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The Regulation of Cash Flow for Effective Economic Management and Development of Businesses in Nigeria

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The study focused on the regulation of cash flow for economic management and development in Nigeria. Cash flow is the lifeblood of all businesses, particularly start-ups and small enterprises. Data for this study were collected from secondary sources. Since, cash flow management is a contemporary issue. The findings of this work revealed that proper and adequate billing schedule, early payment incentives, tightening of inventory and the renegotiation of insurance and supplier policies, etc. were necessary for effective cash flow management that will bring about economic progress and development. Thus, it is essential that management forecasts (prediction) of what is going to happen to cash flow is dependent on the financial security of the business, organization, establishment or institution.

Keywords: Cash flow, Development, Economic Management and Regulation.

INTRODUCTION

In today's world of economic and financial crisis, it is a fact that, one of the priorities for economic climate is the effective and efficient management of cash flows (Caux, 2005). Business analysts have identified poor cash flow management as the main reason for business failure. Cash flow management is a key aspect of financial management of a business, planning its future cash requirements to avoid a crisis of liquidity (Caux, 2005).

Cash flow forecasting is important because, if a business runs out of cash and is not able to obtain new finance, it will become insolvent (Association of Financial Professionals, 2006). Cash flow is the lifeblood of all businesses, particularly start-ups and small enterprises. As a result, it is essential that management forecasts (prediction) of what is going to happen to cash flow is dependent, on the financial security of the business (Association or Corporate Treasurer, 2006).

The corporation further stated that, if the business is struggling, or is keeping a watchful eye on its finances, the business owner should be forecasting and revising his or her cash flow on a daily basis. However, if the finances of the business are more stable and safe, then forecasting and revising cash flow weekly or monthly is enough (Simply cash flow.com in March, 2013).

Association of Corporate Treasurers (2006) therefore outlined key reasons, why a cash flow forecast is important: identify potential shortfalls in cash balances in advance – think of the cash flow:

I. Forecast as an "early warning system". This is, by far, the most important reason for a cash flow forecast.
II. Make sure that the business can afford to pay suppliers and employees. Suppliers who don't get paid will soon stop supplying the business; it is even worse, if employees are not paid on time.
III. Spot problems with customer payments; preparing the forecast encourages the business to look at how quickly customers are paying their debts. Note; this is not really a problem for businesses (like retailers) that take most of their sales in cash/credit cards at the point of sale.
IV. As an important discipline of financial planning; the cash flow forecast is an important management process, similar to preparing business budgets.
V. External stakeholders such as banks may require a regular forecaster certainly, if the business has a bank loan, the bank will want to look at the cash flow forecast at regular intervals.

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The (total) net cash flow of a company or establishment over a period (typically a quarter, half year or a full year) is equal to the change in cash balance over this period. It is positive if the cash balance increases (more cash becomes available), negative, if the cash balance decreases. The total net cash flow of a project is the sum of cash flows that are classified into three areas:

i. **Operational Cash Flows:** Cash received or expended as a result of the company's internal business activities.
ii. **Change in Net Working Capital:** It is the cost or revenue related to the company's short-term asset like inventory.
iii. **Capital Spending:** This is the cost or gains related to the company's fixed asset, such as the cash used to buy a new equipment or the cash, which is gained from selling an old equipment.

STATEMENT OF THE RESEARCH PROBLEM

Adequate cash flow is essential to keeping a business afloat, but a Small Business Watch Survey in (2010) discovered and recorded that entrepreneurs often consider bandaging their cash flow problems with contemporary cash infusions, but a business ultimately needs to fix structural problems in their supply chain to show positive gains.

Cash flow problem means a business spends more than it earns. If you spend N400,000 on rent, supplies and payroll this month, for example, but only take in N350,000 in sales you have a cash flow of negative N50,000. You also have projected cash flow problems. Thus, if your expected expenses outpace anticipated sales, you have a projected cash flow problem.

Causes

Most businesses that have cash flow problems do so because they fail to look at their financial statements until problems become too big to handle. Even a company that makes a profit can have a negative cash flow because of the long time shopping out products, when the customer pays and the posting date of the funds.

Bort (2016) noted that poor cash management could end up putting a profitable company out of business. Without cash on hand, a business may not be able to invest in assets that it needs, such as new equipment and inventory. Profits are good for a business, but are worth nothing, if cash is not coming in. Thus, you may then look for alternative loans with undesirable interest rates that cost more than a traditional loan to make up for cash shortfalls (Bort, 2016).

Devereux and Auerbach (2013) observed that, there are many reasons a business can suffer cash flow problems – some are down due to mismanagement and poor decisions, and in some cases factor outside of your control. Any of the following symptoms can indicate that a business is experiencing cash flow problems.

a. Up to overdraft limit – no headroom/returned payments
b. Stretch to pay salaries each month
c. Trade creditors arrears
d. Taxation arrears
e. Rent arrears
f. No working capital 'buffer' surviving day to day
g. Negative working capital on balance sheet – over geared / losses.
h. Lack of funds for remedial action (redundancies / premises relation).
i. Lack of profitability – insufficient to support owner / manager's lifestyle.
j. Unable to pay for professional advice

THE STUDY AREA (GEOGRAPHICAL AND POLITICAL SETTINGS OF NIGERIA)

Nigeria is located in the Western part of Africa on the Gulf of Guinea and has a total area of 923, 768km^2 (356,669sqmiles), making it the world's 32nd largest country (after Tanzania). It is comparable in size to Venezuela, and is about twice the size of California. It shares a 4,047 kilometres (2,515mils) border with Benin Republic. The highest point in Nigeria is Chappal Waddi at 2,419m (7,936ft). It extends from approximately latitude 4^{0}N to 14^{0}N of the Equator and longitude 3^{0}E to 15^{0}E of the Greenwich meridian (Filani, 1995).

The main rivers are the Niger and Benue, which converge and empty into the Atlantic Ocean, through the Niger Delta. Nigeria, officially called the Federal Republic of Nigeria, is a Federal Constitutional Republic comprising thirty six states (36) and its Federal Capital Territory Abuja. The country is located in West Africa and shares land borders with the Republic of Benin in the West, Chad and Cameroon in the east, and Niger in the north.

Its coast in the South lies on the Gulf of Guinea on the Atlantic Ocean. The three largest and most influential Ethnic groups in Nigeria are the Hausa, Igbo and Yoruba. In terms of religion, Nigeria is roughly split half and half between Muslims and Christians with a very small minority, who practice traditional religions (www.nigeriaonline.org, 2016)

THEORETICAL BACKGROUND AND LITERATURE REVIEW

The dependency theory of Growth and Development is applicable to this study. Dependency theory was propounded by Ranis et al (2000) Dependency theory argued that poor countries have sometimes experienced economic growth with little or no economic development initiatives; for instance, in cases where they have functioned mainly as resource providers to wealthy industrialized countries. There is an opposing argument, however, that growth causes development because some of the increase in income gets spent on human development such as education and health.

According to Ranis et al economic growth and development is a two-way relationship. According to them, the first chain consists of economic growth benefiting human development, since economic growth is likely to lead families and individuals to use their heightened incomes to increase expenditure which in turn furthers human development. At the same time, with the increased consumption and spending, health, education and infrastructure systems grow and contribute to economic growth.

In addition to increasing cash flow, economic growth also generate additional resources that can be used to improve social services are distributes equally across each community, thereby benefiting each individual and then the entire nation. Concisely, the relationship between human development and economic development can be explained in three ways. First, increase in average income leads to improvement in health and nutrition (known as capacity expansion through economic growth).

Second, it is believed that social outcomes can only be improved by reducing income poverty (known as capability expansion through poverty reduction). Lastly, social outcome can also be improved with essential services such as education, healthcare, and clean drinking water (known as capability expansion through social services.

Careful cash flow management allows a company to estimate the amount of cash that it will have on hand at any point in time, project trends in cash flow and cash outflow, and evaluate whether a shortfall or surplus in cash could potentially occur (Tasho, 2015).

Buffett (2015) noted that management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy. Economic development includes the process and policies by which a nation improved the economic, political, and social well-being of its people (Sheffrin, 2003).

Economic development is a policy intervention endeavour with the aim of economic and social well-being of people, economic growth is a phenomenon or market productivity and rise in Gross Domestic Product. Sheffrin (2003) pointed out, "economic growth is one aspect of the process of economic development.

METHODOLOGY

This work is basically an evaluative study as the subject under review is a contemporary issue. Descriptive analytical approach method of data collection was adopted. Data and literatures for this work were obtained from the analysis of the views, comments and opinions in books, articles in journals, magazines, and newspapers, internet materials, as well as speeches and addresses in seminars, conferences, workshops and meetings. It was essentially a library research. Qualitative method was therefore employed in the analysis and presentation of the information collected.

TOWARDS SUSTAINABLE CASH FLOW REGULATION AND ECONOMIC DEVELOPMENT OF BUSINESSES IN NIGERIA

Maintaining smooth cash flow requires juggling nearly every facet of a business, from staying on top of accounts receivable, to extending lines of credit, to managing inventory. The essence of successful cash flow management is regulating the money flowing in and out of your business. Increasing your cash flow reduces the amount of fixed capital that you need to support the given level of your business. An increased, consistent cash flow also creates a predictable business pattern, making it easier to plan and budget for future growth. Here are 10 things you can do to regulate your cash flow;

- Organize your billing schedule
- Stretch out your payables
- Take advantage of early payment incentives
- Balance your client base
- Check your pricing
- Don't buy all in one place
- Form a buying cooperative
- Renegotiate your insurance and supplier policies
- Tighten your inventory
- Consider leasing instead of buying

Organize your billing schedule

The faster your receivables turn over, the more capital you'll be able to spend on growing your business. To help you bill early and often, put yourself on a billing schedule with an accounting software program like Daceasy or Peachtree Software's Peachtree Complete Plus Time & Billing. These two programmes can automatically classify the age of accounts receivable—fewer than 30 days old, between 30 and 59 days, between 60 and 90days, etc. This kind of automated flagging system allows you to act immediately on overdue accounts.

Stretch out your payables

Take the maximum amount of time allocated (often 60 or 90 days) to pay your suppliers. Think of these terms as an interest-free line of credit from your supplier. It gives you sufficient time to collect receivables without spending money on short term credit lines.

Take advantage of early payment incentives

If your suppliers offer you a discount for paying early (usually within two weeks of receiving the bill), take them up on it. Think of it this way: a 2% on a 30-day invoice is equal to a 24% annual return, if the money was invested. If your suppliers don't offer this kind of incentive, ask for it; they may be willing to offer the discount in return for speeding up their receivables.

Balance your client base

Many service and professional companies – such as advertising or PR agencies, accountants, lawyers, real estate management firms, etc – work with certain clients on a project-by-project basis. Look for ways to convert some of these clients to a retainer relationship, where they pay you a set amount of money per month for a certain number of services. You might want to offer them some kind of incentive- value-added services, a discount –to encourage them to shift to a retainer. This might reduce your profit margin, but it will help make your cash flow more predictable.

Check your pricing

Have your prices kept pace with your rising costs? When was the last time you raised your prices? Many small businesses hesitate to increase their rates because they're afraid they'll lose customers. However, customers actually expect their suppliers to institute small, regular price hikes. Also, be sure to check out your competition on a consistent basis. If they're charging higher prices, you should too.

Don't buy all in one place

You can save money by splitting your business between suppliers. Closely examine where you need to pay for added services, and where you can save money by paying commodity prices. For example, you might want to buy your computer hardware from a value-added reseller who can help you choose the right system to meet your business needs, while you can purchase other items- such as printer cartridges, cables, or – off-the-shelf software- from a mail order catalog or other price merchant. To make certain you're paying competitive rates, you can compare prices of suppliers through internet search engine or various advert paper or publications.

Form a buying cooperative

Save money on suppliers by rounding up a few colleagues and buying supplies like floppy disks and printer paper in bulk, then dividing them up amongst yourselves.

Renegotiate your insurance and supplier policies

Are you getting the best possible deal on insurance, phone service, and other regular business expenses? Review each of your insurance policies annually and get three quotes for each to ensure you're getting the most for your money. Keep a close eye on price sensitive services such as your long distance phone service or your Internet access service. Regularly examine these bills and call around to make sure you're getting the lowest available rate.

Tighten your inventory

Overstocking inventory can tie up significant amounts of cash. Regularly gauge your inventory turns to make sure they are within industry norms. You can do this by calculating your inventory turnover ratio (cost of goods sold divided by the average value of your inventory). Avoid buying more than you know you need when suppliers lure you with big discounts; this can tie up cash. Periodically check your inventory for old or outdated stock, and with deferred upcoming orders to use that stock or sell it at cost to improve your liquidity.

Consider leasing instead of buying

Leasing generally costs more than buying, but these costs often can be justified by the cash flow benefits. By leasing computer equipment, cars, or other tools you need to expand your business, you will avoid tying up cash or lines of credit that might better be used for running your business day-to-day. Lease payments are also considered a business expense, so the tax benefits are maintained even though the items are not purchased.

CONCLUSION AND RECOMMENDATIONS

Since, cash flow management practices are inevitable and essential for economic progress and development. Makes sure all your employees understand that. Remember that your employees will be motivated by the targets you set for them. Obviously, collectors should have collection targets. But even your sales staff should be on board. If a sales person only has a revenue, goal, he or she will work to meet it, regardless of whether the invoices are paid on time or in full.

Also, institute a policy where, if something is written off, the revenue is backed out of commissions.

Raise awareness of professional, regulators and prepares to improve the knowledge gap. Issues to be addressed include the importance of financial statements prepared in compliance with accounting and auditing requirements.

Improve the statutory framework of accounting and auditing to protect the pubic interest. This recommendation might necessitate amending the Nigerian Accounting Standard Board Act (2003) into cash flow Act. Various laws and regulations should be revised to conform to the proposed act.

Establish an independent to monitor and enforce the level of cash flow and auditing standards and codes. The proposed body should be empowered to monitor and enforce cash flow regulations, with respect to general purpose financial statement.

Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. Take necessary steps of strengthen capacity of regulators including Corporate Affairs Commission, Securities and exchange commission, National Insurance Commission, Central Bank of Nigeria that enable them to effectively deal with accounting and financial reporting practices of the regulatory entities.

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