

## The behavior of SMEs in Implementation of financial accounting standards for SMEs to increase performance

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### KEYWORDS

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**ABSTRACT** SMEs are one of the driving forces of the Indonesian economy with abundant resources that have not been fully utilized. The role of SMEs is very important, so it must be considered how to improve the performance of these SMEs, namely through financial reports, the main problem in developing these businesses is financial management. SMEs are not yet aware of the importance of financial statements in a company because of limited information and knowledge about accounting. In the era of society 5.0 is a new era, where SMEs must be able to seize the golden opportunities to improve their business performance. To overcome the challenges, SMEs must make financial reports in accordance with the applicable financial accounting standards. With financial reports, SMEs can measure business performance and can be used as a basis for banks to assess the feasibility of SMEs. Based on these conditions, the purpose of this study is to analyze the behavior of SMEs towards the interest in implementing financial accounting standards for SMEs in improving their business performance. There are four factors that determine the interest of SMEs in implementing financial accounting standards for SMEs, namely performance expectancy, effort expectancy, facilitating conditions and social influence. The results of the study show that performance expectations and support have a positive and significant effect on the intention to implement SAK EMKM,

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### 1. INTRODUCTION

At present, economic actors, especially MSMEs, must have a strong strategy so that the products or services sold are in demand and consumed by the public. This requires empowering MSMEs so that Indonesian MSMEs are able to produce superior products that are able to compete with large industrial companies both in Indonesia and abroad, increasing product innovation, service, quality and service through the use of materials that are easily available at relatively low costs, developing resources human resources through training for MSME actors to increase creativity, study technology and make sales manually or online media. MSMEs have a very important role in improving the economy. In Indonesia, MSMEs are an alternative workforce produced by various innovations that can reduce unemployment in Indonesia. The implementation of the MEA opens opportunities for business actors to compete and develop SMEs in a comprehensive and sustainable manner so that highly competitive products and strong and quality management emerge. McCartney et al. (2020) revealed that around 60-70% of SMEs do not have access or bank financing and only a few banks are able to reach outlying and remote areas. MSME management is still managed manually and traditionally (especially financial management) due to the inability of managers to separate money for household and business activities.

Behind the extraordinary achievements of the MSME sector, various problems have still been identified, one of which is poor financial reporting. This problem arises because MSME actors do not understand accounting practices so that perpetrators tend to report non-standard or what is or even don't report at all. MSME financial reporting is very important, so that financial transparency becomes more transparent, besides that MSME actors know the flow of finance to MSMEs. Financial reports can be used as an effort to strengthen MSMEs so that they can survive in the market and consumers, and can expand capital and business networks.

Facing such situations and conditions, it is necessary to innovate in compiling financial reports in accordance with financial accounting standards. SMEs are slightly supported by the existence of financial accounting standards for Micro, Small and Medium Enterprises (SAK EMKM) issued by IAI. Exposure to the draft financial accounting standards for micro, small and average organizations (ED SAK EMKM) which was approved by the Financial Accounting Standards Board at its meeting on 18 May 2016 and came into force on that date 1 January 2018. With SAK EMKM, everything becomes it is easier for MSME actors to apply accounting to their businesses, they can easily compile standard financial reports. Although SAK EMKM may be considered simple, it can provide reliable information in presenting financial statements.

The Indonesian Association of Accountants (IAI) is a professional organization that oversees all accountants in Indonesia, has ratified the Accounting Standards for Micro, Small and Medium Enterprises (SAK EMKM) at its meeting on October 24, 2016. This is proof of IAI's concern for all economic actors. SAK EMKM is intentionally simplified to become a financial accounting standard that is easy to understand for approximately 579 million MSMEs. SAK EMKM is a financial accounting standard for MSMEs that is implemented On January 1, 2018, the Indonesian Association of Accountants (IAI) issued Cost Accounting Standards for micro, small and medium organizations (SAK EMKM). In this case MSME actors get an understanding of financial reporting. Thus, the ease of presentation of financial statements is one of the requirements for bank credit in the financial sector.

According to Efriyenti recording of financial reports is reported because the management of micro-enterprises is still far from the applicable financial accounting standards. Evaluation through financial data collection is carried out by owners or managers of micro businesses who have not implemented this process by registering financial reports according to the correct accounting period, because micro entrepreneurs cannot register finances based on SAK EMKM. Financial reports are not prepared by MSME owners because the opinion of MSME owners is that the preparation of financial reports is quite difficult if done until the owner or manager of a micro business understands the depth of writing financial reports.

Research conducted by Nawaz & Sheham states that performance expectancy, effort expectancy, facilitating conditions and social influence affect interest in using accounting information systems in MSMEs. in Sri Lanka City. Whereas in research Astutie & Fanani examines the effect of performance expectations and social influence on the interest of MSMEs in using SAK ETAP.

At present, MSME actors in Medan City have not implemented SAK EMKM, so it is very necessary to apply financial accounting standards (SAK EMKM) to improve MSME performance. With these problems, the researcher is interested in taking the title MSME Behavior in the Application of Financial Accounting Standards for MSMEs to Improve MSME Performance.

## 2. LITERATURE REVIEWS

### 2.1 Micro, Small and Medium Enterprises (MSMEs)

MSMEs are independent production business units, which are carried out by individuals or business entities in all economic sectors (Tambunan, 2012: 2). In principle, the distinction between micro businesses (UMi), small businesses (UK), medium businesses (UM) and large businesses (UB) is usually based on the initial value of assets (not including land and buildings), average annual income. or the number of permanent employees. However, the definition of MSMEs based on these three sizes differs in each country. In this case, MSMEs must be able to compete and create products that are not only acceptable to domestic (Indonesian) consumers but also to consumers in Southeast Asia. Micro and medium enterprises (MSMEs) are always there because they are needed. MSMEs have always proven to be tough, especially when our country was hit by the economic crisis that started in July 1997. Empowerment and development of micro-enterprises, small and medium en-

terprises (MSMEs) is the government's effort to overcome the economic crisis. unemployment and poverty problems. The amount of possible credit received by the company is IDR 50,000,000. Micro Business is an individual manufacturing business or part of a cooperative with total sales of IDR 100,000,000.

### 2.2 Unified Theory of Acceptance and Use of Technology (UTAUT)

The Unified Theory of Acceptance and Use of Technology (UTAUT) is the latest technology acceptance model developed by Venkatesh in 2003. UTAUT synthesizes eight theories of technology acceptance into one theory. The eight theories include the Theory of Reasoned Action (TRA), the Technology Acceptance Model (TAM), the Motivational Model (MM), the Theory of Planned Behavior (TPB), A Model Combining The Technology Acceptance Model and The Theory of Planned Behavior (C). - TAM-TPB), The Model of PC Utilization (MPCU), The Innovation Diffusion Theory (IDT), The Social Cognitive Theory (SCT)(Miswaty et al., 2022). The four main constructs that play an important role as direct determinants of behavioral intention and use behavior are performance expectancy, effort expectancy, social influence, and facilitating conditions.

#### 2.2.1 Performance Expectation

Performance expectation is the UTAUT construct which is a person's level of confidence in using the system to improve his performance (Vekantesh et al., 2003). The higher the performance expectation, the greater a person's interest in improving his performance. Performance expectancy is a combination of perceptions of usefulness, extrinsic motivation, job suitability, relative advantage and expected results.

The results of the study Rosita and Whetyntyas state that performance expectations have a positive influence on the use of accounting information in MSMEs. Researchers predict that the relationship between performance expectations and interest in using SAK EMKM is said to be positive, if the performance expectancy variable for using SAK EMKM for MSME actors is high, there will also be high interest in using SAK EMKM for MSME actors.

#### 2.2.2 Effort Expectancy

Effort expectancy is the level of effort of each individual in operating the system to support work processes. Davis (1989) in Chang (2012) found that an application can be accepted by its users when an application is easy to use. This variable is formed from three constructs, namely perceived ease of use, complexity, and ease of use.

In Mursalin's research, 2012 examined the construct of business expectations with an interest in using accounting information systems. The conclusion from this study is that business expectations have a strong positive influence on interest in using information systems. Other research that is the same as research (Mursalin, 2012) is research (Chng et al., 2007 and Phichitchaiopa & Naenna, 2013).

#### 2.2.3 Social Influence

Social influence is a situation when a person needs to listen to other people's opinions to convince himself when using a new system. Social factors can affect the mindset of individuals in the form of association and work environment.

Social factors are efforts made by MSME actors to change a belief and behavior that other people can influence behavior to use information systems which are presented as subjective norms in TRA, TAM, TPB, social factors in MPCU, and image in innovation diffusion theory.

According to research conducted by Rudianto & Siregar, Mulyaga, Astutie & Fanni states that social influence has a positive relationship to interest in using SAK ETAP. The relationship between social influence and interest in using SAK EMKM is said to be positive if the level of support for the use of SAK EMKM from colleagues, superiors, government and organizations is high, then there will also be high interest in using SAK EMKM for MSME actors

#### 2.2.4 Facilitating Conditions

Facilitating conditions are the level of a person's belief that the company's and technical infrastructure is available to support the use of the system (Venkatesh et al., 2003). These devices can be in the form of systems used, training, manuals or others .

Tritunggal's research, 2017 examines the interest in using accounting information systems in expeditionary service companies in Yogyakarta. The results of the study reveal that conditions that support users have a positive effect on interest in using accounting information systems. The more conditions that support users to apply SAK EMKM, the better the application of SAK EMKM will be for these SMEs.

#### 2.3 Application of SAK EMKM

Financial accounting standards for micro and small enterprises become a guide in developing simple accounting for micro, small and medium managers. This application is presented so that micro, small and medium managers can provide financial report forms to compile and run programs that can help generate higher business growth. The SAK EMKM preparation system aims to facilitate the preparation of simple financial reports for micro, medium and small managers. Three reports must be completed, namely the statement of financial position, income statement and notes. on financial reports.

Application of financial accounting standards for small and medium micro entities by using basic accounting principles such as in the profit and loss statement by using the difference between income and expenses. Notes to financial statements are made based on operational activities so that all elements of information that are not contained in the statement of financial position and income statement can be obtained.

#### 2.4 Performance of SMEs

Performance is a description of management activities regarding success or failure in carrying out their duties and responsibilities in public accountability. There are 14 indicators that can explain the performance of MSMEs, namely: reputation, productivity, employee satisfaction, profits, sales or income, product conformity, capital adequacy, operational effectiveness in production, product quality produced, achievement of predetermined targets, number of customers, ease of conducting supervision and reducing production costs, Utami, et al., (2013), said that performance dimensions include financial performance and non-financial performance. Financial performance includes

market performance in this case revenue and profit and an increase in owned assets. Meanwhile, the non-financial performance includes product quality, customer satisfaction,

### 3. METHOD

This research is quantitative research with descriptive statistics. The nature of research with explanatory research. The population used in this study were business actors registered with the Cooperatives and UKM Service in Medan City. Sampling was carried out using non-probability sampling, namely quota sampling. As a general rule, the minimum sample size is at least five times the number of question items analyzed. This guideline is called the 5 to 10-time rule (5-time rule of thumb) which is practically 5 to 10 times the maximum number of arrows (paths) that hit a latent variable from the PLS model. The number of indicators for the variable formation for the research design is so that the minimum sample size in this study is  $27 \times 5 = 135$  people.

To answer the research questions and hypotheses, an inferential quantitative research analysis was carried out. The partial least squares (PLS) analysis tool was used for inferential quantitative research analysis. Being able to calculate path coefficients, being able to predict construction, perform multivariate data analysis, develop and test theory-based relationships between variables, and being a rich strategy and management research method are hallmarks of PLS analysis tools. SEM-PLS analysis is carried out in three stages, namely: The first stage, model specification, where the relationship model between the external model and the internal model is built. The internal model or structural model explains the relationship between the variables tested. Furthermore, the external model or measurement model shows the relationship between indicators and their latent variables (constructs). At this stage, exogenous and endogenous variables are determined. Exogenous variables are independent variables and endogenous variables are dependent variables. Furthermore, the mediating variable is the variable that is between the two exogenous and endogenous variables. Mediating variables can also function as exogenous variables and endogenous variables.

### 4. RESULTS AND DISCUSSION

Respondents who became the sample in this study were as many as 135 people. The demographic aspects of MSME actors' respondents consist of information about the type of business sector, the amount of monthly turnover and the current payment method. Below is a summary of the characteristics of the research respondents table 1:

Based on the table 1 above, it can be seen that the majority of respondents are small-scale businesses (81.4%) engaged in the food business (63%) who still rely on cash in their daily transactions (78%).

#### 4.1 Outer Model Analysis (Measurement Model)

Outer model consists of convergent validity, discriminant validity, and composite reliability.

**Table 1.** Respondent Identification (N=135)

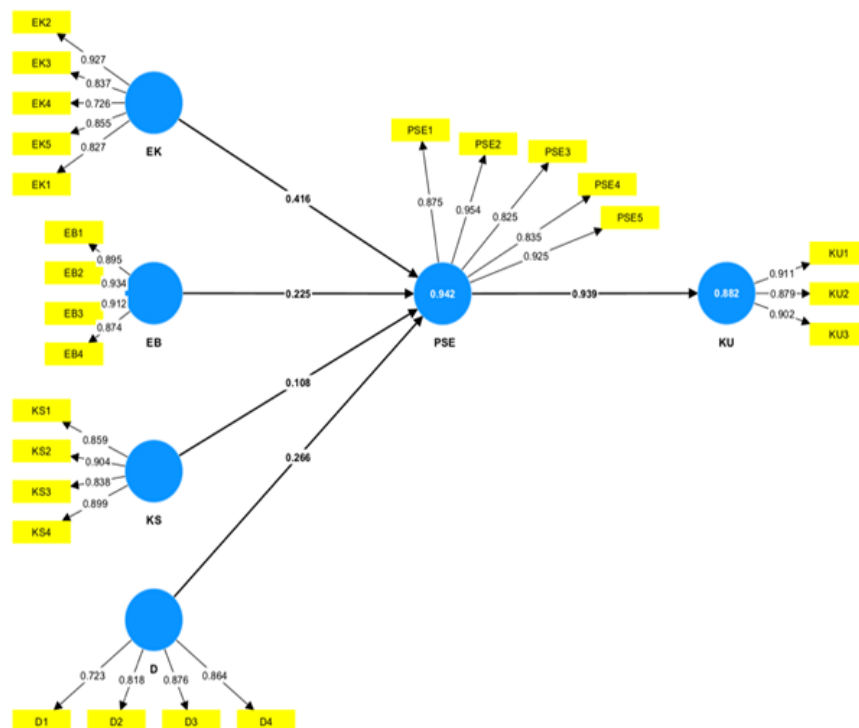
Information	Amount (f)	percentage (%)
<b>Business Fields</b>		
Clothing	30	22,2
Food	85	63
Furniture	20	14,8
<b>Turnover</b>		
≤ IDR 25 million/month	110	81,4
IDR 25-50 million/month	15	11,1
≥Rp 50 million/month	10	7,5
<b>Payment Method</b>		
Cash	105	78
Debit/Credit Card	30	22

Source: Processed Primary Data (2022)

### 4.1.1 Convergent Validity

The convergent validity of the measurement model with reflexive indicators can be seen from the correlation between the item/indicator score and the construct score. Individual indicators are considered reliable if they have a correlation value above 0.70. Based on the results for outer loading, it shows that there is an indicator that has a loading below 0.60 and is not significant. The structural model in this study is shown in the following figure:

The Smart PLS output for the loading factor gives the results in figure 2 below Outer Loadings



**Figure 1.** Convergent Validity Test Results (Source: Smart PLS Program Output, 2022)

**Table 2.** Average Variance Extracted (AVE)

Variable	Average Variance Extracted(AVE)	Information
Support Business	0.676	Well
Business Expectations	0.817	Well
Performance Expectations	0.701	Well
Social Conditions	0.766	Well
Application of SAK EMKM ( PSE)	0.782	Well
MSME Performance (KU)	0.806	Well

Source: PLS processed data (2022)

All indicators have a loading factor  $\geq 0.70$ , meaning that all indicators are valid indicators for measuring the construct.

### 4.1.2 Square Root of Average Variance Extracted (AVE)

The recommended Average Variance Extracted (AVE) value is above 0.5 (Mahfud and Ratmono, 2013). If the AVE value is greater than 0.5 then discriminant validity is considered good. The following is the Average Variance Extracted (AVE) value in this study: Based on Table 2 above, the AVE for each variable in this study is included in the Good category because the AVE value is greater than 0.5.

### 4.1.3 Discriminant Validity

Discriminant validity testing in this study was carried out using the Fornell-Larcker approach. In testing discriminant validity, the AVE square root value of a latent variable is compared with the correlation value between that latent



	D	EB	EK	KS	KU	PSE
D1	0.723					
D2	0.818					
D3	0.876					
D4	0.864					
EB1		0.895				
EB2		0.934				
EB3		0.912				
EB4		0.874				
EK2			0.927			
EK3			0.837			
EK4			0.726			
EK5			0.855			
KS1				0.859		
KS2				0.904		
KS3				0.838		
KS4				0.899		
KU1					0.911	
KU2					0.879	
KU3					0.902	
PSE1						0.875
PSE2						0.954
PSE3						0.825
PSE4						0.835
PSE5						0.925
EK1			0.827			

Figure 2. Table Figure Smart PLS Program Output, 2022)

variable and other latent variables. The results of the discriminant validity test in this study are as follows:

Table 3. Discriminant Validity Testing

	D	EB	OAK	KS	MY	PSE
D	0.822					
EB	0.921	0.904				
OAK	0.846	0.912	0.837			
KS	0.926	0.884	0.794	0.875		
MY	0.912	0.903	0.881	0.863	0.898	
PSE	0.925	0.945	0.932	0.884	0.939	0.884

Source: PLS Processed Data (2022)

From Table 3 it can be seen that the AVE square root value for each latent variable is greater than the correlation value between the latent variable and other latent variables. So it can be concluded that this research has met the requirements of discriminant validity.

#### 4.1.4 Composite reliability and Convergent Validity

Assessment of measurement is very important and absolutely necessary, such as conducting thorough tests for the reliability and validity of the scales used to measure latent constructs and their manifest variables. Several steps are used in the assessment of the measurement model. Composite reliability and Cronbach's Alfa value for the studied constructs, which have been calculated using the SmartPLS software are as follows:

Table 4. Reliability Testing based on Cronbach's Alpha (CA)

	Cronbach's alpha
Support	0.839
Business Expectations	0.925
Performance Expectations	0.892
MSME Performance (KU)	0.880
Social Conditions	0.898
Application of SAK EMKM ( PSE)	0.929

Source: PLS Processed Data (2022)

Table 5. R-Square

	R Square	R Square Adjusted
MY	0.882	0.879
PSE	0.942	0.935

Source: PLS Processed Data (2022)

The recommended Cronbach's Alpha (CA) value is above 0.7 (Mahmud and Ratmono, 2013). Based on Table 4 above, all CA values are  $\geq 0.7$ , which means that they meet the reliability requirements based on Cronbach's alpha.

## 4.2 Structural Model Analysis (Inner Model)

### 4.2.1 R-Square model

The results of the R Square test in this study are shown in Table 5. Based on Table 5, it can be seen that the coefficient of determination for the latent variable of the application of SAK EMKM (Z) is 0.942, which means that performance expectations, business expectations, social conditions and support can explain the effect on the implementation of SAK EMKM by 94.2%. Furthermore, the coefficient of determination for the MSME performance latent variable (Y) is 0.882, which means that the application of the EMKM SAK can explain its effect on MSME performance by 88.2%.

### 4.2.2 Q2 Value Predictive Relevance

The Q2 Predictive Relevance test serves to validate the predictive ability of the model. The interpretation of the results of Q2 predictive relevance is that if the value is greater than 0 then it indicates that the independent variable is good or suitable as an explanatory variable that can predict the dependent variable (Yamin, S., & Kurniawan, 2011). The predictive relevance of Q2 value in this research model can be seen in the calculation below.

$$\begin{aligned}
 Q2 &= 1 - (1 - 0.942) \times (1 - 0.882) \\
 &= 1 - (0.058 \times 0.118) \\
 &= 1 - 0.006844 \\
 &= 0.993156
 \end{aligned}$$

Based on the calculation above, it can be seen that the value of Q2 in the simulation model has a value of 0.993156. Thus, this research model has a good prediction.

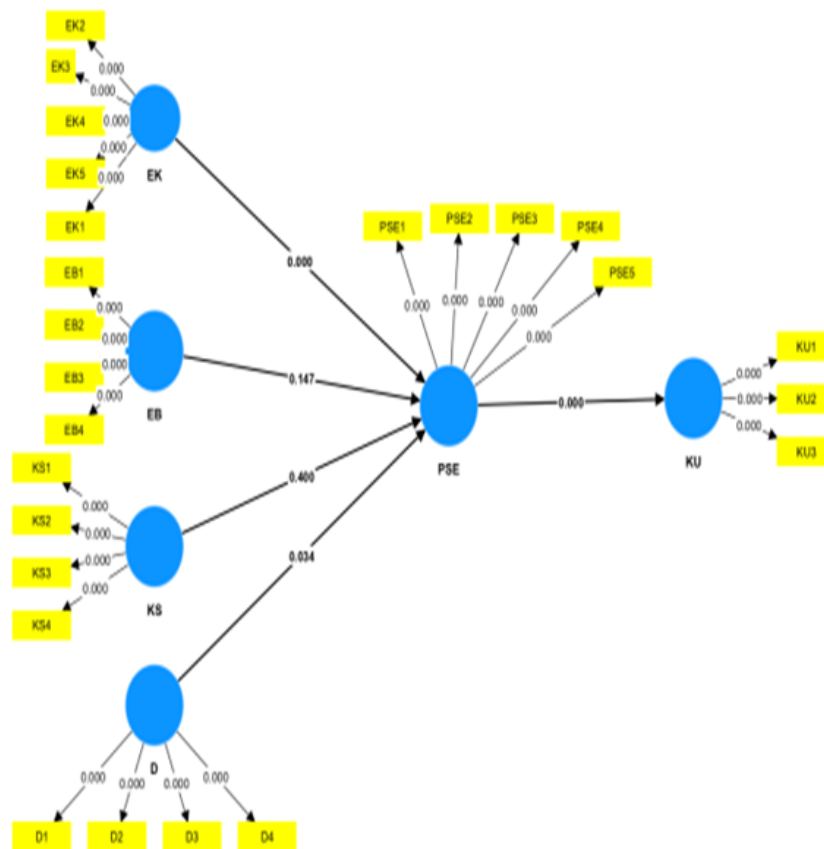


Figure 3. Results of the PLS Structural Model

#### 4.2.3 Hypothesis test (InnerModel)

From the results of testing the outer model shows that it meets the validity and reliability requirements. In addition, an examination of the inner model, which includes a direct effect significance test (direct effect) and test the significance of the indirect effect/mediating effect and moderation (indirect effect). The inner model in this study is shown in the path diagram as follows:

Based on the results above, it can be seen that performance expectations have a positive and significant effect on the implementation of SAK EMKM with a significant value of  $0.000 \leq 0.05$ . Business expectations have a positive and insignificant effect on the application of SAK EMKM with a significant value of  $0.147 \geq 0.05$ . Social conditions have a positive and insignificant effect on the application of SAK EMKM with a significant value of  $0.400 \geq 0.05$ . Support has a positive and significant effect on the implementation of SAK EMKM of  $0.034 \leq 0.05$ . The intention to implement SAK EMKM has a positive and significant effect on MSME performance with a significant value of  $0.000 \leq 0.05$ .

## 5. CONCLUSIONS

In this study, five hypotheses were tested which were developed from the relationship model between the variables of performance expectations, business expectations, social conditions, support for the intention to implement SAK EMKM and their impact on MSME performance. From the results of data analysis and processing, it is concluded that:

- a. Performance expectations have a positive and significant effect on the intention to implement SAK EMKM

- b. Business expectations have a positive and insignificant effect on the intention to implement SAK EMKM
- c. Social conditions have a positive and insignificant effect on the intention to implement SAK EMKM
- d. Support has a positive and significant effect on the intention to implement SAK EMKM
- e. The application of SAK EMKM has a positive and significant effect on the performance of MSMEs

Suggestions in this study are:

- a. MSMEs can improve the performance of their business through the application of SAK EMKM. With MSMEs implementing financial reports based on SAK EMKM it will help business actors to gain access to finance and access to capital
- b. Further researchers can develop other factors to examine more deeply and refine the concept of business actor behavior in implementing SAK EMKM
- c. The sample in this study can be expanded to the provincial or Indonesian level, bearing in mind that the author only researched in the city of Medan.

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