



# Improving the Capabilities of Micro, Small and Medium Enterprises in Financial Planning and Risk Management

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**Abstract:** The existence of some micro business entrepreneurs who still do not understand well the principles of finance and business risk management, a community service activity is needed in this field. Knowledge of clear financial principles is needed in order to maintain business continuity and efforts to improve the business owned both in terms of turnover and profit to be obtained. There are still quite a lot of micro business entrepreneurs who do not know clearly about the strategy of managing business cash flow and managing risk mitigation that will be faced. This understanding is very important for micro business entrepreneurs to know. A good understanding of financial planning for micro business will be able to help micro business to maintain their business continuity. Therefore, this community service activity was made in an effort to provide solutions to the problems faced by micro business in Batu City, Indonesia in particular. Batu City was chosen as this community service activity because it is one of the tourist cities with high tourist visits in East Java and there are many MSME entrepreneurs in Batu City.

**Keywords:** Turnover, Cash Flow, Profit, Risk.

## Introduction

Structured and organized financial management plays an important role in business continuity. Jindrichovska (2013) states that financial planning in the long term can have an impact on improving the effectiveness of capital management. As a Micro, Small and Medium Enterprise (MSME), MSMEs have a considerable contribution in supporting the economy. Therefore, strengthening MSMEs can improve the welfare and quality of life of the community. Strengthening MSMEs can be done by providing a good understanding to MSMEs in building and increasing the quality of their business, such as understanding of financial planning and business risk mitigation. Fitria et al., (2018) proves that financial planning by business actors has a positive effect on the development of micro, small and medium enterprises (MSMEs). However, not only knowledge, systematic and planned behavior of business actors will also affect the financial decisions of MSMEs (Balushi et al., 2018).

Financial decisions made by MSMEs will be appropriate, effective and efficient if they have knowledge, understanding and implementing well the financial planning, identifying and mitigating financial, and business risks. Gica & Balint (2012), Salikin et al., (2014), Pardo et al., (2018), Alaskari et al., (2021) proves that strategic financial planning is important for improving MSME performance and business continuity.

More deeply, Pardo et al., (2018) explained that financial planning can affect sustainability such as good financial analysis and appropriate decision making. With this financial analysis and decision making, the long-term sustainability of MSMEs can be guaranteed by the plans that have been carried out. Therefore, financial planning and financial risk mitigation for MSMEs are important to be understood and carried out by MSMEs for the long-term sustainability of their business.

Financial planning for micro business is necessary, especially during the economic crisis and global uncertainty related to macroeconomic conditions and recovery. The reasons namely:

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- 1) There is a need for the direction of financial decisions of a business
- 2) Consider the long-term and short-term effects of business decisions
- 3) As a means of supervision and control of daily business activities
- 4) To obtain assistance or financing from the fund guarantee agency
- 5) To arrange cooperation and collaboration with the other parties
- 6) To motivate micro business entrepreneur to focus on the business and more seriously managed
- 7) Entrepreneurs can achieve the goal of *financial freedom* (debt-free, investment income, protected from risk), etc.

Knowledge of financial principles is very important to maintain business continuity and to increase business both turnover and profit obtained. In addition, there are still quite a lot of MSME entrepreneurs who do not know clearly about the strategy of managing business *cash flow*. This understanding is very important for entrepreneurs, especially during times of economic crisis and global uncertainty over current economic conditions. Thus, the community service activity was made to provide understanding, strategies and solutions to the problems faced by MSMEs in Batu City especially. Batu City was chosen as community service activity for several reasons, namely: 1) Batu City is one of the tourist cities where there are many MSME entrepreneurs; 2) Economic problems can have an effect on the turnover and profit of tourist attractions which will affect MSME entrepreneurs; 3) Batu City has the potential to be used as a development model in training activities related to financial planning and risk management for MSME entrepreneurs.

## Method

The subjects of the community service activities are MSME entrepreneur from various business fields. They are micro business entrepreneurs that produce goods, but also as service business managers. The participants were 20 micro business entrepreneur consisting of laundry businesses, furniture, travel agents, food production, grocery stores, credit sellers, cafe and restaurant managers, and sportswear. The purpose of this activity is to provide solutions of problems faced by MSME actors in Batu City, in planning business finance, business development, and managing risk management. In particular, this training aims to enable MSME actors to compile their business financial and risk management.

Basically, the method of community service activities are dissemination and training with project-based methods. Dissemination was carried out to provide understanding to MSME entrepreneurs in Batu City through the provision of materials. Furthermore, training was given on making financial planning by MSMEs. In the second day, the practice of preparing financial planning by MSMEs was carried out as well as discussion and providing input to MSME actors. The steps taken during the implementation of the community service program to solve the problems faced by partners include:

- 1) Identify partner problems through interviews and observation. In this stage, a process of deliberation and discussion, extracting information and problems of MSMEs in Teras Village, Batu City, was carried out. This discussion was carried out with the Subdistrict Secretary and several MSME actors. The purpose of discussion is to find out the problems to arrange solution and policy recommendation.
- 2) The needs assessment. At this stage, identification of MSME needs related to financial management problems is carried out. In this community service activities, it is planned to carry out a needs assessment process through field studies.
- 3) Activity planning, based on the results of field studies. The stages in activity planning are conduct budget planning, financing plans, sources of funding, strategic measures, stages of technical work, division of roles, and tasks as well as possible resources and obstacles.
- 4) Preparation for implementation of community service.
- 5) Implementation. The implementation includes dissemination of material related to financial principles that must be applied to MSME entrepreneurs as well as financial planning. Participants were provided with material related to MSME risk identification and management so that they can carry out better financial planning. Through this activity, the expected output is an increase in understanding related to financial principles and financial planning of MSMEs. The second activity in this training is the practice of preparing financial planning by making the financial decisions, and strategies for managing cash flow for MSME entrepreneurs by considering risk management that can be done. With practicum, it is hoped that MSME actors can identify and make simple financial statements in managing their business.
- 6) Discussion. After practicum, participants discuss the existing solutions related to MSME business activities, especially from the perspective of financial planning and mitigation of MSME financial risks.

## Result and Discussion

Community service activities "Financial Planning Training for Micro, Small and Medium Enterprises (MSMEs)" in Batu City are designed in an interesting way, through the delivery of materials and discussions. Materials delivered by power point presentation and videos so that participants can get good understanding. The first activity in the training stage is delivery of first material on financial management in the condition of global economic uncertainty by Dr. Dwi Wulandari, SE., M.M., CFP, with a financial planning certification (Financial Planner). The second activity is the delivery of material by Dr. Inayati Nuraini Dwiputri, S.Si., M.Sc, CRMP, with risk management professional certification. Material by Dr. Inayati related to MSME business risk management in particular and MSME financial risk mitigation. Before the activity was carried out, the Temas Village Government represented by the Temas Village Secretary, Mrs. Siti Sundana S.E, welcomed and greatly appreciated the efforts of the community service team from the Faculty of Economics and Business, State University of Malang.

The implementation of financial planning and management training activities, continues to comply with and use health protocols. The activity conducted by taking into account public health conditions. The subjects of this training are MSME actors from various business fields, not only goods production, but also from service business managers. The training participants numbered 20 people consisting of laundry businesses, furniture, travel agents, food production, grocery stores, credit sellers, cafe and restaurant managers, and sportswear. The purpose of this activity is to provide solutions to the problems faced by MSME actors in Batu City, in planning business finances, business development, and managing risk management. Specifically, this financial planning training aims for MSME actors to be able to compile their business financial management, as stated by Mulyanti and Nurdin (2018).



**Picture 1.** Delivery of Financial Planning Material for MSMEs

The first activity in this training discusses the urgency of financial management and financial reports for business actors, including MSMEs. The material presented in the training activity includes financial planning which is a process to achieve one's life goals through integrated and planned financial management. As stated by Wibawa (2003), financial planning is one of the steps to prepare the best financial conditions in the future, based on current financial conditions. Financial planning is needed as a direction and base for a business's financial decisions. In addition, entrepreneurs can consider the long-term and short-term effects of business decisions by financial planning; achieve the goal of financial freedom (debt free, get income from investments, protected from risk); get assistance funds or financing from a guarantee institution; arrange who to work with; motivate attention and focus on the company, and as a tool for monitoring and controlling daily business activities.

Yulianti and Silvy (2013), stated that in financial management, financial planning is needed to achieve goals, both short and long term. In addition, participants also given some important knowledge about financial principles that are important for business, cash flow challenges, strategies for managing business cash flow, benefits and functions of cash flow, and examples of profit and loss. In addition, the financial training material session also emphasizes the importance of separating personal finances from company finances in running a business.



**Figure 2.** Delivery of Risk Management Material for MSMEs

The second activity is material related to risk management in MSMEs. Participants are given material related to risk, and how to manage the risk of MSMEs. Furthermore, participants work on projects/exercises to conduct simple financial reports such as selling prices, equipment prices, and desired profits. The purpose of this activity is to find out the business planning of MSME actors and their risk management, when something undesirable happens, for example business losses. From



this second activity, some MSME actors find that it difficult to identify the costs needed to run a business. This is because there is no recording of transactions made for costs that have been incurred or income received. From the results of the identification of costs and income received by MSMEs, the results are quite varied. There are several participants who write a break even point (BEP) value of zero, some are positive, and some are even negative. Based on this, the community service team provides assistance in writing down and identifying operational expenses (costs) in the business being run. Thus, business actors (MSMEs) can identify fixed costs or variable costs as well as the capital owned, and the average income received.

After the material was given, participants were also asked to analyze the condition of enterprise that had been made. Participants were asked to identify the business processes that had been carried out, namely identifying production and operational costs. Furthermore, analyze the turnover and profit generated from the business processes of both goods and services that had been carried out. In general, many participants realized that so far, they had not considered operational costs, because the operations carried out so far were not counted as costs. Participants have understood the concept of costs in business analysis. Participants were introduced to the concept of costs where costs in a business or business are divided into Fixed Costs and Variable Costs. Participants began to recalculate that assisted by the community service team in determining business costs. In general, many MSME entrepreneurs who participated in this community service activity calculated business costs in an over-estimated manner. However, there were also some participants who calculated their business costs under-estimated. Participants felt happy and excited about this activity because they gained knowledge and experience from their business analysis so far.



**Figure 3.** Discussion and Analysis with Entrepreneur of MSME

After calculating the costs in their business, participants discussed and calculated the profits/losses that had arisen so far and then identified the risks of

their business. Participants tried to ensure the calculation of profit or loss in their business. Through this community service activity, it was understood that it is normal for profits and losses to fluctuate depending on the economic situation, especially with the Covid-19 pandemic that had previously been experienced. The pandemic cases has provided experience and learning for MSME entrepreneurs regarding the importance of financial planning and financial risk mitigation. From the results of the interview, many MSME actors, especially micro-scale ones, experienced a decrease in turnover in their business during the pandemic. This condition makes it easier for participants to accept the material because what is conveyed is in accordance with their needs.

Many MSMEs inquire and want to know the cost analysis in their business and how to identify their business profits. In addition, many MSMEs also want to know the level of risk of their business. Many questions were given, including those related to the possibility of other risks when there is a possible economic crisis and global economic uncertainty. The speaker said that the risk of every business will always be there, both in pandemic, non-pandemic, and global uncertainty conditions. However, all risks that may arise for MSMEs are important to manage. Therefore, when the risk occurs, business actors already have steps that must be taken to mitigate the risk. Readiness for risk by MSMEs will improve the business performance of MSMEs both in the short and long term. Thus, it is important for every MSME to implement risk management and financial planning.

Providing solutions to MSME financial risks and their mitigation through "family discussions" made MSME entrepreneurs feel satisfied with the implementation of the community service activities. Through these activities, it is hoped that in the future MSMEs can get used to recording incoming and outgoing transactions (cash flow) in the business activities they are engaged in. One of the implementations of financial management is the bookkeeping carried out by MSME actors after the training. Bookkeeping is the process of recording and collecting financial data and information, which is carried out regularly, covering all transactions, both on the income and expenditure side (Munandar, Meita, & Putritanti, 2018). It is hope, business actors especially MSMEs in Temas Village, Batu City can manage business finances well to achieve financial freedom as Mendari & Soejono (2019) financial freedom criteria. It also hopes that MSMEs actor can succeed, achieve a welfare or happiness through good financial planning as Lai & Tan (2009) were stated.

The expected outcome of this activity is the increase competence of MSME actors, in terms of

financial management and risk management of their business. After this activity was carried out, there was a significant increase in knowledge among participants related to financial planning and risk management. The assessment of the pre-test and post-test was carried out related to the understanding and implementation of MSME actors in financial planning and mitigating MSME financial risks. The assessment results showed that the post-test results were generally significantly higher than the pre-test results.

## Conclusion

Financial planning training conducted in Batu City has been carried out in two sessions, namely financial planning and risk management. It was found that *first*, most MSME actors in Teras Village, Batu City still mix personal money with business money. *Second*, there has been no recording of cash flow or transactions made, making it difficult to identify the amount of profit or loss. Based on this, the community service team from the Faculty of Economics and Business, State University of Malang provided training and motivation on strategies for financial planning and risk management. In addition, the community service team also provided assistance to identify the types of transactions and assets owned in business management and risks in business. The current condition of MSME digitalization requires a deeper understanding of financial planning and risk management. This understanding can increase the knowledge and insight of MSMEs in improving their economy. This community service has significantly increased the motivation and understanding of the community. Thus, it is hoped that MSME actors in Batu City will have increased competence in planning, managing business finances, and risk management through periodic recording and identify of transactions.

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