

Which Financial Management Practices Matter Most?

Evidence from Micro and Small Enterprises in Misamis Occidental

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ABSTRACT

Micro and small enterprises (MSEs) support employment, livelihoods, and local economic development but face sustainability challenges associated with limited financial-management capabilities. This study examined the relative predictive contributions of financial-management capabilities to profitability and business growth among MSEs in Misamis Occidental, Philippines. Using a quantitative, nonexperimental cross-sectional design, the study collected data from 100 enterprises through a 46-item structured questionnaire. Working capital management, financial reporting, accounting tools, investment decisions, financing, and liquidity management were examined using multiple regression and relative weight analysis. The profitability model explained 68.3% of the variance, with liquidity management ($\beta = .688$, $p < .001$) and financing ($\beta = .188$, $p = .030$) making significant positive unique contributions. The growth model explained 41.2% of the variance, with liquidity management providing a significant positive unique contribution ($\beta = .547$, $p = .001$). Relative weight analysis identified liquidity management as accounting for the largest share of explained variance in profitability (33.87%) and growth (32.95%). These findings indicate that financial-management capabilities differ in their unique and shared contributions to enterprise performance, with liquidity management emerging as the strongest predictor. The results can inform financial-literacy programs and enterprise-development initiatives implemented by local governments and business-development institutions. Support should prioritize liquidity management while considering complementary financial capabilities. The study provides evidence from a provincial Philippine setting where MSEs sustain community livelihoods. However, cross-sectional, self-reported data limit causal interpretation. Longitudinal and multisite studies are needed to examine how financial capabilities relate to changes in enterprise performance over time.

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Introduction

Micro and small enterprises (MSEs) operate under financial conditions that make the effective management of limited resources particularly important. Unlike larger firms that may have specialized finance personnel, formalized accounting systems, and wider access to external capital, smaller enterprises often depend heavily on owner-managers to make decisions involving cash, working capital, financial records, investment, and financing. In the Philippines, this issue has broad economic and social relevance because micro, small, and medium enterprises (MSMEs) account for the overwhelming majority of business establishments and provide a substantial share of employment [1]. Strengthening the financial capabilities of smaller enterprises may therefore contribute not only to business sustainability but also to the livelihoods and local economic activity that these enterprises support.

Financial management in MSEs is multidimensional, encompassing working capital management, financial reporting, accounting tools, investment decisions, financing, and liquidity management. These capabilities perform distinct but interconnected functions. Working capital management supports the administration of short-term assets and liabilities; financial reporting and accounting tools provide information for monitoring and decision-making; investment decisions concern the allocation of resources toward future benefits; financing determines how funds are obtained and managed; and liquidity management focuses on maintaining sufficient liquid resources to meet short-term obligations. Although liquidity management overlaps with working capital management, it is conceptually narrower in emphasizing the availability and convertibility of resources required to meet immediate financial commitments.

Previous research generally supports an association between these financial-management capabilities and SME performance. Working capital management has been associated with profitability and firm performance [2] [3] [4], while accounting information systems and digital accounting practices have been linked with improved financial information, decision-making, and SME performance [5] [6]. Investment appraisal, capital structure, financial reporting, and other financial-management practices have likewise been examined as dimensions of SME financial performance [7] [8]. However, the effectiveness of these practices may depend

on managerial capability, financial knowledge, access to resources, and the operating environment [8] [9].

Philippine evidence similarly indicates that financial-management practices are relevant to MSE performance, although findings vary across settings and dimensions. Barbosa [10] documented differences in the extent to which MSEs applied costing, budgeting, internal control, working-capital management, and long-term financing practices. Baylon et al. [2] identified relationships involving working capital management and SME profitability, while Placido et al. [11] reported significant relationships involving financial-management practices, financial-accounting standards compliance, and business performance among MSMEs. Bongalonta and Bongalonta [12] examined liquidity in relation to profitability among small-scale businesses. In contrast, Deligero and Ballados [13] reported only a relatively weak relationship between overall financial-management practices and business performance among food-retail MSEs. Collectively, these findings suggest that the relationship between financial management and performance may depend on the particular capability, performance outcome, and business context examined.

An important limitation in interpreting such relationships is that financial-management capabilities do not operate independently. Strong financial records may support working-capital monitoring, investment evaluation, financing decisions, and liquidity management, while accounting systems generate information used across several of these functions. Consequently, an observed relationship between an individual financial practice and enterprise performance may partly reflect explanatory information shared with other capabilities. A significant bivariate relationship therefore does not establish that a particular practice retains explanatory value when related financial capabilities are considered simultaneously.

Multiple regression provides one means of addressing this issue by estimating the unique conditional relationship between each financial capability and enterprise performance while statistically controlling for the remaining predictors. Standardized regression coefficients, however, do not provide a complete measure of predictor importance when predictors are correlated [14]. Relative weight analysis complements regression by allocating the model's explained variance among correlated predictors, thereby accounting for both unique and shared explanatory information. Combining these approaches permits a more differentiated question to be addressed: rather than asking only whether financial management matters, which financial-management capabilities make the strongest unique and relative contributions to MSE performance when interrelated practices are considered simultaneously?

The distinction between profitability and business growth is also important. Profitability reflects an enterprise's capacity to generate favorable financial returns from its operations and resources, whereas business growth reflects expansion in customers, purchasing activity, cash

generation, market opportunities, and overall business activity. Financial capabilities that support current profitability may not contribute to growth to the same extent because expansion may require additional investment, financing, market opportunities, and acceptance of financial risk. Musah et al. [7], for example, examined financial-management practices in relation to both SME profitability and growth, recognizing these as related but distinct dimensions of performance. Examining them separately may therefore reveal differences that would be obscured if financial performance were treated as a single aggregate outcome.

The study is anchored in the Resource-Based View (RBV), which proposes that organizational resources and capabilities can contribute to differences in firm performance when effectively organized and deployed [15]. From this perspective, MSE financial-management capability extends beyond the amount of financial resources available to include the processes through which financial information and resources are monitored, allocated, and converted into operational and strategic decisions. Working capital management, financial reporting, accounting tools, investment decisions, financing, and liquidity management can thus be viewed as distinguishable but interconnected capabilities through which MSEs manage scarce resources.

Despite advances in understanding individual financial-management practices, a more focused empirical issue remains. Existing research establishes the general relevance of financial management but provides less clarity regarding which capabilities retain unique predictive relationships and how explained variance is distributed among them when related practices are considered simultaneously. This distinction is particularly relevant to MSEs because managerial time, financial expertise, technology, and access to financial resources are constrained. Knowing that financial management broadly matters provides general guidance; identifying the capabilities that account for the greatest relative contribution to enterprise outcomes can provide a more focused basis for enterprise-development interventions and financial-capability programs.

Accordingly, this study examines the relative predictive contributions of financial-management capabilities to the profitability and business growth of 100 micro and small enterprises in Misamis Occidental, Philippines. Five financial-management practices—working capital management, financial reporting, use of accounting tools, investment decisions, and financing—are examined together with liquidity management as a related but conceptually separate capability. Multiple regression is used to determine the unique conditional relationships of these capabilities with profitability and business growth, while relative weight analysis is used to determine how the explained variance is distributed among the correlated predictors. The study does not assume causal relationships but examines predictive associations within a cross-sectional, nonexperimental design.

Specifically, the study seeks to answer the following questions:

1. Which financial-management and liquidity-management practices significantly predict the profitability of micro and small enterprises?
2. Which financial-management and liquidity-management practices significantly predict the business growth of micro and small enterprises?
3. What are the relative contributions of these practices in explaining profitability and business growth?

Consistent with these objectives, the study tests the hypotheses that working capital management, financial reporting, use of accounting tools, investment decisions, financing, and liquidity management jointly and significantly predict (H1) profitability and (H2) business growth of MSEs. Individual regression coefficients are subsequently examined to identify capabilities providing significant unique predictive information, while relative weight analysis assesses their comparative contributions to the variance explained in each outcome.

By integrating regression and relative weight analysis, the study extends previous work from establishing whether financial management is associated with MSE performance toward identifying the unique and shared predictive contributions of specific financial capabilities. In the context of Misamis Occidental, this provides a more differentiated empirical basis for MSE owners, local government units, financial-literacy programs, and enterprise-development organizations in determining which financial capabilities may warrant greater attention in initiatives intended to strengthen enterprise resilience, profitability, and growth.

Methods

A. Research Design

This study employed a quantitative, nonexperimental, cross-sectional design to examine the predictive relationships of financial-management capabilities with the profitability and business growth of micro and small enterprises (MSEs) in Misamis Occidental, Philippines. Six predictors were examined: working capital management, financial reporting, use of accounting tools, investment decisions, financing, and liquidity management. Multiple linear regression was used to determine their unique conditional relationships with profitability and business growth, while relative weight analysis (RWA) assessed their relative contributions to the variance explained in each outcome. Because the variables were measured at a single point without experimental manipulation, prediction refers to statistical association rather than causation.

B. Research Setting, Participants, and Sampling

The study covered MSEs operating in Misamis Occidental, including enterprises in Ozamiz City, Oroquieta City, and Tangub City. The enterprise was the unit of analysis, with one

questionnaire obtained from each participating business. Data were collected during November 2025 to January 2026.

Nonprobability purposive sampling was employed because a reliable consolidated sampling frame of qualified MSEs in the study area was unavailable. Enterprises were included if they (a) operated within the identified study area, (b) met the employment-based classification of a micro or small enterprise, (c) had an established period of business operation, and (d) voluntarily agreed to participate. Enterprises that did not meet these criteria and those included in the pilot testing were excluded from the final sample. The analysis included 100 MSEs.

Sample adequacy was considered in relation to the six-predictor regression models. Green's [16] guideline of $N \geq 50 + 8m$ yields a minimum of 98 observations for six predictors; thus, the sample of 100 marginally exceeded this benchmark. This criterion was treated as a heuristic rather than evidence of adequate statistical power for effects of all magnitudes. Given the purposive sampling procedure, findings are interpreted as evidence from the participating enterprises rather than statistically representative estimates for all MSEs in Misamis Occidental.

C. Research Instrument and Measures

Data were collected using a structured questionnaire containing enterprise-profile information and 46 substantive items measuring financial-management capabilities and financial performance. The financial-management measures comprised working capital management (6 items), financial reporting (5 items), use of accounting tools (5 items), investment decisions (5 items), financing (5 items), and liquidity management (10 items). Working capital management covered cash-flow forecasting, financial records, current assets and liabilities, working-capital adequacy, and inventory monitoring. Financial reporting and accounting tools assessed the preparation, recording, processing, and use of financial information for monitoring and decision-making. Investment decisions addressed project evaluation, investment funds, capital preservation, risk tolerance, and investment horizons, while financing covered internally generated and borrowed funds, financial requirements, forecasting, and operating needs. Liquidity management assessed cash reserves, receivables, short-term obligations, daily cash monitoring, inventory turnover, emergency funds, cash-flow forecasting, and timely settlement of obligations.

Financial performance was measured through separate five-item measures of profitability and business growth. Profitability covered financial stability, return on investment, operating-profit growth, profits relative to liabilities, and liquidity position. Business growth assessed purchasing activity, customer growth, cash generation from sales, business expansion, and market opportunities. All substantive items used a four-point Likert-type scale ranging from 1 (*Strongly Disagree*) to 4 (*Strongly Agree*). Composite mean scores were computed for each

construct, with higher scores indicating stronger reported financial-management capabilities or perceived financial performance.

D. Pilot Testing and Reliability

The instrument underwent two rounds of pilot testing involving 15 and 10 MSEs, respectively; these enterprises were excluded from the final sample. Cronbach's alpha was used to assess internal consistency. Across the eight constructs, coefficients ranged from .886 to .941 in the first pilot and from .912 to .968 in the second, providing evidence of satisfactory internal consistency before full administration.

Reliability was reassessed using the final sample. Cronbach's alpha coefficients were .910 for working capital management, .960 for financial reporting, .848 for accounting tools, .907 for investment decisions, .819 for financing, .933 for liquidity management, .918 for profitability, and .912 for business growth. All coefficients exceeded .80, supporting the internal consistency of the measures and computation of composite scores.

E. Data Collection and Ethical Considerations

Qualified MSEs were informed of the purpose and general nature of the study and invited to participate voluntarily. One completed questionnaire was obtained from each participating enterprise. Responses were consolidated into an electronic dataset and subjected to coding, completeness checking, and statistical analysis, resulting in 100 complete enterprise-level observations.

Participation was voluntary, and information was analyzed and reported only in aggregate. Business names and specific addresses were excluded from the analysis and reporting to protect confidentiality, and commercially sensitive information was not disclosed. Data were used solely for purposes consistent with the ethical requirements governing the research.

F. Data Analysis

Composite scores were computed for working capital management (WCM), financial reporting (FR), accounting tools (AT), investment decisions (ID), financing (FIN), liquidity management (LM), profitability, and business growth. Means and standard deviations provided descriptive context.

Separate multiple linear regression models were estimated for profitability and business growth, with WCM, FR, AT, ID, FIN, and LM entered simultaneously as predictors. Model fit was evaluated using (R^2), adjusted (R^2), and the overall *F*-test. Individual predictors were evaluated using unstandardized coefficients (*B*), standard errors, standardized coefficients (β), *t*-values, and *p*-values, with statistical significance set at $\alpha = .05$. Standardized coefficients were interpreted as indicators of the direction and unique conditional contribution of each predictor within the model rather than as measures of universal predictor importance.

Relative weight analysis was subsequently used to determine the relative contribution of each predictor to the variance explained by each regression model. RWA is useful when predictors are correlated because it partitions explained variance while considering both unique and shared predictive information [17] [18].

G. Regression Diagnostics

Before substantive interpretation, the regression models were assessed for linearity, independence, multicollinearity, residual normality, homoscedasticity, and influential observations. Particular attention was given to tolerance and variance inflation factor (VIF) statistics because the financial-management variables were conceptually related. Residual diagnostics were examined for departures from model assumptions.

Statistically significant coefficients were interpreted as predictive associations rather than causal effects. A nonsignificant coefficient was interpreted as indicating that the predictor did not provide statistically significant unique predictive information after controlling for the other variables in the model, rather than as evidence that the corresponding financial capability was inherently unimportant.

Results

A. Profile of Participating Enterprises

Table 1 presents the profile of the 100 participating enterprises. The sample consisted of 50 micro enterprises (50.0%) and 50 small enterprises (50.0%). Most were located in Ozamiz City (74.0%), followed by Oroquieta City (18.0%) and Tangub City (8.0%). In terms of business longevity, 34.0% operated for 3–5 years, 28.0% for 6–10 years, 16.0% for 11–20 years, and 22.0% for more than 20 years. The mean operating duration was 14.97 years (*SD* = 17.42; range = 3–97 years).

Table 1. Profile of Participating Enterprises (N = 100)

Profile Variable	Category	Frequency	Percentage (%)
Enterprise classification	Micro enterprise	50	50.0
	Small enterprise	50	50.0
Location	Ozamiz City	74	74.0
	Oroquieta City	18	18.0
	Tangub City	8	8.0
Years of operation	3–5 years	34	34.0
	6–10 years	28	28.0
	11–20 years	16	16.0
	More than 20 years	22	22.0
	Years of operation, overall	*M* = 14.97; *SD* = 17.42; Range = 3–97	

The financial-management variables generally received favorable ratings. Working capital management obtained the highest mean (M = 3.392, SD = 0.612), followed by liquidity management (M = 3.239, SD = 0.567), while financing had the lowest mean (M = 3.008, SD = 0.589).

Profitability (M = 3.214, SD = 0.571) and business growth (M = 3.208, SD = 0.581) received similar mean ratings.

B. Regression Diagnostics

Because the six predictors represented interrelated financial capabilities, regression assumptions were examined before interpretation of the models. As shown in Table 2, VIF values ranged from 2.120 to 4.364. Several predictors were strongly correlated, including financial reporting with accounting tools (r = .811), investment decisions with liquidity management (r = .816), and liquidity management with working capital management (r = .721), accounting tools (r = .726), and financing (r = .706).

Table 2. Multicollinearity Diagnostics for the Predictor Variables

Predictor	VIF
Working Capital Management	2.543
Financial Reporting	3.073
Use of Accounting Tools	4.179
Investment Decisions	3.335
Financing	2.120
Liquidity Management	4.364

The Durbin–Watson statistics were 2.030 for profitability and 1.742 for business growth. Breusch–Pagan tests were nonsignificant for profitability (p = .103) and growth (p = .064). Residual normality was not fully supported, with significant Shapiro–Wilk tests for profitability (p < .001) and growth (p = .002). The profitability model also contained an influential observation, with the largest Cook's distance approaching 1.00.

C. Financial Capabilities Predicting Profitability

The first research question examined which financial-management and liquidity-management capabilities significantly predicted profitability.

Table 3. Multiple Regression Predicting Profitability (N = 100)

Predictor	B	SE	β	t	p
Working Capital Management	0.082	0.087	.088	0.948	.345
Financial Reporting	−0.038	0.074	−.053	−0.519	.605
Use of Accounting Tools	−0.061	0.093	−.079	−0.659	.511
Investment Decisions	0.017	0.093	.020	0.184	.854
Financing	0.182	0.082	.188	2.208	.030
Liquidity Management	0.693	0.123	.688	5.645	< .001

Note. R^2 = .683; adjusted R^2 = .663; F(6, 93) = 33.421, p < .001.

The regression model was statistically significant, $F(6, 93) = 33.421$, $p < .001$, explaining 68.3% of the variance in profitability (R^2 = .683; adjusted R^2 = .663). Thus, H1 was supported at the model level. Liquidity management provided the largest statistically significant positive unique contribution (β = .688, p < .001), followed by financing (β = .188, p = .030). Working capital management (β = .088, p = .345), financial reporting (β = −.053, p = .605), accounting tools (β =

−.079, p = .511), and investment decisions (β = .020, p = .854) did not provide statistically significant unique predictive information after simultaneous adjustment for the other predictors.

D. Financial Capabilities Predicting Business Growth

The second research question examined which financial-management and liquidity-management capabilities significantly predicted business growth.

Table 4. Multiple Regression Predicting Business Growth (N = 100)

Predictor	B	SE	β	t	p
Working Capital Management	0.102	0.121	.108	0.841	.402
Financial Reporting	0.112	0.103	.152	1.089	.279
Use of Accounting Tools	−0.256	0.128	−.324	−2.000	.049
Investment Decisions	0.046	0.129	.052	0.354	.724
Financing	0.106	0.114	.108	0.931	.354
Liquidity Management	0.561	0.171	.547	3.291	.001

Note. R^2 = .412; adjusted R^2 = .374; F(6, 93) = 10.847, p < .001.

The model was statistically significant, $F(6, 93) = 10.847$, $p < .001$, explaining 41.2% of the variance in business growth (R^2 = .412; adjusted R^2 = .374). H2 was therefore supported at the model level. Liquidity management provided a significant positive unique contribution to business growth (β = .547, p = .001). Accounting tools produced a negative conditional coefficient (β = −.324, p = .049). However, accounting tools had a positive zero-order correlation with growth (r = .369) and were strongly correlated with financial reporting (r = .811) and liquidity management (r = .726). Working capital management (β = .108, p = .402), financial reporting (β = .152, p = .279), investment decisions (β = .052, p = .724), and financing (β = .108, p = .354) did not provide statistically significant unique predictive information.

E. Relative Contributions of Financial Capabilities

The third research question concerned the relative contributions of the six financial capabilities. Because the predictors were substantially interrelated, relative weight analysis was used to complement the standardized regression coefficients by partitioning the explained variance among the correlated predictors.

Table 5. Relative Contributions of Financial-Management Capabilities to Profitability and Business Growth

Predictor	Profitability Relative Weight	% of Explained Variance	Growth Relative Weight	% of Explained Variance
Working Capital Management	.092	13.52%	.053	12.84
Financial Reporting	.036	5.26%	.030	7.22
Use of Accounting Tools	.062	9.13%	.029	6.98
Investment Decisions	.120	17.57%	.069	16.79
Financing	.141	20.65%	.096	23.22
Liquidity Management	.231	33.87%	.136	32.95
Total R^2	**.683**	**100.00%**	**.412**	**100.00**

Note. Relative weights represent the proportion of criterion variance associated with each predictor after accounting for predictor intercorrelations. Percentages indicate each predictor's share of the total variance explained by the respective model.

Liquidity management accounted for the largest share of explained variance in both profitability (33.87%) and business growth (32.95%). This was followed by financing, which accounted for 20.65% of explained variance in profitability and 23.22% in growth, and investment decisions, which accounted for 17.57% and 16.79%, respectively. Working capital management accounted for 13.52% of the explained variance in profitability and 12.84% in growth. Accounting tools accounted for 9.13% and 6.98%, respectively, while financial reporting accounted for 5.26% and 7.22%. The relative-weight results differed in some respects from the unique regression coefficients. Investment decisions accounted for 17.57% of the profitability model's explained variance and 16.79% of the growth model's explained variance despite having nonsignificant unique regression coefficients. Similarly, financing accounted for 23.22% of the growth model's explained variance despite its nonsignificant unique coefficient for growth. Across both outcomes, liquidity management accounted for the largest relative share of the variance explained by the models.

Discussion

This study examined not simply whether financial management was associated with MSE performance but how six interrelated financial capabilities contributed uniquely and relatively to profitability and business growth. Three findings are particularly important. First, liquidity management demonstrated the most consistent positive predictive relationship with both outcomes. Second, the financial capabilities collectively explained substantially more variance in profitability than in business growth. Third, the relative weight analysis showed that capabilities without significant unique regression coefficients could nevertheless account for meaningful portions of explained variance because financial-management practices operate as an interconnected system.

A. Liquidity Management and MSE Performance

The most consistent finding was the prominence of liquidity management. It had the largest positive standardized coefficient for both profitability (β = .688) and business growth (β = .547) and accounted for approximately one-third of the explained variance in each relative-weight model. Thus, its contribution was evident using two complementary analytical approaches: unique conditional prediction and relative contribution to explained variance.

This result is consistent with previous research emphasizing liquidity and short-term resource management in SME performance [2] [3] [4] [12]. For MSEs, which often operate with

narrower financial buffers than larger firms, maintaining adequate cash resources, monitoring receivables, managing inventories, forecasting cash flows, and meeting short-term obligations may be particularly important for maintaining operational continuity. Liquidity also provides financial flexibility to purchase inputs, respond to customer demand, meet supplier obligations, and take advantage of available business opportunities.

The findings further distinguish liquidity management from broader working capital management. Although the two capabilities were correlated, liquidity management retained substantial unique predictive information after working capital management and the other financial capabilities were statistically controlled. This suggests that the immediate capacity to meet financial commitments may capture an aspect of financial capability not fully represented by broader working-capital practices.

B. Financing, Investment Decisions, and Shared Contributions

Financing made a significant positive unique contribution to profitability but not to business growth. This is broadly consistent with studies identifying financing and capital-structure management as relevant components of SME financial performance [7] [8]. The result should not be interpreted to mean that greater borrowing necessarily increases profitability. Rather, the financing construct reflects the broader capability to plan, obtain, budget, and manage funds in response to operating and investment requirements.

The relative-weight results provide an important qualification. Financing accounted for 20.65% of the explained variance in profitability and 23.22% in growth, while investment decisions accounted for 17.57% and 16.79%, respectively. Investment decisions did not have a significant unique coefficient in either regression model, and financing did not have a significant unique coefficient for growth. Their relative contributions nevertheless indicate that these capabilities contained meaningful explanatory information shared with other financial-management variables.

This pattern supports the view that financial-management capabilities should not be interpreted as isolated practices. Financial reporting and accounting systems provide information for liquidity monitoring, investment evaluation, and financing decisions; financing supplies resources for operating and investment needs; and investment decisions influence how those resources are deployed. Their contribution to performance may therefore occur partly through their interaction and shared information rather than through statistically independent effects.

C. Accounting Tools and the Unexpected Negative Coefficient

The negative conditional coefficient for accounting tools in the growth model ($\beta = -.324$, $p = .049$) was unexpected and should be interpreted cautiously. The zero-order relationship

between accounting tools and growth was positive (r = .369), while accounting tools were strongly correlated with financial reporting (r = .811) and liquidity management (r = .726). Moreover, their relative weight for growth remained positive.

The reversal from a positive bivariate association to a negative conditional coefficient after simultaneous adjustment is consistent with a shared-variance or suppression-type pattern among correlated predictors [14]. It does not provide convincing evidence that accounting-tool use reduces MSE growth. This interpretation is reinforced by previous studies linking accounting information systems and digital accounting practices with SME performance [5] [6].

Caution is further warranted because the coefficient was only marginally significant (p = .049), residual normality was imperfect, and the predictors exhibited substantial intercorrelations. Accordingly, the negative coefficient is better regarded as a conditional statistical result requiring replication than as evidence of an adverse substantive effect of accounting tools.

D. Profitability and Growth as Distinct Outcomes

The six financial capabilities explained 68.3% of the variance in profitability but 41.2% of the variance in business growth. This difference supports the decision to analyze profitability and growth separately rather than combine them into a single measure of financial performance. It is also compatible with Musah et al. [7], who distinguished profitability and growth when examining SME financial-management practices.

Financial-management capabilities may be more directly connected to profitability because they influence cash availability, resource allocation, financing costs, monitoring, and operating decisions. Growth, by contrast, may depend more heavily on conditions beyond financial management, including market demand, competition, innovation, industry characteristics, customer acquisition, entrepreneurial strategy, and broader economic conditions. The lower explanatory power of the growth model therefore suggests that financial capability represents only one component of the conditions associated with enterprise expansion.

E. Theoretical and Practical Significance

The findings are consistent with the Resource-Based View [15], which conceptualizes organizational performance as partly arising from how resources and capabilities are organized and deployed. In the participating MSEs, financial management appears to function as a bundle of interconnected capabilities rather than a collection of independent practices. The substantial correlations among financial reporting, accounting tools, working capital, investment decisions, financing, and liquidity support this interpretation.

The results also provide a more differentiated application of the RBV perspective by showing that individual financial capabilities need not contribute equally or exclusively to performance. Some capabilities, particularly liquidity management, retained substantial unique predictive information, whereas others contributed largely through variance shared with related practices. Relative weight analysis therefore provides a more differentiated picture than would be obtained from regression coefficients alone.

Practically, the findings suggest that MSE financial-capability development should give particular attention to liquidity-related practices such as cash-flow forecasting, receivables monitoring, maintenance of adequate cash reserves, inventory management, and timely settlement of obligations. However, the relative-weight results caution against treating liquidity management as a stand-alone solution. Financing and investment decisions also accounted for meaningful portions of explained variance, indicating the value of integrated financial-management interventions.

For enterprise-development organizations and local institutions supporting MSEs, the results may therefore inform financial-literacy and capacity-building programs that combine liquidity management with financing, investment evaluation, financial reporting, and effective use of accounting information. Strengthening these interconnected capabilities may contribute to more resilient MSEs, with potential implications for business continuity, employment, and local economic activity.

Overall, the study extends previous research by distinguishing the unique and shared predictive contributions of financial-management capabilities. Liquidity management demonstrated the most consistent contribution to both profitability and business growth, while financing and investment decisions retained meaningful relative contributions through their shared relationships with other capabilities. These findings reinforce the importance of viewing MSE financial management as an interconnected capability system rather than interpreting individual practices solely from their regression coefficients.

Conclusion

This study examined the unique and relative predictive contributions of financial-management capabilities to the profitability and business growth of micro and small enterprises (MSEs) in Misamis Occidental. The findings show that these capabilities do not contribute uniformly when considered simultaneously. Liquidity management demonstrated the strongest and most consistent positive predictive relationship with both profitability and business growth and accounted for the largest share of explained variance in both models. Financing also provided

significant unique predictive information for profitability, while financing and investment decisions accounted for meaningful shares of explained variance through their relationships with the broader financial-capability system.

The study contributes to MSE financial-management research by distinguishing unique predictive contribution from relative contribution to explained variance. This distinction demonstrates that a financial capability may have limited independent predictive information while still contributing meaningfully through variance shared with other capabilities. The findings therefore extend the analysis of MSE financial management beyond whether particular practices are associated with performance toward understanding how interrelated capabilities contribute within a multivariable system.

From an economic perspective, the findings highlight the relevance of strengthening financial capabilities that support the continuity and development of MSEs, particularly the management of liquidity and financing. Because MSEs contribute to local economic activity, employment, and livelihoods, improving their capacity to manage cash requirements, financial commitments, funding needs, and investment decisions may support enterprise resilience and sustainability. These conclusions represent predictive associations among the participating enterprises and should not be interpreted as causal effects.

Practical Implications

The findings have practical implications for MSE owners, managers, and organizations supporting enterprise development. Particular attention may be directed toward systematic liquidity management, including cash-flow forecasting, monitoring receivables and cash balances, maintaining appropriate cash reserves, managing inventory turnover, preparing for unexpected financial requirements, and meeting short-term obligations. Financing decisions should likewise be coordinated with liquidity planning to ensure that the sourcing and use of funds remain aligned with operating requirements and the enterprise's capacity to meet financial commitments.

The findings further suggest that financial capabilities should not be developed in isolation. Accounting systems, financial reporting, working-capital management, investment evaluation, financing, and liquidity management provide interconnected information and routines. Government agencies, financial institutions, and enterprise-development organizations may therefore consider integrated financial-capability programs that connect record keeping and reporting with cash-flow management, financing decisions, investment evaluation, and the practical use of financial information.

Recommendations

MSE owners and managers are encouraged to strengthen routine liquidity planning and integrate it with financing, investment, accounting, and reporting decisions. Financial information should be used systematically to anticipate cash requirements, evaluate funding needs, assess investment commitments, and support operational and growth decisions.

Organizations providing MSE training and technical assistance may likewise emphasize applied financial decision-making rather than focusing primarily on bookkeeping or compliance. Capacity-building programs may integrate financial reporting and accounting tools with cash-flow forecasting, liquidity assessment, financing evaluation, and investment analysis so that financial information is translated into managerial action.

Limitations and Directions for Future Research

Several limitations should guide interpretation of the findings. First, the cross-sectional, nonexperimental design does not permit causal conclusions. Profitability and business growth were also measured using respondent-reported indicators rather than independently verified financial statements or longitudinal financial records. Future studies may employ longitudinal designs and objective financial measures to determine whether changes in financial-management capabilities precede changes in enterprise performance.

Second, purposive sampling was used, and the study involved 100 MSEs from selected areas of Misamis Occidental. Although the sample met the heuristic requirement for the specified six-predictor regression models, it should not be considered statistically representative of all MSEs in the province or the Philippines. Future studies may employ larger, probability-based, and multi-location samples and examine whether the observed relationships vary according to enterprise size, industry, age, and other organizational characteristics.

Third, the financial-management predictors were substantially interrelated, residual normality was not fully supported, and the profitability model contained an influential observation. The accounting-tools coefficient for business growth was also close to the conventional significance threshold. These conditions warrant caution in interpreting individual regression coefficients. Future studies may assess the stability of the findings using larger samples and complementary approaches such as commonality or dominance analysis.

Some conceptual overlap may also exist between liquidity management and the profitability measure, which includes an indicator of liquidity position; future studies may employ profitability measures based exclusively on accounting returns or independently verified financial data.

Future models may also incorporate market conditions, competition, innovation, managerial capability, industry characteristics, and other organizational and environmental

factors. This is particularly relevant to business growth, for which the financial-management variables explained less variance than they did for profitability. Examining these additional factors may provide a more comprehensive understanding of how financial and nonfinancial capabilities jointly contribute to MSE performance.

Conflict of Interest

The authors declare no conflict of interest.

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