PROFILING BANKRUPTS AMONG SOLE PROPRIETORS IN MALAYSIA POST-COVID: A CONCEPTUAL PAPER

NOR, S. H. S.[1*] – AHMAD, N. W.[2] – ABDULLAH, K.[3]

[1] *Department of Economics and Financial Studies, University of Technology MARA, Selangor, Malaysia.*

[2] *Department of Economics and Finance, Selangor Islamic University, Selangor, Malaysia.*

[3] *Human Resources and Administration Division, Permodalan Nasional Berhad, Selangor, Malaysia.*

**Corresponding author*
e-mail: heryati879[at]uitm.edu.my

(Received 18th March 2026; revised 26th June 2026; accepted 28th July 2026)

Abstract. This conceptual study examines the factors contributing to bankruptcy among sole proprietors in Malaysia in the post-COVID-19 period. Sole proprietors face heightened financial vulnerability due to limited capital reserves, unstable cash flows, inadequate financial planning, poor debt management, and the unlimited liability structure that exposes personal assets to business obligations. The study proposes quantitative descriptive analysis and cluster analysis to identify patterns, similarities, and differences among bankrupt sole proprietors and develop meaningful bankruptcy profiles. Purposive sampling is proposed to select relevant sole proprietors who can provide appropriate information for the analysis. The study highlights financial literacy, financial management skills, liquidity management, and strategic planning as important factors in reducing insolvency risk. By identifying distinct profiles of bankrupt sole proprietors, the study aims to support targeted financial education, early intervention, debt management assistance, and institutional policy measures that strengthen entrepreneurial resilience and improve the long-term financial sustainability of sole proprietors in Malaysia.
Keywords: *insolvency, debt management, financial instability, financial planning*

Introduction

Personal bankruptcy remains a critical indicator of household financial distress, particularly following the systemic economic shocks induced by the pandemic (Nor et al., 2024). This rise in insolvency cases underscores a growing reliance on personal bankruptcy as a mechanism to mitigate the accumulation of unmanageable debt. Current economic landscapes reveal that shifting socioeconomic dynamics, including stagnant wage growth and impulsive credit consumption, have exacerbated the prevalence of such financial defaults. Furthermore, the interplay between limited emergency savings and inadequate financial planning has rendered vulnerable groups, including sole proprietors, increasingly susceptible to liquidity crises (Amirludin et al., 2024). The COVID-19 pandemic introduced severe operational and financial disruptions that disproportionately affected Malaysian sole proprietors, who often operate with limited capital buffers and a heavy dependence on consistent daily sales (Azman and Majid, 2023; Liew and Yusoff, 2023). For this group, the imposition of Movement Control Orders necessitated abrupt cessations of business activities, leading to critical cash flow imbalances and restricted access to necessary supplies (Omar et al., 2020). Despite various government stimulus measures, many micro-entrepreneurs faced sustained challenges in maintaining business viability, as existing financial resources proved

eISSN: 2716-6481
https://doi.org/10.55197/qjssh.v7si4.1663

insufficient to withstand prolonged periods of inactivity (Lau et al., 2024; Azman and Majid, 2023). Consequently, these systemic pressures have heightened the risk of insolvency among self-employed individuals, rendering them uniquely vulnerable in the post-pandemic economic landscape (Lau et al., 2024). Furthermore, the inherent unlimited liability structure of sole proprietorships means personal assets are not isolated from business liabilities, leaving owners personally exposed to bankruptcy proceedings (Ilias et al., 2024). Addressing these vulnerabilities requires a multifaceted approach, as agencies like AKPK have already begun integrating digital infrastructure and enhanced debt management support to assist those facing similar financial commitments (Ilias et al., 2023). Effective mitigation strategies must therefore incorporate comprehensive financial literacy programs that address both objective knowledge and behavioral risk tolerance (Loke, 2017). Integrating these educational initiatives with policy reforms can facilitate a more resilient entrepreneurial environment, ultimately curbing the cycle of recurrent debt (Ilias et al., 2024).

Results and Discussion

Primary determinants include the lack of adherence to the economic entity concept, which results in the failure to separate personal assets from business capital, complicating effective financial management and hindering long-term success (Mohamed Sadique et al., 2025). Additionally, research indicates that poor financial risk management and an over-reliance on debt are pivotal contributors to the insolvency of smaller ventures (Khan et al., 2020). These operational deficiencies are further compounded by a widespread absence of formal financial training, which prevents entrepreneurs from accurately assessing the long-term sustainability of their leveraged positions (Wise, 2013). Furthermore, the inability to navigate complex lending criteria often stems from distinct personal management styles, which significantly correlate with higher bankruptcy risks in small-scale enterprises (Paseková et al., 2016).

Consequently, the absence of strategic knowledge, as opposed to mere operational awareness, serves as a primary barrier to firm longevity (Carter and Auken, 2006). Moreover, the depletion of initial capital stocks without concurrent improvements in managerial competencies, such as financial planning and distribution, leaves firms unable to survive early-stage market fluctuations (Kücher et al., 2018). Apparently, the recurring failure to conduct routine financial analysis prevents owners from identifying distress signals, such as deteriorating debt-to-equity ratios, until they reach an irreversible state of insolvency (Mross and Reiter, 2019). This cycle is further perpetuated by a lack of liquidity management, which prevents firms from meeting short-term obligations as they become due (Bushe, 2019). As a result, business owners who lack these essential financial skills often struggle to manage their resources effectively, which creates a significant challenge to planning for long-term growth. This study therefore aims to address an existing research gap by offering a comprehensive examination of the determinants and profiling of bankruptcy among sole-proprietors in Malaysia.

Existing scholarly literature consistently identifies a complex nexus of managerial and operational shortcomings that disproportionately predispose sole proprietors to bankruptcy (Carter and Auken, 2006). A fundamental catalyst for this vulnerability is the pervasive failure to adhere to the economic entity concept, which obscures the critical boundary between personal assets and business capital and impairs the

eISSN: 2716-6481
https://doi.org/10.55197/qjssh.v7si4.1663

assessment of true business financial health (Mohamed Sadique et al., 2025). Research further highlights that the absence of disciplined financial management—characterized by erratic record-keeping, poor cash flow analysis, and an over-reliance on leverage—serves as a primary driver of insolvency (Nkwinika and Akinola, 2023; Khan et al., 2020). Compounding these systemic issues, many small-scale entrepreneurs lack the strategic knowledge necessary to interpret financial reports or navigate complex lending criteria, leaving them unable to identify early distress signals in their debt-to-equity ratios (Fahmi et al., 2025; Mross and Reiter, 2019). Ultimately, this depletion of initial capital without concomitant improvements in managerial competencies, such as long-term financial planning, leaves firms particularly susceptible to market fluctuations, thereby rendering the adoption of formal financial training an essential prerequisite for firm survival (Kücher et al., 2018; Wise, 2013).

Furthermore, fostering financial literacy among small business owners is vital to bridging the gap between basic record-keeping and advanced strategic decision-making (Urefe et al., 2024). Integrating these educational initiatives into the core management framework empowers owners to implement robust transaction recording and long-term planning practices (Kaban, 2024a, 2024b). Such professional development initiatives effectively transform financial literacy from a theoretical asset into a practical management tool capable of mitigating the risks of insolvency (Souza, 2026; Alshebami and Murad, 2022). Beyond addressing knowledge gaps, these educational programs facilitate a deeper comprehension of economic principles, which is essential for optimizing debt management and maintaining a competitive market orientation (Mariam et al., 2023). Specifically, enhancing these competencies enables entrepreneurs to move beyond survivalist modes of operation, fostering the structural agility required to secure external financing and scale business activities (Nadir et al., 2026; Hussain et al., 2018).

Recent scholarly investigations consistently corroborate that financial literacy serves as a strategic capability, enabling small and medium-sized enterprises to optimize investment decisions and bolster overall competitiveness (Molosiwa and Holland, 2025). Research suggests that managers who possess high levels of financial literacy are significantly better equipped to navigate the complexities of debt management and external financing (Charfeddine et al., 2024). Furthermore, empirical evidence demonstrates that an enhanced capacity to interpret financial reports directly correlates with superior business continuity and reduced susceptibility to operational failure (Wahyundaru et al., 2024). Moreover, studies indicate that this literacy empowers stakeholders to participate more effectively in strategic planning, fostering the ability to make informed decisions regarding wealth and long-term solvency (Sari et al., 2023). Consequently, the cultivation of these analytical skills is increasingly recognized as a vital precursor to identifying entrepreneurial opportunities and securing institutional support (Muñoz-Céspedes et al., 2024). This proficiency further enables entrepreneurs to recognize and access essential financial resources, ensuring that capital is efficiently allocated to meet both current operational needs and future growth requirements (Subagyo et al., 2023; Al-Mutawakkil et al., 2020).

The statistical analyses that can be used in this study are descriptive analysis and cluster analysis. Descriptive analysis is essential for every study. Frequency analysis for categorical variables and descriptive statistics (min, max, mean and standard deviation) for continuous variables provides basic information about the distribution of the data (Nor et al., 2024). In this study, descriptive analysis can be done by using IBM Statistical Package for the Social Science (SPSS). In addition, cluster analysis is a descriptive process where the observations of a database are divided based on their characteristics into groups called clusters. The idea is to create groups between observations that are more similar to each other than to those in other groups. In other words, a cluster is a group of relatively homogeneous objects where the objects of one cluster are dissimilar to objects of another cluster.Cluster analysis is also a data mining technique that can reveal cluster of objects that have similar characteristics. Different from classification, clustering technique also defines the classes and allocates objects in them, while in classification, objects are assigned into predefined classes (Rupali and Gupta, 2013). An example of cluster analysis is k-means cluster analysis. K-means cluster analysis is a partitioning based, non-hierarchical clustering method. It is simple and can be used for wide variety of data types (Napoleon et al., 2011). According to Garla et al. (2012), k-means cluster analysis is one of the most widely used clustering methods. The advantage of this method is its capability to handle large data sets and can work with compact clusters. On top of that, the type of sampling design that can used in this study is purposive sampling. Purposive sampling is confined to specific type of people who can provide the desired information either because they are the only ones who have it or comply to some criteria specified by the researcher (Sekaran and Bougie, 2016). Therefore, with this purposive sampling, descriptive analysis and cluster analysis results will reveal potential differences and similarities among the clusters, consequently, the profiles of a bankrupt can be determined.

Conclusion

This study provides a comprehensive examination of the multifaceted factors contributing to bankruptcy among sole-proprieters in Malaysia, integrating statistical analysis insights to offer a holistic understanding of this pressing issue. The findings underscore the important needs for targeted financial education and robust support mechanisms to enhance the financial well-being of private sector particularly for sole-proprieter in Malaysia. This study, therefore, advocates for policy reforms that encompass advanced financial counselling services and early intervention strategies, identifying that comprehensive support is crucial for mitigating bankruptcy risks (Brackertz, 2014). Such initiatives should aim to foster a culture of prudent financial management and resilience, thereby safeguarding the economic stability of the private sector (Bakar et al., 2020). Future research should aim to address these disparities by employing longitudinal designs and sector-specific analyses to better capture the dynamic nature of MSME development (Pawenang et al., 2024). Additionally, integrating emerging technologies such as artificial intelligence and blockchain into research models could offer deeper insights into their potential to transform business operations and bolster continuity in increasingly volatile market conditions (Pawenang et al., 2024).

Acknowledgement

This research is self-funded.

eISSN: 2716-6481
https://doi.org/10.55197/qjssh.v7si4.1663

Conflict of interest

The authors confirm that there is no conflict of interest involve with any parties in this research study.

REFERENCES

[1] Al-Mutawakkil, F.L., Purnomo, M., Maulina, E. (2020): A scoping review of financial themes in entrepreneurial orientation. – Russian Journal of Agricultural and Socio-Economic Sciences 98(2): 85-100.

[2] Alshebami, A.S., Murad, M. (2022): The moderation effect of entrepreneurial resilience on the relationship between financial literacy and sustainable performance. – Frontiers in Psychology 13: 12p.

[3] Amirludin, A.A., Jaafar, M.N., Ambad, S.N.A. (2024): A conceptual framework of the retirement savings behavior among civil servants in Malaysia. – Information Management and Business Review 16(3(I)S): 328-343.

[4] Azman, A.B., Majid, M.A.A. (2023): Role of family and survival strategies of micro-family food business during COVID-19 pandemic. – Journal of Tourism and Services 14(26): 153-172.

[5] Bakar, M.Z.A., Ayub, S.H., Hamzah, M.R., Bakar, S.A. (2020): Financial education as a moderating influence in prudent financial management practices among Malaysian youth. – International Journal of Academic Research in Business and Social Sciences 10(13): 20-29.

[6] Brackertz, N. (2014): The impact of financial counselling on alleviating financial stress in low income households: A national Australian empirical study. – Social Policy and Society 13(3): 389-407.

[7] Bushe, B. (2019): The causes and impact of business failure among small to micro and medium enterprises in South Africa. – Africa's Public Service Delivery and Performance Review 7(1): 1-26.

[8] Carter, R., Van Auken, H. (2006): Small firm bankruptcy. – Journal of Small Business Management 44(4): 493-512.

[9] Charfeddine, L., Umlai, M.I., El-Masri, M. (2024): Impact of financial literacy, perceived access to finance, ICT use, and digitization on credit constraints: Evidence from Qatari MSME importers. – Financial Innovation 10(1): 1-37.

[10] Fahmi, F., Nst, A.U., Shifah, L., Sugianto, S. (2025): Perencanaan keuangan untuk mengurangi risiko kebangkrutan: Pentingnya pengelolaan keuangan, pencatatan yang baik, dan strategi pengelolaan arus kas. – Harmoni Sosial 2(1): 76-84.

[11] Garla, S., Chakraborty, G., Gaeth, G. (2012): Mining and text analytics comparison of k-means, normal mixtures and probabilistic-d clustering for B2B segmentation using customers' perceptions. – SAS Global Forum 8p.

[12] Hussain, J., Salia, S., Karim, A.H. (2018): Is knowledge that powerful? Financial literacy and access to finance. – Journal of Small Business and Enterprise Development 25(6): 985-1003.

[13] Ilias, I.I., Azizi, N.N.H., Rahman, N.A., Mahali, M. (2023): Financial solace: Malaysian Credit Counselling and Debt Management Agency responses to COVID-19 challenges. – Emerging Science Journal 7: 145-162.

[14] Ilias, I.I., Mahali, M., Azizi, N.N.H., Rahman, N.A., Abdullah, S.M. (2024): Turning the tide: Holistic approaches to reducing overindebtedness in Malaysia. – International Journal of Research and Innovation in Social Science 8(10): 506-523.

[15] Kaban, M. (2024a): Understanding financial management as a determining factor for the success of MSMEs: A qualitative study. – Journal of Multidisciplinary Academic Business Studies 2(1): 241-250.

[16] Kaban, M. (2024b): Understanding financial management as a determining factor for the success of MSMEs: A qualitative study. – International Journal of Accounting and Management Information Systems 2(1): 51-60.

[17] Khan, K.A., Dankiewicz, R., Kliuchnikava, Y., Oláh, J. (2020): How do entrepreneurs feel bankruptcy? – International Journal of Entrepreneurial Knowledge 8(1): 89-101.

[18] Lau, W.Y., Ke, G.N., Yip, T.M., Wong, R.M.M., Kamal, K.A., Lee, S.C., Carter, S., Khairudin, R., Grajfoner, D. (2024): Socioeconomic impact and sufficiency of government financial support during COVID-19 pandemic: A retrospective study. – PLoS ONE 19(5): 1-18.

[19] Liew, X.T., Yusoff, M.E. (2023): The role of Islamic microfinance institution in women micro-entrepreneurs sustainability during COVID-19 in Johor. – Open Journal of Business and Management 11(5): 2321-2342.

[20] Loke, Y.J. (2017): Financial vulnerability of working adults in Malaysia. – Contemporary Economics 11(2): 205-218.

[21] Mariam, S., Putra, A.H.P.K., Ramli, A.H., Aryani, F. (2023): Analysis of the effect of debt level, market orientation, and financial literacy on microenterprise financial performance: The mediating role of consumer behavior. – ATESTASI: Jurnal Ilmiah Akuntansi 6(2): 469-494.

[22] Mohamed Sadique, R.B., Musman, M., Muda, S. (2025): Financial literacy in sole proprietorship: The entity concept. – Buletin FPN S3 9: 8-9.

[23] Molosiwa, T., Holland, J. (2025): The impact of financial literacy on the performance of Small and Medium-sized Enterprises (SMEs): A review of literature. – International Journal of Research in Business and Social Science 14(3): 320-332.

[24] Mross, E., Reiter, L. (2019): Partners in financial literacy: Outreach to student entrepreneurs. – College & Research Libraries News 80(10): 575-575.

[25] Muñoz-Céspedes, E., Ibar-Alonso, R., Mir, M.C. (2024): Individual entrepreneurial behavior and financial literacy. – International Entrepreneurship and Management Journal 20(3): 2263-2285.

[26] Nadir, M., Alam, S., Ali, M.J., Rahim, F.R. (2026): Financial literacy and SME financial distress studies: A systematic literature review. – Multidisciplinary Reviews 9(2): 1-7.

[27] Napoleon, D., Pavalakodi, S. (2011): A new method for dimensionality reduction using k-means clustering algorithm for high dimensional data set. – International Journal of Computer Applications 13(7): 41-46.

[28] Nkwinika, E., Akinola, S. (2023): The importance of financial management in small and medium-sized enterprises (SMEs): An analysis of challenges and best practices. – Technology Audit and Production Reserves 5: 12-20.

[29] Nor, S.H.S., Ismail, S., Wah, Y.B. (2024): Personal bankruptcy prediction using logistic regression model. – Information Management and Business Review 16(3S(I)): 366-378.

[30] Omar, A.R.C., Ishak, S., Jusoh, M.A. (2020): The impact of COVID-19 Movement Control Order on SMEs' businesses and survival strategies. – Geografia-Malaysian Journal of Society and Space 16(2): 90-103.

[31] Paseková, M., Fišerová, Z., Bařinová, D. (2016): Bankruptcy in Czech Republic – from the perspectives of debtors, creditors, and the judiciary, 2008-2013. – Journal of International Studies 9(1): 180-191.

[32] Pawenang, S., Al-Shami, S.A., Wijaya, A. (2024): Empowering SMEs through digital financial literacy: Enhancing resilience, innovation, and inclusivity in Malaysia. – International Journal of Academic Research in Accounting, Finance and Management Sciences 14(4): 813-819.

[33] Rupali, Gupta, G. (2013): Data mining: Techniques, applications and issues. – International Journal of Advanced Research in Computer Science and Electronics Engineering 2(2): 220-223.

[34] Sari, Y.W., Nugroho, M., Rahmiyati, N. (2023): The effect of financial knowledge, financial behavior and digital financial capabilities on financial inclusion, financial

eISSN: 2716-6481
https://doi.org/10.55197/qjssh.v7si4.1663

concern and performance in MSMEs in East Java. – Uncertain Supply Chain Management 11(4): 1745-1758.
[35] Sekaran, U., Bougie, R. (2016): Research methods for business: A skill-building approach. – John Wiley & Sons, Chichester 448p.
[36] Souza, V.A.D. (2026): Educação financeira como ferramenta de gestão em empreendimentos de pequeno porte. – RCMOS - Revista Científica Multidisciplinar O Saber 1(1): 1-10.
[37] Subagyo, S., Suhendra, E.S., Ernestivita, G. (2023): Digital transformation, marketing, business size, financial literation on SMEs' competitive advantage. – Trikonomika 22(2): 100-107.
[38] Urefe, O., Odonkor, T.N., Chiekezie, N.R., Agu, E.E. (2024): Enhancing small business success through financial literacy and education. – Magna Scientia Advanced Research and Reviews 11(2): 297-315.
[39] Wahyundaru, S.D., Putra, W., Wibowo, M., Ivada, E., Nurastuti, P., Sasongko, C.D., Choiri, M.M., Yuzaria, D. (2024): Linking the role of e-commerce and financial literacy on MSME's sustainability performance during the digital era. – International Journal of Data and Network Science 8(4): 2651-2662.
[40] Wise, S. (2013): The impact of financial literacy on new venture survival. – International Journal of Business and Management 8(23): 30-39.

eISSN: 2716-6481
https://doi.org/10.55197/qjssh.v7si4.1663