



Improving The Performance of SMEs through Financial Literacy and Information Technology: Accounting Reporting as Mediation

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Abstract. Small and Medium Enterprises (SMEs) are the simplest form of business that is easiest for people to do, and of course are the main drivers of national economic growth. The existence of SMEs supported by financial literacy, information technology, and accounting reporting can be a key factor in improving SMEs business performance. This study examines the effect of financial literacy and information technology on SMEs performance, with accounting reporting as a mediator. This study focuses on SMEs in West Java, using a sample of 100 respondents. Data were collected through surveys and questionnaires, and analysis was conducted using structural equation modeling (SEM) with SmartPLS software. The research findings reveal that financial literacy does not directly affect SME performance but positively affects accounting reporting. Conversely, accounting reporting and information technology have a direct positive impact on performance. These results indicate that increasing financial literacy in SMEs, and the use of information technology by SMEs, can improve SME performance. The existence of accounting reporting also functions as an important intermediary in improving SMEs performance. This study highlights the importance of integrating these factors to support the growth and sustainability of SMEs in West Java. Although it has a major positive impact on accounting reporting, financial literacy has little direct effect on SME success. Information technology has no direct effect on SMEs' performance or accounting reporting, and accounting reporting has no discernible effect on SMEs' performance. Information technology and financial literacy did not significantly affect SMEs' performance, according to the accounting reporting mediation.

Keywords: Creative Economy, SMEs, IT.

1 Introduction

The creative economy in the form of Small and Medium Enterprises (SMEs) is a pillar of the strength of the Indonesian economy. The creative economy has flexibility and the ability to adapt to developing economic conditions. Increasing the market share of

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SMEs can improve people's welfare, increase state tax revenues, and make an extraordinary contribution to balancing market mechanisms. All SMEs strive to achieve the best role compared to other organizations, especially competing organizations [1]. The main seriousness that can be taken is to further develop the performance of SMEs by recognizing and exploiting opportunities if SMEs want to perform better. SMEs' aggressive approach to maximizing profits shows improved performance [2].

The performance of SMEs is very important in showing their capacity to manage their capital [3]. SMEs are a consequence of all business training or training, which is a benchmark for business achievements. Information about the presentation of an SMEs can be seen through financial reports [4]. Many people who use financial reports, including SMEs, rely on this information to make decisions and set policies. Therefore, it is important to maintain consistent performance of SMEs from year to year. The performance of SMEs itself has an impact on the running activities of financial literacy in SMEs. Financial literacy is the possession of skills, knowledge, and behaviors that allow an individual to make informed decisions regarding money. Financial literacy, financial education, and financial knowledge are used interchangeably. Financially unsophisticated individuals cannot plan financially because of their poor financial knowledge. Financially sophisticated individuals are good at financial calculations; for example, they understand compound interest, which helps them engage in low-credit borrowing. Most of the time, unsophisticated individuals pay high costs for their debt borrowing [5]. However, financial literacy among SMEs remains a persistent challenge, as many business owners lack the necessary understanding of cash flow management, credit utilization, and risk assessment. Limited access to financial education, combined with complex financial products, further exacerbates the issue. Many SME owners make financial decisions based on intuition rather than structured financial planning, often leading to liquidity problems and inefficient capital allocation. The lack of financial literacy not only affects individual businesses but also limits overall economic growth, as financially struggling SMEs are less likely to innovate and expand.

The great interest in Information Technology (IT) encourages organizations, including SMEs, to consider how IT is utilized and whether this innovation significantly impacts SMEs performance [6]. A superior SMEs should have a quality information system. A quality information system is a system that meets the expected characteristics of an information system. Characteristics such as ease of use, speed, reliability, flexibility, and data security that protect users will satisfy system users [7]. In the current era of globalization, information system has become a very important tool for increasing business productivity. The use of information technology in SMEs can produce added value by facilitating the exchange of financial information and supporting planning, control, and decision-making. This can ultimately improve the overall performance of SMEs. Accounting reporting is the result of the application of information technology in the form of a system. Organizational managers indeed carry out accounting reporting, and all situations within the organization will indirectly affect the organization [8]. Accounting reporting will work well if it relies on a quality financial literacy so that choices can be made to prevent and avoid conditions for the progress of SMEs. Therefore, accounting reporting is expected to help implement and improve the bookkeeping data framework to produce a quality bookkeeping data framework.

In research on financial literacy and IT quality on SMEs performance, several examinations had similar results, and several investigations also had different results. For example, from similar reports, there were several unique results, such as in exploration [9], which revealed that bookkeeping data and IT have an impact on SMEs performance, research states that bookkeeping data and innovation data do not affect SMEs performance [10]. Based on previous research, stated that financial literacy, information technology, and SMEs performance are interrelated and influence each other by processing data using the SPSS application [11]. In contrast, in this research the data processing uses the SEM-PLS application. Another difference is the existence of the accounting reporting variable as an intermediary variable. Accounting reporting is carried out as the impact of the board leadership, executive substance, and other workforce on the cycle that occurs as a guarantor of the achievement of organizational goals related to tasks, disclosure, and consistency [12]. The purpose of this study is to examine the performance of MSMEs from various perspectives using quantitative descriptive methods with a structural equation modeling (SEM) approach with SmartPLS software.

2 Literature Review

Bookkeeping data is a coordinated bookkeeping framework. This is because data from various parts of the bookkeeping system are interconnected and work together to process financial information into bookkeeping data that is useful for information users [13]. Therefore, Financial Literacy need to be of high quality so that they can provide more significant benefits to improve SMEs performance while being easy for users to use [14]. Assuming that the data submitted from the bookkeeping software used is more precise, comfortable, and of excellent quality, this will also build trust in system users [15]. This can be seen from the research that bookkeeping data influences organizational data performance, in this case, SMEs, where the quality of the framework that meets the details will really want to meet clients and advance performance so that client behavior will uphold data utilization, and innovation [16-17]. That the nature of the bookkeeping data framework has an impact on SMEs performance [18]. Accounting reporting is crucial in bookkeeping. As an information, accounting often encounters intentional and unintentional issues [19]. Accounting reporting helps implement and improve the bookkeeping data framework to produce high-quality bookkeeping data. It includes plans to prevent misappropriation and safeguard organizational assets, both tangible and intangible. Accounting Reporting will work well with the assumption that it relies on a quality data framework so that choices can be made to prevent and avoid conditions for the progress of SMEs [8]. Which shows that there is a relationship between the nature of the bookkeeping data framework and organizational performance through Accounting Reporting as an intervening variable [20]. Which states that accounting reporting can intervene in the impact of the nature of the bookkeeping data framework on SMEs performance [21].

Information technology is a powerful weapon to speed up execution, know the position within SMEs, understand difficulties from outside, and is a reason to decide and develop strategies based on exact information obtained through modern IT, the use of

IT is a benchmark for progress and impact on SMEs performance [12]. In the current era of globalization, the main tool for business efficiency is the accounting information system [22]. The use of accounting information reporting innovation in SMEs can provide additional benefits for the actors, especially through sharing financial data for regulation, control, and dynamic organizational activities, which ultimately influence SMEs performance [11]. Several previous studies found that innovation data had an impact on SMEs' performance [23]. Accounting reporting includes designs, strategies, and authoritative actions that are facilitated to balance hierarchical resources, strictly attend to the accuracy and reliability of bookkeeping information, encourage proficiency, and empower consistency with arrangements [16]. Information technology in bookkeeping requires accounting reporting [10]. Accounting reporting can be an intermediary variable in the impact of IT on SMEs performance. This shows that there is a relationship between SMEs performance, information technology and accounting reporting [24]. The better the use of IT and the implementation of good accounting reporting, the better the SMEs will be.

Good accounting reporting can make the data contained in financial reports reliable and solid. Apart from that, implementing good accounting reporting is also considered important to ensure the organization can run well [25]. Investor confidence in making investment decisions will be influenced by company disclosures regarding how SMEs performance is described in financial reports [6]. Good SMEs governance relies heavily on the accounting reporting [16]. Carrying out good accounting reporting ensures that SMEs can work ideally to generate benefits. If SMEs' net profits increase, then SMEs' success increases, too [6]. Previous research revealed a link between the deployment of accounting reporting and SMEs performance [10].

Based on this explanation, the fifth hypothesis are:

H1: The financial literacy has a positive effect on SMEs performance

H2: Accounting reporting mediates the relationship between financial literacy and SMEs performance

H3: Information technology has a positive effect on SMEs performance

H4: Accounting reporting mediates the relationship between information technology and SMEs performance

H5: Accounting reporting has a positive effect on SMEs performance

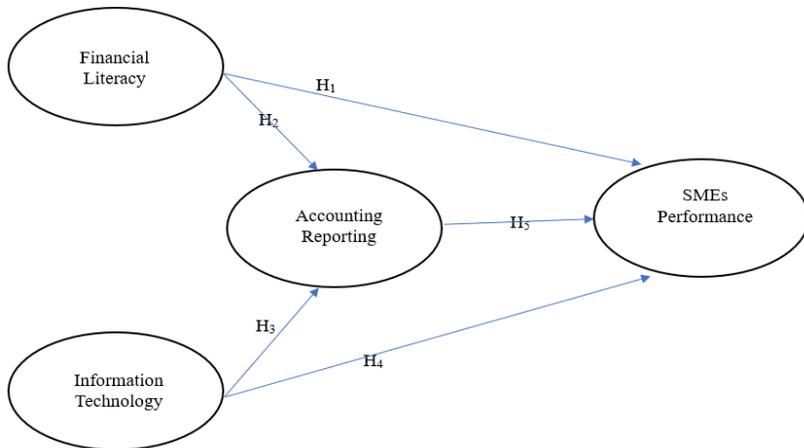


Fig. 1. Thought Framework Chart

3 Methodology

The quantitative descriptive analysis method was used in this research. This research data comes from answers to questionnaires filled out by respondents in West Java, Indonesia. In this in-depth study, the type of information used is important information obtained from the results of circulating opinion polls. This study's population comprised 100 SMEs. Purposive sampling was employed to get samples. A sample of 100 SMEs that adhered to the existing regulations was acquired. This research employed the Structural Equation Model (SEM) analytical approach. This study demonstrates a correlation between at least one independent variable and at least one environmental variable. Each variable may represent an individual element or a construct derived from many indicators [26]. In the realm of SMEs in West Java, securing capital continues to pose a substantial obstacle to business sustainability and expansion. A multitude of SMEs in this region depend on conventional funding sources, including bank loans, cooperatives, and informal lending. Nonetheless, inadequate financial literacy and intricate loan processes frequently obstruct their capacity to obtain adequate money. The advent of alternative financing mechanisms, including crowdsourcing, venture capital, and government-supported microfinance initiatives, has created new avenues for SMEs to secure essential money. This study used the Structural Equation Model (SEM) to examine the determinants affecting funding decisions for SMEs, encompassing financial literacy, company performance, and access to financial institutions. By comprehending these linkages, policymakers and financial institutions may formulate targeted financial inclusion initiatives to promote SME growth in West Java. The Likert scale is a scale used to measure an individual's or group's view of a social characteristic [26]. Five levels of the Likert Scale are used in this examination, including strongly agree, agree, disagree, disagree, and strongly disagree [27].

This research information was collected through surveys and then processed using the SEM model with the help of the PLS program. Data functions as a measuring tool for

hypotheses and represents the variables being investigated. It is not rigid in nature, regardless of whether the information is accurate or not. On the other hand, whether the information is accurate or not depends on the nature of the information collection instrument. Effective and reliable equipment is essential. The reason for hypothesis testing is to show whether there is an impact on each variable. This testing strategy must be seen from the T-statistic value and probability value. For hypothesis testing, a critical value of 1.96 is used with an alpha significance level of 5%. The model for accepting or rejecting the hypothesis is H_a accepted, and H_0 rejected if the T-statistic is greater than 1.96. To accept or reject a hypothesis based on probability values, H_a is accepted if the p-value < 0.05 .

4 Discussion

4.1 Test Outer Model

Before hypothesis testing, estimation model testing is completed to measure indicative and inactive factors [27]. Convergent Validity, Discriminant Validity, and Average Variance Extracted (AVE) tests are construct validity tests in this research. Analysis of the Outer Loading value of each indicator variable is used to assess Convergent Validity, namely a measure of the reflection validity of the indicator as a variable measure. Creating an Outer Model or measurement model is one method for carrying out validation and reliability testing. A marker is declared valid if it has a variable value > 0.5 (unique sample value) and has a P-value (likelihood) < 0.05 . Assuming it is found that the experimental results do not meet the results according to these markers, the survey will be discarded. In connection with this, the explanation of the model in Table 1 is as follows:

Table 1. Measurement Model

Construct	Questionnaire Items	Outer Loading	Discriminant Validity
X1 (Financial Literacy)	X1.1	0.841	0.873
	X1.2	0.897	
	X1.3	0.953	
	X1.4	0.907	
X2 (Information Technology)	X2.1	0.526	0.768
	X2.2	0.774	
	X2.3	0.857	
	X2.4	0.832	
	X2.5	0.875	
	X2.6	0.659	
X3 (Accounting Reporting)	X3.1	0.652	0.756
	X3.2	0.697	
	X3.3	0.646	
	X3.4	0.743	
	X3.5	0.878	

Table 1 (Continued). Measurement Model

Construct	Questionnaire Items	Outer Loading	Discriminant Validity
X4 (SMEs Performance)	Y.1	0.696	0.846
	Y.2	0.747	
	Y.3	0.691	
	Y.4	0.832	
	Y.5	0.910	

If the validity test results are known, all outer loadings with values above 0.5 and AVE greater than 0.5 are considered valid, and the reliability test can continue. The results of this dependency test aim to determine whether the instructions used for each variable have been developed that can be used to form inactive factors [27]. The results of the construct reliability test for each variable are presented in Table 2 below:

Table 2. Reliability Test

Variable	Cronbach's Alpha	Indicator	Conclusion
Financial Literacy	0.816	>0.6	Reliable
Information Technology	0.843	>0.6	Reliable
Accounting Reporting	0.758	>0.6	Reliable
SMEs Performance	0.866	>0.6	Reliable

The SEM PLS model can be presented in Figure 2 below.

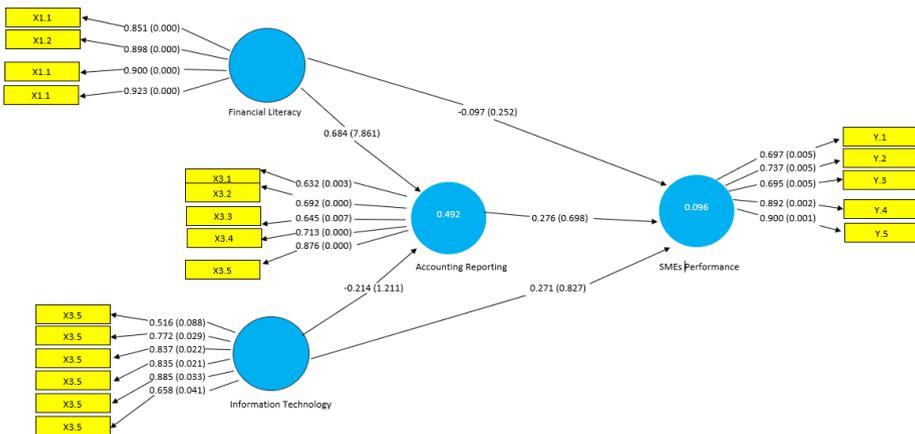


Fig. 2. SEM PLS Output Model Results

4.2 Test the Inner Model

This testing phase aims to provide a relationship between developments and the main testing investigation is completed, which creates R^2 as an incentive for each situation [27]. R^2 is used to estimate results, where more like 1 indicates an area of strength, and sometimes closer to 0 indicates a good relationship [26]. The expected results using R^2 from this examination are recorded in Table 3 below:

Table 3. Test the Inner Model.

Variable	R Square	Information
Accounting Reporting	0.473	Currently
SMEs Performance	0.082	Very weak

4.3 Hypothesis testing

The next stage is to evaluate the line coefficient, which is the surveyed motivation for how the relationship in the fundamental model is obtained using a bootstrapping procedure with values that are considered fundamental with the assumption that these qualities are the justification behind it. Decision-making as in table 4 below:

Table 4. Hypothesis testing.

Test Directions	Original Sample	Sample Mean	Standard Deviation	Q Statistics	P Values	Conclusion
Financial Literacy-> SMEs Performance	-0.087	-0.017	0.405	0.238	0.716	No effect
Financial Literacy-> Accounting Reporting	0.514	0.688	0.088	7,448	0.001	No effect
Accounting Reporting-> SMEs Performance	0.248	0.177	0.419	0.887	0.523	No effect

Table 4 (Continued). Hypothesis testing.

Test Direc- tions	Original Sample	Sample Mean	Standard Deviation	Q Statistics	P Values	Conclu- sion
Information Technol- ogy-> SMEs Perfor- mance	0.311	0.180	0.336	0.811	0.554	No ef- fect
Information Technol- ogy-> Ac- counting Reporting	-0.223	-0.202	0.184	1,160	0.386	No ef- fect

4.4 Direct Effect or Direct Influence of Financial Literacy on SMEs Performance

This exploration is expected to see the direct impact of financial literacy on SMEs performance. The test results show a small negative impact, with a coefficient limit of -0.087. This shows that SMEs performance tends to decline by 8.7% depending on financial literacy. The bootstrap test strengthens this finding by showing that the coefficient is considered not too critical, with a P value of $0.716 > 0.05$. Examination speculation hinges on the idea that the nature of financial literacy, as an integrated accounting framework, provides a positive commitment to SMEs performance. These findings show that the bookkeeping data framework in SMEs is still not very coordinated between the bookkeeping data framework and other existing frameworks in SMEs. Bookkeeping data frameworks should robotize and improve organisations' administration, handling, and granularity of monetary information. However, its implementation is not very easy because of the significant costs involved [28]. which shows the results have no effect.

4.5 Direct Effect or Direct Influence of Financial Literacy on Accounting Reporting

With a parameter coefficient of 0.514, research findings show that there is a positive and significant relationship between SMEs Accounting Reporting and Financial Literacy. This shows that the higher the Financial Literacy, the higher the organization's Accounting Reporting, which is 51.4%. Bootstrap test with an expected coefficient of 0.088, T-count 7.448, and P-value $0.001 < 0.05$, and that implies factual importance. From the findings above, it can be seen that the structure of SMEs data bookkeeping is

feasible and productive in helping the organization's accounting reporting. The organization's accounting reporting will also run well with a good quality bookkeeping data framework. With regard to the hypothesis, these results are following the rule that effort or caution regarding the financial literacy point of view can have a real positive effect in working on the accounting reporting of an organization 21. This research provides an empirical basis for organizations to pay attention to and improve financial literacy to support better management and accounting reporting.

4.6 Direct Effect or Direct Influence of Information Technology on SMEs Performance

The findings of this research contradict the initial hypothesis, namely that information technology improves business performance. The coefficient limit for the IT variable on SMEs performance shows a positive direction of 0.311, but with a P-value of 0.554 > 0.05, it can be concluded that the relationship is not statistically significant. These results indicate that, in the context of this research, the value of Information Technology in SMEs does not significantly impact improving SMEs performance because there is still information technology that is not well optimized, which can reduce SMEs management performance. This occurs when information technology cannot support effective management and decision-making processes. Although the literature states that Information Technology can be a powerful weapon to accelerate performance and provide a basis for decision-making, these results may indicate that other factors or the complexity of the dynamics in the relationship between Information Technology and SMEs Performance are not covered in the research model. In the context of agency theory, where there are differences in interests between management and owners, these results may also indicate that the influence of Information Technology may not be dominant or may be hampered by the dynamics of the relationship between the two parties. In other words, which stated that Information Technology has a positive impact on SMEs performance [29]. This potential mismatch can be caused by an IT implementation that is not yet fully optimal, a lack of employee training in adopting technology, and the more significant impact of external factors such as competitors, product variations, and so on.

4.7 Indirect Effect or Indirect Influence of Financial Literacy on SMEs Performance Mediated by Accounting Reporting

The coefficient for the variable financial literacy in relation to accounting reporting on the performance of SMEs is 0.189. The P-value is 0.513, which exceeds the threshold of 0.05, suggesting that the role of financial literacy as a mediator between accounting reporting and SMEs performance is not significant. Consequently, this research indicates that accounting reporting does not effectively mediate the impact of financial literacy on the performance of SMEs. Potential causes include inadequate accounting reporting mechanisms, organizational resistance or incapacity to incorporate financial literacy enhancements into accounting reporting, and additional factors such as unfavorable policies. The findings indicate variations in this relationship based on context and

involved factors, contrasting with previous research that suggested accounting reporting may mediate the influence of financial literacy on SMEs' performance [25]. Which indicated that accounting reporting may mediate the relationship between financial literacy and SMEs performance, suggesting that this relationship is context-dependent and influenced by various factors. Moreover, proficiency in accounting and the capacity to generate financial reports are essential for enhancing financial literacy within SMEs. Effective accounting practices allow business owners to accurately monitor revenues, expenses, and profits, thereby facilitating informed financial decision-making. Insufficient accounting knowledge can result in financial mismanagement for SMEs, causing inefficiencies and increasing the risk of business failure. Financial statements, including balance sheets, income statements, and cash flow reports, offer a comprehensive overview of a company's financial health and are crucial for obtaining funding from investors or financial institutions. Structured accounting reports enhance transparency and accountability, facilitating compliance with regulatory requirements and taxation policies for SMEs. Thus, cultivating accounting knowledge and encouraging the maintenance of accurate financial records are essential measures for enhancing financial literacy, which in turn improves the financial sustainability and growth potential of SMEs.

5 Conclusion and Recommendation

Following the examination of both direct and indirect influences (by mediation) among the variables of financial literacy, information technology, accounting reporting, and SME performance, the conclusions are as follows: Financial literacy does not significantly impact SME performance directly, but it does exert a large favorable influence on accounting reporting. Accounting reporting does not significantly impact the performance of SMEs, and information technology does not directly influence the performance or accounting reporting of SMEs. The mediation of accounting reporting revealed no substantial impact of financial literacy or information technology on the performance of SMEs. Consequently, in this situation, the accounting reporting variable does not serve as a mediator in the association between financial literacy or information technology and SME performance. This result can serve as a foundation for decision-making aimed at enhancing elements that may impact SME performance, such as fostering financial literacy or adopting information technology, without the necessity of accounting reporting as a substantial intermediary, to improve SMEs' performance and company growth, to bolster important influencing variables such as financial literacy and the integration of information technology. Enhancing financial literacy enables SME proprietors to make informed financial decisions, optimize resource distribution, and manage risks efficiently, hence fostering higher financial stability and long-term economic viability. Furthermore, utilizing information technology—such as digital payment systems, cloud-based accounting software, and e-commerce platforms—can augment operational efficiency, broaden market reach, and promote client engagement.

Incorporating digital solutions into corporate operations allows SMEs to maintain competitiveness in a progressively technology-oriented environment, by emphasizing financial education and digital transformation.

SMEs are advised to focus on improving financial literacy and information technology as a strategic step to improve SME performance. Although financial literacy does not directly affect performance, good development can support the effectiveness of accounting reporting. Meanwhile, the general public can become more aware of the crucial role of financial literacy and IT in supporting business efficiency. For future research, it is recommended that additional aspects that may influence SMEs performance be investigated, and specific aspects of financial literacy and information technology should be explored.

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