



# Open Access Indonesia Journal of Social Sciences

Journal Homepage: <https://journalsocialsciences.com/index.php/OAIJSS>

## Analysis of the Implementation of Digitalization of Financial Statements in Micro, Small, and Medium Enterprises

Eni Susilowati<sup>1\*</sup>, Andrean Permadi<sup>1</sup>, Sri Hariyanti<sup>2</sup>, Misbahul Munir<sup>1</sup>, Agus Wahyudi<sup>3</sup>

<sup>1</sup>Sharia Economics Study Program, Faculty of Islamic Religion, Universitas Nahdlatul Ulama Blitar, Blitar, Indonesia

<sup>2</sup>Sharia Business Management Study Program, Faculty of Islamic Economics and Business, IAIN Kediri, Kediri, Indonesia

<sup>3</sup>Management, Postgraduate Program, Universitas Islam Kadiri, Kediri, Indonesia

### ARTICLE INFO

#### Keywords:

Digitization  
E-commerce  
Financial statements  
MSMEs

#### \*Corresponding author:

Eni Susilowati

#### E-mail address:

[enisusilowati1818@gmail.com](mailto:enisusilowati1818@gmail.com)

All authors have reviewed and approved the final version of the manuscript.

<https://doi.org/10.37275/oaijss.v6i4.170>

### ABSTRACT

Micro, small, and medium enterprises (MSMEs) that use a digitalized financial reporting system can gain easier access to financial services. Structured and accurate financial reports can assist them in applying for loans or obtaining financial support from financial institutions or investors. This study aimed to explore the use of digitizing financial reports for MSMEs in Tulungagung Regency, Indonesia. This study is qualitative observational research. The data used in this study are primary data and secondary data. As many as 30 MSMEs in the culinary field, which are still operating in Tulungagung in 2023, were included in this study. MSMEs are not yet optimal in utilizing digitization due to several reasons, including limited MSME resources, lack of understanding, and limited knowledge of MSME owners who may not have sufficient understanding of the benefits and process of digitizing financial statements and fear of data security and confidentiality. MSMEs may worry about the security of their data when using digitization systems, preference for conventional methods, implementation of digitization systems requires adjustment and integration with existing systems in MSMEs, technical challenges such as inadequate technological infrastructure, limited internet access, or lack of technical skills in operating the system can be an obstacle for MSMEs to use digitization of financial statements.

### 1. Introduction

MSMEs in Indonesia are an important sector in the country's economy. Based on data from the Indonesian Ministry of Cooperatives and SMEs, MSMEs in Indonesia cover around 99% of the total existing businesses and make a significant contribution to economic growth, job creation, and income distribution. Tulungagung, as one of the regencies in East Java, also has quite a large number of MSMEs. MSMEs in Tulungagung consist of various sectors, such as creative industries, crafts, trade, agriculture, and other service sectors. Examples of MSME businesses in Tulungagung include the textile

industry, food and beverage processing, handicrafts such as batik and woven, as well as the local trading sector (Andreani, 2020).

MSMEs in Tulungagung generally have different challenges and opportunities. Some of the challenges that are often faced by MSMEs include limited access to capital and credit, lack of access to technology and training, complex regulations, and intense competition. However, with technological developments and support from the government and related institutions, MSMEs also have the opportunity to develop their businesses, access global markets through e-commerce, improve the quality of products





and services, and take advantage of programs and assistance provided to increase their capabilities. Digitizing financial reports allows MSMEs to analyze their business performance in greater depth. By having access to historical data and the ability to produce more detailed reports, MSMEs can analyze profitability, liquidity, cash flow, and other financial aspects. This information assists in strategic decision-making, financial planning, and identification of business opportunities or risks (Bannock, 2019).

In some cases, MSMEs that use a financial report digitization system can gain easier access to financial services. Structured and accurate financial reports can assist them in applying for loans or obtaining financial support from financial institutions or investors. In digitizing financial reports, MSME financial data can be stored safely in a database or cloud storage system. This helps protect data from the risk of loss or physical damage. Moreover, with the right data backup and recovery system, MSMEs can recover their financial data quickly in case of hardware failure or other unforeseen events (Dehghantanha, 2021). This study aimed to explore the use of digitizing financial reports for MSMEs in Tulungagung Regency, Indonesia.

## **2. Literature Review**

### **Financial statements**

Financial statements are a very important tool for obtaining information about the wishes of certain parties with an interest in financial reports. Financial statements are more meaningful to interested parties when analyzed in more detail, providing information that supports policies to be followed. Financial statements are sheets of paper with numbers written on them, but it's also important to think about the real assets behind the numbers. Priyati stated that financial statements are the end result of the process of recording, managing, and controlling financial transactions in a business unit, which aims to make decisions both inside and outside the company

relating to the company's financial condition and performance. Financial statements can be used as a tool to communicate with interested parties using the company's financial information. The financial statements consist of balance sheets, income statements, changes in equity, cash flow statements, and notes to financial statements (Faisal, 2020; Hamari, 2016; Ibrahim, 2018).

### **Digitization**

Digitization refers to the process of translating a piece of information, such as a book, sound recording, image, or video, into bits. The bit is the basic unit of information in a system computer. Digitization is the process of converting all forms of printed or other documents into digital forms of presentation (International Finance Corporation, 2020). Digital technology has advantages and disadvantages, namely the advantages of digital technology include: locations with one another are easy to connect and not affected by weather and others, various types of communication systems exist and can also be used, maintenance costs are lower due to being more practical and stable. While digital technology also has drawbacks, including errors that may occur every time you process the analog signal to digital, the possibility of theft of urgent digital data such as work data, account numbers, and others, creates excessive dependence on use. Digitalization and computerization are globalization. The rapid exchange of information greatly affects development. Rapid exchange of information can enhance developments such as telephone and Internet communication tools (Lee, 2018).

### **Micro, small, and medium enterprises (MSMEs)**

Small and medium enterprises, abbreviated SMEs, are a type of business that plays an important role in increasing the economic growth of a country. In Indonesia, SMEs have a major contribution to the economy. This type of business is run by individuals





or business entities that are not subsidiaries or branches of large companies. According to Law Number 20 of 2008 concerning micro, small, and medium enterprises, small businesses are defined as standing productive economic activities. Small and medium enterprises, or SMEs, are types of businesses that are on a small to medium scale. Meanwhile, a small business is a business that has a turnover of 300 million to 2.5 billion per year. Based on Law Number 20 of 2008, SMEs or small and medium enterprises are divided into 3 groups, namely: micro enterprises. Micro enterprises are businesses owned by individuals and business entities owned by individuals. Micro enterprises have a maximum asset of IDR 50 million (excluding land and buildings for business premises). Micro enterprises have a turnover maximum of IDR 300 million per year. A small business is a business that stands alone, not a subsidiary or branch of a medium or large business. Small businesses have assets worth IDR 50 million to IDR 500 million, excluding land and buildings. Sales results reach IDR 300 million to IDR 2.5 billion per year. Medium enterprises and medium-sized businesses are also owned by individuals or privately owned business entities. This business is also not a branch or subsidiary of another company (Ngai, 2002; Morgan, 2019). The total assets owned by medium-sized businesses range from IDR 500 million to IDR 10 billion. Meanwhile, the turnover or sales obtained is IDR 2.5 billion to 50 billion per year. In the last decade, MSME businesses have started to emerge, starting from the home scale to a larger scale. Wijaya stated there are 7 business sectors included in MSMEs: trade, processing industry, agriculture, plantation, farm, fisheries, and services.

### **Digitization of financial statements in micro, small, and medium enterprises**

Of the many MSMEs problems that occur in Indonesia, the problems that are often encountered are matters of capital, licensing matters, low

awareness of paying taxes, lack of innovation, and the large number of MSMEs who are still technologically illiterate. Technological developments encourage a digital economy that is beneficial for MSMEs. Benefits in marketing their products and ease of process productivity for MSME actors. The presence of marketplace channels and social media opens up opportunities for MSME players to introduce their products. In addition, the productivity of MSME players is getting easier and more efficient thanks to technological developments, starting from doing digital bookkeeping, paying taxes through application systems, and so on. MSMEs need support in terms of capital and assistance in terms of marketing and business facilities from the Government of Indonesia. Digitization is the process of converting all forms of printed or other documents into digital forms. The financial report is a summary of a recording process, which is a summary of financial transactions that occurred during the relevant financial year. So the digitization of financial reports for MSMEs is a process of converting summaries of financial transactions belonging to productive business units in printed form that occur during a certain period into digital presentation (Ngo, 2013; Park, 2017).

Along with technological developments, understanding accounting information will be easier when combined with technological sophistication. Today there are many accounting system software that can be used by MSME actors for free. The software offers convenience and efficiency in applying accounting information systems for MSME actors. The use of accounting applications can also minimize the occurrence of fraud. Fraud is an action that aims to benefit oneself or a group in a way that is not justified so that other parties are harmed. In addition, the use of accounting software will help MSME players fulfill their tax obligations. Tax based on Law Number 16 of 2009 is a mandatory contribution to the state that is owed by individuals or entities that are coercive by not receiving compensation directly and used for the needs





of the state for the greatest prosperity of the people. However, there are still many MSME actors who do not understand how the application of digital accounting is applied.

The benefits of digitizing financial reports include: financial reports can be more transparent and well managed, the storage of financial statements will increase efficiency and stored safer, easier to monitor financial statements, more economical and easier to store financial statements, speed up the process of retrieving financial statements files, easier to disseminate financial statements information. The use of financial reporting software will lead to an increase in business costs. But the increase in costs is also followed by an increase in the quality of the desired information. Making financial statements using a computer application can simplify and speed up the completion of making financial statements due to several stages that were not carried out due to: being replaced with the use of formulas in Microsoft Excel or other programs (Reis, 2020; Rialti, 2020).

### 3. Methods

This study is qualitative observational research. The data used in this study are primary data and secondary data. Primary data in this study are data obtained directly by researchers from research respondents, which are obtained from the results of interviews, observations, and documentation conducted. While secondary data in this study, such as books, journals, scientific papers, and the internet. Respondents in this study were MSMEs in the culinary field who were registered with the Office of Cooperatives and micro, small, and medium enterprises in Tulungagung. As many as 30 MSMEs in the culinary field, which are still operating in Tulungagung in 2023, were included in this study.

To collect data from information sources (informants), research requires assistance instruments, namely screening forms, informant data, interview guidelines, and recording equipment. In this

research, primary data and secondary data are needed. Primary data is data directly from the original source. This data was collected when carrying out research in the field in the form of interview results and direct observation of the respondent. While secondary data is data obtained through a review of documents and literature sources, journals, and research reports related to the theme of this research. The raw data to be analyzed is organized based on the data collection date, data source, data type, data description, and data nature. All data must be read in order to find out what data has been obtained, the source of the data, and its meaning. After collecting data, researchers must know what information each informant conveys and compare it with other informants. By understanding all the data, the researcher will be able to select/reduce important, new data and data related to the research question. Furthermore, researchers can also classify or group, or create themes for the selected data. Coding is the process of marking the data that has been grouped. Groups of similar data are given the same code. Through coding, researchers can produce new categories or themes. Through coding, researchers produce themes or categorizations of research data which are findings. Based on the resulting themes, the researcher then makes brief and systematic descriptions so that the themes found become clearer. The next step is to look for relationships between one theme and another. The results of the construction of relationships between themes or categories then need to be interpreted so that other people understand them.

### 4. Results and Discussion

The results of the study show that some of the 20 research samples in small culinary businesses in Tulungagung have not used digital financial reports. Based on the data obtained, 14 out of 30 MSMEs have not yet used financial report digitization, and 16 of them have used financial report digitization





applications, such as Majoo, Mokaa, Kasir Pintar, Buku Kas, Buku Warung, and others. There are several reasons why MSMEs may not be interested in digitizing financial reports. MSMEs claim that they do not have limited resources, whether in terms of finance, technology, or skills. They either don't have enough budget to adopt expensive digitalization systems or don't have the necessary technological skills to operate them. Some MSME owners do not have a sufficient understanding of the benefits and process of digitizing financial reports. They are not aware of the potential gains in terms of efficiency, accuracy, and better data analysis that can be obtained by using digitalized systems. Limited resources, including financial, technological, and skill limitations, are often an obstacle for MSMEs to adopt digitalization systems. Digitizing systems often requires a significant upfront investment in hardware, software, IT infrastructure, and training. SMEs with limited financial resources may find these costs too high to adopt. In addition to implementation costs, MSMEs must also consider maintenance costs, software updates, and technical support needed to keep the digitalization system running well. These costs may be considered too expensive by SMEs. MSMEs that do not have sufficient technical skills or knowledge of digitization systems may feel unsure about adopting these technologies (Rogers, 2003). They may worry that they will not be able to operate the system effectively or have difficulty solving technical problems. MSMEs are often faced with many business demands that require attention and resources. They may allocate their budget and time to other things that are considered more urgent or important than adopting the digitalization system.

Lack of understanding about the benefits and process of digitizing financial reports may be a factor why some MSME owners are reluctant to adopt this technology. Some MSME owners may not realize the potential benefits that can be obtained through digitizing financial reports. They may not have

sufficient information about how digitization systems can improve efficiency, accuracy, and better data analysis in managing their business finances. Digitizing financial reports requires changes in the way MSME owners manage and report their financial data. Some MSME owners may be reluctant to change the routines and processes they are used to for fear of inconvenience or difficulties in adapting them. MSME owners may perceive the digitalization of financial reports as a complicated and complex process. They may feel that learning and operating digital systems will take up too much time and resources. As previously mentioned, SMEs often have limited resources, including time and skills. They may feel that it is impossible to allocate sufficient time and resources to adopt a digitalized system (Salomon, 2020).

MSMEs are concerned about the security of their data when using digitization systems. They feel that their data is safer and more protected if they use manual or traditional financial reports. Fear of data security and confidentiality is one of the reasons why some MSME owners are hesitant to use a financial report digitization system. Some MSME owners may have a strong belief in manual or traditional methods of storing and managing their financial data. They may perceive that using a manual system can provide a higher level of security and control over their data. Fear of cyber crimes, such as hacking or data theft, can make MSME owners reluctant to store their financial data in digital format. They may feel that their data is more secure from attacks or security breaches if it is stored manually or confined to their physical environment. Some MSME owners may feel that they do not have sufficient knowledge or technical skills to protect their data by using a digitization system. They are concerned that a technical error or inability to manage data security could cause unwanted loss or damage. MSMEs that collect customer data, such as personal or financial information, may be concerned about the





responsibilities and risks associated with managing and protecting this data. They may feel that using digitized systems may increase the risk of breaching the privacy of their customer's data (Sheng, 2012).

It is important to realize that data security is a serious issue that MSMEs need to pay attention to. However, it is also important to recognize that a good and trusted digitalization system can provide better data security than manual methods. In many cases, using the right digital systems, coupled with the right security measures, can provide a higher level of security than manual financial reporting. Some MSME owners may feel comfortable with the manual financial reporting method they have used so far. MSME owners who have used the manual method of compiling financial reports may have developed certain habits and skills in using the system. They are comfortable with familiar routines and don't want to change the way they are used to working. Some MSME owners may find the manual method simpler and easier to understand than using a digitalization system which may be considered complex. They feel that with the manual method, they have full control over their financial reporting process. MSME owners may believe that conventional methods are sufficient to meet their financial reporting needs. They may feel that the manual system is effective enough in producing the information they need to make business decisions. MSME owners with limited resources, be it financial or technological, may find that the investment in the digitalization system is not worth the benefits they expect. They may prefer to use available resources for other things that are considered more important or urgent (Wamba, 2019; Susha, 2021).

## 5. Conclusion

MSMEs have not been optimal in utilizing digitization due to several reasons, including limited MSME resources, lack of understanding and limited knowledge of MSME owners may not have sufficient understanding of the benefits and process of digitizing

financial statements, fear of security and confidentiality of MSME data may be concerned about the security of their data when using a digitization system, preference for conventional methods, implementation of a digitization system requires adjustment and integration with existing systems in MSMEs, technical challenges such as inadequate technological infrastructure, limited internet access, or lack of technical skills in operating the system can be obstacles for MSMEs to use digitization of financial statements.

## 6. References

- Andreani F, Jamaran I. 2020. Digital financial inclusion of micro, small, and medium enterprises (MSMEs) in Indonesia. *Journal of Asian Finance, Economics and Business*. 7(4): 221-8.
- Bannock G, Yeldan E. 2019. The impact of digital financial services on the growth of small and medium-sized enterprises (SMEs): evidence from developing countries. *Journal of Small Business Management*. 57(4): 1313-33.
- Dehghantanha A, Singh J. 2021. Blockchain for secure financial transactions in small and medium-sized enterprises (SMEs). *Journal of Business Research*. 131; 764-77.
- European Commission. 2019. Digital transformation scoreboard 2019: small and medium-sized enterprises. Brussels: European Commission.
- Faisal A, Hassan MK. 2020. Fintech, financial inclusion, and small and medium enterprises: a review and research agenda. *International Journal of Information Management*. 54: 102165.
- Hamari J, Sjöklint M, Ukkonen A. 2016. The sharing economy: why people participate in collaborative consumption. *Journal of the Association for Information Science and Technology*. 67(9): 2047-59.
- Ibrahim H, Khairunnisa S. 2018. The role of financial technology (Fintech) in supporting small and medium-sized enterprises (SMEs). *KnE Social Sciences*. 3(11): 256-67.





- International Finance Corporation. 2020. Digital platforms for MSME Finance: lessons from emerging markets. Washington, D.C.: International Finance Corporation.
- Lee H, Ahn H. 2018. Digital transformation of small and medium-sized enterprises: a double-edged sword. *Sustainability*, 10(11), 4104.
- Morgan RM, Strong CA. 2019. Business performance and digital transformation: the role of digital capabilities. *Strategic Management Journal*. 40(2): 202-25.
- Ngai EWT, Wat FKT. 2002. A literature review and classification of electronic commerce research. *Information & Management*. 39(5): 415-29.
- Ngo LV, O'Cass A. 2013. In search of innovation and customer-related performance superiority outcomes: the role of market orientation, marketing capability, and innovation capability interactions. *Journal of Product Innovation Management*. 30(2): 212-28.
- Park JH, Lee J. 2017. Digital transformation and business model innovation: evidence from the Korean music industry. *Technological Forecasting and Social Change*. 125: 105-14.
- Reis A, Szczygielski K. 2020. Digitalization and firm growth: evidence from a randomized control trial. *Journal of Business Research* 116: 195-203.
- Rialti R, Marzi G, Ciappei C. 2020. Digital transformation and performance in small and medium enterprises: the role of digital capabilities. *Journal of Business Research*. 116: 448-61.
- Rogers EM. 2003. *Diffusion of innovations* (5<sup>th</sup> ed.). New York: Free Press.
- Salomon RM. 2020. The impact of digitization on firm performance: a meta-analysis. *Journal of Business Research*. 112: 425-39.
- Sheng L, Teo HH. 2012. Rethinking competitive advantage in the digital age. *Journal of Organizational Computing and Electronic Commerce*. 22(3): 284-301.
- Susha I, Mashkina O. 2021. Fintech solutions for small and medium-sized enterprises (SMEs) in the digital economy. In *Proceedings of the International Scientific Conference "Digital Economy and Digital Society"*. Springer. 612-25.
- Wamba SF, Carter L. 2019. Innovation and competitive advantage: a systematic literature review. *International Journal of Innovation Management*. 23(07): 1950069.

