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## ADVANTAGE OR TROUBLEMAKER: A PHENOMENOLOGICAL STUDY OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) OWNER RESPONSE TOWARD ACCOUNTING AND REPORTING

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### Abstract

*This study is motivated by the phenomenon that businesses classified as Micro, Small, and Medium Enterprises (MSMEs) often ignore one important aspect of business, namely financial reports. This study aims to capture the relationship between business owners' understanding of accounting and the preparation of financial reports. To interpret and re-understand the relationship between accounting understanding and accounting practices, phenomenology is used as a research methodology. The phenomenological method is considered capable of exploring the awareness and knowledge of business owners in terms of accounting and accounting practices. From this study, it was found that the level of accounting understanding has implications for the practice of preparing financial reports. In addition, other factors such as resources such as time, personnel, and costs also affect the practice of preparing financial reports in the context of this study.*

**Keywords:** *Micro, Small, and Medium Enterprises (MSMEs), MSMEs financial statement, Accounting on MSMEs*

### INTRODUCTION

Discussions on Micro, Small and Medium Enterprises (MSMEs) have become a concern again in recent decades (Gyamera et al, 2023). This is inseparable from the role of MSMEs in a country's economy. The Central Statistics Agency revealed that MSMEs contribute to the absorption of 75.33% of the total non-agricultural workforce in Indonesia (BPS, 2019). In addition, MSMEs contribute to Indonesia's Gross Domestic Product (GDP) of IDR 9,580 trillion or equivalent to 61% of total GDP (Suhayati, 2023). The high role of MSMEs is certainly one of the centers of attention of the Indonesian government, through Presidential Decree No. 14 of 2015, the Indonesian government has helped the MSME sector with the People's Business Credit (KUR) scheme of IDR 178.07 trillion in 2020 and IDR 192.59 trillion in 2021 (Ministry of Finance, 2023). On the other hand, MSMEs are also considered a sector that has good resilience

during a crisis. This is because the majority of MSMEs produce consumer goods and services that are very much needed by the community, in addition, MSMEs do not rely on raw materials or other goods from abroad. So they are not dependent on foreign industries or foreign currency fluctuations. According to Komala & Firdaus (2023), MSMEs must digitize the economy if they want to be resilient to economic turbulence and business competition. This economic digitalization includes online transactions and bookkeeping using technology. Financial reports are an important element in managing a business entity, with financial information, stakeholders are able to make accurate decisions (Kieso & Weygandt, 2020). Sari & Husen (2020) stated that many business actors do not yet have effective financial reporting due to a lack of literacy regarding this matter (Rosyidiana & Narsa, 2024; Ifediora et al, 2022). In addition,



business actors assume that the process of preparing financial reports is difficult and only adds to their work (Simanjuntak et al., 2020).

Previous studies on financial literacy in the MSME sector have inconsistent results, Alperovych et al (2023), stated that business actors with high financial understanding have greater profit growth. Uniquely, these business actors tend not to want financial consulting services because they are quite confident in their understanding and decision-making. The findings of Durendez et al (2023) state that financial literacy possessed by business actors has a close relationship with improving the management control system (MCS), this increase in MCS also encourages MSMEs to increase innovation in terms of information technology.

Hsiao & Tsai (2018) stated that financial literacy possessed by management is able to reduce significant risks, supporting this argument Ye & Kulathunga (2019) explained that financial literacy possessed by business actors will improve risk management, their decision-making will tend to be more careful and look for every way to manage risk well. Bongomin & Munene's study (2021) stated that cultural factors play a strong role between financial literacy and the use of mobile money adoption. Mobile money adoption is an innovation in a better payment system and facilitates transactions for business actors (Bongomin & Munee, 2021). Kamaliah et al (2023) stated that a person's views and behavior towards finances will affect financial well-being, while other aspects such as self-management and mindset can strengthen the financial well-being of business actors. Mottola (2013) argued that business owners who have financial literacy will tend to plan and avoid detrimental financial decisions such as the use of high-cost credit cards and other financial costs. Another study shows a positive relationship between financial literacy and new sources of income and savings activities (Sayinzoga et al, 2016). Al issa et al (2019)

explained that increasing the scale of business by business actors is greatly influenced by understanding finance and accounting, because this understanding will improve the ability to calculate, manage risks and improve the quality of decision making (Alvarez et al, 2022). Akhtar & Liu (2018) argue that business actors with the ability to interpret and analyze financial reports have a better decision-making process.

From the results of the studies above, there have been many studies that prove the positive benefits of financial literacy for business actors. However, the question is, do business actors, especially MSMEs, understand the importance of financial literacy? How do they understand financial management and financial reports? We believe that any efforts by regulators, academics and other stakeholders to improve the literacy of MSME business actors will not provide significant results if they still understand financial management and financial reports as unimportant and troublesome. This study focuses on providing an overview of the understanding of MSME business actors regarding the importance of financial literacy and accounting practices, namely the preparation of financial reports. Throughout the survey we conducted, several previous researchers who conducted studies on financial literacy in the context of MSMEs in developing countries used surveys (Molina et al, 2022; Anshika & Singla, 2022), while Alperovych et al (2023) conducted a survey in the Netherlands. Durendez et al (2023) and Ifediora (2022) observed secondary data and Alvarez et al (2022) used a systematic literature review to answer the research problem. In this study, we conducted a phenomenological study. Our phenomenological study was conducted to provide an overview of MSME owners' understanding of financial management and financial reports. This study contributes both in practice and theory. First, the results of this study provide input for regulators and academics on future strategies to improve the



financial literacy of MSME business actors. Second, in theory, it fills the research gap in terms of the research approach used, as explained above that previous researchers have used many quantitative approaches both through primary and secondary data, this study provides another dimension of knowledge by answering research problems with a qualitative approach.

## METHOD

This study analyzes the understanding of MSME business actors regarding financial management and information. In answering the research problem, this study uses phenomenology with an interpretive paradigm as the research umbrella. The interpretive paradigm aims to explore the deepest awareness of subjects regarding certain experiences or events within a framework to understand, explain and predict (Pervin & Mokhtar, 2022). As part of qualitative research, phenomenology is believed to have been first developed by Husserl in 1931 (Alase et al, 2017). However, according to Williams (2021), the use of the term phenomenology was first used by Heinrich Lambert in 1764. In the context of philosophy, the initial use of this word was first used by Georg Wilhelm Friederich Hegel. According to Cresswell (2017), phenomenology is an approach that focuses on the understanding and subjective experience of individuals from a particular phenomenon. In addition, phenomenology is also interpreted as a study of what is experienced by whom (Duffy et al, 2024; Williams, 2021; Woroniecky et al 2024; Zahafi, 2019).

Studies that aim to understand a person's subjective experience have various methods, such as using a quantitative approach (questionnaire study), or through structured or unstructured interviews. However, there is a common thread regarding the objectives in several of these approaches according to Gosseries (2024), namely:

1. Understanding the extent of the individual's role in the experience or phenomenon being studied

2. Understanding how and changes in the mindset of the individual or subject towards the phenomenon

3. Understanding how there is a connection, emotion and intensity of the individual towards the phenomenon being studied

4. Understanding the impressions and spiritual experiences of the individual or subject towards the experience related to the phenomenon being studied.

As explained above, phenomenology is a study that examines an individual's deep experiences related to a phenomenon. For this reason, this study has several criteria regarding the subjects used as informants so that they are considered relevant in answering research problems, namely:

1. Individuals have experience in managing or running a business classified as MSMEs, this is to ensure that the subject does understand, feel, and experience the phenomenon

2. The individual runs the business consistently for at least three years, this is to ensure that the individual does have depth regarding the phenomenon being studied

3. The individual does not plan to close the business in the near future

Based on these criteria, we determined 3 individuals as research objects, namely 2 people who have MSME businesses in the food sector and 1 individual who has a business in the fashion sector. The selection of these informants was not only through the author's intuition and the established criteria, but we also asked for consideration from senior researchers from Brawijaya University. Roekhudin et al (2015) argue that phenomenology is a science that studies individuals without any prepositions, therefore, we also assume that we do not understand the meaning of the phenomenon studied by the



informant. This is done to maintain the purity of the relationship between the intention of the subject's consciousness and the object being studied. At the same time, it also explains why phenomenological studies do not require a discussion of theory and literature studies in the research planning section, theory and literature studies are discussed at the discussion stage in this study (Larsen & Adu, 2020).

This study uses data analysis techniques according to Sanders (1982) which has four stages of research. First, from the results of the interviews conducted, we conducted analysis and described the existing phenomena, in the second stage, from the results of the first stage analysis we identified themes that often appeared in the first stage. Furthermore, from the themes that have been identified we developed noema and noesis. Noema is an object or content of the experience felt or recognized by the informant, in this stage we try to identify which components of the informant's experience provide the deepest meaning. While noesis is, an actus or mental process formed by informants in experiencing or recognizing noema, this refers to how the informant's consciousness functions to process, feel and understand the experience that is passed through. Noesis is done to understand how the dynamics of the informant's consciousness and assessment of the phenomenon. The fourth stage, we do what is called eidetic reduction, in this stage we try to explore the basic structure of the individual's subjective experience of the phenomenon, so that we can understand how an experience can be built from a deeper essence. In this phase, besides abstracting the essence of the correlation between noema and noesis, we also ask questions in our minds about what attributes are needed to explain a phenomenon, and what influences a phenomenon to occur or be realized.

## RESULTS AND DISCUSSION

Various responses were given by the informants who were interviewed in this study.

After conducting a phenomenological analysis that has been explained in the methodology section, we captured several interesting topics to explore in depth on the existing phenomenon. The first issue is the topic of how informants interpret accounting and financial reports. The second topic is related to the role of financial reports in their business.

### Interpreting Financial Reports

Financial reporting is a form of communication by management to stakeholders regarding all activities that have been carried out by them. The importance of financial reports for an entity has been widely studied by academics. Chia & Lee (2023) stated that financial reports do not only contain information in the form of numbers, but behind that, financial reports can indicate that management has managed existing resources in an accountable manner. In addition, MSMEs that have adequate financial reports tend to have better investment decisions (Akinadewo et al, 2023). Chai & Xie (2024) argue that financial reports are not only information tools for stakeholders in decision making, but management and auditors can detect indications of fraud through methods and in-depth analysis of financial reports (Aftabi et al, 2023).

Understanding financial reports is an important component of business actors (Alperivych, 2022 & Mcgge & Peterson, 2019). Optimal management of financial resources is related to a person's understanding of finance itself. Business actors who have a better understanding of finance in both short-term and long-term performance (Ifediora, 2022; Gyamera, 2023). On the other hand, business actors who are classified as MSMEs understand financial reports as an important component but in the process it is very difficult to compile and read the meaning of the financial reports. This is reflected in Firza's statement while studying administration science which defines accounting and financial reports as follows:

*"Well, when I was in college, I was taught that, because I was a FIA student, there*



*was an accounting course. But it was really hard, complicated and then I was told to make journals, make ledgers for financial reports. In my opinion, financial reports are bookkeeping, information on figures that come from sales and purchase transactions and others."*

Firza's initial statement (noema) interpreted accounting as a difficult and complex subject, in addition, the informant considered that studying accounting was a consequence of choosing to study at the Faculty of Administrative Sciences (FIA). In the interview excerpt, the informant also described accounting as something difficult. And when asked about financial reports, the informant explained that financial reports are information related to transactions that occur in a company. On the other hand, Firza realized that financial reports are very important, this can be seen from the statement:

*"Yes, even though it's confusing, it's really important, when I first started college I had a business, but I didn't continue it anymore, I didn't know how much profit or loss it was".*

From this statement, we conducted what is called (intentional analysis), that the informant's understanding of financial reports was obtained from experience during the course. Noesis Firza said that financial reports are bookkeeping that records transactions made by business actors, from these financial reports management knows the costs that have been incurred, the income received and the profit or loss borne by management. In addition, understanding the importance of financial reports is formed from experience during the business. From the failure in the previous business, Firza realized that financial reports are an important element for the business, all transactions must be recorded to find out the company's profit or loss. In line with Firza, our second informant understands accounting and financial reports from the experiences they have gone through which originate from school and running a business. According to Ms. Faza, accounting and financial reports are:

*"Accounting is bookkeeping, I also studied bookkeeping in high school in Bali, at that time I was taught journals, making a 10-column balance sheet, what about financial reports, recording incoming and outgoing money, then summarizing it like that"*

From the two informants above, it can be concluded that they understand accounting and financial reports based on both experiences during school and running a business. Namaziandost & Rezai (2024) stated that a person's motivation to learn can be influenced by several experiences gained in various ways such as: first, experience during education, learning environments such as schools play an important role in shaping learning motivation, the way material is presented, the atmosphere and teachers in class are important factors in this. Second, personal factors and motivation, these are factors that come from oneself, the vision and mission to achieve family economic welfare, the desire to achieve ideals and recognition can be a person's motivation to learn and understand a phenomenon. This opinion is confirmed from the following interview excerpts from the two informants:

Firza: *"Yes, if that's the goal of starting a business, we want to be rich, we can support our family, we can open up jobs for people around us..hmm.."*

Ms. Faza: *"Yes, of course I want to support my family, that's why I do business, for extras, right? I have two children, so I actually want to fix the finances of this business so that the business can run smoothly and know the profits and losses".*

Different from Mrs. Putri who interprets accounting as the process of recognizing and recording transactions so that they become information in decision making. According to her, financial reports are also very important for businesses, she shared her experience while studying accounting "Wow, it just so happens, sir, I'm studying accounting, as far as I remember, accounting is defined as the process of recognizing, measuring, recording economic





transactions so that later it will become financial reports, right sir?" said Mrs. Putri who started studying accounting at a campus in Malang in 2003.

Mrs. Putri chose to study in the Accounting Department here can be said to be a noema. But after opening a business, her perspective on financial reports became a noesis. When preparing financial reports for her own business, she admitted that she began to feel overwhelmed, and accounting is a complex thing. According to Mrs. Putri's meaning:

*"Yes, at first I thought preparing financial reports was the same as what I learned on campus, more or less, it turned out that the practice was difficult, especially since I first opened a business with only the two of us assisted by my husband, my job description was buying materials, taking care of workers, doing packaging, taking care of marketing and bookkeeping, yes because there was so much work, in the end the bookkeeping was neglected, sir. I didn't take care of the financial reports anymore"*

Furthermore, as an in-depth study, the researcher asked her about the impacts that would be encountered if a business did not prepare financial reports properly. Mrs. Putri then gave her opinion as follows:

*"Wow, this is my own experience, I have tried to compile financial reports according to what I learned before, sir. So from the notes, for example, I made a ledger in Excel, at first it was neat, sir, but because I didn't have time, starting from the notes, it was not summarized into the ledger. Then the notes often got lost, so I didn't know where I put the ingredients I bought, I didn't have time to summarize them, so we didn't know how much the costs we had actually spent were, how much our income was for one month."*

In line with the third informant, Firza also said that when she first started college, she was given capital by her parents to start a business, because there was no bookkeeping, she didn't know whether it was a profit or loss.

Suddenly these goods ran out over time but there was no money, because she wanted to buy goods but she didn't have enough money, it seemed like because she didn't know the profit and loss and so on, and in the end it kept eroding. Based on the interview excerpt, this condition can be explained by Kieso & Weygandt (2020) and Minnis et al (2024), financial reports are important information for stakeholders, from these reports stakeholders get information about how much income is generated, how much costs have been incurred, whether management runs the company responsibly or they tend to waste company money irresponsibly. From these financial reports, stakeholders can make the right decisions. In the context of the informants' experiences, because they do not get adequate financial information, they cannot carry out the right analysis and decision making, which has an impact on losses and even business closures.

### **The Role of Financial Reports**

Previous researchers have conducted many studies on the role of financial reports and the factors that influence business success related to finance. Bongomin & Munene (2021), for example, conducted a study on the adoption of mobile money and financial inclusion in MSMEs in Uganda, the results of their study stated that the use of mobile money and financial inclusion in MSMEs in Uganda is greatly influenced by cultural factors. The findings of Gyamera et al (2023), for example, the use of accounting services in MSMEs has been shown to improve the quality and performance of financial reports, this can be explained that the use of accounting analysis and techniques is very helpful in improving the business processes of business actors. In addition, the digitalization of finance and support from the government can improve the performance of MSMEs in Indonesia (Kurniawan et al, 2023).

In line with the research results mentioned above, our informant explained the role of financial reports on their business. Firza



stated "it seems that when I was in college, I didn't continue my business because it wasn't recorded at all, I didn't understand profit or loss, if it was a profit, how much, if it was a loss," he continued, "so far we have recorded our bookkeeping in Excel, but yes, sometimes we record it, sometimes we don't because we are busy taking care of production and marketing." From Firza's initial statement (noema), the role of financial reports is very significant, so it has an impact on business closure. In addition, according to Firza's (noesis) which was formed by experience in running a business, if there is no financial information, it will result in every transaction not being recorded, all costs that have been incurred cannot be traced, and how much profit the business actually generates.

Furthermore, we gave the same question to the second and third informants, according to Mrs. Putri:

*"Yes, I think financial reports are important, hmm... we can actually know how much our costs are, how much margin we actually get, and most importantly what we want to do if we already know the information"*

From Mrs. Putri's statement, we conclude that the role of financial reports is not only a source of information for business actors, but financial reports are also considered as a basis for decision making. This can be explained by Kieso & Weygandt (2020) who stated that financial reports are important information that functions as a basis for decision making, both internal and external stakeholders. Ventre et al (2024) argue that the existence and understanding of financial information has an influence on caution and accountability in decision making. In the context of women, understanding financial information will tend to save and invest better (Ventre, 2024). Zhang & Zhu's study (2024) explains that management who have good financial knowledge tend to have accurate decision making and encourage innovation. Furthermore, we conducted an in-depth study

of her statement above by asking about examples of decisions that have been made.

*"At that time, I saw the raw material purchase report, why is there a significant increase in the price of the material, then I called the place where I usually buy the raw material, I asked why the price has increased quite significantly, they answered 'the market price has indeed increased', then I tried to go to the market and surveyed, it turned out there was a cheaper place, finally I bought it at the market for the next production"*

Based on Mrs. Putri's statement, she utilized the information contained in the financial report related to managerial decision making. Managerial decision making is a decision making carried out by management related to the operations and strategic direction of the organization. According to McMahon (2014), the majority of MSMEs utilize financial reports for managerial and internal organizational decision making. This is logical considering that the majority of these sectors are closed companies, so they do not require the preparation of financial reports for external stakeholders.

The opinion regarding the role of financial reports is quite interesting from the results of interviews with the following informants: Faza stated:

*"Yes, this is important. But in my family's experience, my family once invested in a business, so my family put capital into someone else, at first the profit sharing was smooth, but after some time suddenly it was said that the business was at a loss and had to be closed, the capital was also lost without any clear explanation, in the process there was also no financial report given to my brother, suddenly it was gone"*

Noema Faza stated that financial reports have an important role in an economic transaction. Noesis Faza in this case was influenced by the experience of a family that invested in someone else, according to this experience the absence of information or



financial reports produced by management to investors is a big problem. In our opinion, the conflict is due to the asymmetry of information between investors and management, which causes conflict. This phenomenon can be explained by the type I agency theory, according to Jensen & Meckling (1976), the conflict between agent and principal occurs due to an imbalance of information, the agent has more information about the company's internal affairs than the investor. To avoid this conflict, management is required to be transparent, meaning that important information related to the management of the company must be shared with investors. This form of transparency is the existence of financial reports provided to investors, and we also implicitly conclude that it is in accordance with what Faza expects.

#### **Advantage VS Troublemaker**

The opinion of Simanjuntak et al (2020) which states that the process of preparing financial reports is difficult and adds work for MSME business actors, we confirmed in this study in the context of the informants interviewed, according to the opinions of the informants:

Firza: *"accounting is difficult, I don't really like calculating, even though when I was in college I was taught by the lecturer but I still didn't understand. But accounting is important, experience proves what I said earlier, so far my husband who is an accounting person has helped me to make a kind of excel, but at the beginning I only filled it in with the excel, after that I didn't fill it in again because I didn't have time, there are only two employees and I as the owner have to take care of production, packaging and marketing"*

Ms. Faza: *"I think it's important, it's nice to know the money coming in and out. But basically, I also have trouble if I have to take care of bookkeeping, besides not understanding, my resources are limited, as the owner I also take care of production, I'm tired of producing, so I don't handle the bookkeeping"*

Mrs. Putri: *"The financial report is very useful for me, sir, but on the one hand I have to be patient in writing the bookkeeping. So far I have 10 permanent employees and 5 interns from one of the campuses, but all of them help with production, no one focuses on helping with accounting"*

From the statements of the informants, we conducted an in-depth study by asking, so far what difficulties have been encountered in the process of preparing financial reports. Here is Firza's answer:

*"I have a lot of difficulties, first I don't really understand bookkeeping, besides that because I also don't have time to summarize purchases and sales that occur because every day we produce up to hundreds of cakes, sometimes almost a thousand, in the end I concentrate on more important things, namely taking care of production, packaging, and marketing"*

This phenomenon does not basically appear by itself, the Unified Theory of Acceptance and Use of Technology states that facilitating conditions are factors that influence a person's behavior in using technology and information, things like the availability of resources, technical support, and infrastructure increase a person's chances of utilizing technology and information (Tamayo et al, 2024). This means that due to the limited resources available, informants feel unable to prepare financial reports properly. In addition, the knowledge factor regarding financial reports is also an obstacle for informants in preparing financial reports.

Gounopoulos et al (2024) stated that management with knowledge and a long career in their field tend to be more transparent and free from manipulation of financial reports. The results of this study strengthen this argument, that knowledge and experience in preparing financial reports owned by business actors are directly proportional to the provision of relevant and reliable financial information. In addition to resource factors, Firza and Faza





believe that preparing financial reports is difficult, this is inseparable from the lack of accounting background in the two informants. When we conducted an in-depth study by asking whether they knew about EMKM financial accounting standards, all informants answered that they did not know about it.

Risal et al (2020) argue that understanding business goals and management is essential for business actors if they want to improve their business performance. Understanding related to financial reports is an important part of business management, because by understanding the financial performance of the business, the owner can evaluate and make decisions for business improvement. The findings of Febrianty & Divianto (2017) stated that the level of understanding of business actors regarding financial reports is influenced by the level of information and socialization provided. This was confirmed by our three informants who stated that they are very happy if there is help from interns or someone to teach them about financial reports.

## CONCLUSION

This study focuses on understanding the meaning of MSME business actors on financial literacy and accounting practices. Using a phenomenological study, we interviewed 3 informants who have experience running a business classified as MSME for more than 3 years. The results of this study reveal that understanding and implementation of the preparation of financial reports are influenced by several variables, such as knowledge related to accounting and financial reports themselves, although the three informants in this study had studied accounting and financial reports during their studies both at school and college, they did not understand enough about how to prepare financial reports according to MSME standards, they even tended not to know about the existence of these standards. Although they understand the importance of financial reports

which are greatly influenced by the experiences of the informants, they tend not to prepare adequate financial reports and even consider it as something difficult and troublesome. This is due to limited resources, the informants as business owners, also carry out production, packaging, and marketing tasks. They feel they do not have more time to learn and prepare adequate financial reports. This study has several implications for existing practices, first, in the context of micro-enterprises, financial information is important in decision-making, this is related to the absence of information for decision-making will have an impact on business continuity. For academics and the government, they can not only promote socialization related to the importance of literacy and financial reports, but the essential problem for micro-enterprises is the limited resources in preparing financial reports and recording daily transactions. Indeed, socialization for them will gain adequate knowledge related to financial reports, but limited resources hamper the continuity of the financial report preparation process so that what has been socialized through community service mechanisms or other programs is not sustainable. Furthermore, we provide recommendations for vocational schools in the field of accounting to design a financial report format in accordance with Financial Accounting Standards (EMKM) for micro-enterprises by utilizing technology that makes it easier for micro-enterprises to prepare financial reports. In addition, mentoring programs are also no less important, related to the results of this study which explain that, not only knowledge factors but resource factors such as time and personnel are obstacles for business actors in preparing financial reports.

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