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A Correlational Study on The Financial Management Practices and Financial Reporting Quality Among Retail Businesses

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ABSTRACT

Research Purpose: This study examined the relationship between financial management practices and the financial reporting quality of retail businesses in Pagadian City. It focused on how financial planning, investment decisions, and working capital management relate to relevance, faithful representation, comparability, verifiability, understandability, and timeliness. The aim was to determine whether structured financial management improves the reliability and transparency of reports among SMEs.

Method or Approach: The study used a quantitative descriptive-correlational design. A standardized survey questionnaire was administered to 105 managers of small and medium retail businesses selected through consecutive sampling. The instrument measured three financial management dimensions and six reporting-quality attributes using a 4-point Likert scale. Data were analyzed using descriptive statistics and Pearson correlation in SPSS.

Research Findings: Financial management practices were rated "Very High" (mean = 3.46), with working capital management scoring highest. Financial reporting quality was also "Very High" (mean = 3.35), with timeliness ranking highest. Spearman correlation showed a significant high positive relationship between the variables ($r = .589$, $p < .05$), indicating that stronger financial management contributes to more accurate, timely, and reliable reports.

Recommendations or Novelty: This study offers new empirical evidence from Pagadian City, where research on this topic is limited. Drawing on Agency Theory, it shows how effective financial management reduces information asymmetry and enhances reporting quality. Its contribution lies in jointly assessing financial management dimensions and reporting-quality characteristics, providing insights for policymakers, educators, and business owners seeking to strengthen transparency among retail SMEs.

ABSTRACT

Tujuan penelitian: Penelitian ini mengkaji hubungan antara praktik manajemen keuangan dan kualitas pelaporan keuangan pada bisnis ritel di Kota Pagadian. Fokus penelitian mencakup bagaimana perencanaan keuangan, keputusan investasi, dan manajemen modal kerja berkaitan dengan relevansi, representasi setia, keterbandingan, keterverifikasian, keterpahaman, dan ketepatan waktu. Tujuannya adalah menentukan apakah manajemen keuangan yang terstruktur meningkatkan keandalan dan transparansi laporan pada usaha kecil dan menengah.

Metode atau pendekatan: Penelitian menggunakan desain kuantitatif deskriptif-korelasional. Kuesioner standar diberikan kepada 105 manajer usaha ritel kecil dan menengah yang dipilih melalui consecutive sampling. Instrumen mengukur tiga dimensi manajemen keuangan dan enam atribut kualitas pelaporan menggunakan skala Likert 4 poin. Data dianalisis menggunakan statistik deskriptif dan korelasi Pearson melalui SPSS.

Temuan penelitian: Praktik manajemen keuangan dinilai “Sangat Tinggi” (mean = 3,46), dengan manajemen modal kerja memperoleh skor tertinggi. Kualitas pelaporan keuangan juga “Sangat Tinggi” (mean = 3,35), dengan ketepatan waktu sebagai indikator tertinggi. Korelasi Spearman menunjukkan hubungan positif yang tinggi dan signifikan antara variabel ($r = 0,589$; $p < 0,05$), yang mengindikasikan bahwa manajemen keuangan yang lebih kuat berkontribusi pada laporan yang lebih akurat, tepat waktu, dan andal.

Kontribusi atau Kebaruan: Penelitian ini memberikan bukti empiris baru dari Kota Pagadian, di mana studi mengenai topik ini masih terbatas. Dengan menggunakan Teori Keagenan, penelitian menunjukkan bagaimana manajemen keuangan yang efektif mengurangi asimetri informasi dan meningkatkan kualitas pelaporan. Kontribusinya terletak pada penilaian terpadu antara dimensi manajemen keuangan dan karakteristik kualitas pelaporan, memberikan wawasan bagi pembuat kebijakan, pendidik, dan pemilik usaha untuk memperkuat transparansi pada UKM ritel.

INTRODUCTION

Retail businesses constitute a vital component of both global and national economies, serving as key drivers of employment, consumption, and economic growth. Globally, the retail sector has demonstrated sustained expansion, with retail sales increasing from approximately US$23.6 trillion in 2018 to an estimated US$26.7 trillion in 2022, highlighting its continued contribution to gross domestic product and economic resilience (Kumar et al., 2021). Within this sector, micro, small, and medium enterprises (MSMEs) dominate, accounting for more than 90% of firms worldwide and contributing between 50% and 60% of global GDP, while providing up to 70% of total employment (Organisation for Economic Co-operation and Development [OECD], 2022; World Bank, 2022). In the Philippine context, MSMEs represent 99.5% of registered businesses and generate approximately 66% of total employment, underscoring their indispensable role in national economic development (Department of Trade and Industry [DTI], 2022; Philippine Statistics Authority [PSA], 2021; Adviento et al., 2022). Despite this significance, MSME survival remains precarious, with only about half of new enterprises surviving beyond five years, often due to weak financial systems and inadequate reporting practices (Pag-IBIG Fund, 2023).

Sound financial management has been widely recognized as a critical determinant of business sustainability and performance, particularly for small and medium retail enterprises operating under resource constraints. Financial management practices refer to the internal processes related to financial planning, investment decision-making, budgeting, accounting, and working capital management that guide the efficient allocation and control of financial resources (Anangwe & Malenya, 2020). Prior studies consistently demonstrate that structured financial management enhances profitability, operational efficiency, and informed decision-making (Shahid & Sheikh, 2021; Ronald & Semuel, 2022; Ulrich et al., 2024). Conversely, weak financial planning, poor record-keeping, and inadequate internal controls have been identified as major contributors to SME failure, leading to cash flow problems, regulatory non-compliance, and reduced financial transparency (Beck et al., 2020; Perez & Santos, 2021; Rojas et al., 2022).

Closely linked to financial management is the quality of financial reporting, which serves as the primary medium through which businesses communicate financial information to owners, investors, creditors, and regulators. Financial reporting quality reflects the extent to which financial statements provide relevant, reliable, and decision-useful information (Abed et al., 2022). The International Accounting Standards Board (IASB) emphasizes that high-quality financial reports should exhibit relevance and faithful representation, supported by comparability, verifiability, understandability, and timeliness (IASB, 2018; Hong, 2023). Empirical evidence indicates that reliable and timely financial reporting reduces information asymmetry, strengthens stakeholder confidence, and supports sound economic decision-making (Irwandi & Pamungkas, 2020; Hung et al., 2023). However, numerous corporate failures have demonstrated that deficiencies in financial management are often accompanied by low-quality financial reporting, exacerbating agency conflicts between business owners and managers (Ekwueme & Aniefor, 2019).

Recent empirical studies have extensively examined the relationship between financial management practices and firm performance, particularly among SMEs. Studies conducted in various regions of the Philippines reveal those enterprises with structured budgeting, systematic record-keeping, and effective working capital management exhibit higher profitability, improved cash flow, and stronger compliance with regulatory requirements (Hernandez et al., 2021; Cabildo et al., 2022; Lumuyo & Doya, 2022). Similar findings in emerging economies confirm that disciplined investment practices and financial planning contribute to organizational stability and long-term growth (Sooriyakumaran, 2024; Zia et al., 2024). While these studies provide strong evidence on performance outcomes, they largely focus on financial results and sustainability, rather than on the qualitative attributes of financial reporting itself.

Moreover, existing literature reveals several limitations. First, relatively few studies explicitly examine how specific financial management practices—namely financial planning, investment decisions, and working capital management—relate to the quality of financial reporting. Second, most prior research focuses on metropolitan or national-level samples, leaving smaller cities and regional business hubs underrepresented. Third, studies seldom integrate the full set of qualitative characteristics of financial reporting quality as defined by international accounting frameworks. These gaps limit a comprehensive understanding of how internal financial practices translate into high-quality financial reporting, particularly among retail businesses operating outside major urban centers.

Guided by Agency Theory (Jensen & Meckling, 1976), which explains how information asymmetry and misaligned incentives between principals and agents can undermine financial transparency, this study positions financial management practices as governance mechanisms that can mitigate agency problems. Effective financial planning, disciplined investment decisions, and efficient working capital management are expected to enhance the accuracy, reliability, and timeliness of financial reports, thereby aligning managerial actions with the interests of business owners and stakeholders (Saona et al., 2017; Kivistö & Zalyevska, 2015).

Against this backdrop, the present study examines the relationship between financial management practices and financial reporting quality among small and medium retail businesses in Pagadian City. Specifically, it investigates how financial planning, investment practices, and working capital management relate to the qualitative characteristics of financial reporting quality—relevance, faithful representation, comparability, verifiability, understandability, and timeliness (Zainal et al., 2024). The novelty of this research lies in its integrated analysis of financial management practices and financial reporting quality within a local retail context outside major metropolitan areas. By doing so, the study contributes empirical evidence that can inform policy formulation, capacity-building initiatives, and educational programs aimed at strengthening financial transparency, accountability, and sustainability among retail SMEs.

LITERATURE REVIEW

Agency Theory

Agency Theory examines the challenges that arise when tasks are delegated by principals to agents, particularly when interests do not align. In the context of retail businesses, managers (agents) may engage in actions that serve their own interests rather than maximizing shareholder value. Effective financial management practices serve as a control mechanism to reduce these agency problems by promoting transparency and accountability. Furthermore, the theory relates to financial reporting quality by addressing the information gap; high-quality reporting ensures that owners receive accurate and timely information, thereby building trust and reducing the risk of manipulation.

This theory was considered appropriate for this study because it explained the relationship between business owners (principals) and managers (agents), particularly how misaligned interests and information gaps can influence financial management practices and reporting outcomes. In retail businesses, managers are responsible for handling financial resources and preparing reports, and without sufficient governance and aligned interest, they may not always act in the best interest of the owners. This theory will enable us to understand why good financial management practices, like financial planning, investment, and working capital management, are important in making sure the quality financial reports are accurate and reliable. Through applying this theory, the study can better explain how financial practices, influenced by the principal-agent relationship, affect the accuracy and transparency of financial reporting.

Financial Management Practices

Financial management practices involve the strategic planning, organizing, directing, and controlling of financial undertakings. Key components include: financial planning, investment, and working capital management, following Hernandez et al. (2021). Financial planning involves assessing potential financial outcomes and guiding decisions on how to allocate resources to achieve the company's strategic objectives over time. Investment refers to the strategic allocation of a company's resources into opportunities with strong potential for profitability. Furthermore, working capital management pertains to the effective handling of short-term finances, allowing a business to meet its daily operational needs while maintaining a stable financial position, which is regarded as the essential element that sustains business operations.

Financial Reporting Quality

Financial reporting quality represents the faithful representation of a company's economic reality. Based on the International Accounting Standards Board (IASB) framework, it is assessed through six indicators namely: relevance, faithful representation, comparability, verifiability, understandability, and timeliness.

Relevance refers to the extent to which financial information influences the decisions of users, such as investors or creditors. To ensure faithful representation of economic events, annual reports must uphold integrity by being comprehensive, balanced, and accurate. Understandability describes the ease with which financial information can be interpreted and comprehended by its intended users. Comparability refers to the ability of users to identify similarities and differences across various economic events or entities. Timeliness reflects the provision of financial data while it remains relevant and capable of influencing decision making (Van Beest et al., 2009). Verifiability enhances user confidence by ensuring that the information reflects actual economic conditions (Kawanishi et al., 2014).

Previous literature affirms that poor financial management—characterized by inadequate budgeting and weak internal controls—is a primary cause of MSME failure (Beck et al., 2020). Conversely, structured financial practices lead to better access to financing and compliance with regulations (Hernandez et al., 2021). Studies in the Philippines have shown that organized record-keeping is a key predictor of sustainability. However, a gap remains in linking these management practices directly to the qualitative characteristics of financial reports in provincial retail settings.

This study is guided by Agency Theory, which posits that effective financial management reduces information asymmetry between owners and managers, leading to more reliable reporting. The framework links the independent variable, financial management practices: financial planning, investment decisions, and working capital management, to the dependent variable, financial reporting quality, measured through relevance, faithful representation, comparability, verifiability, understandability, and timeliness.

The framework assumes that stronger and more structured financial management enhances the quality of financial reports by improving transparency, accuracy, and accountability. It serves as the basis for addressing the research question on whether financial management practices significantly influence financial reporting quality among retail businesses.

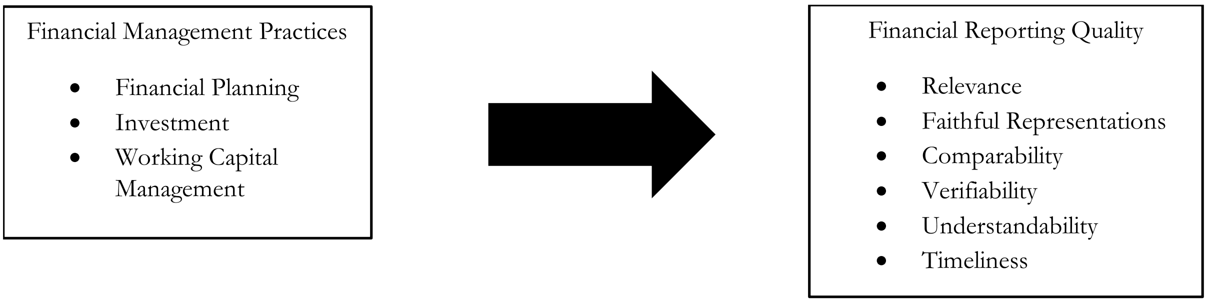

Figure 1. Conceptual Framework

RESEARCH METHOD

Research Design

This study utilized a quantitative descriptive-correlational research design to determine the relationship between financial management practices and financial reporting quality among retail businesses in Pagadian City. This design was appropriate for investigating trends and connections between variables without manipulating the research environment.

Research Environment

The study was conducted in Pagadian City, involving managers of small and medium retail businesses. The city was an ideal location for this study due to its thriving business environment supported by local government programs that promoted entrepreneurship. Scrutinizing the financial management practices in this setting provided valuable insight into how local retail businesses handled budgeting, record-keeping, and financial reporting practices, particularly in relation to the quality of their financial reports (DTI, 2022; Asian Development Bank [ADB], 2019).

Research Participants

The managers of the specific types of small and medium retail businesses operating in and around the city of Pagadian served as the respondents of this study. The total population identified was 150 businesses.

Sampling Technique

The study utilized consecutive sampling (automatic inclusion based on criteria), in which 105 valid responses were obtained. The inclusion criteria required businesses to be registered, classified as small or medium enterprises, and operational for at least one year.

Among the 105 respondents, only one business had been operating for less than five years, while the rest had been in operation for more than five years.

This technique was used because it enabled the researchers to include small and medium retail businesses that provided relevant insights into the study's focus on financial management practices and financial reporting quality, considering its total population that qualified under the inclusion criteria.

Research Instrument

Data were collected using an adapted standardized survey questionnaire. The instrument was divided into three sections: demographic profile, financial management practices adapted from Hernandez et al. (2021), and financial reporting quality adapted from Zainal et al. (2024). A four-point Likert scale was used to assess responses, ranging from 1 (Strongly Disagree) to 4 (Strongly Agree), to eliminate neutral responses and ensure clarity.

The participants who were managers of small and medium retail businesses operating in and around Pagadian City completed the survey questionnaire by encircling the number that corresponded to their chosen response on the scale that was provided. This format ensured respondents committed to either agreement or disagreement, enhancing the clarity and interpretability of responses, especially in studies where neutrality may have obscured meaningful insight.

Data Gathering Procedure

The researchers first secured approval from institutional authorities and the BPLO to obtain the list of registered retail businesses in Pagadian City. Eligible business owners and managers were then identified based on predetermined criteria. Formal permission to conduct the study was obtained from the institution and participating establishments. The adapted survey questionnaire was reviewed and approved by the adviser and panel before distribution. Informed consent was secured, and confidentiality was strictly upheld. During data collection, the researchers explained the study's purpose and procedures to ensure voluntary and informed participation.

Data Analysis

The collected data were processed using SPSS software. Descriptive statistics, specifically weighted mean and standard deviation, were used to determine the levels of the variables. Spearman's correlation coefficient (Spearman's r) was employed to test the hypothesis regarding the relationship between the independent and dependent variables at a 0.05 level of significance.

Ethical Considerations

In conducting this study, it was essential for the researchers to strictly uphold the highest ethical standards to ensure the integrity and validity of the research process. The researchers obtained authorization from the relevant institution's School Administrator to carry out a face-to-face survey. This authorization was crucial as it ensured compliance with institutional regulations and demonstrated the researchers' commitment to transparency and ethical conduct in their research efforts.

RESULTS AND DISCUSSION

Demographic Profile

Out of the 105 participants who successfully answered the survey questionnaire, 91% were small enterprises and 9% were medium enterprises. Additionally, 82% had a capital ranging from ₱3,000,001 to ₱15,000,000, while 18% had a capital ranging from ₱15,000,001 to ₱100,000,000. Moreover, 99% were registered with the local government, while 1% were not.

Level of Financial Management Practices

The assessment of financial management practices revealed an overall "Very High" rating.

Table 1. Summary of Financial Management Practices

	Financial Management Practices	Mean	SD	Interpretation
1	Financial Planning	3.48	0.47	Very High
2	Investment	3.30	0.45	Very High
3	Working Capital Management	3.51	0.45	Very High
	Overall	3.46	0.42	Very High

Hypothetical Mean Range: 1.00-1.75 = Very Low; 1.76-2.50 = Low; 2.51-3.25 = High; 3.26-4.00 = Very High

The overall "Very High" level of financial management practices among retail SMEs in Pagadian City indicates that most businesses actively engage in financial planning, investment assessment, and working capital management. Working capital management emerged as the strongest dimension, suggesting that retail SMEs prioritize liquidity, operational efficiency, and timely settlement of obligations to sustain daily operations. Financial planning also received a very high rating, reflecting consistent budgeting and expense monitoring. Although investment practices were likewise rated very high, they obtained the lowest mean among the three indicators, implying that while SMEs demonstrate awareness of investment strategies, they remain cautious toward diversification and long-term risk-taking.

These findings support Brigham & Ehrhardt (2016) and Gitman & Zutter (2015) who emphasized that effective financial planning and working capital management are fundamental to maintaining financial stability and improving reporting accuracy. However, the comparatively lower investment score suggests that retail SMEs in provincial settings may prioritize short-term survival over growth-oriented strategies due to capital limitations and risk aversion, a pattern also observed in earlier SME studies (Atrill, 2019).

From the perspective of Agency Theory, these results suggest that SME managers actively employ financial management mechanisms to reduce information asymmetry between themselves and business owners. Jensen and Meckling (1976) argue that agency conflicts arise when managers possess superior information and pursue personal interests. In this study, the high level of financial management practices indicates that managers adopt structured controls—particularly in working capital and budgeting—which function as internal governance mechanisms that promote accountability and transparency. This supports Kivistö and Zalyevska (2015), who noted that strong financial systems help safeguard owners' interests by minimizing agency costs and reinforcing reporting discipline.

Level of Financial Reporting Quality

The respondents also rated the quality of their financial reporting as "Very High."

Table 2. Summary of Financial Reporting Quality

	Financial Reporting Quality	Mean	SD	Interpretation
1	Relevance	3.47	0.45	Very High
2	Faithful Representations	3.21	0.52	High
3	Comparability	3.35	0.49	Very High
4	Verifiability	3.34	0.50	Very High
5	Understandability	3.43	0.48	Very High
6	Timeliness	3.49	0.52	Very High
	Overall	3.35	0.41	Very High

Hypothetical Mean Range: 1.00-1.75 = Very Low; 1.76-2.50 = Low; 2.51-3.25 = High; 3.26-4.00 = Very High.

The overall "Very High" rating of financial reporting quality demonstrates that retail SMEs generally produce reports that are timely, understandable, and comparable. Timeliness emerged as the strongest attribute, highlighting the importance placed on up-to-date financial information for operational decision-making. Faithful representation, although still rated "High," received the lowest mean, suggesting potential challenges related to objectivity and accuracy—issues commonly faced by SMEs operating with limited accounting expertise.

These findings align with Dănescu and Stejerean (2022), who emphasized that reliable financial information is essential for sound managerial decisions. Similarly, Mesioye and Bakare (2024) found that organizations producing transparent financial reports are more likely to gain regulatory confidence and avoid compliance risks. In the retail SME context, where owners often rely heavily on internal reports for pricing, inventory, and cash decisions, weaknesses in faithful representation may expose firms to operational inefficiencies and financial misjudgments.

Agency Theory further explains this pattern. Alrawashedh et al. (2025) observed that stronger agency mechanisms enhance report relevance and understandability, while Pramana and Hermawan (2022) linked weak agency controls to higher financial misstatements. In Pagadian City, the generally high reporting quality suggests that managers recognize the importance of accountability; however, the lower faithful representation score indicates that additional controls may still be needed to prevent bias or estimation errors.

Relationship between Variables

The core objective of the study was to test the relationship between the two main variables.

Table 3. Correlation Analysis

Variables	Spearman "r"	Interpretation	p-value	Interpretation	Decision
Financial Management Practices and Financial Reporting Quality	.589	Moderate Correlation	.000	Significant	Reject the Null Hypothesis

*Significance level for correlation is $p < 0.05$ (two-tailed). *N = 105*

Spearman "r" Scale: 0.00 = No Correlation; 0.01 – 0.19 = Very Weak; 0.20 – 0.39 = Weak; 0.40 – 0.59 = Moderate; 0.60 – 0.79 = Strong; 0.80 – 1.00 = Very Strong

The correlation analysis revealed a significant moderate relationship between financial management practices and financial reporting quality. This confirms that retail SMEs exhibiting stronger financial planning, investment discipline, and working capital management are more likely to generate reliable and transparent financial reports.

This result is consistent with Agyei-Mensah (2015), who found that internal financial controls significantly improve reporting transparency. Unlike large corporations, retail SMEs often operate without formal audit systems; thus, internal financial practices become the primary mechanism for ensuring report quality. The moderate correlation observed in this study highlights that structured financial management acts as a substitute governance system within SMEs.

From an Agency Theory standpoint, the findings demonstrate that effective financial management reduces agency conflicts by aligning managerial behavior with owners' interests. Eisenhardt (2020) emphasized that monitoring mechanisms and transparent reporting reduce opportunistic behavior. In this study, financial planning and working capital controls serve as practical tools that limit information asymmetry and strengthen trust between owners and managers. Consequently, the results validate Agency Theory by showing that robust financial management practices enhance reporting quality and organizational integrity among retail SMEs.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that retail businesses in Pagadian City demonstrate a strong commitment to both financial management and reporting quality. The high level of working capital management indicates a pragmatic focus on operational sustainability. The moderate correlation established validates the Agency Theory in this context: structured financial practices act as effective governance mechanisms that enhance the reliability, timeliness, and transparency of financial information. When managers adhere to disciplined financial planning and investment strategies, they reduce information asymmetry and produce reports that owners and stakeholders can trust.

The findings imply that strong financial management practices lead to high-quality financial reporting, as effective planning, investment, and working capital strategies enhance the timeliness, reliability, and usefulness of reports. The moderate correlation between financial management and reporting quality underscores the need to strengthen managerial skills to ensure both operational efficiency and credible reporting. In the accounting field, the results highlight the importance of integrating financial management concepts into reporting practices, preparing future professionals to uphold accuracy, transparency, and integrity in financial information.

Of the total 150 participants, one hundred five (105) successfully answered the printed questionnaire, representing a 70% response rate. This response rate reflects several study limitations: eighteen (18) retail businesses could not be located due to untraceable addresses; eleven (11) potential participants declined participation due to busy schedules; nine (9) were unable to participate due to organizational policies; and seven (7) were unavailable as they were out of town at the time of data collection.

Based on the findings, it is recommended that retail business owners institutionalize structured budgeting and record-keeping systems if they have not already done so. Local government units and the Department of Trade and Industry (DTI) should design capacity-building programs specifically targeting the "Faithful Representation" aspect of reporting to further reduce agency risks. Future researchers are encouraged to expand the scope to other regions and investigate the role of technology adoption in mediating this relationship.

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