

## **Financial Tools in the Microenterprise Development of La Esperanza Parish**

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### **Abstract**

*This study focuses on evaluating the relevance of financial tools in the progress of microenterprises in the rural parishes of La Esperanza. Understanding these tools is essential as they go beyond innovation, enabling sustainable business growth. The article highlights crucial instruments such as the balance sheet, income statement, and cash flow, critical to the advancement of any for-profit or non-profit organization. The research adopts a qualitative methodology, supported by deductive, inductive and bibliographic methods. These approaches provide essential information for the development of research. The findings reveal that some companies, when incorporated with the SRI, lack adequate tax management, managing it empirically. Business transactions result in monthly losses, with high or no VAT returns. In addition, the payment of the 2% income tax during the semester is done inadequately due to ignorance of the necessary financial statements. Microenterprises in La Esperanza lack an understanding of financial tools, resulting in an inability to plan for the long term. These findings highlight internal weaknesses, evidencing that financial management is limited to a basic budget, resulting in monthly losses.*

**Keywords:** microenterprises, financial tools, tax management, rural parishes, business sustainability.

### **Introduction**

Small businesses are small businesses in Latin America and around the world, but they are essential to generating jobs and income and promoting economic growth and development in countries. It plays an important role in the national productive apparatus and stimulates economic activity. They account for more than 90 per cent of all enterprises, provide 60 to 70 per cent of jobs and account for 50 per cent of global gross domestic product (GDP), indicating their importance in reducing poverty and promoting development (International, 2009). . To be classified as a small business, we assume you must have fewer than 10 employees and less than \$100,000 in annual assets or revenue.

The current reality in Ecuador shows remarkable progress in the field of small-scale entrepreneurship, despite the recent challenges posed by the pandemic. This situation has

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changed business thinking and required the use of new methods and models to improve management practices and thus improve sustainability. However, seven out of ten small businesses in Ecuador fail due to lack of adaptation, lack of preparation, or lack of access to financing. Resistance to innovation, low scalability, and fear of technology are common factors that limit the growth of these companies. According to El Universo (2020), the causes of failure include lack of funds and markets, legal uncertainty, and lack of knowledge when starting a business.

The present study focuses on small businesses in the rural parish of La Esperanza. These small businesses do not experience significant economic growth locally, leading to administrative and tax errors in new businesses. This lack of passion manifests itself in a lack of strategic focus, prioritization of non-strategic operations, and failure to think long-term. The lack of formal control among many owners contributes to this shortcoming, emphasizing the need for more efficient management and proper use of financial products.

The Diocese of La Esperanza, located in the province of Quevedo, with a population of 6,868 inhabitants (INEC, 2022), has not experienced significant economic growth in the 27 years since its creation. Despite their tourist attractions, small businesses in the region are less sustainable and have high failure rates in the first year due to a lack of a broad vision and adequate financial means. The purpose of this study is to analyze the importance of financial instruments for the development of small businesses in La Esperanza Parish and to identify ways to influence business decisions to improve their development. Harol Koontz and Heinz Weichrich's (2019) principles of goal alignment, motivation, leadership, communication clarity, communication integration, and complementarity in informal organizations are used to assess the performance of small businesses.

To achieve this goal, we will use research methods, such as surveys of small business managers, to make diagnoses that strengthen decision-making and improve management processes in these companies. The study also aims to suggest ways for improvement, address issues identified in La Esperanza's small businesses, and help strengthen the organization at the local level.

#### Financial Tools

According to Rashmi and Wilson (2018), financial tools are a set of techniques that allow you to manage personal finances in an appropriate way and contribute to achieving satisfactory results. In finance, financial records, budgets, savings practices, investment strategies, and debt management stand out as recurring tools (Marín, Giraldo, Mejía & Ramírez, 2019a).

The researchers Lara, López, Pazmiño, Paladines, M. B., & Paladines, Y. B (2019), state that financial tools for decision-making are a good option. In this context, financial tools play a critical role in organizing financial statements, providing peace of mind in making decisions about our financial future. These tools allow you to go beyond mere innovation by addressing key aspects such as the balance sheet, income statement, and cash flow statement. These financial instruments are of vital importance to the company, as they contribute positively to its image and reputation. These tools must be managed with leadership and strategic management in a way that provides added value to individuals, which materializes in well-being and financial health (Shappell et al., 2018).

#### Balance Sheet

While an income statement provides information about a company's operating performance over a specific period, the balance sheet provides an instant view of its financial position at a specific point in time, corresponding to a specific date. Thus, the balance sheet reflects the cumulative effects of all previous financial decisions.

At any given time, the balance sheet details the assets the company owns, its outstanding or outstanding liabilities (or debts), and the owners' investment in the company (equity capital). Following a basic formula, the balance sheet is expressed as:  $\text{Total Assets} = \text{Liabilities} + \text{Equity}$  (Fierro et al., 2022a).

In simpler terms, the balance sheet provides a snapshot of what the company owns, what it owes, and the shareholder contribution to the company's equity. In short, it tells me the assets in my possession, the outstanding obligations, and the shareholder share, thus revealing the net worth of my equity.

#### Income Statement

An income statement, also known as a profit and loss statement, reflects the profits generated by a company in a given period, typically monthly or yearly. In its fundamental form, this state can be expressed by the equation:  $\text{Sales (revenues)} - \text{Expenses} = \text{Profits}$  (Fierro et al., 2022b).

The income statement provides detailed information about the investment made, the sales generated, the costs and expenses incurred, and the resulting profit. As a micro-entrepreneur, this document allows me to evaluate profits before distribution, indicating the profit available before allocating income to workers or making collaborations.

In addition, it offers the opportunity to analyze the profit before taxes, revealing the amount set aside to meet tax obligations. Subsequently, after the payment of taxes, the profits that can be allocated to the reserve for statutory reform processes are broken down. Ultimately, the income statement makes it easier to determine available profit, either for distribution to shareholders or to be reinvested in the company.

#### Cash Flow

Cash generation is presented as one of the fundamental missions for companies, since this resource allows them to streamline all their processes, invest in their growth and future, as well as meet all their obligations. When referring to cash flow, we are focusing on the financial movements that the company experiences. These movements originate through customer collections, i.e., the sales of products or services offered by the company, as well as the sale of assets, which constitute beneficial resources for the company. Finally, capital contributions from the different partners are included (Pacheco, 2022).

The cash flow statement provides us with insight into the behavior of cash or progress in operational, financial, or investing activities. It is essential to note that a projected statement of cash flow is not equivalent to an actual statement of cash flow.

#### Managerial management

It plays a crucial role in the development of organizations, directly influencing the behavior of the company's human resources, which requires strong leadership from those who run the entity. This aspect underscores the need to establish an effective communication process that facilitates interaction between collaborators (Rosales, et al., 2020).

The term "management" refers to the direction or coordination of a company, a specific department within an organization, or an institution, among others. In essence, it can be equated to the concept of "management", in order to meet the objectives set for the company, however, it must be taken into account that for effective operational management, the established guidelines must be followed. (Loor & Carreño, 2022)

#### Financial Management

According to researchers Marín, Giraldo, Mejía, & Ramírez (2019b), the financialIt is the engine behind a company's financial management. Its main goal is to assess and manage finances effectively, which involves strategic planning and fundamental decision-making. It is important to note that cash management can be oriented towards saving,

investing or spending. In relation to saving, the dividend decision is addressed, which involves appropriating a part of the profits for personal benefit. On many occasions, it is crucial to analyze the real need to use such a dividend instead of reserving it for future projects. The act of saving is an individual choice in relation to current and future consumption, and is closely linked to investment. Saving is carried out in such a way that cash is set aside or financial instruments are used to safeguard and recover it at any time. In this context, the use of investment portfolios is presented as a viable strategy.

Bustamante (2018) mentions the need to know the importance of operational risk analysis within the different processes, in order to improve and thus avoid illiquidity in microenterprises.

## **Methodology**

This research work is based on a qualitative and quantitative approach, focused on the analysis of financial tools and management principles with the purpose of making informed decisions. According to Sánchez (2019), research under the qualitative approach is based on evidence that is more oriented towards the in-depth description of the phenomenon in order to understand and explain it through the application of methods and techniques derived from its conceptions and epistemic foundations, such as hermeneutics, phenomenology and the inductive method. While Padilla & Marroquín (2021), indicate in relation to the quantitative method that research works under this approach quantify variables, which will be observed, described, measured or subjected to some controlled experimentation.

Throughout the research, the inductive method was used, allowing us to explore the impact of financial tools on the development of microenterprises, revealing the challenges faced by this sector. At the same time, the deductive method provided insights into the lack of knowledge that arises during the creation of micro-enterprises.

To meet the objective of the study, a literature review and various research techniques were used, including the collection of information from books, articles, online journals, theses, personal documents, and other valuable resources. This wide range of sources, which included both affective data and personal documents, facilitated the collection of essential information related to the research topic. Given the documentary nature of the research, with an exploratory approach, it was possible to determine results that led to significant conclusions.

These methodologies are not only applicable to this particular study, but also offer a valuable approach for future research addressing similar issues. The application of specific tools and methods proved to be effective in addressing and solving the study problem, suggesting its usefulness in similar research contexts.

Proper understanding and management of financial information are crucial aspects to the success and sustainability of any business entity. Among the key players in this process are the micro-entrepreneurs of La Esperanza parish, whose behavior towards financial information plays a fundamental role in strategic decision-making and in the long-term financial health of the company. In this exploration, we will examine how owners interact with financial information, analyzing the influence of their decisions and actions on the direction and economic stability of the organization.

## **Results and discussion**

The focus of the study was directed towards the micro-entrepreneurs of the parish of La Esperanza, forming an initial population of 200 individuals, according to data provided by the Decentralized Autonomous Government (GAD) of the parish. In order to obtain a

reliable and representative sample that would make it possible to generalize the results to the entire population, it was decided to survey all microentrepreneurs.

Effective decision-making is a fundamental pillar in the business world, and at its core is the quality and relevance of financial information. In today's context, where speed and accuracy are imperative, understanding how financial information influences business decisions becomes an essential inquiry. The question that guides us is: "How does financial information impact decision-making?" This question leads us to explore the intimate relationship between financial information and strategic, operational, and tactical decisions within organizations. See Table 1.

**Table 1. Financial information for decision-making**

Alternative	Frequency	Percentage
Excellent	10	5%
Good	138	69%
Regular	48	24%
Deficient	4	2%
Total	200	100%

Source: Authors' own creation

The results of the question on the perception of financial information for decision-making offer a comprehensive view of the opinion of the participants. A small but significant percentage, 5%, rate the quality of financial information as excellent. These participants are likely to experience a deep understanding and outstanding applicability of financial information in their decision-making processes.

The overwhelming majority, 69 percent, rate financial information as good. This response suggests that the majority of respondents consider the information provided to be sound and meets their needs to make informed decisions. A quarter of the participants describe the quality of financial information as fair. This group might be suggesting that while the information is acceptable, there is room for improvement or tweaking to optimize its usefulness. A small percentage, 2%, perceive financial information as poor. These participants point out that the current information does not meet their expectations or requirements to make decisions effectively.

At the very heart of financial health and corporate transparency are accounting processes, intricately designed to record, classify, and analyze every financial transaction. The question guiding our exploration is: "How do accounting processes are perceived and applied in today's business environment? See Table 2.

**Table 2. Perceives and applies accounting processes**

Alternative	Frequency	Percentage
Excellent	6	3%
Good	114	57%
Regular	76	38%
Deficient	4	2%

Total	200	100%
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Source: Authors' own creation

Evaluation of the perception and application of accounting processes reveals a variety of perspectives among participants. A small percentage, 3%, rate the perception and application of accounting processes as excellent. This group is likely to stand out for their deep understanding and ability to effectively implement these processes in the business environment.

The majority, 57%, consider that the perception and application of accounting processes is good. This suggests a strong understanding and widespread execution of accounting processes among respondents. A considerable 38% rate the perception and application as fair. This group could indicate that while there is an acceptable level of understanding and application, there are areas where improvements can be made to optimize process efficiency. A small percentage, 2%, perceive and apply accounting processes as deficient. This group highlights the need for attention and significant improvements in the understanding and execution of accounting processes.

In the intricate fabric of business management, the effective management of financial resources emerges as a fundamental skill. The question that guides us is: "How is efficiency in the use of financial resources perceived and employed in the business environment? See Table 3.

**Table 3. It uses financial resources efficiently.**

Alternative	Frequency	Percentage
Excellent	6	3%
Good	128	64%
Regular	66	33%
Deficient	0	0%
Total	200	100%

Source: Authors' own creation

The evaluation of how financial resources are used efficiently reveals mixed perceptions among participants. A small, but significant, 3% consider the use of financial resources to be excellent. This group stands out for its ability to optimize and efficiently allocate available resources.

The majority, 64 per cent, rate the use of financial resources as good. This suggests widespread efficiency and sound practices in managing financial resources among respondents. A third of the participants consider that the use of financial resources is fair. This group could pinpoint specific areas that could benefit from efficiency improvements.

No participant perceives that the use of financial resources is deficient. This lack of responses in the deficient category could indicate a generally positive perception regarding the management of financial resources.

In the business universe, the relevance and accuracy of financial records and the presentation of financial statements are essential for informed decision-making. The question that drives us is, "How do you value and understand the importance of records and presentation of financial statements in today's business environment?" See Table 4.

Table 4. Values the records and presentation of financial statements

Alternative	Frequency	Percentage
Yes	162	81%
No	38	19%
Total	200	100%

Source: Authors' own creation

The vast majority of participants recognize and value the importance of financial statements and reporting, indicating a widespread understanding of their relevance. The overwhelming majority, 81 per cent, have a positive view of the records and presentation of financial statements. This result indicates that the majority of participants recognize the critical importance of maintaining accurate records and presenting clear financial statements for business decision-making.

However, a smaller percentage, 19 percent, indicate that they do not value the records and presentation of financial statements. This group could highlight the need for a deeper understanding of the connection between financial information and strategic decisions. The group that does not value these elements offers an opportunity to explore the reasons behind this perception and address potential gaps in understanding.

## Conclusions

The majority of participants (69%) rated the quality of financial information as good, indicating a positive attitude towards its usefulness. 24% consider the quality average and highlight that there are opportunities to improve and optimize the information presented.

A small percentage (2%) believe that financial information is insufficient, indicating that adjustments are needed to meet their expectations and needs. 57% of small business owners rated the adoption and implementation of accounting processes as good. This indicates good comprehension and overall performance.

38% rate it as fair and highlight areas that need improvement to optimize the efficiency of the accounting process. A small percentage (2%) consider and use poor accounting processes, indicating that they require significant attention and improvement. The majority (64%) rate the efficient use of financial resources positively, indicating overall efficiency and strong experience in managing financial resources. A third of the participants consider the use of financial resources normal and focus on specific areas that could benefit from greater efficiency. None of the participants considered the use of financial resources to be inadequate, indicating a generally positive attitude towards management.

81% rated the management and presentation of financial statements positively, indicating a general understanding of the relevance of financial statements. 19% do not consider these factors important, indicating the need for a better understanding of the relationship between financial information and strategic decisions. These findings provide a detailed overview of perceptions and practices of business operations. They identify strengths such as the evaluation of financial information and resource efficiency, as well as opportunities to improve the quality of information and streamline accounting processes. These findings form the basis of business development plans and strategies for the continuous improvement of the financial and accounting environment.

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