

Behavioral Accounting and the Humanization of Financial Practices in MSMEs

^{1*}**Retno Cahyaningati, ¹Deni Juliasari, ¹Selvia Roos Ana**

^{1*}Faculty of economic and business, Institut Teknologi dan Bisnis Widya Gama Lumajang, Indonesia

E-mail: retnocahyaningati@dosen.itbwigalumajang.ac.id

*Corresponding Author

Abstract

Introduction/Main Objectives: This research investigates the implementation of behavioral accounting in micro, small, and medium-sized enterprises (MSMEs) in Lumajang Regency, Indonesia, highlighting its function as a behavioral mechanism that amalgamates financial management with ethical, motivational, and social aspects. **Methods:** Employing a qualitative descriptive methodology, data were gathered via in-depth interviews, participatory observations, and documentation from government officials, MSME proprietors, field facilitators, and accounting scholars. The analysis utilized a thematic coding methodology to discern patterns of motivation, risk perception, and ethical awareness that impact accounting behavior and business productivity. **Results/Findings:** The results show that human behavior, not formal financial systems, is what drives MSMEs to use accounting practices the most. Three main factors motivation, risk perception, and ethics came to light as the most important ones that affect adaptive and reflective accounting behavior. These dimensions together create a pattern of behavior that boosts productivity not only by being financially efficient, but also by being morally disciplined and socially responsible. **Conclusions:** The research illustrates that behavioral accounting can function as a conduit between formal economic frameworks and sociocultural contexts, thereby advancing the theoretical evolution of behavioral-humanistic accounting. In practice, the study underscores the significance of behavior-based accounting education that incorporates moral and social consciousness into MSME empowerment initiatives. In theory, it broadens the application of behavioral accounting from corporate settings to community-based enterprises, supporting the humanistic perspective that sustainable productivity arises from ethical conduct and reflective awareness rather than solely from financial rationality.

Keywords Behavioral accounting; Ethics; Humanistic accounting; Productivity; Motivation; Risk perception

JEL Classification: G4, G40

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INTRODUCTION

In the last twenty years, accounting studies have undergone a significant paradigm shift from a strictly normative framework to a behavioral orientation. The conventional perception of accounting as a technical and rule-bound field focused mainly on numerical accuracy, uniform procedures, and adherence to regulations has progressively transitioned to a more human-centric perspective that recognizes the intricate psychological, social, and ethical aspects of decision-making. It contests the premise of economic rationality, positing that individuals engaged in financial decision-making are influenced not solely by logic and

objective data, but also by personal beliefs, emotions, social norms, and cognitive biases (Libby & Thorne, 2021).

This behavioral point of view stresses that accounting systems can't work well if they don't take into account the people who design, interpret, and act on the information they produce. Even more important when it comes to micro, small, and medium-sized businesses (MSMEs) based on both economic logic and how people act the culture they live in. contrast to big companies, where many departments have a say in decisions, MSMEs are usually run by the owner, who is also the manager, controller, and main decision-maker (Gibson & Fraser, 2020). kinds of places, the owner's personality, beliefs, and habits are closely linked to how they do their accounting. factors, like entrepreneurial motivation, perceived risk, confidence, and even emotional attachment to the business, often affect strategic decisions like pricing, investment, and financing.

The previous research on behavioral accounting has been done in large businesses, banks, and government agencies (Brown & Hirst, 2018). there aren't many studies that focus on MSMEs, even though they are very important for creating jobs and growing the economy. up a large part of business activity in developing countries, such as Indonesia, where they make up more than 90% of all businesses and are a major source of GDP and job growth. have problems because they don't have enough money, they can't get to technology easily, and their managers aren't very good. structures are generally informal, and decision-making processes often depend more on intuition and experience than on formal analysis (Mulyani et al., 2022). Nonetheless, research concentrating on MSMEs is still somewhat scarce, notwithstanding their essential function in promoting national economic development and still somewhat scarce, notwithstanding their essential function in fostering national economic development and employment. Countries like Indonesia, MSMEs make up a large part of business activity. They make up more than 90% of all businesses and are a big part of GDP and job growth. have problems because they don't have enough money, can't get to technology easily, and don't have strong management skills. structures are usually informal, and they tend to make decisions based on gut feelings and past experiences rather than formal analysis (Mulyani et al., 2022).

In this context, the behavioral aspect of accounting becomes a crucial determinant of business performance. doing things, moral beliefs, and views on risk affect how they keep financial records, how they judge performance, and how they make strategic decisions. Still, there isn't much research that connects behavioral accounting to productivity. lot of the writing that is already out there sees accounting as a mechanical system for control and reporting, not as a social practice that is shaped by human thought and feeling. A lot of the writing that is already out there sees accounting as a mechanical system for control and reporting, not as a social practice that is shaped by human thought and feeling. on aspects often only looks at how professional accountants act ethically (Ghazali & Ismail, 2022), ignoring the behavioral dynamics of small business owners who have to make tough choices between their financial needs, personal values, and social obligations. Research on the behavioral aspects of accounting often only looks at how professional accountants act ethically (Ghazali & Ismail, 2022), ignoring the behavioral dynamics of small business owners who have to make tough choices between their financial needs, personal values, and



social obligations. disparity highlights the necessity to recontextualize behavioral accounting within the lived experiences of MSME stakeholders individuals who navigate daily financial decisions amid uncertainty, possessing limited formal knowledge yet profound cultural and emotional investment in their enterprises. Additionally, the majority empirical studies on behavioral accounting have utilized quantitative methodologies, employing standardized models that presuppose universal rationality and consistent behavior across various contexts. Although these models yield statistical generalizations.

RESEARCH METHOD

This study employs a descriptive qualitative approach to explore the application of behavioral accounting in enhancing the productivity of micro, small, and medium-sized enterprises (MSMEs). This methodological choice allows the researcher to capture the meanings, values, and lived experiences of participants within their social context. Consistent with the phenomenological perspective, accounting reality is not constructed solely through numerical data but also through the awareness, behavior, and consciousness of the individuals who manage it (Moustakas, 1994; Sukoharsono, 2021).

The research was conducted in Lumajang Regency, East Java, Indonesia, a region characterized by a vibrant MSME sector, particularly in trade and household-based manufacturing industries. The site was selected purposively, taking into account the diversity of entrepreneurial characteristics and the organically evolving accounting practices found in the field. This selection strategy ensured that the research context represented a dynamic interaction between behavioral, cultural, and managerial dimensions of MSME operations. Informants were determined through purposive sampling, based on their relevance and capacity to provide rich, insightful information aligned with the research objectives. The key informants included:

1. Mr. Ridha, Head of the Office of Cooperatives, Industry, and Trade of Lumajang Regency, who provided perspectives on local government policies and MSME development strategies.
2. Ms. Mahindar, an MSME entrepreneur in the food processing sector, who represented practical applications of simple accounting systems in daily business operations.
3. Mr. Hudi Setyobakti, an academic specializing in behavioral accounting, who contributed theoretical insights and reflective analysis on behavioral-based accounting practices.
4. Mr. Johan Sanjaya, an MSME field facilitator in Lumajang, who shared direct experiences in training, mentoring, and evaluating entrepreneurs' financial behaviors.
5. Ms. Retna Dewi, an entrepreneur in the handicraft and creative industry sector, who provided viewpoints on the interrelation between accounting behavior, creativity, and business productivity.

Data were analyzed through a thematic analysis approach, involving stages of data reduction, coding, thematic categorization, and reflective interpretation. This analytical process enabled the researcher to identify and connect key behavioral dimensions such as motivation, risk perception, ethics, and productivity within the accounting practices of MSME actors. To ensure data credibility and validity, the study employed triangulation of

sources and methods, member checking with primary informants, and peer debriefing sessions with academics specializing in behavioral accounting. These strategies strengthened interpretive consistency and minimized researcher bias. The interpretive nature of this research emphasizes that the findings represent a dialogue between empirical experiences and theoretical reflection, rather than merely objective observation. Behavioral accounting practices are thus interpreted as socially embedded actions that reflect entrepreneurs' awareness, learning processes, and ethical commitments. Through this qualitative lens, the study seeks to illuminate the humanistic dimensions of accounting revealing how MSME productivity arises not only from technical efficiency but also from the behavioral, moral, and cognitive transformations of business actors.

RESULTS AND DISCUSSION

Interviews in this study were conducted to gain an in-depth understanding of the meaning and behavioral dimensions of accounting practices among micro, small, and medium-sized enterprise (MSME) actors in Lumajang Regency, East Java. Within the qualitative paradigm, interviews are not merely a tool for data collection but serve as an interpretive space, where the researcher and participants engage in dialogue to construct shared meanings about the social realities being examined. Accordingly, the interviews were designed not only to identify what MSME owners do in their accounting practices but also to explore why and how they attribute meaning to their seemingly simple yet behaviorally rich financial record-keeping processes.

This approach aligns with the principles of behavioral accounting, which posit that accounting systems cannot be separated from the behavior of the individuals who operate them. Through open-ended conversations between the researcher (Retno) and various informants including government officials, academics, field facilitators, and MSME entrepreneurs the study sought to understand how motivation, risk perception, and ethical values shape accounting behavior, ultimately influencing business productivity. The following narratives illustrate how the theory of behavioral accounting manifests in real, localized economic practices.

Retno: "How do you perceive the current state of financial record-keeping among MSMEs in Lumajang?"

Mr. Ridha: "Honestly, most MSMEs still do not maintain proper financial records. They usually know how much money comes in and goes out, but they rarely translate it into formal reports. Our data show that in Indonesia, only about two percent of MSMEs record their finances systematically. Most rely on memory and intuition to manage their business."

Retno: "Why do you think financial awareness remains low among MSME owners?"

Mr. Ridha: "First, they don't feel the need. Second, they see accounting as complicated. Third, our business culture is built on trust. People tend to rely more on experience and instinct than on numbers."

Retno: "In your view, what would be the ideal accounting practice for MSMEs?"



Mr. Ridha: "It should start from behavioral awareness, not from the system itself. Once the behavior of recording is internalized, the system will naturally follow."

Retno: "As someone who works closely with MSMEs in the field, what are the main challenges you observe in financial management?"

Mr. Johan: "The most common issue is the mixing of personal and business funds. Almost all small entrepreneurs treat business income as household money, making it hard for them to know their real profits."

Retno: "Do they understand the importance of financial record-keeping?"

Mr. Johan: "Some do, but they're not used to it. They think keeping records is a waste of time. We always emphasize that record-keeping is not just administration it's a form of self-discipline and responsibility. It helps them control themselves financially."

Retno: "So, what do you think needs to be improved?"

Mr. Johan: "The approach must be behavioral, not technical. We need to build awareness first before introducing systems. If the person is not ready behaviorally, they won't record properly even if they've been trained."

Retno: "Do you record your financial transactions daily?"

Ms. Mahindar: "Not every day, I'm afraid. I'm too busy with production. Usually, I jot down cash inflows and outflows in a small notebook. If the amount is small, I just keep it in mind."

Retno: "Do you think daily record-keeping is important?"

Ms. Mahindar: "It's important to know the results, but I don't have enough time. Besides, I can tell whether I'm making a profit or loss just by how I feel."

Retno: "What kind of accounting system would be most suitable for small businesses like yours?"

Ms. Mahindar: "It should be simple, not complicated. Maybe just a daily cash-in and cash-out table that's enough for us."

Retno: "As an academic, how do you view accounting practices among MSMEs?"

Mr. Hudi: "We need to view them contextually. For MSME owners, accounting isn't just about financial statements it's about how they organize their lives. That's why

at the university, we try to help through simple accounting workshops so they understand the meaning behind the numbers.”

Retno: “Is behavioral accounting relevant for MSMEs?”

Mr. Hudi: “Absolutely. Behavioral accounting places people at the center of the system. We can’t judge them solely by technical compliance; we must understand their values, motivations, and perceptions. That’s what conventional training often overlooks.”

Retno: “What would an ideal behavioral accounting model for MSMEs look like?”

Mr. Hudi: “It should be a living accounting system, not just a report. The goal is to build behavioral awareness honesty, discipline, and responsibility. Once these values are in place, sound financial reporting will naturally follow.”

Retno: “How do you manage your business finances on a daily basis?”

Ms. Retna: “I record whenever I have time. Sometimes at the end of the week, I calculate total cash inflows and outflows. But often, business funds are used for family needs first, then replaced when income comes in.”

Retno: “Would you like to improve your record-keeping practices in the future?”

Ms. Retna: “Yes, I would. I want to learn to be more organized. When everything is recorded, the results become clearer. But it takes habit and consistency.”

Retno: “Do you think financial record-keeping affects your motivation or productivity?”

Ms. Retna: “Yes, definitely. When I see profits increasing, I feel more motivated. When there’s a loss, it pushes me to reflect and improve. So in a way, record-keeping also keeps my spirit up.”

The findings of this study reveal that the implementation of behavioral accounting among micro, small, and medium-sized enterprises (MSMEs) in Lumajang Regency, Indonesia, is driven more by human behavioral factors than by formal accounting systems. Three primary factors were found to exert a direct influence on accounting behavior and, indirectly, on business productivity:

- a. Motivation, which encourages discipline in financial record-keeping and management;
- b. Risk perception, which shapes investment decisions and business strategies; and



- c. Ethics, which strengthens social trust and business sustainability.

Together, these factors form an adaptive, reflective, and morally driven pattern of accounting behavior. In this context, accounting practices function not merely as systems for recording transactions but as mechanisms of self-control and ethical decision-making. Accounting behavior thus acts as a crucial mediator between human character and organizational productivity.

Field observations and interviews indicate that accounting behavior among MSME actors in Lumajang arises primarily from social awareness rather than systemic consciousness. Entrepreneurs such as Ms. Mahindar and Ms. Retna Dewi tend to record only large cash transactions due to time constraints and a pragmatic perception of accounting's purpose. Mr. Johan Sanjaya explained that this phenomenon originates from the tendency to merge personal and business finances a psychological pattern in which entrepreneurs perceive their business as an extension of their personal identity.

From a behavioral standpoint, this habit demonstrates that accounting within MSMEs operates as a reflective tool to maintain balance between personal and business needs. Intrinsic motivation such as responsibility, pride, and the desire to maintain social reputation emerges as a key driver that sustains financial discipline even in the absence of formal systems.

These behavioral implications reinforce Argyris's (1952) concept of behavioral accountability, which argues that organizational control and efficiency depend less on formal accounting structures and more on the internalization of ethical values and conscious behavior. In other words, MSME productivity is not derived from complex financial mechanisms but from the moral and responsible consistency of financial management behaviors.

The findings of this research substantiate and expand major theories in behavioral accounting, contextualizing them within the social realities of MSMEs. First, the results align with Herzberg's Two-Factor Motivation Theory (1966), which posits that intrinsic motivators such as responsibility, achievement, and recognition are more effective in enhancing performance than extrinsic financial incentives. Within the MSME context, entrepreneurs who exhibit a sense of moral responsibility toward their employees and customers demonstrate higher levels of productivity and financial awareness.

Second, the findings related to risk perception are consistent with Prospect Theory (Kahneman & Tversky, 1979), which explains that individuals do not always act rationally when making financial decisions. MSME actors tend to avoid high-risk situations, yet become more confident when they have previously experienced positive emotional outcomes from their ventures. This dynamic influences how entrepreneurs interpret and utilize accounting information in making financial and investment decisions.

Third, the strong ethical and moral dimensions identified among MSME actors support the theories of Moral Behavior in Accounting (Duska et al., 2018) and Humanistic Accounting (Birnberg et al., 2007), which place human values at the core of the accounting process. Ethical principles such as honesty, transparency, and fairness were found not only to strengthen social trust but also to serve as the foundation for sustainable business productivity. Taken together, these insights affirm that behavioral accounting extends

beyond the interaction between humans and numbers; it also represents a moral and social reflection of economic consciousness.

The findings of this study are positioned within the broader discourse on behavioral accounting to underscore their contribution to the theoretical and empirical understanding of accounting behavior within the micro, small, and medium-sized enterprise (MSME) context. Consistent with Mulyani et al. (2022), who highlighted the significance of financial literacy in enhancing MSME performance, this study acknowledges that knowledge and skills in financial management are crucial foundations for enterprise growth. However, it advances the discussion by introducing behavioral discipline and awareness as mediating mechanisms that bridge the gap between literacy and performance. The evidence suggests that financial literacy, when not accompanied by behavioral consciousness, often fails to translate into sustainable productivity. Behavioral transformation rooted in self-regulation, motivation, and ethical awareness thus becomes the missing link that converts financial knowledge into effective practice.

This argument aligns closely with the findings of Rahman and Aziz (2021), who demonstrated that social and moral motivations significantly influence the growth of small businesses. Yet, this study extends that understanding by providing empirical validation that accounting behavior itself functions as a tangible expression of social and moral motivation. Rather than treating motivation as an abstract psychological construct, this research situates it within daily accounting practices where honesty in recording, discipline in cash management, and transparency in reporting become the behavioral realization of ethical intention.

The results also reaffirm the perspectives of Sukoharsono (2021) and Lako (2018), emphasizing that accounting within the MSME context must be viewed as a social and moral practice, rather than a purely technical process. In this view, accounting serves as a medium through which cultural norms, moral reasoning, and ethical values are continuously negotiated and enacted in everyday economic life.

However, this study diverges from Brown and Hirst (2018), who argued that behavioral accounting is most effective in large organizational structures with formalized systems and established controls. In contrast, the current findings demonstrate that within MSMEs, behavioral accounting emerges more authentically and contextually, shaped by interpersonal trust, familial ties, and community-based interactions.

Based on the empirical findings and the integration of behavioral, motivational, and ethical theories, the relationship among the key research variables can be conceptualized as a reflective causal model that illustrates how human factors mediate the link between accounting practices and business productivity. In this model, motivation, risk perception, and ethics operate as fundamental antecedents that shape accounting behavior, while accounting behavior itself serves as the principal conduit through which these behavioral drivers translate into enhanced organizational outcomes.

The first dimension, motivation, functions as the psychological and emotional engine that drives entrepreneurs to engage consistently in financial recording and management activities. Motivated individuals are more likely to internalize accounting practices as part of their personal responsibility toward their business. Intrinsic motivators such as



achievement, self-respect, and moral satisfaction stimulate persistence and accountability far beyond what external incentives can produce. This finding aligns with Herzberg's Two-Factor Motivation Theory (1966), which posits that intrinsic motivation generates sustainable behavioral change. In the context of micro, small, and medium-sized enterprises (MSMEs), this intrinsic drive manifests as a sense of ownership and social duty, encouraging entrepreneurs to maintain disciplined financial behavior even in the absence of formal structures.

The second dimension, risk perception, determines how entrepreneurs interpret uncertainty and make investment or financing decisions. The study found that MSME actors often balance emotional caution with experiential learning a behavioral dynamic consistent with Prospect Theory (Kahneman & Tversky, 1979). When risk is perceived as controllable and informed by past success, entrepreneurs display greater confidence in utilizing accounting data to support expansion or innovation. Conversely, when risk is viewed as threatening or incomprehensible, defensive decision-making patterns tend to dominate. Behavioral accounting, therefore, plays a mediating role by reframing uncertainty into quantifiable and manageable information, thereby converting emotional risk into informed rationality.

The third dimension, ethics, underpins the moral consciousness that governs decision-making and social relationships. Ethical awareness transforms accounting behavior into a socially embedded practice characterized by honesty, transparency, and fairness. Entrepreneurs who adhere to ethical principles not only generate accurate and reliable reports but also cultivate social trust, which functions as a non-financial asset that enhances reputation, collaboration, and customer loyalty. This aligns with Humanistic Accounting Theory (Birnberg et al., 2007), which asserts that ethical awareness in accounting promotes social cohesion and long-term sustainability.

Within this reflective causal model, accounting behavior emerges as a central mediating construct translating motivation, risk perception, and ethics into tangible business performance. Accounting behavior directly contributes to productivity through three primary mechanisms:

- a. Cost efficiency, achieved by improving the accuracy and discipline of financial management;
- b. Decision-making accuracy, derived from reflective analysis of accounting data; and
- c. Social trust, generated through ethical transparency and consistent reporting.

Collectively, these mechanisms transform accounting from a technical tool into a moral system that cultivates self-discipline, ethical reflection, and collective responsibility among entrepreneurs. Behavioral accounting thus functions as both an economic mechanism and a moral framework, enabling MSMEs to balance financial rationality with humanistic values.

Consequently, this study advances the conventional boundaries of accounting theory by extending it toward a behavioral-humanistic paradigm, in which productivity is interpreted as a manifestation of conscious, ethical, and socially grounded behavior rather than as a mere reflection of financial outcomes. Within this expanded framework, behavioral accounting transcends its technical and procedural nature, evolving into a dynamic system of human values and moral consciousness that bridges the gap between economic rationality

and ethical responsibility. Accounting, therefore, is no longer confined to numerical representation or financial measurement but becomes a living social construct that embodies moral reasoning, reflective thought, and interpersonal trust.

This paradigm shift reflects a deeper recognition that financial performance alone cannot fully capture the essence of entrepreneurial success particularly within the context of micro, small, and medium-sized enterprises (MSMEs) in emerging economies. In these settings, business sustainability is often shaped not only by access to capital or technology but also by the behavioral qualities of entrepreneurs: integrity, self-discipline, empathy, and social accountability. Behavioral accounting thus functions as both an analytical tool and a moral compass, guiding business owners to make decisions that are economically sound, ethically justifiable, and socially responsible.

By framing accounting as a human-centered discipline, this study reinforces and simultaneously extends the foundational theories of behavioral and humanistic accounting (Birnberg et al., 2007; Duska et al., 2018; Sukoharsono, 2021). It demonstrates that accounting practices, when infused with ethical reflection and social awareness, become mechanisms for cultivating trust, fairness, and moral stability within the business environment. This transformation is particularly significant in community-based economic systems, such as those found in developing regions, where MSMEs play a pivotal role in employment creation, social cohesion, and local innovation.

CONCLUSION

This study concludes that behavioral accounting in micro, small, and medium-sized enterprises (MSMEs) in Lumajang Regency functions not only as a financial recording tool but also as a behavioral mechanism that strengthens social awareness, ethical responsibility, and business discipline. The findings identify motivation, risk perception, and ethics as the main factors shaping adaptive and reflective accounting behavior, which subsequently influences MSME productivity. These results indicate that productivity is determined not only by financial efficiency but also by behavioral values embedded in daily business practices. The study also expands behavioral accounting theory by demonstrating its relevance within MSMEs and culturally rooted business environments. Behavioral accounting serves as a bridge between formal financial systems and sociocultural realities, contributing to the development of behavioral-humanistic accounting that integrates economic rationality with ethical and social values. Practically, the findings suggest that MSME empowerment programs should emphasize behavior-based accounting education, focusing on honesty, self-discipline, and ethical decision-making rather than solely technical skills. Overall, this study positions behavioral accounting as a human-centered approach that promotes ethical entrepreneurship, social trust, and sustainable productivity within inclusive economic development.

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