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Financial Literacy in Enhancing Risk Resilience Among Small and Medium Enterprises

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Abstract- This study examines the role of financial literacy in enhancing risk resilience among small and medium enterprises (SMEs) in selected municipalities of Laguna, Philippines. A mixed-methods research design was employed, combining quantitative data from 150 SME owners through survey questionnaires and qualitative insights from interviews with five SME owners. The findings revealed that SMEs exhibited high levels of financial literacy, particularly in savings and budgeting, which significantly strengthened their ability to manage financial risks and operational uncertainties. Although investment practices were present, they were less emphasized due to resource limitations and varying risk preferences. Statistical analysis confirmed a significant relationship between financial literacy—particularly in savings, investment, and budgeting—and SMEs' resilience in navigating financial disruptions. Demographic factors such as educational attainment and business experience were found to influence both financial literacy and risk resilience positively. This study concludes that financial literacy is not only a managerial competency but also a critical survival mechanism for SMEs. The results highlight the need for targeted financial education programs and collaborative support systems to enhance the long-term stability and competitiveness of SMEs.

Indexed Terms- Financial Literacy, Small and Medium Enterprises (Smes), Savings, Budgeting, Risk Resilience

I. INTRODUCTION

Financial literacy is a cornerstone for the sustainability and competitiveness of Small and Medium-sized Enterprises (SMEs), particularly in times of economic uncertainty. Unlike large corporations that typically operate with robust financial systems, small enterprises—such as sari-sari stores—often lack the financial expertise required to effectively manage their operations. This knowledge gap can lead to mismanagement, such as inventory stockouts and inefficient use of resources, which directly impacts profitability. When business owners acquire the skills to manage cash flow, control expenditures, and anticipate market fluctuations, they lay the groundwork for a resilient and strategically sound business.

Enhanced financial literacy not only fortifies SMEs against financial risks but also fosters long-term growth. For example, a sari-sari store owner who understands the importance of maintaining accurate financial records and tracking inventory can identify sales trends, ensuring optimal stock levels and boosting customer satisfaction. Such practices help businesses avoid common operational pitfalls, build resilience against financial disruptions, and reduce the likelihood of closure. In essence, financial literacy equips entrepreneurs with the tools to make informed, strategic decisions that promote both survival and sustainable growth.

In the Philippines, Republic Act No. 10922, also known as the Economic and Financial Literacy Act, formalizes the promotion of financial education. This law designates the second week of November as Economic and Financial Literacy Week and mandates the implementation of financial literacy initiatives through the National Economic and Development Authority (NEDA). While the scope of the law is broad, its direct impact on SMEs is significant. By enhancing business owners' financial decision-making capabilities, the law promotes sound budgeting, investing, and risk management practices. Consequently, SMEs benefit from improved financial resilience, better access to funding, and enhanced competitiveness. Over time, the Economic and Financial Literacy Act nurtures a financially literate business environment, empowering SMEs to navigate challenges more effectively and capitalize on growth opportunities.

II. METHODS

This study was designed to examine the role of financial literacy in enhancing the risk resilience of Small and Medium Enterprises (SMEs) in selected

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municipalities of Laguna, Philippines. A mixed-methods research design was employed, integrating both quantitative and qualitative data collection to offer a comprehensive analysis.

1. Research Design

The researchers adopted a mixed-methods approach to combine both quantitative and qualitative data, allowing for a deeper understanding of the subject matter. The quantitative component involved a structured survey questionnaire, which was administered to 150 SME owners in the municipalities of Paete, Famy, Siniloan, Pagsanjan, and Sta. Cruz. This allowed for the collection of measurable data on the demographic profiles of respondents, as well as their financial literacy in the areas of savings, investment, and budgeting. Additionally, the survey captured the respondents' levels of risk resilience in their business operations. The qualitative component consisted of in-depth interviews with five SME owners. These interviews provided detailed insights into real-life financial strategies, challenges faced during financial disruptions, and the personal interpretations of risk resilience within their businesses. The combination of numerical data and narrative responses strengthened the credibility of the findings and allowed for richer contextual understanding.

2. Sampling and Data Collection

To ensure the inclusion of relevant and experienced participants, purposive sampling was employed for the qualitative interviews. SME owners with significant experience in financial management and crisis adaptation were selected to provide substantial insights into the research topic. This selection was based on their firsthand experience in handling financial disruptions, ensuring that the data collected was both reflective and substantial.

For the quantitative survey, a self-constructed questionnaire was developed through extensive literature review, online research, and consultation with a research advisor. The instrument was divided into three key sections: (1) demographic profile, (2) financial literacy—measuring knowledge in savings, investment, and budgeting—and (3) risk resilience levels. The financial literacy and resilience questions were based on established financial concepts, ensuring their relevance and accuracy for measuring the study's constructs.

3. Data Analysis

The data gathered through the surveys were analyzed using descriptive statistics to quantify the extent of financial literacy and risk resilience. A Likert scale was employed to measure respondents' agreement with various statements, providing a standardized method for interpreting financial knowledge and risk management practices.

For the qualitative interviews, thematic analysis was conducted to identify patterns and themes related to the financial strategies, challenges, and resilience tactics used by SME owners. The qualitative insights were triangulated with the quantitative results to provide a more holistic view of the research findings.

This integration of both methods allowed for validation and triangulation of the data. While the quantitative data offered general trends and statistical relationships, the qualitative responses enriched the interpretation by revealing the nuanced, real-life experiences of SME owners. This dual approach improved the accuracy of the research findings and ensured a thorough exploration of how financial literacy influences SME resilience.

III. RESULTS AND DISCUSSIONS

3.1 Profiles of the Respondents

The findings indicated that most of the respondents aged 20–29 years old were male. The majority of them had completed Senior High School and earned a monthly income ranging from Php 9,101 to Php 18,200. This suggested that younger male entrepreneurs were actively involved in managing their businesses and demonstrated interest in learning financial concepts. Their relatively limited work experience highlighted the importance of financial literacy in ensuring effective business operations and decision-making.

The fact that most respondents were males within the 20–29 age range reflected a strong engagement of young individuals in entrepreneurship. Their educational attainment, mostly at the Senior High School level, showed that even without higher education, these entrepreneurs were motivated to develop their business and financial skills. Additionally, the monthly income range of Php 9,101 to Php 18,200 indicated that financial resources were modest, emphasizing the need for careful budgeting, savings, and investment strategies to sustain business growth.

The balanced distribution of respondents by sex suggested that both male and female entrepreneurs participated actively in business management and financial decision-making. Gender was not a major factor in business resilience; instead, financial knowledge, planning, and resource management were key determinants of entrepreneurial success.

Table 1. Extent of Financial Literacy

Extent of Financial Literacy	Mean	SD
Savings	3.44	0.083
Investment	3.36	0.086
Budgeting	3.46	0.086

According to the survey results, Budgeting has the highest mean of 3.46, with a standard deviation of 0.086. Meanwhile, Savings has the second-highest mean, with the lowest standard deviation of 0.083. Furthermore, Investment had the lowest mean of 3.36 and the same standard deviation as Budgeting of 0.086. However, the analysis of the extent of financial literacy in terms of savings, investment, and budgeting, stated above, shows that the majority of the respondents, and a significant number, also selected “Often.” As a result, it can be concluded that the extent of financial literacy in terms of savings, investment, and budgeting, and content is “to a moderate extent.”

The results of the Extent of Financial Literacy in terms of Savings are presented in Table 2.

Table 2. Savings

Savings	Weighted Mean	Interpretation
1. Set aside a portion of the business income for savings to ensure financial stability.	3.49	Always
2. Ensure that an emergency fund is readily available to support the business during financial challenges.	3.45	Always
3. Understand the significance of saving in ensuring the business's future growth and expansion.	3.55	Always
4. Ensure that personal savings are kept separate from business savings to maintain financial clarity.	3.39	Always
5. Educate others on the importance of saving for business sustainability.	3.31	Always

Table 2 shows the extent of Financial Literacy in terms of Savings, with rank two having a weighted mean of 3.44. The respondents stated that savings serve as a safety net to avoid high-interest debt. Owners are keeping cash reserves or using an envelope-and-can system to save money for emergency funds.

Table 3 presents the extent of financial literacy in terms of investment. The data clearly reveal that most respondents, reflected by a weighted mean of 3.36 and a rank of 3, recognize that business owners place significant emphasis on calculating risks before making investment decisions. This finding suggests that owners adopt a more cautious stance, prioritizing long-term sustainability over quick gains. Their careful assessment of potential risks indicates a deliberate effort to protect their resources while ensuring that investment choices contribute to the overall stability and future growth of their businesses.

The results of the Extent of Financial Literacy in terms of Investing can be seen in Table 3.

Table 3. The extent of Financial Literacy in terms of Investing can be seen in Table 3.

Investment	Weighted Mean	Interpretation
1. Actively seek new investment opportunities to expand and develop the business.	3.34	Always
2. Dedicate an amount of the business's earnings to invest in improvements that will increase profitability.	3.35	Always

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3. Have a clear understanding of the potential risks associated with various types of investment.	3.41	Always
4. I make investments in technology, tools, or equipment that enhance my business' operations.	3.23	Often
5. Carefully evaluate the return on investment (ROI) before committing to any financial decisions	3.49	Always
TOTAL	3.36	

Moreover, the results indicate that while many owners acknowledge the importance of investment, not all of them actively engage in diversified or high-return opportunities. Some prefer to limit their investments to low-risk options, reflecting their cautious approach and desire to avoid potential losses. Others, however, choose not to invest at all, often due to limited knowledge or fear of financial uncertainty. This pattern shows that although owners understand the value of investment, their actual usage varies depending on their confidence, experience, and risk tolerance.

The Results of the Extent of Financial Literacy in terms of Budgeting can be seen in Table 4

Table 4. Budgeting

Budgeting	Weighted Mean	Interpretation
1. Allocate funds to manage unexpected expenses in the business operations.	3.61	Always
2. Include a contingency fund in the budget to prepare for unanticipated circumstances.	3.40	Always
3. Keep a detailed record of all business expenses to ensure smooth cash flow management.	3.49	Always
4. Adjust the budget monthly based on the business's performance.	3.45	Always
5. Include loan repayments in my business budget to prevent late payments and further debt accumulation.	3.36	Always
TOTAL	3.46	

In Table 4, the results show that SME owners and managers consistently demonstrate strong budgeting practices, with all indicators falling under the "Always" interpretation. The highest-rated item, allocating funds for unexpected expenses, suggests that business operators prioritize financial preparedness to maintain smooth operations despite unforeseen challenges. Respondents also reported regularly keeping detailed expense records and adjusting their budgets based on performance, reflecting their commitment to effective cash flow management and fiscal discipline. Overall, the data highlights that SMEs place great importance on structured budgeting systems, ensuring that contingency planning, loan repayment management, and expense monitoring are firmly integrated into their financial routines.

According to the responses of the SME owners and managers that the researchers interviewed, the following statements were gathered regarding the extent of Financial Literacy.

SM1: Uses the envelope-and-can system, researches investments, and allocates income to salary, reinvestment, and emergency funds.
SM2: Keeps cash reserves for emergencies, invests after strategic planning, and prioritizes fixed expenses before growth.
SM3: Saves to avoid high-interest debt, accepts investment risks as opportunities, and maintains stability through strict budgeting.
SM4: Values savings over loans, evaluates investment opportunities carefully, and applies profit-based budgeting to prevent overspending.
SM5: Treats savings as a crisis buffer, avoids unnecessary risks, and consistently sets aside income for emergencies.

The results showed that all SME respondents valued financial discipline through saving, budgeting, and

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controlling expenses, emphasizing preparedness and responsible resource use. SM1, SM2, and SM5 viewed savings as a safety net, while SM3 and SM4 saw it as a way to avoid loans. Their investment approaches differed: SM1 and SM3 were open to calculated risks, SM2 preferred careful, well-studied investments, and SM4 and SM5 avoided risks to protect financial stability. Overall, they all recognized the importance of saving and budgeting, but their investment decisions varied based on risk tolerance.

The results of the Level of Risk Resilience among Small and Medium Enterprises are presented in Table 5.

Table 5. Level of Risk Resilience among Small and Medium Enterprises

Statement	Weighted Mean	Interpretation	Rank
1. Believe that regular savings help the business recover from financial challenges.	3.68	Always	1
2. Ensure an emergency fund is maintained to handle unexpected business risks.	3.54	Always	7
3. Know that my savings allow the business to continue operations during financial difficulties.	3.57	Always	4
4. Actively keep some of the profit for future capital protection and security for the business's resilience	3.56	Always	5
5. Invest in new business opportunities to help reduce financial risks.	3.37	Always	10
6. Diversify the business's investments to protect it from potential losses.	3.43	Always	9
7. Recognize that my business investments contribute to long-term financial stability.	3.55	Always	6
8. Use proper budgeting to help the business prepare for unexpected financial setbacks.	3.67	Always	2.5
9. Make sure the business budget includes provisions for emergencies and risk management.	3.49	Always	8
10. Practice budgeting to pay off my debt to strengthen the business's credibility.	3.67	Always	2.5
General Weighted Mean	3.55	Always	

The results on the level of risk resilience among SMEs indicated that respondents consistently practiced various risk management and resilience strategies. The highest-rated statement emphasized their strong belief that regular savings play a crucial role in helping the business recover from financial challenges, serving as a reliable safety buffer. Respondents also highlighted the importance of proper budgeting, which they used not only to prepare for unforeseen financial setbacks but also to ensure that existing debts were properly managed. This financial discipline contributed to maintaining the business's credibility and stability, especially during periods of uncertainty.

However, the findings also revealed a notable gap in their approach to risk mitigation. Only a few respondents consistently invested in new business opportunities, showing that proactive investment was not a common strategy among SMEs. This suggests that while savings and budgeting were prioritized as key financial safeguards, investment—an avenue that could potentially reduce long-term risks and promote business growth—was approached with caution or avoided altogether. Overall, the data highlights that SMEs leaned heavily on conservative financial practices to build resilience, while taking fewer steps toward growth-oriented or opportunity-driven risk management.

The following statements were acquired during the interview addressing the concern regarding the level of risk resilience among small and medium enterprises.

SM1: Savings sustain expenses in downturns, investments are managed carefully, failures offer lessons, and budgeting follows the envelope-can system.

SM2: Reserves provide a safety net, investments build resilience, failures improve decisions, and budgeting tracks transactions with separate wallets.
SM3: Funds meet business and family needs, investments require strict tracking, failures stress seasonal planning, and budgeting prioritizes reinvestment-only use.
SM4: Capital safeguards operations, investments ensure stability, failures highlight competition awareness, and budgeting stays within profits for control.
SM5: Resources cover suppliers and debts, investments are secured separately, failures are cushioned, and budgeting extends credit selectively.

Across SM1 to SM5, savings and budgeting consistently emerged as core strategies for financial resilience. Savings were employed as financial cushions during downturns and crises, while budgeting practices—such as recording transactions, using envelope systems, and allocating profits—ensured financial discipline. Variations were observed in investment approaches and lessons derived from setbacks: SM1 and SM2 emphasized learning from investment failures, SM3 focused on seasonal planning, SM4 highlighted competition awareness, and SM5 stressed the separation of business and personal funds during the pandemic.

The similarities among SM1 to SM5 indicated that SMEs relied heavily on savings and structured budgeting as primary tools for risk resilience. However, their differences revealed that strategies were adapted to address unique challenges, such as competition, seasonal instability, or external shocks. These findings suggested that, while financial discipline provided a common foundation, resilience was shaped by context-specific responses.

The Relationship between the Profile of the Respondents and the Extent of Financial Literacy. This is evident in Table 6

Table 6. Relationship between the Profile of the Respondents and the Extent of Financial Literacy

Variable	p-value	Relationship
Sex	0.114	Not Significant
Age	0.002	Significant
Educational Attainment	0.003	Significant
Monthly Income	<.001	Highly Significant
Years of Business Operation	<.001	Highly Significant

The findings indicated that financial literacy was strongly influenced by income levels and years of experience. Improved financial management skills were developed through greater access to resources and extended exposure. Education was also found to play a significant role, reinforcing the notion that formal learning supported financial awareness. Moreover, the results showed that financial literacy was not gender-dependent and was more likely shaped by other factors.

The results revealed that financial literacy among the respondents was significantly influenced by monthly income, years of business operation, age, and educational attainment, while sex exhibited no effect. Entrepreneurs with higher earnings and longer business experience tended to demonstrate greater financial knowledge and skills, as increased resources and exposure provided more opportunities to apply effective financial management practices. Similarly, older age and higher educational attainment contributed to enhanced financial awareness, as maturity and formal learning strengthened both theoretical understanding and the practical application of financial concepts. Conversely, the absence of significance in sex indicated that financial literacy was not dependent on gender but was instead shaped by access to knowledge, experience, and resources.

The results of the Relationship between the profile of the respondents and the Level of Risk Resilience among Small and Medium Enterprises are presented in Table 7.

Table 7. Relationship between the Profile of the Respondents and the Level of Risk Resilience Among Small and Medium Enterprises

Variable	p-value	Relationship
Sex	0.038	Significant
Age	<.001	Highly Significant
Educational Attainment	0.441	Not Significant
Monthly Income	0.258	Not Significant
Years of Business Operation	0.450	Not Significant

The results revealed that age and sex had a significant influence on the level of risk resilience among small and medium enterprises (SMEs), whereas educational attainment, monthly income, and years of business operation did not exhibit any significant relationship. This indicated that resilience was shaped more by personal and demographic characteristics than by socioeconomic indicators. Older entrepreneurs demonstrated greater adaptability and resilience, which could be attributed to their maturity, accumulated life experiences, and practical business judgment. Meanwhile, gender differences reflected varied approaches to financial risk management, where both male and female entrepreneurs exhibited resilience but adopted distinct strategies in dealing with financial challenges. The absence of significant relationships for education, income, and business experience suggested that resilience was not necessarily derived from higher formal education or greater financial resources but rather from individual adaptability and coping behaviors.

The results of the relationship between the Extent of Financial Literacy and the Level of Risk Resilience among Small and Medium Enterprises

Table 8. Relationship between the Extent of Financial Literacy and the Level of Risk Resilience among Small and Medium Enterprises

Variable	p-value	Relationship
Savings	<.001	Highly Significant
Investment	<.001	Highly Significant
Budgeting	<.001	Highly Significant

Financial literacy in terms of savings, investment, and budgeting was found to have a highly significant relationship with the level of risk resilience among small and medium enterprises. This suggested that financial literacy strongly influenced the capacity of SMEs to build resilience. The results further demonstrated that the more financially literate SMEs were, the more resilient they became. Effective savings provided security, investment ensured growth potential, and budgeting enabled preparedness for risks and emergencies. These findings emphasized that financial literacy functioned not only as a skill but also as a critical survival tool for SMEs navigating uncertainties.

The findings showed that entrepreneurs who consistently practiced saving were able to build financial cushions that supported business continuity during periods of crisis. Sound budgeting practices further enhanced their preparedness for risks and unforeseen financial demands, while investment—although significant—was less emphasized due to the entrepreneurs' focus on maintaining stability rather than pursuing aggressive expansion. These results suggested that financial literacy functioned not only as a managerial skill but as a critical survival tool that enabled SMEs to adapt, recover, and sustain operations in uncertain environments.

IV. CONCLUSION

After careful evaluation and analysis of the findings, the following conclusions are drawn:

1 The study indicated that a considerable proportion of respondents aged 22 to 29 years old were male, and that most of them were Senior High School graduates with a monthly income ranging from Php 9,101.00 to Php 18,200.00, operating their businesses for one to three years.

2 The age and the sex of the respondents were significantly correlated with the risk resilience, whereas education, income, and the years in the business had little significance. This implied that resilience was primarily based on the maturity and character of the individual and their adaptation capabilities, thereby reinforcing the significance of experience and constitution in dealing with risk and uncertainty.

3 The study validated a strong association of financial literacy in savings, investment, and budgeting, and the risk resiliency of SMEs. Entrepreneurs with a higher level of financial literacy were more prepared, disciplined, and stable to continue to run their businesses, where savings and budgeting were the most important basics for hardiness, and investment led to long-term growth.

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