

# CHAPTER I

## INTRODUCTION

### 1.1. Background

Micro, Small, and Medium Enterprises (MSMEs) have an essential role in Indonesia economic growth, especially during the Covid-19 pandemic. In general, MSMEs have shown their role and made several contributions to Indonesia. According to Akterujjaman (2010), the role of MSMEs is very strategic in the economy as one of the main driving forces in national economic development. The first role of MSMEs is to distribute the economic level of the lowly people, where MSMEs can reach remote areas so that people do not need to go to cities to get a decent living. The second is to alleviate poverty. It can be seen from the fact that the absorption of labor is mainly done by MSMEs compared to large businesses to reduce the poverty rate in Indonesia. And finally, MSMEs play a role in earning foreign exchange because the MSMEs market does reach national and overseas. According to Subramanian & Nehru (2012), MSMEs contribute to the domestic market and exports significantly, thereby earning foreign exchange earnings for the country, thus making this sector emerge as a powerful pillar both in terms of regional income and in terms of labor.

This shows that MSMEs have a significant and crucial contribution to the Indonesian economy. Along with the significant contributions of MSMEs, they have problems in their limited understanding of accounting, especially EMKM standards. Not all MSMEs have financial reports that contain information about the

financial position, performance, and changes in the financial position of an MSMEs, which is helpful for decision making for entrepreneur. There are many entrepreneur do not understand accounting, especially EMKM standards, so MSMEs have not compiled financial reports.

Maseko (2011) and Jati et al. (2004) state that most MSMEs do not have complete accounting records due to limited accounting knowledge. MSMEs experience difficulties preparing financial reports due to the complexity of the accounting process and the assumption that financial reports are not crucial for MSMEs. Besides, Putri et al. (2015) also revealed four main problems faced by MSMEs actors in Indonesia in carrying out their business activities. First, problems related to financial records. Second, problems related to capital. Third, problems related to mastery of technology, and the fourth is problems related to the marketing of MSMEs products and services.

The biggest challenge for MSMEs is effective financial management both for running the organization and for expansion activities in the light of global competition (Zhang & Ye, 2010). According to Armando (2014), the recording of micro and small business finances is low in intensity. They tend not to keep records of transactions properly. Few businesses make complete records until financial reports are formed. The low intensity of recording in MSMEs is caused by several factors: 1) Owners perceive that recording, bookkeeping, and reporting are unnecessary. 2) The lack of education and training of owners about accounting, so they do not know how to do recording, bookkeeping, and reporting. 3) Owners are

more likely to focus on production and marketing activities than accounting as if accounting is a stepchild in the business.

MSMEs in Indonesia can continue to grow in terms of the number of business circulation and employment. The potential for the development of the value of MSMEs business circulation is also the potential for tax revenue for state administration. Therefore, the Financial Accounting Standards Board has prepared Financial Accounting Standards for Micro, Small, and Medium Enterprises (SAK EMKM) to meet micro, small, and medium enterprises' financial reporting needs. The preparation of SAK EMKM is based on Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises and is effective on January 1, 2018.

This standard is published with the hope of making it easier for entrepreneur to prepare financial reports that do not or have not been able to meet the accounting requirements stipulated in the Financial Accounting Standards for Entities without Public Accountability (SAK ETAP). SAK ETAP was prepared by adopting the International Financial Reporting Standard for Small and Medium Enterprises (IFRS for SME), published on January 1, 2009. However, in its implementation, SAK ETAP is not suitable for micro and small business entities. Therefore, SAK EMKM is prepared according to the needs and scale of business activities of entrepreneur.

The implementation of SAK EMKM is expected to facilitate entrepreneur in preparing their financial reports. Financial reports will provide information on MSMEs financial position and valuable financial performance for making economic decisions for both internal and external parties. Financial reports prepared

by SAK EMKM will produce financial reports that are accurate, easy to understand, and relevant. Therefore, MSMEs entrepreneur can make the best decisions to develop their business. Besides, financial reports are also helpful for external parties, namely creditors. Creditors will be more confident in providing loans to MSMEs entrepreneurs if the information provided in the MSMEs financial reports is by SAK EMKM.

Marbun (1997) revealed that one of the weaknesses of small businesses in Indonesia is that they do not master and do not practice an adequate financial system in general. This is because they do not have good knowledge and skills in managing accounting records in a strict and disciplined manner with regular bookkeeping, in daily, weekly, monthly periods, and so on, so that many of them do not understand the importance of recording and bookkeeping for continuity of their business. Besides, an understanding of accounting is also needed to become the basis for understanding and implementing financial reports by SAK EMKM. The ability to grasp the meaning of the material being studied is an understanding (Winkel, 2004). The better the accounting understanding possessed by owners or managers will improve their ability to implement SAK EMKM into financial reports.

Based on the 2016 economic census results, there were 26.073.689 micro, small and medium enterprises (MSMEs) scattered throughout Indonesia. The government has attempted various ways to support the ease of doing business for Micro, Small, and Medium Enterprises (MSMEs). The Ministry of State-Owned Enterprises and State-Owned Enterprises Company took the initiative to create a program named *Rumah Kreatif BUMN* (RKB). This program created to empower

Micro, Small, and Medium Enterprises as mandated by Law Number 19 the Year 2003 concerning State-Owned Enterprises Article 2 Paragraph (1) letter E, which states that one of the aims and objectives of establishing the State-Owned Enterprises is to actively participate in providing guidance and assistance to economically weak entrepreneurs, cooperatives and the community.

Bukit Asam Company is a state-owned company engaged in the mining and coal industry. Since Bukit Asam Company was established and operated, they have involved the community as one of the closest stakeholders. Through the corporate social responsibility (CSR) unit, Bukit Asam Company was committed to encouraging the growth of community entrepreneurship by helping small businesses from the start, including providing mentoring, training, and marketing assistance, to eventually develop into solid and independent entrepreneurs. Bukit Asam Company conducts a partnership program by distributing soft loans to small and medium enterprises to achieve this goal.

Bukit Asam Company distributes partnership funds as soft loans. These soft loans have been running since 1992 until now. During that period, Bukit Asam Company managed and distributed soft loan funds totaling Rp. 147 billion. These funds have been distributed to 8.197 small businesses and cooperatives spread across 14 provinces. With a total accumulation of the number of fostered partners reaching 8.197 units, this certainly affects the increase in the number of workers absorbed and opens up jobs for supplier partners and distributors of the foster partners' products. However, based on data from Bukit Asam CSR Unit, the number

of active foster partners is currently 1.949 MSMEs spread across Indonesia in various sectors.

**Table 1. 1 The amount of MSMEs foster partners of Bukit Asam CSR Unit**

No	Area	Amount
1	RB Muara Enim	1.159
2	RB Sawahlunto	46
3	RB Bandarjaya	576
4	RB Banyuasin	168
<b>TOTAL</b>		<b>1.949</b>

*Source: Data of Corporate Social Responsibility Bukit Asam Company, 2020*

Several studies have been conducted to analyze the entrepreneur understanding regarding SAK EMKM, such as Kusuma & Lutfiany (2019) showed that SAK EMKM socialization, owner's educational level, perception actors of MSMEs, and accounting comprehension simultaneous positive effect on the implementation of SAK EMKM at MSMEs in Bogor City. SAK EMKM socialization, owner's educational level, perception actors of MSMEs, and accounting comprehension partially positive effect on the implementation of SAK EMKM at MSMEs in Bogor City. Meanwhile, based on the coefficient test results, a regression shows that the most dominant factor in implementing SAK EMKM at MSMEs in Bogor City is accounting comprehension.

Budiman et al., (2017) showed that the information dissemination and socialization, the level of MSMEs education, the period of MSMEs business, and the business's size do not affect the MSMEs understanding in preparing financial statement based on SAK ETAP. However, the educational background has a

significant effect on understanding MSMEs in preparing financial statements based on SAK ETAP.

Besides, Adhikara (2018) found that the educational background, education level, and level of information and socialization partially significantly positively affect the MSMEs entrepreneurs' understanding of SAK EMKM. And this result shows that in general (cumulative), the variations of educational background, educational level, and level of information and socialization of SAK EMKM can predict 76,4% of the MSMEs entrepreneurs' understanding toward SAK EMKM. It also means that 23,6% of the MSMEs entrepreneurs' understanding of SAK EMKM is affected by other variables.

Based on the description above, researchers are interested in researching the entrepreneur understanding toward Financial Accounting Standards for Micro, Small, and Medium Entities of MSMEs foster partners of Bukit Asam CSR Unit. Therefore, in this study, the title **“THE INFLUENCE OF ENTREPRENEUR AND BUSINESS CHARACTERISTICS TOWARD ENTREPRENEURS' UNDERSTANDING OF FINANCIAL ACCOUNTING STANDARDS FOR MICRO, SMALL, AND MEDIUM ENTITIES (SAK EMKM) [The Study of MSME Foster Partners of Bukit Asam CSR Unit]”**

## 1.2. Research Problem

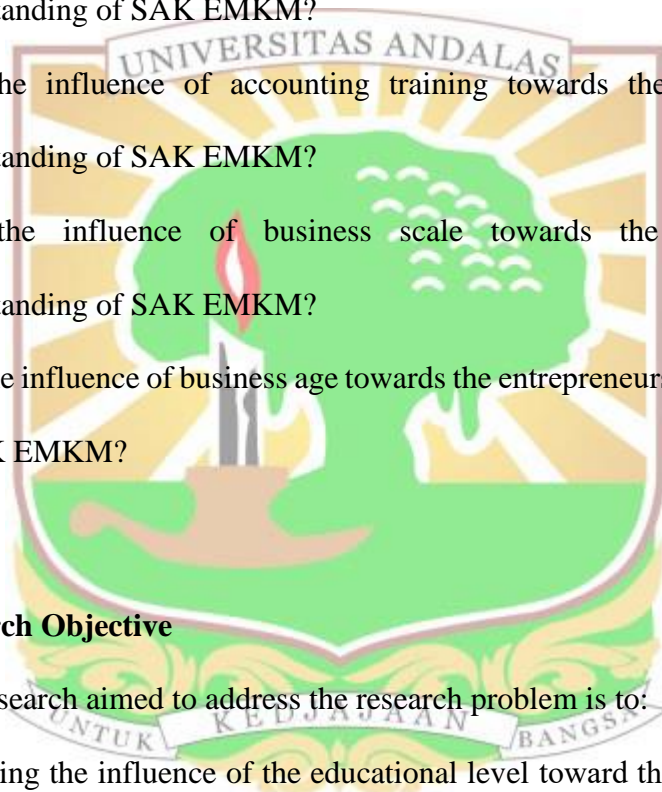
Based on the described background, the researcher can be identified the problem that will be investigated are:

1. How the influence of educational level towards the entrepreneurs' understanding of SAK EMKM?
2. How the influence of educational background towards the entrepreneurs' understanding of SAK EMKM?
3. How the influence of accounting training towards the entrepreneurs' understanding of SAK EMKM?
4. How the influence of business scale towards the entrepreneurs' understanding of SAK EMKM?
5. How the influence of business age towards the entrepreneurs' understanding of SAK EMKM?

## 1.3. Research Objective

This research aimed to address the research problem is to:

1. Analyzing the influence of the educational level toward the entrepreneurs' understanding of SAK EMKM.
2. Analyzing the influence of the educational background toward the entrepreneurs' understanding of SAK EMKM.
3. Analyzing the influence of the accounting training toward the entrepreneurs' understanding of SAK EMKM.





4. Analyzing the influence of the business scale toward the entrepreneurs' understanding of SAK EMKM.
5. Analyzing the influence of the business age toward the entrepreneurs' understanding of SAK EMKM.

#### **1.4. Research Benefit**

The expected benefits resulting from this research are:

1. For Writer/ Researcher

By doing this research, the researcher expects to increase accounting knowledge and apply theories obtained during the researcher's studies, especially regarding entrepreneurs' understanding of SAK EMKM. This study of MSMEs foster partners of Bukit Asam CSR Unit. And also, this research is helpful as one of the requirements to complete the researcher's studies.

2. For Entrepreneur

This research is expected to serve as a reference for the entrepreneur regarding the influence of entrepreneur characteristics and business characteristics towards the entrepreneurs' understanding of SAK EMKM.

3. For CSR Unit of Bukit Asam Company

This research is expected to evaluate the level of entrepreneurs' understanding of their MSMEs foster partners based on the entrepreneur characteristics and the business characteristics toward SAK EMKM. As well as expected, it can make it easier for CSR Unit of Bukit Asam

Company to decide on additional activities to increase the knowledge of entrepreneur and advance the business.

#### 4. For Readers/Subsequent Research

This research is expected to be used as a reference for increasing knowledge in accounting at MSMEs and being a driving force for further research related to the SAK EMKM that is useful for MSMEs.

### 1.5. Writing Systematic

This research is arranged systematically as follows:

#### **CHAPTER I: INTRODUCTION**

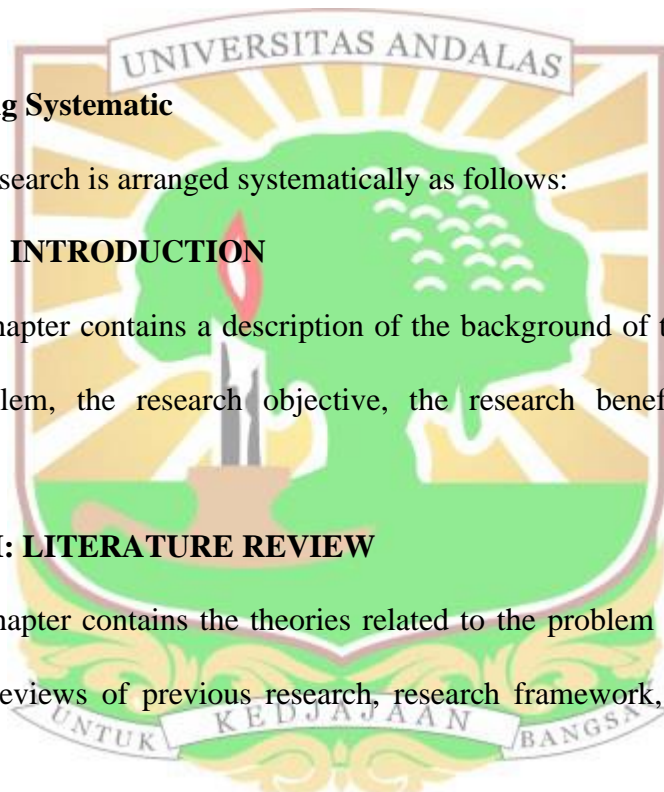
This chapter contains a description of the background of the problem, the research problem, the research objective, the research benefit, and writing systematic.

#### **CHAPTER II: LITERATURE REVIEW**

This chapter contains the theories related to the problem in this research, some of the reviews of previous research, research framework, and hypothesis statements.

#### **CHAPTER III: RESEARCH METHODOLOGY**

This chapter contains research design, research variable, data sources, population and sample, data collection methods, data analysis methods, and hypothesis testing procedures.



#### **CHAPTER IV: RESULT AND DISCUSSION**

This chapter explains the result and discussion towards this research, which variables that influences the entrepreneurs' understanding of SAK EMKM.

#### **CHAPTER V: CONCLUSION.**

This chapter contains conclusions of the research, implications of research, limitations of the research, and suggestions useful for future research.

