



MSMEs COMPETITIVENESS AND POTENTIAL CAPITAL IMPROVEMENT THROUGH IMPROVING THE FINANCIAL STATEMENTS QUALITY

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ABSTRACT

The development of MSMEs started to contribute to the country's economy requires an increase in resources. The resources consist of human resources and assets in the form of funds. There are two options for adding funds, namely through loans and issuing shares. This study aimed to analyze the competitiveness of MSMEs in relation to the Capital Improvement Potential through Quality Improvement of Financial Statements. This research is a quantitative descriptive study. Data is distributed using a questionnaire aimed at Investors with the Convenience Random Sampling method and conducting a related literature review. Simple statistical data processing using Ms. Excel. The results showed that MSMEs have the opportunity to obtain capital from investors. MSMEs capital improvement opportunities can be achieved by improving the quality of financial reporting. Capital obtained from MSMEs can improve the competitiveness of MSMEs.

Keywords: Financial Statements, Capital, Competitiveness, and MSMEs

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INTRODUCTION

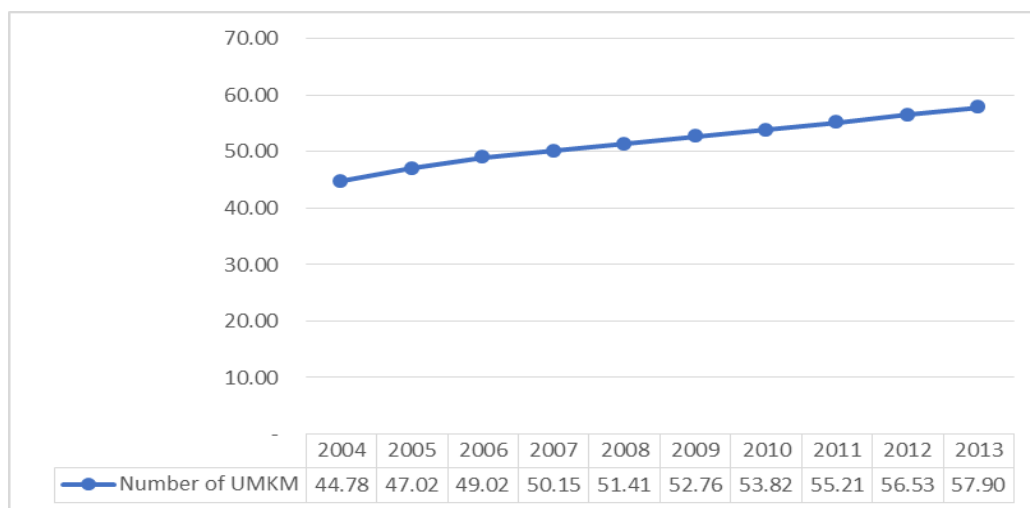
Micro, Small and Medium Enterprises according to Law number 20 in 2008 are small companies that are owned and managed by a person or owned by a small group of people with a certain amount of wealth and income. These criteria can be seen in the table below:

Table 1
Type of business based on the amount of assets and turnover

Type	Size	Criteria	
		Asset	Omzet
SMEs	Micro	Maximum 50 million rupiah	Maximum 300 million rupiah
	Small	More than 50 million to 500 million rupiah	More than 300 million to 2.5 billion rupiah
	Middle	More than 500 million to 10 billion rupiah	More than 2.5 billion to 50 billion rupiah
Large	Large	More than 10 billion rupiah	More than 50 billion rupiah

Source: Undang-Undang Number 20 in 2008

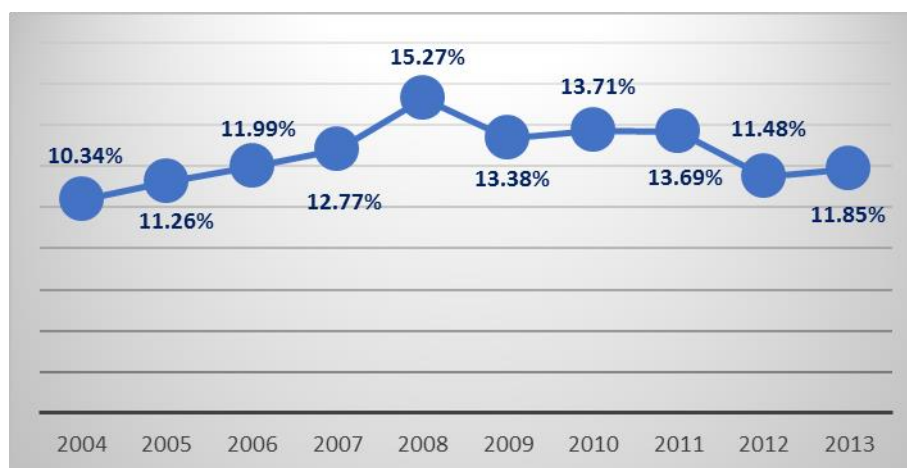
The growth of MSMEs in Indonesia has increased from year to year. in 2017, the Ministry of Cooperatives and SMEs has released data on the number of MSMEs of nearly 63 million units with a workforce of 116 million people. in addition, the Central Statistics Agency (BPS) also released data on the development of MSMEs within a period of 10 years (2004-2013) which showed a good trend



Source: Data processed from MSME data on the web page <https://www.bps.go.id>

Figure 1
MSME Trend in 2004-2013

MSMEs in Indonesia have expanded their market share to the international level. MSMEs have contributed to the acquisition of Gross Domestic Product (GDP) through export activities. Within a period of 10 years (2004-2013), despite fluctuations, the contribution of MSMEs to GDP reached above 10%. The highest contribution was obtained in 2008 which amounted to 15.27% of GDP. A graph of the percentage of MSME contributions to export activities can be seen in the chart below



Source: Data processed from MSME data on the web page <https://www.bps.go.id>

Figure 2

MSMEs Contribution to Export Activities

The development of MSMEs that have started to contribute to the country's economy requires an increase in resources. The resources consist of human resources and assets in the form of funds. There are two options for adding funds, namely through loans and issuing shares. However, Minister of Cooperatives and SMEs Teten Masduki said that currently there are 72 micro, small and medium enterprises (MSMEs) and cooperatives that have been listed on the stock market. Each of 70 MSMEs and 2 cooperatives. This number is still small compared to the total number of MSMEs in Indonesia. Thus, the opportunity for additional capital that can be taken by MSMEs is in the form of loans.

Currently, there are special types of loans for MSMEs with low interest or margin. In applying for a loan, the bank will analyze the 5 Cs (Character, Capacity, Capital, Collateral, and Condition). If MSMEs do not meet these requirements, the loan application will be rejected. The 5 C can be reflected in the documents submitted to the Bank. One of the important documents is the Financial Report. In the financial report, information is reflected about the assets owned so that it can show the ability of MSMEs to manage loans in order to generate profits and have smooth credit payments

Based on the explanation above, the researcher is interested in researching the competitiveness of the umkm and the potential for increasing capital through

improving the quality of financial statements. The hope is that when the quality of MSME financial statements increases, MSMEs can increase capital both through loans and shares if one day there is room for MSMEs to become part of the capital market in Indonesia.

LITERATURE REVIEW

Competitiveness and Potential Capital Improvement

The competitiveness of MSMEs is influenced by several things, namely (1) the availability and conditions of the business environment; (2) business capacity, policies and infrastructure; (3) research and technology; (4) financial support and partnerships, and (5) performance variables (Lantu et al, 2016). Factor number 1 is obtained from externals, while 4 other factors come from internal capabilities. The factor that most determines the competitiveness is factor number 5 where the measurable performance of MSMEs will make it easier for external parties to assess the capabilities and conditions of these MSMEs.

There are several things that affect the improvement of the performance of MSMEs. Among them are financial inclusion and financial literacy (Yanti, 2019 and Aribawa 2016). Financial literacy is the level of knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, as well as having skills in using financial products and services (OJK). One of the financial products and services is related to investment. Investment is not only important for large companies, but also for MSMEs to be able to compete. This is shown in the research results of Ernawati and Siswanto (2018) that capital readiness has a positive and significant effect on the competitiveness of MSMEs in Sleman Yogyakarta. Thus, investment practices in terms of increasing the amount of capital for MSMEs can improve the performance of MSMEs so that they have good competitiveness

MSMEs Financial Statement

To be able to obtain capital from investors, data is needed that can be used as information in making decisions. One of them is financial statements. The purpose of financial statements is to provide information on the financial position, performance and cash flow statement of an entity that is useful for a large number of users in making decisions. (IAI, 2016). Furthermore, IAI (2016) also states that financial statements also show what management has done or management's responsibility for the entrusted resources. Through financial statements, investors can find out the performance of MSMEs so that they can decide to invest in these MSMEs.

Financial statement are proven to have a positive influence in making economic decisions, especially investment, but several studies have found obstacles in their application to MSMEs. Many MSMEs have not implemented an accounting system in preparing their financial statements. MSMEs are considered to be more focused on their operational activities and tend to ignore accounting records and financial reporting (Whetyningtyas and Mulyani, 2016). The minimal application of the accounting system carried out by small and medium-sized businesses to carry out business records or bookkeeping is due to considerations of inconvenience in their presentation efforts (Ernawati in Tedjakusuma, 2018). This finding contradicts the findings conveyed by Syarifah (2012) that MSME actors have a perception that the presentation of financial statements can affect business performance.

On the basis of these differences in results, the researcher conducted a scientific study of how the competitiveness of MSMEs and the potential for increasing MSME capital could be influenced by improvements in the quality of financial statements. If MSMEs can produce good financial statements and according to standards, then the capital that can be obtained and the achievement of the competitiveness of these MSMEs will increase.

METHODOLOGY

This research is a descriptive quantitative research supported by literature review. The sampling method used was convenience sampling with the aspect of convenience. Using the google form, questionnaires are distributed via social media and sent to securities companies via email. The collected data is processed using Ms. Excell with simple statistical analysis. Respondents in this study were investors who were selected based on convenience sampling. The questionnaire was distributed via google form and collected as many as 30 respondents within two weeks. The following is the distribution of respondents.

Table 2
Profile Respondent

	Category	Percentage
Place of investment	Securities Company	70,37%
	Bank	22,22%
	Microfincance Institutions	7,41%
Gender	Male	51,85%
	Female	48,15%
Age	<25 years old	37,04%
	25-40 years old	51,85%
	>40-55 years old	11,11%

	Category	Percentage
Investment status	Conventional	59,26%
	Syariah	40,74%
Educational Background	Economic	88,89%
	Non Economic	11,11%

Source: Data processed, 2019

The majority of investor respondents place their funds in securities companies so that they can be invested in companies (70.37%). Information shows that the majority of respondents entrust securities companies to carry out good investment management. The securities company will provide recommendations to investors in the investment decision process. The investment decision process according to Tendelin (2012) is: (a) Determination of investment objectives; (b) Determination of investment policy; (c) Portfolio strategy selection; (d) Asset selection and portfolio formation; (e) Portfolio performance measurement and evaluation.

The distribution of respondents based on gender has insignificant differences. 51.85% male respondents and 48.15% female respondents. This shows that investment activities can be carried out by all genders. In line with the results of research by Rahadjeng (2011) that there is no difference in investment activities in the capital market between male and female.

The age of the respondent is the working age, that is, all respondents are under 55 years old. The largest number of respondents are aged 25-40 years. This age is the time when a person has completed higher education so that he has enough knowledge to make an investment.

In terms of the selected investment status, 59.26% invested in the business sector and conventional securities while 40.74% invested in the business sector and Sharia securities. This difference is not significant and it shows that Sharia investment is starting to be of interest to the public.

In accordance with their activities, the majority of respondents have an economic education background (88.89%). Investment is indeed studied in education in the economic field. Thus it can be said that educational background has an impact on investment activities

RESULT

Analysis of Investor Perceptions of the Quality of Financial Statements

The quality of financial statements in this study uses instruments standardized by the Indonesian Institute of Accountants. Following are the results of an analysis of investors' knowledge of the quality of financial statements and how they use financial statements to invest.

Table 3
Investor Perceptions regarding the Quality of Financial Statements

No.	Questions	Average
1	Financial statements must be published on time	4,81
2	The information included in the financial statements must be able to predict future conditions	4,56
3	Financial statements provide information about potential returns that investors can obtain	4,37
4	The financial statements present figures that are free of material errors	4,22
5	The numbers presented in the financial statements are derived from actual transactions	4,78
6	The figures in the financial statements can be verified by other parties	4,30
7	How important is a company (small or large) in preparing financial statements	4,78
	Total	4,55

Source: Data processed, 2019

Based on the results of the average analysis of the 7 questions asked, investors have a very good perception of the quality of financial statements. Investors who are respondents have understood the importance of financial statements. The total average of the items being asked reaches 4.55 (scale 5) which ends with a maximum number of 5 (read: strongly agree).

The highest score (4.81) obtained by the item statement that financial statements must be published on time. This is the qualitative evidence of the relevant reports. In line with what investors do, that they provide prompt responses to the information received, including financial statements. If the financial statements are published on time, investors can make the right decisions. In addition, the importance of financial statements (reports number 5 and 7) also received an excellent average score (4.78). This shows that investors hope that companies can present real figures on financial statements and investors agree that important financial statements are prepared by various types of companies, both large and small companies.

The lowest average value is in statement item number 4, namely that the financial statements present figures that are free of material errors. However, the figure obtained is still above 4, so investors still think that the quality of the financial statements is also shown in the freedom from material errors. This can be solved by an audit process so that material errors can be detected. In line with

the test results on statement item number 6, namely that the numbers in the financial statements can be verified by other parties (auditors).

Investments are made to obtain future results. Based on the above analysis, investors agree that the information included in the financial statements must be able to predict future conditions (4,56). In investing, investors and investment managers use fundamental analysis, one of which is sourced from financial statements. If the financial statements can predict future conditions, investors will benefit from financial statements in making economic decisions. Investors who are respondents in this study also agree that the financial statements provide information about the potential returns that investors can get. One of the investment objectives is to get a return. Information regarding the level of returns that can be received by investors will greatly attract investors to invest.

The Indonesian Accountants Institute has issued SAK EMKM in a very simple format and format. There are only 3 minimum financial statements that should be prepared, including the Statement of Financial Position, Income Statement and Notes to Financial Statements. The Financial Position Report consists of: (a) Cash and cash equivalents; (b) Accounts Receivable; (c) Investments; (d) Fixed assets; (e) Accounts payable; (f) Bank debt; (g) Equity.

Meanwhile, the income statement only includes income, financial expenses and tax expenses. This component is very simple and minimalist compared to the components of financial statements in large companies. This standard is the answer to the results of research on the number of MSMEs that have not implemented SAK ETAP (Entities without Public Accountability). IAI also explained that SAK EMKM helps MSMEs to make the transition from cash-based to accrual-based financial reporting.

Analysis of the quality of financial statements can increase the capital of MSMEs

After the researchers conducted an analysis of investors' perceptions of the quality of financial statements in general, the researchers then confirmed whether there was a relationship between the quality of financial statements and efforts to increase MSME capital. The first analysis is whether investors will invest in MSMEs that prepare financial statements in accordance with applicable financial accounting standards. The results of different tests show that there are differences in investors' decisions to invest based on the quality level of MSME financial statements (at the 10% significance level, namely 0.09). Investors who assess the level of quality of financial statements are getting better, will tend to invest in companies that prepare financial statements in accordance with standards. This means that investors will choose to invest in MSMEs that prepare financial statements according to standards.

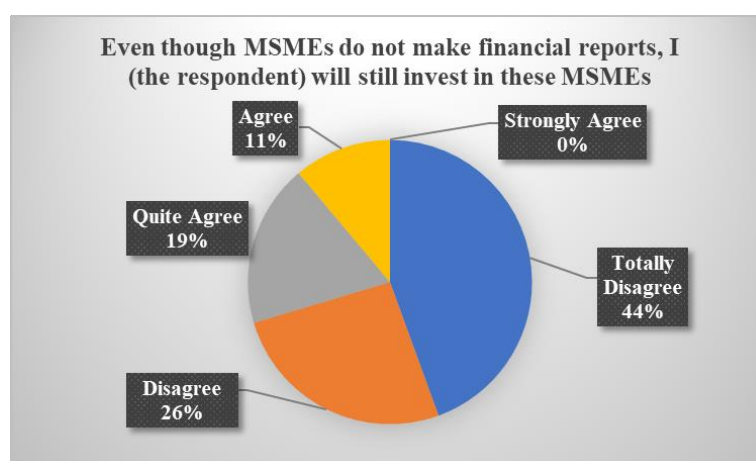
Table 4
Independent Sample T-Test

Investment decisions on MSMEs that prepare financial statements in accordance with standards	
Mean who voted “No”	4,28
Mean who voted “Yes”	4,58
Sig. Independent t-Test	0,09

Source: Data processed, 2019

The next analysis is about investors' perceptions of the decision to invest in MSMEs if they do not have financial statements. Most MSMEs do not prepare financial statements in accordance with financial accounting standards, but some compile them in a simple format that may only be understood by the compilers themselves, but there are also MSMEs that do not prepare financial statements in any format. They run their business on simple counts that are not well documented. We have met this when providing assistance to several UMKM members of the Business Incubation Center (PIB) UIN Sunan Kalijaga Yogyakarta in 2019.

Based on data from 80 MSMEs in Yogyakarta and its surroundings that are registered at PIB UIN Sunan Kalijaga Yogyakarta, only 1 UMKM stated that they had compiled financial statements based on accounting standards, some of which said they had financial statements but were unwilling to show them to external parties. Furthermore, students of the Sharia Accounting study program, Faculty of Economics and Islamic Business, UIN Sunan Kalijaga Yogyakarta have conducted interviews with 27 UMKM members of PIB, and all of them do not have financial statements according to standards and even cannot calculate the exact cost of goods sold.

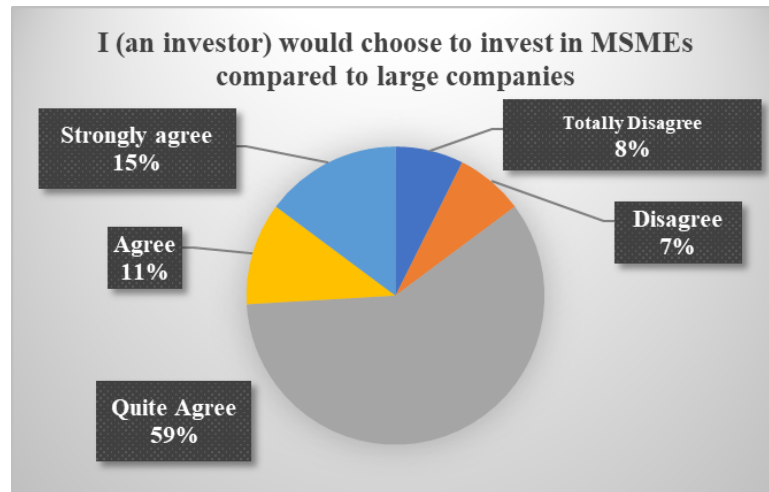


Source: Data processed, 2019

Figure 5

Analysis of Investors' Perceptions of Investment Decisions

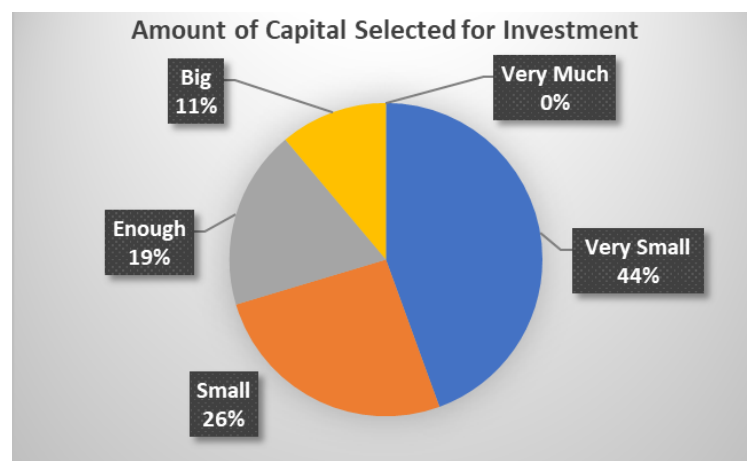
Figure 5 shows that, most investors will not invest in MSMEs that do not make financial statements (26% + 44% = 70%). This shows that investors really hope that MSMEs can prepare financial statements to show the financial conditions experienced by these MSMEs. In addition, the financial statements will also reflect the company's performance in running its business.



Source: Data processed, 2019

Figure 6

Analysis of Investor Perceptions on Investment Preferences between MSMEs and Large Companies



Source: Data processed, 2019

Figure 7

Analysis of Investors' Perceptions of Investment Preferences based on Total Company Capital

If we look at the level of investor preference in choosing investments between MSMEs or large companies, it still shows a relative number. As many as 59% of investor respondents only agreed if they were asked to choose an

investment destination in MSMEs. This means that there are still doubts for investors to place their funds in MSMEs. This could be due to the inadequate quality of MSME financial statements. However, 26% (15% + 11%) stated that they are more interested in investing in MSMEs compared to large companies. Thus, there is still hope that MSMEs can attract investors to increase MSME capital.

The hope of increasing capital for MSMEs through investors in the capital market still has good opportunities. It is evident in the diagram above that 70% (44% + 26%) of investors choose to invest in companies with relatively small capital. In addition, 19% of investors chose the medium business category, reaching 19% with sufficient capital. Even though in their current investment practice in the capital market, in fact only large companies are included in the list of companies that can be investment destinations, none of the respondents chose companies with very large amounts of capital to be their investment destinations. Thus, the opportunity for MSMEs to increase capital through the capital market where there are capital investors is currently still very large.

The quality of financial statements can increase the competitiveness of MSMEs

Susilo (2010) stated that MSMEs need to increase cooperation with stakeholders in order to increase their competitiveness. If MSMEs have a good cooperative relationship with investors, then the main prerequisites presented by Tambunan (2008) in Susilo (2010) will be fulfilled. There are 5 main prerequisites that must be owned by MSMEs so that employers and workers can work optimally to improve competitiveness, (1) Education; (2) Capital; (3) Technology; (4) Information; and (5) Other Crucial Inputs.

Lantu et al (2016) state that there are several factors that shape the competitiveness of a province's MSMEs, namely the availability and conditions of the business environment, business capacity, policies and infrastructure, research and technology, financial support and partnerships, and performance variables. Financial support and partnerships in this case is through the involvement of MSMEs in funding assistance obtained from the government and the private sector. MSMEs need to be proactive in order to increase their capital. Capital through the government and private sectors requires information on the performance of MSMEs. Performance includes financial and non-financial performance. Financial performance can be demonstrated by preparing financial statements according to standards.

The performance of MSMEs as a selling point for competitiveness is also influenced by business capital (Kumalasari and Asandimitra, 2019). Increasing business capital can be obtained through the government, banks and individual and institutional investors. Anyone who is a potential provider of capital needs

information about the company. Financial statements provide information that is easy to understand and the measurement is reliable. (IAI)

Sudiarta et al. (2014) found that access to capital is one of the dominant factors in influencing the performance of MSMEs. In practice, MSMEs often experience problems in obtaining capital from official institutions such as banks. In addition to high interest rates, meeting the requirements is also an obstacle for MSMEs in obtaining capital. Requirements that are often not met are financial statements that can be understood by readers (in the sense that they are in accordance with accounting standards). Besides being understandable, MSME financial statements must be able to be compared with others. Stakeholders will be able to see which MSMEs need to be provided with capital and have good operational performance through financial statements. If MSMEs do not prepare financial statements, they cannot obtain business capital. Lack of capital can cause the performance of MSMEs to decline and they are unable to compete with other businesses.

Financial Reporting in Islamic Perspective

Birton (2015) found that (source and use) of assets as well as administration and delivery of information about assets are essential pillars in achieving maqashid Sharia. Islamic Sharia emphasizes the fulfillment of the rights and obligations of the parties either directly or indirectly, including assets. So the purpose of financial statements must also include the fulfillment of these rights and obligations. This shows that Islam also states the importance of preparing financial statements.

CONCLUSION

The purpose of financial reporting is to provide information on the financial position and performance of an entity that is useful for a large number of users in making economic decisions by anyone who is not in a position to request specific financial statements to meet these information needs (IAI, 2016). Adequate financial statements presented in accordance with applicable financial accounting standards can achieve these objectives. Financial statements can be used as a source of relevant information for investors to decide on investment activities.

Investment activities are aimed at increasing the capital of an entity. Investors can use financial statements as a basis for consideration of investment decisions. Every entity needs to prepare financial statements, both large and small companies. However, currently investors only touch large companies as investment destinations because only large companies that have regulations are required to compile financial statements, while small companies (MSMEs) have not compiled financial statements according to standards which are still voluntary.

MSMEs can increase their capital if they can present financial statements according to stakeholder needs.

A stable financial condition, marked by adequate capital and contained in financial statements, will be able to improve the performance of MSMEs. MSMEs can improve the competitiveness of MSMEs. Competitiveness between MSMEs and large companies will have an insignificant gap if all these entities prepare good financial statements. This is because one of the qualitative characteristics of financial statements is comparability. If the financial statements have been standardized, then the performance between entities can be compared with validity and how much of the entity's competitiveness is clearly illustrated.

The financial statements are also in accordance with the Maqasid Syariah. Islamic Sharia places great emphasis on fulfilling the rights and obligations of the parties, either directly or indirectly, (Birton, 2015). Investors are parties who need a company's financial information directly. This shows that financial statements can support capital market practices in accordance with Islamic Sharia.

The limitation of this study is the small sample size. For further research, it can be done adding and expanding the number of samples. In addition, the analysis carried out is still simple. Furthermore, analysis can be carried out with more adequate statistical test tools..

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