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Digital Transformation of Accounting in MSMEs in Timor-Leste: The Role of Accounting Technology Adoption and Organizational Readiness in Improving Financial Management Effectiveness

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Abstract: Digital transformation has created opportunities for small and medium-sized enterprises (SMEs) to improve financial management through accounting technology. However, adopting digital technology alone may not ensure effective financial management without adequate organizational readiness. Previous studies have examined digital technology adoption and organizational factors separately, leaving room for an integrated conceptual framework, particularly in the context of SMEs in Timor-Leste. This study aims to develop a conceptual model explaining the role of accounting technology adoption and organizational readiness in supporting financial management effectiveness. A conceptual research design was employed through an integrative literature review of relevant scholarly publications on digital transformation, accounting technology adoption, organizational readiness, and SME financial management. The literature synthesis informed the development of a model that positions accounting technology adoption and organizational readiness as two independent constructs associated with financial management effectiveness. The proposed model highlights the importance of integrating digital accounting solutions with organizational resources, competencies, management support, and commitment. The novelty lies in combining the technological and organizational dimensions within a single conceptual framework tailored to the context of SMEs in Timor-Leste. The model provides a foundation for future empirical testing and offers practical insights for developing context-sensitive digital accounting strategies to strengthen SME financial management.

Keywords: Accounting Technology Adoption, Organizational Readiness, Financial Management Effectiveness, Digital Transformation.

INTRODUCTION

Digital transformation encourages MSMEs to utilize technology for transaction recording, report preparation, and financial decision-making. The use of accounting technology

has the potential to improve the efficiency and quality of financial information, but its success also depends on the organization's ability to integrate technology into business processes (Al-Hattami, 2024; Matarazzo et al., 2021; Vial, 2019; Verhoef et al., 2021). In the context of Timor-Leste, digitalization is a critical issue in MSME development, along with challenges such as financing and business capacity building (Asian Development Bank [ADB], 2025). Therefore, the adoption of accounting technology and organizational readiness need to be examined as factors that have the potential to improve the effectiveness of MSME financial management.

Previous research has shown that the adoption of accounting technology is influenced by technological benefits, resource availability, employee capabilities, and management support (Hamzah et al., 2023; Mujalli et al., 2024; Sastararuji et al., 2022). Other studies have found that digitizing accounting systems can improve information accuracy, cost efficiency, and decision-making effectiveness (Ratmono et al., 2023). The success of accounting information systems is also related to decision-making effectiveness in MSMEs in developing countries (Al-Hattami, 2024; Al-Hattami & Kabra, 2022). These findings demonstrate that the benefits of technology are determined not only by its use but also by the business's internal readiness. This aligns with studies on digital transformation that emphasize the importance of organizational change, adaptability, and technology integration in business processes (Kraus et al., 2022; Verhoef et al., 2021; Vial, 2019).

Nevertheless, there is still room for further research. Previous studies have tended to focus on the drivers of technology adoption or the benefits of accounting systems separately (Mujalli et al., 2024; Ratmono et al., 2023; Sastararuji et al., 2022). Studies on the use of digital services by MSMEs also emphasize the importance of business readiness and capability in utilizing technology (Organization for Economic Co-operation and Development [OECD], 2021; Pradesa et al., 2023; Rahayu et al., 2023; Rawashdeh et al., 2023). However, integrating accounting technology adoption and organizational readiness to explain the effectiveness of financial management in the context of MSMEs in Timor-Leste still needs further development. Differences in business contexts and digital environments also require that findings from other countries be applied with caution (ADB, 2025).

The novelty of this article lies in the development of a conceptual model that integrates accounting technology adoption and organizational readiness as two factors that have the potential to improve the effectiveness of MSME financial management in Timor-Leste. This model uses a Technology–Organization–Environment (TOE) perspective, specifically the technological and organizational dimensions, to explain the importance of technology use supported by organizational resources, competencies, and commitment. Thus, this article aims to develop a conceptual framework that can serve as a foundation for empirical research and support accounting digitalization strategies that are tailored to the needs of MSMEs in Timor-Leste.

METHODS

This study uses a qualitative approach with an integrative literature review method to develop a conceptual model of digital accounting transformation in MSMEs in Timor-Leste. This approach was chosen because the study focuses on synthesizing theories and previous research findings regarding accounting technology adoption, organizational readiness, and financial management effectiveness. An integrative literature review allows researchers to identify patterns of findings, differences in research results, and opportunities for developing concepts and relationships between variables (Snyder, 2019; Torraco, 2016). Therefore, this study does not use surveys, interviews, or statistical testing, but rather builds theoretical arguments based on relevant literature.

Literature collection was conducted through searching scientific journal articles in academic databases, primarily Scopus and Web of Science, as well as other relevant scientific

sources. The search used keywords in English, such as accounting technology adoption, cloud accounting, organizational readiness, financial management effectiveness, digital transformation, and small and medium-sized enterprises. The literature was prioritized based on publications from 2016–2026 to obtain an overview of the latest research developments, while still considering important theoretical sources needed to explain the research framework. Selection criteria included relevance to the research variables, clarity of the theoretical basis, contribution to model development, and suitability to the characteristics of MSMEs. The review process was conducted in a directed manner through identification, screening, relevance assessment, and synthesis of literature so that conceptual arguments were built based on accountable sources (Snyder, 2019).

The analysis phase was conducted by grouping the literature based on three main focuses: accounting technology adoption, organizational readiness, and financial management effectiveness. Next, research findings were compared to identify similarities, differences, and limitations of available theoretical explanations. The synthesized results were then used to formulate conceptual relationships between variables. Model development refers to the Technology–Organization–Environment (TOE) framework, emphasizing technological and organizational aspects. The TOE framework is relevant because it explains that technology adoption in organizations is influenced by technological characteristics, internal organizational conditions, and the external environment (Baker, 2012). In this study, accounting technology adoption and organizational readiness are positioned as two factors thought to contribute to the effectiveness of MSME financial management.

The final stage of the research involved developing a conceptual model that illustrates the relationship between the two independent variables and the dependent variable. The model is complemented by theoretical arguments explaining how the use of accounting technology can support transaction recording, financial information provision, cash flow monitoring, and decision-making, as well as how organizational readiness can support effective technology implementation. All formulated relationships are treated as conceptual propositions that still require empirical testing. Therefore, the research results are expected to provide a theoretical foundation for further research and serve as an initial reference in formulating accounting digitalization strategies that are appropriate to the characteristics of MSMEs in Timor-Leste.

RESULTS AND DISCUSSION

Results

Literature Synthesis on Digital Transformation of Accounting in MSMEs

Digital transformation has driven changes in the way organizations conduct business activities, including managing accounting and financial information. This transformation is not only related to the use of digital devices but also encompasses changes in work processes, information utilization, and how organizations create value through technology (Vial, 2019; Verhoef et al., 2021). In MSMEs, this change can be realized through the use of accounting software, transaction recording applications, and cloud-based accounting systems to support the recording and processing of financial information. Cloud-based technology also allows more flexible access to information and can reduce the need for MSMEs to manage their own technology infrastructure (Gupta et al., 2013; Alshamaila et al., 2013).

In the context of accounting, the application of digital technology has the potential to improve transaction recording efficiency, data processing accuracy, and the availability of financial information for business owners. A well-functioning accounting information system can help provide the information needed for decision-making, while the use of cloud-based accounting systems has been studied in relation to MSME performance (Al-Hattami et al., 2021; Al-Hattami, 2024; Al-Okaily et al., 2023). Research on the implementation of cloud accounting also indicates that the need for more efficient recording, transparent reporting, and

faster access to information are important considerations in adopting this technology (Hamundu et al., 2020; Tawfik et al., 2023; Andayani et al., 2026).

However, the benefits of accounting digitalization are not always achieved automatically. Technology adoption in MSMEs is influenced by perceived benefits, implementation costs, ease of use, availability of technical support, and the organization's ability to integrate the new system into existing work processes (Gupta et al., 2013; Skafi et al., 2020; Tawfik et al., 2023). Research on cloud accounting in MSMEs also identifies limited digital literacy, resources, training costs, and ecosystem support as challenges that can hinder optimal technology utilization (Andayani et al., 2026). Therefore, the success of digital transformation needs to be understood not only from the decision to adopt technology, but also from the business's ability to consistently use the technology in its accounting and financial management activities.

The Technology–Organization–Environment (TOE) perspective provides a foundation for understanding the conditions that influence technology adoption at the organizational level. This framework emphasizes that technology adoption decisions are related to the characteristics of the technology, the organization's internal conditions, and the external environment (Baker, 2012). Research on cloud computing adoption in MSMEs demonstrates the relevance of technological, organizational, and environmental factors in explaining digital technology acceptance (Alshamaila et al., 2013; Skafi et al., 2020). In digital transformation, organizational readiness is also crucial because the change process requires resources, competencies, management support, and the ability to adapt work processes to the technology used (Vial, 2019; Verhoef et al., 2021).

Based on this synthesis, the digital transformation of accounting in MSMEs can be understood through two complementary aspects. First, accounting technology adoption, namely the use of digital technology to support the recording, processing, and provision of accounting information. Second, organizational readiness, namely the internal capacity of the business to support the effective implementation and utilization of technology. These two aspects are relevant to explaining financial management effectiveness, which, in the conceptual framework of this article, relates to the accuracy of recording, the availability of financial information, process efficiency, and information support for decision-making.

For MSMEs in Timor-Leste, the framework can be used as a conceptual foundation to understand how accounting technology adoption and organizational readiness can potentially support financial management. However, due to the conceptual nature of this article, its relevance cannot yet be considered as empirical findings specific to MSMEs in Timor-Leste. Therefore, this literature synthesis serves as a basis for identifying research constructs and formulating conceptual relationships between variables in the following sections.

Construct Identification

Based on the literature synthesis in the previous section, this conceptual research identifies three main constructs, namely Accounting Technology Adoption as the first independent variable (X1), Organizational Readiness as the second independent variable (X2), and Financial Management Effectiveness as the dependent variable (Y). These three constructs explain different, but interrelated aspects of the digital transformation process of accounting in MSMEs. Technology adoption focuses on the acceptance and use of digital systems, organizational readiness relates to the internal capacity to support its implementation, while financial management effectiveness describes the ability of MSMEs to carry out financial functions appropriately and efficiently.

a. Accounting Technology Adoption

Accounting technology adoption refers to the acceptance and use of digital technology to support transaction recording, data processing, document storage, and the presentation of accounting information. This technology can include accounting software, financial recording applications, and cloud-based accounting systems. In the context of MSMEs, technology

adoption relates not only to the decision to use an application but also to the extent to which the technology is utilized in daily financial activities. Technology adoption literature indicates that perceived usefulness, ease of use, and suitability of technology to organizational needs can influence its acceptance and utilization (Gupta et al., 2013; Skafi et al., 2020).

In this study, the adoption of accounting technology is positioned as a factor with the potential to support effective financial management. Utilizing technology can help expedite transaction recording, simplify data tracking, and provide more structured financial information. This information can be used by MSME owners to monitor financial conditions and support decision-making. However, its positive impact depends on appropriate and consistent technology use, not solely on device or application ownership (Al-Okaily et al., 2023; Vial, 2019).

b. Organizational Readiness

Organizational readiness is the internal capacity of MSMEs to accept, implement, and utilize technology in their operational activities. This readiness includes the availability of resources, the competence of owners and employees, management support, and a commitment to adapting work processes to technological needs. Within the Technology–Organization–Environment (TOE) framework, organizational conditions are a critical aspect that can influence technology adoption and implementation decisions (Baker, 2012). Thus, organizational readiness demonstrates not only the willingness to make changes but also the ability to provide the necessary support for these changes to be implemented.

In the context of this research, organizational readiness is seen as a factor that has the potential to support effective financial management. MSMEs with adequate resources, appropriate competencies, and management support are more likely to integrate accounting technology into their financial recording and control procedures. Conversely, limited competencies, resources, or commitment can result in technology not being utilized optimally. Research on cloud-based technology adoption in MSMEs also places organizational characteristics and capacities as important considerations in technology implementation (Alshamaila et al., 2013; Skafi et al., 2020).

c. Financial Management Effectiveness

Effective financial management is the ability of MSMEs to carry out financial activities to produce accurate and relevant information, monitor cash flow, control expenses, and support business decision-making. This construct emphasizes the quality of the financial management process, not solely the size of profits or business growth. Therefore, effective financial management can be reflected in the ability of MSMEs to regularly record transactions, understand the business's financial position, monitor income and expenses, and use financial information in planning business activities.

Accounting information systems play a role in supporting these processes by providing the information necessary for planning, control, and decision-making. Research by Lopung and Rulindo (2023), for example, found that accounting information system characteristics, particularly information breadth and timeliness, were positively related to the financial performance of MSMEs in Indonesia. Meanwhile, research on cloud-based accounting information systems indicates that utilizing such systems can support accounting information system effectiveness and organizational performance in MSMEs (Vo Van et al., 2026). These findings strengthen the conceptual rationale for positioning accounting technology as a relevant factor for effective financial management, although financial performance and effectiveness remain distinct constructs.

In this study, financial management effectiveness is positioned as the dependent variable reflecting the results of the MSME financial management process. For conceptual purposes, this construct can be explained through five main aspects: regularity of transaction recording, accuracy of financial information, cash flow monitoring, cost control, and information support for financial decision-making. These aspects represent a conceptual proposal to clarify the

scope of the variable, and therefore require further study if they are to be used as operational indicators in empirical research.

Development of a Conceptual Model of Digital Accounting Transformation

The development of the conceptual model in this study is based on a synthesis of literature on digital transformation, accounting technology adoption, and organizational readiness in MSMEs. The literature shows that digital transformation is not only related to the use of technology but also involves an organization's ability to integrate technology into business processes and utilize information in decision-making (Vial, 2019; Verhoef et al., 2021). Therefore, an understanding of digital accounting transformation needs to encompass the technology used and the internal capacity that supports its implementation.

This conceptual model uses the Technology–Organization–Environment (TOE) framework as a foundation for understanding technology adoption at the organizational level (Baker, 2012). However, this research model specifically focuses on two constructs: Accounting Technology Adoption and Organizational Readiness, with Financial Management Effectiveness as the intended outcome construct. The environmental dimension within the TOE framework remains considered as a context that can influence the condition of MSMEs, but is not included as a separate variable in the model.

Accounting technology adoption represents the use of digital solutions to support transaction recording, data processing, and the provision of financial information. Meanwhile, organizational readiness reflects the internal capacity of MSMEs, including resource availability, competency, management support, and commitment to implementing technology. Both constructs are positioned as relevant factors in explaining the effectiveness of financial management, encompassing regular recording, information accuracy, cash flow monitoring, cost control, and support for financial decision-making. This framework aligns with literature that emphasizes the importance of the relationship between technology adoption and organizational characteristics in the process of business digitalization (Alshamaila et al., 2013; Gupta et al., 2013; Skafi et al., 2020).

In the context of MSMEs in Timor-Leste, this model was developed as a conceptual framework to understand the role of accounting technology and organizational readiness in supporting financial management. The model is not intended to imply that all MSMEs have the same digital conditions, but rather to provide an analytical basis for further research. Therefore, the conceptual contribution of this article lies in integrating aspects of technology adoption and organizational readiness into a single framework oriented towards the effectiveness of MSME financial management.

Next, the conceptual foundation of the TOE framework—with the model focusing on technological and organizational aspects—is presented as follows.

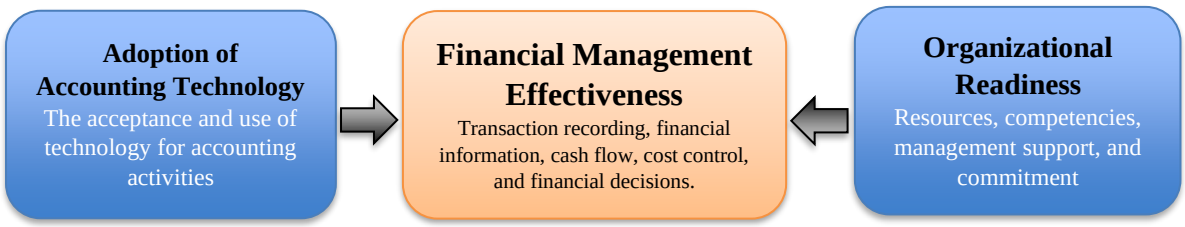


Figure 1. Conceptual Model of Accounting Digital Transformation in MSMEs

Note: The arrows in the figure indicate proposed conceptual relationships, not empirical test results. This figure represents a draft model; for a journal manuscript, the final layout may be adjusted to meet the publisher's required figure format.

Discussion

Digital accounting transformation is a relevant approach to strengthening MSME financial management amidst the increasing use of technology in business activities. Digitization enables a more structured process of recording and processing financial information, while also opening up opportunities for business owners to use this information in planning and controlling business activities. However, digital transformation is not simply understood as the process of replacing manual record-keeping with digital applications. This transformation also involves changes in work processes, organizational capabilities, and the use of information to support business decisions. Kraus et al. (2022) explain that digital transformation is a multidisciplinary field that impacts various aspects of business and management, while Warner and Wäger (2019) emphasize the importance of an organization's ability to adapt its strategy, processes, and culture to address digital change. In the context of MSMEs, this demonstrates that accounting digitalization needs to be understood as part of changes in business management, not merely the application of technological tools.

One important aspect of this process is the adoption of accounting technology. The use of digital accounting information systems and cloud accounting has the potential to help MSMEs record transactions, store data, prepare reports, and obtain financial information more quickly. Sastararuji et al. (2022), through a case study of MSMEs in Thailand, demonstrated that cloud accounting adoption is related to the need to improve efficiency, flexibility, and regularity in financial management. Meanwhile, Putri et al. (2025) found that cloud accounting adoption in MSMEs in Indonesia is associated with improved financial reporting quality; the study also identified technological infrastructure and organizational readiness as important factors in the adoption process. These findings support the view that accounting technology can provide a means to improve the quality of financial processes, although the actual benefits depend on the system's suitability and how it is used in business activities.

These potential benefits are also related to the ability of MSMEs to use financial information in decision-making. Al-Hattami (2024), in a study of MSMEs in Yemen, found a positive relationship between the success of accounting information systems and the effectiveness of decision-making. These findings indicate that the value of an information system lies not only in its ability to process data, but also in the quality of the information, system usability, and perceived benefits of its users. Similarly, Lutfi (2022) emphasized the importance of top management support and user self-efficacy in explaining the continued use of accounting information systems in MSMEs. Thus, accounting technology has the potential to help business owners monitor cash flow, evaluate expenses, and plan financial needs when the resulting information is truly understood and used. This clarifies that the effectiveness of financial management is not solely measured by the availability of applications, but also by their ability to support the financial management and decision-making process.

However, the implementation of accounting technology does not always yield the same benefits for every MSME. Eller et al. (2020) showed that MSME digitalization is related to information technology resources, employee skills, and digital strategies, but the relationship between these resources and performance is not always direct or uniform. Priyono et al. (2020) also found that MSMEs take different digital transformation paths depending on business conditions, level of digital maturity, resource constraints, and available support. These findings highlight that technology that is appropriate for one business may not be appropriate for another. For MSMEs with limited funds, skills, or access to technical support, implementing overly complex systems can even increase operational burdens. Therefore, accounting technology needs to be selected based on needs, user capabilities, costs, and business capacity to ensure consistent utilization.

This is where organizational readiness becomes crucial in understanding digital accounting transformation. Organizational readiness encompasses resource availability, owner and employee competency, management support, and a commitment to adapting work

procedures to technology. Tawfik et al. (2023), through research on the implementation of cloud accounting in MSMEs in Oman, examined the technological, organizational, and environmental factors that influence the adoption of the system. Research by Putri et al. (2025) also demonstrated that organizational readiness plays a role in the cloud accounting adoption process. Both studies support the view that technology adoption requires internal conditions that enable its implementation. Without adequate competency, clear recording procedures, and a commitment to continuous system use, the technology runs the risk of being only partially used or not integrated with daily financial activities. Therefore, organizational readiness should be viewed as a capacity that supports effective financial management, not simply an administrative requirement before technology implementation.

The relationship between technology and organizational readiness can be understood through the Technology–Organization–Environment (TOE) framework. From this perspective, technology adoption is influenced by the characteristics of the technology, the organization's internal conditions, and the external environment. Research by Aligarh et al. (2023) on cloud computing adoption and its consequences on MSME performance and Sastararuji et al. (2022) on cloud accounting adoption demonstrate the relevance of using a technology adoption perspective to understand digitalization decisions and processes in small businesses. Furthermore, Al-Mutawa and Al Mubarak (2024) examine the application of cloud computing as a digital technology in relation to MSME sustainability. Based on this literature, this article's conceptual model focuses on two dimensions: accounting technology adoption and organizational readiness, while retaining the environmental dimension as a context that can influence the digital transformation process. This choice allows the model to remain simple while recognizing that MSMEs' decisions to adopt technology are inseparable from market conditions, infrastructure, service provider support, and the institutional environment.

In the context of Timor-Leste, this model is relevant as a framework for understanding the needs of MSMEs in integrating accounting technology into financial management. However, its application requires consideration of diverse business capacities, digital skills, infrastructure availability, and access to technology services and mentoring. Previous research from Indonesia, Thailand, Yemen, and Oman provides a baseline for comparison, but differences in business and institutional environments prevent the results from being automatically generalizable to MSMEs in Timor-Leste. Therefore, the model developed in this article is best understood as a conceptual framework that requires further validation through empirical research in the local context. Further research could examine whether accounting technology adoption and organizational readiness are related to regular record-keeping, quality of financial information, cash flow monitoring, cost control, and financial decision-making in MSMEs in that country.

Overall, this discussion emphasizes that digital accounting transformation must be understood through a combination of technology use and organizational capacity to utilize it. This article's conceptual contribution lies in integrating these two aspects into a model focused on the effectiveness of MSME financial management. This model does not assume that digitalization automatically increases effectiveness, but rather positions accounting technology as a tool and organizational readiness as a supporting capacity that must be considered in the transformation process. This perspective can serve as a basis for developing empirical research and provide practical guidance for MSMEs, technology providers, and stakeholders seeking to strengthen financial management practices through digital transformation.

Additional research on management control, organizational learning, and the impact of digitalization on business performance can provide further support. Al-Hattami and Kabra (2022) examined the role of accounting information systems in the effectiveness of management control in MSMEs in Yemen. Saratchandra et al. (2022) highlighted how cloud computing supports the development of knowledge capabilities in MSMEs, while Zhao et al. (2025) discussed the relationship between digitalization and MSME performance. These three

studies further argue that the success of digital transformation depends not only on the use of technology but also on the organization's ability to process information and integrate technology into business processes.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This article develops a conceptual model of digital accounting transformation in MSMEs in Timor-Leste by positioning Accounting Technology Adoption and Organizational Readiness as two relevant aspects for understanding Financial Management Effectiveness. Based on the literature synthesis, digital accounting transformation is not only related to the use of financial software or applications, but also to the organization's ability to integrate technology into the process of recording, information processing, cash flow monitoring, cost control, and financial decision-making.

The main contribution of this article lies in integrating technological aspects and organizational readiness into a single conceptual model oriented towards the effectiveness of MSME financial management. Using a Technology–Organization–Environment (TOE) perspective, this article emphasizes the importance of considering MSMEs' internal capacity in the digital transformation process, while recognizing that the business environment can influence technology adoption. The developed model is expected to serve as a foundation for further empirical research and provide perspective for MSMEs and stakeholders in designing accounting digitalization strategies that suit their business needs. However, the proposed conceptual relationships still require empirical testing to ensure their relevance in the context of MSMEs in Timor-Leste.

Limitations

This study has several limitations. First, the article uses a conceptual approach based on literature synthesis, so the developed model has not been tested using empirical data from MSMEs in Timor-Leste. Second, the literature that forms the basis of the discussion comes from diverse country contexts and business characteristics, so the findings of previous studies cannot be directly generalized to the conditions of MSMEs in Timor-Leste. Third, this model focuses only on accounting technology adoption and organizational readiness, thus not encompassing other factors that could potentially influence the effectiveness of financial management, such as financial literacy, institutional support, digital infrastructure, and business owner characteristics. Furthermore, the proposed constructs still require refinement and measurement validation before being applied in empirical research.

Recommendations

Further research is recommended to test this conceptual model through surveys or other empirical approaches among MSMEs in Timor-Leste. Further research should also develop and validate indicators for each construct to reflect local characteristics and MSME financial management needs. Additionally, additional variables such as financial literacy, digital literacy, government support, and access to technological infrastructure can be considered to expand the model. For MSMEs, digital accounting transformation should be accompanied by increased digital and accounting competencies, adjustments to recording procedures, and a commitment to utilizing financial information in decision-making. Meanwhile, the government, MSME support institutions, and technology providers can support this process through training, mentoring, the provision of affordable accounting solutions, and expanded access to adequate digital infrastructure.

Author Contributions

All authors are responsible for conceptualization, the literature review, development of the conceptual framework, analysis and synthesis of the literature, manuscript drafting, and final approval of the manuscript.

AI Disclosure Statement

Generative artificial intelligence (AI) tools were used to assist with language refinement, manuscript preparation, and the development of initial drafts. The author has reviewed and revised the generated content, verified relevant references to the best of their ability, and assumes full responsibility for the accuracy, originality, and integrity of the final manuscript. AI tools were not treated as sources of scientific evidence, and all claims and academic references remain the responsibility of the author.

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