



# Exploring Financial Management Practices Of Micro-Entrepreneurs At Muadzam Shah, Pahang

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## ABSTRACT

Finance and accounting are two distinct but interconnected disciplines within the field of business and finance. Financial is a process after accounting. In terms of business operation, most micro-entrepreneurs struggle with the failure of financial management and inadequate knowledge and practice of it. Inefficient financial management has led to issues of financial leakage, theft, and instability that cause bankruptcy. Therefore, this study aims to explore financial management practices among micro-entrepreneurs around Muadzam Shah. The qualitative study that involved seven (7) micro-entrepreneurs from various backgrounds were selected as informants using purposive sampling. The in-depth interview face-to-face method is used as a data collection technique with the thematic method of inductive analysis to analyze the data. The study found that financial management practices among micro-entrepreneurs are still at a minimal level. The business-related basic skills such as cost determination, pricing setting, and cash flow preparation are also major problems. The study suggests that there is a need for immediate action from certain parties, including the entrepreneur themselves, to improve their financial management skills and practices. Several recommendations have been put forward to overcome this problem, especially the design and development of applications that facilitate cost calculation, pricing, and the provision of business cash flow easily and quickly, which can be helpful for micro-entrepreneurs. Overall, the study provides useful input for designing and organizing courses related to financial management for micro-entrepreneurs. This is an important area of research, as micro-entrepreneurs play a significant role in the economy and can benefit greatly from improving their financial management skills and practices.

## 1.0 Introduction

Regardless of the size or industry of the company, financial management is a critical component. Effective financial management techniques are, however, even more essential for micro-entrepreneurs. Manufacturing and services as well as other areas can be used to categorize microbusiness owners. For both categories, having fewer than RM 300,000 in annual sales or fewer than 5 workers qualifies as a micro-entrepreneur (SME Corp Official Website, 2023). Due to their frequently constrained resources, micro-firms must manage their finances carefully and strategically in order to survive and expand.

## **1.1 Problem Statement**

A micro-entrepreneur is a person who manages a tiny business with a limited budget and hires a few staff members. They often operate in small geographic areas and serve regional markets. Microbusiness owners frequently confront particular difficulties such as a lack of business networks, a lack of access to financing, and a lack of managerial and technical expertise. Despite these difficulties, microbusiness owners are extremely important for generating economic growth and jobs, especially in developing nations. Microbusiness owners are essential to the economy, yet managing their money wisely can be difficult for them. Because the owners' financial management skills were not adequately developed, 92% of SMEs fail lack of resources, a lack of financial literacy, and insufficient access to financial services. As a result, it is crucial to look into the methods of financial management employed by micro-entrepreneurs and identify the challenges they face in doing so.

## **1.2 Research Objectives/research questions**

The major purpose of this study is to explore how microbusiness owners manage their finances and to identify the challenges they face. It is hoped that by looking at how micro business owners handle their finances, we can spot any areas where they can benefit from extra assistance and resources.

The following are the specific inquiries addressed: 1) What are the financial management practices of micro-entrepreneurs in operating their businesses? 2) How do micro-entrepreneurs manage their business finances? This study aims to advance understanding of financial management practices among micro-entrepreneurs and to identify potential intervention areas to improve their financial management skills and, ultimately, the performance and sustainability of their firms.

The section is followed by reviewing of past related studies, an explanation of the research method, and the analysis of the result in detail. The last section is the conclusion and future research.

## **2.0 Literature review**

Micro-entrepreneurs' success and sustainability are greatly influenced by their methods of financial management. In fact, Li et al. (2019) observed that micro-entrepreneurs financial management practices were significantly influenced by their level of financial literacy and education. The preparation of cash flow is one of the fundamental financial skills that many micro-entrepreneurs struggle with, according to earlier research (Nuryakin et al., 2021). In order to better our understanding of the literature and develop our expertise, attitude, and business financial management skills, we should investigate the practices used by micro-entrepreneurs in their operations.

## **2.1 Financial management**

In the words of Brigham and Houston (2018), financial management is the process of strategically arranging, controlling, and directing financial resources in the course of corporate operations. As stated by Molefe and Chuchu (2017), financial management encompasses a variety of duties, such as determining costs and prices, managing cash flow, financial reporting, and adhering to tax laws. However, a lot of micro-entrepreneurs lack the abilities and information required to handle these duties well, which results in poor financial management techniques (Huda, & Rahman, 2019). Indeed, according to several studies (Cueto, Rodriguez, 2019; Fikru & Kassa, 2018; Lusardi & Mitchell, 2014), business skills, managerial competencies, and expertise in the field are the key elements that influence how micro-entrepreneurs handle their finances.

## 2.2 Financial literacy, skills and attitude

Financial literacy is the ability to make sound financial decisions in a variety of financial scenarios (Goyal & Kumar, 2020; OECD, 2014). It includes knowledge, understanding, skills, motivation, and confidence. Financial knowledge, financial skills, and financial behavior can also be used to quantify financial literacy in a complete way (Fatoki; Shusha 2017). Collins and O'Rourke (2010) conducted a study that looked at the efficiency of financial education interventions in enhancing financial literacy and discovered that interventions can have a favorable influence on financial knowledge and behavior. According to another study, people who are more financially literate are better at budgeting their finances (Lusardi & Mitchell, 2014). Microbusiness owners in developing nations contribute significantly to the reduction of poverty and the generation of revenue. Therefore, in order to achieve financial stability and the growth of companies, they should have a high degree of financial literacy.

The capacity needed to efficiently manage one's personal and professional finances is referred to as having financial skills. These abilities include a wide range of topics, including financial planning, budgeting, saving, investing, and credit management. For people and organizations to make wise financial decisions in today's complicated financial environment, they need to have the necessary financial skills. According to research by Van Rooij, Lusardi, and Alessie (2012), those with stronger financial abilities are more likely to invest wisely and plan for retirement. Moreover, other studies found that financial education interventions can have a positive impact on financial knowledge and behavior (Lusardi, Mitchell & Curto, 2010). Higher levels of financial skills are positively associated with various financial outcomes, such as financial well-being, retirement planning, and investment decisions. Certainly, with respect to this study, financial skills are able to guide micro-entrepreneurs to make financial management decisions such as business budgeting and investment selection.

Financial attitude can be defined as a personal inclination toward financial matters (Rai, et. al, 2019). Other than that, financial attitude can be mentioned as the state of mind, opinion, and judgment of finances applied to an individual's attitudes (Humaira & Sagoro, 2018). In other words, financial attitudes refer to an individual's beliefs, values, and emotions toward money and financial decisions. Additionally, a positive financial attitude tends to engage in more positive financial behaviors. The previous study stated that financial attitudes are positively associated with financial behavior, such as saving and investing (Kim et. al, 2003). In this regard, financial attitude plays a crucial role in determining efficient financial management and financial behavior among micro-entrepreneurs. Furthermore, financial attitudes along with financial behavior can also affect financial well-being.

## 3.0 Methodology

According to Ayob (1985), research methodology is a method for questioning how each objective or research is to be achieved. Research methodology is also a collection of information and the latest data that can be used by the researcher for the survey conducted. The research methodology explains how the researcher describes the research method used by involving the selected data, and the process to obtain the data carried out throughout the production of this study. The purpose of the methodology is to help the researcher understand more broadly the application of the method by describing the research process used. This study was carried out using a qualitative method which is a research procedure that produces data that can be observed (Lexy, 2007). The qualitative approach in this research is in the form of phenomenology (Yahaya & Adnan, 2021) which is the application of qualitative methods in finding common meaning from a concept or phenomenon that is the life experience of a group of individuals. Based on the research conducted, the researcher identified the financial management practices of micro-entrepreneurs in their daily business operations in detail. Next, to carry out this study, the researcher also used an inductive approach because this study involves collecting and interpreting information related to the practices of micro-entrepreneurs in managing their respective business

finances and then making generalizations and conclusions. In terms of selecting informants, the researcher used purposive sampling and conducted interviews as a data collection technique. The researcher obtained the background of each informant as well as the information needed in this study by conducting interviews. The information-gathering process started by interviewing in-depth and face-to-face micro-entrepreneurs around Muadzam Shah about the financial management practice in business.

Seven (7) selected informants from micro-entrepreneurs around Muadzam Shah to confirm the desired information. Almost all traders in the Muadzam Shah area are Bumiputera entrepreneurs. Therefore, they play an important role in the business world in Muadzam Shah. The progress and development of economic activities here depend a lot on the success of their business. If they succeed, the business world will grow faster and more job opportunities will be provided to the people of Muadzam Shah. It will also benefit the user. More services and necessities can be offered. Therefore, it is hoped that these small traders will succeed in their respective businesses, continue to grow, and remain competitive. One way to ensure they don't fail is complete financial record management.

The data obtained from the interviews conducted were then analyzed using thematic analysis. The thematic analysis is a method of describing data and qualitative research information that is used widely in qualitative analysis (Boyatzis, 1998). According to Braun and Clarke (2006), it is a method for identifying, analyzing, and reporting patterns (themes) within the data. It organizes and describes the data set in detail. It also closely examines by touching various aspects related to the subject. Table 1 is a summary of the research methodology used.

Table 1: Summary of Research Methodology

No	Item	Technique
1	Research Method	Qualitative
2	Research Approach	Inductive
3	Sampling Technique	Purposive Sampling
4	Number of Respondent	7 micro-entrepreneurs
5	Data Collection Technique	Face-to-face Interview
6	Data Analysis	Thematic Analysis

#### 4.0 Discussion of analysis and findings

There were three (3) themes coded from transcription to explain the mechanism behind the financial management practices of micro-entrepreneurs in managing their business finances namely: financial familiarity, financial competency, and stance towards finance. The theme of financial competency composes two (2) sub-themes in terms of costing and pricing determination and financial document preparation. The acronym of ME in the findings is refer to micro-entrepreneurs involve in this study. Each theme is summarized and discussed as follows:

##### 4.1 Financial familiarity

The finding revealed not all informants know about financial documents. Most knowledge is acquired during secondary schooling or at a higher institution. Most of them know about the separate entity which is the separation of expenses and income of the owner and the business. However, the separation is not done between owner and business. The findings are approved thru the quotes by ME3, ME5, and ME2.

“I know all those documents. I learned about all those documents while studying in school... when I was in form 3, the documents like ledger, cash in, and cash out. I never keep the receipt for the purchase of massage oil because I always buy it along with personal items... household items. But I wrote down the items I bought.” (ME3)

“Never knew the name of all those documents... even though accepting sewing orders, I only know about buying the sewing materials. I noticed the difference between purchasing personal items and sewing materials, and putting them together. When there is an opportunity to go out to buy sewing materials, buy all things at the same time, including household items.” (ME5)

“I have knowledge of all those documents but I have no intention to use them... Personal items and business items were spent at once. While buying the personal items, insert together the business items too...I do not buy separately.” (ME2)

Financial familiarity is the micro-entrepreneurs have knowledge of source documents, primary entries (cash book, journal, and ledger), financial statements (income and balance sheet), accounting equations (assets, liability, owner equity, revenue, and expenses), and separate entities in their businesses. The minority of informants possess knowledge of financial documents. Most of the respondents acquired a basic knowledge of the fundamentals of accounting from secondary school or university. Even though all informants realized the concept of a separate entity that requires personal assets or personal income to be operated separately with a business transaction, the matter is not implemented. A business's and its owners' transactions should always be recorded separately, according to the separate entity principle. Since a sole proprietorship is a condition in which the owner's personal and professional activities are most likely to be intertwined, the notion is particularly important in this context. A business's genuine profitability and financial status can be ascertained using the distinct entity idea.

## 4.2 Financial competency

The theme of financial competency is divided into two (2) sub-themes which are costing and pricing determination and financial document preparation.

### 4.2.1 Costing and pricing determination

In determining correct costing and accurate price for their sales, the informants felt that all the costs involved had been taken into account in the cost calculation and pricing based on the calculated costs. However, there are costs that are not taken into account, especially those involving small amounts and related to the micro-entrepreneurs themselves, such as wages for themselves. Pricing is also sometimes done arbitrarily or based on prevailing market prices without considering the costs involved. The findings are backed by the excerpts of ME1, ME4, and ME6.

“Stick to the price of the items we bought. But, there are items of small value that will be ignored... considered as a charity... There are other costs that are not considered such as petrol as business items have been purchased together with household items.... Payment for self-employed is often neglected... that's why I think sometimes a lot of money is spent to buy raw materials but it feels like there is no profit. The price of a product is fixed based on the price of raw materials... the price is fixed higher than the value spent. Just estimates for the break-even or might be more.” (ME1)

“The price was approximated. Sometimes, it is difficult to calculate the cost due to the items purchased are mixed. It depends on the current price of clothes / baju kurung. However, the price is fixed cheaper for the regular customers.” (ME4)

“For determining the selling price, I see how much other people are selling. Usually more or less...expensive then people won't buy it. If you buy a lot, give a little discount. How much discount would you like to give?” (ME6)

It is crucial for micro-entrepreneurs able to calculate the correct cost and determine the accurate price for their sales. Incorrect costing and pricing can lead to losses in business. It is the

most important thing that requires skill to ensure that all costs have been taken into account from the smallest expense to the largest expense involved in determining the selling price. But unfortunately, this is still a problem for micro-entrepreneurs. Most of the costs are not taken into account and are considered charity such as car oil and business owner's salary. In practice, the micro-entrepreneurs felt that all items in terms of cost were included in the cost calculation and price determination. Nevertheless, there are some items related to the business operation such as self-employed salaries were not included in the costing calculation. Besides that, the determination of prices is often set arbitrarily or based solely on current market prices, without considering the associated costs.

One of the most crucial decisions made by micro-entrepreneurs is pricing. It is a crucial management tool for achieving the business's goals. However, price decisions don't only depend on one field of study; rather, they follow a very complicated process that integrates several distinct academic fields including accounting, economics, and marketing. It is concurrently impacted by cost and demand factors, which are not parallel and are challenging to coordinate in order to make an effective choice supporting the business's strategic goals. A product's pricing should not be set too low because this would result in large sales and (demand), but low markup and profit (profitability). When the price is excessively high and the sales volume is below the breakeven point, the pricing delivers a large markup on variable expenses but may result in losses owing to fixed costs and limited demand. The pricing must fall within a specified range in order to achieve a suitable size (and growth) and profitability. The degrees of flexibility in pricing decisions are established by this price range in practice. The pricing ought to be set within this range in order to best align with the company's business plan. By taking into consideration various forms of costs, cost accounting directly influences price decisions. Understand how to create a price plan and adapt to variations in sales volume by looking at how inventory, fixed, and variable expenses are taken into account on and financial document preparation.

#### 4.2.2 Financial documents preparation

The findings view that the informants prepare the financial records and financial statements in their own way and some are not prepared at all. There are also informants who do not know exactly how to prepare it or have forgotten. The purchase receipt is kept but sometimes lost. Records are made in ordinary notebooks or diaries and do not follow the proper format. Source documents such as receipts are sometimes only used if there is a request. That is all enlightened by ME2 and ME7.

“Never prepared the proper financial records since the important part is daily sales... without noticing profit or loss.” (ME2)

“I am unable to complete all the financial parts..... the cash book might be possible... as well as transfer the money to the bank...” (ME7)

A document is a written record of information that can be accessed for authority, reference, additional research, or study. The financial documents that the micro-entrepreneurs must prepare include source documents for business, cash book, journal, ledger, cash flow, income statement, and balance sheet. The financial records and financial statements were recorded informally by some respondents and other respondents never record anything. The absence of financial records and financial statements is caused by financial illiteracy and disremembering the technique to record. The purchase receipts are recorded and kept inconsistently. The recording process is done manually without adhering to the proper format of accounting. The source documents such as receipts are only kept for the used of the other party or requested by the other party.

### 4.3 Stance toward finance

The findings defended by citations of ME5, ME1, and ME3 perceive that the majority of micro-entrepreneurs do not record business transactions due to time constraints. From the transcription, they realize that financial management is very important so that their business can thrive. The sales receipt was also not prepared. However, the available time is more focused on planning, preparation, and implementation of daily business operations. After a tiring business day, go home to rest for a while and prepare for business operations the next day. When businesses close on weekends, the available time is used to record the day's transactions. However, there are those who do not immediately record and make a statement because they do not know and do not have the opportunity. If outsourcing involves financial burden. In addition, recording and preparing technical financial information requires time and focus.

“Unrecorded at all. Thrown out all. Sometimes, bought only two or three items. So, did not keep anything.” (ME5)

“There is no receipt....only based on the customer's order written in the book...if there is a customer request, only then will the receipt be issued. Receipts for buying goods are also available. But it's been a long time ... just throw it away..... if it's been a long time the writing on the receipt has faded. It is also difficult to keep them all.” (ME1)

“It should be recorded because we want to know how many customers we have and their health. Usually, people will come back for a massage...we as medical practitioners want to relieve them...the massage is to promote blood flow, and remove wind...I don't even issue a receipt. Just record in my diary.” (ME3)

The attitude of micro-entrepreneurs toward financial management is still at a minimum level. It is related to source documents issued, business transaction recording, and financial statement preparation. Source documents such as invoices and receipts must be available either as received or issued for each transaction for proof. Most daily transactions for the business should be recorded. All transactions should be recorded in the cash book, journal, and ledger each day after the sale. It is an important record to avoid misappropriation by employees. Embezzlement by the employees themselves is not easy to detect. In practice, most of these informants felt there was no need to use a cash book, journal, and ledger because they would count the amount of money used and their daily earnings in their brains. They use the daily earnings basis for the next day's working capital. The business should also prepare an income statement at the end of each financial period and a balance sheet statement at each financial period. Unfortunately, time constraints are an issue for micro-entrepreneurs because they have to do it themselves. With limited resources, they cannot hire or employ employees to record daily transactions and prepare related reports. Thus, this causes them to not be able to make money planning for a longer period of time. No wonder their business will remain at the same level and it will be difficult to grow.

There are some micro-entrepreneurs who have knowledge of financial management and the skills to prepare for it. But they have a rather weak attitude in its implementation. Even if it is recorded, it is not organized and disciplined. They are recorded in whatever and wherever possible. All outgoing and incoming money is also not properly recorded due to the issue of time constraints and source documents that are not saved or have lost their written print. Time constraints are the most important issue in the recording and preparation of daily business documents because a lot of time is allocated to the execution of daily business operations. Cost calculations and pricing are also done not seriously. Just a calculation in the mind or 'congak'. For them just returning the capital is enough.

## 5.0 Conclusion and future research

This study shed light on the financial management practices of micro-entrepreneurs are still quite basic. Essential abilities like determining accurate costs and prices as well as preparing cash flows are also significant issues. The study contends that quick action is required from several stakeholders, including the entrepreneur themselves, to enhance their capabilities and practices in financial management. A number of solutions have been proposed to deal with this issue, most notably the creation of applications that make it easier for microbusiness owners to determine prices, set costs, and provide cash flow for their operations swiftly and effectively. In general, the study offers helpful guidance for planning and setting up financial management courses for micro-entrepreneurs. Research in this field is crucial since microbusiness owners are essential to the economy and can benefit greatly from improving their financial management skills and practices. Future research could take into account micro-entrepreneurs from another area with other methodology studies such as case studies which will contribute to significant discoveries which will further strengthen the study related to the financial management of micro-entrepreneurs.

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