

RISK MANAGEMENT AND MSME ACCOUNTING PRACTICES: AN EXPLORATORY REVIEW OF PRACTICES IN INDONESIA AND MALAYSIA

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Abstrak

Penelitian ini mengkaji integrasi antara manajemen risiko dan praktik akuntansi pada Usaha Mikro, Kecil, dan Menengah (UMKM) di Indonesia dan Malaysia. Meskipun perhatian terhadap ketahanan UMKM semakin meningkat, para pelaku usaha kecil masih cenderung memisahkan antara fungsi akuntansi dan manajemen risiko. Melalui pendekatan tinjauan eksploratif kualitatif terhadap literatur akademik, laporan institusi, dan dokumen kebijakan, penelitian ini menemukan tiga isu utama: (1) rendahnya kesadaran terhadap risiko, (2) sistem akuntansi yang informal dan sekadar memenuhi kewajiban administrasi, serta (3) tidak adanya keterkaitan strategis antara data keuangan dan pengambilan keputusan berbasis risiko. Data makroekonomi dari Bank Negara Malaysia digunakan untuk memperkuat konteks temuan, yang menunjukkan bahwa meskipun stabilitas kelembagaan cukup terjaga, integrasi di tingkat pelaku usaha masih belum merata. Studi ini menekankan pentingnya pendekatan yang lebih terpadu, di mana literasi keuangan, kesadaran risiko, dan kemampuan pengambilan keputusan dipandang sebagai aspek yang saling berkaitan. Ketahanan UMKM tidak cukup hanya bergantung pada dukungan eksternal, tetapi juga memerlukan transformasi internal dalam cara memahami dan menerapkan informasi akuntansi untuk mitigasi risiko.

Kata Kunci: *UMKM, manajemen risiko, praktik akuntansi, literasi keuangan, Malaysia, Indonesia, tinjauan kualitatif*

Abstract

This study explores the integration between risk management and accounting practices among Micro, Small, and Medium Enterprises (MSMEs) in Indonesia and Malaysia. Despite increasing attention on MSME resilience, small business actors often treat accounting and risk management as separate functions. Through a qualitative exploratory review of academic literature, institutional reports, and policy documents, this research identifies three critical issues: (1) limited risk awareness, (2) informal and compliance-driven accounting systems, and (3) the lack of strategic linkage between financial data and risk-based decision-making. Macroeconomic data from Bank Negara Malaysia were incorporated to contextualize the findings, showing that while institutional and financial stability is relatively strong, enterprise-level integration remains fragmented. The study highlights the need for a more coherent and integrated approach where financial literacy, risk awareness, and decision-making capacity are treated as interconnected domains. Strengthening MSME resilience requires not only institutional support but also internal transformation in how accounting information is interpreted and applied for risk mitigation.

Keywords: MSME, risk management, accounting practices, financial literacy, Malaysia, Indonesia, qualitative review

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Malaysian economy, contributing approximately 38% to the national Gross Domestic Product (GDP) and employing over seven million workers. Despite their significant economic presence, many MSMEs in Malaysia face persistent challenges in adopting effective risk management practices, which can hinder their long-term sustainability and resilience (Manas, Ibrahim, & Rahman, 2024; Tan & Lee, 2022).

In Indonesia, MSMEs similarly serve as a backbone of the national economy, contributing around 61% to the GDP and absorbing approximately 97% of the total workforce. However, many of these enterprises struggle to implement adequate risk management mechanisms, leaving them vulnerable to financial and operational uncertainties (Aziz, Hidayat, & Sari, 2024; Maulana, Setiawan, & Nugroho, 2024).

The level of accounting literacy among MSMEs in both countries remains relatively low. In Malaysia, studies show that most small enterprises continue to rely on traditional accounting methods and have yet to adopt contemporary management accounting practices (Ahmad, 2013; Taib, Shamsuddin, & Baharudin, 2024). Similarly, in Indonesia, low financial literacy—particularly in budgeting, debt management, and bookkeeping—has been linked to increased financing constraints for MSMEs (Aziz et al., 2024; Maulana et al., 2024).

Understanding of risk management concepts among MSMEs in both Malaysia and Indonesia is also still developing. Only about 30% of MSMEs in Malaysia report having a formal or semi-formal risk management framework in place (Manas et al., 2024; Tan & Lee, 2022). In Indonesia, MSMEs often lack internal control systems and structured approaches to risk identification and mitigation (Aziz et al., 2024; Maulana et al., 2024).

Improving awareness and implementation of risk management is essential for MSMEs to survive in a dynamic and often volatile business environment. Effective risk management enables these enterprises to identify, assess, and address threats that may jeopardize their survival and growth (Yakob, Zakaria, & Ismail, 2020; Rehman & Anwar, 2019). Furthermore, such practices have been shown to enhance investor confidence and access to finance (Tan & Lee, 2022; Manas et al., 2024).

The alignment between risk management and sound accounting practices offers substantial benefits for MSMEs. The adoption of management accounting tools such as budgeting and performance evaluation can help MSMEs address operational and financial risks more effectively (Ahmad, 2013; Taib et al., 2024). Moreover, integrating risk considerations into accounting routines may support better decision-making and improve business performance (Yakob et al., 2020; Rehman & Anwar, 2019).

Although there is a growing body of literature addressing either risk management or accounting practices among MSMEs in Indonesia and Malaysia, studies that explore the interaction between these two aspects in an integrated manner remain limited. Most existing research focuses on one aspect in isolation, without investigating how risk management and accounting practices mutually reinforce one another (Manas et al., 2024; Ahmad, 2013). Additionally, comparative analyses between the two countries are scarce (Tan & Lee, 2022; Taib et al., 2024).

This study seeks to fill that gap by conducting an exploratory review of MSME practices in risk management and accounting in Indonesia and Malaysia. By comparing the approaches used in both countries, this research aims to generate new insights into how the integration of these

practices could enhance business continuity and financial sustainability (Yakob et al., 2020; Rehman & Anwar, 2019).

Given this background, the present study investigates how MSMEs in Indonesia and Malaysia approach risk management and accounting practices, and explores the potential for improving long-term resilience through better alignment between the two. The findings are expected to contribute to future policy development and business improvement strategies for MSMEs in the region (Manas et al., 2024; Ahmad, 2013).

2. Literature Review

2.1 The Role and Characteristics of MSMEs in Emerging Economies

Micro, Small, and Medium Enterprises (MSMEs) are recognized as the foundation of economic development in emerging markets, including Indonesia and Malaysia. In Indonesia, MSMEs account for approximately 99.9% of total business units and contribute significantly to national employment and GDP (Handayani & Siregar, 2021; Yanti & Indriani, 2023). Likewise, in Malaysia, MSMEs represent about 97.4% of total establishments and play a vital role in supporting domestic supply chains and local economic resilience (Noor et al., 2020; Latif et al., 2022).

Despite their substantial contribution, MSMEs in both countries continue to face structural challenges. These include limited access to capital, low levels of digital adoption, and underdeveloped business models, which constrain their ability to grow and scale (Rasid et al., 2021; Fitriani et al., 2022). In addition, the informal nature of many MSMEs—especially in Indonesia—leads to fragmented documentation and weak internal controls, making them vulnerable to external shocks (Pramono & Putri, 2023; Lestari & Suryani, 2022).

Another characteristic of MSMEs in emerging economies is their strategic role in inclusive development. MSMEs not only absorb labor from rural and suburban areas but also foster entrepreneurship among women and marginalized groups (Mustafa et al., 2021; Dewi & Wijaya, 2022). This makes them essential not just for economic indicators like GDP and employment, but also for achieving social equity and local economic decentralization.

To maximize their potential, MSMEs require enabling environments including targeted government support, financial inclusion mechanisms, and capacity development programs tailored to their specific constraints (Zakaria et al., 2020; Ariffin et al., 2023). Without such support, their structural limitations could hinder national economic resilience and post-crisis recovery efforts.

2.2 Accounting Practices in MSMEs: Informality and Gaps

Accounting practices among MSMEs in both Indonesia and Malaysia remain largely informal and unsystematic. Many MSME owners lack sufficient understanding of basic accounting principles, resulting in manual and unstructured financial recordkeeping (Aryani, Sari, & Wicaksono, 2023). This often leads to inaccurate financial reporting, which in turn limits MSMEs' access to formal credit, tax incentives, and government support schemes.

In the Indonesian context, studies have shown that most MSMEs do not systematically apply management accounting practices. Major barriers include limited human resources, lack of training, and low awareness of the importance of structured financial systems (Prihastiwi & Sholihin, 2018). As a result, financial information is often inadequate to support strategic business decision-making, particularly in planning, budgeting, and risk control.

In Malaysia, while some institutional efforts have been made to improve financial literacy and accounting quality, adoption of advanced accounting techniques remains low among MSMEs.

Ahmad (2013) found that Malaysian MSMEs tend to rely on conventional tools such as basic budgeting and financial performance measurement. More advanced management accounting tools—such as activity-based costing or value-added analysis—are rarely used, primarily due to a lack of technical expertise, high perceived costs, and the belief that such methods are more suitable for large enterprises.

Comparative analysis indicates that MSMEs in both countries share similar challenges in improving the quality and utility of their accounting practices. Issues such as lack of standardization, limited capacity, and low financial literacy persist, and addressing these problems requires targeted policies, training programs, and technical assistance to promote more structured and insightful financial practices within the MSME sector.

2.3 Financial and Risk Literacy among MSMEs

Financial literacy plays a fundamental role in ensuring the sustainability and financial discipline of MSMEs. In Indonesia, recent studies have shown that MSME actors generally have limited understanding of basic financial concepts, such as budgeting, savings, and credit management. For example, Fikri and Nahda (2023) found that poor financial planning practices hinder MSMEs from accessing external financing and from evaluating their own financial health effectively. Similarly, Suidarma, Yasa, and Purnamawati (2024) emphasized that MSMEs with higher financial literacy are more likely to engage in proper bookkeeping and to understand the implications of debt structures.

In Malaysia, the situation is not significantly different. According to Thabet, Noor, and Isa (2019), many Malaysian MSME owners, particularly in the food and beverage sector, struggle with fundamental financial decision-making. Their study revealed that socio-demographic factors—such as education level, age, and business experience—play a significant role in shaping financial literacy. MSMEs with low levels of financial awareness often fail to utilize accounting records to evaluate financial performance or mitigate business risks.

Closely related to financial literacy is the concept of risk literacy, which refers to the ability to identify, understand, and act upon potential risks. In both countries, risk literacy among MSMEs remains relatively underdeveloped. Prasetyo and Hendriani (2023) noted that Indonesian MSMEs rarely conduct formal risk assessments, relying instead on intuition and experience. In the Malaysian context, Jamal and Ibrahim (2022) reported that risk management practices among MSMEs were often informal, reactive, and based on short-term problem-solving rather than strategic foresight.

These findings suggest that improving both financial and risk literacy is essential for strengthening MSMEs' ability to make informed business decisions. Addressing these gaps through targeted training, digital financial tools, and accessible advisory services will not only enhance enterprise-level resilience but also contribute to broader economic stability.

2.4 Risk Management Practices: Adoption Challenges and Institutional Support

Risk management remains an underdeveloped area within most MSMEs in Indonesia and Malaysia. In Indonesia, Judijanto, Wijaya, and Hardiyanti (2025) found that although MSMEs are increasingly aware of business risks—particularly financial and operational risks—only a small proportion apply formal risk identification or mitigation strategies. Many rely on ad hoc responses and informal assessments driven by personal experience rather than systematic evaluation.

In Malaysia, the situation mirrors this trend. Research by Zainuddin, Rahim, and Nor (2021) shows that the adoption of enterprise risk management (ERM) frameworks among SMEs

is still in its infancy. The main barriers include limited knowledge, perceived complexity of RM tools, and the assumption that risk systems are only necessary for large corporations. Tan and Hassan (2022) also noted that many Malaysian SMEs confuse risk management with basic compliance functions, reducing its strategic value.

From an institutional perspective, both countries have introduced policy-level support to encourage risk awareness and capacity. In Indonesia, the National Disaster Risk Reduction Plan includes specific strategies to build MSME resilience, yet lacks integration with financial and managerial training at the grassroots level (Saputra & Fatimah, 2023). In Malaysia, programs under agencies like SME Corp and Bank Negara Malaysia provide RM-related capacity-building, but participation remains uneven due to outreach limitations and trust barriers (Rahman & Che Omar, 2020).

Ultimately, the lack of structured RM practices stems not only from capability gaps but also from a weak risk culture among small business owners. A more embedded and practical approach—combining digital risk tools, education, and peer learning—is needed to transition MSMEs toward more proactive and systematic risk management practices.

2.5 Linking Risk Management and Accounting Practices in MSMEs

The integration of risk management and accounting practices is crucial for the sustainability of Micro, Small, and Medium Enterprises (MSMEs) in emerging economies. In Indonesia, Judijanto, Wijaya, and Hardiyanti (2025) found that effective risk management mediates the relationship between financial technology adoption and business growth, highlighting the importance of incorporating risk considerations into financial practices. Similarly, in Malaysia, Noor, Mohd-Zain, and Khalid (2023) observed that many SMEs equate risk management with routine compliance activities, which limits the strategic integration of accounting insights into business risk assessments.

Accounting practices provide essential information for identifying and managing business risks, particularly in cash flow control, cost monitoring, and profitability analysis. Latifah, Salleh, and Rahman (2022) explained that structured accounting data enables SME owners to monitor liquidity positions, assess revenue trends, and detect early warning signs of financial distress. Likewise, Prihastiwati and Sholihin (2018) emphasized that management accounting tools such as budgeting, variance analysis, and break-even analysis help MSMEs anticipate potential financial fluctuations and plan for corrective actions. When used strategically, these accounting mechanisms support proactive rather than reactive risk responses and improve overall decision-making quality.

Despite the benefits, many MSMEs in both Indonesia and Malaysia still struggle to integrate risk considerations into their accounting routines. In Indonesia, Rasid, Yusuf, and Hidayat (2021) observed that most MSMEs consider risk management as a separate or non-essential function, rather than as a component embedded in their financial systems. Similarly, in Malaysia, Zainuddin, Rahim, and Nor (2021) highlighted that the lack of training and awareness causes SME owners to miss financial signals such as rising debt ratios or deteriorating margins that could indicate emerging risks. These findings suggest that when accounting is used purely for compliance or tax reporting, MSMEs lose the opportunity to leverage it for proactive risk identification and mitigation.

To address these challenges, it is essential to promote the adoption of integrated risk management and accounting practices among MSMEs. This can be achieved through targeted training programs, simplified risk assessment tools, and supportive policies that recognize the unique needs of smaller enterprises. By fostering a culture that values the synergy between risk

management and accounting, MSMEs can enhance their resilience and contribute more effectively to economic development.

3. Methodology

3.1 Research Design

This study employs a qualitative exploratory design based on an integrative literature review. A qualitative approach is appropriate for investigating complex social and organizational phenomena where contextual understanding is prioritized over statistical generalization (Creswell, 2013). The exploratory nature of this study allows the researcher to synthesize and interpret diverse sources of data to identify patterns, relationships, and conceptual frameworks related to the integration of risk management and accounting practices in MSMEs (Merriam & Tisdell, 2016).

3.2 Data Sources and Collection

Data for this study were derived from peer-reviewed journal articles, policy documents, and institutional reports published between 2013 and 2025. The inclusion criteria focused on literature that discusses risk management practices, accounting systems, and MSME development in the contexts of Indonesia and Malaysia. Databases such as Scopus, Emerald Insight, ScienceDirect, and Google Scholar were used to identify relevant publications. Institutional sources included reports from SME Corp Malaysia, Bank Negara Malaysia, the Financial Services Authority of Indonesia (OJK), and academic research published in national journals.

3.3 Data Analysis

This study employed thematic analysis to identify, code, and interpret key themes emerging from the reviewed literature. According to Braun and Clarke (2006), thematic analysis enables the researcher to systematically recognize repeated patterns and meanings across data sources. The process included iterative reading, manual coding, and categorization of content to explore how risk management and accounting practices intersect in the operational landscape of MSMEs.

3.4 Methodological Rigor

To ensure methodological rigor, the study adopted trustworthiness principles as proposed by Lincoln and Guba (1985), specifically focusing on credibility, transferability, dependability, and confirmability. Credibility was addressed by analyzing literature from diverse and reputable sources across countries and sectors. Triangulation was achieved by comparing findings across three distinct types of documents: (1) peer-reviewed academic journal articles, (2) official policy reports from government institutions such as Bank Negara Malaysia and Otoritas Jasa Keuangan Indonesia, and (3) institutional case reports and publications from SME-support agencies such as SME Corp Malaysia. This triangulation of sources enabled the researcher to validate emerging themes and reduce the risk of bias. An audit trail of the document selection process, coding steps, and analytical memos was maintained to ensure dependability and transparency in interpretation.

3.5 Relevance to Research Problem

The qualitative exploratory method is well-suited to address the research problem outlined in Chapter 1, which concerns the gap in integration between risk management and accounting functions within MSMEs. By synthesizing comparative literature from Indonesia and Malaysia, the method supports a contextualized analysis in the discussion and enables the identification of best practices and policy implications that are grounded in existing evidence.

4. Results and Discussion

This study was initiated with a concern regarding the limited integration between risk management and accounting practices among MSMEs in Indonesia and Malaysia. Although these enterprises are often exposed to operational and financial risks, their capacity to anticipate, record, and respond to such uncertainties remains weak. The introductory chapter highlighted three central problems: the low risk literacy among MSME actors, the informal and fragmented nature of accounting practices, and the absence of a systematic linkage between financial data and risk management strategies. This chapter presents the interpretative results from a thematic literature review and discusses how those findings address the initial problem statement.

4.1 Results

The analysis of the reviewed literature demonstrates that MSMEs in both Indonesia and Malaysia commonly operate without a formal understanding of risk management as a business function. Risk is often perceived narrowly either as an administrative burden or something to be managed only when crisis arises. There is little indication that MSMEs anticipate risk proactively through structured assessments or scenario planning. This passive posture toward risk is reflected in the limited adoption of tools such as risk registers, contingency budgeting, or even basic cash flow monitoring.

Furthermore, the majority of MSMEs in both countries rely on simplified accounting methods that serve mainly for compliance or recordkeeping, rather than strategic decision-making. Financial statements, when produced, are not used to analyze vulnerabilities or to monitor risk indicators such as declining margins, rising receivables, or inconsistent revenue flows. The disconnect between risk perception and accounting practice is not simply a technical gap it reflects a deeper issue of mindset and capability. MSMEs often lack the internal resources, awareness, and support structures needed to interpret financial data as a risk management asset.

While Malaysia appears to have advanced further in institutional support for SMEs especially through the guidance of Bank Negara Malaysia and SME Corp the actual integration of accounting systems with risk management logic remains limited to a small fraction of firms. For instance, although BNM reports that the Malaysian economy is recovering steadily with GDP growth projected at 4–5% in 2024, many SMEs are still unprepared to translate macroeconomic shifts into risk forecasts or operational planning. Digitalization incentives and financial literacy programs exist, but their uptake remains concentrated in urban or export-oriented enterprises. In Indonesia, the challenge is even more pronounced. Disparities in capacity, infrastructure, and regulatory enforcement create a fragmented ecosystem where even the idea of internal controls or basic risk mapping remains foreign to many micro and small entrepreneurs.

4.2 Discussion

These findings affirm the underlying assumption of this study: that risk and accounting practices are not inherently disconnected, but are treated as such in MSME settings due to historical, structural, and cognitive limitations. The failure to align accounting functions with risk thinking results in MSMEs being financially reactive rather than strategically prepared. In practice, this means decisions are made based on instinct or cash-in-hand rather than long-term viability or financial indicators.

Accounting data, if properly maintained and interpreted, could serve as the first line of risk detection. A declining gross profit margin, delayed receivables, or frequent stockouts are not just

operational issues they are indicators of emerging financial risk. Yet, these signals are often missed or ignored due to the way financial information is perceived: as something external, for tax officers or banks, not as an internal management tool.

The macro-financial context reinforces the urgency of this integration. According to Bank Negara Malaysia, the Malaysian banking sector remains stable, with ample capital buffers and projected inflation between 2–3.5% for 2024. While this suggests a favorable environment for MSMEs, it also underscores the need for them to read and respond to financial signals more effectively. In other words, stable macroeconomic conditions do not automatically translate into firm-level resilience unless MSMEs have the tools and mindset to act on that information.

Moreover, the cultural dimension cannot be overlooked. Many MSMEs operate in trust-based informal systems where documentation is minimal, and verbal arrangements substitute formal contracts. This affects both how risks are managed and how accountability is distributed. In both countries, but especially in Indonesia, the informality of business operations shapes how knowledge especially about risk and accounting is transmitted and applied.

The absence of integration also reflects a missed opportunity for policy coherence. Government programs often target financial literacy and business resilience separately, when in fact the two are fundamentally linked. A well-informed entrepreneur who understands cost behavior, debt leverage, and liquidity risks is more likely to survive economic shocks than one who merely receives one-off training in bookkeeping or business continuity.

Therefore, the results of this review highlight the urgent need for a more integrative approach one that treats risk literacy, accounting capability, and strategic decision-making as a continuum rather than isolated competencies. Future development programs for MSMEs in Indonesia and Malaysia must embed financial and risk tools together, using accessible formats and supported by institutions that understand the everyday realities of small businesses. The guidance of central institutions such as Bank Negara Malaysia can serve as a structural anchor for scaling up these initiatives, but their effectiveness depends on translating macro-level stability into enterprise-level preparedness.

5. Conclusion, Limitation, and Recommendation

5.1 Conclusion

This study set out to explore how risk management and accounting practices are understood and applied by MSMEs in Indonesia and Malaysia, and to examine the extent to which these two functions are integrated in everyday business decision-making. Through an exploratory literature review, it was found that both countries share common challenges namely, low risk literacy among small business actors, informal and compliance-driven accounting practices, and limited institutional capacity to promote strategic integration of financial and risk considerations.

The findings reveal that risk and accounting are not treated as mutually reinforcing tools but as isolated technical domains, often applied reactively and externally. This disconnect undermines the ability of MSMEs to respond to uncertainty, manage their operations effectively, and ensure long-term sustainability. While Malaysia demonstrates a more structured institutional response than Indonesia, integration at the enterprise level remains limited in both contexts. In essence, the core problem is not just technical deficiency, but conceptual fragmentation: risk is not perceived as something that can be identified from within the firm's own financial patterns. Accounting is not viewed as a source of early warning or planning insight. Addressing this requires a shift in both policy frameworks and business culture towards one that encourages MSMEs to see accounting as a strategic asset and risk as a continuous process of anticipation.

5.2 Limitation

As an exploratory study based on secondary sources, this research is limited by the scope and availability of existing literature. The study does not include primary data from MSME actors or policymakers, and therefore may not capture real-time nuances or evolving practices on the ground. Additionally, the analysis is constrained to publicly available documents and peer-reviewed journals, which may not reflect informal practices or undocumented initiatives that are prevalent in MSME ecosystems.

There is also the inherent limitation of interpretative bias in literature-based thematic synthesis. The absence of triangulation with empirical fieldwork or stakeholder interviews may affect the depth of contextual understanding. As such, the findings should be viewed as indicative rather than conclusive, serving primarily as a foundation for further empirical exploration.

5.3 Recommendation

To bridge the disconnect between accounting and risk management in MSMEs, an integrative capacity-building agenda is required. Governments, financial institutions, and MSME support agencies in both Indonesia and Malaysia should design interventions that link financial literacy with practical risk identification tools. Training modules should move beyond recordkeeping and include content on cost structures, risk indicators, and basic forecasting.

Moreover, accounting systems for MSMEs should be redesigned to incorporate built-in risk prompts—such as alerts for cash flow irregularities or declining gross margins that help owners recognize financial vulnerabilities early. These systems must be affordable, user-friendly, and localized in both language and context.

Policy coherence is also essential. Development initiatives must embed risk thinking into financial programs rather than treat them as separate domains. Public-private partnerships can support digital platforms, mobile-based accounting tools, and peer-learning mechanisms to encourage behavioral change at the grassroots level.

Finally, future research should complement this exploratory review with empirical studies involving interviews, case studies, or field experiments to validate and deepen the findings. A mixed-method approach involving both qualitative and quantitative data will offer richer insights into how MSMEs perceive, interpret, and apply financial and risk information in real-world contexts.

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