

Financial Management Practices and Business Performance of Micro and Small Enterprises in the Food Retail Industry

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Date received: April 4, 2025

Date revised: April 20, 2025

Date accepted: May 16, 2025

Originality: 99%

Grammarly Score: 99%

Similarity: 1%

Recommended citation:

Deligero, L., & Ballados, M. T. (2025). Financial management practices and business performance of micro and small enterprises in the food retail industry. *Journal of Interdisciplinary Perspectives*, 3(6), 187–200.

<https://doi.org/10.69569/jip.2025.220>

Abstract. The research problem highlights the significant challenges confronting micro and small enterprises (MSEs), specifically within the food retailing sector, resulting from financial constraints, inflationary pressures, and increasing costs. This study investigates the extent of financial management practices, specifically costing, budgeting, and financing, and their effect on the business performance of 136 micro and small enterprises (MSEs) within the food retailing sector of Enrique B. Magalona as a second-class municipality in the province of Negros Occidental. Using a descriptive-correlational research design, data were collected through an adapted questionnaire administered to a stratified sample of business owners and managers. Statistical analyses were utilized to assess the relationships and differences in financial management and performance indicators, including mean, standard deviation, Mann-Whitney U test, and Spearman's rho correlation. The principal findings reveal that while MSEs demonstrate a good grasp of costing and budgeting practices, their overall business performance remains inconsistent. Significant variations in performance were noted across different business profiles, particularly concerning the number of years in operation and employee count. Notably, a weak correlation was observed between the extent of financial management practices and business performance, suggesting that MSEs may struggle with practical implementation. The study concludes that a robust focus on financial management is essential for enhancing profitability and operational efficiency. Recommendations include investing in training programs to improve the regular application of financial practices and developing tailored strategies for better cash flow management.

Keywords: Business performance; Descriptive-correlational research; Financial management practices; Food retail industry; Micro and small enterprises.

1.0 Introduction

In recent years, the importance of financial management practices has gained significant recognition for enhancing the economic viability of enterprises across the globe. Research has consistently shown that effective financial management systems are pivotal to the success of businesses in various sectors, including micro and small enterprises (MSEs) (Ikrama, 2019; Barbosa, 2021). Fatoki (2012) further emphasizes this point, highlighting that poor financial management competencies are among the primary drivers of MSEs' failures. This assertion is particularly salient in the food retail sector, where financial sustainability is essential for competitiveness.

At a national level, the challenges MSEs face in managing their finances are well-documented. In developing economies, inadequate financial management has been linked to decreased profitability and heightened

insolvency risks (Fatoki, 2012; Mena & Nalwaya, 2022). Evaluating the effectiveness of financial practices is thus crucial for building a resilient business foundation (Mahmudova & Katonane Kovacs, 2018).

The financial landscape for smaller businesses has become increasingly complex due to the rise of large retail chains such as supermarkets and hypermarkets. Additionally, the significant rise in policy interest rates across numerous nations and a tighter lending environment have adversely affected financing costs for small and medium-sized enterprises (SMEs). These enterprises typically rely on debt to support their operations and investments (OECD, 2024). Previous research has shed light on small enterprises' operational and financial challenges, particularly in the food retail sector, emphasizing the need for an enhanced focus on financial sustainability. Micro and small enterprises frequently have difficulty obtaining affordable funding. Lenders often view them as high-risk borrowers because of their smaller scale, insufficient collateral, and limited financial history, which can hinder their growth and development (Franco, 2023).

Locally, in the municipality of Enrique B. Magalona, province of Negros Occidental, MSEs have grappled with substantial difficulties compounded by the COVID-19 pandemic, which has adversely affected consumer income sources. This disruption has created financial constraints that hinder many businesses' ability to recover to pre-pandemic levels (Herman & Zsido, 2023). The current inflationary environment has also notably impacted SMEs, restricting their ability to transfer increased input costs to customers without jeopardizing their competitive edge. Research indicates that a rapid and uneven rise in prices can negatively affect certain businesses and disrupt the overall structure of the business sector (Belanová, 2023).

The intersection of financial management practices and business performance is a crucial area of inquiry. Existing literature highlights a robust correlation between effective financial management and improved business performance, especially within Micro and Small Enterprises (MSEs). Otoo (2024) identified that working capital significantly influences organizational performance, while capital budgeting management is equally essential. Systematic financial planning is vital for MSEs striving for profitability and sustainability, as Sooriyakumaran (2024) and Musah et al. (2018) emphasize. This growing acknowledgment reinforces the pivotal role that financial management practices play in driving performance enhancements within these enterprises.

However, there is a notable gap in research specifically addressing the nuances of this relationship within the context of the food retail sector in the municipality of Enrique B. Magalona. This study aims to address this gap by exploring the dynamics between financial management practices and the business performance of MSEs in the local food retail industry. By systematically identifying this relationship, the research intends to equip micro and small entrepreneurs with valuable insights for adopting effective financial management practices and fostering long-term success. Ultimately, understanding how these practices influence business performance is critical not only for the enterprises involved but also for the broader economic recovery and stability of the food supply chain in the region.

2.0 Methodology

2.1 Research Design

This study employed a descriptive-correlational research design, utilizing a quantitative approach to comprehensively examine the financial management practices and business performance of micro and small enterprises within the food retailing sector in the municipality of Enrique B. Magalona. The descriptive research design focused on detailing and contrasting various aspects of financial management practices against these enterprises' corresponding business performance metrics. The study aimed to provide an insightful overview of how these practices manifest in real-world business operations by gathering and analyzing data. Additionally, the correlational research design was used to investigate the existence and nature of relationships between the two key variables: financial management practices and business performance. This aspect of the study is crucial as it seeks to understand how effective financial management may influence overall business outcomes. The results could reveal significant correlations that might inform future strategies for improving financial practices and operational success in micro and small enterprises within the food retailing industry.

2.2 Research Locale

The locale of this study is Enrique B. Magalona, a municipality in Negros Occidental renowned for its dynamic food retailing sector. This vibrant community is characterized by a rich tapestry of micro and small enterprises (MSEs), crucial to the local economy as they supply residents with essential food products and services. The focus on Enrique B. Magalona as the study's setting is particularly pertinent, given the municipality's unique socio-economic dynamics and the rapidly evolving food industry landscape. These factors mirror broader trends in consumer behavior and market demand, making it an ideal case for examining the operational characteristics and challenges MSEs face. This study highlights a significant limitation due to the restrictions imposed on data access from the Office of Business Licensing in the municipality of Enrique B. Magalona. Instead of direct data from the Office of Business Licensing, the study utilized the Department of Trade and Industry (DTI) information. In 2023, the Department of Trade and Industry documented 220 micro and small enterprises operating in the area. This study categorizes these businesses based on their operational longevity and workforce size, providing valuable insights into the entrepreneurial environment of Enrique B. Magalona. Notably, 136 MSEs were considered study subjects, and 83 (61.03%) have been in operation for five years or less, reflecting a substantial influx of new businesses in the local market. Conversely, 53 MSEs (38.97%) have been operational for over five years, representing the established enterprises that successfully managed to navigate the competitive landscape. Regarding workforce size, a considerable majority of the MSEs are small-scale operations. Specifically, 106 MSEs (77.94%) operate with a single employee, illustrating a common trend in the region where many entrepreneurs manage their businesses independently. In contrast, 30 MSEs (22.06%) employ multiple individuals, highlighting a distinct division in the operational scales of these enterprises.

2.3 Research Participants

The study participants were owners and managers of micro and small food retail businesses in the municipality of Enrique B. Magalona. These individuals were selected for several compelling reasons. Firstly, micro and small businesses play a crucial role in the local economy, often serving as vital employment and community engagement sources. By focusing on this demographic, the study aimed to gather insights directly from those deeply entrenched in the operational challenges and financial realities of running such enterprises. Secondly, the owners and managers possess firsthand experience and knowledge about their business practices and financial management. Their unique perspectives are invaluable for understanding how financial management strategies impact business performance. This direct involvement allows for a more nuanced exploration of the intricate relationship between effective financial practices and the overall success of food retail operations. The selection of owners and managers from micro and small food retail businesses in E.B. Magalona was deliberate, aiming to ensure that the research captures relevant, insightful, and actionable data on the intersection of financial management practices and business performance in this sector.

2.4 Research Instrument

This study employed adapted survey questionnaires to gather data relevant to financial management practices and business performance among micro and small enterprises (MSEs). The questionnaire for assessing financial management practices was derived from the work of Barbosa (2021), while the section focused on business performance was adapted from the research by Ahmad and Jamil (2020). Specific items within the questionnaires were carefully modified to align with the specific objectives of this study. The structured questionnaire is divided into three distinct parts. The first section is designed to capture the demographic profiles of the MSEs, providing crucial context for understanding the sample. The second section focuses on measuring financial management practices, which are essential for identifying effective strategies and areas for improvement among MSEs. Lastly, the third part of the questionnaire assesses the business performance of these enterprises, allowing for a comprehensive evaluation of their operational outcomes. Responses were collected using a Likert scale, facilitating nuanced insights into participants' perceptions and practices.

A rigorous validation process was conducted to ensure the validity of the questionnaire. Utilizing the Lawshe Content Validity Ratio (CVR), the questionnaire achieved a CVR score of 0.84, indicating strong agreement among the ten validators with expertise in financial management and research. According to established guidelines, items scoring 0.62 and above were retained, affirming the instrument's content validity. This high CVR score reflects confidence in the questionnaire's ability to measure the intended constructs accurately.

The instrument's reliability is equally important, ensuring consistency in participants' responses across different items. A pilot test was conducted with 30 business owners or managers from MSEs within the food retail industry, strategically chosen outside the primary study locale. The reliability of the questionnaire was assessed using Cronbach's Alpha, with a target reliability index ranging from .70 to 1. The results yielded a Cronbach's Alpha of .781 for the financial management practices section and an impressive .983 for the business performance section. These values suggest that both sections of the instrument are highly reliable, indicating that the responses collected are consistent and trustworthy.

2.5 Data Gathering Procedure

A formal request was sent to the heads of relevant food retail businesses to initiate the research, seeking permission to survey within their establishments. This step was essential for obtaining the necessary approvals and fostering a collaborative relationship with the study's business owners, managers, and key stakeholders. Upon receiving the appropriate permissions, the researchers crafted an Informed Consent Form tailored to business owners and managers. This document conveyed the study's purpose, focusing on how financial management practices influence business performance and emphasizing the voluntary nature of participation. It outlined confidentiality measures that would protect sensitive business information and a transparent discussion of potential risks and benefits. To promote trust and encourage participation, ample time was given for participants to review the consent form and ask questions, ensuring they felt comfortable making an informed decision.

The survey questionnaires were distributed personally, reinforcing the study's commitment to engagement and respect for participants' time. The researcher visited the selected businesses, handed out questionnaires directly to owners and managers, and provided comprehensive instructions for completion. Moreover, a pre-arranged timeline for collecting completed questionnaires was established, allowing participants to fill them out at their convenience. After the collection phase, the researchers implemented a systematic approach to compile and analyze the data. Each completed questionnaire was carefully reviewed to ensure completeness and accuracy before being organized for analysis. The study utilized advanced statistical software to process the data, enabling the researchers to derive meaningful and actionable insights. This rigorous methodology enhanced the quality of the data gathered and strengthened the study's overall findings, ultimately contributing to a deeper understanding of the relationship between financial management practices and business performance in the food retail sector.

2.6 Data Analysis

Initially, data collection focused on critical variables: costing, budgeting, and financing. Mean and standard deviation were employed as primary statistical measures to analyze these variables effectively. This approach enabled us to assess the extent of financial management practices both overall and when segmented by various business profiles. The use of mean provided a central tendency of the data, while standard deviation offered insights into the variability and distribution of the financial management practices within the observed enterprises. To evaluate these businesses' performance, we analyzed financial and non-financial performance measures. Again, mean and standard deviation were utilized to capture an aggregate picture and nuanced differences across business profiles. To investigate potential differences in financial management practices and business performance across various business profiles, we applied the Mann-Whitney U test based on the result of the Kolmogorov-Smirnov test of $< .05$. This non-parametric test was appropriate for our dataset, given that it enables comparison of two independent groups without the assumption of a normal distribution. This analysis accounted for variables such as years in operation and number of employees.

To delve deeper into the interplay between financial management practices and business performance, we utilized Spearman's rank correlation coefficient based on the result of the Kolmogorov-Smirnov test of $< .05$. This analysis helped determine the strength and direction of the relationship between the extent of financial management practices and overall business performance. By employing this method, we could identify whether effective financial management correlates with superior performance outcomes. Finally, we used simple linear regression analysis to assess the predictive capacity of financial management practices on business performance.

2.7 Ethical Considerations

In conducting this study, several key ethical considerations were meticulously observed, reflecting a deep commitment to the principles of ethical research and the safeguarding of participant welfare. Central to these considerations was the adherence to the principle of voluntary participation. Participants were invited to join the study and thoroughly informed about its purpose and scope, ensuring that their engagement was entirely voluntary. The informed consent process was comprehensive, comprising an Informed Consent Form that detailed the study's objectives, expectations regarding participant involvement, the intended use of findings, and their unequivocal right to withdraw at any time without consequences. This transparent approach was pivotal in fostering trust and respect, empowering participants to make informed decisions regarding their participation in the research.

Moreover, confidentiality and anonymity were paramount, particularly given the sensitive nature of discussions within the food retail industry, often involving proprietary or competitive information. Stringent measures were implemented during data collection and analysis to protect the participants' identities. No identifiable information was retained, and responses were anonymized to ensure participants felt safe to contribute openly without fearing personal repercussions. The data management protocols reinforced this confidentiality, with all collected materials treated as sensitive and securely stored. Access to this information was strictly limited to the researchers involved, further assuring participants of their privacy. In addition, a robust post-research protocol was established, emphasizing a commitment to ethical responsibility. After the study's conclusion, all completed questionnaires and answer sheets were systematically destroyed, ensuring no identifiable data lingered. This measure reflects ethical diligence and honors participants' trust in the researchers and the research process.

3.0 Results and Discussion

3.1 Extent of Financial Management Practices of MSEs

Table 1 provides a comprehensive analysis of financial management practices, particularly focusing on budgeting within micro and small enterprises (MSEs). The findings reveal a positive perception of budgeting practices, with an overall mean score of 3.42 (SD=0.63). This indicates that budgeting is primarily implemented among MSEs, suggesting a promising trend for their financial health and sustainability.

Table 1. *Extent of Financial Management Practices in terms of Budgeting*

Items	Mean	Interpretation	SD
Overall	3.42	Great	0.63
1. Setting up of a fund for future expenses	3.53	Very Great	0.79
2. Review budget regularly	3.52	Very Great	0.91
3. Prepare or use budget plan	3.44	Great	0.90
4. Monitor the implementation of the budget plan by comparing the budget to actual performance	3.17	Great	0.93

Note: 3.50-4.00 (Very Great); 2.50-3.49 (Great); 1.50-2.49 (Low); 1.00-1.49 (Very Low)

One notable aspect is the high mean score of 3.53 (SD=0.79) for "Setting up a fund for future expenses." This reflects proactive financial planning, illustrating MSEs' dedication to long-term stability and readiness to tackle future financial obligations. This aligns with the findings of Fortuna (2021), who noted that small and medium enterprises (SMEs) tend to favor budgeting practices as they are associated with strategic development and effective resource allocation. This support from the literature underscores the importance of forward-thinking financial practices in enhancing the stability of these businesses.

However, the relatively lower mean score of 3.17 (SD=0.93) for "Monitor the implementation of the budget plan by comparing the budget to actual performance" indicates a critical area for growth. While the result still reflects considerable engagement with monitoring practices, the variability in execution among different participants raises concerns. It suggests an opportunity for MSEs to enhance their financial management processes by identifying and addressing the specific challenges that inhibit consistent monitoring and performance evaluation. This finding resonates with the research conducted by Onduso (2022), which emphasized the significance of monitoring and evaluation in budget implementation for improving financial performance, particularly in manufacturing firms.

Furthermore, research by Brijlal et al. (2014) on South African micro, small, and medium enterprises (MSMEs) revealed that 69% of enterprises engage in budgeting processes and 63% actively compare actual payments with budgeted amounts. This data supports the notion that MSEs recognize the value of budgeting, although it also highlights variations in practice that necessitate further investigation. While the findings from Table 1 indicate that MSEs generally adopt commendable budgeting practices, there remains room for improvement, particularly in monitoring and evaluation. The existing literature broadly supports these findings, emphasizing the role of effective budgeting in promoting financial performance and strategic growth among enterprises. By addressing the identified gaps in monitoring, MSEs can potentially enhance their financial sustainability and competitive positioning in the market.

Table 2 outlines the extent of financial management practices concerning costing. The overall extent of these practices was rated as "great" ($M=3.40$, $SD=0.66$), indicating that they are implemented in most instances. The item with the highest mean score was "Adopt product costing method according to the nature and processes used by the business," which received a mean of 3.57 and a standard deviation of 0.62. This is interpreted as a "very great extent," meaning it is practiced consistently. In contrast, the item "Perform cost-targeted activities regularly to prevent unexpected increases in cost and expenses" had the lowest mean score, interpreted as "practiced to a great extent" ($M=3.20$, $SD=0.92$), indicating it is implemented in most instances. The overall mean score reflects a generally positive attitude toward costing, suggesting that many micro and small enterprises (MSEs) engage in these practices frequently.

Table 2. *Extent of Financial Management Practices in terms of Costing*

Items	Mean	Interpretation	SD
Overall	3.40	Great	0.66
1. Adopt product costing method according to the nature and processes used by the business.	3.57	Very Great	0.62
2. Perform cost-targeted activities regularly to prevent unexpected increases in cost and expenses	3.20	Great	0.92

Note: 3.50-4.00 (Very Great); 2.50-3.49 (Great); 1.50-2.49 (Low); 1.00-1.49 (Very Low)

Furthermore, the findings indicate that MSEs prioritize adapting their product costing methods to align with their business nature and processes. However, while cost-targeted activities are practiced most of the time, they are not prioritized by MSEs to prevent unexpected increases in costs and expenses. Many MSEs rely on whatever their business operations incur, which is particularly common among those just starting and lacking knowledge about cost management. This strongly recognizes the need for customized costing practices that align with their financial strategies and operational activities. The variation in responses regarding cost-targeted activities indicates significant room for improvement in the consistency of these practices across the sector.

According to Kartalis et al. (2019), product and service costing are essential for developing pricing policies and controlling costs. These practices are valuable tools for assessing a business's current and future operations. Product costs have the most significant influence during the early stages of development, gradually diminishing as the product matures. Consequently, cost estimation and industrialization are particularly critical during these initial phases. Additionally, cost information plays a vital role in decision-making, aiding in setting product prices, determining the product mix, and supporting planning and managerial control (Hundal, 1997; as cited in Solon et al., 2021).

Moreover, these methods are crucial for generating information and guiding decision-making. Enterprises must identify the costing method that best suits their needs (Rocha et al., 2019). Solon et al. (2021) further explain that these costing methods are complementary, as they help ascertain the price the market is willing to pay for a product or service. If a product's price exceeds its costs, the market is covering process inefficiencies. Conversely, if the price falls below the absorption cost, it suggests a need to reevaluate the business processes. According to Holý et al. (2017), retail chains strive to minimize costs in every possible way. Costs and expenses differ in that costs are directly related to the manufacturing process, while expenses are more associated with administrative costs (Solon et al., 2021).

Table 3 presents an analysis of the financial management practices of micro and small enterprises (MSEs) in the context of financing. Among the financing practices assessed, the item related to utilizing earnings for business expansion scored the highest mean ($M=3.26$, $SD=1.06$), indicating that MSEs frequently engage in this practice. Conversely, the item about borrowing money from financial institutions while considering minimal interest and favorable repayment terms received the lowest mean ($M=2.31$, $SD=1.14$), suggesting that this practice is less commonly adopted.

Table 3. *Extent of Financial Management Practices in terms of Financing*

Items	Mean	Interpretation	SD
Overall	2.80	Great	0.95
1. Utilize earnings of the business to expand operations	3.26	Great	1.06
2. Pay the principal and interest of loans on time	2.83	Great	1.37
3. Borrow money from financial institutions with consideration for minimal interest and favorable terms of payment	2.31	Low	1.14

Note: 3.50-4.00 (Very Great); 2.50-3.49 (Great); 1.50-2.49 (Low); 1.00-1.49 (Very Low)

The overall mean score for financial management practices related to financing was 2.8 ($SD=0.95$), interpreted as "to a great extent." This finding indicates that while MSEs actively utilize their income to expand operations, a significant gap exists in their understanding and implementation of favorable borrowing practices. The variability in responses, reflecting different perceptions among respondents, suggests that while many MSEs know the importance of financing, they may lack the knowledge or resources to navigate the complexities of borrowing effectively. Furthermore, the data highlight a troubling trend: MSEs disproportionately rely on informal funding sources and frequently overlook financial institutions offering lower interest rates and better repayment terms. This reliance on informal borrowing can lead to financial shortages impacting day-to-day operations, as MSE owners turn to various funding sources to bridge these gaps. Such dependence underscores MSEs' need to cultivate financial literacy and enhance their understanding of effective financing strategies.

The literature primarily supports the study's findings regarding the financial management practices of micro and small enterprises (MSEs). The study's observation that MSEs frequently use earnings for business expansion aligns with previous research indicating that these enterprises are proactive in utilizing internal funds to grow. However, the study also highlights a significant gap in MSEs' understanding and implementation of favorable borrowing practices, consistent with existing literature that points to barriers such as financial illiteracy, poor access to formal financing, and inadequate banking relationships. Several sources cited in the study, such as Anoo et al. (2020), confirm the challenges MSEs face in accessing capital, including reliance on personal savings and the corresponding instability this may cause. Additionally, findings from Kilonzo and Ouma (2015) regarding the negative impact of inadequate access to loans on small enterprise sustainability resonate with the study's results, showing that MSEs are hampered by financial shortages when resorting to informal funding sources. Furthermore, the high default rates and slow repayment cycles discussed by Wahab and Abdesamed (2012) and Nawai and Shariff (2010) echo the study's concerns regarding loan management among MSEs. Overall, the study's findings about the practices MSEs engage in and the barriers they encounter correlate well with the existing literature, reinforcing the need for improved financial literacy and better access to formal financing options for these enterprises (cited in Kitomo et al., 2020).

3.2 Level of Business Performance of MSEs

Table 4 analyzes the level of business performance in terms of financial performance among micro and small enterprises (MSEs) from 2021 to 2023. The data indicate an overall mean score of $M = 1.95$ ($SD = 0.76$), which is interpreted as a decrease and suggests instability in business performance. Among the key indicators, cost secured the highest mean score ($M = 2.02$, $SD = 0.96$), while sales recorded the lowest mean score ($M = 1.86$, $SD = 0.94$), both categorized as erratic. This inconsistency highlights a troubling trend in financial performance, revealing that while costs may be manageable, sales fluctuations significantly undermine overall profitability.

Table 4. *Level of Business Performance in terms of Financial Performance*

Items	Mean	Interpretation	SD
Overall	1.95	Erratic	0.76
1. Cost in 2021-2023	2.02	Erratic	0.96
2. Profit in 2021-2023	1.97	Erratic	0.93
3. Cash flow position in 2021-2023	1.95	Erratic	0.98
4. Sales in 2021-2023	1.86	Erratic	0.94

Note: 2.50-3.00 (Increase); 1.5-2.49 (Erratic); 1.00-1.49 (Decrease)

The findings suggest that MSEs are grappling with minimizing costs while simultaneously maximizing sales. The erratic nature of these financial indicators points to the possibility of fluctuating operational efficiencies and unstable market demand. These challenges can lead to inconsistent profit and cash flow positions, indicating that MSEs may struggle to sustain their financial health throughout varying market conditions. Historical data from 2021 to 2023 demonstrates increased and decreased profitability periods, underscoring the struggle to maintain a stable financial position. The variability in cash flows may further impact MSEs' ability to meet financial obligations, suggesting an urgent need for strategic planning to stabilize performance.

The literature corroborates some of these findings. According to Ahmad and Jamil (2020), effective financial performance in micro-enterprises is closely linked to sales volume, with higher sales driving greater profits. This perspective aligns with the observed trend in the current study, where fluctuations in sales directly affect overall financial viability. Furthermore, the literature indicates that stable profit and growth are indicators of sound business performance (Majenga & Mashenene, 2014; Nyangoma, 2012, cited in Ahmad and Jamil, 2020). The current study's findings relate to this notion; however, the erratic nature of sales and cash flow in the observed MSEs contradicts the expectation of enduring performance stability outlined in the literature.

Conversely, the literature also points out that good cash flow is essential for long-term sustainability and profitability, which is in line with Ahmad and Jamil's (2020) observation. This aspect raises a critical question about the ability of these MSEs to generate reliable cash flow, which the current study indicates is inconsistent over the study period. The findings suggest that MSEs may not effectively leverage their assets to ensure sustained revenue generation. Additionally, the studies of Tundui (2012, cited in Ahmad & Jamil, 2020) and other authors reinforce the idea that stable growth hinges on effective sales performance. While these scholarly works advocate for the direct correlation between sales volume and profitability, the erratic sales observed in this study suggest that the investigated MSEs may struggle to implement strategies that enhance sales performance, contradicting the ideal scenarios derived from existing literature.

Table 5 illustrates the findings concerning the level of business performance across non-financial performance indicators for the years 2021 to 2023. The reported data displays a fluctuating pattern across all indicators, culminating in an overall mean score of ($M = 1.80$, $SD = 0.73$). This score is interpreted as erratic, indicating considerable inconsistency in non-financial performance metrics during the observed period. Among the various indicators, the number of new customers acquired exhibited the highest mean score ($M = 2.05$, $SD = 0.97$). However, this is still characterized as erratic, signaling variable performance with periods of both increase and decrease in new customer acquisition.

Table 5. *Level of Business Performance in terms of Non-Financial Performance*

Items	Mean	Interpretation	SD
Overall	1.80	Erratic	0.73
1. Number of new customers received by the business in 2021-2023	2.05	Erratic	0.97
2. Number of regular customers received by the business in 2021-2023	2.02	Erratic	0.96
3. Number of products added in 2021-2023	1.98	Erratic	0.96
4. Number of employees in 2021-2023	1.70	Erratic	0.89
5. Number of branches added in 2021-2023	1.23	Decrease	0.62

Note: 2.50-3.00 (Increase); 1.5-2.49 (Erratic); 1.00-1.49 (Decrease)

Conversely, the number of branches added recorded the lowest mean score ($M = 1.23$, $SD = 0.62$), which reflects a negative performance trend. These findings suggest that the business faced significant challenges in expanding

its reach through new branches, possibly due to external constraints such as market conditions or internal factors like resource allocation and strategic focus.

Further analysis reveals that the operational indicators for micro and small enterprises (MSEs) displayed erratic movements between 2021 and 2023. While the high mean score in customer acquisition hints at potential opportunities, the inconsistent behavior raises concerns regarding the effectiveness of strategies aimed at customer retention. The mean score for regular customer retention ($M = 2.02$, $SD = 0.96$), also categorized as erratic, indicating fluctuations in purchase frequency and loyalty among existing customers. Additionally, the mean score for new products introduced ($M = 1.98$, $SD = 0.96$), which points to limited product offerings or potential resource constraints, further highlighting the inconsistency in performance. The data suggest that MSEs experienced a slowdown in their non-financial performance indicators during certain periods, influenced by external challenges such as the pandemic, alongside internal inefficiencies and ineffective business strategies. This necessitates a thorough investigation to validate the contributors to this erratic performance and to develop targeted corrective measures.

The literature underscores the importance of customer loyalty and employee satisfaction as critical components of a company's profitability. For instance, Ittner and Larcker (2003 cited in Ahmad & Jamil, 2020) emphasize that heightened customer and employee loyalty is indicative of satisfaction with the enterprise's offerings, which contributes to better overall performance. Similarly, Kimatu and Bichanga (2014 cited in Ahmad & Jamil, 2020) posit that growth in employee numbers, market reach, and product development serve as crucial metrics for measuring enterprise performance. According to Sayibu Ibrahim Nnindini et al. (2024), customer satisfaction hinges on effectively addressing customer needs through well-timed and suitable goods and services, further reinforcing the connection between customer satisfaction and business sustainability. Moreover, the observable patterns in the collected data align with the literature, indicating that high levels of customer and employee loyalty, as well as ongoing product development, are essential for MSEs to achieve consistent growth. The studies cited illustrate a comprehensive framework for evaluating non-financial performance, supporting the findings of this study. Notably, Kimatu and Bichanga (2014 cited in Ahmad & Jamil, 2020) also propose that actively discovering new markets and innovating product offerings can significantly enhance an enterprise's performance, a notion echoed in the current study's results.

3.3 Differences in the Extent of Financial Management Practices

Table 6 provides a detailed analysis of financial management practices among micro and small enterprises (MSEs), focusing on two critical factors: years in operation and number of employees. The results reveal no significant differences in the financial management practices comprising costing budgeting and financing across these two variables.

Table 6. *Difference in the Extent of Financial Management Practices when grouped by Business Profiles*

Table 3: Difference in the Extent of Financial Management Practices when Grouped by Business Types									
Area	Grouping Variables	N	Mean	Summary of Ranks	Mann-Whitney Test				
					U-ratio	W	Z	p	
Costing practices									
Number of years in operation	5 years and below	83	64.44	5348.50	1862.50	5348.50	-1.587	.115	
	more than 5 years	53	74.86	3967.50					
Number of employees	1 employee	106	70.83	7508.50	1342.50	5348.50	-1.363	.173	
	more than 1 employee	30	60.25	1807.50					
Budgeting practices									
Number of years in operation	5 years and below	83	66.09	5485.50	1999.50		-.913	.361	
	more than 5 years	53	72.27	3830.50					
Number of employees	1 employee	106	68.95	7308.50	1542.50	2007.50	-.255	.799	
	more than 1 employee	30	66.92	2007.50					
Financing practices									
Number of years in operation	5 years and below	83	68.16	5657.50	2171.50	5657.50	-.127	.899	
	more than 5 years	53	69.03	3658.50					
Number of employees	1 employee	106	69.40	7356.00	1495.00	1960.00	-.505	.613	
	more than 1 employee	30	65.33	1960.00					

In the analysis based on years in operation, the findings indicate that the U statistics for costing ($U=1862.50$, $p=.115$), budgeting ($U=1999.50$, $p=.361$), and financing ($U=2171.5$, $p=.899$) all yield p-values exceeding the

conventional significance threshold of 0.05. This leads to the acceptance of the null hypothesis, which posits that years in operation do not significantly affect financial management practices. This outcome suggests a potential uniformity in how financial management is approached across enterprises, regardless of how long they have been in business. It raises questions about whether external factors, such as market conditions or access to resources, may exert a more substantial influence on financial strategies than operational history alone.

A parallel analysis based on the number of employees also yielded similar results. For costing reported $U=1342.5$ with $p=.173$; for budgeting, the U statistic was recorded as 1542.5 with a p-value of .799; and financing showed $U=1495$ with $p=.613$. None of these p-values fell below the .05 threshold, further substantiating the null hypothesis that financial management practices do not vary significantly according to the number of employees. This consistency across different scales suggests that MSEs experience similar challenges and adopt comparable approaches to financial management, regardless of their size or years of operation.

Supporting this analysis, the study by Dolorso (2023) indicates that many respondents have operated their businesses for two years or less, suggesting a predominance of new micro-businesses. This slipstream of new entrants implies that these enterprises may not possess sufficient knowledge or experience in financial management practices, potentially leading to higher rates of business failure. This assertion finds support in the findings of Ansoos et al. (2020), which note that many businesses operate within a 1 to 3-year timeframe, and Berner et al. (2008) who observe that many micro-businesses stagnate in their growth trajectory toward becoming small and medium enterprises.

Furthermore, Dolorso's (2023) analysis reveals that the majority of respondents employ only one or two individuals within their enterprises, with few employing between six to nine workers. This finding implies that in such small operations, most responsibilities are centralized, lacking segregation of duties. The potential consequences of this are significant; the absence of a structured approach to financial control may increase the risk of mismanagement. Supporting literature from Berry et al. (2011 cited Dolorso, 2023) underscores this issue, indicating that many small businesses remain owner-managed by individuals who also oversee all operational duties. As noted by Ansoos et al. (2020), the small workforce further exacerbates the challenge of implementing adequate segregation of duties, which can contribute to ineffective financial oversight.

The examined literature both supports and elaborates on the findings of the current study, highlighting systemic issues that micro and small enterprises face in financial management. The consistent lack of significant differences based on years in operation and employee count emphasizes a broader need to address the fundamental challenges posed by limited experience and resources within the sector. Moving forward, it is essential for MSEs to seek enhanced financial management practices that account for external influences and organizational growth dynamics.

Table 7 presents the results from the Mann-Whitney U test, which was conducted to identify any significant differences in two indicators of Business Performance (financial and non-financial) when categorized according to business profile aspects such as the number of years in operation and the number of employees. The analysis indicates that the performance level of micro and small enterprises (MSEs) does not differ significantly based on their years in operation. Specifically, the test yielded results for financial performance ($U = 2151.500$, $p = .827$) and non-financial performance ($U = 1754.000$, $p = .138$), both of which suggest that the longevity of an enterprise does not positively or negatively affect its performance metrics. This finding is consistent with some existing literature that argues tenure alone does not guarantee business success.

In contrast, the results reveal a noteworthy difference in business performance based on the number of employees. Financial ($U = 1080.000$, $p = .006$) and non-financial performance ($U = 1096.000$, $p = .016$) demonstrated significant statistical differences at $p \leq 0.05$, indicating that the number of employees does play a crucial role in influencing overall business performance. This suggests that variations in business scale, organizational structure, and resource allocation, which often accompany different employee counts, have a marked impact on MSE performance. While the age of a business does not appear to significantly influence performance, the workforce size is a critical factor worth considering.

Table 7. *Difference in the Level of Business Performance when grouped by Business Profiles*

Table 7. Difference in the Level of Business Performance when Grouped by Business Profiles								
Area	Grouping Variables	N	Mean	Summary of Ranks	Mann-Whitney Test			
					U-ratio	W	Z	p
Financial								
Number of years in operation	5 years and below	83	67.92	5637.50	2151.50	5637.50	-.218	.827
	more than 5 years	53	69.41	3678.50				
Number of employees	1 employee	106	63.69	6751.00	1080.00*	6751.00	-2.730	.006
	more than 1 employee	30	85.50	2565.00				
Non-Financial								
Number of years in operation	5 years and below	81	62.65	5175.00	1754.00	5075.00	-1.483	.138
	more than 5 years	51	72.61	3703.00				
Number of employees	1 employee	102	62.25	6349.00	1096.00*	6349.00	-2.400	.016
	more than 1 employee	30	80.97	2429.00				

*Significant at $p \leq .05$

Supporting this findings, prior research highlights that financial management is vital for enhancing the wealth of entrepreneurs (McMabon, 2001, as cited in Waweru & Ngugi, 2014). It has been established that performance metrics are integral to understanding both the successes and challenges faced by small enterprises. Jen (2003) notes that business performance indicators are essential in assessing credit risk, and Davidson and Dutia (1991) emphasize that low performance can lead to issues such as under-capitalization. This interconnectedness indicates that robust financial management practices can mitigate risks associated with poor performance.

Moreover, studies by Abuzayed (2012), Baños-Caballero et al. (2012), Jindrichovska (2013), Kapitsinis (2019), and Kaya and Alpkan (2012) as cited in Zada et al. (2021) all agree that effective financial management practices are pivotal to a business's success, while ineffective ones can lead to failure. This body of literature strongly aligns with the study's findings, underscoring the necessity for small firms to focus on financial management to enhance performance. Additionally, the characteristics of mature firms bear relevance here. Although older firms may enjoy higher profitability, they often exhibit reduced opportunities for expansion and a preference for internal financing. This tendency supports our findings that while the number of years in operation does not significantly impact performance, it is essential for financial management practices to evolve in conjunction with the size of the workforce.

3.4 Relationship between Financial Management Practices and Business Performance

Table 8 presents the results of the Spearman's rho analysis, exploring the relationship between financial management practices and business performance in the food retailing sector. The findings reveal a statistically significant weak negative correlation ($r = -0.289$) between these two variables, indicating that as financial management practices improve, business performance may slightly decline. This inverse relationship suggests that while enhancing financial management practices is generally considered beneficial, it does not guarantee an improvement in business performance. The correlation coefficient's strength being low ($p = 0.001$) highlights the need to consider additional factors that might influence business outcomes.

Table 8. *Relationship between Financial Management Practices and Business Performance*

Variables	r	p
Financial Management Practices and Business Performance	-.28**	.001

**Significant at $p \leq .01$

This finding challenges the prevailing assumption that effective financial management directly translates to better business performance. Existing literature strongly supports the notion that sound financial management practices are crucial for business success. Numerous studies have demonstrated that the efficacy of a business is highly dependent on the financial management strategies it employs, linking failure to ineffective practices (Abuzayed, 2012; Baños-Caballero et al., 2012; Jindrichovska, 2013; Kapitsinis, 2019; Kaya and Alpkan, 2012, as cited in Zada et al., 2021). Given this context, it becomes imperative to explore the complexities and interdependencies present in financial management and overall business strategies.

Additionally, scholarly work has emphasized the importance of robust financial management for strategic planning and decision-making. High-quality information derived from effective financial management is essential for monitoring performance and understanding emerging trends (Olawale & Garwe, 2010, as cited in

Zada et al., 2021). The findings from Mohamed and Ali (2013) support the necessity of participatory planning, suggesting that such practices can lead to rapid implementation and positively impact organizational performance. Likewise, Kimunguyi et al. (2015) argue that effective budgeting is positively correlated with financial performance, advocating for the formulation and adherence to sound budgeting policies. Supporting this notion, Fortuna (2021) highlights that effective budgeting practices contribute to profitability across sectors, including retail. Pimpong and Laryea (2016) further elaborate on this idea, indicating a statistically significant moderate positive relationship between budget coordination and firm performance. Collectively, these studies reinforce the importance of comprehensive budgeting and financial oversight as vital components of successful business management.

3.5 Financial Management Practices as Predictors of Business Performance

Table 9 presents a linear regression analysis that examines the relationship between financial management practices and business performance. The intercept of the regression model indicates that when the level of financial management practices is at zero, business performance is predicted to be 2.631. The regression coefficient of -0.234 suggests that for every one-unit increase in financial management practices, business performance decreases by 0.234 units. Furthermore, the Beta value of -0.219 underscores the relative strength of this relationship.

Table 9. Linear Regression Results of Financial Management Practices as Predictors of Business Performance

Predictor	B	SE B	β	t	p
(Constant)	2.63	0.29		8.99	.010
Financial Management Practices	-0.23	0.09	-0.21	-2.59	

Note: **B** = unstandardized regression coefficient; **SE B** = standard error of B;

β = standardized regression coefficient; **CI** = confidence interval;

t = t-test statistics; **p** = p-value

These findings imply that a lack of financial management practices measured at 0.234—corresponds with a baseline business performance of 2.631. Conversely, as financial management practices increase, business performance is expected to decline, indicating an inverse relationship. This is pivotal, as it suggests that certain financial management practices may not contribute positively to enhancing business performance. Consequently, the study identifies a small but negative influence of financial management practices on overall business performance within the context of micro and small enterprises (MSEs) in the food retail industry. Contrastingly, the findings of Njaga (2023) indicate that financial planning practices have a positive and significant effect on firms' performance, highlighting that improved internal control practices can lead to better business outcomes. This view is corroborated by Kabue (2020), who also asserts that strong internal controls positively influence performance. Further supporting this perspective, Eton et al. (2022) emphasize the necessity for small businesses to maintain robust financial management practices to see improvements in profitability.

The studies cited herein present a divergent view compared to the results of the current analysis. They suggest that effective financial management practices are predictors of heightened business performance, whereas this study identifies an inverse relationship between these variables for MSEs in the food retailing industry of E. B. Magalona. While the literature underscores the importance of financial management practices as contributors to business success, the findings of this study reveal a unique context in which these practices may actually correlate with diminished performance. This suggests a potential disconnect that warrants further investigation into the specific financial management strategies employed within this sector and their actual impacts on performance outcomes

4.0 Conclusion

The study concludes that micro and small enterprises (MSEs) have a foundational understanding of financial management practices, particularly in costing and budgeting. However, despite this solid grounding, many MSEs struggle with inconsistent financial performance, signaling a crucial need for robust financial strategies and training. The findings suggest that simply implementing financial protocols is not enough; MSEs must consistently apply and monitor these practices to improve profitability and cash flow management effectively. Additionally, the analysis identifies specific challenges faced by MSEs between 2021 and 2023, particularly in areas such as customer retention and product development. The existing literature supports these findings, indicating

that tackling these issues could significantly enhance business performance and foster sustainable growth. Addressing gaps in financial literacy and borrowing practices is essential for MSE owners to leverage financing options more effectively, which would positively impact their overall financial viability.

Furthermore, the erratic trends observed in financial performance highlight the necessity for strategic planning and disciplined financial oversight. MSEs that effectively manage costs and sales are more likely to attain better financial outcomes, pointing to the importance of financial discipline for sustainable growth. The implications of these findings are clear: MSEs need to prioritize the development of comprehensive financial management strategies that not only emphasize accurate costing and budgeting but also enhance their capacity for effective cash flow management. By addressing these challenges through targeted training and consistent financial monitoring, MSEs can improve their operational efficiency, stabilize their financial performance, and ultimately achieve long-term success in an increasingly competitive marketplace.

Further investigation is needed to understand how financial management interacts with other operational strategies affecting business performance, particularly in the food retailing sector. This holistic approach could be key to unraveling the complexities of performance dynamics in MSEs, ultimately leading to sustainable growth. Future research could explore qualitative methodologies, such as interviews or case studies, to gain deeper insights into the barriers faced by MSEs in implementing financial management practices. Additionally, comparative studies across different sectors may provide a broader understanding of best practices in financial management.

5.0 Contributions of Authors

The first author conceptualized the research topic. Both authors collaborated on data design and analysis, while the second author reviewed the manuscript.

6.0 Funding

This research received no funding from any agency.

7.0 Conflict of Interests

The authors declare that they have no conflict of interest.

8.0 Acknowledgment

The authors would like to express their gratitude to the employees from a service provider company in Bacolod City for their voluntary participation, which greatly contributed to this study. Additionally, they acknowledge the valuable input of Dr. Marissa Quezon, Dr. Ann Charyl M. Gallo, Dr. Jay Jay Pisuena, Dr. Eric Arthur Dio, and Dr. Joseph Robert Jo for their critiques and reviews of the research content.

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