

# A Study of Herding Behaviour and Financial Recording to Strengthen Micro, Small and Medium-Sized Enterprises in Coastal Area

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**Abstract:-** This study aimed to determine whether the financial statement preparation training moderates the correlation between understanding of accounting, perceptions of the benefits of accounting and herding behavior with financial record at MSME. The population in this study were all MSMEs located in the districts of Tualang, Koto Gasib and Mempura, Siak Regency, Riau Province. The sampling method was carried out through non probability using incidental sampling techniques and snowballs. This study used primary data obtained from questionnaires and secondary data obtained from the Office of Cooperatives and Micro, Small and Medium-sized Enterprises in Siak Regency. The data analysis model in this study uses a moderated regression analysis approach. The results of this study proved that the training in preparing financial statements moderates the correlation between accounting understanding, perception of the benefits of accounting and herding behavior with financial record at MSMEs in the Districts of Tualang, Koto Gasib and Mempura, Siak Regency, Riau Province.

**Keywords:-** Financial Recording, Financial Report Compilation Training, Accounting Understanding, Accounting Benefits Perception, Herding Behavior and MSME.

## I. INTRODUCTION

Micro, small and medium-sized enterprises (MSME) has a major role in the economy development and growth in Indonesia, and it also functions to reduce the number of unemployment rate. The growth of micro business also make it as the source of employment and in income opportunity growth. In 2018, MSME role in national economy reacher 99,9%, where the employment reached 97%. Even, today MSME has contributed up to 60,34% to the GDP. Besides its contribution in economy growth and employment, MSME also contributes in distributing the result of development. It also has been proven that MSME can survive from crisis,

which can be seen during 1997-1998 crisis where MSME was the only one that survived.

During its history, MSME also faced some failures caused by numbers of obstacles both internal and external. According to Bank Indonesia and the Indonesian Banking Development Institute (2015), some of these obstacles include the difficulty in accessing or obtaining bank financing, manual and traditional management especially for financial management, lack ability to read market needs, too simple product marketing and lack planning of goals or long-term strategic plans.

Another problem faced by MSME is the financial management. Every business is expected to have financial record to analyze financial performance, so that it can provide information about the financial position in the company, the performance and cash flow which will be useful for the financial statement users to make decisions, as well as the responsibility of the management after using the existing resources. However, financial recording at MSME are still relatively low; in fact, there are still many MSME that do not make financial record. It is certainly caused a problem, especially the difficulty of accessing bank loans.

Financial record in this study refer to the bookkeeping as stated in UU KUP No. 28 of 2007 Article 1 Number 29. Based on the constitution, bookkeeping is a process of recording which is done regularly to collect financial data and information which includes the condition of assets, liabilities, or debts, capital, income, and costs, as well as the total acquisition and delivery price of goods or services, which is finished by preparing financial statements in the form of a balance sheet and income statement for the period of the year. Financial record functions to produce financial reports, which is still difficult for MMSMEs. As explained earlier, awareness of the importance of financial record often arises when MSME have to deal with other parties who require financial report, for example when they needs to borrow funds from banks or other financial institutions.

Based on literature studies and the previous researches, financial record at MSME can be influenced by several factors including understanding of accounting, perception of the benefits of accounting and herding behavior. Besides these three factors, there are other factors that are considered to influence the correlation of these three factors with financial record at MSME, which is a training in preparing financial statements. The training of financial statement in this study is training given to MSME entrepreneurs about accounting materials from recording to compiling financial reports. With this training, it is expected that MSME entrepreneurs can make financial record and compile financial reports, especially balance sheets or statements of financial position and income statements.

This research was conducted at MSME in three districts in Siak Regency, namely Tualang, Koto Gasib and Mempura. The selection of setting was first because the same-topic research has never been done at that location. Then, secondly, in accordance with Presidential Regulation Number 98 of 2014 about the grant of micro and small business licenses from the regent to the district head, Siak Regency was a pilot area at the national level regarding the application of this regulation ([www.ukmriau.com](http://www.ukmriau.com)). In addition, the business potential of MSME in the Siak Regency was quite big, as indicated by the various business sectors in each district. This condition was also supported by the regional economic potential and investment climate in the Siak Regency. Moreover, currently Siak has aggressively developed its tourism sector. It was expected that this would also provide an opportunity for MSME to continue to grow, develop and improve their competitiveness. Meanwhile, the selection of the three districts was based on the consideration that the three districts had the largest numbers of MSME compared to other districts in Siak Regency.

Based on the background described above, aims and objectives to be achieved in this study were:

- Understand and analyze if the training of financial statement preparation moderates the correlation between understanding of accounting and financial record in MSME.
- Understand and analyze if the training of financial statement preparation moderates the correlation between benefit of accounting and financial record in MSME.
- Understand and analyze if the training of financial statement preparation moderates the correlation between herding behavior and financial record in MSME.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### A. *Micro, Small, and Medium-sized Enterprises in Indonesia*

Based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises, micro business is a productive business owned by individuals and/ or individual business entities which meet the criteria for micro Business as regulated in the law. On the other hand, small business is a productive economic business which is independent, and carried out by individuals or business entities which are not

subsidiaries or non-branch companies that are owned, controlled, or become a part either directly or indirectly of medium or large enterprises, and it meets the criteria of small business. Whereas, a medium enterprise is a productive economic business that stands alone, and is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or becomes a part either directly or indirectly with a small business or large business with a net worth or annual sales results as regulated in the Law of Management Accounting Practices.

### B. *Financial Record*

Financial record in this study refer to the bookkeeping as stated in UU KUP No. 28 of 2007 Article 1 Number 29. Based on the constitution, bookkeeping is a process of recording which is done regularly to collect financial data and information which includes the condition of assets, liabilities, or debts, capital, income, and costs, as well as the total acquisition and delivery price of goods or services, which is finished by preparing financial statements in the form of a balance sheet and income statement for the period of the year.

### C. *Financial Statement*

Financial statement is part of a complete financial reporting process which usually includes a balance sheet, income statement, as well as statement of changes in financial position which can be presented in various ways, for example as a cash flow statement or a statement of fund flows, notes and other reports and explanatory material which is an integral part from financial statement. Also, additional schedules and information related to the report are included, for example: financial information on industrial and geographical segments and disclosure of the effects of price changes (Indonesia Accountant Association, 2009).

### D. *Training of Financial Statement Preparation*

The training of financial statement preparation in this study is a training given to MSME entrepreneurs on accounting materials from recording to preparing financial reports, especially the balance sheet or statement of financial position and income statement. With this training, it was expected that MSME entrepreneurs can make financial records and compile financial reports, especially balance sheets or statements of financial position and income statements.

### E. *Accounting Understanding*

Accounting understanding in this study is defined as the understanding of MSME entrepreneurs about accounting material starting from the recording or bookkeeping process to producing financial reports. The understanding of MSME entrepreneurs in preparing financial statements in this study was more emphasized on intellectual understanding. Intellectual understanding is the understanding which is used in performing mental activities, thinking and reasoning as well as solving problems (Robbins & Timothy, 2008).

#### *F. Perception of Accounting Benefit*

The perception of the benefit of accounting in this study is defined as a belief in the benefit, which is the degree to which MSME entrepreneurs believe that accounting information will be useful for organizing cash needs, managing money, understanding the advantages or disadvantages of business, increasing productivity and providing support for the process, producing relevant and timely information to implement strategies and carrying out operational activities needed to achieve overall business goals. More importantly, accounting information will produce an overview of MSME finance reflected in MSME financial statements that will be useful to outsiders, especially for creditors when they want to obtain capital to support MSME businesses.

#### *G. Herding Behaviour*

Herding behavior in this research is the attitude of MSME entrepreneurs who follow what has been done by many other MSME entrepreneurs, such as in terms of accounting or financial records. MSME entrepreneurs assess and believe that other MSME which make bookkeeping or financial records and compile financial reports will make it easier for MSMEs to manage their finances, find out business profits or losses, make plans and, most importantly, obtain facilities in obtaining capital assistance to banks or financial institutions. the other.

#### *H. Thinking Framework and Hypothesis Development*

Financial record functions to make financial reports, which is still difficult to be done by MSME. Previously explained that awareness of the importance of financial records often comes when MSME have to deal with other parties who require financial reports, for example when they want to borrow capital from banks or other financial institutions. Based on literature studies and the previous researches, financial record at MSME can be influenced by several factors including understanding of accounting, perception of the benefits of accounting and herding behavior. Besides these three factors, there are other factors that are considered to influence the correlation of these three factors with financial record at MSME, which is a training in preparing financial statements.

The training of financial statement in this study is training given to MSME entrepreneurs about accounting materials from recording to compiling financial reports. With this training, it is expected that MSME entrepreneurs can make financial record and compile financial reports, especially balance sheets or statements of financial position and income statements.

To improve the understanding about accounting in order to make financial records and prepare MSME financial reports, MSME entrepreneurs need to receive accounting training or financial statement preparation training. With the training of financial statement preparation, it is expected that the ability of MSME entrepreneurs in understanding accounting will increase so that they can take financial records and prepare financial reports.

Furthermore, the effect of accounting benefit perception of MSME entrepreneurs on the decision to make financial records will increase with the training of financial statement preparation for MSME entrepreneurs. Training of financial statement preparation will change the perception of MSME entrepreneurs that accounting is very useful for MSME. It is caused by this training which will give accounting material from recording to preparing financial statements, especially the balance sheet or statement of financial position and income statement. Thus, MSME entrepreneurs will increasingly feel the benefits of accounting for their business. Especially to manage their finances and find out the advantages or disadvantages of businesses. Therefore, this training is expected to make MSME entrepreneurs have more experience to the benefits of accounting and motivate them to make financial records and prepare financial reports.

The training in preparing financial statements also influences the correlation of herding behavior with financial records at SMEs. This is because in training in preparing financial statements, MSME entrepreneurs are not only explained about the importance of conducting financial records and preparing financial reports, but MSME entrepreneurs are also given material on how to do financial records and prepare financial reports. Interaction with fellow MSME entrepreneurs who keep financial records more frequently and is supported by attending financial reporting training, will further increase the desire and encourage MSME entrepreneurs to take financial records. Thus, the financial preparation training fund will strengthen the desire of MSME entrepreneurs to imitate other MSME entrepreneurs who conduct financial records and participate in financial records at their MSMEs.

The training of financial statement preparation also influences the correlation between herding behavior with financial records at MSME, since MSME entrepreneurs will not only explained about the importance of conducting financial records and preparing financial reports, but also given material on how to do financial records and prepare financial reports. The frequent interaction with fellow MSME entrepreneurs who make financial records which is supported by attending financial reporting training, will further increase the expectation and encourage MSME entrepreneurs to make financial record. Thus, the financial report preparation training will strengthen the need of MSME entrepreneurs to imitate other entrepreneurs who make financial records and participate in making their own financial records.

Based on the thinking framework above explained, the hypotheses of this study are as follows:

- H1 : The training of financial statement preparation moderates the correlation between understanding of accounting and financial record in MSME.
- H2 : The training of financial statement preparation moderates the correlation between benefit of accounting and financial record in MSME.

H3 : The training of financial statement preparation moderates the correlation between herding behavior and financial record in MSME.

### III. RESEARCH METHOD

The study was conducted in MSME in the districts of Tualang, Koto Gasib and Mempura in Siak regency, Riau province for 6 months, from March to August 2019. The population in this study were all MSME in the districts of Tualang, Koto Gasib and Mempura. The sampling was done by incidental sampling technique and snowball. Data collection technique used in this study were done through library research by collecting secondary data and field research by questionnaires.

The variables in this study were divided into three, which were the independent variable which included the

understanding of accounting (X1), perception of the benefits of accounting (X2) and herding behavior (X3). The moderation variable was the training of financial statement preparation (M) and the dependent variable was the financial recording at MSME (Y).

The data analysis model in this study used a moderated regression analysis (MRA) approach. However, because the dependent variable was dichotomous, moderation testing was done by using logistic regression with SPSS version 22.0 software.

### IV. RESULT AND DISCUSSION

Based on the result which was obtained through logistic regression is shown in the following table:

		B	df	Sig.
Step 1 <sup>a</sup>	Training of Financial Statement Preparation *Understanding of Accounting	2.403	1	.041
	Training of Financial Statement Preparation *Perception of Accounting Benefit	3.063	1	.027
	Training of Financial Statement Preparation *Herding Behaviour	3.012	1	.015

Table 1:- Data Analysis Result  
Source : Data Processing of SPSS 22

From the table above, the variable of Financial Statement Preparation multiplied by Accounting Understanding showed a positive coefficient value of 2.403, which means that the variable of Training in Financial Statement Compilation can strengthen the correlation between Accounting Understanding and Financial Recording at MSME with a significance of 0.041, which was less than 0.05. This result showed that the first hypothesis was accepted, which means that the Training on the Compilation of Financial Statements moderated the Correlation of Accounting Understanding and Financial Recording at MSME. The training of financial statement preparation is an effort to develop the ability of MSME entrepreneurs to understand accounting, the process of carrying out financial books or records to produce financial reports. Thus, it is expected that the ability of MSME entrepreneurs in understanding accounting will increase so that they can take financial records and prepare financial reports.

Furthermore, the variable of Financial Statement Preparation multiplied by the Perception of Accounting Benefit showed a positive coefficient of 3.063 which means that the variable of Training in Financial Statement Compilation can strengthen the correlation between Perception of Accounting Benefits and Financial Recording at MSME with a significance of 0.027, which was less than 0.05. This means that the second hypothesis was accepted, which showed that the training of the preparation of financial statements moderated the correlation between the perception of accounting benefit with financial record at

MSME. The effect of perceptions of the accounting benefits of MSME entrepreneurs on the decision to make financial records will increase with the training given for MSME entrepreneurs. The training will change the perception of MSME entrepreneurs that accounting is very useful for MSMEs. It is because the training gives accounting materials from recording to preparing financial reports, especially the balance sheet or statement of financial position and income statement.

Then, the variable of Financial Statement Preparation multiplied by Herding Behavior showed a positive coefficient value of 3.012 which means that the variable Financial Statement Training could strengthen the correlation of Herding Behavior with Financial Recording at MSMEs with a significance of 0.015, which was less than 0.05. It means that the third hypothesis was accepted, which showed that the training moderated the correlation between Herding Behavior and financial records at MSME. The frequent interaction with other MSME entrepreneurs who made financial records and was supported by attending financial report preparation training, increase the need and encourage MSME entrepreneurs to make financial records. Thus, the existence of financial preparation training will strengthen the need of MSME entrepreneurs to imitate other MSME entrepreneurs who make financial record and participate in financial record in their businesses.

## V. CONCLUSIONS

This study aimed to examine if the training of financial statement preparation moderated the correlation between the understanding of accounting, perception of accounting benefit and herding behavior with financial records at MSME. From the results of this study, researchers concluded the following:

- a. The training of financial statement preparation moderated the correlation between understanding of accounting and financial record in MSME.
- b. The training of financial statement preparation moderated the correlation between benefit of accounting and financial record in MSME.
- c. The training of financial statement preparation moderated the correlation between herding behavior and financial record in MSME

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