

THE ROLE OF CASH FLOW FORECASTING SKILLS IN THE DEVELOPMENT OF ENTREPRENEURSHIP: AN EMPIRICAL STUDY OF ENTREPRENEURS IN THE COSMETICS ECOSYSTEM

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Abstract

There are growing media reports suggesting that the cosmetics industry in Nigeria is experiencing rapid growth and provides a veritable opportunity for entrepreneurial development. On the other hand, cash flow forecasting has been implicated in the growth and decline of entrepreneurship. However, little is known about the cash flow forecasting knowledge of many small business enterprises in Nigeria. The present study examined the cash flow forecasting knowledge among cosmetics entrepreneurs in River state, Nigeria. One hundred and seventeen small business enterprises conveniently selected from River 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 River 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 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: *cash flow, forecasting knowledge, cosmetics, entrepreneurs*

BACKGROUND

If the small business sector were to be eliminated from a developed economic system, the economy and society might not be able to continue to grow and develop (Sokolinskaya et al., 2019). It is the support system upon which societies are built (Merrick, 2020) and accounts for the bulk of Nigeria's burgeoning commercial sector (Chidiebere et al., 2014). Since they have fewer formalities, small businesses can spread to unimportant and far-flung areas that large corporations typically avoid (Jacob & Mironescu, 2017). Generally speaking, a small business is a privately managed company with fewer employees and lower annual revenue than a corporation. It is a company where the owners are required to vouch for the existence of financial planning. Small and medium-sized businesses, particularly in the rapidly expanding service sector, are essential to raising living standards because they generate employment at relatively low capital costs. (Ayanda & Adeyemi, 2011). The significant advantage of the industry is its employment potential at a low capital cost (Ayanda & Laraba, 2011).

In light of this, it has been reported that small and medium enterprises (SMEs) have been responsible for over fifty percent of Nigeria's gross domestic product (GDP) and eighty percent of the country's 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 a business's cash flow ensures excellent financial statement knowledge. 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 essential financial reporting function is forecasting future cash flows' timing, size, and volatility (Lee & Kim, 2019). Financial statements are 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 interests 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 complementary information to earnings since the combinative analysis of both quantities might bring better results than analyzing payments independently. Incomes, sometimes called 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 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.

Growing media report indicates that the Nigerian cosmetic market is experiencing rapid and dynamic growth, providing lucrative opportunities for beauty businesses from around the region and beyond. According to newspaper reports, the market is currently worth an estimated 1 trillion naira, and its value is likely to rise to keep pace with an increasing number of entrepreneurs investing in the industry. The cosmetics business is typically characterized as a sole proprietorship. Thus, the entire business process, including planning, financial recording, invoicing, stock recording, and other activities, is performed by one person. However, an important consideration in business development 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 is negative, 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 is time to concentrate on business as usual. The cosmetic business is more likely vulnerable to cash flow problems because of its rapid sales and inventory challenges due to multiple products. Thus, the present paper examined the knowledge of cash flow forecast among cosmetics entrepreneurs in River state, Nigeria

Research question:

Do cosmetics entrepreneurs in River state know about cash flow forecasting?

Method

The population of the present paper encompassed entrepreneurs in the cosmetics industry in River State, Nigeria. They included manufacturing, wholesalers, and retailers of cosmetic products. They were approached in the River state business environment between December 2022 and February 2023 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 cash flow forecast practice information 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 57 (48.1%) cosmetics retail businesses and 60 (51.9%) wholesalers in the cosmetics business in River state. Data were evaluated using the statistical package for social sciences (SPSS, version 23).

Table 1: Distribution of cosmetics dealers

	Frequency	Percentage
Cosmetics retailers	57	48.1%
Cosmetics wholesalers	60	51.9%

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

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

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 they understand cash flow forecasting. On the hand, the finding indicates that 39, representing 33.3% of the respondents, were not knowledgeable about cash flow forecasting.

Discussion

The study investigated cashflow forecasting knowledge among cosmetics dealers in River state, Nigeria. One hundred and seventeen small enterprises were recruited for the study. Data from the questionnaire was analyzed in frequency and percentage formulas. The analysis indicated that most small business enterprises are knowledgeable about cash flow forecasting. Accordingly, the finding answered the study's question of what cosmetics entrepreneurs in River state know relative to cash flow forecasting in their various businesses. Thus, it means that retailers and wholesalers in the cosmetics industry 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 cosmetics business, in that dealing in cosmetics requires adequate training that usually demands the apprenticeship system. 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 in the cosmetics industry 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

the country. 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 cosmetics entrepreneurs in River state are knowledgeable about cash flow forecasting.

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