

Assessing the Quality of Financial Management Practices among Micro, Small, and Medium Enterprises in Makassar City

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Micro, Small, and Medium Enterprises (MSMEs) play an essential role in supporting local economic growth, employment creation, and business resilience in Indonesia. However, many MSMEs still face challenges in implementing systematic financial management practices, particularly in financial recording, budgeting, cash flow monitoring, and financial reporting. This study aims to describe the quality of financial management among MSMEs in Makassar City based on respondents' answers. This research employed a descriptive quantitative approach involving 150 MSME actors as respondents. The population was categorized as unknown, and the sample was selected using non-probability sampling with a purposive sampling technique. Data were collected through a structured questionnaire using a five-point Likert scale and analyzed using descriptive statistics, including frequency, percentage, mean, and category interpretation. The findings indicate that the overall quality of financial management among MSMEs in Makassar City is in the good category, with an average score of 3.88. The strongest aspect is the separation of personal and business finances, while the weakest aspect is the preparation of simple income statements. These results show that MSME actors have developed basic financial discipline but still need improvement in structured financial reporting. The study implies that MSME development programs should strengthen practical bookkeeping, income statement preparation, cash flow analysis, and evidence-based financial decision-making to support business sustainability.

Keywords: Financial Management Quality, MSMEs, Descriptive Quantitative, Makassar City.

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy as drivers of community-based economic activity, employment creation, local economic resilience, and national development. MSMEs are not merely small-scale business units, but also important instruments for income distribution, entrepreneurship development, and value creation across various sectors. MSMEs contribute 61.07% to Indonesia's Gross Domestic Product and absorb approximately 117 million workers, or around 97% of the national workforce [1]. MSMEs also dominate the structure of business units in Indonesia, indicating that the quality of MSME management has direct implications for sustainable economic growth [2]. The success of small businesses is not only determined by market access and product capability, but also by the ability of business owners to manage resources, identify opportunities, control risks, and make rational business decisions [3].

Despite their significant contribution, MSMEs continue to face various managerial challenges, particularly in financial management. Financial management in MSMEs is not limited to recording income and expenses, but also includes financial planning, cash management, separation of personal and business finances, cost control, working capital management, financial reporting, and the use of financial information for decision-making. Financial management in small businesses must be adjusted to the specific characteristics of

MSMEs, such as limited capital, simple organizational structures, informal recording systems, and strong dependence on owner-based decisions [4]. Therefore, the quality of financial management is essential because it determines the ability of MSME owners to understand financial conditions, measure business performance, anticipate risks, and maintain business continuity.

In practice, many MSME owners still experience difficulties in implementing orderly and information-based financial management. Common problems include inconsistent financial records, the mixing of personal and business funds, inaccurate profit calculation, weak working capital planning, and limited use of financial reports to evaluate business performance. These conditions indicate that financial problems in MSMEs are not only caused by limited access to capital, but also by weak internal financial governance. The main function of financial management is to guide financing, investment, and asset management decisions to create value and sustainability [5]. At the MSME level, this principle can be translated into practical activities such as managing daily cash flow, controlling expenses, separating business funds, calculating costs and profits, and preparing financial records as the basis for decision-making.

Another important phenomenon is the gap between financial access and financial understanding. Indonesia's financial literacy index reached 65.43%, while the financial inclusion index reached 75.02% based on the 2024 National Survey on Financial Literacy and Inclusion [6]. This gap indicates that access to financial products and services is higher than financial understanding. In the context of MSMEs, this may create financial risks because business owners may already use bank accounts, loans, digital payment services, or financing facilities, but may not have sufficient capacity to manage risks, plan repayments, calculate capital needs, and evaluate their impact on cash flow. Therefore, financial inclusion must be accompanied by stronger financial management quality.

The government and professional institutions have provided instruments to improve MSME financial recording and reporting, including the Financial Accounting Standard for Micro, Small, and Medium Entities or SAK EMKM. SAK EMKM was developed for entities without significant public accountability and is expected to help MSMEs move from simple cash-based recording to more orderly accrual-based financial reporting [7]. However, the existence of this standard does not automatically ensure its implementation. Obstacles such as low accounting knowledge, limited human resources, the perception that financial statements are difficult to prepare, and the belief that financial records are only needed when applying for loans remain major issues.

Economic digitalization has also changed MSME financial practices. Digital payment systems, mobile banking, marketplaces, and financial recording applications provide opportunities for MSME owners to conduct transactions more efficiently and in a more documented manner. However, digitalization does not automatically indicate strong financial management quality. Digital accounting improves accounting information quality, which subsequently affects MSME performance [8]. Technological inclusion can also promote financial inclusion among MSMEs through increased access to financial services [9]. These findings suggest that digital tools only provide optimal benefits when MSME owners are able to process, interpret, and use financial data for business planning and evaluation.

Makassar City is an important context for this study because it functions as a center of economic growth, trade, services, and MSME activity in Eastern Indonesia. Makassar Municipality in Figures 2025 presents the city's socio-demographic and economic development, while another official release showed that Makassar's economy grew by 5.08% year-on-year in the second quarter of 2025 [10]. This growth indicates strong economic dynamics. However, regional economic growth does not automatically reflect strong financial governance at the MSME level. MSME owners in Makassar need adequate financial

management capability to manage capital, control costs, utilize market opportunities, and maintain business sustainability in an increasingly competitive environment.

Empirical phenomena in Makassar also show government attention to MSME capacity building. The Office of Cooperatives and SMEs of Makassar City, through its MSME incubator program, has provided assistance in financial management, digital marketing, product quality improvement, and managerial skill development [11]. In addition, the digitalization of MSME transactions has developed significantly. The number of QRIS merchants in South Sulawesi reached 1,243,455 as of July 2025, with approximately 43% concentrated in Makassar City [12]. QRIS can help MSMEs obtain more organized transaction records, reduce dependence on cash, and increase income transparency. However, this potential may not be followed by the ability to prepare reports, analyze cash flow, calculate profits, or separate business income from personal needs.

Several international studies also support the importance of MSME financial management quality. Financial literacy shapes financial behavior, organizational capability, and business performance [13]. MSME financial literacy includes knowledge, awareness, and skills related to financing access and performance [14]. Accounting information quality supports SME financial performance and access to financing [15]. Financial literacy is associated with knowledge competence, innovation, and SME performance [16]. Financial management mediates the relationship between financial literacy, financial inclusion, and MSME development [17]. Financial management and digital payment also positively affect MSME performance [18].

Although many studies have examined MSME finance, several research gaps remain. First, previous studies mostly used explanatory approaches to test the effects of financial literacy, financial inclusion, fintech, digital payment, or accounting information systems on MSME performance and sustainability. Second, limited studies have specifically described the quality of MSME financial management based on respondents' actual practices, particularly in Makassar City. Third, Makassar has distinctive characteristics as a trade and service center in Eastern Indonesia and as a region with strong MSME digital transaction development. Therefore, a descriptive quantitative study is needed to provide empirical evidence on which aspects of financial management have been well implemented and which aspects require improvement. Quantitative research can systematically measure tendencies, patterns, and characteristics through structured instruments [19]. Thus, this study aims to describe the quality of financial management among MSMEs in Makassar City based on financial recording, cash management, separation of personal and business finances, budgeting, cost control, financial reporting, and the use of financial information in business decision-making.

2. Literature Review and Problem Statement

Financial management quality in Micro, Small, and Medium Enterprises (MSMEs) refers to the ability of business actors to organize, record, plan, control, monitor, report, and use financial information to support business decisions and long-term sustainability. In the context of MSMEs, financial management is not limited to formal accounting reports, but also includes practical financial routines such as regular financial transaction recording, separation of personal and business finances, budget preparation, periodic financial planning, monitoring of cash inflows and outflows, cost control, preparation of simple income statements, and the use of financial reports for decision-making. These indicators are theoretically supported by international studies on SME financial management practices. Many small, medium, and micro enterprise owners still rely on external accountants to prepare and interpret accounting reports, indicating weak internal capacity in using financial information [20]. Cash management practices are crucial for small enterprises, particularly in relation to cash budgeting, cash flow monitoring, and the control of financial obligations (Enow & Kamala, 2016). Working capital management, financial accounting, financial reporting,

capital budgeting, and financing management are important dimensions of financial management practices among SMEs [21]. Financial reporting practices are associated with SME growth and performance because they provide relevant information for evaluating business conditions and supporting managerial decisions [22]. Accounting information quality also supports SME financial performance and access to formal and informal financing because reliable financial information reduces uncertainty in business evaluation and financing decisions [15]. Therefore, the indicators used in this study are theoretically relevant because they represent essential financial management practices that determine how MSME actors manage financial resources, evaluate business conditions, and make informed decisions.

Previous studies have generally examined financial management in relation to business performance, financial literacy, financial inclusion, accounting information quality, or access to finance. Financial literacy in SMEs contributes to financial behavior, organizational capability, and business performance [13]. Accounting information quality plays an important role in strengthening financial performance through financing access [15]. However, most prior research tends to use explanatory models that test causal relationships between financial literacy, digital finance, accounting information, and SME performance. This creates a research gap because fewer studies have specifically described the actual level of financial management quality among MSMEs based on practical indicators, particularly in the local context of Makassar City. The problem addressed in this study is therefore formulated as follows: How is the quality of financial management among MSMEs in Makassar City based on respondents' answers? Since this study applies a descriptive quantitative approach, it does not formulate causal hypotheses. Instead, it aims to describe the quality of MSME financial management through eight indicators: regular financial transaction recording, separation of personal and business finances, budget preparation for business operations, periodic financial planning, monitoring cash inflows and outflows, cost control to maintain efficiency, preparation of simple income statements, and use of financial reports for decision-making.

3. Method

This study employed a descriptive quantitative research design to examine the quality of financial management among Micro, Small, and Medium Enterprises (MSMEs) in Makassar City. This approach was considered appropriate because the study aimed to describe the level and tendency of MSME financial management practices based on respondents' answers, rather than testing causal relationships among variables. The population of this study consisted of MSME actors operating in Makassar City; however, the exact number of MSMEs that met the research criteria could not be identified with certainty. Therefore, the population was categorized as unknown. The sampling technique used was non-probability sampling with a purposive sampling approach, in which respondents were selected based on specific criteria: MSME owners or managers operating in Makassar City, actively running their businesses, directly involved in financial management activities, and willing to complete the questionnaire. Purposive sampling was appropriate because the study required respondents who had direct knowledge and experience regarding MSME financial management practices [23], [24].

The sample size was determined using the Cochran formula for an unknown population, which is commonly applied when the total population size cannot be precisely identified [25]. The calculation used a 95% confidence level, an estimated population proportion of 0.5, and a margin of error of approximately 8%, resulting in a minimum sample size of approximately 150 respondents. Therefore, this study involved 150 MSME actors as respondents. Primary data were collected through a structured questionnaire using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. The research variable was financial management quality, measured through eight indicators: regular financial transaction recording, separation of personal and business finances, budget preparation for business operations, periodic financial

planning, monitoring cash inflows and outflows, cost control to maintain efficiency, preparation of simple income statements, and the use of financial reports for decision-making. These indicators were adapted from previous studies on SME financial management practices, cash management, financial reporting, and accounting information quality [15], [20], [21], [22], [26].

Before the data were analyzed, the research instrument was tested for validity and reliability to ensure that the questionnaire items were able to measure the intended indicators consistently. Validity testing was used to assess the appropriateness of each item, while reliability testing was conducted using Cronbach's Alpha, with a value above 0.70 indicating acceptable internal consistency [27]. The data were analyzed using descriptive statistical analysis, including frequency, percentage, mean, and standard deviation. The mean scores were then interpreted to describe the level of financial management quality among MSMEs in Makassar City. The interpretation categories were classified as follows: 1.00–1.80 = very poor, 1.81–2.60 = poor, 2.61–3.40 = fair, 3.41–4.20 = good, and 4.21–5.00 = very good. Through this method, the study provides an empirical overview of the quality of MSME financial management based on respondents' actual practices and perceptions.

4. Results and Discussion

The results of this study are presented through three main parts: respondent characteristics, instrument validity and reliability testing, and descriptive analysis of financial management quality among MSMEs in Makassar City. Since this study applied a descriptive quantitative approach, the discussion focuses on explaining the dominant patterns and tendencies found in the data rather than examining causal relationships among variables. The results are interpreted by comparing the empirical findings with relevant previous studies on MSME financial management, financial reporting, cash management, and accounting information quality.

Result

Table 1. Dominant Characteristics of Respondents

Characteristic	Dominant Category	Frequency	Percentage
Gender	Female	112	74.67%
Education Level	Bachelor's Degree	107	71.33%
Business Experience	< 1 Year	70	46.67%
Business Type	Trading	97	64.67%

Source: primary data (2026)

Table 1 shows that the respondent profile was dominated by female MSME actors, bachelor's degree graduates, business actors with less than one year of business experience, and MSMEs operating in the trading sector. The dominance of female respondents indicates that women played an important role in the MSME sample observed in Makassar City. The high proportion of respondents with bachelor's degree education suggests that most MSME actors in this study had relatively strong formal educational backgrounds, which may support their ability to understand business administration, financial records, and managerial decision-making. However, formal education does not automatically guarantee strong financial management capability because MSME financial practices also depend on financial literacy, business experience, accounting knowledge, and the ability to use financial information in daily business activities [13].

The dominance of respondents with less than one year of business experience indicates that many MSMEs in this study were relatively new businesses. This condition is important because early-stage businesses often require stronger financial discipline, especially in transaction recording, cash flow management,

budgeting, cost control, and simple financial reporting. Newly established MSMEs are generally more vulnerable to weak financial governance because their administrative systems, operational routines, and decision-making mechanisms are still developing. The dominance of trading businesses also indicates that most respondents operated in sectors with high transaction intensity, frequent cash inflows and outflows, and a strong need for systematic financial recording. This finding is relevant because cash management, working capital management, financial accounting, and financial reporting are essential dimensions of SME financial management practices [21], [26].

Before conducting the descriptive analysis, the research instrument was tested for validity and reliability. The validity test was conducted using Pearson correlation between each item and the total score of Financial Management Quality. The results show that all eight items had positive and significant correlations with the total variable score, with significance values below 0.001. The item-total correlation values ranged from 0.675 to 0.798, indicating that all questionnaire items met the validity criteria and were appropriate for further analysis.

Table 2. Validity Test of Financial Management Quality Indicators

Item Code	Indicator	Pearson Correlation	Sig.	Decision
FMQ1	Regular financial transaction recording	0.675	< 0.001	Valid
FMQ2	Separation of personal and business finances	0.722	< 0.001	Valid
FMQ3	Budget preparation for business operations	0.725	< 0.001	Valid
FMQ4	Periodic financial planning	0.777	< 0.001	Valid
FMQ5	Monitoring cash inflows and outflows	0.798	< 0.001	Valid
FMQ6	Cost control to maintain efficiency	0.791	< 0.001	Valid
FMQ7	Preparation of simple income statements	0.792	< 0.001	Valid
FMQ8	Use of financial reports for decision-making	0.780	< 0.001	Valid

Source: primary data (2026)

The highest item-total correlation was found in FMQ5, namely monitoring cash inflows and outflows, with a correlation value of 0.798. This indicates that cash flow monitoring is one of the strongest indicators in reflecting the quality of financial management among MSMEs. This finding is theoretically relevant because cash flow control is a fundamental aspect of small business financial management. MSMEs that are able to monitor cash inflows and outflows are more likely to understand liquidity conditions, control operating payments, and reduce the risk of financial imbalance. The relatively high correlations in FMQ6, FMQ7, and FMQ8 also indicate that cost control, simple income statement preparation, and the use of financial reports for decision-making are central elements in measuring financial management quality. These findings are consistent with previous studies emphasizing that cash management, financial reporting, accounting information quality, and financial decision-making are important components of SME financial management practices [15], [21], [22], [26].

The reliability test was conducted using Cronbach's Alpha to examine the internal consistency of the eight questionnaire items. The result showed a Cronbach's Alpha value of 0.893, which is above the commonly accepted threshold of 0.70. This indicates that the research instrument had high internal consistency and could be considered reliable for measuring the Financial Management Quality variable. Thus, all indicators used in this study were statistically valid and reliable, meaning that the questionnaire was appropriate for measuring financial management quality among MSMEs in Makassar City.

Table 3. Reliability Test of Financial Management Quality

Variable	Number of Items	Cronbach's Alpha	Criterion	Decision
Financial Management Quality	8	0.893	> 0.70	Reliable

Source: primary data (2026)

The descriptive analysis was conducted to determine the level of financial management quality among MSMEs in Makassar City. The results show that all eight indicators were categorized as good. The overall average score of Financial Management Quality was 3.88, indicating that MSME actors in Makassar City have generally implemented basic financial management practices. These practices include regular transaction recording, separation of personal and business finances, budget preparation, periodic financial planning, monitoring of cash inflows and outflows, cost control, preparation of simple income statements, and use of financial reports for decision-making.

Table 4. Descriptive Statistics of Financial Management Quality

Item Code	Indicator	Mean	Category
FMQ1	Regular financial transaction recording	3.90	Good
FMQ2	Separation of personal and business finances	4.06	Good
FMQ3	Budget preparation for business operations	3.83	Good
FMQ4	Periodic financial planning	3.90	Good
FMQ5	Monitoring cash inflows and outflows	3.87	Good
FMQ6	Cost control to maintain operational efficiency	3.88	Good
FMQ7	Preparation of simple income statements	3.76	Good
FMQ8	Use of financial reports for decision-making	3.87	Good
Average Financial Management Quality		3.88	Good

Source: primary data (2026)

The highest mean score was found in FMQ2, namely separation of personal and business finances, with a mean value of 4.06. This result indicates that most MSME actors have developed awareness of the importance of distinguishing business funds from personal funds. The separation of personal and business finances helps business owners identify actual business income, control operational expenses, and reduce the risk of inaccurate financial evaluation. This practice is an important foundation for financial transparency and business sustainability because unclear separation of funds may distort profit calculation and weaken financial decision-making. Financial discipline and the ability to manage financial information are important elements in supporting SME performance and sustainability [13].

The lowest mean score was found in FMQ7, namely preparation of simple income statements, with a mean value of 3.76, although it remained within the good category. This result indicates that preparing structured financial statements is still relatively weaker compared with other financial management practices. In the MSME context, this condition is understandable because many small business actors tend to focus more on daily cash availability and sales activity than on preparing formal or semi-formal financial reports. This finding shows that although MSME actors have relatively good financial practices, financial reporting capacity still needs to be strengthened. Many small business owners still experience difficulties in preparing and interpreting financial reports [20]. Financial reporting is important because it provides information needed to evaluate performance, identify profit, control costs, and support business growth [22].

The findings also show that cash flow-related indicators obtained relatively good scores. Monitoring cash inflows and outflows had a mean score of 3.87, while cost control to maintain operational efficiency had a mean score of 3.88. These results indicate that MSME actors in Makassar City have paid attention to liquidity and operational efficiency. This is important because MSMEs often face financial vulnerability due to unstable sales, fluctuating operating costs, limited working capital, and dependence on daily cash circulation. Cash flow monitoring allows business owners to ensure that business income is sufficient to cover operational expenses, while cost control helps maintain efficiency and prevent unnecessary financial leakage. Cash management practices, including cash budgeting and cash flow monitoring, are crucial for the survival of small enterprises [26].

The indicators of transaction recording, budgeting, and periodic financial planning also showed good results, with mean scores of 3.90, 3.83, and 3.90, respectively. This indicates that MSME actors have generally attempted to record transactions, prepare budgets, and plan their finances periodically. However, the score for budget preparation was lower than transaction recording and financial planning, suggesting that budgeting practices may still require further strengthening. This condition reflects a common situation in MSMEs where business actors may record financial activities but have not fully used these records to prepare systematic operational budgets. Budgeting is important because it helps business owners allocate resources, anticipate costs, estimate funding needs, and evaluate business priorities. Financial planning and budgeting are essential components of financial management practices because they support capital allocation, operational control, and business sustainability [21].

The use of financial reports for decision-making obtained a mean score of 3.87 and was also categorized as good. This result indicates that MSME actors have begun to use financial information as a basis for business decisions, although the relatively lower score in simple income statement preparation suggests that the quality of financial information still needs improvement. In other words, respondents may already recognize the importance of financial reports, but the ability to prepare complete and structured financial statements may not yet be optimal. This finding highlights the need to strengthen practical accounting literacy among MSME actors. Accounting information quality is important because it improves the reliability of financial data and supports better access to financing and business performance [15].

Overall, the findings indicate that the quality of financial management among MSMEs in Makassar City is generally in the good category. The dominant respondent profile shows that the sample was mostly female, bachelor's degree graduates, early-stage business actors, and trading enterprises. These characteristics provide an important context for interpreting the financial management results. The dominance of educated respondents may support awareness of financial practices, while the dominance of early-stage businesses indicates that financial routines are still developing. Meanwhile, the dominance of trading businesses reflects the need for consistent transaction recording and cash flow monitoring due to high transaction intensity. Therefore, MSME actors in Makassar City have implemented basic financial management practices, but further improvement is still required, particularly in preparing simple income statements and using financial reports more systematically for evaluation and decision-making.

Discussion

The findings of this study indicate that the financial management quality of MSMEs in Makassar City is generally in a good condition. This result suggests that MSME actors have begun to recognize the importance of basic financial management practices in supporting business continuity. The practices reflected in this study include transaction recording, separation of personal and business finances, budgeting, periodic financial planning, monitoring of cash inflows and outflows, cost control, preparation of simple income statements, and the use of financial reports for decision-making. These findings show that financial management among MSMEs is no longer limited to intuitive business practices, but has gradually moved toward more structured financial behavior. This is important because financial management capability is a fundamental managerial resource that enables MSMEs to understand their financial position, control operational activities, and make more rational business decisions. The dominant profile of the respondents also shows that the MSMEs involved in this study were largely represented by female business actors, bachelor's degree graduates, early-stage business owners, and trading-sector enterprises, which provides an important context for interpreting the financial management practices found in this study.

The dominance of respondents with relatively strong educational backgrounds may help explain why financial management practices in this study were generally positive. Education can support the ability of

MSME actors to understand business administration, financial information, and basic managerial decision-making [28]. However, the findings should not be interpreted as evidence that formal education alone is sufficient to ensure financial management capability [14]. In the MSME context, financial management quality is also shaped by financial literacy, business experience, exposure to accounting practices, and the ability to transform financial information into practical business decisions. Financial literacy in SMEs is closely related to financial behavior, organizational capability, and business performance, which means that financial knowledge must be translated into consistent financial routines and not merely remain as conceptual understanding [13].

The finding that the separation of personal and business finances appears as the strongest aspect reflects an important form of financial discipline among MSME actors. This practice is highly relevant because one of the common weaknesses in small businesses is the blurred boundary between household finance and business finance [29]. When personal and business funds are not separated, business owners may find it difficult to identify actual profit, estimate working capital needs, evaluate business growth, and control operational spending [30]. Therefore, the relatively strong practice of separating funds indicates that MSME actors in Makassar City have developed an initial foundation for financial accountability. This finding aligns with the broader view that financial literacy and financial discipline help business owners manage uncertainty, improve decision quality, and strengthen business sustainability [31].

The results also show that transaction recording and periodic financial planning have become part of the financial behavior of MSME actors. This indicates that respondents have begun to understand that business activities require documentation and planning. In practical terms, transaction recording helps business owners track sales, purchases, expenses, and cash movements. Meanwhile, financial planning allows them to anticipate business needs, prepare for operational costs, and make more careful decisions regarding resource allocation [32]. This finding is relevant to the concept of financial management practices in SMEs, where working capital management, financial accounting, capital budgeting, financing decisions, and financial reporting are essential components of business sustainability [21].

Cash flow monitoring and cost control also appear as important aspects of financial management among MSMEs in Makassar City. This finding is theoretically meaningful because MSMEs often operate with limited working capital and high dependence on daily cash circulation [28]. In such conditions, the ability to monitor cash inflows and outflows becomes crucial for maintaining liquidity and preventing operational disruption [33]. Cost control is also important because MSMEs must ensure that expenses remain proportional to business capacity and revenue potential. Weak cash flow management may create financial pressure even when sales appear stable, because revenue does not always translate into available cash. Thus, cash management should be viewed as a strategic survival mechanism for MSMEs rather than merely a technical accounting activity. Cash management practices are essential for small enterprises because they support liquidity control, operating continuity, and the ability to meet financial obligations (Enow & Kamala, 2016).

Nevertheless, the preparation of simple income statements remains the area that requires the greatest attention. This finding suggests that MSME actors may already perform daily financial practices, but they still face challenges in transforming transaction data into structured financial reports. In many MSMEs, business owners tend to focus on cash availability, sales turnover, and immediate operational needs, while formal or semi-formal reporting is often perceived as complicated, time-consuming, or only necessary when applying for external financing. This condition is consistent with previous studies showing that many small business owners still face difficulties in preparing and interpreting financial statements [34]. Financial reporting is important because it enables business owners to evaluate profit, identify cost structures, assess performance, and communicate business credibility to financial institutions [20], [22].

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The weakness in income statement preparation also has implications for decision-making quality. Although MSME actors may use financial information in business decisions, the usefulness of that information depends on the quality, completeness, and accuracy of the financial records available. If business owners rely only on informal memory, daily cash balances, or sales volume, their decisions may not fully reflect actual profitability and financial risk. Accounting information quality is important because it supports financial performance and improves the ability of SMEs to access formal and informal financing [15].

The findings also need to be interpreted in relation to the dominance of trading-sector MSMEs in the sample. Trading businesses generally involve frequent transactions, stock movement, customer payments, supplier purchases, and fluctuating cash flows. These characteristics make financial recording and cash monitoring particularly important. In trading businesses, weak financial management can result in difficulties distinguishing revenue from profit, failure to monitor inventory-related costs, and inaccurate estimation of working capital needs. Therefore, the good financial management quality found in this study may reflect the practical necessity faced by trading-sector MSMEs to maintain transaction records and control cash flows. However, the same context also explains why simple income statement preparation remains challenging, because high transaction intensity requires stronger discipline in consolidating daily records into structured financial reports.

The respondent profile, which was dominated by early-stage business actors, also provides an important explanation. Newly established MSMEs usually operate in a phase of learning, adaptation, and system formation. At this stage, owners may still prioritize sales growth, customer acquisition, product improvement, and market survival. Financial management practices may already exist, but they are often still developing and may not yet be institutionalized into regular reporting systems. This explains why practical financial activities such as separating funds, recording transactions, and monitoring cash flow may be relatively stronger than the preparation of formal reports. This interpretation is consistent with the view that SME growth depends not only on access to finance, but also on internal managerial practices, financial infrastructure, and the capability to manage business information effectively [35].

The role of digitalization is also important in interpreting these findings. The increasing use of digital payments, mobile banking, and financial technology provides MSMEs with opportunities to record transactions more efficiently and improve transparency. However, digital tools do not automatically improve financial management quality if business owners do not have sufficient financial and digital financial literacy. Digital finance can reduce financing constraints and improve liquidity access, but its benefits depend on the ability of SMEs to use digital financial information for productive decision-making [36].

In the Indonesian MSME context, digital financial literacy is increasingly relevant because many small businesses use digital platforms for transactions, marketing, and access to finance. A study on Indonesian batik SMEs found that financial literacy and digital financial literacy are related to financial inclusion, particularly when supported by social media use and digital interaction. This suggests that MSMEs need not only access to digital financial tools, but also the capability to understand and manage digital financial information [37].

The findings of this study also support the argument that financial management quality should be understood as a combination of knowledge, behavior, discipline, and information use. Financial literacy provides the cognitive foundation, financial recording provides the information base, cash management supports liquidity, budgeting guides resource allocation, and financial reporting enables evaluation. These components are interrelated and cannot be separated. If one component is weak, the overall quality of financial management may be affected. For example, business owners may be able to separate personal and business funds, but without proper financial reporting they may still be unable to evaluate profit

accurately. Similarly, digital payment records may be available, but without interpretation skills they may not contribute significantly to business planning.

Compared with previous studies, the findings are consistent with research showing that financial management practices are closely associated with SME performance and sustainability. Mang'ana et al. showed that financial management practices are important for SME performance because they support working capital decisions, investment planning, financing decisions, and reporting practices [21]. The findings also support studies emphasizing that accounting information quality contributes to financial performance and financing access because reliable accounting information reduces information asymmetry between SMEs and external fund providers [15].

However, this study differs from many previous studies because it does not focus on testing causal relationships between financial literacy, digital finance, accounting information, and performance. Instead, it provides a descriptive picture of the actual quality of financial management practices among MSMEs in a local urban context. This contribution is important because descriptive evidence can help policymakers, MSME development agencies, and business mentors identify which areas of financial management are already relatively strong and which areas require further strengthening. In this regard, the study fills a practical and empirical gap by showing that MSMEs in Makassar City have developed several good financial practices, but still require support in strengthening simple financial reporting and the systematic use of reports for decision-making.

The practical implication of these findings is that MSME development programs should not only focus on increasing sales, expanding market access, or encouraging digital payment adoption. Such programs should also strengthen basic financial governance, especially simple bookkeeping, cash flow analysis, income statement preparation, cost control, and the interpretation of financial reports. Training programs should be designed in a practical and contextual way so that MSME actors can directly apply financial management tools to their daily business activities. Financial assistance programs should also be linked to the actual needs of MSMEs, especially for early-stage businesses that are still building administrative routines and financial discipline. Policies on SME financing emphasize that access to finance should be supported by financial capability, transparency, and responsible use of financial services [38].

In conclusion, the discussion shows that the financial management quality of MSMEs in Makassar City is generally positive, but still requires strengthening in financial reporting and evidence-based decision-making. The strongest implication of this study is that MSMEs need to move from basic financial awareness toward more systematic financial governance. This shift is essential because business sustainability depends not only on sales growth or digital adoption, but also on the ability to produce, understand, and use financial information accurately. Strengthening financial reporting literacy, improving digital financial capability, and integrating transaction records into business evaluation should become key priorities for MSME development in Makassar City.

5. Conclusion

This study concludes that the quality of financial management among MSMEs in Makassar City is generally in a good condition. MSME actors have implemented basic financial management practices, including transaction recording, separation of personal and business finances, budgeting, cash flow monitoring, cost control, simple income statement preparation, and the use of financial reports for decision-making. The strongest aspect is the separation of personal and business finances, which indicates that MSME actors have developed basic financial discipline. However, the preparation of simple income statements remains the weakest aspect, showing that financial reporting practices still need to be strengthened.

The findings imply that MSME development programs in Makassar City should not only focus on marketing, business expansion, and digital transactions, but also on practical bookkeeping, income statement preparation, cash flow analysis, cost efficiency, and evidence-based financial decision-making. Strengthening these areas can help MSME actors improve financial control, evaluate business performance more accurately, and support long-term business sustainability.

This study is limited to a descriptive quantitative approach and focuses on 150 MSMEs in Makassar City, so the findings do not explain causal relationships among variables. Future research is recommended to examine the factors that influence financial management quality, such as financial literacy, digital financial literacy, access to finance, accounting information systems, and business performance.

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