



Study of Organizational Capabilities Implementation to Improve the Quality of Financial Reports of SMEs in Coastal Areas

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Abstract. Empowering Micro, Small, and Medium Enterprises (MSMEs) in coastal areas is an effort to strengthen local economies. In this era of competition and technological advancement, it is important for MSMEs to improve their organizational capabilities, especially in the field of accounting, namely, the quality of financial statements. Quality financial statements support high-quality decision-making by MSME actors across both funding and other managerial aspects. This study aims to analyze the influence of business actors' perceptions, accounting information systems, and accounting knowledge on the quality of financial statements in MSMEs in Bangetayu Village, Genuk District, Semarang. The method used in this study was a survey with data collection through questionnaires distributed to MSME owners and managers in Bangetayu, Semarang. The sample comprised 92 MSMEs, and the collected data were analyzed using SmartPLS4 to test the relationships between the independent variables (business owner perceptions, accounting information systems, and accounting knowledge) and the dependent variable (financial statement quality). Organizational capabilities, including accounting systems, accounting knowledge, and business perceptions, have been shown to significantly affect the quality of MSME financial statements. The results of this study support and are consistent with RBV theory.

Keywords: Accounting Information Systems, Coastal MSMEs, Financial Statement Quality, Organizational Capabilities, Resource-Based View (RBV).

1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a strategic and indispensable role in supporting national economic stability and growth. In Indonesia, MSMEs contribute approximately 61% to the country's gross domestic product, reflecting their substantial involvement in job creation, income distribution, and poverty reduction. Beyond their quantitative contribution, MSMEs also serve as a backbone for local economic resilience, particularly in rural and coastal regions. Despite this significant role, many MSMEs, especially those located in coastal areas, continue to face serious challenges in sustaining their businesses in the post-COVID-19 recovery period. One of the primary obstacles is limited access to formal financial assistance, as financial institutions such as banks impose strict requirements related to financial transparency and accountability.

Banks and other lending institutions require structured, accurate, and high-quality financial reports as a basis for assessing creditworthiness and determining funding eligibility. Therefore, the ability of MSME owners to prepare reliable financial statements becomes a critical factor in gaining the trust of financial institutions and ensuring long-

term business sustainability [14]. High-quality financial statements not only function as a tool for external reporting but also serve as an essential internal management instrument for planning, controlling, and decision-making.

From the perspective of organizational capability, an enterprise's success in producing quality financial statements is closely related to its ability to optimize and mobilize available resources effectively. Organizational capability refers to the firm's capacity to integrate, build, and utilize its resources in order to achieve strategic objectives. Optimal and efficient use of human, financial, and technological resources plays a vital role in enhancing the quality, accuracy, and reliability of financial reporting. In this context, the awareness and perception of business owners toward the importance of financial reporting become fundamental determinants. Business owner awareness is a significant factor in improving the quality of financial statements [2, 20]. When owners recognize financial reporting as a strategic necessity rather than a mere administrative obligation, they are more likely to ensure accuracy and compliance in their reporting practices. Conversely, business owners who underestimate the importance of financial statements tend to produce reports that are inaccurate, incomplete, and less informative, thereby reducing their usefulness for decision-making and external evaluation [15].

The adoption and utilization of Accounting Information Systems (AIS) further strengthen the quality of financial statements. The use of AIS enables MSME owners to systematically record transactions, process financial data efficiently, and generate timely and structured financial reports. Consequently, AIS simplifies the preparation of financial statements and enhances their reliability and consistency [8, 17]. In addition, AIS functions as an internal control mechanism that supports monitoring activities and helps prevent fraud or financial mismanagement within the business [11]. Therefore, effective AIS utilization represents an important organizational capability that contributes directly to improved financial reporting quality.

Another crucial organizational capability is accounting knowledge. Adequate accounting knowledge equips business owners with the technical competence required to understand financial transactions, apply accounting standards, and prepare comprehensive financial statements. Accounting knowledge not only improves the technical accuracy of reports but also enhances business owners' analytical abilities in interpreting financial information for strategic decisions. Prior research indicates that accounting knowledge significantly facilitates the preparation of high-quality financial statements [17]. Without sufficient accounting literacy, MSME owners may struggle to implement proper recording practices, which ultimately affects the credibility and usefulness of their financial information.

Theoretically, this study contributes to the reinforcement of the Resource-Based View (RBV) theory, which emphasizes that internal resources and capabilities are key drivers of competitive advantage and organizational performance. By examining organizational capabilities such as business owner perception, AIS utilization, and accounting knowledge, this study strengthens the argument that intangible resources play a crucial role in improving financial statement quality and overall financial performance. Empirically, this research provides evidence regarding the direct influence of these organizational capabilities on the quality of financial reporting, particularly within the MSME sector.

In recent years, MSMEs in Bangetayu Village have experienced significant growth and diversification. Various types of businesses have emerged, including service providers, grocery stores, building material shops, stationery stores, and fast-food restaurants. This rapid development indicates the increasing entrepreneurial activity within the village and highlights the importance of strengthening managerial and financial capacities among local business actors. With the support of government financial stimulus programs, MSMEs in Bangetayu Village are expected to expand further, enhance productivity, and contribute more substantially to the improvement of the local community's economic welfare.

Based on the above background, this study aims to analyze the influence of business actors' perceptions, Accounting Information System (AIS) utilization, and accounting knowledge on the quality of financial statements among MSMEs in Bangetayu Village. By investigating these factors, the study seeks to provide both theoretical insights and practical implications for policymakers, financial institutions, and MSME owners in improving financial reporting practices and promoting sustainable business growth.

2 Literature Review

2.1 Resource-Based View (Rbv) Theory

Resource-Based View (RBV) theory emphasizes the strategic importance of internal resources and capabilities as the primary determinants of a firm's competitive advantage [7]. Unlike external-oriented theories that focus on industry structure or market positioning, RBV concentrates on the internal strengths of an organization. According to

this perspective, organizations achieve superior performance not merely because of favorable market conditions, but because they possess valuable, rare, inimitable, and well-organized resources.

Resources refer to all assets owned and controlled by a company that can be used to design and implement strategies. These include physical assets, financial capital, employee expertise, managerial competencies, and organizational processes [9]. More broadly, resources can be categorized into technological, financial, human, physical, and organizational resources [12]. Barney [1] explains that resources are considered valuable when they enable firms to formulate and execute strategies that enhance efficiency and effectiveness. Therefore, the strategic value of resources lies not only in their existence but also in how they are utilized to generate organizational benefits.

Capability, on the other hand, reflects a firm's ability to deploy and coordinate its resources effectively. It is embedded in organizational routines, processes, and accumulated experience [7]. The emphasis on capability is essential because companies transform resources into products or services that are superior to those offered by competitors [12]. In other words, resources provide the foundation, while capabilities determine how effectively those resources are leveraged. RBV serves as a framework for assessing whether unique resources and capabilities can produce desired organizational outcomes, such as sustained competitive advantage and superior performance [13]. A competitive advantage allows firms to achieve consistent above-average performance by strategically utilizing their internal strengths. Thus, RBV explains how internal resources contribute to sustainable competitive advantage and long-term success [1]. Furthermore, RBV helps organizations recognize that competencies are critical corporate assets and that effective management of these competencies directly influences performance outcomes [10].

In the context of MSMEs, organizational capabilities such as managerial perception, technological utilization, and accounting knowledge represent strategic internal resources that can influence financial reporting quality and overall business sustainability.

2.2 RBV theory, business perceptions, and financial statement quality

RBV theory underscores the importance of intangible internal resources, including managerial perception and awareness, in improving organizational performance. Business actors' perceptions regarding accounting and financial reporting represent cognitive resources that shape strategic decisions. Managerial perceptions influence how business owners prioritize financial management practices, allocate resources, and implement accounting systems.

Perceptions regarding the importance of accounting affect decisions related to accounting policy selection, investment in accounting information systems, and compliance with financial reporting standards. When business actors perceive financial statements as essential tools for planning, control, and evaluation, they are more likely to adopt sound financial management practices. This leads to the preparation of accurate, reliable, and informative financial statements.

High-quality financial statements enhance transparency, improve internal decision-making, and strengthen external stakeholder trust, including banks and investors. Consequently, proper financial management can create a competitive advantage by improving efficiency and enabling better strategic decisions. In line with RBV theory, managerial perception functions as a valuable intangible resource that contributes to performance improvement.

H1: The better the business actors' perceptions of accounting, the higher the quality of the financial statements produced.

2.3 RBV theory, SIA, and financial statement quality

RBV theory also highlights the strategic role of technology as an organizational resource. Optimal utilization of internal resources, including technological assets, provides long-term benefits and enhances firm performance. Technology-based systems, such as Accounting Information Systems (AIS), represent organizational capabilities that integrate financial data processing with managerial control mechanisms.

AIS is a technology-driven capability that enables organizations to record transactions systematically, process financial data efficiently, and generate financial statements that are reliable, relevant, accurate, and timely. By improving the speed and accuracy of financial reporting, AIS enhances decision-making quality and operational efficiency. Moreover, AIS strengthens internal control systems, reduces errors, and enhances fraud detection mechanisms.

From an RBV perspective, AIS is not merely a tool but a strategic resource that, when properly utilized, can create competitive advantage. Its value depends on how effectively it is integrated into organizational processes and how

well users understand and operate the system. MSMEs that optimally utilize AIS can produce higher-quality financial statements, which in turn improve credibility and access to external financing.

H2: The more optimal the utilization of AIS, the higher the quality of the financial statements produced.

2.4 RBV theory, Accounting knowledge, and financial statement quality

Knowledge is one of the most critical intangible resources within an organization. According to RBV theory, knowledge is strategically important because it is developed over time through learning, training, and experience, making it difficult for competitors to imitate. Accounting knowledge, in particular, represents specialized expertise that directly influences the quality of financial reporting.

Strong accounting knowledge enables business actors to understand financial transactions, apply accounting principles correctly, and comply with established reporting standards. It also enhances their ability to analyze financial data and interpret financial information for strategic decision-making. Without sufficient accounting knowledge, business actors may produce incomplete, inconsistent, or inaccurate financial statements, reducing their usefulness for stakeholders.

Because knowledge is embedded in individuals and organizational routines, it becomes a sustainable source of competitive advantage. In MSMEs, where owners often directly manage financial activities, accounting knowledge plays an even more crucial role. It ensures proper bookkeeping, accurate financial information, and compliance with financial reporting standards. Therefore, accounting knowledge functions as a strategic internal capability that improves financial statement quality and supports long-term business performance.

H3: The higher the accounting knowledge, the higher the quality of the financial statements produced.

3 Method

This study employs a survey research method, as it requires primary data in the form of individual perceptions and opinions to accurately capture real conditions in the field [4]. The survey approach is particularly suitable for behavioral research because it enables researchers to systematically collect responses related to attitudes, perceptions, and practices. Furthermore, the survey method is effective in addressing research questions that have not been previously explored and in providing explicit and relevant information to support managerial and policy decision-making [21]. Through structured questionnaires, researchers can obtain quantifiable data that reflect respondents' experiences and perspectives regarding accounting practices and financial reporting quality.

The survey was conducted by distributing questionnaires directly to MSME owners located in Bangetayu Village. This location was selected due to the significant growth of MSMEs in recent years and the increasing importance of improving financial management practices among local business actors. The questionnaire instrument was designed to measure key variables in this study, including business actors' perceptions of accounting, utilization of Accounting Information Systems (AIS), accounting knowledge, and financial statement quality. Each construct was operationalized using multiple indicators adapted from previous studies to ensure content validity and reliability.

The sampling technique used in this research is purposive sampling, which allows the selection of respondents based on specific criteria relevant to the research objectives. Purposive sampling is appropriate when researchers aim to obtain data from respondents who possess particular characteristics aligned with the study variables. The criteria applied in selecting respondents are as follows: (1) the business has been operating for at least two years, ensuring that the enterprise has sufficient operational experience; (2) the business operator uses an accounting information system in managing business activities, ensuring relevance to the AIS variable; and (3) the business generates annual revenue exceeding IDR 500,000,000.00, indicating that the enterprise has reached a certain level of operational scale and financial complexity. These criteria were established to ensure that respondents have adequate experience and exposure to financial reporting practices.

Data collection was conducted using a survey pick-up method. In this approach, the researcher directly delivered the questionnaire to respondents and collected it immediately after completion. This method was chosen to increase response rates, minimize missing data, and allow researchers to clarify any questions that respondents might have while completing the questionnaire. Direct interaction with respondents also helped ensure that the questionnaire was completed by the intended business owner or manager, thereby enhancing data accuracy and reliability.

For data analysis, this study utilizes Partial Least Squares–Structural Equation Modeling (PLS-SEM). The use of PLS-SEM is justified for several reasons. First, PLS-SEM is suitable for predictive research models and for identifying

key driver constructs that influence dependent variables. This is particularly relevant because the questionnaire in this study includes newly developed measurement adaptations, making PLS-SEM appropriate for exploratory and predictive analysis [5]. Second, PLS-SEM is capable of achieving high levels of statistical power even when the sample size is relatively small, which is often the case in MSME-based research. Third, PLS-SEM can accommodate both single-item and multi-item constructs, providing flexibility in measurement model evaluation [5].

Before conducting the main data analysis, several preliminary stages were carried out to ensure data quality. As stated by [5], researchers must consider the presence of outlier data prior to running statistical analysis. Outliers may arise from inconsistent or careless responses provided by respondents when completing the questionnaire. Such responses can distort statistical results and reduce the accuracy of the model estimation. To detect potential outliers, a boxplot test was conducted. The boxplot technique allows researchers to visually identify extreme values that fall outside the expected distribution range. If outliers were detected, further evaluation was performed to determine whether the data should be retained or excluded based on logical and statistical considerations.

After confirming the quality and cleanliness of the dataset, the PLS-SEM analysis was conducted. The analysis includes evaluation of the measurement model (outer model) to assess validity and reliability, followed by evaluation of the structural model (inner model) to test the proposed hypotheses. Through this systematic procedure, the study aims to produce robust and reliable findings regarding the influence of business perceptions, AIS utilization, and accounting knowledge on financial statement quality among MSMEs in Bangetayu Village.

4 Result And Discussion

One hundred and ten questionnaires were distributed to MSMEs in Bangetayu Village. There are 108 questionnaires we can process. Data examination is the first step to ensure data quality [5] and is conducted through non-statistical and statistical examinations. A non-statistical examination was used to ensure that respondents completed the questionnaire and met the sample criteria. Ninety data points passed the non-statistical examination. Statistical examination was conducted by testing the outlier. The statistical examination involved testing the outlier data using a boxplot. After completing the non-statistical and statistical examinations, we conducted descriptive statistical analysis to understand the demographics and the pattern of respondents' answers.

The next step after running descriptive and frequency analyses is to run the data using SMART-PLS4. The first stage of PLS-SEM testing is to assess the measurement model, including validity and reliability. The validity value of each indicator must meet the criteria for outer loading, which range from 0.5 to 0.6 [3]. The reliability value can be inferred from the composite reliability, as it is more appropriate to use a different measure of internal consistency. If the constructed value is > 0.7 , it can be said that the construct has excellent reliability [6]. Based on the test results, the outer loading value is above 0.5, and the reliability values of all variables are above 0.7.

Table 1 shows the result of outer loading and composite reliability values.

TABLE 1. Measurement model

Variable	Outer loading	Composite reliability
Business actors perception (1=strongly not agree, 5= strongly agree)		0.921
BAP1- EMKM SAK significantly supports business interests and public accountability.	0.695	
BAP2- EMKM SAK improves effective and efficient business management.	0.823	
BAP3- EMKM SAK facilitates the publication of financial reports.	0.827	
BAP4- EMKM SAK makes it easier for business actors to evaluate, control, and supervise accounting information reporting.	0.828	
BAP5- SAK EMKM processes and presents accounting information.	0.797	
BAP6- SAK EMKM can be compared to provide an overview of internal and external environmental conditions.	0.835	
BAP7- SAK EMKM has no effect on decision making.	0.769	

Accounting information system (1=strongly not agree, 5= strongly agree)		0.888
AIS1- Implementing AIS requires sufficient funds.	0.699	
AIS2- IT-based AIS facilitates the preparation of financial reports.	0.777	
AIS3- IT-based AIS minimizes the risk of losing financial databases.	0.862	
AIS4- IT-based AIS speeds up the process of preparing financial reports.	0.840	
AIS5- The AIS format/program has been adapted to the needs of financial report preparation.	0.726	
Accounting knowledge (1=strongly not agree, 5= strongly agree)		0.842
AK1- Accounting education helps determine the efficiency of financial statement preparation.	0.796	
AK2- Extensive experience in the business world shapes better accounting knowledge that is useful in the financial statement preparation process	0.907	
Financial statement quality (1=strongly not agree, 5= strongly agree)		0.933
FSQ1- MSME financial statements are easy for users of financial statements to understand.	0.796	
FSQ2- MSME financial statements presented are accountable.	0.871	
FSQ3- MSME financial statements provide relevant and reliable information for decision making.	0.873	
FSQ4- Financial statement information can be verified and traced clearly.	0.893	
FSQ5- Financial statement information can be used as a basis for consideration and can be compared.	0.854	

The next step after validity and reliability testing is structural model testing. Some critical steps need to be taken before testing the structural model, such as checking for collinearity and the adjusted R-squared. VIF values below 5 indicate that the structural model is free of collinearity issues. Collinearity testing shows that the VIF values within the model are below 5, indicating the model is free of collinearity. The R2 value is the basis for understanding the model's predictive power. The R2 value for the whole model was 0.513 and is considered moderate. The results of the hypothetical testing are presented in Table 2 below:

TABLE 2. Measurement model

	Path	pvalue	Conclusion
H1	BAP FSQ	0.021***	H1 accepted
H2	AIS FSQ	0.000***	H2 accepted
H3	AK FSQ	0.0058*	H3 accepted

*** significance level at .01

* significance level at .1

Table 2 shows that all hypotheses are accepted. Positive perceptions among business actors of the importance of financial statement quality encourage them to comply with the guidelines governing financial statement preparation, in this case, the EMKM accounting standards. Statistical tests using smatPLS4 show that the better the perceptions of business actors, the higher the quality of the financial statements produced. AIS, as a means of producing accurate accounting information, has a significant positive effect on the quality of financial statements. Business actors have implemented IT-based AIS that securely stores financial data and speeds up the preparation of financial statements. Accounting knowledge derived from education and experience in the business world helps business actors understand the importance of financial statements. Education and experience can improve the quality of financial statements.

5 Conclusion

The perceptions of business actors, AIS, and accounting knowledge are important organizational capabilities in producing quality financial reports. The results of this study are in line with RBV theory, which states that the management and utilization of organizational resources, both tangible and intangible, can create future competitive advantages. High-quality financial reports will enhance MSMEs image in the eyes of investors, creditors, and the

public. In addition to the image, trust in MSMEs will increase. This brings many positive impacts, ranging from access to funding to market share expansion.

This study has several limitations. These limitations are: (1) The researcher was unable to fully control the honesty of respondents when filling out the questionnaire. Respondent's answers may contain a high degree of subjectivity; (2) the results of the study cannot be generalized to MSMEs in other regions, and (3) adding other independent variables to increase the R2 value. Future research is expected to improve and refine this study, including: (1) adding structured interviews to ensure the consistency of respondents' answers; (2) expanding the research area; and (3) adding other independent variables.

6 References

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