

The Effect of Human Resources Quality and Technology Adoption on the Quality of Financial Reporting

(Evidence from MSMEs in Bogor)

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Abstract—The role of MSMEs in developing countries such as Indonesia is vital. The large potential of small and medium micro businesses (MSMEs) is often constrained by capital problems to develop the business. The reason for the low capital distribution is because investors do not get adequate information related to the condition of MSMEs. The purpose of this study was to determine the effect of the quality of human resources and technology adoption on the quality of financial reporting of MSMEs in Bogor city. This study used a sample of 30 MSMEs in the city of Bogor. Data collection in this study used a questionnaire as a research instrument. The research instrument test uses the validity and reliability test. Hypothesis testing uses multiple regression test that is preceded by a classic assumption test. The results showed that the quality of human resources had a positive and significant effect on the quality of MSME financial reporting and the adoption of technology had a positive and significant effect on the quality of MSME financial reporting. This research has implication for the regulation such as to encourage MSMEs in improving the quality of human resources and the adoption of information technology to achieve good quality financial reporting.

Keywords: *quality of human resources, technology adoption, quality of financial reporting*

I. INTRODUCTION

In developing countries such as Indonesia, the role of MSMEs is vital, both for development and economic growth. Although in developed countries there are also many MSMEs, but the role of businesses like this in developing countries is more vital because it serves as a benchmark for the country's economic growth. an average growth of 2.35% annually. The growth of MSMEs was accompanied by an increase in the number of employees absorbing each year, absorbing an average of around 105 million workers. In addition, the growth of MSME GDP contribution has also increased every year by around 6%.

The large potential of MSMEs is often constrained by capital problems to develop the business. Based on Bank Indonesia data, the amount of credit extended to MSMEs shows an upward trend every year. In 2010, the amount of MSME loans extended was Rp394.3 trillion and increased by 21.71 percent to Rp479.89 trillion in 2011. The value of loans to MSMEs that were channelled continued to increase until 2016 loans reached Rp900.4 trillion. Although the value continues to increase, the portion of business credit provided by banks to MSMEs is apparently still much smaller than that distributed to large / non MSME companies. In 2011, the proportion of loans extended by banks to MSMEs was 21.77 percent of the total loans extended. This portion even declined in 2016, to only 19.98%

The reason for the low capital distribution is because banks are very careful in lending, because they do not get adequate information related to the condition of MSMEs. The majority of MSME entrepreneurs are unable to provide accounting information related to their business conditions [1]. Accounting information is very useful for MSMEs, because it is a tool used by information users for decision making [2]. One factor to improve the quality of financial reporting is the adoption of information technology as a whole [3]. Besides that, the quality of information in making financial statements is greatly influenced by the quality of human resources who work well in the preparation of financial statements. Human resources are people who are ready, willing and able to contribute in efforts to achieve organizational goals [4].

Previous research related to the effect of the quality of resources on the quality of financial statements provides a variety of results. The results of the study prove that HR competencies affect the quality of financial reports, the more competent these HRs are in the field of finance or who compile financial reports, the better the quality of the reports produced [5]. Whereas research conducted by Mulyani states that education levels and educational background have no effect on

the quality of MSME financial reports in the Kudus districts [6].

Previous research related to technology adoption at MSMEs emphasizes more on the factors that influence technology adoption [7]. Suliyanto and Jati have conducted research related to the number of MSMEs that use technology in financial reporting in Banyumas District. The results of the study explain that the level of technology adoption in the preparation of financial statements at MSMEs is still low. Research Suliyanto and Jati do not see the relationship between technology adoption and the quality of financial statements [8].

With the differences in the results of research related to the influence of the quality of human resources on the quality of financial statements, and still very limited research that looks at the effect of technology adoption on the quality of financial statements at MSMEs in Indonesia. Therefore to fill this gap, this study aims to see whether there is an influence on the quality of resources and technology adoption on the quality of financial statements.

This research contributes to both methodology and conceptual, firstly providing empirical evidence of the influence of the quality of human resources and technology adoption on the quality of financial statements. Second, develop measurement models related to technology adoption and financial report quality at MSMEs using primary data.

The rest of this paper is presented as follows: Section 2 literature review, Section 3 research methodology, Section 4 results, Section 5 discussion, and Section 6 conclusion conclusions, limitations and implications of the results of the study.

II. LITERATURE REVIEW

A. Organizational Theory

The organization comes from the Greek organon, which means "tool" (tool). This word entered into Latin into organization and then to French (14th century) into organization. The initial understanding does not refer to objects or processes, but rather the human body or other biological creatures. Unlike mechanical devices, organs consist of parts arranged and coordinated to be able to perform certain functions dynamically. Dunsire provides a definition of the organization is "Organizations are grand strategies individuals create to achieve the objectives that require the effort of many" [9]. From this definition it can be said that the organization is a system of roles, activities and processes (work relationship patterns) and involves several people as executors of tasks designed to achieve a common goal.

B. Definition of MSME

Micro, Small and Medium Enterprises (MSMEs) have different definitions in each literature according to several institutions or even laws. In accordance with law number 20 of 2008 concerning Micro, Small and Medium Enterprises [10], MSMEs are defined as follows:

- Micro business is productive business owned by individuals and / or individual business entities that meet the criteria for Micro Business as stipulated in this Law.
- Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly of Medium Enterprises or Large Enterprises that fulfil Small Business criteria as referred to in this Act.
- Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly. Directly with Small Business or Large Business with the amount of net assets or annual sales proceeds as regulated in this Law.

Based on wealth and sales results, according to Law Number 20 of 2008 Article 6, the criteria for micro businesses are:

- Having a net asset of no more than Rp 50,000,000 (fifty million rupiahs) excluding land and buildings for businesses; or
- Have annual sales results of at most Rp. 300,000,000.00 (three hundred million rupiah).

Small business criteria are as follows:

- Has a net asset of more than Rp 50,000,000.00 (fifty million rupiah) up to a maximum of Rp 500,000,000.00 (five hundred million rupiah) excluding land and buildings for business premises; or
- Have annual sales results of more than Rp. 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp 2,500,000,000.00 (two billion five hundred million rupiah).

While the criteria for medium-sized businesses are as follows:

- Having a net asset of more than Rp 500,000,000.00 (five hundred million rupiah) up to a maximum of Rp 10,000,000,000.00 (ten billion rupiah) excluding land and buildings for business premises; or
- Has annual sales results of more than Rp 2,500,000,000.00 (two billion five hundred million rupiah) up to a maximum of Rp 50,000,000,000.00 (fifty billion rupiah).

C. Conceptual Framework

This study was conducted to examine the effect of the quality of human resources and technology adoption on the quality of financial reporting in Micro, Small and Medium Enterprises (MSMEs) depicted in the form of a diagram Figure 1.

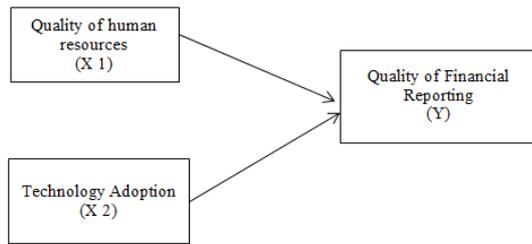


Fig. 1. The research framework.

D. Hypothesis

1) *Effects of quality of Human Resources (HR) on quality of financial reporting:* HR is a human capital in the organization. Human capital is a person's knowledge, skills and abilities that can be used to produce professional services and economic rent. Human capital is a source of innovation and ideas. Employees with high human capital are more likely to provide consistent and highly competent services. Ihsanti shows that HR competencies have a significant positive effect on report quality [11]. The more competent the existing human resources, the better the quality of financial reports produced. Nugraha et al. the results of the study prove that HR competencies affect the quality of financial reports, the more competent these HRs are in the field of finance or who compile financial reports, the better the quality of the reports produced [5]. Nurillah and Muid showed that HR competency had a significant positive effect on the quality of financial statements, the higher the competence of HR, the higher the effect on the quality of financial statements [12] and Roshanti et al. [13] showed that HR competency had a positive and significant effect on the quality of financial statements. So the better the quality of human resources, the better the quality of financial reporting. Based on the explanation and results of several studies above, in this study the authors can take the hypothesis that:

H1: The quality of human resources has a positive effect on the quality of financial reporting.

2) *Effects of technology adoption on quality of financial reporting:* In the use of information technology, users must be able to operate it and apply it in the preparation of financial statements and must be in accordance with predetermined targets. The effectiveness of the preparation of MSME financial statements can be measured by the achievement of objectives and the implementation of the principles in the preparation of financial statements, in order to produce quality financial reports. Several previous studies related to the utilization of information technology concluded that with the help of applications and computers, the activities of preparing financial statements will be easier, faster and more accurate so that the information contained in financial statements can be

used by users of financial statements, so that decisions taken are more effective and efficient [3]. Nurillah and Muid show that the use of information technology has a significant positive effect on report quality [12]. The results of this study indicate the higher the utilization of information technology, the higher the effect on the quality of financial statements. Roshanti et al. show that the use of information technology has a positive and significant effect on the quality of financial statements [13] and Soimah [14] the use of information technology has an effect on the quality of financial statements. This means that the better the use of information technology, the better the quality of the financial statements produced. Based on the explanation and results of several studies above, in this study the authors can take the hypothesis that:

H2: Adoption of technology has a positive effect on the quality of financial reporting.

III. RESEARCH METHODOLOGY

This research was conducted at MSMEs in Bogor City. This research is included in quantitative research. The data used in this study are primary data. The population in this study is Micro, Small and Medium Enterprises (MSMEs) in Bogor City. Based on the data obtained we used 30 MSMEs in Bogor city as a sample. The sample is a portion of subjects that can represent the population. The questionnaire in this study is a questionnaire developed from research Ayu [15]. The questionnaire in this study was made in the form of a Likert scale.

The independent variables used in this study are: the quality of human resources and the adoption of technological innovations. The dependent variable used in this study is the quality of financial reports. The data analysis method used is a statistical analysis method using IBM SPSS Statistics 23. The analysis conducted is a data quality test that includes validity and reliability tests. Then the classical assumption test consists of normality test, multicollinearity test, and heterokedasticity test. In testing hypotheses using multiple linear analysis to determine the effect of the quality of human resources and the adoption of technological innovations on the quality of financial statements, both partially and simultaneously. The multiple regression equation for the two predictors specified is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y = Quality of MSMEs Financial Reporting

α = Constant coefficient

$\beta_1 \beta_2$ = Regression coefficient

X1 = Quality of MSMEs HR

X2 = Adoption of MSMEs technology

e = error rate / Effect of other factors

IV. FINDINGS AND DISCUSSION

The results of the validity test showed that each questionnaire had r count and rtable ($r \text{ count} > 0.361$), which means each item of the variable quality of human resources, adoption of technological innovations and the quality of valid financial statements. Thus, all statements in the questionnaire can be used for further research. The reliability test results showed that the variable quality of human resources, adoption of technological innovations, and the quality of financial reporting had a Cronbach alpha value higher than 0.6 that was said to be reliable.

Normality test results show that the value of Kolmogorov-Smirnov Z sig ($0.20 > 0.05$) indicates that the proposed regression model has a normal distribution. Multicollinearity test can also be done by comparing the VIF (Variance Inflation Factor) below 10. If the VIF value < 10 then multicollinearity does not occur. The results of testing the VIF free variable for the quality of HR and technology adoption are 1,460. From the test results it can be concluded that there is no multicollinearity between independent variables. Thus the classical assumption test for the absence of multicollinearity can be fulfilled. Based on the Results of the Heterokedasticity Test (Glejser Test), it is known that all statistically independent variables both the quality of human resources and technology adoption have a Sig > 0.05 or above 5%, so it can be concluded that there is no heterokedasticity in the regression model. The coefficient of determination is intended to find out how much influence the dependent variable. Following are the results of calculations that have been carried out:

TABLE I. CORRELATION COEFFICIENT AND DETERMINATION COEFFICIENT

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | ,825 ^a | ,681 | ,657 | 1,503 | 1,846 |

^a. Predictors: (Constant), Quality of MSME HR, Adoption of MSMEs technology

^b. Dependent Variable: Quality of MSMEs Financial Reporting

Source: Survey data, 2019

Based on table 1 it can be explained that multiple relationships or correlations on all variables (HR Quality and Adoption of Technology) have a very strong relationship power. This is based on the value of the multiple correlation coefficient of 0.825. The acquisition of r-square value of 0.681 can be explained that the variables of HR Quality and Adoption of Technology are able to influence or explain the diversity (variability) of the value of financial reporting quality of 68.1% while the remaining 31.9% is influenced or explained by other variables not examined.

Simultaneous testing results to see whether or not there is a relationship between variables X (HR quality and technology adoption) to Y variables (financial reporting quality) simultaneously. The test results show that the calculated F value of the whole is 28,825 while the F table is 4.20 which

means that the F count is greater than the F table so that H3 is accepted. This means that all independent variables have a significant simultaneous effect on related variables, thus the third hypothesis is accepted, namely that there is a positive and significant relationship between HR quality and technology adoption simultaneously on the quality of financial reporting (see table 2).

TABLE II. SIMULTANEOUS TEST RESULTS

ANOVA^a

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|----|-------------|--------|-------------------|
| 1 Regression | 130,215 | 2 | 65,107 | 28,825 | ,000 ^b |
| Residual | 60,985 | 27 | 2,259 | | |
| Total | 191,200 | 29 | | | |

a. Predictors: (Constant), Quality of MSME HR, Adoption of MSMEs technology

b. Dependent Variable: Quality of MSMEs Financial Reporting

Source: Survey data, 2019

TABLE III. PARTIAL TEST RESULTS (T)

Coefficients^a

| Model | | Unstandardized Coefficients | | Stand. Coeff. | T | Sig. |
|-------|------------------------|-----------------------------|------------|---------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | ,971 | 2,996 | | ,324 | ,748 |
| | HR Quality | ,386 | ,108 | ,470 | 3,580 | ,001 |
| | Adoption of Technology | 1,454 | ,412 | ,464 | 3,531 | ,002 |

a. Predictors: (Constant), Quality of MSME HR, Adoption of MSMEs technology

b. Dependent Variable: Quality of MSMEs Financial Reporting

Source: Survey data, 2019

Partial or ordinary test results also said the t test (t-test) shows the coefficient value of the HR quality variable on the quality of financial reporting in table 3 is 0.470 with a p-value of 0.001 (p-value < 0.01) means that the H1 hypothesis is accepted. The positive directed coefficient shows that the higher the quality of human resources, the higher the quality of financial statements will have. The results of the study are in line with research conducted by Nugraha et al. which proves that HR competencies affect the quality of financial statements [5]. The more competent the HR is, especially in the field of finance or who compile financial reports, the better the quality of the reports produced. In other words, the quality of human resources will also improve the quality of financial reporting at MSMEs.

The t-test results show the coefficient value of the technology adoption variable on the quality of financial reporting in table 3 as of 0.464 with a p-value of 0.002 (p-value < 0.01) means that the H2 hypothesis is accepted. The positive directed coefficient shows that the higher technology adoption in MSMEs, the higher the quality of financial statements will be. The results support previous research conducted by

Roshanti et al. [13] and Soimah [14], which shows that the use of information technology has a positive and significant effect on the quality of financial statements. The results of this study also strengthen research conducted by Nurillah and Muid whose results show that the use of information technology has a significant positive effect on report quality [12]. The results of this study indicate the higher the utilization of information technology, the higher the effect on the quality of financial statements. The adoption of technology such as using computer at MSMEs, can assist the management of financial of MSMEs' data such as recording transaction, printing transaction documents, managing inventory and preparing financial reports. MSMEs can record financial transactions and prepare financial reports using Excel, even if possible using accounting software that can accommodate MSMEs financial data management. With the adoption of technology (using computer) at MSMEs, financial data management is neater and structured. To provide the quality financial statement, it could be supported by the quality of human resources who understand accounting and can operate technological tools (financial data processing with Excel or accounting software).

V. CONCLUSION

The findings of the research and testing of hypotheses that have been proposed can be drawn from several conclusions, namely: First, the quality of human resources has a positive and significant effect on the quality of financial reporting in Micro, Small and Medium Enterprises. Second, technology adoption has a positive and significant effect on the quality of financial reporting in Micro, Small and Medium Enterprises.

Limitations and Suggestions: First, research only uses the data of the City of Bogor MSMEs, further research can expand the scope of the sample by using data of the MSMEs at the provincial or Indonesian level. Second, the following research can add other variables that affect the quality of financial reporting.

This research has implication for the regulation such as to encourage MSMEs in improving the quality of human resources and the adoption of information technology to achieve good quality financial reporting.

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