

Digitalism Toward Micro Small Medium Entity's Financial Report Quality

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Abstract. It is considered that the adoption of the use of information technology of Micro Small Medium Entity' actors is still low. The aim of the study is to examine the usage of information technology to increase the quality of financial report. The study method is held by taking quantitative method. Program taken in examining the data is Smart PLS 3.0 and for describing descriptive is SPSS 22. There are 165 Micro Small Medium Entity in Medan city identified as populations in the study and by doing stratified sampling method, there are 85 respondents identified as samples. The result of this study indicates that digitalism is positively taking effect to the quality of financial report. The study only wants to examine the use of digitalism to the quality of financial report, regardless of whether the information provided in financial report is in accordance with the EMKM' accounting standards based digitalism. Suggestion for the future research, there might be the establishment of the accounting standards based digitalism to the needs of Micro Small Medium Entity's financial reports.

Keywords: Technology of Information, Financial Reports, Digital Accounting Standards

1. Introduction

Small and medium-sized enterprises (SMEs) play a crucial role in revitalizing the Indonesian economy. In 2018, the total number of SMEs in Indonesia reached 64.2 million, marking an increase over the previous year's figure of 62.9 million ("Number of SMEs in Indonesia," 2017). Small and medium-sized enterprises (SMEs) made a significant contribution of IDR 8,573.9 trillion to the Indonesian economy, surpassing the contribution of large corporations which amounted to IDR 5,464.7 trillion.

Indonesian small and medium-sized enterprises (SMEs) provide a significant contribution to the country's gross domestic product (GDP). In 2018, Indonesian small and medium-sized enterprises (SMEs) made a significant contribution of IDR 8,573.9 trillion to Indonesia's gross domestic product (GDP) when considering the current prices. The GDP of Indonesia in 2018 amounted to IDR 14,838.3 trillion, with small and medium-sized enterprises (SMEs) accounting for 57.8% of the total GDP. SMEs must provide financial statements in order to secure loans from banks (Bakr & Napier, 2020). Preparing financial statements for MSMEs is crucial for controlling assets, liabilities, and capital, as well as for income planning and cost efficiency. Ultimately, these statements serve as a tool for making informed corporate decisions. In order to initiate the implementation of accounting records, business managers must possess the ability to distinguish and segregate the financial concerns of the firm from those of the personal/owner.

Even so, in reality, SMEs have very few financial reports, even less than 10%. This is due to a lack of knowledge of the importance of information technology as a tool that can be used in compiling financial reports and in addition, the lack of human resources (HR) in utilizing digital-based information technology in compiling financial reports for SMEs. research conducted by Salmiah et.al (2015) with the title of applying accounting to SMEs assisted by the Pekanbaru City Cooperatives and SMEs Office and its conformity with SAK EMKM. The results show that 83% of SMEs do not understand the contents of SAK EMKM, 70% of respondents do not use information technology to produce timely and relevant accounting information, and 70% of respondents as SMEs do not provide additional information that is not presented in the financial statements so that the information is not complete (Salmiah, Nanda Tri, & Adino, 2018)

2 Literature Review

Scott's research entails describing a novel institutional approach for studying organizations. This novel institutional theory prioritizes a cognitive framework above a normative one and highlights the impact of the system of cultural factors linked to the organizational environment rather than internal organizational activities. Furthermore, Scott stated that there are three local institutional mechanisms connected to the surrounding environment, namely through coercive rules, mimetic processes and norms (normative) (Orlikowski & Scott, 2008). These three mechanisms are the beginning of the birth of a new institutional theory (neo-institutionalism) in social science by adding knowledge that influences individuals to act according to their perceptions of the social world.

Policy makers can utilize three crucial processes, namely regulatory, normative, and cultural cognitive, to guide small and medium-sized enterprises (SMEs) in conducting their commercial operations and activities. Due to the implementation of bookkeeping requirements for small and medium enterprises (SMEs) outlined in PP No. 17 of 2013, SMEs are compelled to fulfill their company bookkeeping duties in Indonesia (2013). Small and medium-sized enterprises (SMEs) make efforts to arrange their financial reporting in compliance with appropriate and accurate accounting standards for SMEs, as mandated by the company bookkeeping requirement. The Financial Accounting Standards Board (DSA) has developed EMKM Accounting Standards to meet the specific requirements of SMEs in accurately reporting financial information in their financial statements. SMEs are required to adhere to EMKM-based accounting standards in order to generate high-quality financial reports. The cognitive-cultural pillar of SMEs involves the process of observing and mimicking activities (mimetic) and eventually adopting the use of SAK EMKM in the compilation of financial statements. This process can be explained by the principles of new institutional theory.

In the current global economic development, one of the main concerns is the adaptation of the use of Information Technology (hereinafter abbreviated as IT) because of its dynamic and comprehensive nature. The use of IT in life, especially in the business world, has contributed greatly to the breadth, speed, and innovation in business practices over the last three decades and the use of IT has had a positive impact on business sensitivity, especially in terms of decision making, timeliness of reporting, availability information networking, increased productivity, and increased profitability. When utilizing information systems, users evaluate the advantages and practicality of the system. When utilizing technology, the Technology Acceptance Model (TAM) is employed.

The Technology adoption Model (TAM) is a predictive model that focuses on determining the adoption of computer applications and the elements that have a direct impact on this acceptance (Ismail, 2009). The Technology Acceptance Model (TAM) seeks to elucidate and forecast user acceptance of the various aspects that influence the adoption of a technology inside an organization. The Technology Acceptance Model (TAM) elucidates the cause-and-effect connection between beliefs and behavior, goals/needs, and the practical utilization of an information system by its users (Ayem & Maknun, 2020).

Fahturohman and Piarna (2019) emphasized the significance of the behavioral aspect in the adoption of information technology. They highlighted that the interaction between users and computers is influenced by perceptions, attitudes, and emotions, which are important behavioral aspects exhibited by individuals as users (Piarna & Fathurohman, 2019). The attitude of users towards a technology is influenced by their perception of its usefulness and its ability to be utilized consistently. Davis (1989) describes it as a threshold at which an individual perceives that employing a specific method can diminish the amount of effort required to accomplish a task (Davis, 1989). Utilizing a company's information technology infrastructure can serve as a valuable asset for maintaining a competitive edge in the long term (Hodge, 2020). Put simply, utilizing a computer can enhance the efficiency and job effectiveness of individuals.

3 Research Methodology

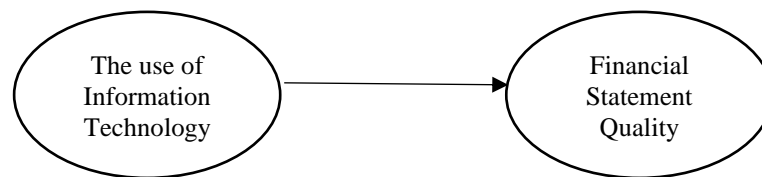


Fig 2. The Conceptual Framework

The hypotheses in this study are as follows: H1: The utilization of information technology has a favorable impact on the quality of financial reports. This is based on the provided background, formulation, and objectives.

This study is specifically centered toward proprietors of Micro, Small, and Medium Enterprises (SMEs) located in Medan City. The investigation was conducted in 2022, utilizing a questionnaire to collect data. The study focuses on micro, small, and medium firms as the population. The study was carried out in Medan, a city with a population of 165. The sample size in this study consisted of 85 small and medium-sized enterprises (SMEs). The measurement scale employed in this study comprises a Likert scale and a nominal scale. Each variable is assessed using a five-point Likert scale model, consisting of the following categories: (1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree, and (5) Strongly Agree. The data analysis technique employed in this work utilizes the Smart PLS 3.0 software, while descriptive analysis is conducted using SPSS 22.

4 Results and Discussion

4.1 Descriptive Statistical Test

Descriptive statistical tests reveal that all variables exhibit acceptable data quality, as the standard deviation is smaller than the mean value. The standard deviation is smaller than the computed mean, suggesting that the data deviates only little from the sample across all variables. Thus, the calculated average effectively represents the actual situation.

4.2. Research Frequency Distribution Test

Based on the data frequency distribution test, namely the use of information technology as a whole, the results of respondents on the use of information technology have a good response with the largest frequency value on a scale of 4 of 56.07%. That is, respondents agree that the use of information technology with timely and accurate dimensions can affect the quality of financial reports.

4.3. Convergent Validity Test

Based on the results of the convergent validity test, the loading factor for the second order and first order has met the requirements for the convergent validity test, namely the indicator value > 0.6 so that the indicator is said to be valid and for the composite reliability test all variables and dimensions have met the requirements, namely having a value above 0,7. So from these variables it can be concluded that all of them meet the requirements of validity and reliability.

4.4. Inner Model Test

Based on the Inner model test, the R-Square value is 0.66. This means that 66% of MSME Financial Report Quality is influenced by IT utilization, while 34% is explained by other reasons.

4.5. Research Dimension Test

According to the research dimension test, it demonstrates that all the dimensions within the research variable have a substantial impact on forming the construct. Specifically, the dimensions of declarative knowledge and procedural knowledge contribute to the formation of accounting knowledge. The utilization of information technology is influenced by the factors of time and precision. The concept of financial report quality is influenced by qualities that are pertinent, trustworthy, comparable, and comprehensible. The primary factor that significantly influences the development of accounting knowledge is declarative knowledge. When actors in MSMEs possess a thorough understanding of posting and journaling procedures, the financial reports they produce will exhibit superior quality due to accurate recording. The most significant factor in the utilization of information technology is accuracy, as it ensures that MSME actors maintain high-quality financial reports by accurately performing bookkeeping tasks, even if they are not done in real time. The primary factor that significantly influences the quality of financial statements is reliability, which refers to the accurate representation of the books. When the financial records are presented accurately, the financial reports attain a higher level of quality as they are devoid of any recording errors.

4.6. Part Coefficients Test (Hypothesis Test)

The coefficient obtained from the path parameter analysis, which measures the impact of variable utilization of information technology on the quality of financial reports, is 0.559. The corresponding T statistic value is 9.083, which is greater than the critical value of 1.98 at a significance level of 0.05 (5%). This indicates a statistically significant positive influence of information technology usage on the quality of financial reports, and substantial. The utilization of information technology has a regression coefficient of 0.559, indicating that a 1-unit increase in the use of information technology leads to a 0.559-unit improvement in the quality of financial statements. Conversely, a decrease in the utilization of information technology (by 1) will result in a corresponding fall in the quality of financial reports. The findings of this study corroborate the idea that there is a favorable correlation between the utilization of information technology and the caliber of financial reports.

5 Conclusions

The employment of information technology has a favorable and significant impact on the quality of financial reports, according to the research's findings and statistical analysis. The good trend shows that the more information technology is employed, the fewer errors are made when preparing financial reports, which will raise the caliber of financial reports.

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