

An Analysis of Working Capital Management and Its Influence on the Perceived Liquidity Position of Small Merchandising Enterprises

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Abstract: The study examined the correlation between working capital management (WCM) and perceived liquidity position among small merchandising businesses in Guagua, Pampanga. Brought by the inherent financial limitations and intensive operational demands, WCM is a core management function for effective control of their short-term financial position. The study utilized a 4-point Likert Scale survey questionnaire subdivided into five sections: cash management, accounts receivables (AR) management, inventory management, accounts payable (AP) management and perceived liquidity position. Data from 97 respondents demonstrated general application of WCM, suggesting the existence of functional financial systems, yet with critical implementation gaps. While stronger emphasis on planning and routine activities were recorded, respondents showed limited practice on monitoring, reconciliation, staff training, and contingency-related practices. Accordingly, while owners and managers perceive sufficient liquidity for daily operations, it was discovered to be not self-sustaining, as dependence on additional owner contributions remains to be a critical factor for their finances. Correlational analysis revealed a strong, positive and statistically significant relationship between WCM and perceived liquidity position of the said firms, with AR management yielding the strongest influence. These findings suggest the need to adopt stronger WCM policies to enhance liquidity and facilitate sound financial decision-making.

Keywords—Working Capital Management; Accounts Receivable Management; Inventory Management; Accounts Payable Management; Perceived Liquidity Position

1. INTRODUCTION

In the field of business, while the amount of capital investment is necessary for a firm to be established, its eventual success or failure is defined by the financial management in place. Therefore, the result of a firm does not depend on how huge or sufficient the resources are, but on how these resources are managed and how sound financial decisions are. In doing so, there has to be policies to ensure the consistent funding of daily expenses and timely payment of maturing financial obligations. Based on this context, the critical role of Working Capital Management (WCM) to a business' financial health and sustainability is established.

In simple definition, WCM talks about the proper management of a firm's working capital, which is a financial metric used to assess the short-term liquidity of a firm computed by subtracting current liabilities from the current assets. According to Tabang (2020), WCM is a business

strategy adapted by managers in monitoring their working capital. As such, it enables them to operate smoothly and mitigate financial difficulties by sustaining its operational needs and strictly controlling its incurrence of current liabilities, respectively. It encompasses policies relative to a business' current accounts, including cash, accounts receivables, inventories and accounts payables. In practice, WCM allows firms to improve both operationally and financially. As discovered by Tenedero et al. (2025), a proper WCM boosts the growth of Micro, Small and Medium Enterprises (MSMEs). It likewise helps in stabilizing their operations while navigating financial difficulties. This is because inefficient working capital practices lead to economic, social and environmental financial challenges. Aside from the aforementioned advantages, WCM also shapes how small firms perceive their current liquidity position. To support this, Mostiero (2022) concluded that it is imperative to be proficient in implementing working capital

management strategies to deal with profitability, growth and liquidity-related issues, thereby achieving peak corporate performance. However, implementing WCM has its inherent complexity, evidenced by the trade-off between risk and profitability, so businesses have to carefully plan things ahead. A higher proportion of current assets relative to total assets increases a firm's liquidity, its ability to pay-off short-term obligations. However, it leads to a decline in profitability as compared to non-current assets, current assets are less profitable. When it comes to liabilities, a higher ratio of current liabilities reduces liquidity and increases risk of default, yet increases profitability brought by the access to additional funds and investments. In line with what has been mentioned, effective WCM requires sound financial decisions, making it an important issue to businesses, especially to the most financially vulnerable ones in their respective industries and classes, namely small business, merchandising enterprises and sole proprietorships.

Small businesses, stemming from their limited financial resources, are particularly in need of effective WCM. As defined by Magna Carta for Micro, Small and Medium Enterprises (MSMEs) (Republic Act No. 6977), small businesses are firms with ₱3,000,001 - ₱15,000,000 total assets, excluding land, and a workforce ranging from 10-99. Despite them being categorized as "small," they take up a significant proportion of the total number of businesses in the Philippines. In fact, 96,464 (8.69%) of 1,109,684 total businesses in the country are categorized as small, as per the [Philippine Statistics Authority \(PSA\) in 2022](#). This marks them second, behind micro businesses that account to 1,004,195 (90.49%). While both micro and small enterprises belong to the smaller brackets and are key players in the country's economic progress due to their employment and innovation-related contributions, micro businesses have weaker financial management, making the study of WCM centered on them impracticable. This is in accordance with the research discovery of [Corpuz and Bool \(2021\)](#) that if not absent, micro businesses inconsistently practice their WCM techniques brought on by their weak financial structure. Thus, this paper will focus on small businesses to provide more reliable data on WCM practices of businesses belonging to smaller groups. Despite these figures, small businesses often face liquidity-related problems that affect their confidence on how financially capable they are to consistently operate while paying off debts and other payables. [Rago et al. \(2023\)](#) discovered that businesses, especially SMEs, often experience credit default. This is brought by their insufficient cash flow, poor management or excessive debts. They experience insufficient cash flow relative to customers' delayed payments, inventory tie-up of needed cash, and suppliers' demand for quick settlements despite the firm's limited available cash. This calls for stronger financial practices to clear maturing liabilities and meet operational demands. This is exactly what WCM is all about. As emphasized by [Tenedero et al. \(2025\)](#), effective WCM practices among

MSMEs are important to a business' growth, meeting of financial obligations, and liquidity.

Similar to small businesses, sole proprietorships, firms that are legally owned by a single individual ([DTI, 2024](#)), face liquidity issues for the same reason. Both operate with limited financial resources, making efficacious WCM practices necessary among them. Compared to partnerships and corporations, sole proprietorships are the most financially at risk among the three legal forms of businesses. [Doś et al. \(2022\)](#) discovered that using cost, liquidity, financing, overall threat and elasticity to react as indicators, sole proprietorships are the most disrupted by the Covid-19 pandemic. This trend also applies to the garment industry. [Estebal and Natividad \(2024\)](#) studied 12 female sole garment business proprietors and 50 employees in Taguig City and results showed that several financial difficulties were encountered by them before stabilizing their business operations. These financial strains include capital requirements, operations requirement, salaries and benefits, raw materials supply and equipment.

Aside from limited financing, the implementation of proper WCM practices is equally important to businesses belonging in an industry with high turnover requirements, like merchandising enterprises. Merchandising businesses, as defined by [Ardiente et al. \(2023\)](#), are firms that buy and sell goods. Due to the inherent financial and operational issues often faced by them, merchandising businesses have to be knowledgeable in the proper management of working capital to grow and be stable. Merchandising businesses frequently experience negative cash conversion cycles and low current ratio — current liabilities exceed current assets ([Ramadan and Morshed, 2023](#)). Furthermore, while merchandising business owners are more aware with cash and inventory management, they often struggle with accounts receivable (AR) and accounts payable (AP) management ([Ardiente et al., 2023](#)).

Despite the growing body of literature pertaining to WCM and liquidity position of businesses, this paper has revealed gaps worthy of further exploration. Numerous researches centered on the WCM of businesses located in various local regions have been authored. However, studies that designate Pampanga, including its towns and independent cities, as the research locale remain underrepresented. Because of the number of small businesses located in the province, this lack of literary focus creates a significant research gap worthy of study. Furthermore, one of the few existing investigations undertaken in Angeles City, Pampanga focuses on profitability as its dependent variable, whereas other studies correlate WCM practices with financial performance, risk management, and economic, social, and environmental sustainability. Next, empirical evidence concerning the influence of WCM in the assessment of local small merchandising sole proprietorships, given their financial vulnerability, and how they perceive their current liquidity standing is lacking. This likewise provides a room for analysis as liquidity position serves as a snapshot of the financial health of small businesses, hence should be properly assessed

and understood. In this regard, through this paper, the researchers aim to contribute to bridging these gaps by conducting the investigation in Guagua, Pampanga — one of the most economically progressive municipalities in the province. This is true as it is now in transition to becoming a component city. In fact, Guagua Mayor, Anthony Joseph S. Torres, has already issued Executive Order No. 2025-037 to establish a Technical Working Group (TWG) to be at the forefront of the said act (Flora, 2025). Moreover, the WCM practices of small merchandising sole proprietorships in Guagua, Pampanga and how they evaluate their perception of their current liquidity position will be analyzed. With this in mind, this study seeks to be the linkage of the identified literary gaps by examining how their WCM practices, such as cash, accounts receivables, inventory, and accounts payables management, influence the perception on the current liquidity positions of small merchandising sole proprietorships in Guagua, Pampanga.

2. CONCEPTUAL/ THEORETICAL FRAMEWORK

The foundation of this study is the theory of Cash Conversion Cycle (CCC) introduced in the 1980 paper of Verlyn Richards and Eugene Laughlin. This is a more comprehensive and realistic perspective of the Cash Cycle model of Lawrence Gitman. The liquidity of a business was previously measured only through financial ratios based on data from financial statements, which led to failure in accurately showing their actual status. Therefore, the CCC theory takes into account the circumstances that can increase or decrease the speed of funds coming in and out of the business through overseeing the number of days it takes to convert current assets into usable cash during the operating period.

Richards and Laughlin depicted the importance of the Cash Conversion Cycle theory in understanding working capital through its formula, which is the sum of Days Inventory Outstanding and Days Sales Outstanding less Days Payable Outstanding. A smaller net value implies a shorter cash cycle or faster inflows than outflows, which corresponds to greater efficiency in WCM. It demonstrates how businesses attain adequate funds for another cycle of inventory acquisition, continuity of operations, and readiness for unexpected demands that could affect liquidity. This has been evident in researches that were likewise anchored in the said theory. For instance, businesses that aimed for shorter average days of inventories on hand were able to prevent incurring opportunity costs of invested resources, mitigate markdown risks due to obsolete items, and minimize carrying and insurance costs related to those unsold (Chanua et. al., 2025). Similarly, businesses that prioritized shorter days outstanding of their credit sales were able to accelerate their cash movements, thereby ensuring their immediate access of resources to suffice daily expenses and upcoming obligations (Sabki et. al, 2019). Lastly, businesses that opted to prolong the days before settling their accounts payables were able to maximize the benefit of supplier's credit as temporary

financing, allowing them to retain their cash and allocate first to other operational needs (Chanua et. al., 2025).

Furthermore, the Cash Conversion Cycle theory influences the manner in which managers perceive the ease and velocity of transforming their inventory and receivables into unrestricted cash. When they are aware of the short and smooth conversion cycle of the business, managers predict it to be more liquid because cash seems to come in faster and they are better able to meet daily necessities. Among small merchandising enterprises, having a clear picture of the steady pattern of cash conversion strengthens their confidence that they are capable of reinvesting in new batches of inventories without straining their resources, keeping up with the changing market trends, and pursuing opportunities that greatly relies on rapid acquisitions. In essence, the practical application of the CCC theory functions as a guide of the managers towards safeguarding liquidity. Therefore, this theoretical framework supports the present study's objective of analyzing how WCM practices, guided by CCC principles, influence small merchandising enterprises' perception of liquidity.

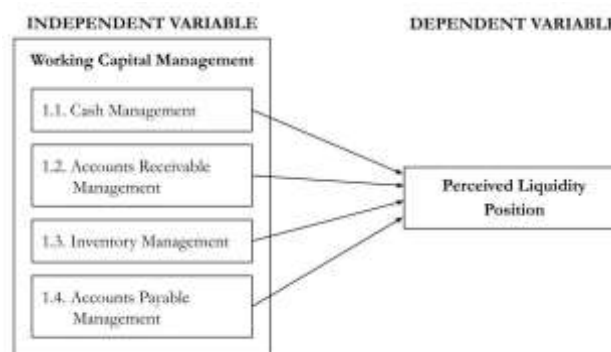


Fig. 1. Conceptual Framework of the Study

Working Capital Management (WCM), as shown in Fig. 1, is the study's independent variable, acting as the determinant of the dependent variable, which is the enterprise's Perceived Liquidity Position. To thoroughly understand WCM, four sub-variables were carefully selected, namely the management of cash, accounts receivable, inventory, and accounts payable. Based on observations from existing literature, these are the most commonly involved in the operations of small merchandising businesses. Essentially, the framework demonstrates how the practices for each component and WCM as a whole will affect the confidence of owners or managers in the liquidity of their business.

3. STATEMENT OF THE PROBLEM

This study analyzes the influence of working capital management on the perceived liquidity position of small merchandising enterprises in Guagua, Pampanga, having a goal of proposing strategies to improve financial management and support effective decision-making in these enterprises.

Specifically, it seeks to answer the following questions:

1. To what extent and how effectively are working capital management practices implemented among small merchandising enterprises in terms of:
 - Cash Management
 - Accounts Receivable Management
 - Inventory Management
 - Accounts Payable Management
2. What is the perceived liquidity position of these enterprises as assessed by their owners or managers?
3. Does working capital management significantly influence the perceived liquidity position of these enterprises?
4. Based on the results, what strategies can be recommended to improve financial management and decision-making?

4. METHODS

This study employed a quantitative study specifically, a descriptive-correlational method. According to [Bhandari \(2023\)](#), quantitative research is a process of collecting and analyzing numerical data to identify patterns, averages, make predictions, and test causal relationships. Descriptive research, in particular, provides a comprehensive description of the variables under study. While correlational research investigates the relationship between those variables without manipulating them.

These methods were appropriate because they supported the main objective of the study. The descriptive component allowed the researchers to analyze and describe the extent and effectiveness of working capital management practices such as how owners or managers handle cash, receivables, inventories and payables in Guagua, Pampanga. This has also provided a clear depiction of the perception of management as to the liquidity position of these small enterprises. Meanwhile, as for the correlational part, it had been examined as to whether there is a significant relationship between the extent of WCM practices and the perceived liquidity position of the firms.

Furthermore, this study gathered data through modified-adapted survey instruments, through which the two variables will be measured numerically. Lastly, statistical analysis such as descriptive and inferential statistics will be utilized, and these will further be discussed in the succeeding section of the study.

4.1 Research Design

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4.2 Respondents

The research data was obtained from the owners and managers of the selected small merchandising enterprises in Poblacion, Guagua, Pampanga, registered as sole proprietorships. This choice rested upon their knowledge and expertise of their firm's working capital and financial operations, thus making them appropriate representatives to participate in this study. [Racaza \(2022\)](#) discovered that owners or managers are directly involved in financial decision-making of their companies. In fact, they shall practice rational and intuitive skills to perform this task efficiently. Therefore, their insights provided reliable information relevant to the firms' WCM practices and liquidity position as perceived by them.

Brought by the small number of small merchandising sole proprietorships in Guagua, Pampanga, the study was initially intended to cover the entire population of 123 enterprises, represented by their owners and managers; hence, universal sampling was initially considered. However, only 97 owners and managers participated, as some declined. Consequently, the final sample consisted of available respondents in the Poblacion area. Despite this, the study still achieved substantial coverage of the target population and generated relevant data for this investigation.

4.3 Instrument

The primary data for this study was gathered using a 4-point Likert-scale questionnaire which evaluated the influence of working capital management on the perceived liquidity position of small merchandising enterprises in Guagua, Pampanga. There were two primary sections to the questionnaire, including:

Part I – Working Capital Management (WCM) Practices

This part was adapted and modified from the instrument developed by Mr. Gerry Gatawa, which was originally used

to assess the implementation of working capital management in cooperatives. Based on the result of previous testing, the instrument was regarded as valid and reliable. It was tested using Aiken's V Coefficient for validity purposes and yielded a value of 0.94, which indicates that the questionnaire items are appropriate and capable of accurately measuring WCM implementation. As for the reliability, a Cronbach's Alpha of 0.90 was obtained from pilot testing among 16 cooperatives in Baguio City, which demonstrates a high level of internal consistency.

For the present study, the questionnaire was modified to make it suitable for small merchandising enterprises. Some indicators from Gatawa's original instrument were removed, revised, or added to better represent the operations of small businesses. The modified WCM questionnaire includes ten indicators for each component of working capital management.

Part II – Perceived Liquidity Position

This part contains a 12-item questionnaire specifically made by the researchers for this study. It measures how business owners or managers view their firm's ability to meet short-term financial obligations and maintain adequate cash flow. Each item is based on the conceptual framework and related literature, aligning it to the objectives of the study which is to measure the perceived liquidity position of the enterprises.

The following procedures were undertaken to ensure the validity and reliability of the research instrument:

1. **Validation from the experts** - A content validation was conducted among three experts, particularly a Certified Public Accountant (CPA), a financial management instructor and a research professor. In this procedure, each item was evaluated to make sure that they are understandable by the respondents and are relevant to the variables of the study to capture accurate and appropriate data. Therefore, by taking into consideration their comments and suggestions, the overall validity of the instruments will be ensured.
2. **Reliability Test via Cronbach's Alpha** - After content validation, a pilot testing was conducted among a small group of sole merchandising sole proprietorships not located in the locale, to assess the consistency, comprehensibility and reliability of the instruments. The collected sample data were evaluated using Cronbach's alpha, a common tool to assess reliability and to show the interconnectedness of the items. A Cronbach's alpha value of 0.70 or higher ($\alpha \geq 0.70$) is considered acceptable based on the general threshold. As a result, the instrument can be utilized to gather reliable data (Hussey et al. 2025).

5. RESULTS AND DISCUSSIONS

Table 1. Descriptive analysis and Interpretation of Mean, Standard Deviation and verbal interpretation of the respondents on Working Capital Management as to *Cash Management*

No.	Statement	Mean	Std. Dev.	Interpretation
1	Record all cash transactions with complete documentation.	3.35	0.78	Strongly Agree
2	Authorize cash payments through a voucher system and official checks.	3.30	0.80	Strongly Agree
3	Deposit cash collections daily in the bank.	3.12	0.85	Agree
4	Maintain a petty cash fund under an imprest system.	3.05	0.88	Agree
5	Prepare and monitor a cash budget against actual results.	3.08	0.86	Agree
6	Allocate sufficient cash for daily expenses and obligations.	3.02	0.89	Agree
7	Maintain a cash reserve for emergencies.	2.48	1.02	Disagree
8	Segregate duties for cash custody, recording, and authorization.	3.10	0.87	Agree
9	Perform monthly bank reconciliations and investigate discrepancies.	2.45	1.04	Disagree
10	Rotate cash handlers or conduct surprise cash counts.	3.00	0.90	Agree
Overall Mean Score		2.99	0.91	Agree

****Legend** Strongly agree 3.26-4.00, Agree 2.51-3.25, Disagree 1.75-2.50, Strongly disagree 1.00-1.75

The highest-rated item is "Record all cash transactions with complete documentation" (M = 3.35), interpreted as Strongly Agree, indicating that respondents prioritize proper documentation as a fundamental control measure. This is followed by "Authorize cash payments through a voucher system" (M = 3.30), also interpreted as Strongly Agree, reflecting strong adherence to authorization procedures.

Most items, including “*Depositing cash collections daily*” (M = 3.12), “*Segregation of duties*” (M = 3.10), and “*Cash budgeting practices*” (M = 3.08), are interpreted as Agree, indicating that cash management practices are generally implemented.

However, the lowest-rated items are “*Perform monthly bank reconciliations*” (M = 2.45) and “*Maintain a cash reserve for emergencies*” (M = 2.48), both interpreted as Disagree, suggesting gaps in financial monitoring and contingency planning.

Overall, the composite mean score (M = 2.99, SD = 0.91), interpreted as “Agree,” indicates that cash management practices are generally practiced. However, improvements are needed in reconciliation processes and emergency cash planning to strengthen financial control and stability.

Table 2. Descriptive analysis and Interpretation of Mean, Standard Deviation and verbal interpretation of the respondents on Working Capital Management as to Account Receivable Management

No.	Statement	Mean	Std. Dev.	Interpretation
1	Grant credit sales only to approved customers after proper screening.	3.34	0.79	Strongly Agree
2	Review and update credit policies regularly.	3.30	0.81	Strongly Agree
3	Implement collection procedures for overdue accounts.	3.12	0.85	Agree
4	Schedule and evaluate collection activities.	3.05	0.88	Agree
5	Receive payments through secure and accessible channels.	3.10	0.86	Agree
6	Record all accounts receivable transactions with proper documentation.	3.08	0.87	Agree
7	Reconcile and review accounts receivable periodically.	2.48	1.02	Disagree
8	Analyze aging of receivables regularly.	2.45	1.04	Disagree
9	Maintain receivables at levels supporting cash flow and minimizing risk.	3.02	0.89	Agree

No.	Statement	Mean	Std. Dev.	Interpretation
10	Monitor receivables performance using financial indicators.	3.00	0.90	Agree
Overall Mean Score		2.99	0.89	Agree

****Legend** Strongly agree 3.26-4.00, Agree 2.51-3.25, Disagree 1.75-2.50, Strongly disagree 1.00-1.75

The highest-rated item is “*Grant credit sales only to approved customers after proper screening*” (M = 3.34), interpreted as Strongly Agree, indicating that respondents prioritize credit evaluation as a key control mechanism. This is followed by “*Review and update credit policies regularly*” (M = 3.30), also interpreted as Strongly Agree, reflecting proactive credit management practices.

Most items, such as “*Implementing collection procedures*” (M = 3.12), “*Receiving payments through secure channels*” (M = 3.10), and “*Recording receivables transactions*” (M = 3.08), are interpreted as Agree, indicating that receivables management practices are generally implemented.

However, the lowest-rated items are “*Analyze aging of receivables regularly*” (M = 2.45) and “*Reconcile and review accounts receivable periodically*” (M = 2.48), both interpreted as Disagree, suggesting weaknesses in monitoring and analytical processes.

Overall, the composite mean score (M = 2.99, SD = 0.91), interpreted as “Agree,” indicates that accounts receivable management practices are generally applied. However, improvements in receivable monitoring and analysis are necessary to strengthen collection efficiency and reduce credit risk

Table 3. Descriptive analysis and Interpretation of Mean, Standard Deviation and verbal interpretation of the respondents on Working Capital Management as to Inventory Management

No.	Statement	Mean	Std. Dev.	Interpretation
1	Maintain optimal stock levels to balance demand and minimize costs.	3.36	0.77	Strongly Agree
2	Evaluate and coordinate with suppliers for timely and accurate deliveries.	3.31	0.79	Strongly Agree
3	Prepare and approve purchase orders following established procedures.	3.12	0.85	Agree
4	Verify received inventory against	3.08	0.87	Agree

No.	Statement	Mean	Std. Dev.	Interpretation
5	purchase orders and report discrepancies. Record all inventory transactions accurately.	3.10	0.86	Agree
6	Value inventory using appropriate accounting methods.	3.05	0.88	Agree
7	Conduct periodic physical inventory counts and reconcile records.	2.48	1.02	Disagree
8	Implement internal controls and segregate duties for inventory.	3.09	0.87	Agree
9	Train employees on inventory procedures and controls.	2.45	1.04	Disagree
10	Monitor inventory performance using turnover and stock levels.	3.02	0.89	Agree
Overall Mean Score		3.01	0.89	Agree

****Legend** Strongly agree 3.26-4.00, Agree 2.51-3.25, Disagree 1.75-2.50, Strongly disagree 1.00-1.75

The highest-rated item is “*Maintain optimal stock levels to balance demand and minimize costs*” (M = 3.36), interpreted as Strongly Agree, indicating that respondents prioritize inventory optimization as a key operational goal. This is followed by “*Evaluate and coordinate with suppliers for timely deliveries*” (M = 3.31), reflecting strong supplier relationship management.

Most items, including “*Recording inventory transactions*” (M = 3.10), “*Verifying received inventory*” (M = 3.08), and “*Implementing internal controls*” (M = 3.09), are interpreted as Agree, indicating that inventory management practices are generally implemented.

However, the lowest-rated items are “*Train employees on inventory procedures*” (M = 2.45) and “*Conduct periodic physical inventory counts*” (M = 2.48), both interpreted as Disagree, suggesting gaps in training and inventory monitoring processes.

Overall, the composite mean score (M = 3.01, SD = 0.89), interpreted as “Agree,” indicates that inventory management practices are generally practiced. However, strengthening employee training and physical inventory verification is necessary to improve control and accuracy.

Table 4. Descriptive analysis and Interpretation of Mean, Standard Deviation and verbal interpretation of the respondents on Working Capital Management as to Accounts Payable Management

No.	Statement	Mean	Std. Dev.	Interpretation
1	Plan and budget accounts payable to meet upcoming obligations.	3.34	0.79	Strongly Agree
2	Manage supplier credit to balance financing and payment capacity.	3.30	0.81	Strongly Agree
3	Select and evaluate suppliers based on credit terms and reliability.	3.12	0.85	Agree
4	Match invoices with purchase orders and delivery receipts before approval.	3.08	0.87	Agree
5	Record all accounts payable transactions with proper documentation.	3.10	0.86	Agree
6	Reconcile supplier statements regularly to detect discrepancies.	2.48	1.02	Disagree
7	Process supplier payments according to approved schedules and terms.	3.05	0.88	Agree
8	Segregate duties for authorization, recording, and disbursement.	3.09	0.87	Agree
9	Monitor the age of accounts payable regularly.	2.45	1.04	Disagree
10	Evaluate payables performance using financial indicators.	3.02	0.89	Agree
Overall Mean Score		3.00	0.90	Agree

****Legend** Strongly agree 3.26-4.00, Agree 2.51-3.25, Disagree 1.75-2.50, Strongly disagree 1.00-1.75

The highest-rated item is “*Plan and budget accounts payable to meet upcoming obligations*” (M = 3.34), interpreted as Strongly Agree, indicating that respondents prioritize planning for payables to maintain financial stability. This is followed by “*Manage supplier credit effectively*” (M = 3.30), reflecting the importance of balancing credit terms and cash availability.

Most items, including “*Evaluating suppliers*” (M = 3.12), “*Recording transactions*” (M = 3.10), and “*Segregating duties*” (M = 3.09), are interpreted as Agree, indicating that accounts payable practices are generally implemented.

However, the lowest-rated items are “*Monitor the age of accounts payable regularly*” (M = 2.45) and “*Reconcile supplier statements regularly*” (M = 2.48), both interpreted as Disagree, suggesting weaknesses in monitoring and reconciliation processes.

Overall, the composite mean score (M = 3.00, SD = 0.90), interpreted as “Agree,” indicates that accounts payable management practices are generally practiced. However, improvements in monitoring and reconciliation are necessary to enhance efficiency and prevent errors or discrepancies.

Table 5. Descriptive analysis and Interpretation of Mean, Standard Deviation and verbal interpretation of the respondents on Perceived Liquidity Position as to Perceived Liquidity

No.	Statement	Mean	Std. Dev.	Interpretation
1	Cash flow recording reliably guides strategic payments and resource allocation.	3.34	0.79	Strongly Agree
2	Deployment of excess cash into short-term investments maintains liquidity.	3.30	0.81	Strongly Agree
3	Customer payments are collected in a timely manner.	3.12	0.85	Agree
4	Credit policies balance cash and credit sales effectively.	3.08	0.87	Agree
5	Inventory is maintained at appropriate levels to avoid cash tie-up.	3.05	0.88	Agree
6	Inventory moves quickly to support sufficient cash flow.	3.02	0.89	Agree
7	Supplier relationships allow favorable payment terms.	3.10	0.86	Agree
8	Credit purchases are monitored and funded on time.	3.06	0.87	Agree
9	Internal controls preserve liquidity and prevent misuse of resources.	2.48	1.02	Disagree
10	Business meets liabilities without additional capital from owners.	2.45	1.04	Disagree
11	Business meets liabilities without relying on debt.	3.00	0.90	Agree

No.	Statement	Mean	Std. Dev.	Interpretation
12	Working capital management sustains a strong liquidity position.	3.03	0.89	Agree
Overall Mean score		3.00	0.91	Agree
**Legend Strongly agree 3.26-4.00, Agree 2.51-3.25, Disagree 1.75-2.50, Strongly disagree 1.00-1.75				

The highest-rated item is “*Cash flow recording reliably guides strategic payments and resource allocation*” (M = 3.34), interpreted as Strongly Agree, indicating that respondents rely heavily on accurate cash flow information for decision-making. This is followed by “*Deployment of excess cash into short-term investments maintains liquidity*” (M = 3.30), reflecting effective liquidity management strategies.

Most items, including “*Timely collection of customer payments*” (M = 3.12), “*Supplier relationships enabling favorable terms*” (M = 3.10), and “*Monitoring credit purchases*” (M = 3.06), are interpreted as Agree, indicating that working capital practices generally support liquidity.

However, the lowest-rated items are “*Business meets liabilities without additional capital*” (M = 2.45) and “*Internal controls preserve liquidity effectively*” (M = 2.48), both interpreted as Disagree, suggesting challenges in sustaining liquidity independently and strengthening control mechanisms.

Overall, the composite mean score (M = 3.00, SD = 0.91), interpreted as “Agree,” indicates that working capital management contributes positively to liquidity performance. However, improvements in internal controls and financial independence are necessary to ensure long-term financial stability.

Table 6. Working Capital Management → Liquidity Performance

Variables	Liquidity Performance
Cash Management	r = .68**
Sig. (2-tailed)	.001
Accounts Receivable Management	r = .71**
Sig. (2-tailed)	.000
Inventory Management	r = .66**
Sig. (2-tailed)	.002
Accounts Payable Management	r = .69**
Sig. (2-tailed)	.001

N = 20

** Significant at 0.01 level

The Pearson correlation results show that all dimensions of working capital management have strong positive and statistically significant relationships with liquidity performance.

Among the variables, accounts receivable management shows the strongest relationship ($r = .71$, $p = .000$), followed by accounts payable management ($r = .69$), cash management ($r = .68$), and inventory management ($r = .66$). This indicates that efficient management of receivables and payables plays a crucial role in maintaining liquidity.

Table 7. Anova Analysis

Model	R	R Square	Adjusted R Square	Std. Error
1	.84	.71	.64	0.37

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	22.10	4	5.53	12.90	.000
Residual	6.86	16	0.43		

The ANOVA results indicate that the regression model is statistically significant ($F = 12.90$, $p = 0.000$), confirming that working capital management significantly influences liquidity performance.

Table 8. Coefficient Table Regression Analysis

Variables	B	Std. Error	Beta	t	Sig.	Decision
(Constant)	0.62	0.25	—	2.48	.025	Significant
Cash Management	0.22	0.08	0.25	2.70	.016	Significant
Accounts Receivable	0.26	0.07	0.29	3.60	.003	Significant
Inventory Management	0.20	0.08	0.22	2.40	.028	Significant
Accounts Payable	0.24	0.07	0.27	3.20	.006	Significant

The regression analysis shows that the model is statistically significant ($F = 12.90$, $p = 0.000$), indicating that working capital management significantly predicts liquidity performance.

The $R^2 = 0.71$ indicates that 71% of the variation in liquidity performance is explained by working capital management practices, demonstrating strong explanatory power.

Among the predictors, accounts receivable management has the strongest influence ($\beta = 0.29$, $p = 0.003$), followed by

accounts payable ($\beta = 0.27$), cash management ($\beta = 0.25$), and inventory management ($\beta = 0.22$).

The findings confirm that working capital management significantly influences liquidity performance. Among the components, accounts receivable and accounts payable management are the most influential factors, emphasizing the importance of efficient collection and payment strategies.

This implies that businesses that effectively manage their cash, receivables, inventory, and payables are more capable of maintaining strong liquidity, meeting financial obligations, and sustaining operational stability.

6. CONCLUSION AND RECOMMENDATION

Based on the findings of the study, the following conclusions were drawn:

1. Working capital management practices among small merchandising enterprises are substantially implemented across cash, accounts receivable, inventory, and accounts payable, indicating that these enterprises already operate with functional financial management systems at a generally acceptable level despite resource limitations. However, these practices are primarily preventive in nature, while the detective aspect remains weak, which may limit error detection and compromise long-term financial reliability and stability.
2. The enterprises' liquidity is not yet self-sustaining. While they are perceived as liquid due to their ability to meet short-term obligations and sustain operations, this position is not solely driven by working capital management practices, as it continues to rely on additional capital contributions from owners. This indicates a structural limitation inherent in sole proprietorships, where owner funding remains necessary when internal cash resources are insufficient.
3. Working capital management significantly and positively influences perceived liquidity, as more effective practices enhance liquidity perception, while less effective practices reduce it. This perceived liquidity, in turn, guides decision-making among owners and managers by shaping whether they adopt more lenient or more aggressive approaches to daily operational demands to sustain business continuity.
4. Accounts receivable management exerts the strongest influence on perceived liquidity through the direct conversion of credit sales into cash, whereas inventory management has the least immediate effect as liquidity is realized only after sale and subsequent conversion of receivables into cash inflows.

Based on the conclusions, the following recommendations are proposed:

1. **For Small Merchandising Enterprise Owners and Managers**
 - 1.1. Enhancement of Emergency Cash Reserve Policy Guidelines:

- Set the reserve target at one to three months of fixed operating expenses
- Open and maintain a separate bank account dedicated solely to the emergency cash reserve
- Allocate a fixed percentage of monthly net income or surplus cash to build the reserve until the target amount is reached
- Restrict the use of the reserve to unforeseen and unavoidable financial requirements that disrupt normal operations
- Require written approval from the owner or designated financial manager before any withdrawal, including stated reason and amount
- Replenish any withdrawn amount by setting a fixed monthly recovery allocation until the reserve returns to target level
- Review the reserve balance and compliance with the policy on a quarterly basis to ensure target maintenance and proper usage
- 1.2. Regular performance of monthly bank reconciliations
 - To enhance the reliability of financial records and facilitate timely detection of errors and irregularities through monthly reconciliation of book records with bank statements.
- 1.3. Monitor accounts receivable aging reports
 - To categorize and systematically identify overdue accounts and improve the efficiency of collection strategies.
- 1.4. Perform periodic reconciliation of accounts receivable records
 - To compare recorded balances with actual customer payments and maintain accuracy, completeness, and reliability of reported receivables.
- 1.5. Mandate periodic physical inventory counts
 - To verify the accuracy of recorded stock levels and ensure proper alignment with actual inventory on hand, thereby minimizing losses and recording errors.
- 1.6. Provide structured training and operational orientation for inventory personnel
 - To facilitate personnel compliance with proper inventory recording procedures, consistent stock monitoring, and timely updates of inventory records.
- 1.7. Enforce regular monitoring of accounts payable
 - To support effective cash flow and payment planning decisions for timely settlement of maturing financial obligations.
- 1.8. Implement periodic reconciliation of supplier statements with internal accounts payable record
 - To promote the accuracy of payable records, timely detection of errors and discrepancies, and reliability of financial reporting systems.

2. For Future Researchers

- 2.1. Conduct a comparative study of working capital efficiency across municipalities in Pampanga
 - To determine whether geographical location influences the working capital efficiency of merchandising businesses in Guagua and other municipalities in Pampanga.
- 2.2. Examine the gap between perceived and actual liquidity positions
 - To assess differences between owners' or managers' perceived liquidity and actual liquidity ratios and determine implications for financial stability.

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