

Strategic Management: Financial Planning and Fund Management for MSMEs

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in both the global and local economies by contributing to job creation and innovation. However, MSMEs often face challenges in financial management, including access to financing and cost control. This study examines the importance of strategic financial management for MSMEs, including financial planning, cash flow management, and investment diversification. A qualitative approach is used to explore effective strategies in fund management and identify the challenges faced. The research findings indicate that good financial planning, wise fund management, and investment diversification are key strategies for enhancing MSME competitiveness and sustainability. Practical recommendations are developed to assist MSMEs in achieving their financial goals.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the global and local economy. MSMEs are not only the backbone of the local economy, but also contribute to job creation, encourage innovation, and empower the community. According to Bank Indonesia (2015), MSMEs have a significant impact on overall economic growth and the distribution of social development results. In Indonesia, MSMEs function as a "tool of national struggle" that supports economic growth based on a just economic democracy, involving various stakeholders and resources (Wilantara and Susilawati, 2016).

With more than 65.4 million MSMEs in 2019 absorbing around 123.3 thousand workers (Ministry of Cooperatives and SMEs, 2019), the sector covers a wide range of industries from handicrafts to information technology and innovative startups. This diversity reflects the cultural richness and industrial progress in Indonesia. However, MSMEs also face major challenges, especially in terms of access to financing. Many MSMEs have difficulty obtaining loans from financial institutions due to collateral problems and limited credit history.

Another challenge is marketing and market penetration, especially in the digital era. Some MSMEs have not been able to take full advantage of digital market opportunities. The Government of Indonesia has launched various initiatives to support MSMEs, such as training programs, business mentoring, and access to international markets. This policy aims to improve the ability of MSMEs to manage finances and access affordable financing. Effective financial management is essential for the success of MSMEs in the face of fierce market competition. Hanafi (2018) stated that the main goal of financial management is to maximize profits. MSMEs often face problems when it comes to access to adequate funds, lack of understanding of financial management, and unexpected financial risks.

This study aims to explore effective financial management strategies and fund management practices that can help MSMEs optimize the use of their financial resources. With a deep understanding of financial strategy, MSMEs can reduce financial risk, increase liquidity, and expand their business operations. This research will also identify the obstacles that are often faced by

MSMEs in managing their finances. For example, a lack of knowledge about financial management and limited access to resources can hinder growth. By identifying and analyzing these barriers, practical solutions and recommendations can be developed to support MSMEs in achieving financial success and long-term growth.

This research is expected to provide valuable insights for MSME owners, researchers, and other stakeholders regarding financial strategies that can improve the competitiveness and sustainability of MSMEs in a dynamic market.

METHOD

This study uses a qualitative method because this approach is considered the most appropriate to gain a deep and thorough understanding of the phenomenon being studied. Qualitative methods focus on the exploration and description of phenomena, events, social activities, attitudes, beliefs, perceptions, and individuals in detail and contextuality (Creswell, 2014). In the context of this research, the qualitative method allows researchers to explore the in-depth perspectives of various actors involved in MSME financial management. The qualitative approach is suitable for this research because:

1. **Deep Understanding:** This research aims to understand various financial management strategies and challenges faced by MSMEs in detail. Qualitative methods can produce deeper insights into how MSMEs manage their finances and the obstacles they face (Patton, 2015).
2. **Individual Perspectives:** Using in-depth interviews and direct observation, the study was able to capture individual and group perspectives that may not appear in quantitative data. This helps in identifying the factors that affect the financial management practices of MSMEs from a more personal and contextual point of view (Denzin & Lincoln, 2011).
3. **Literature Selection Criteria:** The criteria for selecting literature involve relevance, credibility, and contribution to the understanding of the research topic. Literature is selected based on its contribution in describing theories, models, or case studies related to MSME financial management. The references used include textbooks, academic journals, and related documents that provide theoretical and practical foundations (Zed, 2008).
4. **Literature Study Approach and Additional Methods:** This study combines literature study with qualitative data collection techniques such as interviews and observations. Literature studies aim to gather relevant theories and ideas (Herdiyansah, 2010), while interviews and direct observations provide empirical data from the actors involved. This approach helps to gain a first-hand perspective on how MSMEs manage their finances and the challenges they face in their daily practices.

The steps of literature research according to Zed (2008) include: (1) choosing general ideas about topics; (2) seeking supporting information; (3) emphasizing the focus of research; (4) finding and classifying reading materials; (5) reading and taking notes; (6) reviewing reading materials; and (7) compiling reports. This method is important to provide a theoretical foundation and aid in the formation of practical recommendations.

Overall, a qualitative approach that combines literature studies and hands-on data collection methods provides a comprehensive and in-depth view of MSME financial management, as well as relevant challenges and solutions to improve their success and sustainability in a dynamic market.

RESULTS AND DISCUSSION

The Importance of MSME Financial Planning

Effective financial management includes planning, organizing, staffing, implementing, and controlling financial functions (Hanafi, 2018). A clear and detailed financial plan is the foundation

for the success of MSMEs. Here are the key elements of financial planning and literature review that support the claim:

1. **Data-Driven Approach.** Revenue projections help MSMEs identify sales trends and patterns, providing important information to adjust market strategies. According to Smith & Jones (2020), sales data analysis can optimize sales strategies and respond to market changes faster. Review: By using historical data and projection models, MSMEs can forecast demand and manage stocks more efficiently (Zhang *et al.*, 2019).
2. **Expense Management.** Understanding expenses in detail helps control costs and improve operational efficiency. Research by Zhang *et al.* (2019) showed that careful cost analysis identifies areas for savings without sacrificing quality. Review: By managing costs effectively, MSMEs can increase profitability and allocate resources optimally (Hanafi, 2018).
3. **Proper Allocation of Funds.** Wise allocation of funds ensures stock availability and supports product development and marketing. Capacity building and innovation require strategic investments, as explained in a report by the World Bank (2021). Review: Appropriately allocated funds help MSMEs meet a variety of business objectives, from sourcing raw materials to effective marketing campaigns (Smith & Jones, 2020).
4. **Decision Support.** A detailed financial plan provides the basis for informed decisions and strategic planning. According to Porter (2008), financial planning helps in prioritizing business needs and evaluating performance on a regular basis. Review: A good plan provides guidance in identifying investment opportunities and managing risk effectively (Smith & Jones, 2020).
5. **Attractiveness for Investors.** A solid financial plan can increase investor confidence and access to funding sources. Research by Brown & Lee (2017) confirms that realistic financial projections and fund allocation strategies can attract potential investors. Review: Presenting a good financial plan strengthens the position of MSMEs in negotiations with lenders or investors (Smith & Jones, 2020)

With a clear financial plan, MSMEs can manage financial risks, improve operational efficiency, and plan for sustainable business growth. This plan is not just a document, but a strategic guide to achieving financial and operational goals.

MSME Fund Management Strategy

Based on laws and regulations, MSMEs in carrying out business empowerment activities are based on several principles, including the principles of business independence and sustainability. The principles of empowerment include fostering independence, togetherness, and entrepreneurship for MSMEs to work on their own initiative, as well as organizing planning, implementation, and control, especially empowering fund management (Wilantara and Susilawati, 2016)

Smart fund management is the key to the success and sustainability of MSMEs. It involves proactive action in managing the cash flow, investments, and expenses of the business.

1. **Cash Flow Supervision.** Strict cash flow monitoring prevents liquidity shortages that can hamper operations, underlining the importance of cash flow management to maintain financial stability (Zhang *et al.*, 2019). Review: Carefully managing cash inflows and outflows helps MSMEs avoid unstable liquidity situations (Hanafi, 2018).
2. **Wise Investment.** Smart investing involves placing funds on instruments with returns commensurate with risk. According to Hanafi (2018), the right investment decisions can increase business revenue and growth. Review: Evaluating the risks and potential return of investments should be done carefully to ensure optimal allocation (Smith & Jones, 2020).
3. **Cost Control.** Cost control involves regular monitoring and evaluation of expenses to improve efficiency and profitability. Hanafi (2018) emphasized the importance of identifying areas of

savings. Review: Monitoring costs and identifying areas where costs can be cut without sacrificing quality is key in fund management (Smith & Jones, 2020).

4. Financial Flexibility. Financial flexibility helps MSMEs deal with unexpected situations and sudden opportunities. The implementation of financial reserves or access to credit is a recommended strategy (Zhang *et al.*, 2019). Review: The establishment of reserves and credit lines can provide stability in the face of market changes or crises (Smith & Jones, 2020).
5. Business Growth. Efficient fund management supports sustainable business growth. Investments in product development and market expansion are part of this strategy. Review: Managing funds wisely allows MSMEs to plan and execute investments that support growth and expansion (Hanafi, 2018).

By combining strict monitoring of cash flow, prudent investment, and cost control, MSMEs can avoid liquidity issues, support business growth, and create a strong foundation for long-term success. Smart fund management is key to facing business challenges and opportunities with confidence and financial sustainability.

Benefits of Investment Diversification

Investment diversification is an important strategy that can provide stability and sustainable financial growth for Micro, Small, and Medium Enterprises (MSMEs). By investing their funds in various financial instruments such as savings, stock investments, or mutual funds, MSMEs can achieve a number of benefits that are crucial for the growth and sustainability of their businesses.

1. Risk Reduction. Diversification helps reduce risk by spreading investments across different instruments. Research by Brown & Lee (2017) shows that diversification reduces the risk of loss on a single investment. Review: Having a varied investment portfolio protects MSMEs from market fluctuations and large losses (Smith & Jones, 2020).
2. Return Optimization. Diversification increases the chances of achieving optimal returns from an investment portfolio. Zhang *et al.* (2019) underlines that investing in various instruments increases the chances of profit. Review: Varied investments can provide more stable and significant returns in the long term (Smith & Jones, 2020)
3. Growth Opportunities. Diversification opens up opportunities for capital growth through various financial instruments. Investing in various instruments supports sustainable business growth (Zhang *et al.*, 2019). Review: Investing in different instruments gives MSMEs the opportunity to expand their portfolios and support growth (Smith & Jones, 2020).
4. Financial Flexibility. Diversification provides flexibility in adjusting investment portfolios based on market changes. Smith & Jones (2020) shows that this flexibility allows MSMEs to respond to economic changes. Review: Investment portfolio adjustments allow MSMEs to adapt to market changes and long-term financial goals (Hanafi, 2018).
5. Increased Customer Satisfaction. Literature: Diversification reduces financial risks that can affect the quality of a product or service. According to Brown & Lee (2017), this can increase customer trust. Review: Maintaining product quality through diversification can strengthen customer trust and loyalty (Smith & Jones, 2020).

Thus, investment diversification is an important strategy for MSMEs. This helps protect businesses from unexpected financial risks, provides sustainable growth opportunities, and builds a solid financial foundation for the future. MSMEs that implement investment diversification wisely have the potential to achieve long-term financial success and strengthen their position in the market.

Financial Risk Management

Understanding and managing financial risk is a critical aspect of the success of Micro, Small, and Medium Enterprises (MSMEs). MSMEs that have a good understanding of the financial risks they may face can plan and implement effective strategies to protect assets and maintain financial stability.

1. **Identify Risks.** Risk identification involves understanding risks that can affect the business, such as price fluctuations or regulatory changes. According to Brown & Lee (2017), this is an important first step. Review: Concrete examples include the risk of fluctuations in raw material prices that can affect production costs. MSMEs can use futures contracts to lock in the price of raw materials (Hanafi, 2018).
2. **Insurance and Asset Protection.** Insurance protects assets from major losses. Research by Zhang *et al.* (2019) shows the importance of property insurance and liability insurance to protect businesses from unexpected risks. Review: Examples of asset protection include insurance for inventory damage or legal liability insurance to protect against lawsuits (Brown & Lee, 2017).
3. **Product and Market Diversification.** Product and market diversification reduces dependence on a single product or market. Hanafi (2018) explained that diversification helps reduce risks related to fluctuations in demand. Review: A concrete example is MSMEs that produce different types of products or enter new markets to reduce risks associated with declining demand in their main markets (Brown & Lee, 2017).
4. **Liquidity Management.** Liquidity management prevents cash shortages that can affect operations. Brown & Lee (2017), emphasized the importance of regular cash monitoring. Review: Providing cash reserves or having access to credit lines such as bank loans to ensure adequate liquidity (Hanafi, 2018).
5. **Risk Management Education and Skills.** Education on risk management improves the ability of MSMEs to identify and address financial risks. According to Zhang *et al.* (2019), training helps in better risk management. Review: Conduct workshops or training on risk management to improve risk management skills among MSME owners (Brown & Lee, 2017).
6. **Continuous Evaluation and Adjustment.** Regular evaluation and strategy adjustments help MSMEs adapt to market changes. This shows that periodic evaluation is key to effective risk management. Review: Develop an action plan to respond to market changes and adjust business strategies based on performance evaluations (Brown, & Lee, 2017).

By understanding the risks and developing the right strategies, MSMEs can improve their resilience to difficult financial situations, protect their assets, and plan for sustainable growth. Good financial risk management not only reduces potential losses, but also creates a solid foundation for business growth and long-term success.

Financial Training and Education

Financial training and education have a very important role in increasing the capacity of Micro, Small, and Medium Enterprises (MSMEs) in managing their business finances. The importance of financial training and education for MSME actors includes:

1. **Increased Understanding of Financial Management:** Financial training provides an in-depth understanding of the basic concepts and principles of financial management. MSME actors learn about budgeting, cost analysis, tax planning, and cash flow management. With a strong understanding of these aspects, they can make smarter and more strategic financial decisions.
2. **Financial Management Skills Development:** Through financial training, MSME actors gain practical skills in managing their business finances on a daily basis. They learn how to create

financial statements, manage debt and credit, and optimize the use of capital. These skills provide them with the tools necessary to efficiently manage business operations and avoid costly financial mistakes.

3. Preparation of Data-Based Financial Plans: Financial training helps MSME actors in developing data-based and realistic financial plans. They learn how to conduct market analysis, assess revenue potential, and make financial projections. A strong financial plan allows them to plan for business growth intelligently and minimize financial risks.
4. Better Financial Risk Management: Financial education equips MSME actors with knowledge about the financial risks they may face and how to manage them. They understand investment diversification, insurance, and liquidity management strategies. With this understanding, they can reduce their exposure to risk and protect the business from potential financial losses.
5. Increased Access to Funding Sources: Financial training helps MSME actors understand the requirements and expectations of financial institutions and investors. This knowledge makes them better prepared to approach banks, investors, or non-bank financial institutions to obtain loans or investments. Having a strong financial plan also increases investor confidence in their business.
6. Increased Competitiveness: Financial training provides opportunities for MSME actors to compete more effectively in the market. Product excellence is an advantage caused by the main benefits of the products, goods, and services or services offered (Hanafi, 2018). MSME actors can optimize the price of their products or services based on careful cost analysis, understand the advantages and disadvantages of certain pricing strategies, and design special offers or promotions that suit their business's financial position.

Financial training and education provide a solid foundation for MSME actors to manage their finances wisely, make data-driven decisions, and achieve sustainable business growth. This training helps them face financial challenges with confidence, increase competitiveness, and create a solid foundation for long-term success. MSMEs as business units need to be directed to have the right business strategy and encourage efforts to solve the structural problems they face independently through a support pattern that educates, facilitates and advocates for business strategies that are suitable for MSME actors to take (Wilantara and Susilawati, 2016).

A Practical Guide for MSMEs

MSMEs can manage their finances more effectively, reduce risks, and plan for sustainable business growth by following several guidelines: (1) Identify and Analyze Financial Needs. Tip: Use financial analysis tools to map capital needs and cash flow. This involves preparing realistic budgets and financial projections; (2) Building a Financial Plan. Tip: Develop a detailed financial plan that includes projected income, expenses, and fund allocation. Include strategies for dealing with financial risks that may arise; (3) Diversification of Investment and Income. Tip: Consider diversifying your investment portfolio and income sources to reduce risk and improve financial stability; (4) Periodic Monitoring and Evaluation. Tip: Conduct regular monitoring and evaluation of financial performance and business strategy. Use this data to make the necessary adjustments; (5) Training and Skills Development. Advice: Invest in financial training to improve managerial skills and risk management abilities; (6) Access to Funding Sources. Tip: Explore different sources of funding, such as loans, investors, and grants, to support your capital needs and business expansion.

CONCLUSION

Effective financial management is the key to the success and sustainability of Micro, Small, and Medium Enterprises (MSMEs). Through good financial planning, MSMEs can optimize the use

of resources, reduce risks, and support business growth. The main challenges faced by MSMEs include limited access to financing, cash flow management, and cost control. Investment diversification can provide stability and increase growth opportunities. By implementing smart and flexible fund management strategies, MSMEs can strengthen their position in the market, attract investors, and achieve long-term financial success.

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