Review Article

THE IMPACT OF ACCOUNTING PROCESS DIGITALIZATION ON FINANCIAL REPORTING QUALITY AND THE PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN KOSOVO

Economics

Keywords: accounting digitalization, financial reporting quality, accounting information systems, SME performance, digital transformation, Kosovo.

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Abstract

The digitalization of accounting processes has become an increasingly important factor of modernization of business operations and financial management. Small and medium-sized enterprises (SMEs) constitute a large part of economic activity in developing and transition economies, and are becoming increasingly reliant on accounting information systems, cloud accounting, electronic invoicing, automated bookkeeping, and other digital technologies. The paper analyzes the influence of accounting processes' digitalization on the quality of financial reporting and the performance of SMEs in Kosovo. The study is based on the premise that digitalization can improve the accuracy, timeliness, relevance, completeness, and accessibility of financial information and also can contribute to the improvement of managerial decision-making and organizational performance. This relationship is not automatic because the benefits from digital accounting are linked to human capital, digital proficiency, internal controls, organizational capabilities and regulatory conditions. This paper develops a conceptual framework in which the independent variable is accounting process digitalization, the outcome and potential mediating variable is financial reporting quality and the dependent variable is SME performance. Based on prior empirical research, four hypotheses are proposed regarding the direct effects of digitalization on financial reporting quality and SME performance, as well as the mediating role of financial reporting quality. The paper argues that the Kosovo SMEs could gain a lot from the digitalization of accounting, particularly in terms of the quality of information and decision-making, but these gains must be backed up by investments in the skills of employees, internal control systems and digital infrastructure.

1. Introduction

Digital transformation has emerged as one of the most important developments affecting contemporary business organizations. The increase in the use of cloud computing, enterprise resource planning systems, electronic invoicing, automated bookkeeping, artificial intelligence, digital payment systems and accounting information systems has altered the way that financial information is generated, processed, stored and communicated at a fundamental level. In this regard, accounting is not just limited to the conventional process of recording transactions. Digital accounting systems are increasingly used to support financial analysis, budgeting, internal control, tax compliance, managerial decision making and strategic planning. The digitalization of accounting processes is of particular importance to small and medium-sized enterprises (SMEs). SMEs usually have limited financial and human resources and thus need efficient systems for managing financial information. Digital accounting eliminates repetitive manual work, speeds up the processing of transactions, reduces the occurrence of calculation errors, improves access to financial information and gives managers more recent information for decision-making.

Recent empirical research has shown this relationship to be important. Journal of Applied Accounting Research, 2026. Digitalization of accounting processes and SMEs' performance Journal of Applied Accounting Research. They noted that the relationship between accounting process digitalization and performance deserves special attention, since SMEs are still relatively understudied compared to large organizations. The study proposed a framework integrating the technology-organization-environment perspective and the concept of organizational ambidexterity. (ScienceDirect). However, the digitalization itself does not guaranty the high quality of financial reporting. A recent empirical study of MSMEs found no statistically significant direct effect of accounting digitalization on financial reporting quality, while internal control had a significant positive effect. This finding means that technology must be supported by suitable organizational and control mechanisms. (E-Journal UNUD)

This problem is particularly acute in Kosovo. Kosovo has a formal accounting and financial reporting framework based on International Financial Reporting Standards (IFRS). Within the IFRS Foundation, SMEs in Kosovo are required to apply the IFRS for SMEs Standard and large commercial companies are required to apply full IFRS Standards. The framework is overseen within the institutional context of the Kosovo Council for Financial Reporting and other relevant professional and regulatory bodies. (IFRS Foundation)

Besides, the empirical research in Kosovo points out that the financial and accounting digitalization is already turning into a significant organizational phenomenon. A recent study published in Kybernetes used survey data from 500 companies in Kosovo between 2021 and 2023 and studied the relationships among finance-accounting digitalization, advanced finance-accounting systems and FinTech. The results show significant relationships between these dimensions and the growing importance of computerized financial and accounting systems. (ScienceDirect)

Hence, the objective of this paper is to theoretically and empirically investigate the potential relationship between accounting process digitalization, financial reporting quality and SME performance in Kosovo. This paper provides a conceptual framework and research hypotheses that can be empirically tested using quantitative survey research.

2. Review of Related Literature

2.1 Digitalization of Accounting Process

The digitalization of accounting processes is the application of digital technologies to perform, automate, integrate and manage accounting activities. These are transaction recording, bookkeeping, invoicing, payroll, tax calculations, financial reporting, budgeting, reconciliation and financial analysis. Traditional accounting processes rely on manual data entry and paper-based documentation. They take a long time and are subject to human error. Digital accounting systems can automate many of these activities and also provide real-time access to financial data. In this context, Accounting Information Systems (AIS) are especially important. AIS collect, process, store and distribute accounting information for internal and external users. The effectiveness of the technology is contingent not only on the technology itself but also on the system quality, information quality, user competence and organizational integration.

Recent studies of the SMEs in developing economies have shown that the system structure, automation, system performance and continuous training of employees might have a substantial effect on the quality of accounting information. (WRS) For example, a research in 2026 of the SMEs in the Democratic Republic of Congo, has shown a positive effect of the AIS structure, automation, AIS performance and continuous training of staff on the quality of accounting information. This evidence is especially important for Kosovo, where a large number of SMEs function within the framework of progressive digitalization, but with large variations of organizational and human resources capacities among the firms.

2.2 Quality of Financial Reporting

The quality of financial reporting is the degree to which financial reports provide useful, reliable, accurate, relevant, timely, understandable and complete information to users. High-quality financial information enables managers, owners, investors, lenders, tax authorities and other stakeholders to make better decisions. In contrast, poor quality financial information may lead to increasing uncertainty, deterioration of internal control, problems in accessing finance, and inappropriate managerial decisions.

There are several mechanisms for how digital accounting systems can improve the quality of financial reporting.

Automation will minimize the errors in manual calculation and data entry. Integrated systems will help avoid duplication of information and improve the consistency of accounting records.

Third, digital systems can improve the timeliness of reporting, because transactions can be processed and summarized in less periods of time.

Fourth, digital systems can make financial information more accessible by allowing authorized users to access information on a real-time basis.

But digitalization is not enough. Other factors that determine the quality of financial reporting are internal controls, knowledge of accounting, organizational procedures and employee competence.

This qualification is supported by recent evidence. Research in East Lombok regarding MSMEs revealed that accounting digitalization has no positive and significant effect on the quality of financial reporting, whereas internal control has a positive and significant effect. (E-Journal UNUD)

This finding is relevant for the current study because it implies that organizational factors can influence the relationship between digitalization and reporting quality. Digital systems could be a technological foundation for better reporting for Kosovo SMEs but proper controls and competent accounting personnel are still necessary.

2.3 Performance of SMEs

SMEs performance is a multi-dimensional construct. This may include such financial indicators as profitability, revenue growth, return on assets, cash flow, and cost efficiency. It may also include non-financial measures such as customer satisfaction, operational efficiency, innovation, competitiveness, and quality of decision-making. There are several ways that digital accounting can improve the performance of SMEs. The first is that automation can save employees' time and reduce administrative costs. The second is that timely access to financial data can help budget and manage cash-flows. The third is that improved information can help make better pricing and cost-control decisions. Fourth, digital systems can assist to improve tax compliance and reduce administrative risks. Fifth, integration of accounting with other business processes can enhance organizational coordination. Empirical evidence in recent years has supported the positive relationship between accounting digitization and SME performance. A study on SMEs in 2026 found that accounting digitalization, accounting information systems and digital financial applications had a positive and statistically significant impact on financial performance. (International Journal of Areai) Likewise, the research in SMEs has proved that digital technology has the potential to enhance the performance of SMEs and the quality of accounting information systems where the information quality is an important channel for technology to contribute to performance. (Science Gate)

However, other studies show that digital accounting may have an indirect rather than a direct impact on performance. For example, in the study of the use of digital accounting in SMEs, it was found that the use of digital accounting improved the quality of accounting information, and the quality of accounting information in turn improved the performance of SMEs; the direct effect of digital accounting on performance was not necessarily significant. (IJSMS)

This provides support for the contention that financial reporting quality may serve as a mediating mechanism linking accounting digitalization and SME performance.

3. Digitalization of Accounting in the Kosovo Context

Digital accounting is an interesting phenomenon to analyze in the Kosovo business environment. The country's accounting system has experienced substantial institutional development including acceptance of IFRS and IFRS for SMEs.
In Kosovo, IFRS for SMEs Accounting Standard is mandatory for SMEs, while large commercial companies must use full IFRS Standards, the IFRS Foundation states. Kosovo therefore has a differentiated accounting framework by size and characteristics of business entities. (IFRS Foundation)

This is the regulatory framework in which the development of digital accounting is being established. SMEs are expected to produce financial information and comply with the applicable accounting and reporting requirements. So digital accounting systems could allow firms to maintain more consistent accounting records, or to prepare financial statements more efficiently.

Recent research related to Kosovo also shows an increased digitalization of financial and accounting activities. A *Kybernetes* study surveyed 500 Kosovo companies on finance-accounting digitalization, advanced finance-accounting systems, and FinTech. The results showed significant relationships of these dimensions, demonstrating that digital transformation is becoming an important part of financial management practices in Kosovo businesses. (ScienceDirect)

Meanwhile, research on financial reporting practices in Kosovo indicates that adherence to the IFRS for SMEs framework has continued to be a matter of concern. For example, in 2026, a case study was conducted on the financial reporting orientation and tax compliance of the small and medium-sized enterprises of Kosovo and the practical implementation of the IFRS for SMEs framework. (Tacje)

This gives a strong argument for the research. Digitalization can help SMEs to meet their reporting obligations. But whether digitalization improves the quality of reporting and business performance is an empirical question.

4. Theoretical Framework

The conceptual framework proposed is based on three core constructs:

Independent Variable: Digitalization of Accounting Process

Financial Reporting Quality (Mediating Variable)

The dependent variable: Performance of SME

The proposed relationship is: Accounting Process Digitalization Financial Reporting Quality SME's Performance.

There also may be a direct relationship:

Digitalization of Accounting Process→Performance of SME

The framework assumes that the digitization of the production and management of financial information enhances it. Higher quality information can then result in better managerial decision-making, financial planning, cost control and ultimately better organizational performance. Other factors such as employees' digital competence, internal control, firm size, industry, and years of operation could be incorporated as control or moderating variables.

5. Hypotheses of Research

Based on the reviewed literature, the following hypotheses are put forward:

H1: The effect of the digitalization of accounting process on the quality of financial reporting of SMEs in Kosovo: a positive and significant effect.

This hypothesis presumes that the use of automated accounting processes, digital recordkeeping, electronic invoicing, integrated accounting systems and real-time access to information improves the accuracy, timeliness, completeness and reliability of financial reports.

H2: The digitalization of the accounting process has a positive and significant impact on the performance of SMEs in Kosovo.

This hypothesis presupposes that digital accounting (i) increases operational efficiency, (ii) reduces administrative costs, (iii) supports financial management, and (iv) improves managerial decision-making.

H3: The financial reporting quality has a positive and significant impact on the performance of SMEs in Kosovo.

High-quality financial information should assist managers in making decisions regarding costs, investment, pricing, liquidity and resource allocation.

H4: Financial reporting quality mediates the relationship between digitalization of accounting process and SME performance in Kosovo.

The hypothesis is the main mechanism of the conceptual model. It assumes digitalization makes for better performance, partly from better financial information.

6. Methodology of Research

6.1 Research Design

The proposed study should be conducted using a quantitative research design based on a cross-sectional survey of SMEs operating in Kosovo.

The units of analysis should be individual SMEs and the respondents may include business owners, financial managers, accountants, chief financial officers or other employees responsible for accounting and financial reporting.

You can send a structured questionnaire electronically and/or by post.

6.2 Population and Sample

The target population should be SMEs operating in Kosovo from different sectors such as trade, manufacturing, services, information technology, hospitality and professional services. A sample of 200-300 SMEs would be a good basis for quantitative analysis for a statistically meaningful study. You could do something like stratified sampling to ensure representation of various industries and firm sizes.

6.3 Measuring Variables

The indicators that can be used to measure Accounting Process Digitalization are:

- use of computerized accounting software;
- electronic invoicing;

• automatic bookkeeping;
• cloud-based accounting;
• integration of accounting and other business systems;
• automated bank reconciliation;
• electronic payroll;
• accounting information available in real time.

The quality of financial reporting can be measured by:
• precision;
• timeliness;
• completeness; and
• applicability;
• credibility;
• comparability;
• financial information availability

SME Performance can be measured by:
• income;
• growth of income;
• cost effectiveness;
• cash flow management;
• operational effectiveness;
• management decision-making;
• overall business performance.

A 5-point Likert scale can be used with 1 = strongly disagree and 5 = strongly agree.

6.4 Data Analysis

The data collected can be analyzed using SPSS and if mediation and structural relationships are observed, SmartPLS or other Structural Equation Modeling (SEM) software.

The analysis shall include:
1. Descriptive statistics;
2. Reliability analysis using Cronbach's alpha;
3. Test of Validity;
4. Test of Correlation;
5. Test of Regression;
6. Test of Hypothesis;
7. Test of Mediation.

The mediation hypothesis can be tested to determine whether financial reporting quality has a significant mediating effect on the relationship between accounting process digitalization and SME performance.

7. Discussion

The proposed model is theoretically and empirically justified in the literature. Digitalization has the potential to increase efficiency and quality of accounting processes, but the strength of the relationship depends on the organizational conditions.

The first benefit to be expected for Kosovo SMEs is an improvement of financial information. Automation can help reduce manual errors and speed up the availability of financial information. That should help improve timeliness and accuracy of financial reporting.

Another expected benefit is better management decision making. Access to accurate and timely financial information allows managers to track costs, control liquidity, assess investments and detect financial problems. The third potential benefit is enhanced organizational performance. Digital accounting can cut down administrative duplication leaving employees more time for analysis and decision making. However, the literature indicates that digitization is not sufficient. Recent studies confirm that the effectiveness of internal controls and the competence of employees can affect the use of digital accounting for better reporting outcomes. (E-Journal UNUD)

This is especially relevant for Kosovo SMEs where the gap in digital maturity may be large. Some businesses may have sophisticated cloud accounting and integrated financial platforms, while others may still rely on spreadsheets or partially manual processes. Therefore, the impact of digitalization is likely to differ from company to company. SMEs with higher digital literacy levels, more qualified accounting staff, stronger internal controls and greater financial capacity may benefit more from digital transformation.

The literature also supports the potential mediating role of the quality of financial reporting. The results of SME research show that digital accounting can improve the quality of accounting information and that better information quality can contribute to improved business performance. (IJSMS).

Therefore, the relationship can be described as a chain: **Digital Accounting → Better Info → Better Decisions → Better Performance.**

This model gives a theoretical explanation that is more robust than the assumption that digitization improves performance in all cases.

8. Implications for Practice and Policy

The research findings would have implications for SME managers, accountants, policy makers and professional accounting organizations in Kosovo.

First of all, managers in SMEs should consider the digital accounting as a strategic investment and not only as an administrative tool. “Investment should not be restricted to software but also cover employee training, cybersecurity, data management and internal controls.

Secondly, accountants should develop digital competencies together with their traditional accounting knowledge. Accounting professionals today are increasingly being asked to have knowledge regarding topics like information systems, data analytics, cybersecurity and digital financial reporting.

Third, policymakers should help SMEs go digital by providing training, financial incentives, and affordable digital technologies.

Fourth, the professional accounting organizations and educational institutions should improve their digital accounting education. As manual accounting is gradually replaced by automation, accountants need to be familiar with accounting standards and digital technologies. Finally, the regulatory environment should create a conducive atmosphere for digital reporting and guaranty data security, privacy, transparency and compliance with accounting standards.

9. Conclusion

The digitalization of accounting processes provides a substantial opportunity to improve the financial management and competitiveness of the small and medium-sized enterprises of Kosovo. The use of computerized accounting systems, electronic invoicing, cloud accounting, automation, and integrated financial information systems can potentially increase the accuracy, timeliness, completeness, and accessibility of financial information.

However, technology alone does not guaranty high-quality financial reporting or better business performance. The effectiveness of accounting digitalization depends on employee competencies, internal controls, organizational capabilities and the quality of the underlying accounting systems.

This paper proposes a conceptual model in which accounting process digitalization affects SME performance both directly and indirectly through financial reporting quality. The four proposed hypotheses provide a framework for empirically testing these relationships among SMEs in Kosovo.

The expected contribution of the study is twofold. Theoretically, it connects accounting digitalization with financial reporting quality and SME performance within a developing and transition-economy context. Empirically, it provides a framework that can be used to investigate the specific conditions of Kosovo SMEs, where digital transformation is developing within an established IFRS for SMEs regulatory environment.

The central conclusion is that *digital accounting should not be understood merely as the replacement of paper-based accounting with software*. It implies a deeper shift in how financial information is prepared, processed, understood and used in decision making. For Kosovo SMEs, the success of digitalization will not only depend on access to technology but also on the development of human capital, internal controls, technological literacy, and organizational capabilities. Future empirical research should collect primary data from Kosovo SMEs and test the proposed relationships with regression analysis or Structural Equation Modeling. Such research would provide important evidence for determining whether digital accounting does improve reporting quality and business performance and whether financial reporting quality is an important mechanism linking technology adoption with company outcomes.

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