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Determinants of Bounded Rationality Theory to The Use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in SMEs

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Keywords: Indonesian Accounting Standards for Non-Publicly-Accountable Entities, SME, bounded rationality theory

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INTRODUCTION

Small and Medium Enterprises (SMEs) have an important role in Indonesian economy. Based on the data from the Ministry of Cooperatives and SMEs, there were more than 40 million SMEs or more than 90% of total business units. These segments have absorbed the workforce of 90 million people or more than 95% of the total workforce. Moreover, the Indonesian Chamber of Commerce and Industry has predicted that the SMSEs and cooperatives still grew 20%-25% during 2019 enhancing the investment growth (Bisnis Indonesia, 2019).

Having a strategic role, developing SMEs is not easy. SMEs have quite complex problems. Dodge & John, Xeele & Allan, (2009), and Barbara *et al.* (2009), stated that problems in the field of financial transaction records and management greatly influence the development of SMEs. The financial transaction records in SME business activities deal with understanding the standards used in the financial records of SME operational activities. In 2009, The Institute of Indonesia Chartered Accountants (known as IAI/*Ikatan Akuntan Indonesia*) has published "Indonesian Accounting Standards for Non-Publicly-Accountable Entities (known as SAK ETAP/ *Standar Akuntansi Keuangan untuk Entitas Tanpa Akuntabilitas Publik*)". This Indonesian Accounting Standards for Non-Publicly-Accountable Entities is expected to facilitate SMEs in arranging their reports.

The essential obstacle to reach success for a new system implementation is poor attention to behavioral factors during the implementation. Besides, there were only few studies paying attention to the behavioral factors during the implementation stage of a new system and their influences to satisfaction and performance (Cavallozo and Ittner, 2004).

Review of Theory

Bounded rationality theory

Simon's theory of bounded rationality (1957) explains why humans fail to think fully rationally. This is due to, 1. limited ability to obtain information, 2. use of judgmental heuristics. Heuristics are basic rules or shorthand ways that a person uses to simplify the processing of information into memory (brain). There are two kinds of judgmental heuristics, namely the tendency to base on information in memory (availability heuristics) and the tendency to judge something based on what he already knows (representativeness heuristics). The fundamental principle of cognition states that our actions are determined by mental representations of the situation, not by the situation directly. The implications of the framing effect in making decisions, like other cognitive activities, all depend on the view of the situation we face ourselves, that is, our perception of the situation will determine our behavior.

Small and Medium Enterprises (SMEs)

According to Law no. 20 of 2008 the definition of SMEs is as follows: Small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled or become a part either directly or indirectly of medium or large businesses.

Indonesian Accounting Standards for Non-Publicly-Accountable Entities

According to IAI in SAK ETAP 1.1 (2009), Accounting Standards for Entities Without Public Accountability (SAK ETAP) are intended for use by entities without public accountability. Financial Accounting Standards for Entities Without Public Accountability (SAK ETAP) or The Indonesian Accounting Standards for Non-Publicly-Accountable Entities, and was approved by DSAK IAI on May 19, 2009.

The bounded rationality theory developed by Simon (1997) explained why humans failed to completely think rationally. The causes include: 1). Limited ability to obtain information and 2). Using the judgmental heuristics. Heuristic is the basic rule or the shortcut used by someone to simplify processing information to the memory (brain). There are two judgmental heuristic types: tendency based on the information existing in the memory (availability heuristic) and tendency valuing something based on what he/she has known before (representativeness heuristic).

This research tried to apply an alternative model expected to possibly explain the implementation process phenomena of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in SMEs in Banyumas Regency.

According to the mentioned theoretical and conceptual framework and based on the study's problem, questions and objectives, our hypotheses are placed as follows:

H1 : concept of rationality has an affects to the implementation of SAK ETAP on SMEs in Banyuma Regency

H2 : limitations of obtaining information has an affect to the implementation of SAK ETAP on SMEs in Banyumsa Regency

H3 : availability heuristics and representativeness heuristics has an affect to the implementation of SAK ETAP on SMEs in Banyumas Regency

RESULTS AND DISCUSSION

The Influence of rationality concept on the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities

The results of data analysis showed that rationality concept influenced the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities. It means that the higher the rationality attitude of SME actors to the benefits of Indonesian Accounting Standards for Non-Publicly-Accountable Entities, the greater the influence on its acceptance to the use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in managing the finance of SMEs in Banyumas Regency. The SME actors in Banyumas Regency felt that the easiness in learning and using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities can facilitate the efforts to manage their business finance. The easiness felt by the SME actors increased the confidence of SME actors in Banyumas Regency to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities.

The result of this research was in line with the concept of bounded rationality theory previously conducted by Perrin *et al.* (2001), McIntosh (2003) explained that framing in bounded theory influenced someone's decision since an individual perceived the profit and loss differently depending on conditions. This research supported the study conducted by Candra (2009) analyzing the influence of individual investor's competencies on investor's trading behaviors in the stock markets, and that conducted by Irwandi (2019) revealing the influence of rational thinking on auditor's ability in detecting fraud.

The influence of limited information to the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities

The results of data analysis showed that limited information negatively influenced the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities. The *bounded rationality* theory developed by Simon (1997) explained why humans failed to completely think rationally. One causing factor is someone's limitation to obtain information. That result was in accordance with the facts found in the field experinced by the SME actors in Banyumas Regency. Most SME actors in Banyumas Regency have not understood what the Indonesian Accounting Standards for Non-Publicly-Accountable Entities is. Thus, it is greatly necessary to socialize the Indonesian Accounting Standards for Non-Publicly-Accountable Entities. The SME actors have not completely understood that the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in arranging the SME financial reports will provide various benefits to the business management. One of the facilities is easiness in obtaining capital from the external parties (financial institutions) or investors. The limited information related to the Indonesian Accounting Standards for Non-Publicly-Accountable Entities will inhibit the implementation processes of Indonesian Accounting Standards for Non-Publicly-Accountable Entities.

The result of this research supported the study conducted by Wulandari (2011), Prasetyani (2011) mentioning that the Indonesian Accounting Standards for Non-Publicly-Accountable Entities has not been implemented as the guidance in arranging the SME financial reports in Batik Laweyan Kampong areas. SMEs have not been able to present the financial reports in accordance with the Indonesian Accounting Standards for Non-Publicly-Accountable Entities because SMEs have not known about the existence of Indonesian Accounting Standards for Non-Publicly-Accountable Entities regulating the financial report standards for their managed entities.

The influence of availability and representative heuristic factors to the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities

The results of data analysis showed that availability and representative heuristic influenced the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities. This was in accordance with the concept of bounded rationality theory developed by Simon (1997) explaining the use of judgmental heuristics. Heuristic is the basic rule or the shortcut used by someone to simplify processing information to the memory (brain). There are two judgmental heuristic types: tendency based on the information existing in the memory (availability heuristic) and tendency valuing something based on what he/she has known before (representativeness heuristic).

The tendency of availability and representative heuristic on SME actors in Banyumas Regency will support the acceptability of implementation proseses of Indonesian Accounting Standards for Non-

Publicly-Accountable Entities. The higher the tendency perception of availability and representative heuristic on SME actors in Banyumas Regency related to the Indonesian Accounting Standards for Non-Publicly-Accountable Entities, the higher the positive attitudes to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities belonging to those SMEs. The SME actors in Banyumas Regency felt that the easiness in learning and using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities can facilitate their efforts to manage the business finance. The easiness felt by the SME actors increased the positive attitudes of SME actors in Banyumas Regency to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities. The result of this research supported the concept of *bounded rationality* theory developed by Simon (1997).

CONCLUSION

Theoretically, the research results have proven that the concept of *bounded rationality* theory influences the intention in using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities in Banyumas Regency. The results of this research support the concept developed by Simon (1997). The use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities has proven not completely understood by the SME actors in Banyumas regency, due to their lack of understanding in arranging the financial reports and minimum information related to the Indonesian Accounting Standards for Non-Publicly-Accountable Entities.

This research suggests that the government, especially the Workforce, Cooperative, and SME Offices should actively play their important role in socializing the benefits of Indonesian Accounting Standards for Non-Publicly-Accountable Entities to the SME actors in Banyumas Regency. This study was only conducted in the Banyumas Regency area, so it cannot be generalized. In addition, the COVID-19 pandemic situation has resulted in difficulties in communicating directly with the respondents.

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Determinants of Bounded Rationality Theory to The Use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in SMEs

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Jenderal Soedirman University, Indonesia

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This research tried to apply an alternative model expected to possibly explain the implementation process phenomena of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in SMEs in Banyuwangi Regency.

According to the mentioned theoretical and conceptual framework and based on the study's problem, questions and objectives, our hypotheses are placed as follows:

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H2 : limitations of obtaining information has an affect to the implementation of SAK ETAP on SMEs in Banyumsa Regency

H3 : availability heuristics and representativeness heuristics has an affect to the implementation of SAK ETAP on SMEs in Banyumas Regency

RESULTS AND DISCUSSION

The Influence of rationality concept on the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities

The results of data analysis showed that rationality concept influenced the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities. It means that the higher the rationality attitude of SME actors to the benefits of Indonesian Accounting Standards for Non-Publicly-Accountable Entities, the greater the influence on its acceptance to the use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities in managing the finance of SMEs in Banyumas Regency. The SME actors in Banyumas Regency felt that the easiness in learning and using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities can facilitate the efforts to manage their business finance. The easiness felt by the SME actors increased the confidence of SME actors in Banyumas Regency to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities.

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The results of data analysis show that availability and representative heuristic influenced the implementation of Indonesian Accounting Standards for Non-Publicly-Accountable Entities. This was in accordance with the concept of bounded rationality theory developed by Simon (1997) explaining the use of judgmental heuristics. Heuristic is the basic rule or the shortcut used by someone to simplify processing information to the memory (brain). There are two judgmental heuristic types: tendency based on the information existing in the memory (availability heuristic) and tendency valuing something based on what he/she has known before (representativeness heuristic).

The tendency of availability and representative heuristic on SME actors in Banyumas Regency will support the acceptability of implementation proseses of Indonesian Accounting Standards for Non-

Publicly-Accountable Entities. The higher the tendency perception of availability and representative heuristic on SME actors in Banyumas Regency related to the Indonesian Accounting Standards for Non-Publicly-Accountable Entities, the higher the positive attitudes to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities belonging to those SMEs. The SME actors in Banyumas Regency felt that the easiness in learning and using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities can facilitate their efforts to manage the business finance. The easiness felt by the SME actors increased the positive attitudes of SME actors in Banyumas Regency to use the Indonesian Accounting Standards for Non-Publicly-Accountable Entities. The result of this research supported the concept of bounded rationality theory developed by Simon (1997).

CONCLUSION

Theoretically, the research results have proven that the concept of bounded rationality theory influences the intention in using the Indonesian Accounting Standards for Non-Publicly-Accountable Entities in Banyumas Regency. The results of this research support the concept developed by Simon (1997). The use of Indonesian Accounting Standards for Non-Publicly-Accountable Entities has proven not completely understood by the SME actors in Banyumas regency, due to their lack of understanding in arranging the financial reports and minimum information related to the Indonesian Accounting Standards for Non-Publicly-Accountable Entities.

This research suggests that the government, especially the Workforce, Cooperative, and SME Offices should actively play their important role in socializing the benefits of Indonesian Accounting Standards for Non-Publicly-Accountable Entities to the SME actors in Banyumas Regency. This study was only conducted in the Banyumas Regency area, so it cannot be generalized. In addition, the COVID-19 pandemic situation has resulted in difficulties in communicating directly with the respondents.

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