



E-ISSN: 2990-9449 (Online)  
CODEN: BEDCAS

# Business and Economics in Developing Countries (BEDC)

DOI: <http://doi.org/10.26480/bedc.01.2025.31.34>



## RESEARCH ARTICLE

# CASH FLOW MANAGEMENT TECHNIQUES AND FINANCIAL STABILITY OF SELECTED AND SMALL ENTERPRISES (SMEs) IN LUCENA CITY, PHILIPPINES

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## ARTICLE DETAILS

### Article History:

Received 14 August 2025  
Revised 03 September 2025  
Accepted 18 October 2025  
Available online 26 November 2025

## ABSTRACT

This study examines the cash flow management techniques and their financial stability in selected small and medium enterprises in Lucena City. In this regard, attention was given to cash flow management techniques such as inventory control, invoicing, credit policies, order fulfilment, customer order management, and overall control. As a result, revealed that most SMEs relied more on inventory management and credit invoicing to sustain their cash flow, while strategies, an overall control. This study analyses the cash flow management techniques of selected small and medium enterprises in Lucena City and their relationship to financial stability. In relation, those identifiers include inventory control, invoicing, credit policies, order fulfilment, customer order management, and other overall control. As a result, revealed that most small and medium enterprises rely more on inventory management and credit invoicing to sustain their cash flow, while strategies such as customer order monitoring and order fulfilment are less commonly utilised. In accordance with the analysis, effective cash flow practices contribute positively to improving liquidity and solvency. The effect on profitability was mixed. However, the findings indicate that, although some SMEs had profited from better liquidity and solvency, many others encountered issues. It is important that such cash flow is planned to achieve financial stability, although others experience financial challenges. But how much these plans affect profitability largely depends on their execution. Through conducting the research, it showed how SMEs with disciplined cash flow management practices experience better financial performance.

### KEYWORDS

Small and Medium Enterprises, Financial Stability, Cash Flow Management Techniques.

## 1. INTRODUCTION

Cash flow is the lifeblood for all businesses and the bedrock of any business. Good liquidity is defined as the capacity of a company to keep sufficient reserves available to cover daily operating expenses, capitalize on growth opportunities, and ensure timely payment of obligations (Kamau and Mungai 2020). Proper management of cash flow helps small to medium sized companies (SMEs) to stay economically sound. If the cash flows generated to a business are well managed, SMEs can remain financially viable as they compete on a sustainable basis and the company can survive a downturn (Kumar et al., 2024). This paper investigates some special methods in which cash flow management methods can be utilized to better the financial status of the business. Small and medium businesses are an important aspect of the local economy offering products and services to community members. Enclosed by, many of these businesses often go into financial instability and mainly during competitive market times. The purpose of the research is to find if good cash flow management practices are aligned with the overall financial stability of such businesses. Based on this setting, it will study the working and financial data of SMEs to identify cash flow management methods that result in improved performance and endurance. Effective cash flow management is the ultimate aim of most businesses to keep the businesses operational. Small and medium-sized enterprises (SMEs) in developing nations play an important role in poverty reduction and economic development. However, many businesses today still struggle with cash flow because of the

stakeholders: suppliers, customers, or even lenders do not always fully understand how important and complex it really is (ET BFSI, 2023). The debates on the contributions of small and medium-sized enterprises (SMEs) to economic development, jobs, poverty reduction, and efficient management of cash remains critical to their advancement and success, as highlighted by (Afrifa and Tingbani 2018).

This study aims to figure out the level of Cash Flow Management Techniques' and Financial Stability of Selected SMEs in Lucena City. This study roots to determine the cash flow management techniques currently employed by these selected SMEs in Lucena City.

The purpose of the study is to determine the impact of the identified cash management techniques to the financial stability of selected SMEs in Lucena City in terms of Liquidity, Solvency and Profitability.

## 2. LITERATURE REVIEW

This section provides the related reviews and theories that support the study.

Cash flow management involves planning, monitoring, and operation of a company's financial resources to ensure they are maximized effectively. It plays a vital role in keeping the business operational and sustainable. Somewhat, overseeing the inflow and outflow of cash affected to settle obligations to creditors, employees, and suppliers on time while also maintaining enough reserves to grasp future growth opportunities. The study indicates that efficiency on cash management avoid the company from becoming dependent on debt and cannot handle the day-to-day

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Website:  
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DOI:  
10.26480/bedc.01.2025.31.34

operations (Amini et al., 2021).

As the results, small and medium enterprises are more at risk of experiencing cash shortages since they have limited options for external financing. Because of this limitation, proper cash flow management plays a vital role. In line with this SMEs are able to monitor and organize their cash effectively, they can handle routine expenses, pay their suppliers on schedule, and take advantage of growth opportunities without becoming heavily dependent on borrowing.

Financial capability should be seen as significant part of managing a business effectively (Yakob et al., 2021). The study reveals that business; small and medium enterprises benefit greatly when they provide continuous financial literacy for their managers. As the results, stronger financial knowledge, managers are able to handle risks better, improve productivity, and guide the business toward sustainable growth (Kumar et al., 2024).

In line with this, Liquidity, Profitability and Solvency ratios are the three main ratios used to assess financial performance. Liquidity ratios are the entity's capacity to meet its short-term obligations; solvency refers to the financial health of the business while the profitability ratios measure the effectiveness of resource. As the results financial statements, are an essential indicator of its financial health. The financial position statement, the cash flows statement, the statement of changes in equity, and the statement of comprehensive income are the four foundations of financial statements. Return on equity and return on assets are the primary metrics used to measure profitability, which they highlight as a crucial factor in determining financial performance (Diana and Maria, 2020).

Since the criteria used to define small and medium-sized businesses (SMEs) usually vary depending on the region, there is no universally accepted definition for SMEs. Small and medium-sized enterprises (SMEs) are independent companies without subsidiaries that have fewer than a particular number of employees, whose upper cap differs according to regions (Henschel and Heinze 2018). Small and medium-sized SMEs account for approximately 90% of the global businesses and provide more than 50% of overall employment opportunities across the globe. Formal SMEs in emerging markets can generate up to 40% of the GDP and are vital in the process of socio-economic development and the industrialization process, as highlighted by (Oteyo, 2018). Small and Medium Enterprises (SMEs) fall under Micro, Small, and Medium Enterprises (MSMEs), usually having between 1 and 99 employees. They dominate most of the businesses in the nation and are highly ingrained in the economy of the country. SMEs are also known worldwide as strong economic growth drivers. They represent the majority of registered enterprises in most developing nations and are at the heart of creating job opportunities as well as sparking community-level development (World Bank, 2022). This indicates that SMEs are not merely small-sized businesses, they are actually the pillars of economies, promoting innovation, supporting livelihoods, and driving inclusive development.

### 3. METHODS

This chapter presents the Research Design, Research Locale, Respondents, Population and Sampling, Data Gathering Procedures, Research Instrument, and Statistical Treatment / Unit of Analysis of this study.

This research is a descriptive study aimed at describing the difficulties faced by Small and Medium Enterprises (SMEs) at Lucena City in learning to assess the level of cash flow management and financial stability of the business. It also aims to depict the characteristics of the selected population under study that influence the variables of this research. The study involves collecting data to answer questions about the current status of the subjects.

The study was conducted for local SMEs in Lucena City of Quezon Province. Therefore, the study aimed to investigate the financial stability and cash flow management of small and medium-sized enterprises. The research analyzed the data on operating costs and cash flows in a sample in Lucena City of Quezon Province.

There were an overall sample of fifty participants in the study, and each agreed to volunteer on the basis of their capacity to participate, of whom fifty were recruited. This was also a volunteer effort in our case as it preserved data integrity. While the sample size was small relative to sample sizes, it was useful for hearing the perspectives represented to me in this kind of cases as they preferred to share their stories as part of the studies. Confidentiality was at a high point, as researchers stressed the need for informed consent as well as the safeguarding of the identity of the respondents. They were financial managers and SME owners who were

interested in the study because they could provide them with knowledge about the topic.

Data were collected via a questionnaire with ten statements and the respondents being invited to provide their responses on the previously defined scales. This survey was modified from tools employed in similar studies to ensure applicability and utility.

The study conducted data collection, summarizing, tabulating and analysis in this format, obtaining weighted averages as the weighted averages of each sub-question. Results summary tables provide a clear view of participant responses. The study is ethical throughout when informed consent is achieved, and confidentiality is maintained to comply with each of the ethical standards of the study. So, using weighted mean allowed for meaningful interpretation and the investigation of the relationship between cash flow management and financial stability to SMEs' financial stability regarding SMEs located in Lucena City.

### 4. THE DATA ANALYSIS

Presented below are the results of the data gathered.

Table 1: Cash Flow Management Techniques		
IDENTIFIERS	WM	VD
Inventory Management	3.50	Strongly Agree
Invoicing Credit Policies	3.37	Strongly Agree
Customer Order Management	3.00	Agree
Order Fulfillment	2.87	Agree
Control	3.27	Strongly Agree
<b>General Weighted Mean</b>	<b>3.27</b>	<b>Strongly Agree</b>

The results shows that respondents tended to agree or strongly agree and suggest that SMEs understand the importance of using good practices to manage their inflows and outflows of cash. Among the cash flow management techniques, Inventory Management result obtained a weighted mean of 3.50, interpreted as Strongly Agree. It suggests that SMEs completely use inventory control to manage cash flows, avoid overstocking, and minimize carrying costs. The practice is considered a vital strategy for increasing liquidity and financial prudence.

The weighted average score for Invoicing and Credit Policies identifier was 3.37, indicating a "Strongly Agree" among the respondents. It means most small and medium-sized firms (SMEs) have very restrictive terms on credit and are always repaying their receivables on time. Credit management is a key element of a strong cash flow system. Regarding the performance metrics, the Weighted Mean is 3.00 ("Agree") for Customer Order Management category, whereas 2.87 ("Agree") is the Weighted Mean for Order Fulfillment category. This gap indicates that some enterprises do streamline their order execution and delivery, enabling prompt delivery, while others encounter poor governance. Such delayed service delivery may in turn affect liquidity stability which in turn adversely affect overall operational performance in addition to procedural problems. The majority agreed on the significance of a positive proactive approach to cash flow management, as reflected by a moderate and average score of 3.27, which means consensus on the need for a review of cash flow practices.

Nevertheless, monitoring practices vary considerably, with some SMEs primarily dependent on paper-heavy documentation. The differences may have to do with the differing financial situations of the organizations. Although an average weighted mean of 3.27 in this example, which is evidence that small and medium enterprises in Lucena City, understand the benefits of proper management of cash flow, the incorporation of the practices is yet to become ingrained in corporate culture in this area. Indeed, the profitability of these facilities is influenced by many variables, but governance is often perceived as not being of utmost importance. Thus, the need to have structured methods of addressing customer suggestions, and to keep them organized while operating is very fundamental, not to mere monetary success but even basic functional productivity.

**Table 2: Financial Stability**

IDENTIFIERS	WM	VD
Liquidity	3.60	Strongly Agree
Solvency	3.47	Strongly Agree
Profitability	3.03	Agree
<b>General Weighted Mean</b>	<b>3.37</b>	<b>Strongly Agree</b>

Both responses to A and SA indicate that a vast majority of respondents tend to agree strongly with the statement that effective management of cash flow is an important factor in the operations of SMEs. The authors noted that this claim obtained the highest weighted mean value (WM = 3.60, Strongly Agree) among the liquidity measures. SMEs are found to track their cash inflows and outflows and control cash flow as a part of their inventory and receivables management activity. Organizations with a strong cash flow are significantly less likely to face cash shortages than those generating very little cash to pay their short-term obligations. In addition to this, solvency reliability score had high values (WM = 3.47; Strongly Agree), indicating good and efficient management of cash flow can be regarded as being important for sustained financial stability.

The existence of a high value for cash turnover indicates the recognition of cash turnover among SMEs and monitoring loans to decrease debt and improve financial health. In comparison, the report revealed a moderate measure of agreement regarding profitability (WM = 3.03, Agree). The results highlight that respondents may not agree (or agree or disagree) on the extent that cash flow management is associated with their profitability. Under these circumstances, sound cash flow practices facilitate larger profit generation for some of the SMEs while for others, market pressures and cost of operations reduce benefits from cash management.

The above-mentioned weighted average of 3.37 classified as Strongly Agree shows that SMEs have a favorable view of Cash Flow Management in terms of Financial Performance. Key impacted areas are liquidity, solvency, and profitability moderate impact observed. As these results indicate, although cash flow management is considered to be positively influencing for SMEs in Lucena City, operating constraints and outside variables may have adverse impact on the overall contribution to profitability.

Results show a positive relationship between cash flow management and financial stability by analyzing weighted mean analysis. This is in line with the observation that small and medium-sized enterprises (SMEs) that manage their inventory well, and are actively engaged in invoicing and credit facilitation show, among other things, improved liquidity and solvency ratios. The challenge on customer orders and operational management has indeed come out however. Consequently, SMEs should discover measures to cope with these problems, as those measures can help improve on their cash flow stability. In addition, the limited impact on profitability and overall financial success indicates that while improvements in cash flow management are possible, they cannot be achieved and implemented on their own, and all business model aspects have to be considered together with an awareness of the market environment. Such findings indicate the crucial role good cash flow management has in the financial wellness of SMEs.

## 5. CONCLUSIONS AND RECOMMENDATIONS

Cash flow management is now the foundation of sustainable businesses for Small and Medium-Sized Enterprises (SMEs). The practice by which the firms manage effective policy on holding and lending to manage capital and its short run liability and long-term liabilities is more effective if they have effective inventory and lending policy enabling the ability to satisfy this short-term obligation. Conversely, erratic customer orders, in an order backlog and delays in completion of orders can be detrimental to profitability. A successful cash flow management system enables business to operate in a more stable, sustainable manner and thus prepares them to grow in the long run as well as for the immediate, short term.

Based on the research, Lucena City SMEs ought to reconsider or evolve their cash flow control systems, and develop enhanced mechanisms that are better than previous ones that would help control cash flow. Worse yet, aspects related to customer ordering and distribution have to be addressed because inefficient processes in these areas can have a negative impact on profit margins. But SMEs need to adopt proper tools and establish procedures by optimizing to solve these difficulties along with changes for their systems. For SMEs, these improvements allow them to survive and even scale ahead of short-run sustainability metrics.

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