Assessment on the Financial Management Practices Among Microenterprises in Cantilan Surigao Del Sur

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Abstract

Microenterprises are among the most vulnerable segments of the market, often face with unique challenges, particularly in financial management. This study explores the extent of microenterprises' practices in liquidity and financing decisions—two critical factors that determine their financial stability and potential for survival in competitive markets. Poor management of these aspects may result in operational difficulties or business failure. The research focused on microenterprise owners operating as tenants of commercial stalls at NEMSU Cantilan, Surigao del Sur. A descriptive research design was employed to assess their financial management practices, with data gathered through structured surveys and interviews. The study revealed that while respondents generally exhibited sound practices in managing liquidity and financing decisions, gaps were identified in areas such as cash flow management, credit utilization, and contingency planning. The findings emphasized the importance of targeted interventions to address these gaps, particularly through financial literacy programs, access to affordable credit, and capacity-building initiatives tailored for microenterprise owners. Such measures can improve their capability to maintain resiliency and adaptability in fast-changing market situations and sustainable growth. tailored for microenterprise The study provides a foundation for future research, particularly in comparing financial management practices across different microenterprise sectors and locations. It also highlights the need for policies and programs that strengthen the support system for microenterprises in the Philippines.

Keywords: financial management practices, microenterprises, liquidity, financing decision, financial stability, financial literacy, cash flow management.

INTRODUCTION

Financial management is one of the important factors an entrepreneur should master. Understanding the needs, demands and challenges of the customers is part on financial skills and play a vital role on entrepreneurship. Having practiced on financial management can lead to high opportunities of growth, development, and get full potential to compete in the market. Microenterprises often serve as a backbone for local communities, providing goods, services, and opportunities for livelihood. However, despite their significant role, microenterprises face numerous challenges that hinder their sustainability and growth. Among these challenges, financial management practices stand out as a critical factor influencing their overall performance and survival.

Effective financial management is essential for any business, regardless of size, as it ensures proper allocation and utilization of resources, accurate record-keeping, cash flow management, and informed decision-making. However, many microenterprise owners lack formal training in financial management, relying instead on informal or traditional methods, which may not align with modern business needs or standards. This gap can lead to inefficiencies, financial instability, and, in some cases, business failure. In the realm of business management, particularly within the sphere of microenterprises, the effective handling of finances stands as a critical determinant of success and sustainability.

For instance, Smith and Jones (2018) emphasized the crucial role of budgeting and cash flow management in ensuring the financial health of microbusinesses. Similarly, a study by Brown et al. (2019) underscored the importance of financial transparency and accountability in fostering trust among stakeholders and securing investment opportunities for microenterprises. The findings collectively underscore the relevance of examining financial management practices among microenterprises to cultivate a deeper understanding of their operational dynamics and challenges.

This research study aims to explore the current financial management practices employed by microenterprises particularly in liquidity and financing decisions and evaluate the impact of these practices on their performance. Through this assessment, the study will also contribute to the broader discourse on microenterprise development by highlighting the importance of financial literacy capabilities, ultimately contributing to their sustainability and growth.

Review of Related Literature

Financial management practices are crucial for the sustainability and growth of microenterprises, particularly in developing economies like the Philippines. These practices encompass budgeting, accounting, financial reporting, and internal controls, which collectively influence a firm's operational efficiency and profitability. A study focusing on Quezon City revealed that while practices such as costing and budgeting are frequently employed, areas like internal control and long-term financing are often neglected. This imbalance can impede business growth and operational efficiency. (Dolorso, 2023). Similarly, research conducted in Tanauan, Leyte, indicated that micro and small enterprises (MSEs) regularly engage in costing and budgeting. However, they seldom practice internal control and working capital management, potentially affecting their financial stability and growth prospects. Barbosa, R. (2021).

Internationally, the situation mirrors these findings. In Ghana, small and micro enterprise owners face challenges in financial management, with many lacking formal financial management practices. This deficiency can lead to inefficiencies and hinder business growth (Mbroh, 2015). The World Bank emphasizes that small and medium enterprises (SMEs) are vital to economic development, especially in emerging economies. They represent about 90% of businesses and more than 50% of employment worldwide. However, access to finance remains a significant barrier, often due to inadequate financial management practices that deter potential investors and lenders. (World Bank)

The existing literature on the financial management of microenterprises in developing countries highlights several key themes. One of the primary challenges facing microentrepreneurs is low financial literacy, which can lead to poor decision-making and suboptimal resource allocation (Marie et al., 2020). This is particularly prevalent in countries where access to financial education and training is limited. As a result, microentrepreneurs may struggle with basic financial management tasks, such as budgeting, record-keeping, and the effective use of financial services.

Addressing gaps in financial practices, such as internal controls and long-term financial planning, is crucial for the development of these enterprises. According to Tarek and Widad (2018), effective financial management practices can improve the decision-making process, enhance operational efficiency, and ensure long-term viability. Poor financial management, on the other hand, can lead to insolvency, loss of market share, and eventual business closure (Yusuf, 2019). Additionally, access to financial resources is a persistent issue. Many microenterprises struggle to obtain loans from formal financial institutions due to stringent credit requirements (Kauffmann, 2021).

The literature indicates various methodologies for assessing financial management practices among microenterprises. For instance, a study by Mwangi and Muturi (2020) revealed that many microenterprises engaged in informal financial practices, which significantly impacted their overall financial health. In another study, Ranjan et al. (2021) identified a lack of structured financial planning and inadequate investment in technology as significant factors contributing to poor financial performance.

Microenterprises, defined as small-scale businesses typically employing fewer than ten individuals, play a crucial role in economic development. However, they often face unique challenges in liquidity management and financing decisions due to their limited resources and access to formal financial institutions. According to research, unpredictable cash inflows and outflows often force microenterprises to prioritize short-term obligations over long-term planning (World Bank, 2017). This reactive approach can hinder growth and sustainability. Microenterprises face significant barriers to formal financing, which shapes their decision-making regarding capital sourcing. Research shows that the financial decisions of microenterprise owners are influenced by risk aversion, lack of financial education, and cultural attitudes toward debt (Karlan et al., 2016).

The available literature suggests that microenterprises in developing countries often rely on a mix of formal and informal sources of financing, ranging from personal savings, family and friends, to microfinance institutions and local moneylenders (Khan, 2015). While these varied sources of funding can provide much-needed capital, they can also come with their own set of challenges, such as high interest rates, collateral requirements, and limited access to credit. (Jayachandran, 2020) The limited access to formal financing channels can be particularly problematic for microenterprises, as it can restrict their ability to invest in growth opportunities and manage their day-to-day liquidity needs. Studies have also highlighted the unique challenges faced by female microentrepreneurs in securing financing, which can be attributed to cultural and social norms, as well as gender-based discrimination. Furthermore, the lack of financial literacy and business management skills among microentrepreneurs can further exacerbate the financing challenges they face. (Khan, 2015)

Liquidity management and financing decisions are critical aspects of financial management for microenterprises. Several studies have explored these areas, providing insights into the challenges and practices prevalent among micro and small enterprises. A study focusing on microenterprises in Portugal examined their corporate finance practices, including working capital management, financing, and investment decisions. The research highlighted that these enterprises often rely on internal financing sources due to limited access to external capital, which significantly influences their liquidity management and overall financial strategies. (Francisco, 2024).

In the context of China, research has identified several factors contributing to the financing difficulties faced by small and medium-sized enterprises (SMEs), including microenterprises. Key issues include information asymmetry between lenders and borrowers, high transaction costs, and challenges in credit risk control. The study suggests that improving credit information systems, reducing financing costs, and enhancing risk management could alleviate these challenges, thereby improving liquidity and financing

options for microenterprises (Wang, 2017).
Another study explored the impact of managerial characteristics on external financing preferences among microenterprises. The findings indicate that the personal attributes of managers, such as their experience and education level, significantly influence the likelihood of seeking external financing. This, in turn, affects the liquidity and financial decision-making processes within these enterprises. (Francisco, 2024)
Additionally, Kitomo et al. (2020) emphasized the importance of proper accounts analysis in measuring liquidity and profitability. The study suggests that sound financial practices are essential for making informed financing decisions, which are crucial for the sustainability and growth of microenterprises.
Based on the review, financial management practices among microenterprises are a critical area of research that has significant implications for the sustainability and growth of these businesses. The literature reveals various challenges faced by microentrepreneurs in managing their finances effectively and highlights the need for enhanced financial literacy, access to resources, and the adoption of modern financial management tools. Future research should focus on longitudinal studies to assess the long-term impacts of improved financial management practices on the performance of microenterprises.

Methodology
This research utilized descriptive research outlining suitable survey questionnaire. This study was validated and undergo reliability test with 0.837 CA. The respondents were the tenants of commercial stall located at Cantilan, Surigao del Sur. The instrument was guided by a statistical tool such as Pearson Correlation and weighted mean. The research design is formulated to ensure that the objectives and its framework was thoroughly delivered.

Objectives:
This is study is guided of the following objectives:
1. Explore financial management practices employed by the microenterprises
2. Extent on the implementation of financial management practices
3. Significant relationship between financial management practices employed by microenterprises when grouped according to profile.
4. Recommendation that can be implemented

The table below is the framework to support the objective of research flow.

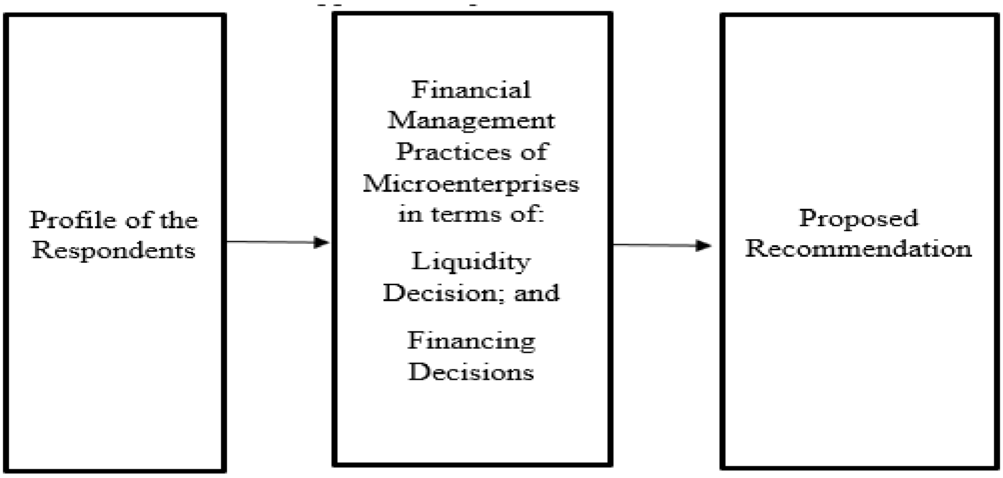

Fig. 1 Research Flow

The study's conceptual framework, which focuses on the respondents' profile of microenterprises, is presented in Figure 1. This research will also examine these microenterprises' financial management practices with regard to liquidity and financing decisions, as well as the difficulties they encounter. Based on the study's findings, a suggested recommendation will be made that will be very helpful for further research. The above framework is anchored in the theory by the author studied about the roots of liquidity and financing management.

Liquidity refers to the ability of a firm to meet its short-term obligations. In microenterprises, maintaining adequate liquidity is critical for operational continuity and survival (Borchardt, 2019). According to the liquidity management theory, firms should balance their liquid assets against short-term liabilities to ensure they can meet their obligations without incurring additional costs (Rizvi et al., 2018). Moreover, financing decisions involve the choice between various funding sources, including equity, debt, and internal financing. The pecking order theory suggests that businesses prefer internal financing over external debt and equity to minimize costs and maintain control (Myers, 1984). For microenterprises, this hierarchy is often dictated by the accessibility of funding options and the perceived risk associated with external financing.

Findings and Analysis

The researcher found out respondent’s liquidity management. With the average weighted mean is 3.96, interpreted as "Agree," indicating that respondents generally agree they have sound practices in managing liquidity. It was also highlighted that there is a strong understanding of cash flow needs (4.30 - "Strongly Agree") and regular monitoring of cash balances and tracking payments (4.20 - "Agree"). Based on the result, we also can draw an area for improvement specifically in timeliness in receiving payments from customers (3.80 - "Agree") and access to reliable financial advice (3.50 - "Agree"), which has the lowest rating in this section. The findings indicates that the microenterprise owners surveyed generally have a good understanding of their cash flow needs and regularly monitor their cash balance. They have systems for managing accounts receivable and prioritize paying suppliers and creditors on time. They also have plans for managing unexpected expenses and utilize short-term financing options when necessary. However, the survey revealed that the owners are not completely comfortable with the level of risk associated with their current liquidity management practices and need to regularly review and adjust their strategies to adapt to changing business conditions.

In terms of assessing how microenterprises handle financing decisions it was revealed with an average weighted mean is 3.94, interpreted as "Agree," suggesting a solid understanding of financing management. It was also found that the respondents feel comfortable with their credit history, debt management plans, and confidence in repayment ability (4.00 - "Agree"), familiarity with financing options is high (4.10 - "Agree"), with a lower score for having a clear business plan for financing use (3.40 - "Neutral") suggests potential improvement in planning and strategy documentation. The results emphasized that the microenterprises are generally comfortable with the terms and conditions of financing options and have a strong credit history and good track record of managing their finances. However, the survey suggests that the owners could benefit from further exploring alternative financing options beyond traditional bank loans. They also need to ensure that they have a plan for managing the debt they incur to avoid it becoming a burden on their business.

Furthermore, as to the extent of implementation on the implementation of financial management practices, a “moderate extent” rating indicates that financial management practices are in place but are not fully developed or systematically applied. While some principles of liquidity and financing decision making are followed, there is room for improvement in terms of strategic implementation, consistency and effectiveness. The organization may need to strengthen policies, improve financial forecasting, and adopt best practices to enhance its financial management framework.

In addition, it was also revealed there is no significant relationship was noted between financial management practices employed by microenterprise when grouped according to profile. This means that financial management practices indicates that none of the examined factors—which is profile of the respondents in terms of form of business, years in operation, or source of capital—demonstrate a statistically significant relationship with these practices. Specifically, the form of business yielded an r-value of 0.356 and a p-value of 0.312, leading to a failure to reject the null hypothesis and suggesting no significant impact. Similarly, years in operation had an r-value of 0.099 and a p-value of 0.785, reinforcing the conclusion that this variable does not significantly influence financial management practices. Lastly, the source of capital showed an r-value of -0.045 and a p-value of 0.901, further confirming the lack of significance. Overall, these results suggest that these factors do not play a critical role in shaping financial management practices within the studied context.

Conclusion

The study on financial management practices among microenterprises revealed a strong understanding and implementation of fundamental principles in liquidity and financing decisions. Key findings indicate that respondents generally agree on having sound practices in place, yet areas for improvement were also identified. The findings suggest that while overall liquidity practices are sound, there is room for enhancement in risk comfort levels and adapting strategies to evolving business conditions. On the other hand, the exploration of alternative financing options beyond traditional methods also remains limited. These findings highlight a need for improved planning and a broader approach to financing strategies to ensure sustainability and growth and indicates the importance of robust financial management practices for the success of microenterprises. While the respondents exhibit strong foundational practices, addressing gaps in customer payment timeliness, financial advisory access, business planning, and alternative financing options could enhance their overall financial stability and strategic decision-making. These improvements are vital for maintaining resilience and adapting to dynamic market conditions. By focusing on these identified areas, microenterprise owners can better position themselves for sustained growth and operational success.

Recommendation

Based on the findings here are concrete recommendations for microenterprises that can address the identified gaps and build upon their strengths. Effective liquidity management is crucial for the sustainability and growth of microenterprises. One primary recommendation is to enhance the timeliness of accounts receivable. By developing a structured invoicing process that includes automated reminders for payment, businesses can significantly reduce delays in cash inflow. Additionally, offering incentives such as discounts for early payments can motivate customers to settle their accounts promptly, thus improving overall cash flow. Access to financial advice is another vital aspect of liquidity management. Collaborating with local financial advisors or organizations that provide affordable consulting services tailored specifically for microenterprises can empower business owners with essential financial literacy. Workshops focusing on cash flow management, risk mitigation, and strategic planning will equip them with the necessary tools to navigate financial challenges effectively.

Furthermore, regular risk and strategy adjustments are imperative for adapting to fluctuating market conditions. Implementing quarterly reviews of liquidity management strategies allows businesses to remain agile in their operations. Utilizing simple tools like spreadsheets or specialized software enables real-time monitoring of cash flows and risk assessments, thereby fostering informed decision-making.

In terms of financing management, developing comprehensive business plans is essential. Providing training or templates for creating detailed plans will help microenterprises articulate their financing needs clearly. Partnerships with local business development agencies can further guide these enterprises through the intricacies of effective business planning. Exploring alternative financing options such as crowdfunding or peer-to-peer lending platforms offers innovative solutions beyond traditional banking methods. Establishing partnerships with microfinance institutions dedicated to small enterprises can also enhance access to necessary funding while strengthening debt management practices through debt tracking tools that monitor loan repayments against cash flow.

Lastly, enhancing confidence and capacity among microenterprise owners through scenario-based simulations of repayment plans helps them understand the potential impacts on their business health. Creating peer networks fosters an environment where owners share successful financing and repayment strategies, ultimately leading to more robust financial acumen within the community.

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