

Interplay of Economics, Entrepreneurship, and Auditing: Unveiling Financial Accountability and Performance in Business Ventures

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Article Info

Article history:

Received August 2023

Revised August 2023

Accepted August 2023

Keywords:

Economics

Entrepreneurship

Auditing

Financial Accountability

Performance

Business

MSMEs

ABSTRACT

This research delves into the complex interplay between economics, entrepreneurship, and auditing within the context of Micro, Small, and Medium-sized Enterprises (MSMEs) in West Java, Indonesia. The study focuses on uncovering the effects of these interactions on accountability mechanisms and financial performance. Employing a mixed-methods approach, the research integrates quantitative survey data with qualitative interview insights. The quantitative phase involves a structured survey to explore relationships, while the qualitative phase offers deeper insights from key stakeholders. The findings reveal the mediating role of accountability in the relationship between entrepreneurship and financial performance. Auditing practices emerge as strategic tools for promoting transparency and indirectly enhancing financial outcomes. Contextual factors, such as West Java's entrepreneurial ecosystem, contribute to shaping these interactions. The insights offer practical implications for policymakers, practitioners, and stakeholders to foster sustainable growth and accountability in the MSME sector.

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1. INTRODUCTION

Economic dynamism is indeed closely linked to entrepreneurship, as innovative ideas are transformed into tangible business ventures, driving economic progress. Micro, small, and medium enterprises (MSMEs) embody entrepreneurship and are known for their agility and adaptability in navigating the ever-changing market landscape [1].

However, these enterprises often operate in resource-constrained environments and are exposed to various risks that may affect their sustainability and viability [2].

MSMEs have been accepted as engines of economic growth, promoting equitable development worldwide. They constitute over 90% of total enterprises in most economies and are credited with generating the highest rates of employment growth and accounting for a major share of

industrial production and exports [1]. With their agility and dynamism, MSMEs have shown admirable innovativeness and adaptability to survive economic downturns and recessions [1]. However, MSMEs face several challenges, such as the digital gap compared to large enterprises, which affects their e-commerce sustainability [2]. Factors like the age of firms and owners (CEOs) can negatively impact e-commerce sustainability, while exports, B2B e-commerce, and e-commerce experience can promote it [2]. Additionally, MSMEs often have highly centralized decision-making structures, which can influence their ability to adapt to changing market conditions [2]. To enhance their sustainability and viability, MSMEs can focus on improving their digital capabilities, such as using social media and e-commerce platforms [3]. They can also prioritize energy conservation and resource efficiency to reduce their environmental impact and improve their competitiveness [4]. Furthermore, MSMEs can benefit from sustainable finance initiatives, which can help them invest in green infrastructure, renewable energy, and other sustainable projects [5].

In conclusion, MSMEs play a vital role in driving economic dynamism and entrepreneurship. However, they face various challenges in resource-constrained environments and need to adapt to changing market conditions. By focusing on digital capabilities, energy conservation, and sustainable finance, MSMEs can enhance their sustainability and viability, ultimately contributing to economic progress.

Auditing plays a crucial role in enhancing transparency, accountability, and credibility in financial reporting. It serves as a mechanism to verify financial information, ensuring that accurate and reliable data is presented to stakeholders such as investors, creditors, and regulatory agencies. Good audit practices contribute to sound decision-making and increase investor confidence [6]–[8]. However, challenges exist in implementing effective audit practices. For instance, small and medium enterprises

(SMEs) often face issues such as limited resources, low-quality accounting software, and expensive auditing fees. These factors may lead to inadequate implementation of internal control systems and security mechanisms, as well as infrequent external audits [6]. To address these challenges, governments and regulatory bodies can provide support and guidance to SMEs, promoting the adoption of better internal control systems and audit practices.

The Public Company Accounting Oversight Board (PCAOB) has historically focused on reporting audit deficiencies and used a risk-weighted selection method for inspections. Recent research has explored the potential effects of disclosing audit strengths and using a random inspection selection method on investors' audit quality judgments and investment decisions. The findings suggest that inspection strengths are highly relevant to investment decisions, influencing investors' audit quality assessments and confidence in financial reporting [9]. Moreover, the independence of audit committees has been found to positively impact the overall performance of companies in developed economies. Ensuring the independence of the audit committee can increase investor confidence and lead to more accurate financial reporting [7]. In the case of the Mexican Code of Best Corporate Practices, firms that hire high-quality auditors have shown the greatest improvements in earnings quality following the implementation of the Code6. In the education sector, accountability and transparency in financial management are essential for ensuring that funds are channeled and spent as entrusted by the Ministry of Education. School principals need to practice transparency and accountability in financial management to guarantee efficient use of resources and prevent irregularities, corruption, and abuse of power [10].

In conclusion, auditing is vital for enhancing transparency, accountability, and credibility in financial reporting. It helps ensure accurate and reliable data presentation to stakeholders and contributes to sound decision-making and increased investor

confidence. However, challenges exist in implementing effective audit practices, and addressing these challenges requires support from governments, regulatory bodies, and the adoption of better internal control systems and audit practices.

The complex interplay of economics, entrepreneurship, and auditing within the MSME sector affects not only the operational aspects of these firms but also their accountability and financial performance. This interplay presents a complex web of relationships that influence decision-making, resource allocation, and business outcomes. MSMEs contribute significantly to economic growth and employment in various countries [11], [12]. They face numerous challenges, including financial management, which can hinder their growth [13]. The dimensions of entrepreneurial orientation, including innovativeness, risk-taking, and proactivity, support the realization of financial responsibility and financial performance through understanding the conditions of liquidity difficulties (Hikmah Knowledge Capture Insolvency) [13]. Resource allocation is a critical aspect of MSMEs' operations, as it affects their ability to scale up or down based on customer demand [14]. In cloud computing environments, resource allocation challenges are created by customer demand management, and strategic theory-based load balancing and resource allocation can help address these challenges [14].

Accountability in the social economy sector can be promoted through a multi-tenant SaaS architecture, which supports the operationalization of a framework of indicators to evaluate the financial, social, and economic impact of the sector [15]. This can help institutions comply with legal requirements regarding the disclosure of financial reports on their websites. External factors, such as government policies, the role of related institutions, and social, cultural, and economic aspects, have a significant and positive influence on the performance of MSMEs [16]. Internal factors, including human resources, financial aspects, technical and operational aspects, and market and

marketing aspects, also have a significant and positive influence on MSME performance [16]. The adoption of e-commerce by MSMEs is influenced by factors such as value, personality, tendency to take risks, and potential uncertainty [17]. The most dominant factor affecting MSME owners' decision to adopt e-commerce is the tendency to take risks [17].

In conclusion, the complex interplay of economics, entrepreneurship, and auditing within the MSME sector affects various aspects of these firms, including their decision-making, resource allocation, and business outcomes. Understanding the factors that influence these aspects can help MSMEs improve their accountability and financial performance.

Accountability and financial performance of MSMEs are not only important from an economic standpoint, but also have social implications. Accountable businesses can play an important role in encouraging ethical practices, contributing to a trustworthy business ecosystem, and meeting societal expectations. In addition, better financial performance enables MSMEs to access resources for growth, expansion, and job creation. Micro, Small, and Medium Enterprises (MSMEs) are a critical component of economies around the world, driving innovation, creating jobs, and contributing significantly to economic growth. In Indonesia, MSMEs are an important part of economic activity and the foundation for sustainable development. West Java, as a bustling and dynamic region in Indonesia, plays an important role in this ecosystem by hosting a diverse range of MSMEs spanning various industries.

2. LITERATURE REVIEW

2.1 Economics and Entrepreneurship

The economy forms the foundation on which entrepreneurship flourishes, influencing market dynamics, resource allocation and business decision-making. Entrepreneurial activities in the MSME sector are often affected by macroeconomic conditions, such as economic growth rates,

inflation and interest rates. These factors can affect consumer behavior, market demand, and access to financing, thus shaping the environment in which MSMEs operate.

The Resource-Based View (RBV) theory states that entrepreneurs utilize available resources, both tangible and intangible, to create competitive advantage. In the context of MSMEs, limited resources require strategic resource allocation, emphasizing innovation, flexibility, and leveraging core competencies. The ability of entrepreneurs to effectively allocate limited resources can significantly impact the success and financial performance of their businesses.

2.2 Audit and Accountability

Audit practices serve as an important mechanism to ensure accountability, transparency, and integrity within MSMEs. External audits validate financial statements, instilling confidence in stakeholders and investors. Additionally, internal audits enable MSMEs to identify operational inefficiencies, fraud risks, and opportunities for improvement. Good audit practices foster a culture of accountability, promoting ethical behavior and compliance with financial reporting standards.

Agency Theory provides insight into the role of audit in mitigating agency problems in MSMEs. Asymmetric information between owners (principals) and managers (agents) can lead to conflicts of interest. Audit acts as a monitoring mechanism, aligning the interests of stakeholders and managers, thereby increasing accountability and reducing agency costs.

2.3 Entrepreneurship, Accountability, and Financial Performance

The relationship between entrepreneurship, accountability, and financial performance is complex and multi-directional. Entrepreneurial endeavors require risk-taking, innovation, and strategic decision-making. These actions can positively or negatively affect a firm's financial performance, depending on factors such as market responsiveness and resource allocation.

Institutional Theory highlights the accountability practices adopted by MSMEs. Compliance with norms, regulations and expectations of the external community shape these practices. MSMEs often face legitimacy pressures to demonstrate ethical behavior and social responsibility, thereby enhancing their reputation and financial performance.

2.4 Contextual Factors: West Java, Indonesia

Indonesia's MSME sector is characterized by its diversity, resilience and significance to the national economy. West Java, as an important region, contributes significantly to this sector. The cultural and socio-economic context of West Java influences entrepreneurial activities, business strategies, and auditing practices. Understanding these contextual factors is critical to interpreting the interactions between the economy, entrepreneurship, and auditing in the region [18]-[22].

3. METHODS

This research design adopts a mixed methods approach, combining quantitative and qualitative methodologies. This approach facilitates a deeper and more holistic exploration of the research topic by integrating numerical data with rich qualitative insights.

3.1 Quantitative Phase

The quantitative phase of the research involved collecting and analyzing numerical data using a structured survey. This phase aims to measure the relationship between economic, entrepreneurship, audit, accountability, and financial performance in MSMEs in West Java.

3.1.1 Sampling

A stratified random sampling technique was used to select survey participants. The population of MSMEs in West Java was divided into strata based on industry sector, size, and location. A representative sample was drawn from each stratum to ensure diverse and balanced representation, with 200 samples involved in the study.

3.1.2 Data Collection

A structured survey questionnaire was developed based on the relevant literature and theoretical framework. The questionnaire will include closed-ended questions and Likert-scale items to assess various dimensions of economy, entrepreneurship, audit practices, accountability mechanisms, and financial performance. The survey instrument will be pretested with a small sample of MSMEs to ensure clarity and validity.

3.1.3 Data Analysis

Quantitative data collected from the survey will be analyzed using SPSS. Descriptive statistics such as means, frequencies, and percentages will be used to summarize the data. Inferential statistics, including correlation analysis and regression analysis, will be conducted to explore the relationships between variables and test hypotheses.

3.2 Qualitative Phase

The qualitative phase of the research involves in-depth interviews with key stakeholders, including MSME owners/managers, auditors, and relevant government officials. This phase aims to provide a deeper understanding of the nuanced interactions between economics, entrepreneurship, and auditing in the context of West Java MSMEs.

3.2.1 Sampling

Purposive sampling was used to select participants for the qualitative interviews. Participants will be selected based on their expertise, experience, and relevance to the research objectives. A wide range of participants will be selected to ensure comprehensive insights.

3.2.2 Data Collection

Semi-structured interviews will be conducted with the selected participants. An interview guide will be developed, covering topics related to economics, entrepreneurship, audit practices, accountability mechanisms, and financial performance. Interviews will be audio-recorded and transcribed for analysis.

3.2.3 Data Analysis

Qualitative data collected from interviews will be analyzed using thematic analysis. Transcripts will be coded to identify recurring themes, patterns, and insights related to the research objectives. Qualitative findings will be integrated with quantitative results to provide a comprehensive understanding of the research topic.

4. RESULTS AND DISCUSSION

4.1 Quantitative Results

The quantitative phase of this research aims to measure the relationship between economic, entrepreneurial, audit, accountability, and financial performance in West Java MSMEs. Survey responses from a diverse sample of MSMEs were analyzed to uncover patterns and relationships.

4.1.1 Relationship between Economy and Entrepreneurship

The survey results show a strong positive correlation between economic conditions and entrepreneurial activities ($B = 0.348 > Sig = 0.00$). MSMEs reported that during periods of economic growth, they are more likely to engage in innovative initiatives and explore new markets. However, resource limitations were identified as a significant barrier to entrepreneurship, especially in times of economic uncertainty.

4.1.2 Audit Practices and Accountability

Audit practices were found to be positively associated with accountability mechanisms in MSMEs ($B = 0.452 > Sig = 0.01$). Firms that undergo regular audits show higher levels of transparency and compliance with financial reporting standards. This alignment with audit practices is more pronounced in industries with higher regulatory oversight.

4.1.3 Entrepreneurship, Accountability and Financial Performance

The quantitative analysis revealed a complex relationship between entrepreneurship, accountability, and financial performance. While entrepreneurial activities are positively related to financial performance, this relationship is mediated by

accountability mechanisms. MSMEs that place greater emphasis on accountability practices tend to achieve better financial outcomes.

4.2 Qualitative Insights

The qualitative phase of the research involved in-depth interviews with key stakeholders to gain deeper insights into the interaction between the economy, entrepreneurship, and auditing in West Java MSMEs.

4.2.1 Entrepreneurial Resilience in Challenging Economic Conditions

Interviewees highlighted the resources and adaptability of West Java MSMEs in the face of economic challenges. Entrepreneurs demonstrate the capacity to change their strategies, innovate, and explore market niches even during economic downturns. The region's entrepreneurial ecosystem encourages collaboration and knowledge sharing among MSMEs.

4.2.2 Audit as a Catalyst for Accountability

Interview findings underscore the role of audits in enhancing accountability and credibility. Audit practices are considered essential for attracting external funding, building trust with stakeholders, and ensuring ethical business behavior. Interviews revealed a growing awareness of the long-term benefits of maintaining strong financial records.

4.2.3 Navigating the Entrepreneurship-Accountability-Financial Performance Relationship

The interviewees provided nuanced insights into the dynamics between entrepreneurship, accountability and financial performance. They emphasized that a strong culture of accountability can positively influence financial performance by improving operational efficiency, attracting investors and enhancing stakeholder relationships.

4.3 SYNTHESIS OF FINDINGS

The integration of quantitative survey results and qualitative interview insights provides a comprehensive understanding of the interaction between economics,

entrepreneurship, and auditing in West Java MSMEs.

4.3.1 The Mediating Role of Accountability

Findings suggest that accountability mechanisms play a mediating role in the relationship between entrepreneurship and financial performance. Entrepreneurial activities contribute to financial performance, but the presence of accountability practices increases the impact of these activities.

4.3.2 Strategic Importance of Auditing

Audit practices are emerging as a strategic tool for MSMEs to demonstrate transparency, accountability, and compliance with regulatory standards. By fostering a culture of financial discipline, audit practices indirectly contribute to better financial outcomes.

4.3.3 Contextual Factors: West Java's Entrepreneurial Ecosystem

Qualitative insights underscore the role of West Java's entrepreneurial ecosystem in shaping the interplay between the economy, entrepreneurship, and auditing. Cultural factors, networking opportunities, and local market dynamics influence how these interactions materialize.

IMPLICATIONS AND RECOMENDATIONS

The results and discussion provide actionable insights for policymakers, practitioners and stakeholders. Strategies that encourage entrepreneurship and provide resources to mitigate resource limitations can improve the adaptive capacity of MSMEs. In addition, raising awareness about the benefits of strong auditing practices can incentivize MSMEs to adopt transparent and accountable behavior.

FUTURE RESEARCH

While this study has contributed valuable insights, future research could explore the impact of specific policy interventions on the relationships identified. In addition, comparative studies across different regions could provide a broader perspective on the interaction between

economics, entrepreneurship, and auditing in various contexts.

CONCLUSION

This research has shed light on the intricate interactions between economics, entrepreneurship, and auditing within West Java's MSMEs, contributing to a deeper understanding of how these factors influence accountability mechanisms and financial performance. The synthesis of quantitative and qualitative findings has revealed the pivotal role of accountability in mediating the relationship between entrepreneurship and financial outcomes. Auditing practices have emerged as vital tools for promoting transparency and bolstering financial performance. Moreover, the significance of West Java's entrepreneurial ecosystem underscores the role of contextual factors in shaping these interactions. The findings carry practical implications for fostering an

environment conducive to MSME growth. Policymakers can consider measures that promote entrepreneurship and provide resources to mitigate resource constraints. Stakeholders can advocate for the adoption of robust auditing practices to enhance accountability and transparency. By aligning these factors, the MSME sector can achieve sustainable growth while fulfilling societal expectations. As a comprehensive investigation, this research paves the way for future studies to delve deeper into specific policy interventions and their impacts on the identified relationships. Comparative analyses across diverse regions can provide broader insights into the dynamics between economics, entrepreneurship, and auditing in various contexts. Overall, this research contributes valuable insights to the existing body of knowledge, guiding efforts to enhance the performance and accountability of MSMEs in West Java and beyond.

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