

Exploring Financial Management Practices and Business Sustainability Strategies among MSMEs

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ARTICLE INFO

Keywords: Financial Management, Business Sustainability, MSME, Strategic Planning

Received : 28, November

Revised : 30, December

Accepted: 26, January

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ABSTRACT

This study examines the relationship between financial management practices and business sustainability among Micro, Small, and Medium Enterprises (MSMEs) using a qualitative descriptive approach. Data obtained through interviews, observations, and documentation were analyzed using the Miles, Huberman, and Saldaña model. The findings show that the effectiveness of financial planning, bookkeeping, reporting, and financial control varies depending on the financial literacy of business owners. Business sustainability is shaped by the ability to compile and update business plans, conduct competitor analysis, explore new business opportunities, and take calculated risks. The study concludes that robust financial management enhances MSMEs' resilience and strategic decision-making, while sustainability demands encourage continuous improvement in financial governance.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in Indonesia's economic structure. Data from the Ministry of Cooperatives and SMEs indicate that this sector contributes more than 61% to the national Gross Domestic Product (GDP) and absorbs a substantial portion of the labor force. These figures underscore that the continuity of MSMEs is essential not only for business owners but also for broader economic and social stability (Aprilia et al., 2024). Despite their strategic importance, MSMEs continue to face numerous challenges, particularly inadequate financial management practices that directly influence business sustainability (Aprilia et al., 2024; Hendrawan et al., 2024).

Although MSMEs have long been recognized as a strategic economic pillar, both in terms of employment creation and GDP contribution, they still struggle with several fundamental issues, most notably in financial administration. Many MSME owners tend to merge personal and business finances, fail to perform systematic bookkeeping, and are unfamiliar with preparing financial statements or controlling cash flows. These shortcomings weaken their competitiveness and threaten their long-term viability, especially when confronted with market uncertainties, limited access to capital, and rapid technological (Gunawan, 2025; Hendrawan et al., 2024; Md Husin & Haron, 2020; Primadona et al., 2024).

The sustainability of MSMEs is heavily shaped by their ability to manage finances effectively while simultaneously formulating adaptive business strategies. Key indicators of business sustainability, such as the capability to develop business plans, periodically revise strategies, analyze competitors, pursue new market opportunities, and take calculated risks, require sound financial management to be achieved (Bhatti et al., 2025). Without adequate planning, recording, reporting, and financial control mechanisms, MSMEs are less capable of maintaining business stability over the long run (Alfarizi et al., 2023; Azhar & Syarif, 2025; Masocha, 2019).

Effective financial management forms the cornerstone of business resilience. MSMEs must not only generate profits but also maintain structured, orderly, and controlled financial flows. Four primary indicators reflect the effectiveness of financial management: financial planning, bookkeeping, reporting, and financial control. Financial planning provides a clear business direction, bookkeeping ensures the availability of accurate financial data, reporting enables owners to understand their financial position comprehensively, and financial control safeguards efficiency while preventing fund leakage or misuse (Md Husin & Haron, 2020; Yuwana & Anggraini, 2025).

Beyond financial aspects, MSME sustainability is also influenced by broader managerial capabilities. Several indicators reflect the level of sustainability, including the ability to compile comprehensive business plans, update these plans regularly, continuously analyze competitors, enter new business areas with relative ease, and take well-considered risks. These indicators illustrate that sustainability is not solely determined by financial smoothness but also by the readiness of MSMEs to adapt to market dynamics, innovate products, and manage business risks (Md Husin & Haron, 2020).

A growing body of empirical research further highlights the critical role of financial management in enhancing MSME sustainability. Humayro et al. (2025), for instance, demonstrates that proper bookkeeping and financial reporting significantly improve MSMEs' ability to access formal financing

Given the urgency of strengthening financial management and the persistent challenges to business continuity faced by MSMEs, this study aims to explore how planning, recording, reporting, and financial control practices contribute to sustaining their operations. It also seeks to examine the managerial factors that influence MSMEs' ability to remain competitive in a rapidly shifting business environment. Accordingly, the central research question addressed is: How do MSMEs implement financial management practices, and to what extent do these practices support business sustainability? This question is further expanded into sub-questions concerning how MSMEs compile and revise business plans, analyze competitors, identify new business opportunities, and engage in calculated risk-taking. Through this focus, the study intends to provide a comprehensive understanding of the interconnectedness between financial governance and long-term business sustainability among MSMEs.

LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) represent one of the most essential pillars of Indonesia's national economy. According to Law No. 20 of 2008 concerning MSMEs, these enterprises are classified based on net asset value, annual sales, and the number of employees. MSMEs play a central role in promoting equitable economic development, generating employment opportunities, and improving community welfare. Their substantial contribution positions MSMEs as the backbone of the national economy, particularly during times of economic turbulence (Aprilia et al., 2024; Hendrawan et al., 2024; Mahesh K. M. et al., 2023).

In general terms, MSMEs refer to micro-, small-, and medium-scale enterprises. These are productive business entities established by individuals, groups, households, or small business units that meet the criteria for micro-level operations. MSMEs can therefore be understood as community-managed business activities accessible to people across social and economic segments. In accordance with Government Regulation No. 7 of 2021, MSMEs are categorized into three groups: micro enterprises, small enterprises, and medium enterprises (Mujianto et al., 2023). Micro Enterprises is a productive-businesses owned by individuals and/or sole proprietorships that meet the criteria for Micro Enterprises as stipulated in the relevant Government Regulation. Small Enterprises is an independent, productive economic activities operated by individuals or business entities that are not subsidiaries or branches owned, controlled, or affiliate, either directly or indirectly, with Medium or Large Enterprises, and that meet the criteria of Small Enterprises. Medium Enterprises is an independent, productive economic activities operated by individuals or business entities that are not subsidiaries or branches owned, controlled, or

associated – directly or indirectly – with Small or Large Enterprises, and that meet the criteria related to net asset value or annual sales.

The Role of MSMEs in the Economy

Micro, Small, and Medium Enterprises (MSMEs) constitute a vital component of Indonesia's economic framework. As defined in Law No. 20 of 2008, MSMEs are categorized according to asset thresholds, annual turnover, and workforce size. Their presence is particularly crucial because they reach lower- and middle-income communities while making a substantial contribution to national development. MSMEs are therefore frequently described as the backbone of Indonesia's economy.

On a macroeconomic scale, MSMEs contribute significantly to the Gross Domestic Product (GDP). Data from the Ministry of Cooperatives and SMEs (2023) reveal that this sector accounts for more than 60% of national GDP. This figure illustrates the dominant role of MSMEs in sustaining the economy, especially in sectors such as trade, services, agriculture, and the creative industries. Consequently, MSMEs should not merely be perceived as small-scale enterprises, but as major economic actors within Indonesia's broader economic system.

Aside from their contribution to GDP, MSMEs also play a critical role in employment creation. Approximately 97% of Indonesia's workforce is absorbed by the MSME sector across trade, industry, and services. This high absorption rate positions MSMEs as an effective instrument for reducing unemployment and improving societal welfare. Therefore, strengthening the MSME sector has become one of the government's key strategies for achieving inclusive development (Ermawati et al., 2022; Mahesh K. M. et al., 2023; Md Husin & Haron, 2020).

Financial Management in MSMEs

One of the most persistent challenges in MSME financial management is the lack of proper bookkeeping. Many business owners do not separate personal and business finances, making it difficult to obtain an accurate picture of their enterprise's financial condition. According to (Sihotang et al., 2025), the blending of personal and business funds is among the primary causes of financial mismanagement in MSMEs. This practice often results in difficulties when calculating net profit or applying for formal financing from banks (Milenia Ariyati et al., 2022).

In reality, systematic financial recording provides numerous benefits, including facilitating business planning, cost control, and the preparation of financial statements. Even simple financial reports can help owners understand their cash position, receivables, and payables. However, low accounting literacy among MSME actors frequently leads to the neglect of these practices. As a result, improving financial literacy has become an urgent necessity (Malpani & Jha, 2025; Sihotang et al., 2025).

Digitalization presents a significant opportunity for enhancing MSME financial management. A wide range of simple accounting applications is now

available, enabling business owners to record daily transactions, generate financial statements, and analyze cash flows. Mahesh K. M. et al. (2023) assert that the adoption of financial technology (fintech) can reduce reliance on manual bookkeeping and improve financial transparency.

Objectives and Principles of Financial Management

According to Hakkak et al. (2023), the primary objective of financial management is to ensure that an entity successfully achieves its predetermined goals. It also serves to provide an understanding of capital structure and the organization's financial position. There are seven fundamental principles of financial management that should be taken into consideration:

1. Consistency

Consistency refers to the requirement that an organization's financial systems and policies remain stable over time. This does not imply that adjustments are prohibited when organizational changes occur; rather, inconsistent approaches to financial management may signal potential manipulation within financial practices.

2. Accountability

Accountability represents the moral and legal obligation of individuals, groups, or organizations to explain how funds, assets, or delegated authority have been used. Organizations must be able to demonstrate how their resources have been allocated and what has been achieved, as part of their responsibility to stakeholders and beneficiaries.

3. Transparency

Transparency means that stakeholders must be provided with clear information regarding the organization's plans and activities through open communication. This includes the availability of accurate, complete, and well-prepared financial reports and strategic plans.

4. Viability

Viability reflects the degree of security and proper maintenance of organizational funds. Organizations must design financial arrangements that demonstrate their ability to sustain operations and secure the monetary resources needed for their activities.

5. Integrity

Integrity requires that all individuals involved in operational activities act honestly. The completeness and accuracy of financial records must be maintained to ensure the reliability of financial statements and documentation.

6. Stewardship

Stewardship implies that organizations must manage the resources entrusted to them responsibly in order to achieve their stated objectives. In practice, this involves prudent financial management, careful planning, risk identification, and the establishment of adequate control systems.

7. Accounting Standards

Accounting standards require that the financial and accounting systems used by an organization adhere to generally accepted accounting principles and applicable standards.

Functions of Financial Management

Mulyanti (2017) identifies several key functions of financial management, those are financial planning, financial budgeting, financial procurement, financial storage, financial control, and financial audit. Financial planning involves preparing projections of income, expenditure, and other activities for a specific period. Budgeting is the follow-up stage of financial planning, detailing expected costs and revenues. The functions of financial procurement concerns obtaining and utilizing financial resources to support the organization's operations. Financial storage involves accumulating and safeguarding the organization's funds. Financial control refers to evaluating and improving financial systems and performance. Internal audits are conducted to prevent irregularities and ensure that financial practices remain compliant.

Financial Management Processes

According to Mulyanti (2017), four fundamental frameworks guide financial management within an enterprise, which are budget planning, recording, reporting, and controlling. Financial planning is required to formulate the funding needs necessary to support various programs and activities. Planning is often challenging due to uncertainties about future conditions, and therefore must be continuously revised as time progresses (Anggraini et al., 2024; Azhar & Syarif, 2025). Organizational budgets constitute comprehensive plans expressed quantitatively within a predetermined period (Yuwana & Anggraini, 2025). The main types of comprehensive budgets include production budget, sales budget, capital budget, and profit budget. Recording involves documenting all financial transactions chronologically and systematically. These records serve as evidence that transactions occurred within the relevant period. Common examples include receipts, invoices, and other transaction documents. The next step is posting transactions into the general ledger and journals, which are later compiled into worksheets. After posting transactions to the general ledger and subsidiary ledgers, the next step is preparing financial reports. At the end of each month, ledger accounts are closed and transferred to financial summaries as the basis for financial statements. Examples of financial reports include the Statement of Financial Position, Income Statement, and Cash Flow Statement. And for the last, control refers to the process of measuring and evaluating actual performance across organizational units, followed by corrective action when necessary. The purpose of control is to ensure that an organization remains on track to achieve its established goals. There are three types of control mechanisms: preliminary control, concurrent control, and feedback control.

Business Sustainability

Business sustainability has become an increasingly strategic and essential issue in the development of Micro, Small, and Medium Enterprises (MSMEs).

This concept emphasizes that a business should not merely pursue short-term profits, but must also ensure its long-term viability by considering economic, social, and environmental dimensions. Elkington's Triple Bottom Line framework (Profit, People, Planet), argues that business sustainability can only be achieved when financial performance, social responsibility, and environmental stewardship are maintained in balanced harmony (Bhatti et al., 2025).

Within the MSME context, business sustainability reflects an enterprise's ability to survive, grow, and adapt to the dynamic business environment. MSME actors are expected to manage limited resources efficiently, maintain strong relationships with customers and business partners, and stay responsive to technological advancements. MSMEs integrating sustainability-oriented strategies tend to be more resilient during economic downturns and possess greater potential to expand into new markets (Gunawan, 2025; Mohamad et al., 2024; Mujianto et al., 2023).

METHODOLOGY

Research Approach and Design

This study employs a qualitative approach. A qualitative approach was selected because the research aims to develop an in-depth understanding of financial management practices and business sustainability among MSMEs, rather than statistically measuring relationships between variables. According to Hamilton & Finley (2019) and van Bavel & Dessart (2018), qualitative research seeks to explore meaning, understand experiences, and interpret social phenomena from the participants' perspectives. Thus, this study prioritizes the depth of data over its breadth.

The research design adopted is descriptive qualitative. Descriptive qualitative research aims to portray and describe field phenomena in a detailed, systematic, and factual manner. In this context, the study describes how MSMEs manage their finances, the challenges they encounter, and how these financial management practices influence business sustainability.

This research focuses on gaining an in-depth understanding of how MSME actors manage their financial aspects and the extent to which these practices contribute to business sustainability. Emphasis is placed on financial management practices, including bookkeeping, planning, control, and financial evaluation carried out by MSME owners. This is essential as sound financial management is believed to improve business performance while providing a strong foundation for ensuring long-term business continuity (Purwanti et al., 2025).

Data Analysis

Data analysis in this qualitative study follows the model proposed by Hamilton & Finley (2019), which consists of three main stages: data reduction, data display, and conclusion drawing/verification.

1. Data Reduction

At this stage, data obtained through interviews, observations, and documentation were selected, organized, and focused on information relevant to the themes of financial management and MSME business sustainability. Data reduction was carried out by categorizing findings into specific themes, such as bookkeeping practices, capital planning, financial management challenges, and strategies to maintain business sustainability.

2. Data Display

Reduced data were then presented in the form of narrative descriptions, matrices, or tables to facilitate understanding. Data display helps researchers observe emerging patterns, relationships, and field phenomena, for instance, the relationship between MSME owners' financial literacy and the sustainability of their businesses.

3. Conclusion Drawing and Verification

In this stage, the researcher derived meaning from the analyzed data to answer the research focus. The conclusions drawn were continuously verified through data triangulation by comparing findings from interviews, observations, and documents, as well as aligning them with relevant theories and previous studies. This process strengthens the validity of the research findings

RESEARCH RESULT AND DISCUSSION

Financial Planning in MSMEs

In the initial stage of planning, MSMEs need to establish both short-term and long-term financial goals. Short-term goals typically include daily operational needs such as purchasing raw materials and paying labor expenses. Meanwhile, long-term goals are generally related to investment and business expansion. These goals must be realistic and aligned with the MSME's capacity and market conditions.

Effective financial planning also requires an analysis of both internal and external environments. Internally, business owners must understand their capital capacity, managerial skills, and sales potential. Externally, market conditions, competition levels, and consumer trends must be taken into account. Such analysis enables MSMEs to identify opportunities and risks associated with financial decisions. Consequently, investment and expenditure decisions can be rationally justified (Syah & Satato, 2024).

One of the essential components of financial planning is budgeting. A budget functions as a guideline for allocating funds to ensure operational efficiency. In preparing a budget, MSMEs need to balance projected revenue and planned expenditures. When budgets are developed systematically, MSMEs can avoid excessive cost burdens. Additionally, a well-structured budget encourages financial discipline in daily operations (Junaidi, 2017).

Financial Record-Keeping

Financial record-keeping is a fundamental activity in business management that MSMEs must perform consistently. Through proper record-keeping, business owners can clearly and accurately understand their financial condition.

Essentially, financial record-keeping in MSMEs involves documenting all inflows and outflows. Inflows typically come from the sale of goods or services, while outflows are related to purchasing materials, paying wages, and covering other operational expenses. All transactions must be recorded systematically and chronologically to maintain data accuracy. Without proper record-keeping, it becomes difficult for MSMEs to determine whether the business is generating profit or incurring losses. Thus, financial records serve as an important financial control tool (Humayro et al., 2025).

In financial administration, the use of either the cash basis or accrual basis of accounting is an important consideration. The cash basis records transactions when cash is actually received or paid. In contrast, the accrual basis records transactions when they occur, even if payment has not yet been made. MSMEs generally use the cash basis because it is simpler and easier to understand (Fahmi et al., 2025; Humayro et al., 2025; Tamara et al., 2025). However, for growing MSMEs, the accrual basis can provide a more accurate representation of financial conditions.

Financial Reporting by MSMEs

Financial reports prepared by MSMEs typically include the income statement, balance sheet, and cash flow statement, which are compiled periodically. These three reports serve complementary functions in portraying the financial condition of a business. The income statement indicates whether the business has generated profit or incurred losses within a specific period. The balance sheet presents the position of assets, liabilities, and equity at a given date, thereby reflecting the financial stability of the MSME. Meanwhile, the cash flow statement provides information on cash inflows and outflows that affect business liquidity (Humayro et al., 2025; Tamara et al., 2025).

Financial Control by MSMEs

MSMEs that implement disciplined financial control generally have a stronger ability to maintain cash flow stability. Uncontrolled cash flow can disrupt operations, particularly for MSMEs with limited capital capacity. Through systematic control, MSME owners can predict daily, weekly, and monthly cash needs, allowing them to plan anticipatory actions. This includes establishing cash reserve policies to address urgent needs or seasonal fluctuations in revenue (Fahmi et al., 2025; Humayro et al., 2025; Tamara et al., 2025). Thus, financial control plays a crucial role in mitigating liquidity risks.

One of the most widely applied financial control instruments in MSMEs is regular financial reconciliation. Reconciliation is performed to compare bookkeeping records with actual cash positions or bank account balances. This process is essential for detecting recording errors, shortages, or unrecorded transactions that could undermine financial reporting accuracy. In business administration, reconciliation is a control tool that ensures the validity of financial data (Humayro et al., 2025). By conducting reconciliation regularly, MSMEs can maintain the integrity of financial records and reduce the risk of fraud.

Overall, financial control is a fundamental component of MSME governance that ensures integrity, accountability, and business sustainability. By implementing various control instruments such as authorization, reconciliation, internal audits, and the use of technology, MSMEs can strengthen their financial position and improve operational performance. Effective financial control produces accurate financial information, which in turn facilitates planning and informed decision-making.

Business Sustainability Conditions in MSMEs Examined Through Business Plan Compilation, Business Plan Renewal, Competitor Analysis, Ease of Entering New Markets, and Calculated Risk-Taking

Within the context of this study, business sustainability is examined through five key aspects: the compilation of a business plan, the renewal of a business plan, competitor analysis, ease of entering new business opportunities, and the courage to take calculated risks (Hadi et al., 2024). These aspects were selected because they represent a complete managerial cycle, starting from strategy formulation, strategy adjustment, competitive context analysis, business expansion, to rational decision-making. Each aspect contributes to business stability and growth, especially as MSMEs face market uncertainties and rapid shifts in consumer preferences.

Meanwhile, the renewal of business plans serves as an indicator of strategic adaptation that reflects the ability of MSMEs to respond to shifts in the business environment. Business plan renewal becomes crucial when MSMEs encounter challenges such as technological changes, shifts in consumer trends, or the emergence of new competitors. Conversely, stagnant business plans may lead to reduced market relevance and diminished competitive positioning.

Business Plan Compilation as a Foundational Instrument for Sustainability

The participatory aspect in compiling business plans often becomes a critical factor determining their successful implementation. The involvement of owners, operational managers, and key employees enhances commitment to execution and reduces resistance to change. Exclusive top-down approaches often produce unrealistic plans that are difficult to implement at the operational level. In contrast, participatory processes enable the identification of actual operational constraints and the formulation of practical strategies.

Competitor Analysis as a Foundation for Sustainability within Market Ecosystems

Competitor analysis is a fundamental component of strategic management that provides a comprehensive understanding of the position of micro, small, and medium enterprises (MSMEs) within market structures. This activity involves collecting, processing, and evaluating information related to competitors that may influence business performance. For MSMEs, competitor analysis serves as a basis for determining marketing strategies, product innovation, and competitive pricing. Therefore, business sustainability is highly dependent on the accuracy and depth of competitor analysis.

Within the context of local economies, competitor analysis strengthens the ability of MSMEs to manage relationships with communities and business networks. By understanding local competition, MSMEs can position themselves more strategically within the local business ecosystem. This enables the development of strategies that consider local dynamics, including consumer preferences and socioeconomic conditions. Through a more comprehensive understanding of the local context, MSMEs can enhance the sustainability of their enterprises. This indicates that competitor analysis encompasses broader social and economic dimensions.

Overall, competitor analysis is a strategic component that significantly influences MSME sustainability. This process provides a thorough understanding of market structures, competitor strategies, and relevant opportunities and threats. With comprehensive analysis, MSMEs can formulate adaptive, innovative, and sustainable strategies. Competitor analysis further enhances operational efficiency and strengthens the competitive position of MSMEs within the marketplace. Thus, competitor analysis is a crucial element in ensuring long-term business sustainability.

Ease of Entering New Business Lines

The ability of MSMEs to enter new business lines serves as an indicator of business flexibility and resilience. Expanding into new business areas can be a risk-diversification strategy, especially when the primary market shows signs of decline or increasing competitive pressure. The ease of entering new business lines is influenced by several factors, including human resource capacity, availability of capital, access to information, managerial capability, and technological support. MSMEs with extensive networks generally find it easier to identify new business opportunities through collaboration, distribution partnerships, or product innovation. When these aspects function effectively, MSMEs are more likely to expand their markets, increase revenue, and strengthen long-term sustainability.

Calculated Risk-Taking

Calculated risk-taking is a crucial characteristic in business, although the risks taken must be measurable and well-considered. MSMEs with the ability to objectively assess risks are better prepared to face business uncertainties (Hartaroe et al., 2016). Calculated risk-taking involves decisions such as increasing investments, expanding operations, modifying business models, or launching new products. However, each of these actions must be preceded by analysis, cost estimation, impact assessment, and evaluation of financial capacity. MSMEs capable of taking well-considered risks tend to excel in innovation and adapt more quickly to market changes compared to businesses that are overly conservative (Fawaid et al., 2023). Conversely, taking uncalculated risks may lead to financial losses or business failure. Therefore, this aspect plays an important role in evaluating the readiness of MSMEs to maintain business sustainability.

The Relationship Between Financial Management and Business Sustainability in MSMEs

Financial management is one of the key pillars within the governance structure of micro, small, and medium enterprises (MSMEs), exerting a direct influence on their ability to survive and grow in the long term. In the context of business administration, financial management encompasses planning, recording, reporting, and control functions, all of which form the financial information system required for strategic decision-making.

Financial planning serves as a fundamental instrument in establishing financial objectives and strategies for achieving business targets. With a structured financial plan, MSMEs can prepare cash flow projections, estimate working capital needs, and analyze potential risks. Accurate planning allows business owners to identify investment opportunities, adjust production capacity, and develop income diversification strategies (Sugito et al., 2024). Without proper planning, MSMEs tend to operate reactively without a long-term direction. Therefore, sound financial planning enhances the enterprise's ability to survive in a competitive market environment.

Financial recordkeeping is an administrative mechanism that ensures all business transactions are documented in an orderly, systematic, and accurate manner. This function forms the basis for evaluating business performance, as valid transaction data are essential for measuring profit, cost structures, and overall financial conditions.

Financial reporting offers a comprehensive overview of MSME financial performance within a given period, benefiting not only business owners but also external stakeholders such as financial institutions and investors. Financial statements enable MSMEs to demonstrate credibility and accountability, thereby facilitating their access to financing. Such financing is crucial for business expansion, strengthening working capital, or increasing production capacity. In addition, financial reporting helps business owners evaluate performance trends over time. Hence, reporting plays a strategic role in ensuring business continuity and growth (Fahmi et al., 2025; Tamara et al., 2025).

The relationship between financial management and business sustainability is simultaneous and mutually reinforcing. Effective financial management enables MSMEs to maintain liquidity stability, improve profitability, and reduce bankruptcy risks. Conversely, business sustainability requires MSMEs to continuously refine and adapt their financial management practices to address market changes and competitive pressures. Thus, sustainability is not merely an outcome of good financial management but also a process that strengthens financial practices themselves. The two elements are inseparable within the framework of business administration.

In the context of resilience against external shocks, sound financial management ensures that MSMEs possess sufficient working capital reserves to anticipate emergencies. Enterprises lacking financial projections often struggle to adapt to sudden changes such as declining sales, rising raw material prices, or distribution disruptions.

Structured financial management also influences the capacity of MSMEs to innovate and expand. When business owners have complete financial data and clear profitability analyses, investment decisions can be made rationally and prudently. Investments in product quality improvements, production technology, or marketing initiatives often determine business sustainability amid increasing competition.

Furthermore, good financial management supports MSMEs' ability to engage in calculated risk-taking. Risk-taking is an essential element of business growth strategies, but it must be carried out with consideration of financial capacity. Through cash flow projections and sensitivity analysis, MSMEs can understand the financial implications of business decisions such as opening new branches or adding product variants (Fahmi et al., 2025; Tamara et al., 2025). Such information enables business owners to make optimal decisions while avoiding uncontrollable risks. The ability to take calculated risks strengthens business sustainability by promoting stable growth strategies.

Overall, the relationship between financial management and business sustainability in MSMEs is integral and inseparable. Effective financial management establishes a solid foundation that enables MSMEs to survive, grow, and adapt in a dynamic business environment, while sustainability provides feedback that encourages continuous improvement of financial practices to remain relevant and efficient.

CONCLUSIONS

This study concludes that effective financial management is a fundamental determinant of MSME sustainability, as it shapes the quality of strategic planning, operational decision-making, and long-term business resilience. The four core components of financial management, those are: planning, recording, reporting, and control, collectively provide the informational and structural foundation needed for MSMEs to maintain liquidity, allocate resources efficiently, and evaluate performance objectively. At the same time, business sustainability is strengthened when MSMEs are able to compile well-structured business plans, update strategies in response to evolving market conditions, conduct systematic competitor analysis, explore new business opportunities, and take calculated risks. The interaction between sound financial practices and sustainability-oriented behavior forms a mutually reinforcing cycle that enables MSMEs to adapt, innovate, and withstand external pressures. Overall, the study highlights that enhancing financial literacy, institutionalizing financial procedures, and embedding financial considerations into strategic decisions are essential steps for ensuring the long-term viability and competitiveness of MSMEs.

RECOMMENDATIONS

The findings of this study highlight the need for MSMEs to translate financial management practices into concrete and consistent operational measures. Effective implementation requires integrating structured planning, systematic record-keeping, transparent financial reporting, and disciplined

internal control into daily business activities. MSMEs should adopt simple yet reliable financial tools, utilize standardized reporting formats such as SAK EMKM, and establish routine monitoring mechanisms to ensure accuracy and accountability. Moreover, embedding financial considerations into strategic decisions, such as product development, market expansion, and investment planning can strengthen resilience and support sustainable growth. By institutionalizing these practices, MSMEs can enhance their capacity to respond to market changes, manage risks prudently, and build a more stable foundation for long-term business sustainability.

ADVANCED RESEARCH

Although this study provides valuable insights into the relationship between financial management practices and business sustainability among MSMEs, several limitations should be acknowledged. The qualitative design and limited number of informants may restrict the generalizability of the findings, and the reliance on self-reported data may introduce subjective biases. Additionally, the study focuses on a specific business context, which may not fully capture variations across different sectors or geographic regions. Future research could adopt a mixed-method or longitudinal approach to deepen the analysis and validate causal relationships over time. Expanding the sample size, incorporating quantitative financial performance indicators, and comparing MSMEs across diverse industries would provide a more comprehensive understanding. Further studies may also explore digital financial tools, technological adoption, and policy interventions as emerging factors influencing MSME sustainability.

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