

FACTORS AFFECTING THE QUALITY OF MSME FINANCIAL REPORTING

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Abstract

Micro, Small and Medium Enterprises (MSMEs) are micro, small and medium scale business activities that are managed by a group of groups and individuals whose aim is to grow and develop a business. The development of MSMEs in Indonesia from year to year has grown rapidly. In times of crisis, MSMEs are businesses that can survive when many companies go out of business. The rapid development of the number of MSMEs in Indonesia has not been accompanied by good financial reporting. In fact, there are still many MSMEs that have not been able to compile financial reports properly, do not make financial reports because financial information is considered not very important. Many UMKM players think that the most important thing is the amount of turnover and profit generated. For this reason, researchers are interested in seeing what factors affect the quality of MSME financial reporting. This research was conducted by determining a random sample in order to obtain a sample of 98 MSMEs in Jambi City. The results of this study found that the quality of human resources, company characteristics and utilization of information technology had a significant effect on the quality of financial reporting.

Keywords: Quality of Human Resources; Company Characteristics; Utilization of Information Technology, Quality of Financial Reporting, MSMEs.

INTRODUCTION

Micro, small and medium enterprises (MSMEs) have a large contribution to the economy of a country, both in terms of labor absorption, products, investment, type of business (Sujarweni, 2019). The development of MSMEs in Indonesia has increased by about 6 percent per year, this indicates that MSMEs are one of the backbones of the country's economy (Suci, 2017).

Currently, the existence of MSMEs in Jambi City continues to increase. In 2017, the number of MSMEs in Jambi City has increased by 19.27 percent spread across 11 Districts, which consist of Danau Sipin District, Telanipura District, East Jambi District, South Jambi District, Pasar District, Pelayangan District, Kotabaru District, Danau Teluk District, Alam Barajo sub-

district, Jelutung district and Palmerah district (Bastian, 2018).

However, in reality, the rapid development of MSMEs is not accompanied by better quality MSME financial reporting. MSME actors argue that the information generated in financial reporting is only expenditure and entry information (Almujab & Budiutomo, 2017) which is because MSMEs still experience difficulties in recording and reporting their finances. These difficulties can result in incomplete and reliable financial information (Vikrie 2018). In addition, there is no separation between personal wealth and business wealth, so that the wealth / property that should be used for business is ultimately used to meet daily needs (Rudiantoro & Siregar, 2012).

The Financial Reporting Counsel (2015) states that the quality of MSME financial reporting is a key factor in making investment decisions (Leoni, 2020). For that,

MSMEs must prepare financial reports to provide information about financial status, results of operations and changes in financial status. Apart from being useful for businesses, outsiders can also use financial data to make economic decisions (Boonvut, 2017). The responsibility for the quality or failure of financial reporting is under the supervision of the directors / management / owners of the UMKM itself (AL Khuja & Mohamed, 2016, Leoni, 2020).

The quality of MSME financial reporting can be realized if it has quality human resources, but in fact there are still many actors / management / employees in the accounting and finance sector who do not yet have understanding and expertise in financial reporting (Mulloli, 2015). To overcome this problem, competent human resources are needed (Hanifa, et al, 2016). Quality human resources will provide financial reports that are presented and informed quickly so that they can be used in making the right decisions, and in the end will produce quality financial reporting (Pratolo, et al, 2019).

Company characteristics described in the form of financial ratios can also affect the quality of financial reporting (Waweru & Riro, 2013; Shehu, 2012; Nejad et al., 2012). To see these financial ratios accurately, financial data management is needed. The use of information technology can assist in financial data management so as to provide accurate financial information and flexibility in preparing financial reports (Mamić Sačer & Oluić, 2013).

In addition, improving the quality of MSME financial reporting is also influenced by the use of information technology. The use of information technology can help MSMEs in overcoming problems in the process of inputting transaction data and financial reporting, so that financial information can be provided to users effectively and store data centrally (Abrokwah et al, 2015). Errors in data entry can be minimized by the presence of information technology (Liyan, 2013).

From the description above, it can be concluded that financial reporting is said to

be of quality or cannot be influenced by several factors. These factors include the quality of human resources, business characteristics, and the use of information technology. For this reason, researchers are interested in taking research problems regarding "Factors Affecting the Quality of MSME Financial Reporting".

LITERATURE REVIEW

Human Resources are human capital in a company which is capital owned by the company that can generate useful income / output for a long period of time. Quality human resources are human resources who have the competence / ability to compile and manage financial reporting so as to produce quality financial reporting (Wiranata, Ari Arba'a, 2015). Furthermore, quality human resources can also be seen from self-development, namely by increasing their knowledge through training (Ansharullah, 2015).

In addition, human resources who have accounting knowledge can improve the quality of financial reporting. This is because these human resources are aware of the importance of financial reports in their business activities (Purwanti, 2017). The education level and educational background of human resources also have an important role in the quality of human resources so that it can improve the quality of financial reporting (Fadilah, 2019).

H1: There is an Influence of the Quality of Human Resources on the Quality of Financial Reporting

Company characteristics can be seen from the point of view of size and length of business. Several studies have found that business characteristics affect the quality of financial reporting. The size of the business is the company's ability to manage a number of assets owned and the income received in the company, where the higher the turnover rate of the assets that is owned shows that the greater the income received so that the level of complexity of the needs for accounting information is greater (Fadilah, 2019).

The length of business shows how old the company has been until now. The longer the company has been established, it will show a significant level of company growth in the positive or negative direction, and this requires accurate accounting information (Fadilah, 2019) and regular financial reporting (accounting records) (Rudiantoro & Siregar, 2012).

H2: There is an influence of company characteristics on the quality of financial reporting

The use of information technology is the procurement of hardware (computers and printers) and software and the use of websites in financial management (Pratolo et al., 2019). The use of information technology affects the quality of financial reporting (Kusuma Wardani & Pulung Nugroho, 2018). The use of information technology in financial data management provides benefits in the form of accuracy and flexibility in preparing financial reports (Mamić Sačer & Oluić, 2013). By utilizing information technology, the accuracy of financial data will increase. Errors that occur can be minimized with information technology. Financial reports can be presented in a timely manner because information technology helps speed up the processing of transaction data. Management easily prepares financial reports so that financial reports can be prepared on time and do not lose their quality, namely timeliness and usefulness (Liyan, 2013).

H3: There is an effect of the use of information technology on the quality of financial reporting

METHOD

The population in this study were the MSMEs in Jambi City registered with the Jambi Industry and Trade Service, totaling 6,190 MSMEs during 2019. The sampling method used was probability sampling. The technique used is random sampling. The samples obtained were 98 MSMEs.

The data source used in this research is primary. Primary data is first-hand data (information) obtained by researchers on

variables that are of concern to certain study objectives (Sekaran and Bougie, 2010: 181). In the context of this study, primary data is data / information collected by researchers through a list of questions (questionnaires) addressed to respondents with the aim of obtaining facts and factual information from respondents.

To test the effect of the quality of human resources, company characteristics, and the use of information technology on the quality of financial reporting using multiple linear regression analysis tools. Previously, the validity and reliability of the instruments used were tested. In this study, using the classical assumption test which includes multicollinearity test, heteroscedasticity test, and normality test. The validity test using Pearson Correlation correlates the score of each question item with the total score which is the number of correlations. A variable is said to be valid if it has a positive correlation coefficient greater than 0.3 or a significance less than 0.05, while a variable is said to be reliable if it has a Cronbach alpha value greater than 0.70. The normality test was performed using the Kolmogorov Smirnov with the Asymp coefficient. Sig is greater than 0.05. To detect multicollinearity, a tolerance value = 0.10 and Variance Inflation Factor (VIF) = 10. Testing for heteroscedasticity uses the Park test by regressing the absolute value of the residuals with the independent variables used. If it has a significance value above 0.05, it is said that heteroscedasticity does not occur. To test the effect between the dependent variable and the independent variable using multiple linear regression, namely:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Information :

- Y = kualitas pelaporan keuangan (KPK)
- α = konstanta
- $\beta_1\beta_2\beta_3$ = coefficient of the independent variable
- X1 = kualitas sumber daya manusia (KSDM)
- X2 = karakteristik perusahaan (KPR)
- X3 = pemanfaatan teknologi informasi (PTI)
- ε = error

Abreviation:

- KPK = financial reporting quality
- KSDM = quality of human resources
- KPR = company characteristics
- PTI = utilization of information technology

RESULT & DISCUSSION

The results of testing the validity and reliability of the instrument show that the instrument used in this study is valid and reliable, which is indicated by the item-total variable correlation coefficient value greater than 0.3 and the significance less than 0.05. The reliability test results showed that the Cronbach alpha value for all variables used in this study was greater than 0.70. This is because the instruments used by researchers have been used by previous researchers and their validity and reliability have been tested. The normality assumption test is carried out on the residuals of the regression results. From the Kolmogorov Smirnov test results on the regression residuals, it was found that the significance value was more than 0.05 so it could be stated that the residual data was normally distributed. The multicollinearity test gave a VIF value of less than 10, namely in the range of 1.050 - 1.125, so it was proven that there was no serious multicollinearity. Heteroscedasticity test with Glejser test shows the significance value of all variables above 0.05 which indicates there is no heteroscedasticity.

The profiles of respondents in this study consisted of: type of business, length of standing, age, and gender. Type of business from MSME respondents obtained data that 50% of MSMEs are engaged in the food business, 18% are in the service sector, 15% are in other fields such as pharmacies, toys, selling building materials, accessories. 8% of MSMEs engaged in textiles / clothing, and the remaining 5% are engaged in electronics. For the age of the establishment of MSMEs, it is divided into 5 criteria as shown in Figure 2, namely there are 60 MSMEs aged less than 5 years, there are 11 MSMEs aged 10 years, 16 MSMEs aged 15 years, MSMEs 20 years old there are 8 MSMEs, while the remaining 3 MSMEs are more than 20 years old. In

terms of age, the majority of individual respondents were under 35 years of age, as many as 75%, (74 people) followed by 13% (13 people) who were aged 35–45 years. While the rest, only 11% (22 people) are young over 45 years old. Characteristics of respondents based on gender indicate that there are 43% gender and 57% female.

Based on the results of the linear regression test, the following results were obtained:

Table 1
Multiple Linear Regression Test Results

<i>Variabel</i>	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Constant	2.641	1.183	2.233	0.028
KSDM X1)	0.268	0.029	9.132	0.000
KPR (X2)	0.194	0.061	3.164	0.002
PTI (X3)	0.096	0.048	1.994	0.049

Sources: Data processed

Table 2
Result of the coefficient of determination (R²)

Regression Statistik	
Multiple R	0.76
R Square	0.57
Adjusted R Square	0.56
Standard Error	1.89
Observations	98

Sources: Data Processed

Based on the results of multiple linear regression testing in Table 1, the multiple linear regression equation can be formulated as follows:

$$Y = 2.641 + 0.268X_1 + 0.194X_2 + 0.096X_3 + \epsilon$$

From the above equation, it can be explained that the constant regression equation (α) is positive at 2.641, which means that if the variables of human resource quality (X1), company characteristics (X2), and information technology utilization (X3) are equal to zero, then there is an influence on the quality of financial reporting (Y) of 2,641.

Based on the results of multiple linear regression analysis, it shows that:

1. The results of testing the effect of the quality of human resources on the quality of financial reporting can be seen from the p-value (0.000) which

- is smaller than the error level (0.05) which indicates that the quality of human resources has a significant effect on the quality of financial reporting. The results of this study support research conducted by Ansharullah (2015), Wiranata, Ari Arba'a (2015), Purwanti (2017), and Fadilah (2019). Quality human resources can be seen from the level of education taken, having adequate accounting knowledge, having the expertise and ability to compile financial reports can improve the quality of financial reporting at MSMEs. Furthermore, with continuing education such as participating in training in the preparation of financial reports, training on accounting at MSMEs can also improve the quality of MSME financial reporting. MSMEs that have quality human resources will produce clear, detailed, complete and informative financial information. Where the information generated can be used in decision making when needed.
2. The results of testing the effect of company characteristics on the quality of financial reporting can be seen from the p-value (0.002) which is smaller than the error level (0.05), which indicates that company characteristics have a significant effect on the quality of financial reporting. The results of this study support the research conducted by Rudiantoro & Siregar (2012) and Fadilah (2019), where the growing and the size of the MSME business, the MSME players need financial information. The bigger the UMKM, the UMKM players need financial recording and reporting to help manage the assets owned by the UMKM. In addition, long-established MSMEs use financial information to see the level of business growth and also to see financial performance.
 3. The results of testing the effect of the use of information technology on the quality of financial reporting can be seen from the p-value (0.049) which is smaller than the error level (0.05), which indicates that the use of information technology has a significant effect on the quality of financial reporting. The results of the study support research conducted by Liyan (2013), Mamić Sačer & Oluić (2013), Kusuma Wardani & Pulung Nugroho (2018), and Pratolo et al. (2019). Umkm using information technology can minimize the risk of not inputting business transactions and reduce errors in recording financial information. The use of information technology results in the accuracy and accuracy of the financial information generated so as to improve the quality of financial reporting.
 4. Based on the results of the coefficient of determination in table 2, it is known that the coefficient of determination (Adjusted R²) is 0.57 which means that the independent variables (quality of human resources, company characteristics, and utilization of information technology) have an effect on the dependent variable (reporting quality). financial) by 57%, while the remaining 43% was influenced by other factors outside the model.

CONCLUSION

This study shows that the quality of human resources, company characteristics and the use of information technology have a significant effect on the quality of MSME financial reporting. This shows that the MSMEs of Jambi city already have quality human resources in terms of education, expertise and knowledge. MSME actors and employees who work improve their knowledge by attending training, especially those related to financial reporting. MSME

actors have also realized the importance of financial reporting which makes it easier for them to evaluate performance and see business developments and business asset management. Besides that, by utilizing existing information technology, it makes it easier for MSME players in recording to financial reporting.

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