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Financial Reporting Digitalisation, Operational Efficiency, and Tax Compliance of MSMEs in Central Java Province

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Financial reporting digitalisation; Operational efficiency; Tax compliance; MSMEs; PLS-SEM

Abstract

This study examines whether financial reporting digitalisation improves the operational efficiency and tax compliance of micro, small, and medium enterprises (MSMEs), and whether operational efficiency transmits the effect of digitalisation to compliance. A cross-sectional survey of 232 MSME owner-managers registered with the Dinas Koperasi dan UKM Provinsi Jawa Tengah was analysed using partial least squares structural equation modelling (PLS-SEM) with bootstrapping, complemented by follow-up interviews. Financial reporting digitalisation has a strong positive effect on operational efficiency, and operational efficiency has a positive effect on tax compliance. Digitalisation has no direct effect on tax compliance; its effect is fully transmitted through operational efficiency. Interviews suggest that trust in the tax authority also shapes compliance. Digitalisation programmes should be designed as efficiency programmes first; compliance gains follow only when digital records reduce the cost of meeting tax obligations. The study explains why digitalisation alone does not raise MSME tax compliance under Indonesia's turnover-based final tax regime and identifies operational efficiency as the transmission mechanism.

Kata kunci:
Digitalisasi pelaporan keuangan; Efisiensi operasional; Kepatuhan pajak; UMKM; PLS-SEM

Abstrak

Penelitian ini menguji apakah digitalisasi pelaporan keuangan meningkatkan efisiensi operasional dan kepatuhan pajak usaha mikro, kecil, dan menengah (UMKM), serta apakah efisiensi operasional menjadi jalur pengaruh digitalisasi terhadap kepatuhan. Survei cross-sectional terhadap 232 pemilik/pengelola UMKM binaan Dinas Koperasi dan UKM Provinsi Jawa Tengah dianalisis dengan partial least squares structural equation modelling (PLS-SEM) dan bootstrapping, dilengkapi wawancara lanjutan. Digitalisasi berpengaruh positif dan kuat terhadap efisiensi operasional, dan efisiensi operasional berpengaruh positif terhadap kepatuhan pajak. Digitalisasi tidak berpengaruh langsung terhadap kepatuhan pajak; pengaruhnya disalurkan sepenuhnya melalui efisiensi operasional sehingga terjadi mediasi penuh. Wawancara menunjukkan bahwa kepercayaan kepada otoritas pajak turut membentuk kepatuhan. Program digitalisasi perlu dirancang terlebih dahulu sebagai program efisiensi; kepatuhan meningkat jika catatan digital menurunkan biaya pemenuhan kewajiban pajak.

1. Introduction

Micro, small, and medium enterprises (MSMEs) are the backbone of the Indonesian economy. They account for 61.07% of gross domestic product, equivalent to IDR 8,573.89 trillion, and absorb 97% of the national workforce. Because of this weight, the performance of MSMEs and their contribution to state revenue are central concerns of economic policy. One of the government's flagship programmes has therefore been the digitalisation of MSMEs, with a target of 30 million enterprises onboarded to the digital ecosystem by 2024. Government agencies and financial institutions encourage MSMEs to adopt digital financial management, including mobile and cloud-based accounting applications, on the expectation that digital records raise productivity and profitability (Mutoharoh et al., 2020).

Adoption, however, remains uneven. Many owner-managers still keep their books manually or not at all, mainly because of limited digital and accounting literacy (Budiantara et al., 2024; Rahman Hakim et al., 2024). Manual bookkeeping is slow and error-prone, which weakens the accountability of financial information and the quality of business decisions. Where digital bookkeeping has been adopted, prior studies report better monitoring, planning, and allocation of business funds (Kusumaningrum et al., 2025; Rahman Hakim et al., 2024) and a stronger basis for meeting tax obligations (Abdul Rosyid et al., 2024; Azmary et al., 2020).

Two gaps motivate this study. First, much of the Indonesian evidence links digitalisation either to performance or to compliance, but rarely tests both outcomes in one model; the mechanism through which digital reporting might lead to compliance is therefore assumed rather than tested. Second, the tax setting of Indonesian MSMEs is distinctive. Under Government Regulation No. 55 of 2022, most MSMEs pay a final income tax of 0.5% of gross turnover rather than tax computed on accounting profit. If the tax base is turnover, a complete set of digital financial statements may add little to the ability to compute tax, and its contribution to compliance may run through a different channel. International evidence also shows that technology improves tax outcomes only when it lowers compliance costs or strengthens the relationship between taxpayers and the authority (Kirchler et al., 2008; Okunogbe & Santoro, 2022)

This research is interesting to conduct, because the MSME digitization program on the benefits of compliance has not been tested, MSME taxpayers are in a transition period using the Coretax system. This novelty is now explicitly stated in four points: the conceptual difference between the digitization of company-level financial reporting and the digitization of tax administration, the identification of operational efficiency as a mediation mechanism, the integration of a resource-based view with a slippery slope framework, and the testing of the model under the turnover-based final tax regime using bootstrapped mediation analysis. Accordingly, this study examines (1) the effect of financial reporting digitalisation on the operational efficiency of MSMEs, (2) its direct effect on tax compliance, (3) the effect of operational efficiency on tax compliance, and (4) whether operational efficiency mediates the relationship between digitalisation and compliance. Drawing on the resource-based view and the slippery slope framework of tax compliance, the study contributes by identifying operational efficiency as the transmission mechanism between digital reporting and compliance, and by showing that, under a turnover-based final tax regime, digitalisation by itself is not sufficient to raise compliance. The findings are timely given the roll-out of the Directorate General of Taxes' core tax administration system (Coretax) in 2025, which further digitalises the taxpayer interface.

2. Literature Review

2.1. Theoretical Background

Resource-based view. The resource-based view holds that firms gain performance advantages from resources and capabilities that are valuable and difficult to imitate (Barney, 1991; Yavuz et al., 2025). For MSMEs, a digital accounting system is a capability that

converts raw transactions into timely and reliable information. Its value lies not in the software itself but in how it changes routines: fewer manual entries, fewer errors, faster closing of accounts, and real-time visibility of cash and inventory. Operational efficiency is therefore the first-order outcome expected from digital reporting (Mike Mayasari, 2024; Mutoharoh et al., 2020).

Slippery slope framework and compliance costs. Classic deterrence models explain compliance through audit probability and penalties (Allingham & Sandmo, 1972). The slippery slope framework extends this view by proposing that compliance depends on two dimensions: the power of the authority (enforced compliance) and trust in the authority (voluntary compliance) (Kirchler et al., 2008). Cross-national evidence confirms that both trust and power raise compliance (Batrancea et al., 2022), and meta-analytic evidence identifies trust, fairness, and the cost of compliance among the most consistent determinants (Alm, 2019; Divakaran Reddy, Asogan Moodley, 2024). Compliance costs are regressive and weigh most heavily on small firms (Eichfelder & Vaillancourt, 2014). This implies that a technology that lowers the time and effort needed to keep records and prepare tax data can raise compliance, but a technology that does not reduce these costs, or that does not change taxpayers' trust in the authority, is unlikely to do so.

Financial reporting by MSMEs in Indonesia. MSME financial reporting is guided by the Financial Accounting Standard for Micro, Small, and Medium Entities (SAK EMKM), which requires a statement of financial position, an income statement, and notes to the financial statements (Hasmi & Jufri, 2023). The standard is intended for entities without significant public accountability that meet the MSME criteria of Government Regulation No. 7 of 2021. Consistent application of SAK EMKM increases the credibility of financial information for external parties such as banks and the tax authority, and digital applications make such application more feasible for owner-managers with limited accounting training (Kusumaningrum et al., 2025).

Financial reporting digitalisation is defined in this study as the use of digital applications (mobile, desktop, or cloud-based) to record transactions, store supporting evidence, and generate financial reports. Operational efficiency is the extent to which the enterprise achieves its outputs with less time, cost, and error in its administrative and decision processes. Tax compliance is the extent to which the enterprise registers, calculates, pays, and reports its taxes correctly and on time.

2.2. State of The Art

Table 1 summarises the studies closest to the present research and shows how this study is positioned relative to them. Three patterns emerge. First, studies of accounting digitalisation in MSMEs consistently report gains in profitability, productivity, and transparency, but stop at performance outcomes (Kusumaningrum et al., 2025; Mike Mayasari, 2024; Mutoharoh et al., 2020). Second, studies of tax compliance report positive effects of digitalisation, but the digitalisation they measure is that of tax administration, namely e-filing, e-billing, and online registration, rather than the enterprise's own financial reporting (Ariyanto et al., 2024; Ritonga et al., 2026). Third, studies grounded in the slippery

slope framework show that trust in and power of the tax authority shape compliance independently of technology (Agusti & Rahman, 2023). Only Azmi et al. (2016) connect firm-level accounting systems with tax, and they treat compliance cost as a driver of system adoption rather than compliance as an outcome.

Table 1. Previous study

Study	Context and method	Variables	Main findings	Difference from this study
Mutoharoh et al. (2020)	Indonesian MSMEs	Digital accounting information → profitability, productivity	Digitalisation of accounting information raises profitability and productivity	Tax compliance not examined
Mayasari (2024)	Batik MSMEs, Sungai Penuh	Accounting digitalisation → profitability	Accounting digitalisation improves profitability	Single outcome; no compliance or mechanism
Kusumaningrum et al. (2025)	Indonesian MSMEs	Cloud-based accounting automation → financial transparency	Automation increases transparency and real-time monitoring	Efficiency and compliance not tested
Azmary et al. (2020)	Individual MSME taxpayers	Spiritual intelligence, application of accounting, tax understanding → compliance	Application of accounting and tax understanding significantly affect compliance	Direct effect only; accounting not digital-specific
Azmi et al. (2016)	401 SMEs; PLS	TOE factors, compliance cost → adoption of tax-compliant accounting system	Compliance cost moderates the drivers of accounting-system adoption	Compliance is an antecedent, not an outcome
Ariyanto et al. (2024)	128 MSMEs, Bali; PLS-SEM	E-filing system quality → use and satisfaction → compliance	System quality raises use and satisfaction, which raise compliance; trust in government has no effect on use	Measures tax-administration digitalisation, not financial reporting
Rosyid et al. (2024)	Indonesia	Tax digitalisation → compliance and implementation of tax law	Digitalisation supports compliance	Tax-administration focus; no mediator
Ritonga et al. (2026)	100 MSMEs, Medan; multiple regression	Tax knowledge, tax rates, digital tax administration → compliance	All three significant; tax knowledge strongest	Direct effects only; tax-administration digitalisation
Agusti & Rahman (2023)	Indonesian SMEs	Tax literacy → trust, power → voluntary compliance, evasion	Trust, not power, reduces evasion and supports voluntary compliance	Technology not modelled
Li et al. (2024)	Chinese listed firms, 2011–2022	Digital finance → supply chain resilience	Digital finance strengthens resilience; innovation partly mediates	Large firms; no tax outcome
This study	232 MSMEs, Semarang; PLS-SEM with bootstrapping and interviews	Financial reporting digitalisation → operational efficiency → tax compliance	Efficiency fully mediates the effect of digitalisation on compliance	Tests firm-level digital reporting, both outcomes, and the mediating mechanism under a turnover-based final tax regime

2.3. Hypotheses Development

The hypotheses are derived from two grand theories. The resource-based view (Barney, 1991) explains why financial reporting digitalisation should improve what happens inside the enterprise: it treats digital reporting as a capability whose value appears in more efficient routines. The slippery slope framework (Kirchler et al., 2008), which builds on the economic model of tax compliance (Allingham & Sandmo, 1972) and on compliance cost theory (Eichfelder & Vaillancourt, 2014), explains why the enterprise's internal condition should affect its relationship with the tax authority. Combining the two theories yields a

causal chain from digital reporting, through operational efficiency, to tax compliance. Each link of this chain is developed below from the theory and from prior empirical findings.

Financial reporting digitalisation and operational efficiency. The resource-based view holds that a firm's performance depends on how it deploys valuable resources and capabilities (Barney, 1991). For an MSME whose owner usually lacks accounting training, a digital reporting system is such a capability: it converts transactions into reliable information without requiring scarce expertise. The theory therefore predicts that the benefit of digitalisation will first appear in the efficiency of internal routines, namely less time and cost for administration, fewer errors, and faster decisions. Prior studies support this prediction. Mutoharoh et al. (2020) find that the digitalisation of accounting information raises the productivity and profitability of Indonesian MSMEs, and (Mike Mayasari, 2024) reports that accounting digitalisation increases the profitability of batik MSMEs. (Kusumaningrum et al., 2025) show that cloud-based accounting automation reduces input errors and gives owners real-time information, and (Rahman Hakim et al., 2024) find that digital recording helps MSMEs monitor, plan, and allocate funds. Beyond MSMEs, (Li et al., 2024) show that digital finance enables firms to absorb supply and demand shocks without raising costs. Both the theory and the evidence point in the same positive direction, which leads to the first hypothesis.

H1: Financial reporting digitalisation has a positive effect on the operational efficiency of MSMEs.

Financial reporting digitalisation and tax compliance. In the economic model of tax compliance, taxpayers comply when the expected cost of non-compliance, which depends on the probability of detection, exceeds its benefit (Allingham & Sandmo, 1972). The slippery slope framework adds that compliance rises with the power of the authority, which produces enforced compliance, and with trust in the authority, which produces voluntary compliance (Kirchler et al., 2008). Digital reporting is relevant to both dimensions. It leaves a complete and traceable record of transactions, which raises the perceived probability that under-reporting will be detected, and it makes the data needed for tax purposes readily available, which makes voluntary compliance easier. Empirical studies are consistent with this reasoning. Azmary et al. (2020) find that the application of accounting by MSMEs has a significant effect on taxpayer compliance. Ariyanto et al. (2024) show that the quality of the e-filing system increases its use and user satisfaction, which in turn increase the compliance of MSMEs in Bali, (Ritonga et al., 2026) report positive effects of digital tax administration on compliance. Dwitayanti and Armaini (2024) also find that financial reporting quality is associated with tax compliance. Taken together, the theory and the evidence suggest a positive direct effect.

H2: Financial reporting digitalisation has a positive effect on the tax compliance of MSMEs.

Operational efficiency and tax compliance. Compliance cost theory states that meeting tax obligations consumes time, money, and administrative effort, and that these costs are regressive, weighing most heavily on small firms (Eichfelder & Vaillancourt, 2014). Within the slippery slope framework, high compliance costs weaken voluntary compliance because they make cooperation with the authority burdensome, whereas low costs make it

easier to comply willingly (Kirchler et al., 2008). An efficiently run enterprise keeps orderly records, has spare administrative capacity, and is more profitable, so the relative cost of calculating, paying, and reporting tax is lower and its ability to pay is higher. Prior studies support this link. Azmi et al. (2016) show that compliance costs shape SMEs' decisions about their accounting systems, indicating that firms respond to the administrative burden of tax. Reviews of the compliance literature identify the cost and complexity of compliance among its most consistent determinants (Alm, 2019; Dwitayanti & Armaini, 2024; Reddy et al., 2024; Tarmidi et al., 2020) document a close association between tax compliance and financial performance. On this basis, operational efficiency is expected to increase compliance.

H3: Operational efficiency has a positive effect on the tax compliance of MSMEs.

The mediating role of operational efficiency. The resource-based view implies that resources create value through the routines they improve rather than by their mere presence (Barney, 1991), and compliance cost theory implies that a change in the enterprise affects compliance mainly when it lowers the cost of complying (Eichfelder & Vaillancourt, 2014). Combining H1 and H3, financial reporting digitalisation should therefore increase compliance by first making the business more efficient. Prior evidence supports an indirect pathway. Azmi et al. (2016) find that SMEs adopt tax-compliant accounting systems largely in response to compliance costs, which places cost and efficiency between the accounting system and tax behaviour. Okunogbe and Santoro (2022) conclude that information technology improves tax outcomes when it lowers compliance costs or strengthens enforcement. Ariyanto et al. (2024) show that the effect of digital tax systems on MSME compliance works through intermediate variables rather than directly. The indirect pathway is especially plausible in Indonesia, where most MSMEs pay a final tax on gross turnover and do not need complete financial statements to compute the tax due. Under this regime, the main benefit of digital reporting for compliance is expected to come through efficiency.

H4: Operational efficiency mediates the effect of financial reporting digitalisation on tax compliance.

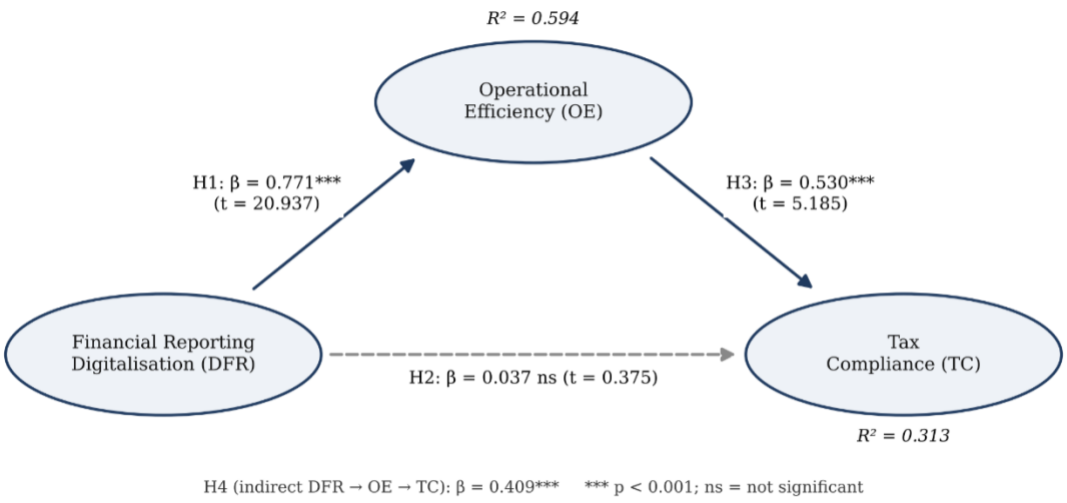


Figure 1. Research model and structural model estimates
Source: SmartPLS output, processed by the authors (2025)

3. Methods

3.1. Research Design, Population, and Sample

This study uses a quantitative explanatory design with a cross-sectional survey, complemented by follow-up interviews to help interpret the statistical results. The population consists of MSMEs registered with the Dinas Koperasi dan UKM Provinsi Jawa Tengah. Central Java Province has around 4.2 million MSMEs located in 35 cities/regencies, and 97.95% are dominated by micro enterprises. Micro enterprises are the weakest unit in their business financial books. The unit of analysis is the enterprise, and the respondent is the owner or manager responsible for financial records. Respondents were selected by purposive sampling. The sample criteria are that the business has been operating for at least 2 years, has an NPWP, the respondent is the owner or manager who manages the business's finances. Data was obtained by distributing questionnaires both online and offline. The data collection period was 4 months, namely from September-December 2025. The distribution of questionnaires was 280, again 250 and as many as 18 data were incomplete, so they were discarded. So the amount of data used was 232 respondents or 82.85% of the data obtained from all questionnaires that were distributed. The sample size meets PLS-SEM requirements. Using the inverse square root method, detecting a minimum path coefficient of 0.20 at a 5% significance level requires at least 155 observations (Kock & Hadaya, 2018); the 232 responses exceed this threshold. The follow-up interviews were conducted with owner-managers selected from the survey respondents. The selected informants are respondents who have done financial records, already have an NPWP and have made tax payments and reports, and variations of business sectors.

3.2. Variable Measurement

All constructs were measured reflectively with five-point Likert scales (1 = strongly disagree; 5 = strongly agree). Indicators were adapted from prior studies and are summarised in **Table 2**.

Table 2. Operational definitions and indicators

Construct	Operational definition	Indicators	Source
Financial reporting digitalisation (DFR)	Use of digital applications to record transactions and produce financial reports	DFR1 recording with an accounting application; DFR2 automatic report generation (SAK EMKM); DFR3 real-time access to financial data; DFR4 digital storage of evidence; DFR5 integration with digital payments (QRIS/bank); DFR6 use of digital data for tax reporting	Kusumaningrum et al. (2025); Mutoharoh et al. (2020)
Operational efficiency (OE)	Achievement of business outputs with less time, cost, and error	OE1 time saved in recording; OE2 lower administrative cost; OE3 fewer recording errors; OE4 faster decisions; OE5 better cash and inventory control; OE6 higher productivity	Mayasari (2024); Rahman Hakim et al. (2024)
Tax compliance (TC)	Correct and timely fulfilment of tax registration, payment, and reporting	TC1 registered taxpayer (NPWP); TC2 timely payment; TC3 timely filing; TC4 correct calculation; TC5 no tax arrears; TC6 voluntary disclosure	Azmary et al. (2020); Kirchler et al. (2008)

3.3. Data Analysis

Data were analysed with partial least squares structural equation modelling (PLS-SEM) using SmartPLS 4 (Ringle, C. M., Wende, S., & Becker, 2022). PLS-SEM was chosen because the study is prediction-oriented, tests a mediation model, and does not require multivariate normality (Hair et al., 2019). The analysis followed two stages. The measurement model was evaluated through indicator loadings (≥ 0.70), internal consistency reliability (Cronbach's alpha, ρA, and ρC ≥ 0.70), convergent validity (AVE ≥ 0.50), and discriminant validity using the Fornell–Larcker criterion, cross loadings, and the heterotrait–monotrait ratio (HTMT < 0.90) (Fornell & Larcker, 1981; Henseler et al., 2015). The structural model was evaluated through collinearity (VIF < 3.3), the coefficient of determination (R^2), effect size (f^2), the standardised root mean square residual (SRMR), and path significance using percentile bootstrapping with 5,000 subsamples and two-tailed tests at the 5% level (Hair et al., 2019; Shmueli et al., 2019). Mediation was tested through the specific indirect effect and classified following (Zhao et al., 2010). Because all constructs were measured with the same instrument at one point in time, common method bias was assessed using the full collinearity approach (Kock & Hadaya, 2018; Podsakoff et al., 2003).

4. Results and Discussion

4.1. Respondent Profile and Descriptive Statistics

The 232 MSMEs represent a range of sectors: trade (34%), manufacturing (27%), services (16%), agriculture (12%), and animal husbandry (11%). The average business age is nine years, indicating that most respondents are established enterprises with several years of bookkeeping and tax experience.

Table 3 presents the descriptive statistics of the constructs, computed as the mean of each respondent's item scores on the five-point scale and interpreted with five equal intervals (1.00–1.80 very low; 1.81–2.60 low; 2.61–3.40 moderate; 3.41–4.20 high; 4.21–5.00 very high). All three constructs fall in the high category. The level of financial reporting digitalisation is high (M = 3.65; SD = 0.93), which answers the first research question: most MSMEs in the sample already record and report their finances digitally, although the relatively large standard deviation shows that adoption is uneven. Operational efficiency has the highest mean (M = 3.75), while tax compliance has the lowest (M = 3.59). At the item level, the lowest-scoring items are DFR3 (M = 3.55) and TC5 (M = 3.52).

Table 3. Descriptive statistics

Construct	Mean	Std. deviation	Category
Financial reporting digitalisation	3.65	0.93	High
Operational efficiency	3.75	0.81	High
Tax compliance	3.59	0.88	High

Note: n = 232; item range 1–5. Source: Primary data, processed by the authors (2025)

4.2. Measurement Model Evaluation

Table 4 reports the outer loadings. Seventeen of the eighteen indicators load above 0.70 (0.751–0.885), and all loadings are significant ($p < 0.001$). Indicator OE6 (Z1.6) has a loading of 0.539. Following Hair et al. (2019), indicators with loadings between 0.40 and

0.70 may be retained when their construct already meets the reliability and AVE thresholds and when the indicator is needed for content validity. Operational efficiency meets both thresholds with OE6 included (ρC = 0.911; AVE = 0.636), so the indicator was retained.

Table 4. Outer loadings

Indicator	DFR	OE	TC
DFR1 (X1.1)	0.779		
DFR2 (X1.2)	0.831		
DFR3 (X1.3)	0.831		
DFR4 (X1.4)	0.874		
DFR5 (X1.5)	0.861		
DFR6 (X1.6)	0.848		
OE1 (Z1.1)		0.830	
OE2 (Z1.2)		0.876	
OE3 (Z1.3)		0.851	
OE4 (Z1.4)		0.885	
OE5 (Z1.5)		0.751	
OE6 (Z1.6)		0.539	
TC1 (Y1.1)			0.764
TC2 (Y1.2)			0.804
TC3 (Y1.3)			0.805
TC4 (Y1.4)			0.793
TC5 (Y1.5)			0.841
TC6 (Y1.6)			0.835

Note: All loadings are significant at $p < 0.001$ (bootstrapping, 5,000 subsamples). Source: SmartPLS output, processed by the authors (2025)

Table 5 reports reliability and convergent validity. Cronbach's alpha ranges from 0.880 to 0.916, ρA from 0.894 to 0.923, and ρC from 0.911 to 0.934, all above 0.70, so each construct is internally consistent. The AVE values range from 0.636 to 0.702, above the 0.50 threshold, meaning that each construct explains more than half of the variance of its indicators. None of the reliability values exceeds 0.95, which suggests that the indicators are not redundant (Hair et al., 2019).

Table 5. Construct reliability and convergent validity

Construct	Cronbach's α	ρA	ρC	AVE
Financial reporting digitalisation	0.916	0.923	0.934	0.702
Operational efficiency	0.880	0.896	0.911	0.636
Tax compliance	0.893	0.894	0.918	0.652

Source: SmartPLS output, processed by the authors (2025)

Discriminant validity is assessed in **Table 6**. The square root of each construct's AVE (diagonal) exceeds its correlations with the other constructs, so the Fornell–Larcker criterion is met. Because the margin between digitalisation and operational efficiency is narrow (0.798 versus 0.771), the HTMT ratio was also examined. All HTMT values (0.483–0.835) are below the conservative threshold of 0.85 (Henseler et al., 2015), and every indicator loads

more highly on its own construct than on any other construct in the cross-loading matrix. Discriminant validity is therefore established.

Table 6. Discriminant validity (Fornell–Larcker criterion and HTMT)

Construct	DFR	OE	TC
Financial reporting digitalisation (DFR)	**0.838**	0.835	0.483
Operational efficiency (OE)	0.771	**0.798**	0.646
Tax compliance (TC)	0.446	0.559	**0.807**

Note: Bold diagonal values are the square roots of AVE; values below the diagonal are latent variable correlations; values above the diagonal are HTMT ratios. Source: SmartPLS output, processed by the authors (2025)

4.3. Structural Model Evaluation

Before testing the hypotheses, collinearity among predictors was examined. The inner VIF of digitalisation and operational efficiency in predicting tax compliance is 2.463, below the conservative threshold of 3.3. The full collinearity VIFs of the three constructs, computed from the latent variable correlations (2.47, 2.87, and 1.45), are also below 3.3, indicating that common method bias is unlikely to distort the results (Kock, 2015). The SRMR of the model is 0.094, below the threshold of 0.10 commonly used for PLS-SEM, although model fit indices should be interpreted cautiously in this approach (Hair et al., 2019).

Table 7 summarises the explanatory power of the model. Digitalisation explains 59.4% of the variance in operational efficiency ($R^2 = 0.594$), which is moderate according to (Hair et al., 2019). Digitalisation and operational efficiency together explain 31.3% of the variance in tax compliance ($R^2 = 0.313$), which is weak to moderate; the remaining 68.7% is attributable to factors outside the model, such as trust in the tax authority, tax knowledge, and perceived fairness. The effect size of digitalisation on operational efficiency is large ($f^2 = 1.463$), that of operational efficiency on tax compliance is medium ($f^2 = 0.166$), and that of digitalisation on tax compliance is negligible ($f^2 = 0.001$) (Jacob Cohen, 1988).

Table 7. Coefficient of determination and effect size

Endogenous construct	R^2	Adjusted R^2	f^2 (predictor)
Operational efficiency	0.594	0.592	DFR: 1.463 (large)
Tax compliance	0.313	0.307	DFR: 0.001 (none); OE: 0.166 (medium)

Source: SmartPLS output, processed by the authors (2025)

4.4. Hypothesis Testing

Table 8 present the bootstrapping results. Financial reporting digitalisation has a positive and significant effect on operational efficiency ($\beta = 0.771$; $t = 20.937$; $p < 0.001$; 95% CI [0.695, 0.840]), so H1 is supported. The direct effect of digitalisation on tax compliance is positive but not significant ($\beta = 0.037$; $t = 0.375$; $p = 0.708$), and its confidence interval includes zero (95% CI [-0.152, 0.232]), so H2 is not supported. Operational efficiency has a positive and significant effect on tax compliance ($\beta = 0.530$; $t = 5.185$; $p < 0.001$; 95% CI [0.325, 0.724]), so H3 is supported.

Table 8. Results of hypothesis testing (bootstrapping)

Hypothesis / path	β (O)	SD	t	p	95% CI	Decision
H1: DFR → OE	0.771	0.037	20.937	< 0.001	[0.695, 0.840]	Supported
H2: DFR → TC	0.037	0.099	0.375	0.708	[-0.152, 0.232]	Not supported
H3: OE → TC	0.530	0.102	5.185	< 0.001	[0.325, 0.724]	Supported
H4: DFR → OE → TC	0.409	0.081	5.022	< 0.001	[0.250, 0.567]	Supported (full mediation)
Total effect DFR → TC	0.446	0.069	6.484	< 0.001	[0.311, 0.580]	—

Note: Percentile bootstrap, 5,000 subsamples, two-tailed. Source: SmartPLS output, processed by the authors (2025)

The mediation analysis shows that the specific indirect effect of digitalisation on tax compliance through operational efficiency is 0.409 and significant ($t = 5.022$; $p < 0.001$; 95% CI [0.250, 0.567]); the bias-corrected interval [0.245, 0.563] leads to the same conclusion. Because the indirect effect is significant while the direct effect is not, the pattern is indirect-only mediation, which is full mediation in the terminology of (Zhao et al., 2010). The total effect of digitalisation on tax compliance is 0.446 ($p < 0.001$), and the variance accounted for (VAF) is 0.409/0.446 = 91.7%, above the 80% threshold for full mediation. H4 is therefore supported. Statistical power is not a plausible explanation for the non-significant direct effect: the sample is well above the minimum needed to detect a path of 0.20, and the estimate itself (0.037) is close to zero.

As a robustness check, the model was re-estimated after excluding 32 respondents who gave the same answer to all eighteen items (straight-lining), using standardised mean scores and 5,000 bootstrap resamples ($n = 200$). The pattern of results is unchanged: digitalisation still increases efficiency ($\beta = 0.655$), efficiency still increases compliance ($\beta = 0.428$), the direct effect remains non-significant ($\beta = -0.033$; 95% CI [-0.204, 0.144]), and the indirect effect remains significant (0.280; 95% CI [0.152, 0.411]). The magnitudes are smaller, so the main estimates should be read as upper bounds, but the conclusion of full mediation holds.

4.5. Discussion

The results support three of the four hypotheses. The resource-based view is supported for the link between digital reporting and efficiency (H1), compliance cost theory within the slippery slope framework is supported for the link between efficiency and compliance (H3), and the combination of the two theories is supported by the full mediation result (H4). The prediction derived from the economic model of compliance and the slippery slope framework that digital reporting directly raises compliance (H2) is not supported. Each finding is discussed below in relation to its grand theory, prior studies, and the characteristics of the MSMEs in the sample.

H1: Financial reporting digitalisation and operational efficiency. The strong positive effect of digitalisation on efficiency ($\beta = 0.771$; $f^2 = 1.463$) supports the resource-based view. The theory states that resources create value through the routines they improve (Barney,

1991). In the sample, digital reporting acts as a capability that replaces scarce accounting expertise: it shortens recording time, reduces errors, and gives owners timely information for pricing, purchasing, and cash planning. The finding is consistent with Indonesian studies showing that accounting digitalisation raises MSME productivity, profitability, and transparency (Mike Mayasari, 2024; Mutoharoh et al., 2020; Rachmawati et al., 2025). It also agrees with international evidence in reputable journals. Ratmono et al. (2023), in a study of 536 urban SMEs in a developing economy, find that digitalised management accounting improves the accuracy and timeliness of information and reduces costs, which in turn improve managerial decisions. Broccardo et al. (2024) report that digitalisation of management control brings significant performance benefits to SMEs, and Li et al. (2024) show that digital finance strengthens firms' resilience to supply and demand shocks. The characteristics of the sample help explain why the effect is so large. Trade (34%) and manufacturing (27%) together account for 61% of the respondents. These enterprises manage stock, raw materials, and many small cash transactions, so the efficiency gain from replacing manual books with digital records is greater than in simple service businesses. With an average age of nine years, the enterprises also have stable routines that digital tools can streamline. The relatively large standard deviation of digitalisation (SD = 0.93) shows that adoption varies across enterprises, and it is this variation that produces the strong association with efficiency.

H2: Financial reporting digitalisation and tax compliance. The direct effect of digitalisation on compliance is close to zero and not significant ($\beta = 0.037$; $p = 0.708$). The economic model of compliance and the slippery slope framework predicted a positive effect because digital records were expected to raise the perceived probability of detection and to make voluntary compliance easier (Allingham & Sandmo, 1972; Kirchler et al., 2008). This prediction is not supported, and the result differs from studies that report a positive direct effect (Abdul Rosyid et al., 2024; Ariyanto et al., 2024; Azmary et al., 2020; Duve & Schutte, 2025; Ritonga et al., 2026). Four explanations account for the difference.

First, the construct measured differs. Most prior studies measure the digitalisation of tax administration. Ariyanto et al. (2024) examine the quality and use of e-filing, and (Duve & Schutte, 2025), in a study of 219 small firms under Zimbabwe's presumptive tax, examine the use of information technology for tax management. These tools connect the taxpayer directly to the authority. The present study measures the digitalisation of the enterprise's own bookkeeping, which remains private to the owner. Because the tax authority does not see these records, they do not increase the authority's power in the sense of the slippery slope framework, and the detection mechanism assumed by (Allingham & Sandmo, 1972) does not operate.

Second, the tax regime reduces the role of financial statements. Under Government Regulation No. 55 of 2022, most MSMEs pay a final tax of 0.5% of gross turnover, and individual MSMEs with turnover up to IDR 500 million are exempt. Presumptive regimes of this kind are designed precisely to reduce the need for full bookkeeping (Mariona Mas-Montserrat, Céline Colin, Eugénie Ribault, 2023). A record of turnover is sufficient to compute the tax, so complete digital financial statements add little to the ability to comply.

Indonesian evidence supports this interpretation: (Satyadini & Rosid, 2024), using a regression discontinuity design, find that tax simplification improved reporting and reduced penalties but did not significantly change tax payment behaviour, and that its effect varied with internet access and distance to the tax office. Simplification and digital tools, in other words, change administrative behaviour more readily than the willingness to pay.

Third, the characteristics of the sample limit the scope for a direct effect. The sample is dominated by small and micro enterprises, in line with Central Java, where 97.95% of MSMEs are micro enterprises. Agriculture and animal husbandry account for 23% of respondents; their income is seasonal, and many of them are likely to fall below the IDR 500 million threshold, so for them the amount of tax due is small or nil whatever the quality of their records. Tax compliance has the lowest mean of the three constructs (M = 3.59), while digitalisation is relatively high (M = 3.65) but uneven (SD = 0.93). This combination indicates that many respondents have digitalised their books without changing their tax behaviour. The posthoc power analysis also shows that a sample of about 4,460 would be needed to detect a path as small as 0.037, so the non-significance reflects a genuinely negligible effect rather than insufficient data, and the robustness check confirms the same pattern after straight-lining responses are removed.

Fourth, compliance depends on trust in the tax authority, which digital bookkeeping does not change. The slippery slope framework distinguishes voluntary compliance, driven by trust, from enforced compliance, driven by power (Kirchler et al., 2008). Experimental evidence from 2,786 self-employed taxpayers in eleven countries confirms that trust mainly raises voluntary compliance (Batrancea et al., 2022), and among Indonesian SMEs trust rather than power reduces evasion (Agusti & Rahman, 2023). Ariyanto et al. (2024) find that trust in government does not affect the use of e-filing, which suggests that technology and trust operate through separate channels. The follow-up interviews are consistent with this view: informants linked their willingness to pay to whether they trust that taxes are managed fairly, not to the availability of digital records Here are some quotes that researchers obtained from interviews with informants: "After doing the recording, my business finances are neater, and this makes it easier for me to know how much turnover and how much tax I have to pay (setelah melakukan pencatatan, keuangan usaha saya tambah rapi, dan ini memudahkan saya untuk mengetahui berapa omzet dan berapa pajak yang harus saya bayarkan" informan 1), "Tax matters are troublesome, because I don't have a record that is the basis for paying taxes (urusan pajak itu repot, karena saya tidak ada catatan yang jadi dasar untuk bayar pajak" informan 2), "Because I am orderly in recording every transaction, so the deposit is not late (karena saya tertib dalam mencatat setiap transaksi, jadi setoran pak jadi tidak terlambat." informan 3). The non-significant direct effect therefore does not contradict the slippery slope framework; it shows that digital bookkeeping alone touches neither of its two dimensions.

H3: Operational efficiency and tax compliance. The positive and significant effect of efficiency on compliance ($\beta = 0.530$; $f^2 = 0.166$) supports compliance cost theory as part of the slippery slope framework. Compliance costs are regressive and weigh most heavily on small firms (Eichfelder & Vaillancourt, 2014); when an enterprise is run efficiently, the

relative cost of calculating, paying, and reporting tax falls and cooperation with the authority becomes easier, which favours voluntary compliance (Kirchler et al., 2008). The result is consistent with reviews that identify compliance costs and complexity among the most consistent determinants of compliance (Alm, 2019; Azmi et al., 2016; Divakaran Reddy, Asogan Moodley, 2024), who show that SMEs adjust their accounting systems in response to compliance costs, and with (Batrancea et al., 2022), who note that rising compliance costs threaten compliance. It also agrees with studies that associate compliance with stronger financial performance (Dwitayanti & Armaini, 2024; Tarmidi et al., 2020). In the sample, efficiency has the highest mean of the three constructs (M = 3.75). Established trade and manufacturing enterprises with orderly routines have the administrative capacity to meet deadlines and avoid arrears, which explains why efficiency, not digitalisation itself, is the variable that moves compliance.

H4: The mediating role of operational efficiency. The significant indirect effect (β = 0.409; 95% CI [0.250, 0.567]) together with a non-significant direct effect indicates full mediation (Zhao et al., 2010). This result supports the integration of the two grand theories proposed in this study: digital reporting is a resource whose value appears in efficient routines (Barney, 1991), and those routines lower the cost of compliance (Eichfelder & Vaillancourt, 2014). The finding is consistent with (Ratmono et al., 2023), who show that the effect of accounting digitalisation on SME decisions runs through cost reduction and information quality, and with (Okunogbe & Santoro, 2022), who conclude that information technology improves tax outcomes when it lowers compliance costs. It also parallels (Ariyanto et al., 2024), in whose model digital tax systems affect compliance only through use and satisfaction. Relative to studies that report a direct effect of digitalisation on compliance (Abdul Rosyid et al., 2024; Ritonga et al., 2026), the present result specifies the mechanism: in a sample dominated by small trade and manufacturing enterprises under a turnover-based final tax, digital reporting raises compliance only to the extent that it makes the business easier and cheaper to run.

Theoretical and practical implications. Theoretically, the study shows that the resource-based view and the slippery slope framework are complementary: digital capabilities generate efficiency, efficiency lowers compliance costs and supports voluntary compliance, but technology that remains inside the firm does not affect the trust and power dimensions directly. Practically, digitalisation programmes run by the Cooperative and MSME Office and by the Directorate General of Taxes should be framed and evaluated as efficiency programmes. Linking MSME accounting applications directly to e-billing and e-filing in Coretax would allow the efficiency gain to extend to tax administration and would give digital records a role in the authority's relationship with the taxpayer. Tax outreach should also build trust, for instance by communicating how MSME taxes are used and by simplifying procedures, and should give priority to micro, agricultural, and livestock enterprises, for whom the link between digital records and tax is weakest.

5. Conclusion

This study shows that financial reporting digitalisation substantially improves the operational efficiency of MSMEs and that operational efficiency, in turn, increases tax compliance. Digitalisation does not have a significant direct effect on compliance; its effect is fully mediated by operational efficiency. The results imply that digital reporting raises compliance only insofar as it lowers the time and cost of running the business and meeting tax obligations, while the follow-up interviews indicate that trust in the tax authority remains an important determinant outside the model. Policymakers should therefore integrate MSME accounting applications with tax administration systems and accompany digitalisation with trust-building measures. The study has limitations. Future research should include trust in the tax authority as a moderator or second mediator, compare MSMEs under the final and the normal tax regimes, use longitudinal or multi-region data, and examine the effect of Coretax adoption on MSME compliance. The real implication of the results of this study is that MSME owners or managers use digital business financial books to make it easier to record stock of goods, costs, and income, so that they can easily present a monthly turnover recap as the basis for calculating MSME income tax.

Authors' Declaration

Authors' contributions and responsibilities

The authors made substantial contributions to the conception and design of the study. The authors took responsibility for data analysis, interpretation and discussion of results. The authors read and approved the final manuscript.

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