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Social Accounting in the Small Medium Enterprises

Lisa Kartikasari[1], Sutapa[2]
[1,2,]Faculty of Economics, Universitas Islam Sultan Agung (Unissula), Semarang, Indonesia
Corresponding Author: lisakartika@unissula.ac.id

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Abstract:
This study examines social accounting is proxied by social capital and social contribution to the internal control structure. This study emphasizes to the internalization aspect of the application of social accounting into the company's overall internal function which functions as a corporate decision making. Sampling were 59 small and medium businesses in the Central Java province. Sampling was done by purposive sampling method. Data were tested using multiple linear regression. Based on the results that involvement of small and medium businesses in the province of Central Java has not been high. Results of the regression analysis showed that social contribution variable had a significant positive effect on the internal control. But the social capital variable does not affect to the internal control structure. Implication of this study that both small and large companies must consider training, funding and user involvement as indicators of social accounting to be internalized into internal control structure.

Keywords: *Social accounting, social capital, social contribution, internal control*

I. INTRODUCTION

The balance between financial performance and environmental performance is a challenge for companies to realize internal and external responsibility. Many companies still face difficulties in facing the 'sustainability agenda', social accounting and social enterprise in providing solutions by providing a solid basis for measuring, calculating, and reporting financial and economic performance. Corporate social performance as a form of corporate social responsibility in the surrounding environment and society. Current corporate social responsibility is not only to achieve good economic performance but rather to social responsibility internalized in company accounts (Busco et al, 2010; Crutzen, 2012).

Social accounting is a branch of accounting related to the whole social system. The field of social accounting includes pollution control, public relations, product quality, plant safety, equal employment opportunities, social contributions, employee benefits, and responsiveness to customer complaints. The concept of social accounting is not the application of new accounting procedures and rules, because the principles of social accounting are the same as corporate accounting. Social accounting is concerned with developing measurement systems to monitor social performance. Also, social accounting deals with the identification, measurement, and reporting of business and environmental relations. The development of social accounting is not as fast as expected. This is due to difficulties in measuring contributions and losses, such as determining the cost of social benefits, how to quantify all relevant items and place the monetary amount at its final value.

Internal control is a set of control activities carried out within a company to create sufficient confidence so that operational efficiency and

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effectiveness can be realized, financial statements become reliable, and regulations and laws can be obeyed (COSO, 2013). Internal control ensures the effectiveness of a company's health development (Zhang, Wangfeng, 2010). There is no alternative method to prevent material errors, fraud, or other forms of error than enforcing the effectiveness of internal control in the company (El-Mahdy & Park, 2013). Companies with serious internal control issues as a whole tend to have quite severe financial problems. Internal controls are formed to minimize the potential for fraud that may occur within the company. Weak internal control is related to the weak commitment of resources to accounting controls. The more complex the business activities, the higher the control activities carried out by the company. The need for quality internal control impacts on the ease of achieving company goals and can minimize risk. If internal control has been established, then all operations, physical resources, and data will be monitored and under control, objectives will be achieved, risk will be small, and the information produced will have high quality. On the other hand, without internal control, conditions that may harm the company may occur, such as recording errors, decision-making errors, cost inefficiencies, loss of assets, cessation of business activities, or sanctions.

Research on social accounting has been done much. Some research on corporate social responsibility and environmental reporting were conducted by Ebimobowei (2011), Bebbington (2008), Pedersen (2010), and Moser and Martin (2012). Research on the social and environmental dimension has been carried out by Riccaboni and leone (2010) and Songini & Pistuni (2012). Abdalla et al (2014), Zaini (2012) and Ghosh (2009) conducted qualitative research on social accounting. There have been many studies on social accounting, however, there is still not much research on social accounting that is applied to the internal functions of the company as a whole.

Implementation of social accounting with a focus on internal company transactions including social transactions, social overhead, social income, social constituents, social capital, and social assets will strengthen the company's position or small and medium enterprises (SMEs). The public who become as users, whether as customers, suppliers, or distributors will give higher trust if the SMEs are concerned with environmental and social issues by being internalized in their business accounting transactions.

This research emphasizes the internalization aspects of the application of social accounting into the overall internal functions of the company that function as corporate decision making. In the first-year identification of the dominant factors of social accounting has been carried out, and a social accounting model has been formed in the middle of small businesses. In the second year, this model will be tested on the results of the first-year research output. The results of the first-year model formed two variables from social accounting, namely social capital with three selected indicators and social contribution with three selected indicators. Furthermore, the two variables of the social accounting concept formed are linked to the internal control structure to see its overall impact on the company. The object of this research is SMEs in the Central Java. The selection of the object aims to see how far the role of SMEs in applying social and environmental factors in their business.

II. Research Questions

The followings are the research questions:

a. Does social capital influence the internal control structure?
b. Does social contribution influence the internal control structure?

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III. Research Purposes

Recently, social responsibility becomes a core value for the company. The company's concern about social and environmental factors in the community makes the company better its image in the face of the community and investors and potential investors. One of the accountabilities through the disclosure of environmental and financial performance of the company is a challenge that must be faced by businesses today. Social costs and benefits are used to understand people's expectations and concerns about social and environmental potentials that impact company performance.

IV. LITERATURE REVIEW

Social Accounting

Social accounting is concerned with developing measurement systems to monitor social performance. Corporate social performance is a form of corporate social responsibility in the surrounding environment and society. Edey and Peacock (1954) state that social accounting is related to the statistical classification of human activities personally and as members of organizations to help in understanding the operation of the economy as a whole. According to Kohler, social accounting is an application of double-entry book-keeping for socio-economics analysis. Ralp Estes stated that social accounting is a measurement report, internal and external information that affects the company and its activities in the community.

In conventional accounting, measurement of economic consequences in the form of money becomes the main function, whereas in social accounting is in the form of socio-economic non-monetary. Also, the function of social accounting is to measure and disclose the costs and benefits to society created in the form of production-related activities from enterprise businesses.

Ramanathan (1976) explains social accounting as a process of choosing the level of corporate social performance in terms of variables, measures, and measurement procedures that are systematic in developing information that is useful for evaluating performance and communicating information relating to social groups both inside and outside the company. Ramanathan divides the three objects of social accounting. *First*, periodically identifies and measures the company's net social contribution, not only the costs and benefits but also the emergence of different external outputs from the social segments of society. *Second*, helps explain the company's strategy and practice directly that affects the resources and strengths of individuals, communities, social segments, and generations that are consistent with the spread of social priorities on the one hand, and aspirations of individual legitimacy on the other. *Third*, makes the availability of optimal ways for the corporate social field that provides relevant information for goals, policies, programs, performance, and contributions to social goals. Besides, Ramanathan formulated six concepts of social accounting, including social transactions, social overhead, social income, social constituents, social capital, and social assets.

Internal Control Structure

According to Arens & Mark S. Beaslev (2008), the internal control system consists of policies and procedures designed to provide management with reasonable certainty that the company has achieved its goals and objectives. These objectives consist of the reliability of financial reporting, efficiency, and effectiveness of operations, and compliance with laws and regulations. The auditor's responsibility to understand internal control: The second standard of field work from GAAS (Generally Accepted Auditing Standards). (Arens & Beaslev, 2008) states that auditors must have an adequate understanding of the entity and its environment, including its internal controls, to assess whether the risk of material misstatement in the financial statements is caused by error or fraud, and to design the nature, timing, and extent further audit procedures. Internal control is a series of control activities carried out in a company to create sufficient trust so that the objectives of operational efficiency and effectiveness, reliable financial reports, and compliance with regulations and laws are realized (COSO, 2013). Internal control ensures the effectiveness of a company's health development (Wangfeng, 2010). There is no alternative method to prevent material errors, fraud, or other forms of error than enforcing the effectiveness of internal control in the company (El-Mahdy & Park, 2013).

Companies with serious internal control issues as a whole tend to have quite severe financial problems. Internal controls are formed to minimize the potential for fraud that may occur within the company. Weak internal control is related to the weak commitment of resources to accounting controls. The more complex the business activities, the higher the control activities carried out by the company. The need for quality internal control impacts on the ease of achieving company goals and can minimize risk. If internal control has been established, then all operations, physical resources, and data will be monitored and under control, objectives will be achieved, risk will be small and the information produced will have high quality. On the other hand, without internal control, conditions that may harm the company may occur, such as recording errors, decision-making errors, cost inefficiencies, loss of assets, cessation of business activities, or sanctions.

V. Hypothesis Development

Effects of Social Contribution on Internal Control Structure

Social contribution is reflected in the company's social income. Social contribution is measured by three indicators, namely funding, training, and customers. The company's social contribution through funding with companies contributes to providing funding to groups or events in the community. Through the provision of funding, the company's social income will increase. Through training provided by the company to the community, both training in the field of community environment and training for the progress of certain community groups. Customers as a measure of the highest social contribution provide corporate social income. Through customers, the company will get social income as well as business income. A good corporate image that is felt by customers will have a broad impact on the company. Because through customer appraisal, the public will be carried away by the customer's opinion on the company's valuation (Sarens & D'onza, 2016). A good social contribution will bring strengthening to the company's control environment. This will improve the company's internal control structure.

H1. Social contribution has a positive effect on internal control structure

Effect of Social Capital on Internal Control Structure

Social capital is a measure of a set of changes in the demands of each of the basic social elements before summarized in the company (Ramanathan, 1976). Social capital contributes to the development of innovation and economic growth (Yan, 2012). The demand for social capital is not reinforcement under the existence of a legal system, but the measurement of social capital will provide a basic use of social decision making and to evaluate the company's social performance. As a social transaction, the company will increase the company's social value in the community or social resources, the formal recognition of non-market events or events in the company's accounting system that is supported by the existence of social assets accounts. The positive value of a company's externalities will increase same as the value of the company's social assets. The negative value of the company's externalities will reduce the company's social assets. Social capital plays a role in preventing earnings management (Pan, et al, 2010). Through social capital that is part of the trust, it will provide value to managers so that it will prevent managers from getting involved in earnings management.

The social capital variable is measured by three indicators, which are; government regulation, community pressure, and media pressure. Government regulations regarding social responsibility must be complied by the company. Community pressure with various groups and interests as well as users of company goods and services can exert pressure that has positive and negative impacts on the company. Media pressure can shape public opinion on corporate social activities. When social capital increases, the company's internal control structure will become stronger because the value of the company's social assets will also increase. Li (2017) in his research in China stated that social capital as part of trust influences the quality of internal control.

H2. Social capital has a positive effect on internal control system

VI. RESEARCH METHODOLOGY

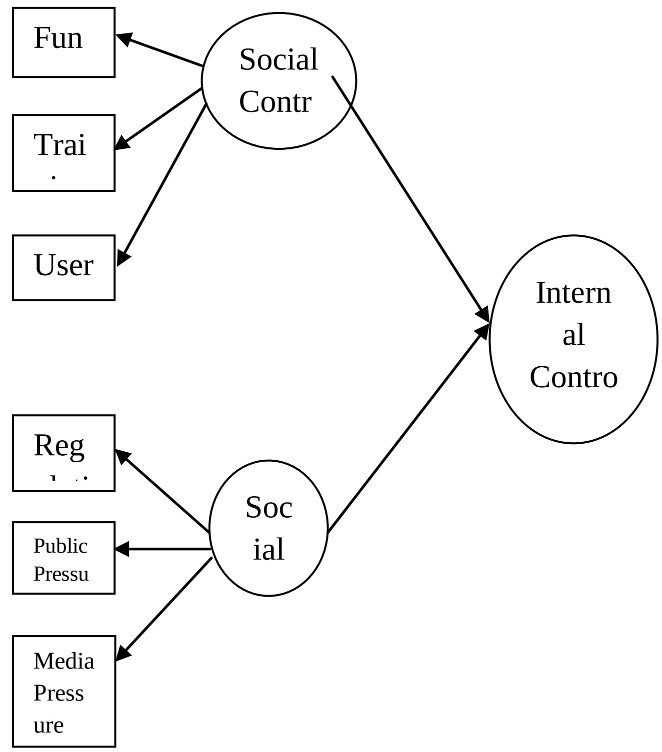

Fig.1. Research Model

Population and Sample

The population in the study were all SMEs in Central Java. Sampling was done by purposive sampling method. The purposive sampling method was applied because this study required intensive interaction with research subjects so that research subjects were chosen based on the researchers' judgment regarding the subject's location and subject's willingness to be involved in this study. The location of subjects was taken in districts where there were many SMEs. The selected districts are Semarang, Pekalongan, Surakarta, Kebumen, and Jepara. The final sample treated was 59.

Operational Variables and Measurements

Dependent Variable

The dependent variable in this study is the internal control structure. The internal control

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structure is measured by a five-component control indicator from the Committee of Sponsoring Organization (COSO), which consists of the control environment, risk assessment, control activities, information, and communication, monitoring. Each of the control components is measured with the following items:

a. The control environment is measured by organizational authority and responsibility; enforcement of disciplinary actions; competency standards for each position; planning strategies and human resource development.
b. Risk assessment is measured by risk identification and analysis; management conditions; and risk assessment.
c. Control activity is measured by adequate segregation of duties; adequate documentation and records
d. Information and communication are measured by updating information systems, the accuracy of authority, policy procedures, and good coordination
e. Monitoring is measured by conducting a rational evaluation, evaluating performance, and monitoring activities.

Independent Variable

The independent variables in this study are social capital and social contribution. Social capital is a measure of a set of changes in the demands of each of the basic social elements before summarized in the company (Ramanathan, 1976). This variable is measured by three indicators, namely; government regulation, public pressure, and media pressure. Social contribution is reflected in the company's social income. Social contribution is measured by three indicators, which are; funding, training and customers.

4.4. Data Collection Techniques

Collecting data with in-depth interviews and sending questionnaires by mail survey or personally so that uncertainty about the contents of the questionnaire can be responded immediately. To improve the quality of research results, in-depth interviews with SMEs can be carried out by direct visit or by telephone.

4.5. Data Analysis Method

In the second year, testing the model was tested by using multiple regression. Multiple regression is a regression model that involves one response variable with several independent variables. The use of regression is intended to determine partially the various independent variables that exist without the influence of other variable elements.

Multiple Linear Regression Test

Hypothesis testing in this study used Multiple Regression analysis because this study consists of one metric (one dependent variable) and more than one non-metric (independent variable), as stated in the study (Ghozali, 2013). This analysis is used to determine the effect of social accounting, namely social capital and social contribution. The regression equation is as follows:

$Y = a + b1KS + b2MS + e$

Which:

Y	: Internal Control Structure
a	: constant
b	: regression coefficient
e	: standard error

VII. RESEARCH FINDING

Respondents who participated in this study were grouped according to gender, age, last education, and length of business. The profile of SMEs actors in Central Java participating in the study is shown in the following table 1.

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Table 1
Profile of Respondents

Characteristics of Respondents		Total	Percentage (%)
Gender	Female	28	47.46%
	Male	31	52.24%
Age	28 years	8	14%
	32 years	6	10%
	41 years	6	10%
	43 years	7	11%
	45 years	6	10%
	46 years	9	15%
	49 years	7	12%
	50 years	10	17%
Level of Education	Elementary School	8	14%
	Junior High School	9	15%
	Senior High School	20	34%
	Diploma	8	14%
	Undergraduate	14	24%
Length of Business	4 to 10 years	9	15%
	11 to 17 years	15	26%
	18 to 24 years	10	17%
	25 to 31 years	10	17%
	31 to 35 years	15	25%
Total employees	5 to 20 employees	10	17%
	21 to 31 employees	5	8%
	32 to 42 employees	15	26%
	43 to 53 employees	18	31%
	54 to 64 employees	10	17%
	65 to 75 employees	1	1%

Source: Data processed, 2019

Respondents who participated in this study were grouped by gender consisting of 31 (52.24%) men and 28 (47.46%) women. Based on age, it consists of 8 (14%) who got 28 years, 6 (10%) got 32 years, 6 (10%) got 41 years, 7 (11%) got 43 years, 6 (10%) got 45 years, 9 (15%) got 46 years , 7 (12%) got 49 years, 10 (17%) got 50 years. Based on education level, it consists of 8 (14%) respondents who had graduated from elementary school, 9 (15%) from junior high school, 20 (34%) from high school, 8 (14%) from Diploma and 14 (24%) from Undergraduate level. Based on the length of the business, it consists of 9 (15%) who had a business tenure of 4 to 10 years, 15 (26%) of 11 to 7 years, 10 (17%) of 18 to 24 years, 10 (17%) of 25 to 31 years, 15 (25%) of 31-35 years. The total employees consists of 10 (17%) who had 5 to 20 employees, 5 (8%) had 21 to 31 employees, 15 (26%) had 32 to 42 employees, 18 (31%) had 43 to 53 employees, 10 (17%) had 54 to 64 employees

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and 1 (1%) had 65 to 75 employees.

VIII. DISCUSSION

Model		Unstandardizad Coefficients		Standardized Coefficients	t	Sig	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.268	.571		5.720	.000	2.123	4.413
	KontribusiSos		.080	.573	5.318	.000	.266	.587
	ModalSos	.427	.138	-.123	-1.143	.258	-.435	.119
		-						
		.158						

Social capital variable does not affect the company's internal control structure. This is proven by significant value of 0. 258. This value is above 0.05 as an alpha value and the maximum standard of acceptable error. Thus, hypothesis 2 in this study was not accepted. Government regulation becomes an indicator of the social capital variable. Government regulations contain regulations governing social responsibility issued by the government, both the central and regional governments. Many SMEs do not comply with regulations on social responsibility issued by the government, as there are many SMEs who do not reprocess the leftover products they process. The residual product disposal is often disposed of in a place that causes damage to the community's environment. Therefore, this causes the social capital variable does not affect the company's internal control structure.

The community is a customer of the products that the company produces. If complaints, input, and quality of goods and services are ignored by the company, the public pressure will be even stronger on the company. This will affect the effectiveness of the company's operations. Public pressure becomes an indicator of social capital variable. SMEs are less involved in social activities in the Public. This is because SMEs actors still focus on the productivity of business results. Aside from the financial, SMEs have not set aside their funds for social activities, because SMEs still need a lot of capital for business. However, public media do not know detail of this case. Several news from the media is pressing SMEs actors related to their less concern for social activities in the Public.

The social contribution variable influences the company's internal control structure. This can be seen from the results of the significant value of the social contribution variable that is equal to 0.00. This value is smaller than the standard error value of 0.05. The more active the company provides a social contribution to the community, the more effective the company's internal control structure. The variable social contribution is measured by three indicators, namely funding, training, and customers.

IX. CONCLUSION

This study aims to examine social capital and social contribution which become the

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dimension of social accounting on the internal control structure. Based on the results of this study, the involvement of SMEs in Central Java is not yet high. The results of the regression analysis showed that the social capital variable had a significant positive effect on internal control structure. But the social capital variable does not affect the internal control structure. Future research can axamine impact of applying social accounting to company performance.

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