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## Financial management practices of micro and small enterprises in Tanauan, Leyte, Philippines

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### Abstract

Micro and Small Enterprises (MSEs) play a crucial role in the economic growth and further development in the Philippines especially in the municipality of Tanauan, Province of Leyte as they dominate the market of the town. They help in poverty alleviation and provide job opportunities. The study intended to determine the financial management practices of MSEs in Tanauan, Leyte, Philippines. A survey was conducted to the 146 owners and employees of MSEs using purposive sampling. The data gathered was analyzed using various descriptive measurements such as frequency, percentage, and mean to determine the financial management practices of MSEs. The survey questionnaire is composed of two parts, the profile of the respondents and the financial management practices. Results revealed that financial management practices such as costing and budgeting are often practiced by MSEs. However, internal control, working capital management, and long-term financing are rarely practiced. In general, financial management systems were present but were sometimes practiced with an average overall mean of 2.84. It was concluded that the management of MSEs does not follow generally accepted standards on financial management and control. It is recommended for the Department of Trade and Industry (DTI) in partnership with the Local Government Unit (LGU) of Tanauan to review programs and policies concerning the development of this sector. Further, strict implementation of programs and policies to address the issue of the lack of educational background and training on financial management systems and practices would be geared towards promoting the sustainability of these MSEs.

**Keywords:** *Financial Management, Financial practices, Micro and Small Enterprises, (MSEs), MSE Management*

### Introduction

Micro and small enterprises (MSEs) are considered the driving force in the promotion of an economy and contributed immensely to the economic development of any country (Waweru & Ngugi, 2014). MSEs created employment opportunities by utilizing limited available resources, became the training ground for the new and innovative entrepreneurs, and are considered the source of technical innovation and new products, as well as the driver of economic growth (Banupriya &

Venkadesh, 2019). It boosts market competitiveness and efficiency and is often more adaptable than huge corporations when it comes to meeting changing client demands, facilitating worker changes, and introducing new technology and processes.

Individuals, groups, associations, businesses, industries, and the government operate many business ventures with the primary goal of producing a profit. Micro and small businesses are key contributors to local economies, bringing growth and innovation to

the community. According to an article published by the Senate Economic Planning Office (2012), MSEs in the Philippines are any business activities or enterprises engaged in industry, agri-business, and/or services. It is considered a micro-enterprise if it has an asset size less than PHP 3 million and employs 1-9 people while small enterprises if it has an asset size exceeding PHP 3 million but not more than PHP 15 million with 10-99 number of employees.

Financial management is one of the functional areas of management that is critical to the success of micro and small organizations. It is the management of a company's finances to meet its financial goals. Financial management is a subsystem of overall firm management that is responsible for administering financial processes such as financial planning and decision-making, financial analysis, and control to attain an optimum level of funds. Because of the importance of MSEs in economic development, the government has provided support in terms of its promotion and development (Banupriya & Venkadesh, 2019). However, knowledge in financial management should be practiced to be able to attain favorable financial conditions. MSEs frequently face major financial performance issues due to a lack of financial management knowledge mixed with the volatility of the business environment (Waweru & Ngungi, 2014).

Financial management practices aid in the betterment of the economic situation of the enterprises (Ikrama & Ahmed, 2018). Effective financial decision is a result of significant and sound financial management practices that are critical in the sustainability, growth, and profitability of MSEs. Financial knowledge, accounting, ability to interpret financial statements, involvement of owner-managers in the formulation of economic decisions of a business largely influence the success or failure of MSEs (Gawali & Gadekar, 2015). This idea had also been discussed in the Financial Management Theory of Brigham & Ehrhardt (2013) which states, the way a manager makes decisions result in either success or failure of any organization. However, success is realizable only with the help of strong financial control

devices such as budgetary control, cost-volume-profit analysis, and ratio analysis (Paramasivan & Submarinian, 2009).

Financial innovations greatly influence the performance of MSEs that lead to a favorable result of the operation, (Waweru & Ngugi, 2014). Given the influence of financial management practices on the growth of an organization, most MSEs are still not practicing the general standard for effective financial management. A previous study conducted in South Africa disclosed that financial planning and control, financial analysis, and even investment appraisal are not common in new micro-businesses (Fatoki, 2017). In general, micro-enterprises recorded their business transactions in a notebook without proper accounting format. Due to financial and educational background, one cannot expect that these entrepreneurs would prepare a proper financial recording under generally accepted accounting principles (Nadzr et al., 2016). This was also observed in the study of Jangkhoham & Singh (2021) in Manipur, India. However, the simple financial recording requirement is still crucial in the process of making sound economic decisions.

MSEs are businesses that struggle in their early years in terms of survival. Most of them failed below five years and those that did not have formal financial management practices. It was concluded that education status was a major influence on informal financial practices (Masieyi, 2000). The study of Hailu & Venkateswarlu (2016) on the MSEs located in Addis Ababa, Ethiopia argued that MSEs already applied computers in their accounting information system and the most frequent computer application is preparing financial reports. It had been determined that the factors of successful financial management among Malaysian micro-entrepreneurs are a more educated workforce, capital, experience, qualification, business plan, passion, and motivation (Rahman et al., 2014).

In the Philippine setting, particularly in Ilocos Norte, the survey on the level of personal entrepreneurial abilities revealed that micro and small business owners are capable of handling and managing firms. In terms of the level of observance of management practices,

micro-entrepreneurs practiced moderate levels while small owners observed high levels (Parilla, 2013). In the Visayas region, specifically in Cebu City, MSEs' financial management practices revealed at a moderate level. These MSEs do not practice the generally accepted standards on the management and control of financial aspects of the business and may pose some threats to sustainability (Anoos et al., 2020). Another study provided that the majority of MSEs have failed to observe proper working capital management practices (Attom, 2016). This situation was identified as a significant reason why these businesses usually fall into the trap of unending liquidity challenges that resulted in the demise of most of them, especially in their early years of existence. Moreover, a study conducted on the small scale businesses in Cabanatuan City which focused on cash and accounts payable management revealed that the majority of the small businesses are in the start-up phase and are using cash, checks, and other bank services in the payment of their dues to suppliers but most don't have sufficient knowledge on cash management and accounts payable management which resulted to delayed payment of payables thereby incurring additional cost such as interest expense. On the other hand, entrepreneurs are already knowledgeable on the provisions of government programs such as Magna Carta for MSMEs (RA 9501), Barangay Micro Business Enterprises (BMBEs), and the Go Negosyo Act (RA10644) to strengthen these sectors (Villegas et al., 2020). Literacy for these entrepreneurs concerning this field shall be reinforced (Bautista, 2020). New micro enterprises shall develop and enhance financial management techniques, which include owner or manager training (Fatoki, 2017).

Financial management practices contribute to the improvement of the economic status of the enterprises. To survive, sustain and be profitable in the long run, practices such as accounting management, risk aversion, the ability of qualified staff to handle finance functions, cash management, inventory management, and credit risk management have to be properly implemented by MSEs (Ikrama & Ahmed, 2018). Policymakers, academic and non-academic institutions shall consider

extending programs that will educate these MSEs concerning financial management to effectively reduce the likelihood of cash flow issues and business failure. Importantly, MSEs must develop and implement a well-tested working capital management policy that will serve as a guidepost for achieving their short-term financial objectives (Attom, 2016).

In micro and small businesses, the majority of the owners are managers themselves. Therefore, the same is the key responsible for managing finances. The growth and development of any MSEs depend largely on how well organized businesses are, and this is linked to best practices concerning financial management. However, MSEs faced many challenges such as poor financial management practices (Jindrichovska, 2013). Hence, they must have a clear and proper understanding of financial management for sustainability.

The municipality of Tanauan is one of the oldest towns in the province of Leyte, Philippines. Most of its businesses are classified as micro and small enterprises. This sector contributes to the economic growth of the town. However, issues arise as to the sustainability and financial growth of these enterprises given the fact that they have limited resources. Moreover, Gawali & Gadekar (2015) proved that financial management knowledge and practices directly influence the success or failure of MSEs. Therefore, financial management currently in place by these enterprises had been the interest of the researcher. The investigation had focused on the extent of the practices of financial management systems by the MSEs identified that are currently operating within the town.

Several studies were conducted in different cities and regions within and outside the Philippines on the financial management practices of micro, small and medium enterprises (Anoos, et al., 2020; Bautista, 2020; Banupriya & Venkadesh, 2019; Jangkhohlam & Singh, 2021). Most of these studies are general, but no comprehensive study had been conducted in the Leyte Province specifically in the town of Tanauan to evaluate the financial management practices of micro and small industries. Given the fact that the government is promoting and strengthening MSMEs in the

Philippines, it is important to properly evaluate this sector in terms of their financial management practices to possibly give feedbacks and interventions to support the government's platform in developing MSEs. This study is intended to give inputs to the government agencies and other organizations directly or indirectly responsible for supervising and extending possible interventions to these business sectors aligned with the goal of promoting and strengthening MSEs to continually serve their purpose of increasing employment and economic development.

The purpose of this paper was to determine the level of financial management practices of MSEs in Tanauan, Leyte, Philippines. Financial Management involves the process of planning and monitoring the financial resources of the enterprises and are key aspects of the business entity. As mentioned in the study of Warue & Wanjira (2013), the lack of planning and financial control resulted in poor performance. In addition, workers shall be involved in the planning procedure. The general execution speed increases at this point. While spending interest is undeniably important in influencing execution, other elements, such as culture, might weaken spending support while still resulting in an outstanding performance. To survive, sustain and be profitable in the long run, these practices had to be properly implemented in small and micro enterprises (Ikrama & Ahmed, 2018).

### **Objectives of the study**

The general objective of the study is to determine the financial management practices of Micro and Small Enterprises of Tanauan, Leyte. Specifically, this is intended to evaluate the level of financial management practices in the areas of, Costing; Budgeting; Internal Control; Working Capital Management; and Long-term Financing.

### **Methodology**

#### **Research design**

The study made use of a descriptive research design to determine the level of financial management practices of the Micro and Small Enterprises (MSEs) in Tanauan, Leyte in terms

of the factors, costing, budgeting, internal control, working capital management, and long-term financing. Descriptive research design is used to obtain the study objectives that is to assess and describe the gathered data thru a survey questionnaire.

### **Respondents of the study and sampling method**

The respondents of the study were owners and employees of MSEs identified in Tanauan, Leyte, Philippines. Out of 728 MSEs, 146 samples were computed using the sample size determination formula for finite populations (Cochran, 1963) using a 6% level of precision, 50% degree of variability, and 90% level of confidence in the computation of sample size.

### **Research instrument**

A researcher-made survey tool was used to collect data for the study. The survey tool is composed of two parts, Part I collects information of the respondents according to their profile and Part II asks questions relating to respondents' financial management practices. Before the conduct of the actual data gathering procedure, the survey tool has undergone validation and reliability measurements. The expert validity was adapted to validate the tool, and three (3) experts were invited to check the tool's items on the adequacy, comprehensiveness, and relevance of a given instrument. This ensures that all necessary items were included, and all items that were unsuitable to a particular construct were eliminated (Connell, et al., 2018).

Three (3) business and management faculty members with at least ten (10) years of teaching experience were involved in the validity process. A pilot test of the tool was conducted after the validation procedure among 50 MSEs in the other towns of Leyte, Philippines. The Cronbach Alpha was used to measure the reliability of the tool (Taber, 2017). The overall reliability measure was 0.88, and the reliability coefficients of each construct were ranged from 0.85 to 0.91. All the computed reliability coefficients were greater than 0.70 indicating that the tool was reliable.

### Data gathering procedure

The data collection took approximately two (2) months to complete. It started on the first week of November 2019 and ended on the third week of December of the same year. Survey questionnaires were distributed to the owners and managers of the micro and small enterprises. After a week, the same have been retrieved by the researchers.

### Ethical considerations

The researcher sought approval from the university to conduct the research and distribution of the survey questionnaires. In terms of respondents' participation in data gathering, their consent was asked before accomplishing the research questionnaire. Further, the researcher exercised objectivity and professional behavior in the conduct of the study.

### Data analysis

The data gathered was analyzed using descriptive statistical measurements such as frequency counts, percentage, and mean to determine and describe the respondents' and their financial management systems practices according to costing, budgeting, internal control, working capital management, and long-term financing. All the analyses and data tabulation were done using Microsoft Excel 2016.

### Results and discussion

Table 1. Profile of the enterprise (n=146)

Indicators	Frequency	Percentage
Business Classification		
Micro	142	97.26
Small	4	2.74
Number of Years of Operation		
0-5	91	62.33
6-10	30	20.55
11-15	16	10.96
16-20	1	0.68
21-25	1	0.68
26-30	2	1.37
31-35	0	0.00
36-40	5	3.42
Nature of Business		
Trading	120	82.19
Manufacturing	6	4.11
Service	18	12.33
Agriculture	2	1.37
Type of Business Organization		

Sole Proprietorship	144	98.63
Corporation	2	1.37

As gleaned in Table 1, the majority of the businesses in Tanauan are classified as micro-enterprises accounting at 97.26%. It implies that most business owners chose to operate micro-enterprises considering the minimal amount of capital to start a business. In terms of the number of years of operation, 62.33% of the businesses have been operating for less than five years while the remaining 37.67% were operating for more than 5 years already. These data denote that MSEs just started their businesses and had not penetrated the market yet and these entrepreneurs are still looking for government support for business sustainability. Moreover, the majority of the businesses are engaged in trading at 82.19% while the least composed of agriculture with 1.37%. Buying and selling various commodities had been the most common business activity among MSEs. Further, sole proprietorship had been the dominant business organization which accounts for 98.63%. This is because the majority of the businesses are micro with small asset sizes that made them opt to operate a less complex business and minimal reportable requirements from the government.

Table 2. Profile of the Respondents in terms of previous experience in business

Indicators	Frequency	Percentage
With previous experience in business	93	63.70
Without previous experience in business	53	36.30
Total	146	100

Table 2 depicts that majority of the respondents have previous experience in business which is 63.70% while 36.30% of them do not have experience in the line of their business. One of the most benefits of starting a business based on personal experience is that owners/managers are aware of the possible market of the business to establish.

Table 3 revealed that only 8.20% of the owners and managers have professional or academic qualifications in accounting and

financial management. While majority of them do not have professional or academic qualifications and are not employing a qualified person for accounting and financial management which accounts for 72.60%. However, 19.20% accounts for those owners and managers with no professional or academic qualifications but were able to employ a qualified person for accounting and financial management to do the job.

Table 3. Profile of the Respondents in terms of professional or academic qualification in accounting and financial management

Indicators	Frequency	Percentage
With a professional or academic qualification in accounting or financial management of owners and managers		
▪ BSA Graduate	3	2.06
▪ BSC Graduate	4	2.74
▪ BSBA Undergraduate	2	1.36
▪ BSC Undergraduate	1	0.68
▪ BSA Undergraduate	1	0.68
▪ BSCA Graduate	1	0.68
Without professional or academic qualification in accounting or financial management of owner but are employing a qualified person for accounting and financial management	28	19.20
Without professional or academic qualification in accounting or financial management of owner and are not employing a qualified person for accounting and financial management	106	72.60
Total	146	100

Legend: BSA = Bachelor of Science in Accountancy; BSC = Bachelor of Science in Commerce; BSBA = Bachelor of Science in Business Administration; BSCA = Bachelor of Science in Customs Administration

Further, in table 4, the majority of the owners or managers did not undergo any special training in accounting and financial

management which accounts for 89.04%. Some of them had already undergone special training in government training institutions at 2.74% while others were able to attend special training from professional training institutions accounting for 8.22%. Special training can supplement academic qualifications, but unfortunately, these owners and managers were not able to avail such from the government and non-government training institutions.

Table 4. Profile of the Respondents in terms of special training in accounting and financial management

Indicators	Government Training		Professional Training Institutions		No Training		Total	
	f	%	f	%	f	%	f	%
Special training in accounting and financial management	4	2.74	12	8.22	3	89.04	17	11.60

Table 5. Financial management practices of MSEs

Indicators	Mean	Interpretation
<b>Costing</b>		
Practice product costing	3.54	Often Practiced
The setting of prices of goods or services based on the determination of pricing <sup>2</sup> (e.g. product cost, the extent of competition in the market)	4.41	Always Practiced
Overall Mean	3.98	Often Practiced
<b>Budgeting</b>		
Preparation or use budget plan	3.38	Sometimes Practiced
Review of budget regularly	3.42	Often Practiced
Setting up of a fund for future expenses	4.12	Often Practiced
Overall Mean	3.64	Often Practiced
<b>Internal Control</b>		
Keeping of financial records	2.64	Sometimes Practiced
Segregation of duties in cash handling	2.28	Rarely Practiced
Depositing of cash	2.14	Rarely Practiced
Checking the transactions on record of the business activity to ensure that the information reported is accurate	2.49	Rarely Practiced
Overall Mean	2.39	Rarely Practiced
<b>Working Capital Management</b>		

Monitoring of current asset	2.58	Rarely Practiced
Monitoring of current liabilities	3.00	Sometimes Practiced
Tracking of working capital ratio	2.02	Rarely Practiced
Tracking of collection ratio	2.63	Sometimes Practiced
Tracking of inventory turnover ratio	2.16	Rarely Practiced
Monitoring of ratios at optimal levels	2.05	Rarely Practiced
Overall Mean	2.41	Rarely Practiced
<b>Long-term Financing</b>		
Able to seek financial help from outside the business	2.30	Rarely Practiced
Payment of loan on time	2.86	Sometimes Practiced
Obtain finances for funding purchase of property, plant, and equipment	1.53	Never Practiced
Overall Mean	2.23	Rarely Practiced

As shown in table 5, costing is often practiced by the MSEs corresponding to its overall mean of 3.98. Costing is often practiced in micro and small businesses because it is of great importance in the management of the business. Also, proper costing is crucial to setting up reasonable prices and is an input to attain a competitive pricing strategy for a favorable result of the operation.

On the other hand, it was observed that micro and small businesses in Tanauan, Leyte often practiced financial management system in terms of budgeting, with an overall mean of 3.64 indicating that these MSEs often prepare the budget plan, do budgeting regularly, and provide the optimum amount of fund for future expenditure. Budgeting is the most important part of a business's activity planning and control system, ensuring efficient allocation of resources to achieve the business' goals. More so, Mohamed & Ali (2013) provided that important planning, participatory planning, and budgetary control all had a good relationship with quick execution, and advocated participatory planning had a progressively negative impact on the company's image. Kimunguyi et al. (2015) also argued that excessive spending practices had a significant impact on budgetary execution, and proposed that practical approaches and rules for executive expenditure be developed and implemented.

However, these MSEs rarely practiced internal control with an overall mean accounting to 2.39. Recording of financial transactions is sometimes practiced, cash handling and responsibilities such as segregation of duties are rarely practiced and proper cash management such as depositing of funds is rarely practiced. As an entrepreneur, one should be aware of the difficulty of executing a concrete and well-defined internal control considering scarce resources. Failure to correct problems, on the other hand, might result in financial risks and losses and even to the enterprise's operation.

Moreover, working capital management is sometimes practiced corresponding to an overall mean of 2.41. MSEs only monitor their dues to suppliers and other creditors and its collectibles from customers. Other working capital management practices are rarely practiced such as the current assets. This resulted in the inability to track its working capital and inventory ratio. One of the ideas in monitoring working capital and inventory ratio is to attain the height of efficiency. Another, ability to meet customers' needs by maintaining the optimum level of inventory while taking into consideration the opportunity costs associated with investing in working capital. In situations where purchase or production cannot meet the interest, the stock allows an organization to assist with customer administration, calculation, or fabricating activities (Wild, 2017).

Further, long-term financing is rarely practiced by MSEs. These businesses do not depend on the outsourcing of funds. One reason is that, in obtaining loans, creditors such as banks and other financial intermediaries require a financial report which, these MSEs are not able to provide. Also, taking into consideration the financing costs such as interest discouraged these entrepreneurs from obtaining loans from creditors.

Table 6. Summary of Financial Management Practices

Indicators	Mean	Interpretation
Costing	3.98	Often practiced
Budgeting	3.64	Often practiced
Internal Control	2.39	Rarely practiced
Working Capital Management	2.41	Rarely practiced
Long-Term Financing	2.23	Rarely practiced
Overall Mean	2.93	Sometimes practiced

In general, financial management systems were present but were sometimes practiced by MSEs with an average overall mean of 2.93. These MSEs represented by the owners and managers do not apply the generally accepted standards of financial management which is crucial to its business operation. The respondents are not aware of the importance of financial management practices in managing the business. This is also manifested due to a lack of professional or academic background in the field and the inability to attend or participate in pieces of training to supplement the knowledge gap.

### Conclusion and recommendations

It was concluded that MSEs in Tanauan, Leyte Philippines do not practice the generally accepted standards on the financial management and control of the business. This situation might expose some threat to continuity and sustainability given that these MSEs are not yet fully established in terms of the years of operation, knowledge in handling finances, and asset size. Given these constraints, these MSEs shall adhere to proper financial management practices in terms of costing, budgeting, internal control, working capital management, and long-term financing. This is to ensure that scarce resources are well allocated and accounted.

Acknowledging the fact that MSEs significantly play a vital role in boosting local economies in the Philippines especially in the

town of Tanauan, Province of Leyte, their contribution in promoting employment and in the alleviation from poverty among the constituents of the town, it is therefore recommended for the Department of Trade and Industry (DTI) in partnership with the Local Government Unit (LGU) of Tanauan to review programs and policies concerning the development of this sector. Further, strict implementation of programs and policies to address the issue of the lack of educational background and training in financial management systems and practices would gear towards promoting sustainability for these micro and small enterprises.

### Limitation and future works

The study utilized a descriptive design with limited respondents due to time constraints. Expanding the sample size, exploring other variables such as profitability of micro and small enterprises as a result of its financial management practices, and study on the Local Government Unit's participation in the development of this sector may be considered to further cater inputs to strengthen and promote micro and small enterprises.

### Declaration of conflict of interest

The paper contents do not have a conflict of interest in whatever form. The author's objectivity and independence have been duly exercised in the conduct of this research.

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