EXAMINATION OF CASH FLOW FORECASTING KNOWLEDGE AMONG SMALL BUSINESS ENTERPRISES IN ENUGU STATE, NIGERIA

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ABSTRACT

The study of the forecasting of future cash flows is essential for detecting deterioration in business financial situations. The study investigated cashflow forecasting knowledge among small enterprises in Enugu state Nigeria. One hundred and seventeen small business enterprises conveniently selected from Enugu state participated in the study. A self-developed instrument was used as a measure. The study adopted a cross-sectional survey design. The result was based on data from 41 (35%) retail businesses, 33 (28.2%) ICT operators, 16 (13.7%) small manufacturing firms, and 27 (23.1) engineering workshops in Enugu state. Data were evaluated using the statistical package for social sciences (SPSS, version 23). A simple percentage formula was used to analyze the data to determine cash flow knowledge among the respondents. The result indicated that 78 respondents representing 66.7% of the total participants, scored high on cash flow knowledge, meaning that they understand cash flow forecasting. The finding suggests that 39, representing 33.3% of the respondents, were not knowledgeable about cash flow forecasting. The result has implications for research and business analysis.

KEYWORDS: *CFF, small business, SME, business performance*

BACKGROUND

The small business sector is an essential element of any developed economic system, without which the economy and society as a whole might not normally function and develop (Sokolinskaya et al., 2019). It represents the backbone of communities (Merrick, 2020) and forms the majority of business activities in a growing economy like Nigeria (Chidiebere et al., 2014). Small businesses operate less formally, potentially permeating into trivial and remote localities unattractive to large enterprises (Iacob & Mironescu, 2017). A small business is commonly referred to as a privately managed business with fewer employees and minimal annual income than a corporation. It is a business in which the owners must personally guarantee the existence of financial planning. Small and medium-sized enterprises are pivotal to enhanced living standards because they create jobs at relatively low capital costs, especially in the fast-growing service sector (Ayanda & Adeyemi, 2011). The significant advantage of the industry is its employment potential at a low capital cost (Ayanda & Laraba, 2011).

Accordingly, it is reported that small and medium enterprises contributed over 50 percent to Nigeria's Gross Domestic Product (GDP) and accounted for 80 percent of employment in recent years (Otaru, 2021). Thus, it has been implicated as a driving force behind job creation, poverty reduction, wealth creation, income distribution, and reduction in income disparities (Ayanda & Adeyemi, 2011). Numerous authors have highlighted the role of SMEs in wealth and job generation in Nigeria (Ademola & Michael, 2012; Ado et al., 2014; Akpabot & Khan, 2015; Anigbogu et al., 2015; Asikhia, 2016; Bowale, 2013; Eniola & Ektebang, 2014; Ilori et al., 2018; Peter et al., 2020; Mukhtar & Rosli, 2014).

However, there is a wide intimation that small business enterprises are generally concerned about increasing profit immediately after their business is established. In particular, the desire to top the competitive environment by maximizing profits might dominate the need to manage and maintain cash flow effectively. As a result, this mismanagement often leads to cash shortfalls commonly implicated in business collapse and increased borrowing. Most importantly, previous studies have shown that cash flow is more predictive of future cash flow than income (Barth et al., 2001; Subramanyam & Venkatachalam, 2007). tracking the cash flow in a business ensures more excellent knowledge of financial statements. Cash flow refers to money movement in and out of a business unit. It entails cash received (inflows) and cash spent (outflows) at a given time. Indeed, understanding the financial situations in business helps avoid unexpected cash crises. Importantly, all businesses should have a backup plan for eventualities. Hence, the more reason to have cash flow forecasting knowledge. Thus, the present paper examined the extent of cash flow forecasting knowledge among small business enterprises.

Given that cash flow is an essential component in business survival, accurate determination of cash flows becomes a veritable tool for effective financial decisions that relate to whether the business survives or goes bankrupt. An important function of financial reporting is to forecast future cash flows' timing, size, and volatility (Lee & Kim, 2019). Financial statements are commonly considered the most significant source of future cash flow predictions. As a measure of a business's profitability and financial health, cash flow forecasting could provide potential knowledge about the source business's ability to make accurate decisions and ensure growth. Thus, cash flow management encompasses planning, monitoring, and controlling cash receipts and payments (Cui et al., 2010).

Operating cash flow reflects the ability to engage in day-to-day operations and its continuity in business. Predicting future cash flows is of extreme usefulness and value for managers, investors, and analysts. Indeed, cash flow forecasting is commonly constrained in that cash flow is more volatile than accruals and thus more brutal to predict. The lack of uniformity in cash flow sourcing in the business world and the diversities in business provide distinct patterns of cash flows. Also, due to the popularity of credit trade, a business's revenue and expenses are not equal to cash inflow and outflow, which compounds the problem of accurate cash flow prediction. Cash flow forecast is of interest to investors (Bilinski & Bradshaw, 2021; Lee & Kim, 2019; Pornupatham et al., 2021; Tsao & Lin, 2016; Imhof & Seavey, 2018). Investors are interested in cash flows as input into their investment models to decide on payoff relating to dividends and capital appreciation of their investments.

Cash flow can be considered as complementary information to earnings since the combinative analysis of both quantities might bring better results than analyzing payments on its own. Incomes, also sometimes referred to as net income, are the summation of net cash inflow and net credit-earning. The latter is based on credit trades with customers and is not yet expected to be settled by cash in a later period. The amount of credit given to customers could potentially be overlooked without cash flow knowledge, which may mislead about the risk relative to the deficiency of cash in the business. In addition, cash flow knowledge might directly measure the operational capability of a business enterprise to meet its day-to-day financial obligations.

Small business enterprises are typically characterized by self-management of daily activities. Thus, the entire business process, including planning, financial recording, invoicing, stock recording, and other activities, is performed by one person. Most importantly, a common feature among small business practitioners in Nigeria is the desire for growth. However, an important consideration in business enlargement is effective management. Thus, there is a growing misconception that everything is fine once a business is making a profit. This is far from the truth. If the cash flow position is negative, it means the business may be in severe trouble. Indeed, in-depth knowledge of business financial movement gives an edge in business growth. For instance, it guarantees a proactive position to take advantage of growth opportunities

or to know when it's time to concentrate on business as usual. Start-ups and small businesses are especially vulnerable to cash flow problems. Thus, the present paper examined the knowledge of cash flow forecast among small business enterprises in Enugu state, Nigeria

Research question:
Do small business enterprises in Enugu state know about cash flow forecasting?

Method
The population of the present paper encompassed small business enterprises in Enugu state, Nigeria. They included manufacturing, IT, Engineering, and retail enterprises with a minimum of one year of existence. The businesses included manufacturing (sachet water, tissue paper, and paint producers), ICT sector (IT operators), engineering (fabricators), and retail sectors (consumables). They were approached in the Enugu state business environment between February and April 2022 and were informed of the study's purpose. One hundred and twenty-four small business enterprises consented to participate in the study. Thus, they were offered the study's instrument for a response. More so, they were made to respond to the questions on the spot and accurately and ask questions on any perceived ambiguity. Overall, one hundred and seventeen (117) copies of the questionnaire were appropriately filled and utilized for statistical analysis, while seven (7) copies were discarded for improper filling.

Measures
The instrument for data collection in the study was a structured questionnaire. The questionnaire items were developed from relevant literature and designed to assess information relating to cash flow forecast practice on a five-point Linkert-type scale. The measure was subjective, and respondents were required to self-report their cash flow forecast knowledge. However, a Cronbach Alpha 0.79 coefficient was recorded for the scale following a pilot study using participants outside the study population. A higher score indicates cash flow forecast knowledge, while a low score entails a poor understanding of cash flow forecasting

Result
The study adopted a cross-sectional survey design. The result was based on data from 41 (35%) retail businesses, 33 (28.2%) ICT operators, 16 (13.7%) small manufacturing firms, and 27 (23.1) engineering workshops in Enugu state. Data were evaluated using the statistical package for social sciences (SPSS, version 23). A simple percentage formula was used to demonstrate the data to determine cash flow knowledge among the respondents. The result indicated that 78 respondents representing 66.7% of the total participants, scored high on cash flow knowledge, meaning that they have an understanding of cash flow forecasting. On the hand, the finding indicates that 39, representing 33.3% of the respondents, were not knowledgeable about cash flow forecasting.

Table 1:
Distribution of the small business enerprises

	Frequency	Percentage
Retail sector	41	35%
ICT sector	33	28.2%
Manufacturing sector	16	13.1%
Engineering sector	27	23.1%

Table: 2
Table showing the frequency and percentage score of cashflow forecasting knowledge

	Frequency	percentage
High cashflow knowledge	78	66.7%
Low cashflow knowledge	39	33.3%

Discussion
The study investigated cashflow forecasting knowledge among small enterprises in Enugu state Nigeria. One hundred and seventeen small enterprises were recruited for the study. Data from the questionnaire was analyzed in frequency and percentage formula. The analysis indicated that most small business enterprises are knowledgeable about cash flow forecasting. Accordingly, the finding answered the study's question that small business enterprises in Enugu state have knowledge relative to cash flow forecasting in their various business. Thus, it means that retailers, engineers, manufacturers, and ICT practitioners in the state are employing cash flow forecasting in their day-to-day business activities. The probable explanation for this outcome might be attributed to the apprenticeship system that characterizes the southeast part of the country. Notably, the apprenticeship system allows a prospective entrepreneur to acquire business skills, including accounting and auditing capabilities that are prerequisites of business performance.

Conclusion

Good cash flow knowledge will help entrepreneurs control cost estimates, control plan implementation, and control additional costs, ensuring business success. Indeed, it can be inferred from the present findings that cash flow forecasting should not be considered in relation to dwindling business growth and performance in Enugu state. This result has implications for research and business analysis. Although the study is challenged with limitations, for instance, subjective measures of cashflow forecasting knowledge have been criticized for the issue of common variance. Also, the sampling method poses a burden for generalization. Future research should consider multiple data collection approaches and employ more comprehensive samples to ensure the generalization of the outcome. Nonetheless, the study concludes that small business enterprises in Enugu state are knowledgeable about cash flow forecasting.

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