

MSME Financial Accounting In West Java: Sustainability And Impact Factors

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Abstract: This study examines the relationship between financial accounting practices, including knowledge management, financial capability, technology adoption, financial performance, and the social impact of Micro, Small, and Medium Enterprises (MSMEs) in West Java, Indonesia. Quantitative research was adopted, and data were collected using structured survey questionnaires from 343 samples of MSME owners or financial managers in the regions. Data was analyzed using PLS-SEM with SmartPLS 4 software. The results confirm that financial accounting practices significantly affect MSMEs' financial performance and social impact. Knowledge management, financial capability, and technology adoption positively influenced financial performance and social impact. The study found that knowledge management is a significant factor in adopting technology. This study highlights the significant social impact of MSMEs on local communities and emphasizes the importance of sustainable financial accounting practices.

Keywords: Financial Accounting; Sustainability; Knowledge Management; Technology Adoption; Social Impact.

Abstrak: Studi ini meneliti hubungan antara praktik akuntansi keuangan termasuk manajemen pengetahuan, kemampuan keuangan, adopsi teknologi, kinerja keuangan, dan dampak sosial Usaha Mikro, Kecil, dan Menengah (UMKM) di Jawa Barat, Indonesia. Penelitian kuantitatif diadopsi dan data dikumpulkan menggunakan kuesioner survei terstruktur dari 343 sampel pemilik UMKM atau manajer keuangan di daerah. Data dianalisis menggunakan PLS-SEM dengan perangkat lunak SmartPLS 4. Hasilnya menegaskan bahwa praktik akuntansi keuangan secara signifikan mempengaruhi kinerja keuangan dan dampak sosial UMKM. Manajemen pengetahuan, kemampuan keuangan dan adopsi teknologi ditemukan secara positif mempengaruhi kinerja keuangan dan dampak sosial. Penelitian ini menemukan bahwa manajemen pengetahuan merupakan faktor yang signifikan terhadap pelaksanaan adopsi teknologi. Studi ini menyoroti dampak sosial yang signifikan dari UMKM terhadap masyarakat lokal dan menekankan pentingnya praktik akuntansi keuangan yang berkelanjutan dalam mendorong hasil sosial yang positif. Temuan penelitian ini menawarkan rekomendasi untuk mendorong praktik akuntansi keuangan berkelanjutan, mempromosikan keberlanjutan keseluruhan dan kontribusi positif dari UMKM.

Kata Kunci: Akuntansi Keuangan; Keberlanjutan; Manajemen Pengetahuan; Adopsi Teknologi; Dampak Sosial.

INTRODUCTION

In recent years, the topic of MSME (Micro, Small, and Medium Enterprises) sustainability has gained significant attention. This is due to MSMEs' vital role in economic growth, job creation, and industrial production, not to mention their essential role in the economy, contributing significantly to state revenues, regional revenues, and job creation (Sugiana et al., 2023). In countries such as Indonesia and India, MSMEs are considered an essential engine for economic growth due to their role in providing employment, innovation, and contribution to exports and gross domestic product (Mofijur et al., 2021). However, a fundamental factor for the success of MSMEs is finance, and



practising financial accounting is essential for their growth and sustainability (Febrian and Maulina, 2018).

Financial accounting helps MSMEs keep accurate records of financial transactions, assess financial performance, and make informed decisions. Proper financial management is critical for MSMEs to access financing, as firm-specific factors such as location, industry, size, age, ownership, collateral, and business information affect their ability to obtain funding (Uddin et al., 2022). In addition, financial accounting enables MSMEs to comply with financial reporting standards, which is critical to their credibility and access to financing (Winarsih et al., 2021). Unfortunately, many MSMEs face challenges in implementing financial accounting practices. Factors such as lack of understanding, record-keeping expertise, and business managers' low education levels contribute to the neglect of financial reporting (Iskandar et al., 2021). In some cases, MSMEs only prepare simple reports, such as profit and loss statements, due to a lack of knowledge of financial accounting standards and low government socialization on financial statement preparation (Al-Okaily et al., 2022).

To overcome these challenges, MSMEs must improve their financial literacy and management skills. This can be achieved through training programs, workshops, and government initiatives to increase awareness and understanding of financial accounting standards and practices (Sahoo and Thakur, 2023). In addition, MSMEs can leverage technology to simplify and streamline their financial reporting processes, such as using Microsoft Excel or other accounting software to prepare financial statements that comply with relevant standards.

This sector is very important. The research trend from the past to the present has continued talking about the impact of MSMEs on performance, the economy, and so on. Still, the effect of MSMEs on the social implications of the community is also exciting. For example, the development of religious tourism villages in Indonesia has increased the income of local communities through MSMEs. Similarly, the growth of rural tourism in Sembalun, East Lombok, has promoted MSME products and created jobs for local people (Vitriani et al., 2017). MSMEs can help empower local communities by providing the necessary skills, resources, and opportunities to improve their socio-economic conditions. The Welas Asih model, a holistic framework for compassionate design, has benefited local Indonesian communities by promoting design responsibility and addressing social welfare issues (Iskandar et al., 2021). MSMEs can contribute to the preservation of local culture and heritage. For example, the use of bamboo materials as product display supports for the urban farming community in Cibarani village has increased the economic value and tourism appeal of the area while promoting environmental sustainability (Indahyani et al., 2023). Heritage tourism in Ranau, Sabah, has also raised cultural and social heritage conservation awareness among local communities (Yusof et al., 2021). MSMEs can promote social cohesion by encouraging mutual respect, social service, and cooperation among community members. Managing religious tourism villages in Indonesia has increased mutual respect and collaboration between local communities (Iskandar and Kaltum, 2022). MSMEs can help improve local communities' data skills and knowledge, enabling them to make data-driven decisions and address local issues more effectively (Yoon and Copeland, 2019). Digital payment systems targeting MSMEs can promote financial inclusion and formalization of these businesses, improving poorer households and communities' social and economic conditions (Hausberg and Korreck, 2020).

In summary, MSMEs significantly impact local communities by contributing to economic development, community empowerment, cultural preservation, social cohesion,



skills development, and financial inclusion. These positive impacts help improve community members' overall well-being and quality of life.

In West Java province, MSMEs drive innovation, foster entrepreneurship, and promote local industries. However, despite their essential role, MSMEs face various challenges that hinder their sustainability and growth. However, they face various challenges that hinder their sustainability and growth. To improve local communities' financial performance and socio-economic socio-economic impact, it is essential to focus on knowledge management, financial capability, and technology adoption.

Knowledge management is critical for MSMEs to manage their resources and make informed decisions effectively. Knowledge limitation is a challenge rural communities face in managing their businesses. Providing training and counselling to MSME actors can help improve their knowledge and understanding of farm management, digital communication, and branding (Yoon and Copeland, 2019). Financial capability is another crucial aspect of MSMEs. Financial literacy positively affects financial resources and technology adoption costs (Febrian and Maulina, 2018). However, only adoption costs directly affect business resilience, while financial resources do not. MSMEs need expertise in obtaining capital sources, managing finances, and knowledge of taxation and related rules in the MSME business sector (Sugito et al., 2022). Technology adoption is critical for MSMEs to remain competitive and resilient. The COVID-19 pandemic has highlighted the importance of digitization and dynamic capabilities in improving the financial performance of MSMEs (Kurniawan et al., 2023). Digital marketing optimization can help MSMEs during difficult times, such as the COVID-19 outbreak (Saragih and Ulum, 2022). In addition, marketing capabilities and entrepreneurial innovation have been shown to improve the performance of MSMEs (Drago et al., 2022).

To improve the financial performance and socio-economic socio-economic impact of local communities in West Java province, it is imperative to focus on knowledge management, financial capability, and technology adoption for MSMEs. Providing training, improving financial literacy, and encouraging technology adoption can help MSMEs overcome challenges and contribute to overall regional development.

One crucial aspect that significantly impacts the sustainability of MSMEs is their financial accounting practices. Proper financial accounting is fundamental to any business, providing critical information for decision-making, financial reporting, and regulatory compliance. Sound financial accounting practices ensure transparency, credibility, and accountability in financial transactions, which can attract investors, access capital, and build trust among stakeholders. The main objective of this study is to uncover how the financial accounting practices of MSMEs in West Java affect the sustainability of their businesses.

Research Gap. There is a significant research gap in the thorough analysis of how these factors interact, particularly in the dynamic environment of West Java, Indonesia. While existing literature has separately investigated the impact of Knowledge Management, financial capability, and technology adoption on the financial performance of Micro, Small, and Medium Enterprises (MSMEs), as well as exploring the social consequences of these enterprises within various contexts. By offering an integrated analysis of knowledge management, financial capabilities, and technology adoption in connection to the financial performance of MSMEs and measuring their combined social impact on the local communities of West Java, this study aims to close this gap. The uniqueness of this study lies in its comprehensive methodology, which offers a nuanced understanding of how these factors interact within a particular regional setting. This



knowledge can be constructive for policymakers, practitioners, and scholars promoting sustainable development in MSMEs and local communities.

THEORETICAL REVIEW

MSMEs Knowledge Management. Knowledge management is essential for the success and competitiveness of micro, small, and medium enterprises (MSMEs). Knowledge management involves creating, sharing, and utilizing knowledge resources to improve business performance and innovation (Wulansari et al., 2020). In the context of MSMEs, knowledge management can be seen as a key factor in enhancing their competitive advantage, innovation, and overall performance (Gusti and Kuswardani, 2021; Suharto et al., 2021).

A study on Indonesian MSMEs found that the competitive advantage generated by these firms comes from superior resources, which are reflected in the firm's intellectual assets (intellectual capital) (Iskandar and Kaltum, 2021). A study (Nurani, 2021) identified human resources as the most significant contributor to intellectual capital, while knowledge use was considered the most substantial contributor to knowledge management. This suggests that MSMEs that can create a competitive advantage must have knowledge resources different from their competitors. In conclusion, knowledge management is an important aspect of the success and competitiveness of MSMEs. MSMEs can improve their performance and gain a competitive advantage by focusing on intellectual capital, management information systems, organizational commitment, and business innovation.

Financial Capability. The financial capability of Micro, Small, and Medium Enterprises (MSMEs) is influenced by various factors, including digitization, dynamic capabilities, entrepreneurial quality, and access to finance. The pandemic has negatively impacted 82.900 per cent of MSMEs, leading to a significant decline in business profits due to fixed or increasing production costs, while sales are declining (Indriastuti and Kartika, 2022). To improve their financial performance, MSMEs must adopt various strategies, such as digitalization and dynamic capabilities (Drago et al., 2022). Digitalization and dynamic capabilities have been shown to improve the financial performance of MSMEs (Indriastuti and Kartika, 2022). The adoption of digital payment methods, such as Quick Response Code Indonesian Standard (QRIS), can significantly impact the financial performance of MSMEs in Indonesia, leading to an increase in the number and amount of transactions, sales turnover, business cash flow, and sales records (Wardhani et al., 2023). Entrepreneurial qualities, including motivation, entrepreneurial orientation, and risk behaviour, also play a role in the financial performance of MSMEs (Febrian and Maulina, 2018). Entrepreneurs who are intrinsically motivated and driven by continuity are more likely to achieve financial growth than those who remain stagnant (Cangara et al., 2022).

Access to finance is a key challenge for MSMEs, as it drives new entrepreneurial initiatives and underpins their survival and growth (Hamdana et al., 2021). Timely access to finance is critical for MSMEs' economic development and growth (Fanggidae et al., 2023). Factors such as firm attributes, financial resources, and the MSME life cycle significantly positively impact access to finance. In contrast, financial barriers negatively affect MSME growth and the nation's economic growth (Rajamani et al., 2022). In conclusion, the financial capability of MSMEs is affected by various factors, including digitalization, dynamic capabilities, entrepreneurial quality, and access to finance. To



improve their financial performance, MSMEs need to adopt strategies that can address these factors, such as digitalization, dynamic capabilities, and better access to finance.

Technology Adoption. MSMEs play an important economic role, contributing to job creation, innovation, and regional development. However, they often need help in adopting new technologies, which can limit their growth and competitiveness.

To facilitate technology adoption in MSMEs, the following strategies can be considered. The government and industry associations should organize workshops, seminars, and training programs to educate MSMEs on the benefits and application of new technologies. The government can offer grants, loans, and tax incentives to encourage MSMEs to invest in technology adoption. In addition, alternative financing options, such as ICOs, can be explored (Tedjakusuma and Yahya, 2020). The government should create a policy environment that supports technology adoption, including incentives for research and development, simplified regulations, and support for digital transformation initiatives (Cangara et al., 2022). Government and private sector partners should collaborate to improve infrastructure and provide skills development programs for MSMEs, addressing challenges such as electricity scarcity, marketing, and skilled labour shortages (Kumar et al., 2021). MSMEs should be encouraged to adopt digital marketing strategies and e-commerce platforms and leverage digital technologies for internationalization to remain competitive in the global market (Deb and Baruah, 2022; Edgar et al., 2022). By addressing these challenges and implementing the suggested strategies, MSMEs can adopt new technologies, improve competitiveness, and contribute to economic growth (Rakhmadani and Arum, 2022).

Social Impact of MSMEs on Local Communities. Beyond their economic contributions, MSMEs have a significant social impact on local communities. As major employers, MSMEs are essential in creating employment opportunities and reducing unemployment rates. In addition, MSMEs tend to engage in more localized supply chains, thus supporting local businesses and contributing to community development (Sugito et al., 2022). Research shows that socially responsible MSMEs prioritizing sustainable financial accounting practices tend to invest more in employees and communities, increasing employee satisfaction and positive community perceptions (Can and Bello, 2022; Rana and Paul, 2017). In addition, when MSMEs operate ethically and transparently, they gain customer trust and loyalty, which improves their market position and long-term success (Amutha, 2022). In conclusion, MSMEs significantly impact local communities by creating jobs, reducing poverty, encouraging entrepreneurship, empowering communities, preserving local culture, and providing economic resilience during crises. Supporting and nurturing MSMEs is critical to the sustainable development of local communities.

Hypotesis Research. While existing research has provided valuable insights into various aspects of financial accounting in MSMEs, there is still a need for more comprehensive research that integrates various factors and their interdependencies. In particular, existing research has only focused on the combined impact of knowledge management, financial capability, technology adoption, and financial accounting practices on the financial performance and social impact of MSMEs in West Java. This study aims to address this gap by adopting a quantitative approach and analyzing the relationship between these factors in the local MSME landscape.

Relationship between Knowledge Management, Financial Performance and Social Impact of Local Communities. Furthermore, digital money and financial inclusion initiatives can improve local communities' social and economic conditions by promoting



the formalization of MSMEs and increasing money flows at the local economic level (Iskandar et al., 2021). Using local bamboo material for product display in urban farming communities has enhanced economic value and contributed to social, economic, and environmental sustainability (Febrian and Maulina, 2018). Employee development practices also significantly affect human capital, knowledge management, and social capital (Andriani and Christoforou, 2016). Effective knowledge management can mediate the impact of employee development practices on human capital, which in turn can contribute to the overall growth and social impact of local communities.

Knowledge management plays a critical role in the financial performance of MSMEs and the social impact of local communities. By implementing effective knowledge management practices, MSMEs can improve their financial performance, contribute to human and social capital development, and positively impact local communities' overall well-being (Kurniawan et al., 2023).

H1: There is a Positive and Significant Relationship between Knowledge Management and the Financial Performance of MSMEs in West Java.

H2: Knowledge Management and the Social Impact of Local Communities Have a Positive and Significant Relationship.

Relationship between Financial Capability, Financial Performance and Social Impact of Local Communities. The relationship between financial capability, financial performance of Micro, Small and Medium Enterprises (MSMEs), and social impact on local communities can be observed through various factors. MSMEs' financial capability and performance are influenced by capital, accounting information, financial reporting, and entrepreneurship (Febrian and Maulina, 2018). Digitalization and dynamic capabilities have been shown to improve the financial performance of MSMEs (Abu-Rumman et al., 2021). MSMEs can contribute to the socio-economic life of local communities by increasing income through business development and promoting mutual respect, social service and cooperation (Iskandar and Kaltum, 2021).

In summary, MSMEs' financial capability and performance are affected by various factors, including digitalization, financial literacy, innovation, and human capital. These factors can contribute to the social impact on local communities by driving economic growth, job creation, and cultural preservation.

H3: There is a Positive and Significant Relationship between Financial Capability and Financial Performance of MSMEs in West Java.

H4: There is a Positive and Significant Relationship between Financial Capability and Social Impact of Local Communities.

Relationship between Technology Adoption, Financial Performance and Social Impact of Local Communities. Technology adoption, particularly in the form of Information Communication Technology (ICT) and digital technology, has positively influenced the financial performance of MSMEs (Gupta et al., 2022). Adopting digital technology, such as digital finance, digital payments, and digital marketing, can improve efficiency and effectiveness in business operations (Kurniawan et al., 2023). Regarding social impact on local communities, technology adoption can lead to better access to



information, resources, and services, contributing to the community's overall well-being. Technology adoption can positively impact the financial performance of MSMEs and contribute to the social well-being of local communities. By embracing digital and financial technology, MSMEs can improve their efficiency, effectiveness, and competitiveness, leading to better access to resources and services for their local communities.

H5: There is a Positive and Significant Relationship between Technology Adoption and the Financial Performance of MSMEs in West Java.

H6: There is a Positive and Significant Relationship between Technology Adoption and Social Impact on Local Communities.

Relationship between Knowledge Management and Technology Adoption.

Knowledge Management (KM) and Technology Adoption are closely related, as effective KM practices can facilitate the successful adoption of new technologies within an organization. KM involves creating, sharing, and utilizing knowledge within an organization to improve its performance and competitiveness (Suharto et al., 2021). Technology adoption, on the other hand, refers to acquiring and implementing new technologies to enhance organizational processes and outcomes (Kurniawan et al., 2023). In summary, Knowledge Management is crucial in successfully adopting new technologies within organizations. By facilitating the identification, sharing, and utilization of knowledge, KM can help organizations make informed decisions about technology adoption, support employees in adapting to new technologies, and continuously improve the performance of adopted technologies.

H7: There is a Positive and Significant Relationship between Knowledge Management and Technology Adoption

Relationship between Financial Performance and Social Impact of Local Communities. MSMEs play a crucial role in the economic development of a region, contributing to job creation and community welfare (Iskandar et al., 2021). Their success can increase local communities' income and stimulate rural economic growth. Digitalization and the adoption of new technologies, such as digital payments, can significantly affect the financial performance of MSMEs (Kilay et al., 2022). For instance, adopting the Quick Response Code Indonesian Standard (QRIS) for digital payments has improved financial performance by increasing the number of nominal transactions, sales turnover, business cash flow, and sales records (Arie and Fikry, 2021).

On the other hand, the social impact of MSMEs on local communities can be seen in various aspects. For example, female-owned enterprises tend to provide higher wages per employee for all firm sizes (Suariedewi et al., 2022). Additionally, the development of village MSMEs can motivate business actors to develop creativity and innovation, leading to higher-quality products and increased community income.

In conclusion, the financial performance of MSMEs and their social impact on local communities are interconnected. Improved financial performance can lead to better social outcomes, while social benefits, such as higher wages and increased community income, can contribute to the overall success of MSMEs. Digitalization, financial management, and



capacity-building efforts can significantly enhance the financial performance of MSMEs and, consequently, their social impact on local communities.

H8: There is a Positive and Significant Relationship between the Financial Performance of MSMEs and the Social Impact on Local Communities.

METHODS

This study utilized a quantitative research design to investigate the relationship between knowledge management, financial capability, technology adoption, financial performance, and social impact of MSMEs in West Java. The research design uses a structured survey questionnaire to collect data from a representative sample of MSME owners or regional financial managers.

Sample Selection. The sample was selected using a stratified random sampling technique to ensure representation from different sectors and geographical locations in West Java. The MSME population was stratified by industry sector (manufacturing, services, agriculture, retail) and geographic location. Questionnaires were distributed to 500 MSMEs, consisting of 220 Manufacturing MSMEs, 75 Services MSMEs, 110 Agriculture MSMEs, and 95 Retail MSMEs. However, 343 questionnaires were returned, so this study involved **343 samples** (120 manufacturing, 56 service MSMEs, 105 agricultural MSMEs, and 62 retail MSMEs).

Data Collection. Data were collected using a structured survey questionnaire to measure variables of interest, including financial accounting practices, knowledge management, financial capability, technology adoption, financial performance, and social impact. The survey was administered electronically to MSME owners or financial managers using an online survey platform or email. The questionnaire guarantees confidentiality and anonymity, thus encouraging respondents to provide honest and accurate answers.

Data Analysis. The collected data were analyzed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with SmartPLS 4 software. PLS-SEM is suitable for this study because it tests complex relationships between latent and manifest variables, even in small sample sizes (Hair et al., 2019).

The analysis involves two main steps:

Step 1: Measurement Model Analysis. Assessment of the validity and reliability of the measurement model: The validity and reliability of survey items for each construct were evaluated using criteria such as factor loadings, Cronbach's alpha, composite reliability, and average variance extracted (AVE) (Hair et al. 2019).

Discriminant validity: The Fornell-Larcker criterion and heterotrait-monotrait ratio (HTMT) assess discriminant validity between constructs.

Step 2: Structural Model Analysis. Evaluation of the structural model: The relationships between financial accounting practices, knowledge management, financial capability, technology adoption, financial performance, and social impact will be assessed through path analysis.

Hypothesis testing: The significance of the paths between constructs is tested to determine the strength and direction of the relationships.

Model fit assessment: Measures of model fit, such as R² (coefficient of determination) and Q² (predictive relevance), are used to evaluate the predictive power and fit of the model.



RESULTS

Before going into the analysis of the relationship between financial accounting practices, knowledge management, financial capability, technology adoption, financial performance, and social impact, descriptive statistics will be presented. Based on the illustrative **Table 1**, it can be seen that management knowledge, financial capability, technology adoption, financial performance, and social impact have an average value of 392, 421, 456, 502, and 487. Overall, the descriptive statistics provide an initial understanding of the variables and their distribution among MSMEs in West Java. The data suggests that there is still room for improvement in certain areas, such as knowledge management and technology adoption, to improve financial accounting practices, financial performance, and, ultimately, the social impact of MSMEs in the region. These findings serve as a basis for further analysis and exploration in the next research phase.

Table 1. Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Knowledge Management	392	110	100	500
Financial Capability	421	105	200	500
Technology Adoption	456	115	200	500
Financial Performance	502	125	200	500
Social Impact	487	118	200	500

Source: Data Processing Results (2023)

Measurement Model Analysis. The validity and reliability of the measurement model will be assessed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with SmartPLS 4 software. Factor loading, Cronbach's alpha, composite reliability, and average variance extracted (AVE) will be examined for each construct, as shown in **Table 2**.

Table 2. Measurement Model

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variant Extracted
Knowledge Management	KME.1	0.795	0.874	0.908	0.665
	KME.2	0.869			
	KME.3	0.871			
	KME.4	0.768			
Financial Capability	FIC.1	0.827	0.914	0.930	0.625
	FIC.2	0.816			
	FIC.3	0.790			
	FIC.4	0.816			
	FIC.5	0.826			
Technology Adoption	TEC.1	0.960	0.846	0.896	0.684
	TEC.2	0.840			
	TEC.3	0.742			
	TEC.4	0.865			
	TEC.5	0.907			
	FPE.1	0.725			
	FPE.2	0.830			

Financial Performance	FPE.3	0.829			
	FPE.4	0.772	0.878	0.908	0.623
	FPE.5	0.839			
	FPE.6	0.740			
	FPE.7	0.759			
	FPE.8	0.823			
	SOC.1	0.755			
	SOC.2	0.838			
Social Impact	SOC.3	0.830			
	SOC.4	0.727	0.914	0.937	0.750
	SOC.5	0.816			
	SOC.6	0.763			

Source: Data Processing Results (2023)

Factor loadings for all indicators were above 0.700, indicating satisfactory convergent validity. Cronbach's alpha values and factor scores for each construct exceeded 0.700, indicating good internal consistency. The composite reliability values were also above 0.800, indicating reliable measurements for each construct. In addition, all constructs exceeded the 0.500 threshold for AVE, confirming acceptable convergent validity.

Discriminant Validity. Discriminant validity is done to ensure that each concept of each latent model is different from other variables.

Table 3. Discriminant Validity

	Knowledge Management	Financial Capability	Technology Adoption	Financial Performance	Social Impact
Knowledge Management					
Financial Capability	0.754				
Technology Adoption	0.351	0.194			
Financial Performance	0.469	0.226	0.326		
Social Impact	0.653	0.157	0.243	0.184	

Source: Data Processing Results (2023)

The instrument's discriminant validity is evaluated using the Heterotrait-Monotrait Value (HTMT). The HTMT ratio is more trustworthy in determining discriminant validity in PLS-SEM analysis. The HTMT ratio result must be less than 0.900 for the instrument to be legitimate (Hair et al., 2019). According to **Table 3**, every HTMT ratio value for each latent variable is less than 0.900, indicating the validity of this research instrument to evaluate the model created.



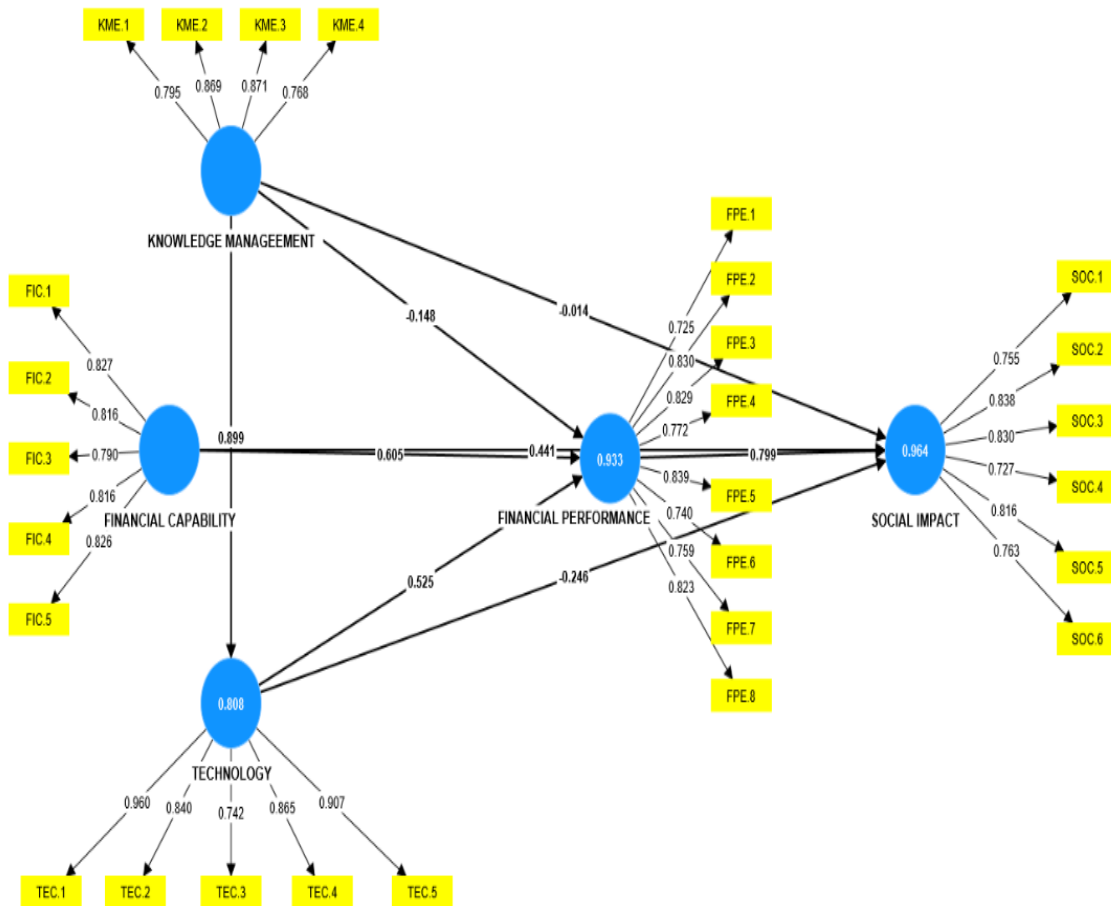


Figure 1 Model Results

Source: Data processed by researchers, 2023

Figure 1 shows how the validity and reliability of the measurement model in this study described in **Tables 2** and **3** were established by assessing using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with SmartPLS 4 software. The internal or structural assessment aims to determine how well the conceptual model predicts the variance of the independent variables.

Structural Model Analysis. The structural model will be analyzed to examine the relationships among financial accounting practices, knowledge management, financial capability, technology adoption, financial performance, and social impact. Path analysis will be conducted to determine the strength and direction of the relationships.

Hypothesis Testing. The hypotheses formulated based on the research objectives will be tested using the results of the structural model analysis. The significance of the paths between constructs will be examined to determine if the proposed relationships are supported. The commonly used method, known as the bootstrap method in PLS-SEM, defined by (Hair et al., 2019), is used to test hypotheses statistically. This study used 5,000 sub-samples to confirm data relevance and evaluate the structural model's level of relevance (Hair et al., 2019). The significance level for this investigation was set at per cent. The results listed in Table 4 were obtained using the SmartPLS-4 bootstrap program.

Table 4. Hypothesis Testing

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic	p-Values
Knowledge Management -> Financial Performance	0.483	0.487	0.089	6.312	0.000
Knowledge Management -> Impact Social	0.249	0.256	0.069	4.345	0.000
Financial Capability -> Financial Performance	0.605	0.610	0.095	6.365	0.000
Financial Capability -> Impact Social	0.441	0.441	0.078	5.663	0.000
Technology Adoption -> Financial Performance	0.525	0.540	0.084	6.227	0.000
Technology Adoption -> Impact Social	0.246	0.250	0.066	3.720	0.000
Financial Performance -> Impact Social	0.799	0.797	0.075	10.579	0.000
Knowledge Management -> Technology Adoption	0.899	0.904	0.031	29.419	0.000

Source: Process Data Analysis (2023)

Table 4 shows that the research proposal hypothesis where Knowledge Management is tested on Financial Performance and Social Impact shows a statistical t-value above 1.190, and p-values below 0.005 prove to have a positive and significant impact. The second independent variable is social capital, which is proven to have a significant positive effect on financial performance and social influence because it has p-values below 0.005. Then, adoption technology is proven to have a positive and significant effect on financial performance and social impact because the t statistic value and p values are by the prerequisites to be said to be positive and significant. Then, a moderating influence exists between adoption technology and knowledge management, as shown in Table 4 above. Finally, the financial performance of MSMEs has a positive and significant impact on the social impact of local communities.

Nine hypotheses have t-statistic values above 1.960, according to the t-statistic test findings. Conclusion: The results of hypothesis testing offer important new insights into the relationships between knowledge management, financial competence, technology adoption, financial performance and social impact of MSMEs in West Java. The useful and important relationships in this study underscore the importance of efficient knowledge transfer, sound financial management, technology adoption, and social impact activities for the development and positive contribution of MSMEs. These insights can be used by policymakers, business owners, and stakeholders to design focused policies that will foster MSMEs' financial success, knowledge exchange, new technology adoption, and social impact. As a result, the business ecosystem will become more prosperous and socially responsible. The above findings lead to the conclusion that **H1, H2, H3, H4, H5, H6, H7, H8, H9 are accepted.**

Model Fit Assessment. The SmartPLS-4 study revealed a model that was appropriate for this project.

Table 5. Model Fit Results Test

	Saturated Model	Estimated Model
SRMR	0.083	0.090
d_ ULS	1.621	1.810
d_G	0.607	0.660
Chi-square	7.116	7.612
NFI	0622	0623

Source: Process Data Analysis (2023)

The R-squared value in this investigation is explained in **Table 6**. Model fit is assessed using goodness-of-fit measures, such as R2 (coefficient of determination) and Q2 (predictive relevance). R2 indicates the proportion of variance in the endogenous constructs (financial performance and social impact) explained by the exogenous constructs (knowledge management, financial capability, and technology adoption). Q2 indicates the predictive relevance of the model, which means how well the model predicts the endogenous constructs.

Table 6. Coefficient Model

	R-square	Q2
Financial Performance	0.694	0.354
Social Impact	0.619	
Technology Adoption	0.537	

Source: Data Processing Results (2023)

The R2 value for Financial Performance in this study is 0.694, as seen in **Table 6**. The value of the social impact variable is also 0.619. In addition, the moderation result of knowledge management on technology adoption is 0.537. In this study, the three endogenous variables (Financial Performance, Social Capital and Technology Adoption) have a Q2 value of 0.354, as shown in Table 6. This makes it possible to conclude the adequacy of the exogenous variables used to predict the endogenous variables in this study. The R2 values for financial performance, social impact and technology adoption were above 0.500, indicating that more than 0.500 per cent of the variance in these constructs is explained by the exogenous constructs. In addition, the Q2 values for financial performance and social impact were above zero, indicating that the model has predictive relevance.

DISCUSSION

The research findings prove that Knowledge Management, Financial Capability, and Technology Adoption collectively positively impact both the Financial Performance and Social Impact of Micro, Small, and Medium Enterprises (MSMEs) in West Java. Specifically, the study reveals that (1) Knowledge Management positively influences Financial Performance and Social Impact. (2) Financial Capability is positively associated with improved Financial Performance and Social Impact. (3) Technology Adoption positively affects Financial Performance and Social Impact. (4) Enhanced Financial Performance is correlated with a more significant Social Impact.

The observed relationships can be attributed to several factors. Effective Knowledge Management allows MSMEs to harness their internal knowledge resources, leading to better decision-making, innovation, and operational efficiency, ultimately translating into improved Financial Performance and a more positive Social Impact. Financial Capability enables these enterprises to access and allocate resources strategically, facilitating growth and expansion and bolstering both Financial Performance and Social Impact. Technology Adoption empowers MSMEs to streamline processes, access wider markets, and enhance product/service quality, contributing to improved Financial Performance and a more positive Social Impact. Lastly, the strong correlation between improved Financial Performance and Social Impact suggests that a thriving business can allocate resources and contribute positively to its community.

Although the descriptive statistics show that MSMEs in West Java have a moderately high average level of knowledge management, there is significant variation in their knowledge management practices. The positive relationship between knowledge management and financial performance indicates positive progress between these two factors. This variability may result from variations in organizational cultures, managerial approaches, or resources available to different organizations. These MSME owners in West Java have implemented knowledge management strategies such as knowledge-sharing platforms, employee training, and a culture of continuous learning, allowing MSMEs to make informed decisions, recognize chances for growth, and enhance operational efficiency. The results are consistent with earlier studies and underscore the value of creating a knowledge-sharing environment within MSMEs to promote financial success (Arsawan et al., 2022; Gusti and Kuswardani, 2021; Suharto et al., 2021).

The strong and positive correlation between financial competence and financial performance emphasizes how crucial financial resources are to the success of MSMEs in West Java. The financial capability indicator mentioned (Febrian, 2018) is consistent with the findings of this study, where financial literacy is significant in respondents' responses. MSMEs with higher financial capability have better access to funding, enabling them to invest in their operations, grow their business, and survive economic challenges. Additionally, MSMEs demonstrate how the aid of application platforms, both for recording financial reports and other purposes, considerably aids their capacity to manage funds. According to the distribution of respondents' responses, MSMEs in West Java generally have a high level of financial competency, demonstrating their ability to handle financial resources efficiently. This can be ascribed to having good money management skills, having access to finance, or both (Indriastuti and Kartika, 2022; Rajamani et al., 2022).

The strong and positive correlation between technology use and financial results highlights how crucial technology is to the monetary success of MSMEs in West Java. MSME owners know how data analytics, accounting software, and other associated technology may improve decision-making, streamline financial procedures, and boost operational effectiveness. Thanks to technology implementation, MSMEs may maximize resources, save expenses, and find new revenue streams. Policymakers and MSME owners should prioritize initiatives that promote technology adoption since they can create a competitive edge and boost financial performance. According to the distribution of respondents' responses, MSMEs in West Java have generally utilized technology to a large extent, which can increase their operational efficiency and competitiveness. But, the standard deviation shows that there are different levels of technology adoption, which can



be because of different business sizes or industrial sectors (Deb and Baruah, 2022; Edgar et al., 2022; Rakhmadani and Arum, 2022).

The positive and significant relationship between knowledge management and social impact highlights the social value of effective knowledge sharing in MSMEs, as MSME owners realize that the businesses they set up are oriented towards benefiting the surrounding area, such as being able to attract workers from residents. Knowledge management practices encourage employee development, job satisfaction, and motivation, positively impacting the workforce and local communities. In addition, the respondents of this study believe that knowledge spillover from MSMEs to local communities can foster entrepreneurship and economic development, which has been conveyed by research that argues that entrepreneurship affects not only MSME owners but also the social situation (Iskandar and Kaltum 2022).

The positive and significant relationship between financial capability and social impact underscores the role of financial resources in driving meaningful social contributions for MSMEs. This research proves that financially sound MSMEs are more likely to invest in social responsibility initiatives, community development projects and employee welfare programs. Even in surveys conducted by the authors, MSMEs create employment opportunities, support local suppliers, and contribute to the overall economic well-being of local communities. Improving financial capability enables MSMEs to make significant social contributions and establish themselves as responsible corporate citizens (Rana and Paul, 2017; Sugito et al., 2022).

The positive and significant relationship between technology adoption and social impact highlights the potential of technology to drive positive outcomes for local communities. MSME owners in this study revealed that developing advanced technologies can increase productivity and job creation and improve services for the community. In addition, the owners admitted they still need to improve in reading technological developments. Still, they argued that the sustainability of their businesses must keep up with dynamic developments, especially since the pandemic has been a valuable lesson for them, so adopting technology can increase transparency and accountability in social initiatives, leading to more effective community development projects.

Knowledge Management and Technology Adoption. The positive and significant relationship between knowledge management and technology adoption emphasizes the role of knowledge as a driver of technological advancement in MSMEs. Effective knowledge management practices empower employees with the necessary skills and expertise to embrace and implement technology. Knowledgeable employees are more likely to recognize the benefits of technology adoption and leverage technology to improve productivity and efficiency. Policymakers and stakeholders can focus on developing a knowledge-sharing environment to encourage technology adoption and innovation in MSMEs (Abidin et al., 2022; Olsson and Bernhard, 2021).

The findings of this study highlight the positive relationship between financial performance and the social impact of MSMEs on local communities: (1). Financially successful MSMEs are better positioned to invest in social responsibility initiatives and community development projects, promoting sustainable economic growth and social welfare. (2). this study also demonstrates the importance of knowledge management in driving technology adoption among MSMEs. (3). Effective knowledge management practices enable MSMEs to embrace technological advancements, leading to increased innovation, competitiveness and overall business growth.



Limitations and Contribution. A thorough analysis of the simultaneous effects of knowledge management, financial capability, and technology adoption on MSMEs in West Java is provided by this study, which presents a comprehensive analysis. The study focuses on a particular regional environment, enabling specialized insights and practical advice. It draws attention to how these elements are linked, illuminating the intricate dynamics that MSMEs are subject to.

Despite the importance of the results, the study's validity against actual data must be established before it can be used in practice. Deeper insights might have been gained had the research examined the precise mechanisms by which these factors affect MSMEs. This study's findings highlight the importance of knowledge management, financial capability, and technology adoption in determining MSMEs' financial performance and social impact in West Java. MSMEs, policymakers, investors, and academics can all benefit from the practical implications, which lay the groundwork for policies to promote sustainable development in the area. More empirical research and in-depth investigation of the underlying mechanisms are required to reinforce the results and resolve potential limitations.

Implications and Implementation. MSME Owners/Managers: They can adopt strategies to enhance Knowledge Management practices, bolster Financial Capability, and embrace modern technologies to improve financial outcomes and positively influence local communities.

Government and Policymakers: These findings can inform the design of supportive policies and programs, including training and financial assistance to MSMEs to enhance their Knowledge Management, financial skills, and technology adoption capabilities.

Investors and Financial Institutions: By recognizing the importance of Financial Capability, they can provide tailored financial products and services to empower MSMEs in West Java.

Academics and Researchers: The research provides a foundation for further studies exploring nuanced aspects of these relationships and their applicability in different regions.

CONCLUSION

This study highlights the important role of financial accounting practices in the sustainability and social impact of MSMEs in West Java. The findings underscore the importance of adopting good financial accounting practices to improve financial performance, attract investment and drive positive social outcomes. Knowledge management, financial capability and technology were identified as important factors influencing financial performance, while financial performance positively impacts social impact. The positive social impact of MSMEs on local communities emphasizes their role as job creators and contributors to community development. Furthermore, knowledge management is a significant factor in technology adoption. In addition, MSMEs with sustainable financial accounting practices were found to invest more in employees and communities, thereby increasing their social contributions.

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