

# **Adaptive Capital Budgeting Practices in Micro-Family Enterprises: Exploring Informal Financial Strategies**

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## ABSTRACT

This study explores applying capital budgeting theory in a micro-scale, family-run enterprise founded by a student entrepreneur in Indonesia. This paper used a qualitative case study, the research investigates how core principles of capital budgeting are applied informally in a resource-constrained context. Data were gathered through semi-structured interviews and field observations, enabling the exploration of investment decision-making, financial planning, and family involvement. Findings show that although the business does not apply complex techniques like NPV or IRR, it employs intuitive and adaptive methods such as payback period estimation and cash flow tracking based on experience, informal communication, and shared family judgment. These practices are grounded in the owner's academic background and sustained by collaborative family roles. The study contributes to the literature by highlighting how capital budgeting can be contextualised in micro-enterprise settings and emphasises the role of educational exposure and social capital in replacing formal financial systems. The findings also suggest the potential for integrating simplified digital tools to improve decision quality without overwhelming micro-entrepreneurs. This paper provides educators, development agencies, and policymakers with insight into supporting financial literacy and investment capability in the informal sector.

### Keywords:

Capital Budgeting, Micro-  
enterprise, Family Business,  
Payback Period, Informal Finance

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## 1. Introduction

Capital budgeting in Small and Medium Enterprises (SMEs) still faces significant global challenges, including in Indonesia. Recent studies have revealed that most SMEs still rely on simple investment evaluation methods, such as payback periods, which were chosen due to limited financial literacy and a lack of professionals in financial management (Shaheen et al., 2024). In many cases, investment decisions in SMEs are based more on the owner's intuition and practical experience rather than on a systematic, data-driven financial analysis framework (G. Michelon et al., 2020; Sherlita & Nugroho, 2023). In addition, there is a lack of documentation of practice and

the slow adoption of more sophisticated investment evaluation methods, which ultimately increases the risk of errors in strategic decision-making.

The practice of capital budgeting in SMEs has unique characteristics that distinguish it from large companies, especially in decision-making generally done directly by business owners. The study by Danielson & Scott (2006), García et al. (2007), and Hasan (2021) emphasises that financial decisions in SMEs are often based on intuition and personal experience rather than formal data analysis. A flat organisational culture allows for faster communication, but the investment evaluation process tends to be informal and short-term oriented. (Alles et al., 2020; Nunden et al., 2022; Sureka et al., 2023). On the other hand, limited resources encourage efficiency through simple techniques such as payback periods (Acharya et al., 2017; Amalia, 2024; Viknesh & Thulasiraman, 2024). This flexibility allows SMEs to adapt to market changes quickly (Shields et al., 2024; Yapicioglu, 2023). In addition, social and family values are often integrated into investment decisions, reinforcing dedication but risking objectivity. Studies on the practice of capital budgeting in SMEs have not been explored fully in the financial literature. Previous research emphasizes that while there is much research on capital budgeting, few explicitly examine the practice of capital budgeting at the SME scale, especially from a practical and contextual implementation perspective (Hasan, 2021; P. S. Michelon et al., 2020; Shaheen et al., 2024).

The research results on capital budgeting in SMEs reveal an interesting dialectic between the effectiveness of simple methods and more complex evaluation techniques. Several studies state that simple payback periods remain relevant for SMEs because of their suitability for managerial capacity and daily business needs. Hasan (2021), Sherlita & Nugroho (2023), and Amalia (2024) emphasize the consistency of use and adjustment to business characteristics, making this method quite effective in maintaining the sustainability of SMEs.

On the contrary, several studies show that simple methods can hinder achieving long-term investment efficiency. According to Alles et al. (2020), Viknesh & Thulasiraman (2024), and Purnamasari & Adriza (2024), techniques such as payback periods do not consider the value of time, money and future risks, thus limiting business expansion and sustaining competitive advantages. Moreover, Michelon et al. (2020), Al-Mutairi et al. (2020), and Shaheen et al. (2024) criticize that investment decisions in SMEs are often not based on thorough financial analysis but are influenced by intuition, momentary needs, or emotional impulses. This phenomenon reflects the weak foundation of strategic planning in building long-term growth.

However, several experts, such as Shields et al. (2024), argue that SMEs' flexible and informal characteristics are precisely a strength in responding to market changes quickly. A less bureaucratic organizational structure allows for dynamic adaptation and innovation based on local needs. Therefore, adaptive capital budgeting practices do not always have to be formal; as long as they remain rational and data-based, they can be a strategic and effective solution (Al Wahaibi et al., 2024; Arya & Vatsyayan, 2024).

Most of the literature still focuses on large companies, assuming that SMEs will follow the same pattern in capital decision-making. However, Alles et al. (2020) and Al-Mutairi et al. (2018) show that SME practices are strongly influenced by the unique social, cultural, and capacity characteristics of human resources, so the investment evaluation model used in large companies cannot necessarily be applied directly in the context of SMEs. The research gap is also seen from the lack of studies that link the influence of financial literacy, owner's educational background, and digitalization support to the effectiveness of capital budgeting practices in SMEs. For example, a study conducted by Sherlita & Nugroho (2023), Viknesh & Thulasiraman (2024) and Amalia (2024) just touched the surface of these issues without elaborating in depth on the role of digital transformation and financial knowledge in investment decision-making.

Although small and medium-sized enterprises (SMEs) play an important role in the economy, many still face limitations in implementing effective financial management practices, including capital budgeting. This has an impact on investment decision-making efficiency and business

sustainability. The case of Donat's Lava, a family business run by accounting students, reflects the efforts to apply financial management principles with limited resources. However, the extent to which capital budgeting practices are applied systematically and how personal characteristics and family relationships play a role in investment decision-making must be answered. This study explores how a small family-owned business applies capital budgeting practices in its investment decisions and what factors influence its financial decision-making process. The novelty of this study lies in its holistic approach to combining technical, social, and digital aspects in analyzing capital budgeting practices in SMEs. This contribution is expected to broaden academic horizons and provide practical recommendations for the development of SMEs in the era of disruption.

### **Conceptual Framework**

#### a. Capital Budgeting in the Context of SMEs

Capital budgeting theory describes the process of making long-term investment decisions in a business, including the procurement and replacement of fixed assets, business expansion, and product diversification. According to (Danielson & Scott, 2006), Small companies generally make investments in basic equipment, and those decisions are often not formalized through complex financial evaluation techniques. This is in line with the findings (Shields et al., 2024), which revealed that SMEs tend to choose a simple method in the capital budgeting process due to limited human resources and access to financial evaluation technology. (White & Miles, 2022) also emphasized that simple modifications to the net present value method can be a more realistic and practical approach for SMEs while maintaining the principle of long-term investment evaluation.

#### b. Character Roles and Owner's Capabilities

Investment decision-making is heavily influenced by the owner's personal characteristics and educational background in SMEs. The involvement of the owner in every stage of the decision-making process reflects the SME's central and experience-based managerial structure (Danielson & Scott, 2006). This is supported by the findings (Gveroski & Jankuloska, 2017), which show that the business owner's educational background is an important determining factor in the quality of investment decisions. Moreover, (Adriansah & Mubarok, 2023) State's's that family business owners with relevant experience and education tend to show a higher level of business success, including in investment management.

#### c. Family Business Management

The success of management in a family business is not only determined by technical skills but also greatly influenced by family values such as loyalty, dedication, and a sense of belonging to the business. The theory of García et al. (2007) highlights the importance of intangible assets such as family dedication and loyalty in family businesses. It is also supported by (Drucker, 1973), which emphasizes the importance of strong internal communication and effective decision-making in small family-based organizations. In the context of SMEs, the social capital owned by families can be the main force that drives stability in decision-making. Adriansah & Mubarok (2023) also revealed that the success of family SMEs is not only determined by formal financial management but also by the cohesion and family values that underlie business management.

#### d. Simple Investment Evaluation: Payback Period

Most SMEs use the payback period method because of its simplicity, although it does not consider the time value of money and the optimal rate of return (Hasan, 2013; Uddin & Chowdhury, 2009). This method is the main choice because it is easy for business actors with limited financial literacy to understand and apply. In the context of SMEs, especially in developing countries, the payback period method is still relevant as long as it is used consistently by considering previous experience and profit trends (Atmaja, 2008). Strengthening investment evaluation practices needs to be adjusted to the characteristics of SMEs, including the need for simple but accurate evaluation tools (Shields et al., 2024).

## **2. Methods**

This research used a qualitative case study approach to explore contextual and process-oriented dynamics of micro-enterprise investment practices. The case study method enables an in-depth understanding of contemporary phenomena within real-life settings (Yin, 2018), particularly in resource-constrained environments like informal family businesses. Data were collected through

semi-structured interviews with the owner of Donat's Lava, a home-based snack business in Kampung Sianik Sago, Pesisir Selatan, Indonesia. The owner is a final-year accounting student at Politeknik Negeri Padang, and the business was initiated through capital support from the PMW (Program Mahasiswa Wirausaha) scheme. The interview protocol was designed to elicit insights into capital investment behaviour, financial planning, decision-making processes, and the role of family support.

To strengthen data validity, interviews were complemented by non-participant observations of daily operations, capturing how financial and investment decisions unfold in real-time—a strategy aligned with Flick (2018) and Carter & Baghurst (2014), who advocate methodological triangulation in qualitative inquiry. All qualitative data were transcribed and analyzed systematically using a hybrid inductive-deductive coding approach (Fereday & Muir-Cochrane, 2006), enabling the identification of both theory-driven and emergent themes. This methodological design is consistent with established practices in interpretive accounting research (Ahrens & Chapman, 2006; Parker & Northcott, 2016), ensuring a robust empirical foundation for examining how capital budgeting theories are enacted in real-world, informal micro-enterprise settings.

The procedures undertaken in this study involved multiple stages. First, the researcher conducted an initial observation to understand the operational environment and identify potential decision-making moments. This was followed by developing a semi-structured interview guide on four key themes: investment behaviour, financial planning, informal governance, and family dynamics. Interviews were conducted face-to-face at the production site and lasted 45 to 60 minutes. Informal conversations were also recorded as supplementary data. Field notes were taken to capture non-verbal cues and contextual information. The second phase involved data organization transcription. Audio recordings were transcribed verbatim in Bahasa Indonesia and translated into English for coding consistency. The third stage included thematic analysis using a hybrid approach, combining deductive codes derived from capital budgeting theory and inductive codes emerging from the data (Fereday & Muir-Cochrane, 2006). Coding was performed manually and reviewed iteratively. Lastly, data were presented through narrative synthesis and supported with verbatim quotes to retain contextual richness and provide transparency in interpretation. These steps ensured data rigour, credibility, and theoretical alignment with the research framework.

### **3. Results**

#### **3.1 Capital Investment and Financing Activities**

The business was initiated using funding from the University's entrepreneurship program, PMW (Program Mahasiswa Wirausaha), which enabled the initial acquisition of critical production tools, including a standard mixer, baking trays, and basic packaging materials. Observations during field visits revealed that the production area was set up in a designated section of the family's home kitchen, with makeshift workspaces adapted for small-scale operations. As sales increased and revenue stabilized, the owner allocated part of the profit to replace and upgrade tools. For instance, a larger-capacity mixer was purchased six months after the business started, motivated by increased customer orders. Equipment upgrades were not driven by scheduled budgeting but rather based on situational assessments—such as tool failure or a sudden rise in volume demand. This routine practice of reinvestment reflects an informal yet adaptive capital budgeting behaviour that prioritizes production continuity and responsiveness to market demand.

*...When it was just starting, the tools were still very simple. The initial capital is all from the campus's PMW. We use it to buy mixers and baking sheets. Now, if a tool is damaged, we immediately replace it because there has been a regular income.*

#### **3.2 Financial Planning and Human Resources**

The owner's accounting background plays a significant role in the financial structuring of the business. Observations during the site visit revealed that the owner maintains a handwritten ledger to monitor cash inflows and outflows, supported by basic spreadsheet records stored on a personal laptop. These tools calculate the cost of goods sold (COGS), set appropriate price margins, and monitor profitability. Beyond technical calculations, planning practices are visible in short-term

and long-term strategies. Short-term goals include budgeting for the purchase of a new freezer to increase storage capacity, while long-term aspirations are focused on opening a physical storefront near the local market.

The financial planning process is informal but grounded in the owner's academic exposure to accounting principles. No sophisticated software is used, but the owner clearly understands revenue streams, production cost control, and cash flow timing.

*...I made my own financial records and determined the cost of goods sold. My short-term target is to buy a new freezer, and in the long term to have a small outlet near the market...*

External accountants or consultants are not formally involved. However, the owner's initiative and self-discipline in financial management mirror the behaviour of more structured enterprises. The human resources dimension is supported mainly by family members, each assuming specific roles such as production, packaging, and promotion, albeit without formal employment contracts or wages. This reflects a hybrid model of operational planning, combining familial trust with skill-based task allocation.

### 3.3 Investment Evaluation Techniques

The respondent uses intuitive and simple payback analysis to evaluate investments, a method that aligns with the operational nature of micro-enterprises where formal financial metrics are often not accessible. During the field visit, it was observed that the owner does not utilize structured investment appraisal documentation. Instead, investment decisions—such as purchasing additional tools or ingredients in bulk—are based on short-term cash flow cycles and the owner's estimated return on spending within weeks.

When asked about how investment feasibility is determined, the owner responded candidly:

*...We do not use complicated methods; I usually see how fast the money is back from the sale. If last week's capital has returned this week, it means it is safe...*

*...I don't know about NPV or IRR yet. But every month, we calculate whether it has broken even or not. That's the benchmark...*

Field observations supported this statement. For example, a second gas stove investment was made after the owner noticed that production time was being delayed due to shared stove usage. No formal cost-benefit analysis was conducted—only a verbal discussion with family members and a quick calculation of expected revenue from fulfilling additional customer orders. This payback-centred mindset was reinforced by the absence of external financial reporting obligations or investor oversight, allowing the business to operate with informal but responsive financial practices. The strategy reveals how capital budgeting decisions in micro-scale enterprises can be pragmatic, need-based, and time-sensitive—rooted deeply in operational experience rather than theoretical constructs.

### 3.4 Family Support and Informal Decision-Making

The business is deeply embedded in a family structure, where each member assumes a role without formal designation. During observation sessions, the owner was seen coordinating with her mother for dough preparation while her younger sibling managed social media promotions on a mobile device. These activities were carried out in an integrated home-based setting, blending household and business routines.

Decision-making is inherently collaborative and informal. For instance, discussions regarding bulk purchases or menu expansion were conducted during family meals or casual evening conversations. No formal meeting schedules exist, and notes or minutes are not documented. However, mutual trust and shared business goals contribute to coherent decision-making.

*...This is a family business. Parents help with production, and younger siblings help promote it via WhatsApp. So if there is a big decision, we will talk first, even if sometimes it is just over dinner...*

*...The advantage is that because the family is all, communication is easy and supportive of each other. So if you have an idea or problem, you can discuss it anytime...*

The family structure's fluid communication and collective accountability serve as a powerful substitute for formal governance mechanisms. Family members have an embedded sense of ownership and responsibility, which reinforces long-term commitment and enhances flexibility in responding to operational issues. The synergy of roles and informal routines strengthens not only daily coordination but also long-term planning and investment decisions, thus contributing significantly to the business's sustainability.

#### **4. Discussion**

##### **1. Capital Budgeting in the Context of SMEs**

This case study provides a comprehensive empirical overview of how capital budgeting theory can be modified and applied contextually in small and micro enterprises (SMEs), especially those facing financial, technological, and managerial capabilities limitations. Capital budgeting is not carried out formally in family-based micro-businesses as described in the conventional financial literature. Instead, the practice uses a more intuitive, pragmatic, and needs-based approach. As described by Danielson and Scott (2006), investments made by SMEs are generally focused on basic production equipment that directly supports operational processes, such as the purchase of mixers, baking sheets, ovens, or gas stoves. The characteristics of this investment are not long-term strategic investments but tactical investments driven by the urgent need to maintain production sustainability and meet increasing consumer demand. This is also reflected in the investment decision-making pattern, which was very responsive to cash conditions.

Based on field observations, the decision to purchase additional equipment does not involve investment evaluation procedures based on formal financial techniques such as net present value (NPV) or internal rate of return (IRR). Instead, business owners rely more on practical considerations such as operational urgency, past experience, and expectations of cash flow in the near future. For example, purchasing a larger capacity mixer is made after the owner realizes that production obstacles interfere with fulfilling large quantities of customer orders. This decision-making model reflects an adaptation of the principles of capital budgeting, where the basic concepts of resource allocation and return expectations are still applied but in a simpler and more contextual form. This approach confirms that while SMEs may not have access to complex financial instruments, they can still internalize basic principles of investment evaluation through practices that are functional, experience-based, and highly contextual to the realities of everyday business.

Shields et al. (2024) highlight that the approach to capital budgeting in SMEs must be practical, adaptive, and relevant to the actual conditions. This is also reinforced by White & Miles (2022), who state that the NPV method can be modified to be simpler to suit the characteristics of micro-enterprises that do not have access to sophisticated financial accounting and evaluation systems. Moreover, Verbeeten (2006) adds that a rules-of-thumb approach or the experience of business owners is often more effective and efficient than formal techniques in the context of SMEs. Thus, this study confirms the importance of developing a more flexible and contextual capital budgeting framework for SMEs. This approach opens up opportunities for further research on the capital budgeting model that combines conventional financial principles with adaptive practices based on the experience and intuition of micro-business actors.

##### **b. Character Roles and Owner's Capabilities**

The accounting education background possessed by business owners is a key element that contributes significantly to financial management and investment decision-making on a micro-business scale. Gveroski and Jankuloska (2017) emphasize that formal education improves the quality of investment decisions, especially in allocating limited resources. In contrast to many SMEs

that run businesses based on mere experience or a trial and error approach, this case shows how academic knowledge gained through formal education can be internalized and applied practically in the context of daily business operations. Based on the results of field observations, business owners can compile the cost of production (COGS) calculation, set a reasonable profit margin, and estimate cash flow in and out with fairly good accuracy. These activities are carried out independently without the involvement of external parties such as financial consultants or professional accountants. This indicates that the owner has successfully translated the basic management accounting theories into real practices supporting business sustainability. Danielson & Scott (2006) State's that small business organizational structures tend to be centralistic, where all important strategic and operational decisions are generally centred on the business owner. These findings are reinforced in this study, where the owner is not only directly involved in production and sales activities but also takes a central role in formulating the strategic direction of the business. This can be seen in short-term goals, such as purchasing new equipment to support production capacity, and long-term planning, such as opening permanent sales outlets in more strategic locations.

The owner's active role in planning and evaluating investments becomes even more meaningful when it is associated with the resource limitations inherent in most SMEs. Gveroski and Jankuloska (2017) emphasize that formal education—especially in the fields of economics and accounting—can improve the quality of investment decisions, as it gives owners the ability to think critically in allocating limited resources more optimally. In this case, formal education is a symbol of academic status and a strategic tool supporting operational effectiveness and financial efficiency.

Adriansah and Mubarok (2023) added that business owners with a background in economics or accounting education have a higher success rate because they can combine business intuition and rational considerations. In practice, Donat's Lava owners use planning methods based on operational logic and daily cash cycles, showing that personal capabilities are an effective substitute for financial management systems that have not been digitized, this study suggests that the individual capacity of the owner, especially those strengthened by relevant educational backgrounds, can replace the role of managerial systems and structures typically found in larger organizations implies that improving financial literacy and competency-based training for SMEs can be a very strategic intervention in strengthening the resilience and growth of the micro business sector in developing countries.

### c. Family Business Management

The managerial structure adopted by Donat Lava reflects the typical pattern of family-based micro-enterprises, where job roles and functions are not established hierarchically or formally, but rather develop organically based on operational needs and emotional closeness between family members. Role flexibility is a dominant characteristic; Family members are not only involved in operational activities but also play an active role in strategic decision-making without rigid job position limitations or functions. The results of field observations show that the decision-making process is collegial and occurs spontaneously, generally in informal moments such as when eating together or gathering in the home area. Although not supported by documentary procedures or systematic organizational structures, coordination and information flow run effectively. This is made possible by strong social capital in the form of mutual trust, emotional cohesion, and a high sense of ownership of business continuity.

This phenomenon confirms that the existence of a formal system does not solely determine managerial success in family businesses but is also supported by culturally embedded family values. Dedication, loyalty, and internal collaboration play a role as an alternative management instrument that can replace the role of formal bureaucratic structures. In this context, values-based management and relational approaches are the main foundations that ensure the sustainability and resilience of family microbusinesses in the face of market dynamics and limited resources. This aligns with García et al. (2007), which emphasizes that family businesses have intangible assets such as loyalty and dedication that are not found in formal organizations (1973). also, State's's that

in small organizations, internal communication is the main foundation in decision-making and achieving efficiency. In this context, family members at Donat's Lava play an active role in their respective capacities: the mother helps with the production process, the younger sister manages online promotions, and the owner designs the business strategy.

Further, Adriansah and Mubarak (2023) State's that cohesiveness and family values create internal stability that is difficult for non-family businesses to match. This management based on emotional relationships and togetherness provides flexibility in facing business challenges without going through complicated internal bureaucracy. These findings contribute to understanding how family micro-enterprises can maintain business continuity through social value-based management models and internal cohesion.

#### d. Evaluasi Investasi Sederhana: Payback Period

The findings in this study reinforce the empirical evidence that has been put forward by Uddin & Chowdhury (2009), Hasan (2013), and Atmaja (2008) that the payback period method is still the main choice in small and medium enterprises (SMEs) environment, mainly because of its simplicity, ease of implementation, and lack of need for complex data and technical skills. This method offers a relatively fast and intuitive approach to investment evaluation, where the main focus lies on how quickly the initial capital can be returned through the cash inflows generated from operational activities. Although this method does not consider the time value of money or the required rate of return, in the context of SMEs, especially those engaged in the informal or household-based sector, it is still considered adequate to evaluate short-term investments. This is especially true for investment decisions of an operational nature, such as the purchase of additional production equipment, the procurement of bulk raw materials, or the addition of seasonal labour. Micro-businesses like Donat's Lava make these decisions informally based on simple calculations, the owner's personal experience, and intuitive short-term cash projections. The results of field observations show that investment decision-making patterns in this business are greatly influenced by the weekly cash cycle. The owner actively monitors cash flow in and out and uses that information to estimate the return on capital. No financial software or formal evaluation model is used. However, this approach allows businesses to remain adaptive in dealing with market demand dynamics and volatile liquidity constraints.

These findings align with the results of research conducted by Shields et al. (2024), emphasizing the need to simplify investment evaluation tools to match SMEs' actual capacity and conditions. In many cases, conventional evaluation methods such as net present value (NPV) or internal rate of return (IRR) are considered too complex and not applicable, considering that SMEs often do not have access to long-term financial information, complete historical data, and adequate professional assistance. In this regard, White & Miles (2022) even recommend that the NPV method be modified to a simpler version, which retains its analytical principles but can be used by small businesses that do not have access to a formal financial system.

Thus, this study confirms that in the context of SMEs, especially in developing countries, the relevance of the payback period method is not solely based on its theory but on its ability to adapt to the realities of business, limited resources, and an experience-based decision-making mindset. This approach makes an important contribution to the discourse on developing more inclusive investment evaluation tools that meet the needs of the micro business sector. Thus, the study shows that simple evaluation methods such as payback periods remain relevant in the small business ecosystem, especially when combined with operational understanding, owner experience, and family support. This makes an empirical contribution to a more inclusive capital budgeting literature in the context of micro-enterprises.

## 5. Conclusion

This study illustrates how the basic principles of capital budgeting can be implemented pragmatically in the context of family-based micro-enterprises, even without the support of sophisticated financial tools. Although business owners do not have access to formal investment

evaluation systems such as net present value (NPV) or internal rate of return (IRR), investment decisions can still be made effectively through a combination of experiential assessment, open, informal communication, and a foundation of knowledge from an accounting education background. This case shows that informal structures—built on trust, basic financial literacy, and responsiveness to business conditions—can replicate the main functions of a formal capital budgeting system. Mechanisms such as family discussions, daily cash monitoring, and reflections from previous operational experience serve as functional investment evaluation and control tools. This reinforces the view that flexibility and adaptation are important in maintaining business sustainability with limited resources. Theoretically, this study contributes to developing a discourse on the contextual adaptation of financial decision-making tools in the informal sector. These findings challenge the notion that investment management effectiveness can only be achieved through a technocratic approach and instead underscore the importance of a flexible framework that is responsive to the realities of SMEs. In practical terms, this study provides important insights for educational institutions, policymakers, and micro-enterprises to develop more relevant and experience-based approaches to financial literacy. Further research is suggested to explore how integrating simple financial technology and community-based learning models can improve the quality of investment decision-making in the family small business sector, particularly in rural areas of Indonesia and other developing countries.

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