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## Research Article

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# *Financial Literacy and Financial Outcome of Microenterprises in the Province of Bulacan*

### ABSTRACT

Financial literacy enables owners of microenterprises to understand and assess their financial outcome and make reasonable financial decisions. The paper explores the financial literacy of owners of microenterprises in the Province of Bulacan and how literacy influences the financial outcome of their businesses. The study population were owners of registered micro business in Bulacan from the Department of Trade and Industry, out of which a sample of 296 was selected through the simple random sampling technique. The data was analyzed using percentage and frequency, weighted mean and Pearson-R. The results showed a positive relationship between financial literacy and the financial outcome of micro-enterprises ( $r = .730$ ,  $p < .001$ ). The paper recommends that policy makers should specifically design a program and platform targeted at further improving the financial literacy level of micro business owners to help increase the financial performance of their enterprises.

### KEYWORDS

*Finance, Financial Literacy, Financial Outcome, Microenterprise, Financial Management*

### CITE THIS ARTICLE AS:

Corpuz, G. A. Jr. (2022). Financial Literacy and Financial Outcome of Microenterprises in the Province of Bulacan. *ASEAN Multidisciplinary Research Journal*, Vol 10(1)

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## INTRODUCTION

Small, Medium sized enterprises (SMEs) contributes to the economy and are considered as the drivers of socio-economic development in all countries (Karadag, 2015). In the Philippines, micro enterprises had an essential job in building the economy. It contributes in decreasing the impoverishment of the working power of the nation by creating job (Agyapong, 2019). They are the main employment generation in countries like in Ghana (Peprah, Mensah and Akorsah 2016). It is exhibiting financial enhancement not just in the Philippines but also to other countries. It opens an opportunity for new business people and huge companies to reproduce. Strengthened MSMEs brings emerging and booming economy (Anoos, Gimena, Etcuban, Dinauanao, Macugay & Velita, 2020). MSMEs play an important role in the wider eco-system of firms. Start-ups and young firms, which are generally small or micro firms, are the primary source of net job creation in many countries and are the driving force of innovation and sustainability in the private sector (UNDESA, n.d.).

There's a reason why MSMEs are called the 'backbone' of any healthy economy in the world including the Philippines. According to Congressional Policy and Budget Research Department of House of Representatives (2020), MSMEs comprises 99.5% of the total number of business establishments in the country, the Department of Trade and Industry (DTI) estimated that MSMEs added 35.7% of the total value-added or gross domestic product in 2018. MSMEs produced 5.7 million jobs or 63.2% of the total employment in 2018. To put it simply, MSMEs provide employment opportunities, open up new markets and contributes to economic growth. To add, MSMEs also produce a healthy competition and can upsurge production across businesses. By making the most out on the gap in the market or making a place of their own, MSMEs often encourage larger businesses into refining innovation and competitiveness.

Despite of the contribution of the MSMEs in the country most of the businesses do not see and understand its full potential for they are still being faced by different limitations, this is why the researcher recommend that the LGU should use the proposed paper as the foundation for enacting a directive, outlining the critical role of MSMEs and recommending measures to improve the financial literacy of the owners or management (UNDESA, n.d.).

Bruhn and Zia (2011) investigated the impact of business and financial literacy program on owner-managers of SMEs. They found that SMEs with better performance had owner-managers with higher levels of financial literacy. Nyabwanga (2011) concluded that over 57% of these business operators hardly attend any business training programs, despite over 60% of them having little or no knowledge in financial literacy, hence, were void of financial knowledge vital in the running of their enterprises. The study also established that the performance of SMEs was averagely low.

Simeyo et al. (2011) established that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises. The study further established that majority of the respondents were very satisfied with the provision of capital investment and basic business skills training in micro enterprise investment. This suggests the business skill training accompanying the provision of micro loans, most likely improves the capacity of the SME owners to use funds and hence impacts on business performance.

The rest of the paper was categorized into five sections. “Literature review” looks at the literature; “Research methods” was devoted to the research methods. “Result and discussions” looked at the results and discussions. Finally, “Conclusions” and “Recommendations” were devoted to the conclusions and recommendations respectively

#### Research Objectives

- Analyze the financial literacy of owners of microenterprises in Bulacan.
- Examine the factors that influence the financial outcome of microenterprise.
- Determine the relationship between financial literacy of microenterprise owners and financial outcome of the business in terms of sales revenue and profitability.
- Develop recommendations to the microenterprise owners to increase its business performance.

#### Theoretical Foundation

This study is anchored on resourced-based theory (RBT). This management theory has been applied within the context of management and entrepreneurship. The RBT shows how the company resources could help bring competitive advantage for it. The company resources such as financial, human, technological, marketing and physical resources. These are the resources that the theory determines the company’s characteristics that measures its business performance. The RBT looks at such resources should be valuable, rare and imitable ([Rashidirad, 2015](#)).

RBT is important in the issue of financial literacy and business performance. Financial skills and knowledge have an effect towards on how a company select, utilizes, and manages financial resources ([Nunoo, Andoh and Darfor, 2015](#)). Moreover, business owner’s financial literacy level is a reflection of the level of financial knowledge he or she possesses over time.

#### METHODOLOGY

The study utilized the descriptive correlation research design which is used to describe the statistical association between two or more variables. The researcher selected the descriptive correlational research methodology and utilized a structured survey questionnaire as a tool gathering the necessary data. This helped the researcher in describing and analyzing the views of the respondents on the said study.

The respondents of the study are the owners from different micro business enterprises operating and registered in the province of Bulacan particularly in San Jose Del Monte since this is the largest local government unit within the province and 18th most populated city in the Philippines according to the 2015 census. Population was computed as the number of total registered (1,300) micro business in different industry across San Jose Del Monte, Bulacan

The researcher used the Slovin’s formula in determining the sample size. Based on the formula, the sample size was 296, however 300 micro business owners responded to the survey. Random Sampling technique was utilized in determining the respondents. In addition, the researcher utilized the Five-Point Likert Scale to interpret the weighted mean values of the variables. To address the data requirements of the

study, the researcher utilized a structured and modified survey questionnaire instrument in which the researcher used Cronbach's Alpha to assess the reliability of the instrument.

### Solution:

$$a = \frac{K}{K-1} \left( 1 - \frac{\sum s^2 y}{s^2 x} \right)$$

VARIABLE	DESCRIPTION	VALUES	INTERPRETATION
$K$	# of items	16	Good
$\sum s^2 y$	sum of the item variance	8.3	
$s^2 x$	variance total score	34.25	
$a$	cronbach's alpha	0.808175	

### INTERPRETATION

Interpreting ALPHA for dichotomous or Likert scale question.

CRONBACH'S $\alpha$	INTERNAL CONSISTENCY
below 0.50	Unacceptable
0.50 - 0.59	Poor
0.60 - 0.69	Questionable
0.70 - 0.79	Acceptable
0.80 - 0.89	Good
0.90 - Above	Excellent

## RESULTS

Pearson Product Moment Coefficient was used to determine the relationship between two variables. In this study, this was employed to determine the significant relationship of the level of financial literacy of microenterprise owners and their respective financial outcome.

Table 1. Significant Relationship between the Level of Financial Literacy and Financial Outcome of Microenterprise in Terms of Sales Revenue

Financial Literacy	Versus	Financial Outcome	r	Interpretation	p-value	Decision	Remarks
Financial Planning		Sales Revenue	.583	Moderate Relationship	<.001	Reject Ho	Significant
Communication and Reporting			.680	Strong Relationship	<.001	Reject Ho	Significant
Financial Control			.438	Moderate Relationship	<.001	Reject Ho	Significant



Table 1 shows that a strong positive relationship exist between communication and reporting and sales revenue ( $r = .690$ ) the table also shows that a moderate positive relationships exist between sales revenue and financial literacy in terms of financial planning ( $r = .583$ ), and financial control ( $r = .438$ ). The positive sign indicates that there is a direct relationship between financial literacy of micro business owners and financial outcome of micro enterprise in terms of sales revenue. To elaborate, as the level of financial literacy of microenterprise owners increases, the sales revenue also increases; and as the level of financial literacy of microenterprise owners decreases, the sales revenue also decreases.

The relationship between financial planning in all aspects and sales revenue has a p-value of .001. Since the p-values are less than the assumed level of significance of .05, this means that, statistically, there is significant relationship between financial literacy of micro business owners in all aspects and financial outcome of microenterprises.

In the world of finance the key performance indicators tied on sales revenue and it will serve as the best indicator of overall business growth and performance. Financially healthy company has enough money on hand to fund its financial obligations in a year (Twin. 2021).

Table 2. Significant Relationship between the Level of Financial Literacy and Financial Outcome of Microenterprise in Terms of Profitability

Financial Literacy		Financial Outcome	r	Interpretation	p-value	Decision	Remarks
Financial Planning	Versus	Profitability	.586	Moderate Relationship	<.001	Reject Ho	Significant
Communication and Reporting			.597	Moderate Relationship	<.001	Reject Ho	Significant
Financial Control			.504	Moderate Relationship	<.001	Reject Ho	Significant

Table 2 shows a moderate positive relationships exist between profitability and financial literacy in terms of communication and reporting ( $r = .597$ ), financial planning ( $r = .586$ ), and financial control ( $r = .504$ ). The positive sign indicates that there is a direct relationship between the financial literacy of the micro business owners and the financial outcome of microenterprises in terms of profitability. This means that as the level of financial literacy of microenterprise owners increases, the profitability also increases and vice versa. Statistically speaking, the relationship between financial literacy in all aspects with profitability of financial outcome are significant.

Business can operate for years without being profitable, operating on the goodwill of creditors and investors. However for the business to survive in the long term, it should maintain and reach the point of profitability. This factor must be considered to measure business performance and its financial outcome (Maverick, 2021).

## CONCLUSIONS

The paper tried to investigate at the influence of financial literacy of owners and the financial outcome of their businesses. This is the gap that previous studies have not focused on such an important issue. Owners of micro enterprises are regularly face up to complex financial decisions in managing their businesses. Thus, lack of financial planning, communication and reporting and financial control is a significant problem to the performance of their businesses. Empirical studies done in this subject resulted to low levels of financial literacy among owners of microenterprises in advanced and developing economies and few understand the basic concept of finance (*Lusardi and Mitchell 2007*). The study found a significant positive relationship between financial literacy of owners and financial outcome of their businesses. This means that improvements in financial literacy of owners could increase the performance of their enterprises. As discussed earlier, the volume and value of knowledge available in the business helps create competitive advantage through proper decision making. This would result in process and product innovations and ultimately firm performance. This is similar to findings by *Osinde et al. (2013)* which described that the SMEs who received financial advice and resources had an increase and improvement on the performance of SMEs with their sales and growth in market shares. They found out that those who attended related training services recorded an improvement in their businesses in terms of growth in sales and profits. This is because through seminars, workshops and training, the owners are able to obtain the essential business and financial knowledge. There is a positive relationship between financial literacy of microenterprise owners and financial outcome of microenterprise in the province of Bulacan. Therefore, financial literacy of microenterprise in terms of their financial planning, communication and reporting and financial control was realized to have a direct influence on financial outcome of microenterprises. In addition, there is a significant relationship between the financial literacy in terms financial planning, communication and reporting and financial control aspects and financial outcome in terms of sales revenue and profitability, hence, every single unit addition to the microenterprise owners' financial literacy, there is higher financial outcome of microenterprise and vice versa.

Based on the findings and conclusions, the paper recommends the design and implementation of financial literacy programs by the regulatory bodies responsible for managing Microenterprises in the province of Bulacan including the Department of Trade and Industry (DTI). Furthermore, the owners of micro businesses must exert an effort to improve their financial knowledge by attending workshops, conferences and short training courses about financial literacy. These events could be organized through industry and academy collaborations. For instance, DTI and Local Government Unit could work together with universities and the financial institutions in the province of Bulacan to organize necessary training workshops, seminars and conferences for the Microenterprises. Whenever possible, owners should seek the advice of financial experts in making important financial decisions.

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