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Disclosure of BMTI: One Size Does Not Fit All?

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Abstract. *Micro, small, and medium-sized businesses are defined differently in different parts of the world because of their disparities in economic development. However, the accounting requirements for those three are the same. This study examines the differences in the disclosure of micro, small, and medium Baitul Maal Wat Tamwil Institutions (BMTI). A total of 206 annual reports of BMTIs in Indonesia were divided based on the size of BMTI and then measured in terms of the extent and quality of disclosure by using 60 items under four dimensions of disclosure: general, financial, social, and Shariah compliance. This study used descriptive statistics analysis as well as one-way analysis of variance (ANOVA). The result showed that the micro BMTIs should be grouped into small-scale enterprises while the medium BMTIs are classified into one broad category. Therefore, regulators should establish size-based reporting standards into two classified entities to foster the growth of BMTIs from micro to small, and medium to big sizes.*

Keywords: *Disclosure; Indonesia; Micro; Small; Medium-Sized Enterprises*

Abstrak. *Usaha mikro, kecil, dan menengah didefinisikan secara berbeda di berbagai belahan dunia karena adanya perbedaan dalam pembangunan ekonomi. Di sisi lain, tidak ada persyaratan akuntansi yang berbeda untuk tiga ukuran. Penelitian ini mengkaji perbedaan pengungkapan Lembaga Baitul Maal Wat Tamwil (BMTI) mikro, kecil, dan menengah. Sebanyak 206 laporan tahunan BMTI di Indonesia dibagi berdasarkan besar kecilnya BMTI, diukur luasnya dan kualitas pengungkapannya dengan menggunakan 60 item yang termasuk dalam empat dimensi: pengungkapan kepatuhan umum, keuangan, sosial dan syariah. Penelitian ini menggunakan analisis statistik deskriptif serta analisis varian satu arah (ANOVA). Hasil penelitian menunjukkan bahwa BMTI mikro dikelompokkan ke dalam usaha skala kecil sedangkan BMTI menengah dikelompokkan ke dalam satu kategori besar. Oleh karena itu. regulator perlu menetapkan standar pelaporan berdasarkan ukuran menjadi dua klasifikas usahaand . untuk mendorong pertumbuhan BMTI dari ukuran mikro ke kecil dan menengah ke besar.*

Kata kunci: *Pengungkapan; Indonesia; Usaha Mikro; Kecil; Menengah*

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Introduction

Islamic cooperative institutions are nonprofit institutions (Gonsalves & Kassim, 2015) and are categorized as micro, small, and medium enterprises that are mainly practiced within emerging and developing countries. In Indonesia, the *Islamic* cooperative, known as *Baitul Mal Wat Tamwil* Institutions (BMTIs), was established in 1990 (Adnan & Ajija, 2015). BMTIs contribute substantially to *Islamic* finance development in Indonesia and have grown over the last 25 years. In 1995, the total number of BMTIs was 300 and increased to 2470 in over three years. A steep increase was also seen in 2013, with the number of BMTIs being more than 3000 institutions (Adnan & Ajija, 2015) and increased to 5000 BMTIs in 2017. This indicates that BMTIs have been accepted positively by all sections of society and have a strong level of confidence in their stakeholders despite BMTIs being small-sized institutions compared to Islamic banks in Indonesia.

The spirit of shariah and cooperative principles influence the process of developing and sustaining an Islamic cooperative, which involves promoting the community, identity, and social organization, as cooperations play an increasingly important role worldwide in poverty reduction, job creation, economic growth, and social development (Kassim & Wulandari, 2016). The objectives of a BMTI are premised on social and financial missions; the social mission is known as *Baitul Maal, which* focuses on collecting and distributing charity funds (e.g., *Zakat, Infaq, Ṣadaqah*) to people experiencing poverty. Meanwhile, *Baitul Tamwil* focuses on the financial mission based on commercial or economic activities, with the deposits mobilized for productive investments (Holloh, 2001). In other words, the *Baitul Tamwil* carries out productive activities to generate additional income for people with low incomes based on financing products to ease the life of poor people, such as the joint liability financing scheme, *Murābah* (buying and selling) financing scheme, *Rahn* (pawnshop) financing scheme, and *Muḍaraba* (profit and loss) financing scheme (Wulandari et al., 2016). The activities of BMTIs are expected to increase members' quality of life, especially the impoverished members.

Correspondingly, BMTIs, as micro, small, and medium institutions (MSMEs), promote products and services to provide microcredit and other financial products for MSMEs (Antonio, 2011). Obaidullah and Khan (2008) explained that IMFIs could be categorized into micro, meso, and macro levels. Furthermore, the micro, meso, and macro levels appear similar to the micro, small, and medium-sized (MSMEs). Obaidullah and Khan (2008) examined each level also related to poverty levels that have also been associated with high inequality alongside low productivity, which are three levels: extreme poverty (below the

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poverty line), poverty (above the poverty line), and low income. Due to differences in economic development worldwide, the definition given to micro, small, and medium-sized enterprises is not similar. To define MSEs', different countries utilize different criteria such as the number of employees, yearly turnover, total assets, and startup capital (Teka, 2022).

However, MSMEs face several challenges to surviving and growing, including a lack of networking opportunities, financial access, and inadequate government support (Chimucheka & Mandipaka, 2015). Despite MSME's active role in developing modern economies, all indicators reveal that MSMEs have yet to develop and require more support from stakeholders (Subramanyam & Reddy, 2013). Case in point, Mukherjee (2018) found that MSMEs need higher investments in advanced technology and human resources, improved access to finance, and less stringent business regulations to enhance their competitiveness and need to give different requirements because MSMEs have different risk levels (Belás et al., 2015). These organizations are less vulnerable to systemic risks due to interdependence, as each BMTI is an independently operating entity (Obaidullah & Khan, 2008).

Concurrently, contemporary debates often discuss accountability issues, especially concerning the disclosure of creating a more transparent and accountable IMFI (Cokrohadisumarto et al., 2016; Kassim & Wulandari, 2016; Khan, 2008). Correspondingly, Accountability disclosure by BMTIs in their yearly report, from both the economic and social aspects, is still below the expected standards (Wahyuni, 2008). MSMEs do not have the incentives to sustain reliable records of business transactions (i.e., financial records) and do not disseminate reliable information to the public (Shaban et al., 2014). Most BMTIs only provide a statement of financial position and income statement and neglect other statements (Rudiantoro & Siregar, 2012; Wahyuni, 2008). Most MSMEs provide financial statements to prepare mainly for taxation purposes and borrowing (Maingot & Zeghal, 2006). On the other hand, banks' willingness to lend to small institutions is solely based on lack of information such as financial information (Shaban et al., 2014). Additionally, the lack of credit information is one factor contributing to the constraints faced by SMEs in Indonesia (ILO, 2019). Abe et al. (2015) also found that information asymmetry between banks and SMEs retards the loan approval process and the government's efforts to enhance SMEs' growth and survival prospects. Moreover, they often face issues accessing credit from banks and donors, particularly those in the start-up phase who require support in the initial stage (Mamun et al., 2016).

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In a previous study, the current accounting requirements for MSMEs are incompatible with their size; thus, standard financial reporting requirements may burden smaller enterprises significantly (Keasey & Short, 1990). They must adhere to reporting requirements for large and publicly traded corporations (Dang, 2011). Ahmed and Khan (2016) emphasized that the disclosure of microfinance institutions (MFIs) is positively associated with their size, and the quality of information is positively related to firm size (Alsaeed, 2006). (Liñares-Zegarra & Wilson, 2018) point out that a relationship exists between the size and growth of cooperatives/credit union institutions, which means micro, small, and medium sizes have different capacities and capital. Furthermore, studies have also found that firm size is related to the quality of financial reporting (Aljifri, 2008; Botosan, 1997; Chow & Wong-Boren, 1987; Singhvi & Desai, 1971); hence, Ceustermans et al. (2012) suggested different financial reporting requirements for different types of entities. This is supported by Eierle and Haller (2009), who asserted that the firm size criterion had been used under different financial requirement regulations in many jurisdictions.

BMTIs ' low accountability with limited provision of bank finance to micro-enterprises is mainly attributed, among other factors, to the absence of a legal, policy, and regulatory framework for collaterals and guarantees appropriate for Islamic microfinance. In an aspect of collaterals and guarantees, supporting micro, small, and medium (MSME) is not only through Islamic banks but also through collaboration with zakat and waqf institutions in emerging economies (Hakeem, 2019; Wahyudi, 2015). The expectation of zakat and waqf institutions on reporting BMTI might differ from that of Islamic banks (Wahyudi, 2014). It implies the need to explore the difference in capacity among micro, small, and medium BMTI sizes and BMTIs still need to comply with the rules (Siswantoro, 2013).

However, the current accounting requirements for BMTI are incompatible with their character and size. BMTI accounting practices are controversial despite their critical role in transitional economies. Differences among different sizes of BMTIs cause the problems. Developing accounting standards should reduce comparability issues, but a single standard can only fit some BMTIs. Accounting standards need to provide a basis for the size of the small-medium institutions. The concept of "one-fit-all" is unsuitable for the characteristics of BMTIs, which is in line with Ceustermans et al. (2012), who describe that providing the different requirements for financial reporting for different types of entities is essential. Profit Organization (NFPO) sectors have shown much higher differences in financial accountability when size is the focus of analysis, with large organizations being

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identified as having better quality financial statements than small organizations (Connolly & Hyndman, 2002).

Therefore, what is necessary is a different set of reporting standards for micro, small, and medium-size institutions; this new framework should allow for greater flexibility in determining the non-conventional collateral appropriate for microcredit institutions. The extensive reporting rules applied to these institutions must be commensurate with their accounting-specific needs and exclude micro-entities. Hence, there is a need to create more simplified requirements for micro, small, and medium-sized entities (Neag, 2012). It indicates that an innovative solution is needed to address the financial reporting regulation issues faced by MSME sizes in emerging economies (Olalekan et al., 2012).

Literature Review

Accountability in Microfinance Institutions

All businesses, no matter how small or medium-sized, must keep accurate financial records. This is so owners and other interested parties can use the information in the financial statements to understand the company's health better, make informed decisions, and stay ahead of the competition (Shaven, 2015). Although MFIs are smaller institutions, stakeholders expect the MFI to enhance their accountability (Abdul Samad, 2014). Furthermore, Quayes and Hasan (2014) posited that better disclosure of financial reporting will have a statistically significant and positive impact on the MFIs. Beisland et al. (2014) argued that increasing the institutions' financial or social disclosure is crucial. Quayes and Hasan's study (2014) used a large number of MFIs from 75 nations, and the least-squares method showed that financial disclosure had a relationship with financial performance. More specifically, the study found that increasing the financial disclosure of MFIs affects financial performance. Meanwhile, Collis (2008) compared the tendency of MFIs to disclose financial and social information on 385 private companies. The study found that most MFIs prioritize financial information rather than social information based on the survey conducted. In other words, less social information poses an issue in financial reporting in MFIs.

On the other hand, the majority of MFIs' clients are categorized as poor with low income and low skill, but most studies have also found that the MFIs have been accused of weak transparency (Shaven, 2015). Regarding regional perspectives, MFIs operating in the African and Latin American regions are less likely to reveal financial information than MFIs in Asia and Europe. Correspondingly, countries

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with higher transparency levels will have better financial information disclosure of their activities (Gutiérrez-N et al., 2008). Focusing on Indonesia, Wahyuni (2008) examined the accountability of BMTIs by surveying 101 BMTI directors/managers. Wahyuni (2008) found a lack of supervisory boards and low demand for audited financial statements, while Siswantoro's (2013) interviews and surveys found that BMTIs may not be compliant due to unclear accountability procedures not aligned with the nature and capacity of BMTIs.

The value of accounting concerning the shifting expectations of stakeholders is at issue in this particular situation. Organizations are being asked to provide an account for the management of their financial resources as well as for the broader societal implications they have (Andon et al., 2015). There has been much movement in accounting because managers and stakeholders need access to relevant information. This belief has prompted the creation of new reporting formats that give better accounting data. On the other hand, the capital structure decisions of service small and medium-sized enterprises (SMEs) diverge from those of other types of firms (Chen & Chen, 2011). The capital structure decisions made by SMEs align with the prevailing belief that these companies are typically younger, smaller ones with development potential but are also known to have trouble securing external financing due to the significant risk involved (Chen & Chen, 2011).

According to Obaidullah and Khan (2008), Islamic microfinance institutions are divided into three sizes, micro, meso, and macro, which have different organizational structures, sharia compliance levels, products and services, links with banks and other institutions, strategies, and bank involvement. More specifically, micro-level IMFIs offer services directly to poor and low-income clients at the micro-level. At the same time, the financial system of meso-IMFIs includes the basic financial infrastructure and a range of services required to reduce transaction costs, increase outreach, build skills, and foster transparency among IMFIs. Each level (size) has a different capacity, risk, transparency, and information infrastructure that provides information to its stakeholders (Obaidullah & Khan, 2008). Undoubtedly, combining a smaller size and lesser tangible assets can worsen the information asymmetry between micro, meso, and macro owners or managers and creditors.

Therefore, there is a need to differentiate the requirements at each level, micro, meso, and macro, to ensure financial and non-financial development (Iqbal & Mirakhor, 2012; Wahyudi, 2014). According to Acharya (2017), BMT can be integrated into Islamic social and commercial schemes to solve the issues of

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poverty by changing the level of life from micro, meso, and macro, which consider financial inclusion per each level. According to Iqbal and Mirakhor (2012), financial inclusion in IMFIs can be attained by promoting risk-sharing contract instruments, redistributing wealth, and developing individual self-development, physical development, and human collectivity in increasing the accountability of IMFIs. As a result, stakeholders may impose financial reporting on these Islamic microfinances when they seek financing (Ahmad & Atniesha, 2018). The lack of a robust management structure and comprehensive financial reporting poses a significant challenge to the survival of MSME businesses (Sava et al., 2013).

Table 1. Structured Approach to Enhancing Financial Inclusion

Improve the quality of life	Redistributive pillar	Risk-Sharing pillar	Level
Extreme poverty (below the poverty line)	Zakah, sadaqah, and waqf.	Collective risk-sharing through collective support during a crisis.	Micro
Poverty (above the poverty line)	Qard al Hasan, zakah, and Waqf.	Micro-Finance (murabaha and musharikah) and micro-takaful.	Meso
Low income	Hybrid solutions (applications with market-based solutions).	MSMEs.	Macro

Source: Iqbal and Mirakhor (2012)

Table 1 shows a structured approach to enhance financial inclusion by improving the quality of life from extreme poverty (below the poverty line) to low income. In summary, stakeholder relationships have already existed in IMFIs; therefore, there is a need for appropriate financial reporting with the ability of the IMFIs and stakeholder needs. Only a few studies have investigated the extent of financial reporting of IMFIs based on micro, small, and medium levels. Previous studies have also established that size influences the level of disclosure in firms and BMTI's significant role in economic growth and development globally. This study has identified significant differences among the three categories of BMTIs.

Different Levels of Disclosure Based on Size

Various studies were conducted to determine the need for different accounting standards for MSMEs (Albu et al., 2013; Alsaeed, 2006; Atiase et al.,

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1988; Collis et al., 2001; Collis & Jarvis, 2002; Connolly & Hyndman, 2000; Deakins et al., 2002; Dethomas & Fredenberger, 1985; Eierle, 2005; Eierle & Haller, 2009; Love, 2011; Page, 1984; Roberts & Sian, 2006; Sian & Roberts, 2009; Stainbank, 2011; Wright et al., 2012). Echoing this, Ceustermans (2012) stated that dissimilar entities should use different financial reporting requirements because similar requirements can significantly burden smaller enterprises (Keasey & Short, 1990). Eierle and Haller (2009) asserted that size had imposed different regulations in many jurisdictions; however, Naus (1974) and Grusd (2006) disagreed on developing specific accounting standards because a single set of standards should apply to all entities as the number of SMEs is limited. In other words, Naus (1974) and Grusd (2006) explained that complex standards would not burden SMEs.

To further illustrate the firm size, the increased disclosure in China was related to higher block-holder ownership and foreign listing/shares (Huafang & Jianguo, 2007). However, smaller companies that are still developing are reluctant to make disclosures voluntarily; smaller companies view that providing additional information (not explicitly required by law) could be a disadvantage to their competitive position (Singhvi & Desai, 1971). Case in point, Collis et al. (2001) pointed out that different types and sizes of entities should have different financial reporting rules for several reasons, mainly because large companies have a broader range of users than small companies, while small entities are typically owner-managed. Furthermore, large companies have complex transactions and provide highly aggregated information that needs sophisticated analysis compared to small companies that have fewer and less complex transactions, lastly, the cost burden is proportionately higher for small companies. Sian and Roberts (2009) further posit that the new differential reporting requirements could be modernized to better conform to management needs by reducing compliance costs.

In essence, there are three reasons why there is a need to have differentiated financial reporting standards, as shown below; first, firm size and the provision of understandable accounting information might also involve a different degree of complexity for smaller firms' financial statements (Earl & Haller, 2009). Secondly, compliance with financial reporting requirements is costlier (Atiase et al., 1988). Lastly, based on listed versus non-listed companies, corporate size and listing status are significantly associated with disclosure levels (Ahmed et al., 1999).

It is generally recognized that the current Islamic financial reporting measures are directed at larger organizations and capital markets. The existing

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requirements are only sometimes appropriate for medium and smaller entities as the end products are of different capacities and sizes. This study showed the differences in the disclosure of micro, small, and medium-sized BMTIs. These differences can be a basis for providing specific accounting requirements suited to the size of the BMTI. They would help understand comparability, reliability, the public interest argument, and protection for minority shareholders and stakeholders (increased protection to the creditor) (Collis et al., 2001).

Micro, Small, and Medium-Sized

Oppong et al. (2014) opined that government policies enhanced the MSME's capacity, especially micro to small and small to medium-sized entities in Ghana. Despite the government's effort to strengthen the capacity from micro to small, the increase from small to medium-sized has fallen short. Hence, Oppong et al. (2014) asserted that regulators should provide an appropriate mechanism that could increase the capacity of MSMEs based on their ability. They also found that the government has increased efforts to promote MSMEs via assistance programs. These micro and small enterprises are responsible for Ghana's employment generation and technological development; however, Ghana still needs to improve its employees ' skills, such as a lack of employee skills that causes the MSMEs to have low accountability in their reporting.

Regarding the capital structure of MSMEs, Michael and Oluseye (2014) found differences in the capital structure of Nigerian MSMEs. Their study posited that most micro-enterprises start their business with personal funding and borrowing from relatives because of the relatively low set-up cost, conveniently sourced from relatives with around 4 percent equity. In comparison, small-scale enterprises' funds originate from equity up by 4 percent and are borrowed from relatives. The education profile of micro-enterprise employees shows that most have a secondary school education, while some employees from small enterprises have university/polytechnic level qualifications. Meanwhile, 53 percent of medium-sized enterprise staff are university graduates and professionals and have a minimum secondary school education. Education of employees influences the deployment of budgeting, reporting, controlling, and inventory management (Matsoso et al.,2021).

In terms of factors that significantly influence the patronage of commercial banks and informal finance providers among MSMEs, there seems to be no difference in treatment from banks in giving credit; banks assume that micro-,

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small, and medium-sized capital structures are almost the same (Michael & Oluseye, 2014). They analyzed via ANOVA 300 MSMEs selected by cluster sampling. Furthermore, Michael and Oluseye (2014) emphasized that the government must ensure policies that help MSMEs thrive and compete through different, simpler, and more suited to the size of the entity's regulations for MSMEs.

Hypothesis Development

The stakeholder theory framework can explain disclosure quality in an emerging economy (Chiu & Wang, 2015). Disclosing financial, social, and environmental information is part of a company's and its stakeholders' dialogue. It provides information on a company's activities that legitimize its behavior, educate and inform, and change perceptions and expectations (Gray et al., 1995). Furthermore, the extent of disclosure in annual reports is positively associated with company size (Buzby, 1975). Size is one of the critical determinants of disclosure level and has been used in many studies that focus on disclosure (Aljifri, 2008; Botosan, 1997; Chow & Wong-Boren, 1987; Singhvi & Desai, 1971). It is expected that different reporting concerns, including the types and sizes of entities, may have different financial reporting scopes (Albu et al., 2013; Alsaeed, 2006; Collis et al., 2001; Collis & Jarvis, 2002; Connolly & Hyndman, 2000; Eierle & Haller, 2009; Stainbank & Wells, 2007; Wright et al., 2012). Therefore, as small institutions, BMTIs need a new standard that is simple enough for relatively unsophisticated owner-managers to understand (Sian & Roberts, 2009).

Similarly, Siana and Roberts (2009) highlight that existing accounting standards are only sometimes appropriate for small entities and impose a significant burden on them. Most small entities in developing countries have produced balance sheets and income statements based on cash-upon-cash transactions because of a lack of financial expertise (Roberts & Sian, 2006) and a lack of policy framework (Khanzode et al., 2021). Small entities need accounting standards that are simpler and easier to apply, with specific exemptions that align with the entity's objectives, size, and complexity (Collis et al., 2001; Keasey & Short, 1990; Page, 1984).

Roberts and Sian (2006) examined from the benefit side that smaller entities need different reporting and relaxing requirements. Most smaller entities have the option of filling abbreviation reports by reducing the level of disclosure. Most users of SMEs' financial reports are different from those of larger entities. Therefore, IFRS for Small and Medium-Sized Entities (IFRS for SMEs) is developed to harmonize

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the international financial reporting standards for answering the requirements of global capital markets. IFRS for SMEs will be an essential support for IFRS adoption in developing countries.

Aboagye-Otchere (2012) found that IFRS for SMEs in its current state is thus different from the accounting standard of choice for small businesses in Ghana. Small businesses in Ghana have limited international structures and activities that do not require internationally comparable financial reporting information. He posits that the relevance of specific accounting differs between micro, small, and medium-sized entities.

Moreover, micro, small, and medium-sized enterprises (MSM) are named based on their size and divided into classes according to quantitative criteria, such as total assets, total turnover, number of employees, and total sales (Berisha & Pula, 2015). MSM also have different management characteristics and owner structures than large enterprises (Ardic et al., 2011). MSM needs help with bureaucratic processes and procedures that affect poor governance and corruption or bribery (S. et al., 2012). Financial transparency can improve IMFIs' accountability to stakeholders. The governance structures of MFI influence reporting standards that stakeholders must deal with (Dixon et al., 2006).

Accountability manifests in financial statements, which are disclosures prepared by small institutions as a form of accountability to stakeholders (Dixon et al., 2006; Meek et al., 1995). On the other hand, small institutions consider that the costs incurred in providing financial statements that comply with accounting standards are not comparable with the benefits obtained (Roberts & Sian, 2006). Further, financial reporting requirements could burden smaller entities significantly (Collis et al., 2001; Keasey & Short, 1990; Page, 1984). Moreover, small institutions can fill brief reports by reducing the disclosure level because the objectives and ownership of SME financial reports are different from those of larger entities (Hudon, 2011; Siswantoro, 2013).

Based on the above argument, this research attempts to answer the following research question: Is there any difference in the extent and quality of disclosure between micro, small, and medium-sized BMTIs in Indonesia? Based on stakeholder theory, this study explains the differences in the extent and quality of micro, small, and medium-sized BMTIs when the institutions have different types, sizes, and characteristics, and accounting regulations, stakeholders' demands also differ (Eierle, 2005; Maingot & Zeghal, 2006). Stakeholders' critical view of institutions' accountability allows managers to meet stakeholder demands. Disclosure as a

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strategy for managing stakeholders increases the relationships between different sizes of institutions and other stakeholders (Smith et al., 2005). This implies that the extent and quality of disclosure in annual reports are affected by the institutions' roles and their stakeholder's contributions to society.

Therefore, this study examines the difference in the extent and quality between micro, small, and medium-sized BMTIs that are based on developing specific reporting entity guidelines for reporting based on firm size, which is expected to be imposed by regulators (Lev & Zarowin, 1999; Nair & Rittenberg, 1983). Based on the discussions and considerations, together with the nature of the operations of BMTIs, Hypotheses 1 and 2 are as follows:

H1: The level of disclosure between micro, small, and medium-sized *Baitul Maal Wat Tamwil* (BMTIs) in Indonesia is the same.

H2: The disclosure quality between micro, small, and medium-sized *Baitul Maal Wat Tamwil* (BMTIs) in Indonesia is the same.

Methods

To examine the differences in the level of disclosure by micro, small, and medium-sized BMTIs, we analyze annual reports to determine the disclosure index for not-for-profit organizations following (Simnett, 1987). In this study, constructing a constructed disclosure index involves three stages: creating a disclosure checklist (based on existing legislation and reviewing the relevant literature), measuring and scoring techniques, and evaluating the index's reliability and validity. There are sixty items in the self-constructed disclosure index with four dimensions: general, financial, social and *shariah* compliance dimensions (see Appendix).

This research employed both unweighted and weighted index. Unweighted index by assigning values to the information disclosure quality and level of BMTIs. The BMTI scores were based on the disclosure index's unweighted scores. For instance, 'not disclosed' was assigned a value of zero (0), whereas 'disclosed' was assigned a value of one (1). It is consistent with past research by Cooke (1989), Harahap (2003), and Haniffa and Hudaib to assign values of zero and one to secret and disclosed information (2007). After assigning these values to the BMTIs' level of information disclosure, the following formula was used to calculate the level of disclosure by BMTIs:

$$BMTI_{DI} = \frac{\Sigma X_{i,j}}{\Sigma M_{i,j}} \quad \text{..(1)}$$

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Where:

BMTI DI = BMTI disclosure score

Mij = Number of items expected to be disclosed by BMTI

Xij = Number of items disclosed by BMTI

Meanwhile, the weighted disclosure index (the second index) is used to evaluate disclosure quality. This study defines the quality of BMTIs as the degree to which the given information corresponds to the quality definition provided in Table 2. Thus, this study utilized the same methodology (Al-Tuwaijri et al., 2004; Cooke, 1989a).

$$BMTI_j = \frac{\sum_{t=1}^{n} X_{ij}}{\Sigma M_{ij}} \text{ ....(2)}$$

Where:

$BMTI_j$ = BMT quality score J^{th} BMTI.

M_i = Total number of items expected for J^{th} company with the maximum score assigned.

X_{ij} = Number of items disclosed by BMTI based on quality measurement

Table 2. The Quality Score

Qualitative Disclosure	**Quality Definition**
0 = non-disclosure	Did not disclose any information for the given indicators.
1 = general qualitative disclosure	Common qualitative disclosure.
2 = Qualitative disclosure with a specific explanation	Non-quantitative but specific information related to these indicators.
3 = quantitative disclosure	Quantitative disclosure related to the indicators described in the BMTIs' index checklist.

Source: Cooke (1989)

Data Collection

This study continues to collect data on BMTI in Indonesia. Since access to data on BMTI is limited, it took much work to obtain data. Moreover, a sample of 206 reports could be used for the analysis in this chapter, as 20 reports were incomplete and thus were excluded from the dataset. The 206 reports were then divided based on three institution sizes, i.e., micro-, small-, and medium-sized which follow the definition of MSME in Indonesia and are regulated by Act No. 20 of 2008. Table 3. presents the characteristics of MSME.

Table 3. Characteristics of Micro, Small- and Medium-sized Enterprises

Size of Business	Categories based on Assets	Categories based on revenue
Micro	Maximum Rp.50.000.000	Maximum Rp.300.000.000
Small	>Rp.50.000.000-Rp.500.000.000	>Rp.300.000.000-Rp.2.500.000.000
Medium	>Rp.500.000.000-Rp.10.000.000.000	>Rp.2.500.000.000-Rp.50.000.000.000

Source: Cooperatives Act No.20, 2008

This study identified significant differences in the extent and quality of annual reports among the three categories: micro-, small-, and medium-sized BMTIs using variance (ANOVA).

Results and Discussion

This section reports the study's findings and discusses the empirical methodologies utilized to test the research hypotheses in this study. It covers a descriptive and a comparative analysis.

Descriptive analysis

Out of 206 annual reports obtained, 36 are for micro-, 87 for small-, and 83 are for medium-sized (17.56%, 42.44%, and 40%). Table 4 presents the findings on BMTIs' extent of disclosure for each category, i.e., micro-, small-, and medium-sized. As shown in Table 4, the mean disclosure score for micro-BMTIs is 43.64% and 47.96% for small BMTIs. Meanwhile, the medium-sized BMTIs scored 53.81%. The micro-category has the lowest disclosure, the small-, while the medium presents the highest. The analysis based on the BMTIs' size is consistent with overall disclosure as all categories except the micro-category fall within the medium range. Regarding the BMTIs' annual report quality score, the micro category presented the lowest average quality disclosure at 26.78%, while the medium-sized averaged 35.46%.

The result is supported by the Cooperatives Act No.20, 2008; there are

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different capacities and treatments for each size. The findings illustrate that the disclosure level among micro, small, and medium BMTIs is different, as established by this study. Although the disclosure extent among the three BMTI categories is medium, the disclosure quality is relatively low. The average disclosure quality of micro-sized BMTIs is below the 30 percent threshold, implying that the relevant authorities should give extra attention and treatment to each BMTI category.

Table 4. Summary of Descriptive Statistics on the Level of Disclosure Based on Criteria

Extent	Micro-Extent	Small-Extent	Medium-Extent
Minimum	9.68	19.35	19.35
Maximum	79.03	75.81	83.87
Mean	**43.64**	**47.96**	**53.81**
Std. Deviation	15.91	11.90	13.48
Quality	**Micro-Quality**	**Small-Quality**	**Medium-Quality**
Minimum	7.53	11.29	9.14
Maximum	51.08	52.15	67.74
Mean	**26.78**	**30.42**	**35.46**
Std. Deviation	9.37	8.88	11.53
Valid N	36	87	83

** TVDIS% = (Actual disclosure index score (AVDS)/Maximum disclosure score (MVDS)%, the relative disclosed score received by each BMTI.

In summary, the findings illustrate that the extent and quality of micro BMTI disclosure are low. Hence, the size of BMTIs influences the level of disclosure, which concurs with Mathuva (2016). In this context, larger cooperatives provide more disclosure than smaller cooperatives. Even though BMTIs are small institutions, they have different levels and capacities by category.

A comparative analysis

The current study developed several hypotheses to identify the differences in the disclosure extent between micro-, small-, and medium-sized BMTIs in Indonesia. ANOVA was used to examine whether there are significant differences in the disclosure practices among the categories of BMTIs. Table 5 presents the normality results on the disclosure extent and quality based on each category. The result revealed that Shapiro-Wilk tests showed a p-value above 0.05, indicating that the normality assumption is not violated. This study prefers the Shapiro-Wilk test because the sample size is more than 50 observations.

Table 5. Normality Test

Criteria BMTI		Kolmogorov-Smirnov[a]			Shapiro-Wilk		
		Statistics	**df**	**Sig.**	**Statistics**	**df**	**Sig.**
Extent	Micro	0.109	36	.200*	0.984	36	0.864
	Small	0.084	87	0,179	0.978	87	0.142
	Medium	0.059	83	.200*	0.992	83	0.871
Quality	Micro	.090	36	.200*	.985	36	.903
	Small	.103	87	.023**	.972	87	.057*
	Medium	.097	83	.052*	.983	83	.329

Note: **, *indicate significance levels at 5% and 10%, respectively

The following assumption tested is the equality of variances among different groups of samples. The primary reason for the test was to choose an appropriate test for multiple comparison analysis.

Table 6. Equality of Variances

		Levene Statistics	df1	df2	Sig.
Extent	Based on Mean	2.870	2	203	0.059*
	Based on Median	2.685	2	203	0.071*
	Based on Median with adjusted df	2.685	2	196.826	0.071*
	Based on Trimmed Mean	2.872	2	203	0.059*
Quality	Based on Mean	3.918	2	203	0.021**
	Based on Median	3.842	2	203	.023**
	Based on Median with adjusted df	3.842	2	192.682	.023**
	Based on Trimmed Mean	3.929	2	203	.021**

Note: **, *indicate significance levels at 5% and 10%, respectively

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Following the assumptions for extent, the differences between micro-, small-, and medium-sized BMTIs were tested. The findings are presented in Table 8 below, where the result indicates a statistically significant difference in variance among the three BMTIs at the 1% significance level. Therefore, this study rejected H0 and accepted H1, given the varied extent of disclosing the three BMTI categories.

Table 7. ANOVA Results

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0.298	2	0.149	8.424	0.000
Within Groups	3.595	203	0.018		
Total	3.893	205			

Since the ANOVA results showed significant differences among the three groups, the study proceeded with a post-hoc test to examine the groups that could explain the difference. Subsequently, Tukey's Honestly Significant Difference (HSD) was employed for the robustness of the post-hoc test presented in Table 8. The main differences are between medium companies and the other two categories: micro and small.

Table 8. Multiple Comparisons

Dependent Variable: Extent						
Tukey's HSD						
(I) Criteria BMTI		**Mean Difference (I-J)**	**Std. Error**	**Sig.**	**95% Confidence Interval**	
					Lower Bound	**Upper Bound**
Micro-	Small	-0.043227	0.026371	0.232	-0.10549	0.01904
	Medium	-.101708*	0.026556	0.000	-0.16441	-0.03901
Small-	Micro	0.043227	0.026371	0.232	-0.01904	0.10549
	Medium	-.058481*	0.020418	0.013	-0.10669	-0.01027
Medium-	Micro	.101708*	0.026556	0.000	0.03901	0.16441
	Small	.058481*	0.020418	0.013	0.01027	0.10669

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The result could also be interpreted as follows: Group 1 represents micro- and small-sized, while Group 2 is medium-sized.

Testing the Second Hypothesis

This study tested the second hypothesis for differences in Indonesia's disclosure quality level of micro-, small-, and medium-sized BMTIs. For this purpose, ANOVA was conducted to examine the variance equality for the annual report quality. Based on Table 10, the assumptions for quality are not met, and thus, the study proceeded to test the differences of BMTIs using the Tamhane post-hoc analysis. The ANOVA result is presented in Table 9, which implies variances among the groups (10.679 with a p-value of 0.000). Therefore, the null hypothesis is rejected.

Table 9. ANOVA Result

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.218	2	.109	10.679	.000
Within Groups	2.076	203	.010		
Total	2.294	205			

The ANOVA result presented in Table 10 indicates differences in the quality of annual reports among micro-, small-, and medium-sized BMTIs. Therefore, this study rejected H0 but accepted H1, concluding the differing disclosure quality among the three BMTIs.

Table 10 presents the post-hoc analysis to determine the differences in the annual report quality among the three BMTIs (micro-, small-, and medium-sized). The table shows no differences in the quality among micro and small BMTIs. Notably, micro- and medium-sized BMTIs showed dissimilarities, followed by small- and medium-sized BMTIs. Hence, the three significantly differ in the annual report quality. The post-hoc analysis result supports the fact that micro- and small-sized BMTIs are in the same group.

The study hypothesized heterogeneity in the extent and quality of annual reports among micro-, small-, and medium-sized BMTIs, which was evaluated using the ANOVA and post-hoc analysis. Accordingly, hypotheses one and two statistically support the significant differences among the three BMTIs. The findings are consistent with previous studies, which found that firm size is associated with the disclosure level (Khalid, 2006), and firm-level characteristics positively affect enterprise growth (Babajide, 2012). Nevertheless, researchers have yet to differentiate the disclosure based on category, implying that each category has different capacities.

Table 10. Multiple Comparisons

Dependent Variable: Quality						
Tamhane HSD						
(I) Criteria-Qual		**Mean Difference (I-J)**	**Std. Error**	**Sig.**	**95% Confidence Interval**	
					Lower Bound	**Upper Bound**
Micro	Small	-.036455	.018292	.144	-.08134	.00843
	Medium	-.086808*	.020102	.000	-.13582	-.03780
Small	Micro	.036455	.018292	.144	-.00843	.08134
	Medium	-.050353*	.015837	.005	-.08858	-.01212
Medium	Micro	.086808*	.020102	.000	.03780	.13582
	Small	.050353*	.015837	.005	.01212	.08858

*The mean difference is significant at the 0.05 level.

The result is consistent with the study by Oppong et al. (2014), where micro-enterprises are conventionally grouped with small-scale enterprises while medium-enterprises are classified into one broad category. Michael and Oluseye (2014) examined Nigerian MSMEs' capital structure differences. A study examined MSMEs in Nigeria and found a difference in working capital capacity, and micro and small enterprises adapted quickly under challenging and changing circumstances (Evbuomwan et al., 2016). This phenomenon can be explained by the low capital intensity, which allows product lines and inputs to be changed at a less significant cost.

A robust corporate financial reporting system is necessary to support financial stability, which benefits micro and small enterprises (Mahajan & Kamble, 2015). Reliable financial statements and reporting systems could facilitate investors' decisions and design better accounting reporting suited to the nature of each institution. This view implies that current financial reporting systems are required to stimulate and promote competitiveness in BMTIs. This result can act as a catalyst that enhances confidence, transparency, and trust, creating a conducive environment for sustainable economic growth and job creation. Therefore, it is essential to provide different requirements for each BMTI size.

Significantly, institution size plays a crucial role in the disclosure variations. In this context, medium-sized BMTIs provided the most comprehensive disclosure. This finding is consistent with Hyndman (2004), who used 120 annual credit union reports to ascertain the financial statement quality across three size-related classifications (large-, medium-, and small-sized credit unions). Studies in other NFPO sectors revealed that large NFPOs have better quality financial statements than small organizations (Connoly & Hyndman, 2000).

The findings of this study indicate that BMTIs do not provide comprehensive disclosure of transactions and activities required by the Cooperatives Ministry's regulations. Thus, they must still fulfill their cooperative and Islamic institution role. Furthermore, the institution number is large (>5000 BMTIs) with diverse sizes, i.e., micro- to medium-sized. Thus, more attention should be focused on their accountability based on size. Additionally, the government should treat each category differently, specifically for disclosure. Reviewing the implementation of accounting standards is challenging from the stakeholders' standpoint. Their reluctance entails increased accountability and transparency according to their capacity and characteristics. Besides the lack of funding, the institutions presented multiple issues, such as inadequate business documentation and poor business management skills. Others include the need for more control over business resources, outdated databases, and the inability to access their database (Michael & Oluseye, 2014).

This study accepts the alternative hypothesis that there are significant differences in the disclosure extent and quality derived from the annual reports of micro-, small-, and medium-sized BMTIs. Several factors can account for the differences: unsuitable accounting standards, lack of managerial skills, and limited ability to reduce transaction costs. Medium-sized BMTIs can follow the accounting standards because of their capacity compared to micro-and small BMTIs. In essence, larger-sized BMTIs possess a significantly greater ability to overcome the constraints of obtaining finance from external sources. Moreover, it is easier to increase the investors' confidence or external sources.

The issues above suggest the need for authorities, i.e., the Indonesian Accountants Association, to establish a formal enforcement framework (accounting

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standards). This idea ensures BMTIs' compliance with disclosure requirements and imposes penalties if the regulations are not met. The low level of overall disclosure might reflect the need for several factors, including qualified accounting officers, Sharia Supervisory Boards (SSB), and accounting standards for Islamic cooperatives. The study findings indicate that the medium-sized BMTI has fully disclosed various items. However, numerous cases have no disclosure, including financial and social information. The lack of information in BMTIs is observably concerning for its regulators, requiring urgent redress.

Implications

From the theoretical standpoint, this research contributes by providing insights into the relevance of the stakeholder theory in the context of BMTIs. The use of stakeholder theory in the development of the BMTIs is relevant because of the differences in the operations and activities of the BMTIs. Among the additional responsibilities of BMTIs is to disclose relevant information concerning stakeholders' needs, such as how stakeholders' expectations are achieved. This study examined the extent and quality of financial and non-financial disclosure differences between micro, small, and medium BMTIs in Indonesia. These distinctions can serve as a foundation for establishing precise accounting regulations tailored to the scale of the BMTI. This result would aid in comprehending comparability, reliability, and the argument for public interest, as well as safeguarding the rights of minority owners and stakeholders (more protection for creditors).

Hence, an increase in the level and quality of financial reporting disclosures by BMTIs/*Islamic* cooperatives is expected to include appropriate and relevant regulations that suit the size of BMTI. This study may signal the regulators and authorities, such as the Ministry of Cooperatives, to give serious attention to developing specific accounting standards for such institutions as BMTIs are unique as they have a dual objective (i.e., social and financial objectives), which differs from each size.

Conclusion

This result is consistent with the stakeholder theory, which emphasizes the variations in the scope of micro, small, and medium-sized BMTIs because, in addition to accounting regulations and institution-specific types, sizes, and characteristics, stakeholder expectations also vary. Micro, small, and medium

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BMTIs refer to the differences in their financial reporting requirement by disclosing based on their size. Additionally, Financial statements are created in compliance with regulation, which is necessary for size-based evaluations; this is clearly indicated in the accounting policy footnote, which is connected with increased disclosure. Additionally, Financial statements are created in compliance with regulation, which is necessary for size-based evaluations; this is clearly indicated in the accounting policy footnote, which is connected with increased disclosure. The differences in the extent and quality of disclosure between micro-, small-, and medium-sized BMTIs in Indonesia were analyzed. The results show that small-sized and medium-sized BMTIs have different capabilities. Meanwhile, the ANOVA analysis revealed that micro and small BMTIs are in the same group, while medium-sized BMTIs are in a stand-alone group. Although there are no specific accounting standards for BMTIs, they must improve disclosure practices (Wahyuni, 2008). Therefore, this result could improve the accounting requirements based on their respective category. Furthermore, the size should be considered to determine the appropriate accounting standards, where attention to these categories may stimulate potential growth. Therefore, it is essential to improve firms' disclosure based on their capacity (Martin et al., 2006).

Future researchers are encouraged to explore the challenges facing BMTIs as this can increase the number of studies on BMTIs and reduce the problem of insufficient literature in this research area. With more research on BMTIs, each researcher's suggestions may help eliminate several problems facing BMTIs and contribute to economic development, especially in Indonesia's present situation. Future researchers may explore the changes in the extent of the information disclosure provided the suggestions in this study are implemented. This will provide empirical evidence of the contributions of this study to the BMTIs. Future researchers may also explore changes in the operational activities of BMTIs and their contributions to the local communities when the policymakers provide an enabling environment in the context of Zakat and *Qard* Hasan. BMTIs and regulators should consider embarking on research on the extent and quality of disclosure in BMTIs' annual reports from 2018 onwards.

The differentiation of the requirements based on size potentially supports the link between BMTIs and other IFIs, such as Islamic banks and *zakat* institutions. Financial inclusion should be achieved by improving the IMFIs' financial infrastructure, such as increasing financial and non-financial disclosure (Iqbal & Mirakhor, 2012). Notably, the disclosure of BMTIs based on their size aligned with the study by Obaidullah and Khan (2008). The study indicated that the three levels of IMFIs, i.e., micro, meso, and macro, have different organizational structures. They also vary in Sharia compliance, products and services, links with banks and other institutions, strategic response, and bank involvement. The disclosure extent of BMTIs' activities must be increased to reach potential investors and equity investors, creating opportunities for socially motivated investors. The regulators must focus on BMTIs based on their category, implying that these institutions must be treated with different annual reporting requirements.

Declaration of competing interest

The authors affirm that there is no conflict of interest. The ethics committee of the university approved this study.

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