ISSN 2278-2540 | DOI: 10.51583/IJLTEMAS | Volume XIV, Issue IX, September 2025

An Assessment of Financial Management Practices Among Micro, Small, and Medium Enterprises (MSMEs) in the Retail Sector in Nueva Ecija

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DOI: https://doi.org/10.51583/IJLTEMAS.2025.1409000031

Received: 12 Aug 2025; Accepted: 18 Sep 2025; Published: 01 October

Abstract: This study assessed the financial management practices of Micro, Small, and Medium Enterprises (MSMEs) in the retail sector of Nueva Ecija, focusing on budgeting, working capital, record-keeping, financing decisions, and cash flow management. Using a descriptive-quantitative design, 150 MSME owners and managers were surveyed through a validated questionnaire. Results showed that most MSMEs are microenterprises under sole proprietorships with fewer than five employees. Findings revealed strengths in budgeting adjustments, managing supplier relationships, and aligning financial decisions with business goals. However, gaps were noted in budget reviews, inventory control, compliance with record-keeping standards, and cash flow forecasting.

The main challenges encountered included regulatory compliance, absence of modern accounting systems, financing constraints, and limited manpower. Correlation analysis indicated significant negative relationships between enterprise size, workforce, and effectiveness of working capital, record-keeping, and cash flow practices. The study concludes that while MSMEs value financial management, limitations in resources and knowledge hinder full implementation. Recommendations include financial literacy programs, simplified tax processes, digital adoption, and improved access to financing to enhance MSME sustainability.

Keywords: Financial management practices, Micro, Small, and Medium Enterprises

I. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are recognized as the backbone of many economies, providing employment opportunities, stimulating innovation, and contributing to poverty reduction. In the Philippines, they account for more than 99% of total registered businesses, with a large concentration in the retail sector that supplies essential goods and services to communities (Department of Trade and Industry, 2022). Despite their importance, many MSMEs encounter persistent challenges in sustaining operations due to poor financial management practices. Financial management, which includes budgeting, working capital management, investment decisions, and record-keeping, is critical in determining the sustainability and competitiveness of enterprises. Several studies highlight that effective financial practices enhance profitability, credit accessibility, and long-term viability, while weak practices are strongly associated with high failure rates among MSMEs (Afolabi & Dare, 2020; Maduekwe & Kamala, 2016). In developing contexts such as the Philippines, these weaknesses are compounded by limited financial literacy and lack of access to external financing.

The situation is particularly relevant in provinces like Nueva Ecija, where MSMEs in the retail sector form a substantial part of the local economy. Given the competitive environment and resource constraints, retailers often struggle with cash flow management, inadequate accounting systems, and limited financial planning. Moreover, the effects of the COVID-19 pandemic further exposed the vulnerability of enterprises with poor financial practices. Although financial management among MSMEs has been widely studied in urban or national contexts, there remains limited empirical evidence focusing on provincial areas such as Nueva Ecija. This gap is important to address because local conditions, entrepreneurial skills, and market dynamics in provincial settings differ significantly from those in larger cities (Nguyen & Luu, 2020).

This study therefore aims to assess the financial management practices of MSMEs in the retail sector of Nueva Ecija, identify the challenges they face in implementing these practices, and analyze how such practices influence sustainability. By addressing this gap, the research intends to generate context-specific insights that can inform policy recommendations and capacity-building programs to improve financial literacy and resource management among MSMEs in the province.

II. Objectives of the Study

This study aimed to assess the financial management practices of Micro, Small, and Medium Enterprises (MSMEs) in the retail sector of Nueva Ecija. Specifically, it pursued the following objectives:

1. To determine the profile of the respondents in terms of type of business ownership, years of operation, business size, and number of employees.
2. To evaluate the financial management practices of MSMEs in relation to budgeting, working capital, record-keeping, financing decisions, and cash flow monitoring.
3. To examine whether significant relationship exist in financial management practices and profile of the respondents.

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4. To identify the challenges encountered by MSMEs in implementing financial management practices.
5. To propose recommendations that may enhance financial management among MSMEs in the retail sector of Nueva Ecija

III. Methodology

This study employed a descriptive-quantitative design to assess the financial management practices of MSMEs in the retail sector of Nueva Ecija. A total of 150 owners and managers were selected through purposive sampling from DTI-registered enterprises. Data were collected using a validated structured questionnaire covering respondents' profile, financial management practices (budgeting, working capital, record-keeping, investment and financing, cash flow monitoring), and challenges encountered. Responses were measured on a 4-point Likert scale, and a pilot test with 10 MSMEs yielded a Cronbach's Alpha above 0.70 for reliability. Questionnaires were distributed personally and electronically, with follow-ups to ensure retrieval. Data were analyzed using descriptive statistics (frequency, percentage, weighted mean, standard deviation) and Pearson r correlation to test relationships between profile variables and financial practices. Ethical standards were observed, ensuring informed consent, voluntary participation, and confidentiality of responses.

1V. Results and Discussions

Profile of the Respondents

Type of bus. ownership	**Frequency**	**Percent**
Sole Proprietorship	143	95.3
Partnership	4	2.7
Corporation	3	2
Total	150	100
Business size	**Frequency**	**Percent**
Micro	138	92
Small	7	4.7
Medium	5	3.3
Total	150	100
Number of employees	**Frequency**	**Percent**
5 below	113	75.3
6-10	16	10.7
11-15	13	8.7
16-20	8	5.3
Total	150	100

The table presents the distribution of respondents according to their type of business ownership, business size, and number of employees. Out of 150 respondents, the majority (95.3%) operate under sole proprietorship, while only 2.7% are partnerships and 2% are corporations. In terms of business size, most belong to the microenterprise category (92%), followed by small (4.7%) and medium enterprises (3.3%). Regarding employment, 75.3% of the businesses have five or fewer employees, while only 5.3% have 16–20 employees

Part 2. Financial management practices of MSMEs in relation to budgeting, working capital, record-keeping, financing decisions, and cash flow monitoring.

	Budgeting	W.M.	S.D.	V.D.
1.	Our business regularly prepares a budget to guide financial activities.	3.89	0.31	S.A.
2.	Budget preparation is aligned with the company's sales and revenue forecasts.	3.13	0.34	A.
3.	Budget reviews are conducted periodically to monitor actual versus planned expenses.	2.51	0.64	A.

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4.	Budgeting helps us allocate resources efficiently across business operations.	3.10	0.30	A.
5.	We make adjustments to the budget whenever unexpected expenses arise.	3.89	0.31	S.A.
	A.W.M.	3.31	0.16	S.A.
	Working Capital	**W.M.**	**S.D.**	**V.D.**
1.	Our business ensures that current assets are sufficient to cover current liabilities.	3.59	0.75	S.A.
2.	Inventory levels are properly managed to avoid excess or shortages.	3.08	0.27	A.
3.	The business maintains adequate short-term financing to support daily operations.	3.17	0.38	A.
4.	We closely monitor accounts receivable to ensure timely collection.	3.59	0.49	S.A.
5.	Accounts payable are managed properly to maintain good supplier relationships.	3.74	0.62	S.A.
	A.W.M.	3.43	0.24	S.A.
	Record Keeping	W.M.	S.D.	V.D.
1.	Our business maintains accurate and updated financial records.	3.32	0.11	S.A.
2.	Transactions are recorded promptly and systematically.	3.11	0.31	A.
3.	Financial documents are organized and stored for easy retrieval when needed.	3.06	0.24	A.
4.	Record-keeping practices comply with government regulations and requirements.	3.00	0.25	A.
5.	Reliable records are used as a basis for decision-making in the business.	3.68	0.60	S.A.
	A.W.M.	3.23	0.26	
	Financing decisions	W.M.	S.D.	V.D.
1.	Investment decisions are based on thorough financial analysis.	3.62	0.63	S.A.
2.	Financing options are evaluated carefully before being utilized.	3.17	0.37	A.
3.	Owners or managers consider risks before making major financial decisions.	3.22	0.42	A.
4.	Profitability is a key factor in deciding on future business expansion.	3.04	0.20	A.
5.	Financial decisions are aligned with the overall goals of the enterprise.	3.85	0.36	S.A.
	A.W.M.	3.38	0.15	S.A.
	Cash flow Management	W.M.	S.D.	V.D.
1.	The business regularly monitors cash inflows and outflows.	3.41	0.85	S.A.
2.	Cash flow statements are prepared to track liquidity status.	3.11	0.31	A.
3.	Adequate cash reserves are maintained to handle emergencies.	2.87	0.34	A.
4.	Credit terms given to customers are monitored to prevent delayed collections.	3.00	0.45	A.
5.	Cash flow projections are used to plan for future business needs.	2.62	0.60	A.
	A.W.M.	3.21	0.09	A.

The results on the financial management practices of MSMEs in the retail sector highlight variations across the five key dimensions: budgeting, working capital, record-keeping, financing decisions, and cash flow management.

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For budgeting, the highest weighted means were obtained in statements 1 and 5, "Our business regularly prepares a budget to guide financial activities" and "We make adjustments to the budget whenever unexpected expenses arise," both with a score of 3.89 (Strongly Agree). This shows that MSMEs recognize the importance of setting and adjusting budgets in line with actual needs. The lowest score, however, came from statement 3, "Budget reviews are conducted periodically to monitor actual versus planned expenses," which garnered 2.51 (Agree), suggesting that monitoring and evaluation of budgets are not consistently practiced. The average weighted mean (AWM) for budgeting was 3.31 (Strongly Agree), indicating that while businesses generally value budgeting, consistency in review remains an area for improvement.

In terms of working capital management, the highest score was from statement 5, "Accounts payable are managed properly to maintain good supplier relationships," with a weighted mean of 3.74 (Strongly Agree), showing emphasis on sustaining supplier trust. The lowest score was observed in statement 2, "Inventory levels are properly managed to avoid excess or shortages," with 3.08 (Agree), reflecting gaps in inventory planning. The AWM stood at 3.43 (Strongly Agree), signifying overall effectiveness in managing short-term financial obligations.

Regarding record-keeping, the highest score was 3.68 (Strongly Agree) in statement 5, "Reliable records are used as a basis for decision-making," reflecting recognition of records as decision tools. The lowest score was 3.00 (Agree) in statement 4, "Record-keeping practices comply with government regulations," suggesting weaker alignment with legal standards. The AWM was 3.23 (Agree), indicating that while businesses keep records, their accuracy and compliance with regulations need reinforcement.

For financing decisions, the highest weighted mean was recorded in statement 5, "Financial decisions are aligned with the overall goals of the enterprise," at 3.85 (Strongly Agree), demonstrating strategic alignment of financial choices. The lowest was statement 4, "Profitability is a key factor in deciding on future business expansion," with 3.04 (Agree), suggesting some owners may expand without fully prioritizing profitability. The AWM was 3.38 (Strongly Agree), reflecting generally sound but sometimes inconsistent financial decision-making.

Finally, in cash flow management, the highest score came from statement 1, "The business regularly monitors cash inflows and outflows," with 3.41 (Strongly Agree). The lowest was statement 5, "Cash flow projections are used to plan for future business needs," with 2.62 (Agree), showing limited forward planning in liquidity management. The AWM was 3.21 (Agree), implies that while monitoring is present, proactive cash flow planning remains insufficient.

Part 4. Challenges encountered by MSMEs in implementing financial management practices.

	Challenges encountered by MSMEs	**W.M.**	**S.D.**	**V.D.**
1.	Our business lacks sufficient knowledge and skills in financial management	3.20	0.35	A.
2.	Limited access to financial training or seminars makes it difficult to improve financial practices.	3.12	0.54	A.
3.	Insufficient working capital often hinders the smooth flow of operations.	3.10	0.68	A.
4.	Difficulty in accessing external financing (e.g., loans, credit) limits business growth.	3.35	0.25	S.A.
5.	The absence of modern accounting systems makes record-keeping challenging.	3.69	0.44	S.A.
6.	Poor cash flow monitoring causes problems in meeting short-term obligations.	3,18	0.36	A.
7.	Delays in customer payments negatively affect our financial stability.	3.26	0.48	S.A.
8.	Rising operational costs make budgeting and financial planning difficult.	3.20	0.23	A.
9.	Lack of time and manpower prevents proper implementation of financial management practices.	3.35	0.38	S.A.
10.	Compliance with government regulations (e.g., tax reporting) is burdensome for the business.	3.80	0.29	S.A.
	A.W.M.	3.34	0.48	S.A.

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The results of the study revealed that the greatest challenge encountered by MSMEs in implementing financial management practices is their difficulty in complying with government regulations, particularly in tax reporting, which obtained the highest weighted mean of 3.80 described as "strongly agree." This finding suggests that regulatory requirements remain burdensome for small business owners who often lack the resources and expertise to handle complex compliance procedures. The second major challenge is the absence of modern accounting systems, with a weighted mean of 3.69, also described as "strongly agree." This indicates that many MSMEs still depend on manual or traditional methods of record-keeping, which makes monitoring finances less efficient and prone to errors.

In addition, access to external financing such as loans or credit was identified as another significant concern, with a weighted mean of 3.35. This result reflects the limited opportunities for MSMEs to expand their operations due to strict lending requirements, insufficient collateral, and poor financial documentation. Alongside this, the lack of time and manpower, also with a weighted mean of 3.35, further prevents MSMEs from fully implementing financial management practices since owners and employees often perform multiple roles, leaving little focus on systematic financial monitoring. Lastly, delays in customer payments, which garnered a weighted mean of 3.26, strongly affect financial stability as businesses face challenges in maintaining smooth cash flow and meeting operational expenses.

Part 5. Significant relationship exist in financial management practices and profile of the respondents.

Correlations				
		Type of bus ownership	**Business size**	**Number of employees**
Budgeting	Pearson Correlation	0.15	0.061	-0.159
	Sig. (2-tailed)	0.067	0.461	0.052
	N	150	150	150
Working Capital	Pearson Correlation	-.560**	-.647**	-.539**
	Sig. (2-tailed)	0	0	0
	N	150	150	150
Record keeping	Pearson Correlation	-.416**	-.378**	-.735**
	Sig. (2-tailed)	0	0	0
	N	150	150	150
Financing Decisions	Pearson Correlation	-0.002	-.161*	0.001
	Sig. (2-tailed)	0.978	0.048	0.995
	N	150	150	150
Cash flow Statements	Pearson Correlation	-0.143	-0.11	-.425**
	Sig. (2-tailed)	0.082	0.18	0
	N	150	150	150
** Correlation is significant at the 0.01 level (2-tailed).				
* Correlation is significant at the 0.05 level (2-tailed).				

The correlation results reveal the significant relationships between the financial management practices of MSMEs and the profile of the respondents in terms of type of business ownership, business size, and number of employees.

For budgeting, no significant relationship was found with any of the profile variables, as all computed p-values (0.067, 0.461, and 0.052) are greater than 0.05. This indicates that budgeting practices among MSMEs are consistent regardless of ownership type, size, or number of employees.

In contrast, working capital management shows a strong and highly significant negative correlation with all three profile variables: type of business ownership ($r = -0.560$, $p = 0.000$), business size ($r = -0.647$, $p = 0.000$), and number of employees ($r = -0.539$, $p = 0.000$). This suggests that as MSMEs expand in size or workforce, their ability to effectively manage working capital decreases, likely due to greater operational demands.

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Similarly, record-keeping practices exhibit a significant negative correlation with type of ownership ($r = -0.416$, $p = 0.000$), business size ($r = -0.378$, $p = 0.000$), and number of employees ($r = -0.735$, $p = 0.000$). This implies that larger businesses with more employees face greater challenges in maintaining accurate and systematic records compared to smaller enterprises.

For financing decisions, a significant but weak negative correlation was found with business size ($r = -0.161$, $p = 0.048$), while no significant relationship was observed with ownership type and number of employees. This indicates that business size slightly influences how financing decisions are made, but ownership type and workforce size have minimal effect.

Lastly, cash flow monitoring shows a significant negative correlation with number of employees ($r = -0.425$, $p = 0.000$), but not with type of ownership or business size. This highlights that as businesses employ more people, challenges in managing and monitoring cash flow become more evident.

V. Conclusions

1. Most MSMEs in the retail sector of Nueva Ecija operate as microenterprises under sole proprietorships with very few employees, reflecting their small-scale and independent nature.
2. MSMEs show relatively strong practices in budgeting adjustments, supplier relationship management, and aligning financial decisions with business goals, which help sustain daily operations.
3. Weaknesses were observed in periodic budget reviews, inventory control, compliance with record-keeping regulations, and cash flow forecasting, indicating areas that hinder financial efficiency.
4. MSMEs encounter significant challenges in complying with government regulations, absence of modern accounting systems, difficulty in accessing financing, and lack of manpower, which affect financial management implementation.
5. Correlation analysis revealed that larger enterprises and those with more employees experience greater difficulties in managing working capital, record-keeping, and cash flow, showing that complexity increases with size.
6. Overall, while MSMEs recognize the importance of financial management practices, actual implementation is limited by knowledge gaps, resource constraints, and regulatory burdens, which reduce their compliance and efficiency.

VI. Recommendations

1. The BIR, DTI, and LGUs should provide tax and financial literacy programs tailored for MSMEs to address gaps in budgeting, record-keeping, and compliance.
2. Streamlined procedures for tax reporting and registration would encourage MSMEs to formalize and comply more effectively.
3. MSMEs should integrate affordable accounting and cash flow management systems to improve accuracy and efficiency.
4. Financial institutions may design SME-friendly loan products, while government may extend credit guarantees to reduce collateral requirements.
5. Encourage businesses to register as Barangay Micro Business Enterprises (BMBEs) to benefit from tax exemptions and local incentives.
6. Collaborations with academic institutions, NGOs, and local chambers of commerce can provide ongoing support and mentoring in financial management.
7. Conduct similar studies in other provinces or sectors to validate results and develop nationwide strategies for MSME financial sustainability.

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