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The Impact of Digitalization and CSR Of MSMEs on Social Capital Accumulation

Eka Adhi Wibowo[1], Jonathan Herdioko[2]
[1]Accounting Program, Duta Wacana Christian University, Yogyakarta, Indonesia
[2]Management Program, Duta Wacana Christian University, Yogyakarta, Indonesia

ABSTRACT: This study was conducted to test and understand the impact of digitalization and Corporate Social Responsibility (CSR) of Micro, Small and Medium Enterprises (MSMEs) on the accumulation of social capital in society. The digitalization variable was chosen considering that the business world has begun to enter the industrial era 4.0 massively and on a large scale. The change in business models from conventional to digital has also changed the face of MSMEs in their business operations. Meanwhile, CSR was chosen as part of a business's decision to be involved in creating a sustainable business. Social capital is the dependent variable because social capital is a determining element in how a business can run because the basis of social capital is trust, which is an absolute requirement for a business and economy to run. MSMEs were chosen because they are the business group that interacts the most with the community both in terms of quantity and quality. This study will use a quantitative method through a survey using a social capital questionnaire that has been launched by the World Bank, coupled with interviews with respondents as triangulation. Through this study, the researcher hopes that MSMEs can increasingly adapt to digitalization conditions and participate in sustainability development.

KEYWORDS: CSR; Digitalization; Social Capital; MSMEs.

1 INTRODUCTION

The COVID-19 pandemic has been a significant catalyst in accelerating digital transformation across sectors. Social restrictions and lockdowns imposed in countries including Indonesia have pushed people to adapt to a new way of life that relies more on digital technology. This has increased the demand for digital solutions and pushed companies to adapt to the digital world, including Small, Micro and Medium Enterprises (SMEs).

Indonesia, as a developing country, has a fairly high potential for economic growth. One of the factors that supports this potential is the Micro, Small, and Medium Enterprises (MSMEs) sector. According to data from the Ministry of Cooperatives and SMEs in 2022, the number of MSMEs in Indonesia has reached 8.71 million units. The contribution of MSMEs to Gross Domestic Product (GDP) is also quite significant, which is around 60%, with a workforce absorption rate reaching 96% of the total national workforce (data from the Ministry of Finance, 2022). This great potential means that it will increase the demand for MSMEs to be able to increase digitalization for the development of their businesses, including buying and selling platforms, payment systems (e-wallets), and various other digitalization functions, ease of transactions, speed in making payments, and more efficient transfer costs.

Micro, Small, and Medium Enterprises (MSMEs) have a significant role in the Indonesian economy. In the midst of the era of globalization and tight competition, MSMEs need to continue to improve their competitiveness and image in the eyes of the public. In fact, in the past pandemic era, MSMEs were businesses that were able to survive (https://dikti.kemdikbud.go.id/kabar-dikti/kampus-kita/bertahan-di-tengah-pandemi-umkm-wajib-cakap-digital/). One way that can be done is by implementing Corporate Social Responsibility (CSR). Corporate Social Responsibility is a company's commitment to integrating social, environmental, and economic aspects in its operations and interactions with stakeholders. The purpose of CSR itself is to improve the quality of life of the community and contribute to sustainable development.

Although CSR may not be a special concern for MSMEs, in reality, MSME transaction activities with the community are quite high, both in terms of quantity and quality. We can observe it from our surroundings; we can even calculate how many times we have transacted with MSMEs in one day. The high interaction between the community and MSMEs certainly has both positive and negative impacts, which means that MSMEs should also care about the impacts on the surrounding environment. It can be said that MSMEs also still need to carry out CSR even though it may be on a small scale, the goal is to increase social capital (trust), trust from the consumer community which is no less important for the development of MSMEs in the future besides financial capital.

Business in MSMEs cannot operate well without social capital (trust) from the community. Trust in social capital is a fundamental element that supports the success of a business. Trust between individuals and organizations in a business network acts as a lubricant that facilitates various interactions and transactions. High trust can reduce business costs, increase efficiency, and potentially increase profitability for MSMEs. Scientific research shows that social capital has a significant impact on business costs, especially control and supervision costs. When trust between individuals and organizations is high, the need for control and supervision is reduced. This is because there is an expectation that all parties will act with integrity and in accordance with agreed norms. Social capital is also an indicator of factors in other fields, such as the economy on various scales including the micro scale. This can be interpreted that social capital also has an impact on how technical practices and accounting reporting are carried out. Villiers, 2022 states that there are two main questions in terms of accounting analysis and social capital:

1. How is social capital conceptualized and theorized in accounting research?
2. How is social capital used in the concept of future accounting research?

Accounting is expected to be a tool to keep social capital from decreasing or being reduced, because in accounting all information regarding business sustainability and development is disclosed to stakeholders including in MSME business activities (including CSR reports). Or in other words, accounting has the task of maintaining trust from stakeholders.

As the main driver of the country's economy, it would be very appropriate to analyze it from social capital, considering that in terms of capital (cash and cash equivalents) MSMEs have been regulated by regulations in the amount of capital, what about social capital which is no less important in supporting MSME operations? This question is the main problem in this study.

Starting from the problems in the background, the problems in this study are formulated in the following questions:

a. Does the digitalization of MSMEs affect the Accumulation of Social Capital?

b. Does CSR disclosure in MSMEs have a significant effect on the Accumulation of Social Capital?

This study uses a quantitative method, with primary data through questionnaires given to respondents. In this study, respondents were MSMEs and the General Public who are consumers of MSMEs. The data sources used are primary data through questionnaires, as well as qualitative data in the form of interviews with respondents selected according to predetermined criteria. Research analyzing social capital is still lacking in Indonesia (Social Capital Statistics, 2021 p.7). Still reported from the same source, it states that there has not been a single survey, study, or discussion that is serious and large-scale that has ever been carried out, either by the government or by private research institutions. The studies of social capital that have been carried out so far tend to lead to hypothetical situations that come from daily observations of people's social behavior. There is not a single source of information that can be used as a reference regarding the situation and development of measurable social capital. Apart from the discourse on mutual trust that has been brought to the surface by several social observers, other elements are still felt to be very foreign and have never been seriously raised as part of the elements of social capital that need to be studied further.

2 THEORY

2.1 MSMEs Digitalization

Digitalization is a massive change in the use of technology from analog technology that uses data continuously over a certain period of time, to digital in the form of technology that has the following advantages:

1. Operational Efficiency: Automation of business and its processes will help improve work procedures, save costs, reduce human error and reduce the risk of environmental damage (one of which is reducing the use of paper and plastic).
2. Better Experience: Digital systems provide the possibility for a business to carry out better operations, more personal and respond quickly and precisely to customers.
3. Competitiveness: Digitalization will provide the potential for increased competitiveness because it allows fast and accurate information processing, for business decision making.
4. Data Access and Analysis: Digitalization makes it easier to record and filter data needed for decision making in order to improve better business strategies.
5. Easier Marketing: Digitalization will make it easier for companies to carry out marketing considering that digitalization is connected to the internet network that is already global.

2.2 CSR (Corporate Social Responsibility)

Corporate Social Responsibility (CSR) not only focuses on environmental preservation and social development, but also plays an important role in empowering Micro, Small, and Medium Enterprises (MSMEs). Strategic collaboration between large companies and MSMEs can be the key to driving inclusive and sustainable people's economic growth. However, MSMEs experience several obstacles in carrying out CSR.

a. Regulatory ambiguity: Lack of clear regulations related to CSR and MSMEs can hamper the effectiveness of empowerment programs.

b. Resource limitations: Large companies may have limited resources to run comprehensive CSR programs.

c. Minimal MSME involvement: Lack of awareness and participation of MSMEs in CSR programs can hamper the achievement of program objectives.

2.3 Social Capital

Social Capital is defined as a series of human relationship processes supported by networks, norms and social trust that enable efficient and effective coordination and cooperation to achieve shared prosperity (Cox, 1995). Furthermore, Fukuyama (1995, 2003) emphasizes social capital in a broader dimension, namely everything that motivates people to work together that is bound by a set of values, norms and rules that grow and are obeyed (Coleman, 1988). Based on this statement, it cannot be denied that the foundation for social capital begins with a sense of trust in one another.

Furthermore, in the context of social capital, there is still a gap between theory and empirical research, as well as how to measure it (Paxton 1999; Portes 1998; Stone 2001; Stone and Hughes 2001). The principles for avoiding these problems can be summarized in four points (Stone and Hughes 2001). First, the measurement and "practice" of social capital need to be theoretically informed. Otherwise, anything will be labeled as social capital, and old ideas and concepts will be repackaged in new guises.

Second, social capital must be understood as a resource for collective action. If we want to determine whether social capital produces a range of desired social and economic outcomes, such as vibrant communities, we must avoid the tautological trap of conflating social capital with social action or other outcomes.

Third, empirical research must recognize that social capital is a multidimensional concept. We must understand how the various dimensions of social capital relate to each other and to the concept as a whole before we can understand how they relate to the other outcomes of interest.

Fourth, we must recognize that social capital will vary across network types and social scales. Dimensions of social capital in one network may not correspond to different dimensions of social capital in another network, or to outcomes that may be measured at different or different scales.

In this study itself, the main context that is analyzed is the basic factor of social capital, in this case trust. The subject of this study focuses on MSMEs which are reviewed from the digital interaction model with consumers and from the CSR perspective.

2.4 Accounting and Social Capital

In theory, accounting has indeed been categorized as a social practice. Research conducted in the field of accounting has proven that accounting is a product of social activity patterns in the society where accounting is practiced. In fact, quite a lot of research has been done to understand and measure the extent of the role of accounting in society. However, in the context of social capital being developed in accounting, it is still not enough if not a little (Villiers, Tore, Botes, 2022). Practitioners and academics (eg, Eccles & Kruz, 2010; Eccles & Saltzman, 2011; King & Roberts, 2015; Nussbaum, 2013), practitioners (KPMG, 2013; PWC, 2015) and stakeholder organizations (Global Reporting Initiative (GRI)), 2010; International Integrated Reporting Council (IIRC), 2013) analyze the weaknesses in traditional financial reporting, while examining alternatives for better accountability. It is now increasingly recognized that the future prospects of organizations are no longer determined by their physical assets, but depend heavily on networks and relationships (Deloitte, 2013).

Moreover, in the era of industry 4.0 which is massive in technology and digitalization, a concept called the sharing economy has emerged, which changes the face of business where the value of a company is not measured by the size of the assets owned, but how the assets are "charged" to partners but followed by profit sharing. The concept of profit sharing is called or more popularly called the sharing economy requires stronger trust between business partners. This development has given rise to a new form of MSMEs (Khasali, 2022), where businesses may not appear conventionally but the business exists and consumers can order it through the application. Trust is the mainstay in the new business modeling of these MSMEs, considering that the existence of an "intermediary" application for consumers and MSME producers minimizes direct face-to-face transactions. This modeling is a challenge for accounting practices, which can change according to existing business model patterns. In theory, accounting is important to maintain the trust of all stakeholders related to the business, including MSME businesses.

The next development is the existence of Sustainability Development Goals, or sustainable development, where companies are regulated to carry out Corporate Social Responsibility (CSR). CSR activities certainly have an influence on accounting practices, at least on CSR cost accounts. Research in the field of finance has also begun to make CSR one of the factors that determines the value of a company. For MSMEs, CSR is a separate strategy that is effective in encouraging the growth of the people's economy. With synergistic collaboration between large companies and MSMEs, as well as support from the government and other stakeholders, CSR programs can have a significant positive impact on the development of MSMEs and improving community welfare. Another challenge that arises in the issue of CSR in MSMEs is in its reporting in financial reports. In principle, financial reports are prepared based on the needs of stakeholders for the operations of a business. This principle has been widely implemented in large companies, especially those that go public. What about MSMEs? Do MSMEs have a paradigm that CSR reporting is a necessity that will ultimately strengthen the trust of the community (consumers) in using their products? These questions are the questions that this study seeks to answer.

To measure social capital in accounting, the costs incurred by the company are used. As found by Putnam (2000) who stated that the main element in measuring social capital is trust, including trust in security in running a business. Putnam's statement can be explained operationally as follows: the lower the level of trust, the higher the costs incurred for security. Likewise, the higher the level of trust, the lower the security costs incurred for security.

3 METHODOLOGY

3.1 Research Methodology

The methodology used in this study is a mix method that combines quantitative methods with qualitative methods as an explanation. The quantitative approach uses surveys conducted on site and online, to respondents who are MSME actors and the Consumer Community of MSME products. The qualitative approach is carried out by field observation and conducting interviews with MSMEs and their Consumers. The selection of this mix method is carried out to obtain a deep understanding of the results of the quantitative test.

3.2 Sample and Population

This study uses primary data through a survey of respondents supplemented by observation and interviews with selected respondents. The research location is prioritized in the Special Region of Yogyakarta and its surroundings.

Data collection using questionnaires distributed both directly and online. The target respondents are 100 MSMEs and 100 MSME Consumers, located in the DIY Province. Measurement using a Likert scale with 5 scales. The results will be triangulated with a qualitative approach through observation and interviews with selected respondents aimed at understanding the pattern of opinions on Digitalization and CSR of MSMEs and how they impact the accumulation of social capital.

3.3 Operational Variables

The questions and statements as indicators that will be presented in this research include:

a. Respondent profiles include

1. Gender
2. Age
3. Monthly income (range)
4. Monthly expenses (range)
5. Occupation
6. Type of MSME (for entrepreneurs)
7. MSME consumers (for consumers)

b. Dependent Variable

Social capital is measured by trust, where Fukuyama (2014) states that trust is the driving capital that is analogous to lubricant for economic activity machines. In this study, trust is measured by a survey of the level of trust of MSMEs and MSME consumers in all stakeholders in running their businesses.

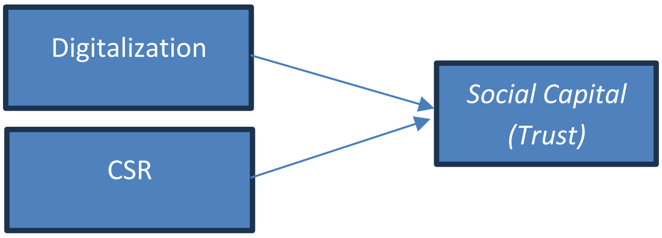
In this study, the analytical thinking used is that the higher the level of trust, the more it will increase security and a sense of security in the operation of a business, the measurement in this case in accounting is by analyzing security costs.

c. Independent Variables

The independent variables in this study are digitalization and Corporate Social Responsibility. The approach used is a cost accounting approach specifically the costs incurred as security costs, using a ratio approach between CSR and Security Costs.

Ratio: CSR/(Security costs)

3.4 Research Design



From the chart above, it can be explained about the initial statement why the formulation of the problem usually refers to the questions that have been asked in the context of the research. Based on the formulation of the problem, including:

H1: There is an influence of digitalization on Social Capital

H2: There is an influence of CSR disclosure on Social Capital

3.5 Data Collection Methods and Data Measurement Scales

Questionnaires are used in observation and data collection. According to Sugiyono (2017), questions are made in the form of choices from individuals who answer in a certain area and a certain amount with an open or closed method. To answer each instrument item, this research questionnaire uses a Likert scale. Still according to Sugiyono (2017) states "the Likert scale is used to measure the attitudes, opinions, and perceptions of a person or group of people about social phenomena".

4 RESULT AND ANALYSIS

4.1 Result

The results of the regression test between variable X1 (Digitalization) show a coefficient of -0.219 with a standard deviation of 0.05 (Table 1). This coefficient proves that there is no significant relationship between digitalization and the level of trust which is an indicator of social capital, meaning that hypothesis 1 is rejected. Next, the results of the regression test of variable X2 (CSR) show a coefficient of 5.676 with the same standard deviation. This proves that there is a significant relationship and influence between CSR and the level of social capital, in the sense that the greater the cost of CSR which is inversely proportional to the cost of security, the greater the increase in Social capital (trust). This means that CSR has a significant influence on increasing the accumulation of social capital in society.

4.2 Analysis

Digitalization facilitates human relations including in business activities, including in MSMEs, it's just that this digitalization is like a double-edged sword on the one hand offering convenience, but also has the potential to reduce social interaction, whereas according to Putnam social interaction is a requirement to increase mutual trust which is the foundation of social capital.

It is different with CSR which is indeed not formally an obligation for a business at the MSME level. However, CSR remains a means to "bring closer" MSMEs to the community that is the market share, especially those around the business location. It is proven that CSR has a significant influence on the accumulation of social capital (trust) which is a support in business activities, because the higher the social capital means the higher the level of trust, the higher the level of trust will potentially reduce the costs of doing business for MSMEs such as the lower costs incurred to ensure business security, the data of which was also collected in this study.

5 CONCLUSION

Digitalization on the one hand makes it easier for MSMEs to run their businesses but has the potential to further reduce interaction with stakeholders. This means that digitalization has the potential to erode social capital. Meanwhile, CSR has the potential to bring MSMEs closer to the community. This phenomenon can provide an understanding of the need for a balance between digitalization and CSR so that social capital in society is not further eroded.

This research can be developed with various views and analyses, including:

First, testing respondents' understanding of social capital, considering that social capital is still quite foreign in the field of accounting.

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