring key insights from Indonesia's developing ASEAN country context.

This study aims to examine the effect of HR competence on the successful implementation of financial digitization, which impacts the performance of financial reporting quality. Based on these objectives, the novelties of this research are: 1) this study examines the competency level of female MSME actors in the city of Bandung, Indonesia, to get an idea of how much of their knowledge and expertise level is related to IT, business and the process of preparing financial statements, 2) This study also examines the success rate of financial digitization by female MSME actors in the city of Bandung and examines the level of quality of financial reporting.

THEORETICAL REVIEW

Financial Digitization in Small Medium Enterprises (SMEs). Small and medium enterprises are important in determining the country's economy. This is evidenced by a business survey by PwC (2014) that small and medium enterprises in Indonesia have total assets of US\$134 billion or contribute around 25 per cent to Indonesia's GDP. According to data (PwC, Family Business Survey, 2014), 95 per cent of companies in Indonesia are dominated by small and medium enterprises or SMEs. Revolution Industri 4.0 triggers the rapid digitalization of finance to increase business competition so companies can survive increasingly fierce competition (Daud et al., 2022). It's time for Information Technology to be used to support small and medium businesses or SMEs (Puspitawati et al., 2021). The digitalization of finance effectively helps companies produce quality financial reports for managers to use in strategic decision-making (Saleh et al., 2022).

User competence in The Quality of Financial Statements. Competence is a determining factor for the success of using financial digitization. HR Competency is the knowledge and skills possessed by HR that can be used to measure individual performance. The successful use of financial applications, theoretically known as accounting information systems, is very dependent on the competence of the human resources which



use the application (Puspitawati, 2021). In addition to the HR factor, the quality of the AIS is a determining factor in producing quality financial reports (Shahbaz et al., 2021; Silva and Madushani, 2017). An accounting information system is a system that functions to organize forms, records, and reports that are coordinated to produce financial information needed in making management decisions and company leaders that aim to assist company management activities (Waheed and Kaur, 2016). Previous research conducted by researchers in Indonesia and several other countries has succeeded in proving that user competence is a variable that influences the success of implementing financial reporting applications with varying results (Andesto, 2016; Daud et al., 2022; Olaleke and Olamide, 2018).

The competence of human resources and the quality of accounting information systems play an important role in producing quality financial reports. Likewise, HR is important in preparing quality financial statements. Human Resources (HR) are important in organizations because competent human resources in financial management are needed to produce quality financial reports (Puspitawati et al., 2022). Hence based on the above in-depth literature review following hypotheses are suggested.

H1: User Competence is a significant relationship to the quality of financial statements.

Business Digitalization on The Quality of Financial Statements. Financial Statements are the output of the accounting process that describes the achievement of financial performance over a certain period (Boonvut, 2017). The quality of financial statements describes the condition of the quality of information with the characteristics of having a high degree of reliability, accuracy, relevance, and completeness that can increase the confidence of its users to determine strategic decisions; financial reports function to assess accountability and performance, as well as in decision-making processes related to social, political, and economic matters (Daud et al., 2022). In practice, business digitization is the use of information and communication technology (ICT) in business, which is currently known as financial applications in handling various business or financial transactions. Quality financial reports result from the effective use of financial applications.

Financial applications, conceptually known as Accounting Information Systems (AIS), are the main source of accounting information to achieve organizational strategic goals. Inefficiency and ineffectiveness in AIS reduce efficiency and productivity and create many organizational problems (Dyah, Apriliyadi, Saparita, and Abbas, 2017; Husain, Shaibur, and Al Muzahid, 2021; Jam, Donia, Raja, and Ling, 2017; Saleh et al., 2022). Another literature stream discussed AIS's impact on the quality of financial reporting in the Indonesian context (Borhan and Nafees, 2018; Ironkwe and Nwaiwu, 2018; Puspitawati, Hilmi and Daneswari, 2020; Saleh et al., 2022). The controversy about financial applications quality financial statement quality resulted in several research questions (Waheed and Kaur, 2019)

H2: Successful implementation of business digitalization by Financial Applications is a significant relationship to the quality of financial reports.



METHODS

This study uses a quantitative descriptive method. Descriptive methods aim to describe the condition of the variables studied, and quantitative methods are used to determine the magnitude of the influence of the variables studied. The type of data used in this research is primary data. The measurement method used for each variable in this study uses a Likert Scale that measures attitudes by expressing agreement or disapproval of certain subjects, objects, or events. The Likert scale generally uses five points of assessment, namely (1) strongly disagree, (2) disagree, (3) doubtful, (4) agree, and (5) strongly agree. The research instrument was tested using validity and reliability tests, and then the magnitude of the influence between variables was tested using multiple regression analysis.

This study determines the relationship between variables through hypothesis testing using structural modelling (Structural Equation Model-SEM) with the Partial Least Square (PLS) approach. SEM is used in order to be able to answer the formulation of the problem and test hypotheses in research. Meanwhile, the PLS approach is used because the measuring model built in this study involves formative and reflective measurement models and a small population.

The SEM-PLS procedure has the following stages: **(1). Measurement Model Specification.** Formation of the model is the initial stage that must be made before making an estimate. The model is formulated based on the theory and results of previous research, **(2). Model Estimation.** Estimation of PLS structural equations through regression analysis (Ordinary Least Square), then loading is obtained through latent variable scores, **(3). Model Evaluation.** A single Goodness of Fit criterion is not available in the SEM-PLS. The fit statistics in SEM-PLS focus on the discrepancy between the observed (in the case of manifest variables) or the discrepancy between the approximate values (in the case of latent variables) of the dependent variables and the values estimated by the model in the equation. **(4). Evaluate model results.** Measurement and structure in SEM-PLS are pursued through non-parametric evaluation criteria and bootstrapping procedures. The evaluation process includes two steps, namely, the evaluation of measurement models and the evaluation of structural models. Evaluation of the measurement model is taken by evaluating the reliability and validity of the construct measures. This evaluation is distinguished for constructs that are measured reflectively and formatively. These two approaches are based on different concepts and therefore require consideration of different evaluation measures. Reflective measurement models include Convergent Validity, Internal Consistency Reliability and Discriminant Validity.

Data, Population, and Sample. This study uses primary data by distributing questionnaires to respondents. In connection with the use of multiple linear regression, the questionnaires in this study were arranged based on a Likert scale, giving a weighted value with an assessment range of 1 to 5. The distribution of questionnaires was carried out via google Forms and email. The population of this study was 121 SME actors who were members of the Indonesian Muslim Entrepreneurs Association (IPEMI) in Bandung; the sample size was 98 SME actors who were randomly selected using a simple random sampling technique. The sample in this study used the minimum sample criteria, which were selected randomly using a simple random sampling technique. The minimum sample size for regression analysis techniques is 15 to 20 times the number of variables used (Hair, 2017). The recommended minimum sample size for a study is if the study uses multivariate



analysis (multiple regression), then the number of Minimum sample members that must be owned is ten times the number of variables studied. Based on these conditions, the minimum number of samples that meet the requirements to be obtained using linear regression analysis is 30 to 60 respondents.

Research Measures. The objects studied in this study are user competence and the quality of accounting information systems, which are proxies for the quality of financial applications and financial reports. Furthermore, the data were analyzed using descriptive and quantitative methods. This study uses 3 (three) variables as follows:

Table 1. Variable operationalization

Variable	Indicator	Scale
User Competence (UC)	1. Knowledge 2. Skills 3. Experience	Ordinal
The Use of Financial Application (UFA)	1. Security 2. Easy to Acces 3. Availability 4. Useful	Ordinal
Quality Of Financial Statements (QFS)	1. Understandable 2. Reliability 3. Time Periode 4. Accuracy	Ordinal

RESULTS

The questionnaires were distributed to 100 respondents. From the distribution of the questionnaires, 30 questionnaires were returned, and the data could be processed. The minimum criteria for the sample to be processed ranges from 30 to 60 data; if the median value (45 data) is taken, the response rate of this study is 66.670 per cent.

Validity and Reliability Test Results. The results of the reliability test are shown in **Table 2**.

Table 2. Questionnaire Reliability Test Results

Variable	Amount questionnaire items	Coefficient Reliability (Cronbach's Alpha)	Critical Score	Conclusion
User Competence (UC)	3	0.889	0.700	Reliable
The Use of Financial Application (UFA)	4	0.892	0.700	Reliable
Quality of Financial Statements (QFS)	4	0.880	0.700	Reliable

The Reliability test shows that all indicators have a coefficient of validity bigger than 0.700, so it can be indicated that all of the statement items used are reliable so that it can be concluded that the measuring instrument used to measure the Competency variables of MSME Actors, the Use of Financial Applications variables, and the Quality of Financial Statements variables has provided consistent results. Furthermore, the results of the Validity test shows in **Table 3**.

Table 3. Validity Test Results

Variable	No Item	Coefficient Correlation (r)	Critical Score	Conclusion
User Competence (UC)	1	0.835	0.300	Valid
	2	0.818	0.300	Valid
	3	0.717	0.300	Valid
The Use of Financial Application (UFA)	1	0.803	0.300	Valid
	2	0.719	0.300	Valid
	3	0.766	0.300	Valid
	4	0.767	0.300	Valid
Quality of Financial Statements (QFS)	1	0.726	0.300	Valid
	2	0.791	0.300	Valid
	3	0.683	0.300	Valid
	4	0.779	0.300	Valid

The results of the validity test showed that all items in each variable have an r-count value greater than 0.300, so it can be said that the items are valid. The measuring instrument in the form of a statement has a level of validity which means it can measure the variables studied.

Descriptive statistical test results. The results of descriptive testing for each research variable are presented in the form of a recapitulation in **Table 4.**

Table 4. Descriptive Statistical Test Results

No	Variables and Indicators	Actual Score	Ideal Score	Per cent	Category
UC	User Competence				
1	Knowledge	172	300	57.300	enough
2	Skills	188	300	62.700	enough
3	Experience	305	490	62.200	enough
Total				60.000	Enough
UFA	The Use of Financial Application				
1	Security	334	490	68.160	enough
2	Easy to Acces	332	490	67.760	enough
3	Availability	325	490	66.330	enough
4	Useful	328	490	66.940	enough
Total				67.290	Enough
QFS	Quality of Financial Statement				
1	Understandable	202	490	67,3	enough
2	Reliability	176	490	58,67	enough
3	Time Periode	204	490	68	enough
4	Accuracy	164	490	54,67	enough
Total				63,3	enough

Descriptive test results show that all the variables studied are HR competency, financial application quality, and quality of financial reports, show that they are included in the sufficient category, which means that (1) User competence is in a fairly good category because the human resources empowered in managing finances have a level of education that is quite relevant to the field of work and has received sufficient training that

supports the field of work. (2) The Use of Financial applications is in a fairly good category because users preparing financial statements often use financial applications, and users are quite satisfied with the performance of these financial applications. (3) The quality of financial statements is in the fairly good category because the financial statements contain information that is quite understandable, quite relevant to the evidence of transactions, quite reliable, and quite comparable.

The results of descriptive testing with good categories indicate serious and continuous improvements related to user competence, quality of financial applications, and financial statements in the SMEs in Bandung city.

Influence Analysis between variables. In this study, the authors used Structural Equation Modeling (SEM) with the Partial Least Square (PLS) approach to answer research problems. The research model is formed from 3 latent variables consisting of two exogenous variables (independent variables), namely User Competence and Use of Financial Applications, and one endogenous variable (dependent variable), namely Quality of Financial Statements. The hypothesized full model calculation results are obtained with Smart PLS 3.3.3 as follows:

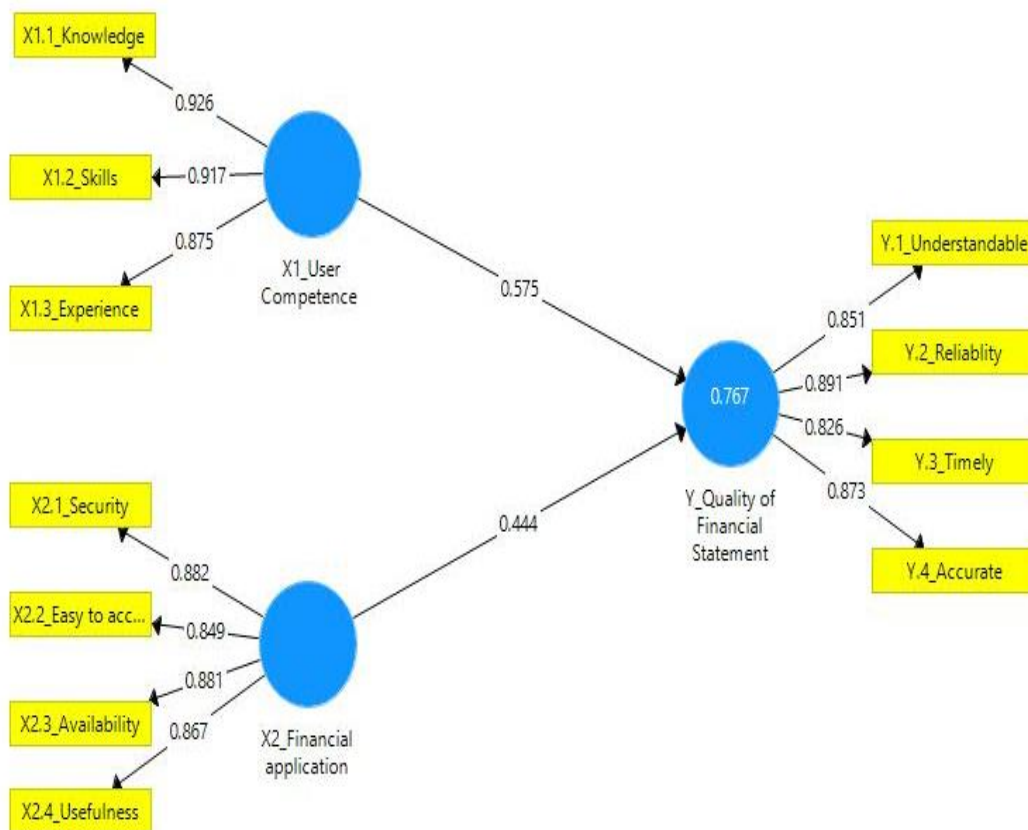


Figure 2. Path diagram of the Partial Least Square (PLS) SEM model approach

The results of the calculations show that the effect of User Competence on the Quality of Financial Statements is shown by the path coefficient value of 0.575. The effect of using financial applications on the quality of financial statements is shown by the path coefficient value of 0.444. The R-square value for the variable Quality of Financial Statements is 0.767, so the error term model is $1 - 0.767 = 0.233$.

The structural equation model for the influence of the Competence of MSME Actors and the Use of Financial Applications on the Quality of Financial Statements is as follows:

$$\eta = 0.575\xi_1 + 0.444 \xi_2 + 0.233..... (1)$$

SEM-PLS Model Testing. To assess the suitability of the Structural Equation Modeling (SEM) model with the Partial Least Square (PLS) approach, there are two stages of assessment (Puspitawati, 2021), namely evaluating the results of the measurement model (Outer model) and evaluating the results of the structural model (inner model). The following will explain the results of the assessment for the research model used.

Testing the Measurement (Outer Model Test). The measurement model for each latent variable used in this study is reflective. According to (Hair, 2017), there are three criteria used in assessing the Reflective outer model/Reflective measurement models, namely (1). Internal consistency Reliability, (2). Convergent Validity, and (3). Discriminant validity.

Internal consistency test results. To assess Internal consistency Reliability in the measurement model, there are two measures used, namely Cronbach's alpha and Composite reliability. Based on the results of data processing using the SmartPLS 3.3.3 software, the results of the Internal Consistency Reliability test were obtained for the three research variables in the first order, as presented in the following table:

Table 5. Internal Consistency Reliability Assessment Results

Latent Variable	Indicator	Composite Reliability	Cronbach's Alpha
User competence (UC)	UC.1 up to UC.3	0.932	0.891
The Use of Financial Application (UFA)	UFA.1 up to UFA.4	0.925	0.893
Quality of Financial Statements (QFS)	QFS.1 up to QFS.4	0.919	0.883

Source: Output SmartPLS 3.3.3

Composite The test results show that the composite reliability value of the three latent variables has met the recommended assessment criteria, namely a CR of more than 0.700 means that the latent variables formed already have high consistency.

Internal Consistency Reliability assessment by looking at the Cronbach's alpha value, it can be seen that the Cronbach's alpha value for User Competence is obtained at 0.891, the Cronbach's alpha value for the Use of Financial Applications is obtained at 0.893, and the Cronbach's alpha value is for The Quality of Financial Statements was obtained at 0.883. The three latent variables used in the research model have a Cronbach's alpha value greater than the recommended value in assessing Internal Consistency Reliability. The Cronbach's alpha value is above 0.700, as the recommended criteria. So it can be concluded that the latent variable measurement model in the research model used has good internal consistency reliability.

Convergent Validity Test Results. To assess Convergent Validity in the SEM-PLS model, there are two measures, namely Indicator Reliability and Average Variance Extracted (AVE). Based on the calculation results presented in the table above, it can be seen that:



Table 6. *Convergent Validity Assessment Results*

Latent Variable	Indicator	Loading Factor (λ)	Indicator Reliability (λ^2)	tcount	P value	Description	AVE
User competence (UC)	UC.1	0.926	0.858	54.296	0.000	Valid	0.821
	UC.2	0.917	0.841	50.324	0.000	Valid	
	UC.3	0.875	0.765	29.848	0.000	Valid	
The Use of Financial Application (UFA)	UFA.1	0.882	0.777	35.449	0.000	Valid	0.756
	UFA.2	0.849	0.720	23.618	0.000	Valid	
	UFA.3	0.881	0.776	44.475	0.000	Valid	
	UFA.4	0.867	0.751	31.108	0.000	Valid	
Quality of Financial Statements (QFS)	QFS.1	0.851	0.724	26.578	0.000	Valid	0.741
	QFS.2	0.891	0.794	44.077	0.000	Valid	
	QFS.3	0.826	0.682	22.154	0.000	Valid	
	QFS.4	0.873	0.762	42.888	0.000	Valid	

Source: Output SmartPLS 3.3.3

The loading factor value obtained is entirely greater than 0.700. These results indicate that the loading factor value has met Convergent Validity. The loading factor value above 0.700 for each item indicates that all indicators are valid so that no manifest variables for each latent variable are eliminated from the model. The t-count value obtained for each loading factor is more than 1.984, so it can be said that the manifest variable (indicator) used is significant in measuring the user Competence variables of MSME Actors, Use of Financial Applications and Quality of Financial Statements.

Based on the results of the calculation of loading factors and t-statistics, it is known that there are three indicators of latent variable User Competence (UC), four indicators of latent variable Use of Financial Applications (UFA), and four indicators of latent variable Quality of Financial Statements (QFS) which have a positive relationship and significant in determining each of the latent variables used.

The results of the calculation of Indicator reliability (λ^2) for each indicator of the three latent variables) are greater than 0.500. This shows that the measurement model for each latent variable has met Convergent Validity.

The average variance extracted (AVE) value for each variable is greater than 0.500. This shows that more than 50 per cent of the information contained in each indicator can be reflected through latent variables. So it can be said that the indicator construct that is formed from the indicators already describes the information from the indicators of the three latent variables (MSME Competence, Use of Financial Applications and Quality of Financial Reports).

Discriminant validity Test Results. Discriminant validity was assessed using Cross loadings and The Fornell-Larcker criterion. **Cross Loading.** The model has good Discriminant validity if each loading value of each indicator of a latent variable has the largest loading value with other loading values for other latent variables. Discriminant validity results by looking at the Cross Loadings values obtained in **Table 7**.

Table 7. Discriminant validity (Cross Loadings) value

	User Competence	The Use of Financial Application	Quality of Financial Statements
UC.1	0.926	0.474	0.719
UC.2	0.917	0.323	0.687
UC.3	0.875	0.471	0.721
UFA.1	0.305	0.882	0.555
UFA.2	0.479	0.849	0.634
UFA.3	0.415	0.881	0.668
UFA.4	0.416	0.867	0.612
QFS.1	0.622	0.639	0.851
QFS.2	0.693	0.707	0.891
QFS.3	0.681	0.592	0.826
QFS.4	0.698	0.506	0.873

Source: Output SmartPLS 3.3.3

Table 7 shows, it can be seen that the loading value for each indicator of each latent variable is the greatest compared to the loading value when associated with other indicators. This shows that each latent variable indicator has good discriminant validity, whereas the latent variable does not have a gauge that is highly correlated with other constructs.

The Fornell-Larcker criterion. The results of the calculation of the Fornell-Larcker criteria obtained using the Smart PLS 3.3.3 application can be seen in **Table 8** as follows:

Table 8. A correlation value of Latent Variable and Discriminant validity

	User competence	The Use of Financial Application	Quality of Financial Statements
User competence (UC)	0.906		
The Use of Financial Application (UFA)	0.468	0.870	
Quality of Financial Statements (QFS)	0.783	0.713	0.861

Description = the value on the diagonal of the matrix is the AVE root value.

Source: SmartPLS Output 3.3.3

The results show that the AVE root value for each variable is greater than the correlation value between the constructs of the research variables. In general, these results indicate that the discriminant validity of latent variables is already high. This shows that all constructs have a good consistency.

Structural Model Testing (Inner Model). Structural model testing (inner model) is carried out using R-square and affects value size f square. The value of the R square shows the prediction accuracy of the model (Hair, 2017). R square value equal to 0.250 has a weak effect, 0.500 has a moderate effect, and 0.750 has a substantial effect (Hair, 2017). The image of the structural model can be seen as follows:

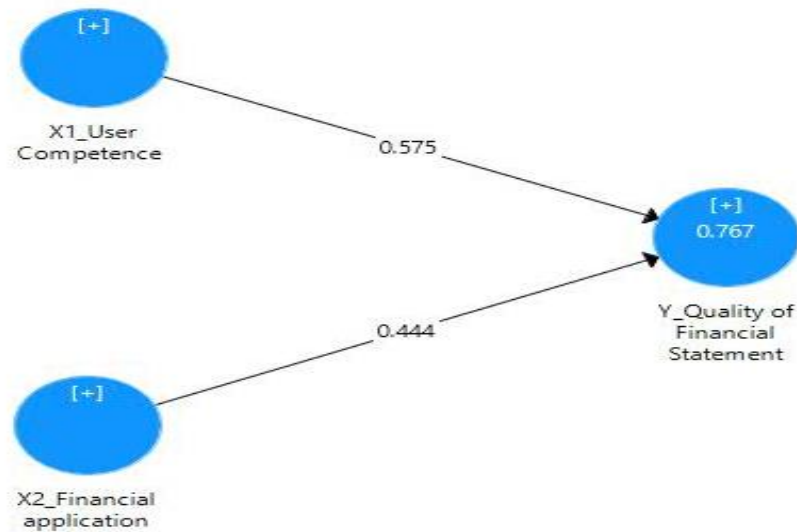


Figure 2. Structural Model

Shows that the R-square value for the variable Quality of Financial Statements is 0.767. These results indicate that 76.700 per cent of the quality of financial statements is influenced by the competency variables of MSME actors and the use of financial applications. The R-square value is in the range of more than 0.750, indicating that the prediction accuracy of the model has a substantial effect.

Assessment of the effect size f square of the structural model. The effect size f square shows the construct's contribution to the endogenous variables. The value of f square is equal to 0.020, 0.150 and 0.350, which can be interpreted that predictors of latent variables having a small, medium and large effect (Hair, 2017). The results of calculating the effect size f square are given in **Table 9**.

Table 9. Effect Size Assessment of Structural Model Of User Competence on The use of Financial Application

No	Endogenous construct	f Square
1	User Competence (UC)	1.106
2	The Use of Financial Application (UFA)	0.661

Based on the calculation results, the f square value of the user Competence of MSME Actors (UC) on the Quality of Financial Statements is 1.106. Because the f square value is more than 0.350, it can be stated that the effect size for the influence of the user Competence on the Quality of Financial Statements is large.

Based on the calculation results, the f square value of Use of Financial Applications on the Quality of Financial Statements is 0.661. Because the f square value is more than 0.350, it can be stated that the effect size for the influence of the Use of Financial Applications on the Quality of Financial Statements is large.

Hypothesis Test. Based on the results of testing the inner model and outer model, then the statistical t value for the structural model is described as follows:

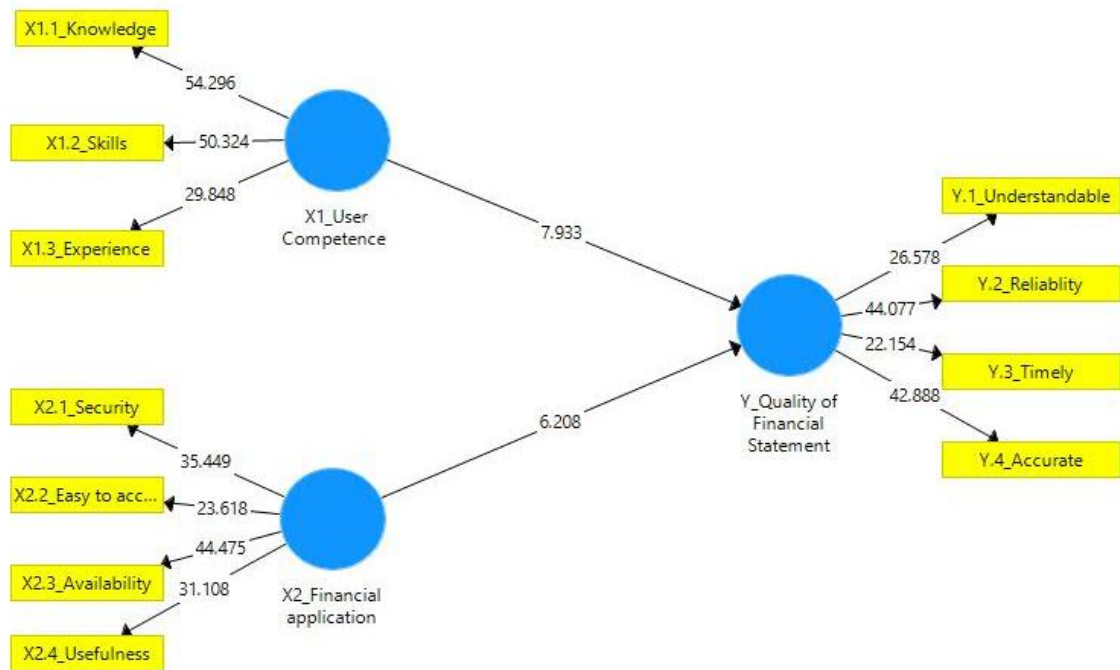


Figure 3. Structural Model Statistical T Value

To test the proposed hypothesis, the t-statistic value can be seen. The limit for rejecting and accepting the proposed hypothesis is if the t-value is greater than the t_{table} or the p-value is smaller than 0.050, then the hypothesis will be rejected or accept the null hypothesis (H_0). The t_{table} value for $n = 98$ is 1.984.

Table 10. Results of the Significance of the Influence Test

No		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
1	UC_User Competence to QFS_Quality of Financial Statement	0.575	0.580	0.072	7.933	0.000
2	UFA_Financial application to QFS_Quality of Financial Statement	0.444	0.439	0.072	6.208	0.000

Testing hypothesis 1. Effect of user competence on the quality of financial reports. Based on **Table 5**, the results of hypothesis testing show that the relationship between user Competence and the Quality of Financial Statements is shown by the path coefficient value of 0.575 with a t-count of 7.933 and a p-value of 0.000. The t-statistic value obtained is greater than the critical (1.984), and the p-value (0.000) is smaller than the alpha value of 0.050.

This result means that User Competence influences the Quality of Financial Statements. The magnitude of the direct influence of User Competence on the Quality of Financial Statements is $(0.575 \times 0.575 \times 100 \text{ per cent}) = 33.030 \text{ per cent}$. This means that User Competence has a 33.030 per cent influence on the Quality of Financial Statements.

Testing hypothesis 2. The Effect of Using Financial Applications on the Quality of Financial Statements. The results of hypothesis testing show that the relationship

between the use of financial applications and the quality of financial statements is shown by the path coefficient value of 0.444 with a t-count of 6.208 and a p-value of 0.000. The t-statistic value obtained is greater than the critical (1.984), and the p-value (0.000) is smaller than the alpha value of 0.050.

This result means that the use of financial applications affects the quality of financial statements. The magnitude of the direct influence of the Use of Financial Applications on the Quality of Financial Statements is $(0.444 \times 0.444 \times 100 \text{ per cent}) = 19.730 \text{ per cent}$. This means that the Use of Financial Applications has a 19.730 influence on the Quality of Financial Statements.

DISCUSSION

The Effect of User Competence on the Quality of Financial Statements. Based on the results of hypothesis testing, it can be proven that user competence affects the quality of financial reports with a large influence of 57.500 per cent. And the direction of the relationship is positive, meaning that when user competence increases, the quality of financial statements will also increase. The results of this study strengthen the theory stated (Puspitawati, 2022) that financial reporting is a series of long and systematic processes that require the competence of human resources involved in its preparation. Adequate knowledge and skills are required in the process of preparing financial statements.

Knowledge can be obtained through the level of education that is in line with the type of work assigned; then, adequate skills can be obtained through flight hours or experience balanced with the intensity of the training followed by the accountant. Then (Al-Hiyari et al., 2013) argue that the quality of financial reports describes how reports are presented in a relevant, reliable, and structured manner by a reporting entity. Quality financial reports show competent human resources' involvement in collecting, identifying, and recording evidence of financial transactions in a reporting entity.

The results of hypothesis testing in this study follow the results of previous research (Puspitawati et al., 2022), with the results that the quality of human resources has a positive effect on the quality of local government financial reports. Furthermore, this is in line with recent research (Adedipe, 2020). Another research proves that human resources have been of paramount importance, demonstrating that it has a significant effect or relationship with the quality of financial reporting for different stakeholders (Olaleke and Olamide, 2018; Puspitawati et al., 2022).

The description of the study results shows that the digitalization of finance through financial applications is highly dependent on the competence of the human resources of its users. An adequate level of education and the intensity of users participating in training relevant to the field of work are needed so that employees can successfully use these various financial applications properly.

The results of the descriptive analysis that show the user competence SMEs in Bandung city are included in the good category, meaning that user competence still needs to be improved again by involving employees in various kinds of training that support the field of work and increase the level of employee knowledge through further studies in the field of education that are in line with the field of work.

An adequate level of knowledge, skills and experience is needed by business people in managing financial transactions that occur from these business activities. Adequate



levels of knowledge, skills and experience will guide business actors in finding the best practices and solutions to solve the financial problems they face.

The Effect of The Use of Financial Application on the Quality of Financial Statements. The results of hypothesis testing prove that financial applications have an effect on the quality of financial reports with a large influence of 44.400 per cent, and the direction of the relationship is positive, meaning that increasing the quality of financial applications will improve the quality of financial reports. The results of this study support the theory supported by previous studies (Puspitawati et al., 2022). In the current era of business digitalization, the use of financial applications is something that must be done by business people.

The Indonesian government, through the ministry of communication and informatics and the ministry of cooperatives and SMEs, organizes various outreach and business digitization training programs for SME actors with the aim that MSME actors are able to use various financial applications currently available to help manage their business transactions. The successful use of business applications for MSMEs has a positive impact on their income level and also has an impact on increasing business and product imports. All these studies reported consistent findings that the quality of financial statements depends on the financial applications used by the company. The quality of good financial applications reflects the financial applications used and provides satisfaction to its users and is characterized by availability, reliability, efficiency, flexibility, security, and well-integrated and can be used easily by various users.

Theoretical and Practical Implications. The current research brings several implications for theoretical developments and practice. The current research has opened new avenues of theoretical bridging between theories of accounting and finance and theories of digitalization. Both of these streams of research have additionally been integrated with theories of development and resistance to change as well as acceptance of technology. Thus, current research has attempted to bridge a huge research gap between various fields.

This may help in the future with mushrooming of innovative and novel applications in the financial reporting field and may help in determining the performance of financial institutions in general. Another theoretical advance made by current research was the context of Indonesia and a sample of women entrepreneurs to report the quality of financial reports from a developing country context.

The findings also helped the scholars to realize the importance of successful digitalization among entrepreneurs, Micro, and SMEs for better financial reporting procedures. Future scholars in the field may consider other settings with comparative analysis for better insights into this domain. The current study recommends that Indonesian policymakers borrow the model of society 5.0 from the business community of Japan to facilitate the SMEs in the country. Society 5.0 is a business digitization practice that is humane and friendly to human roles, which helps social actors successfully adopt technology to address local problems in local scenarios.

Limitations and Future Research Directions. Like all other studies, the current research also has some strengths and limitations that need to be addressed in future research attempts. The current study is based on an MSMEs sample from Bandung, Indonesia, while a large body of Indonesian entrepreneurs is not covered in this sample. A comprehensive study among a representative sample of all regions of Indonesia is recommended for better generalizability.



Another study between similar constructs but a comparative approach in SMEs and large companies' quality of reporting is recommended. Comparative research on the quality of financial reporting among ASEAN countries may significantly contribute to the digitalization field in finance and financial institutions. This study adopted a cross-sectional approach, and future studies may consider a longitudinal approach for better causation among study variables. This study adopted a basic descriptive and regression analysis approach for analyzing study results. Future studies may be conducted with better analytical approaches like SEM or PLS software for fine-quality analysis.

CONCLUSION

The results of the measurement of the outer research model show that the indicators used are meaningful, have good consistency and provide sufficient information in measuring the User Competence variables, Use of Financial Applications and Quality of Financial Statements SMEs in West Java province. Furthermore, the measurement results of the inner model show that the variables of user competence and the use of financial applications have proven to have a significant positive effect on improving the quality of financial reports.

The results of this study also show that the user competence variable has a more dominant influence on improving the quality of financial reports when compared to the variable use of financial applications. The study results show that human resources competence has a high contribution to the financial digitization of SMEs in West Java province, and the optimization of financial digitization influences the quality of financial reports.

Quality financial reports are produced by human resources with the knowledge, skills and experience to use available financial applications. Using effective financial applications supports the successful implementation of financial digitization in SMEs. Society 5.0 carries the idea of harmonization between IT and humans as IT users. Integration in the concept of society 5.0 is a solution to foster a balance in the use of IT for business progress and is a solution for the reduced use of human resources due to business digitization practices.

The study set in the developing and multicultural context of Indonesia may get key policy insights from the findings of this research. A thorough awareness campaign by the government among entrepreneurs and SME owners about the benefits of digitalization and a government consultation help for successful implementation can bring better fruits to the Indonesian economy in the post-Covid-19 era. The current research has opened several new avenues for future research in this area of study.

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