Journal of Management and Science

Eleyon Publishers

14(1) 2024 61-69

OPEN ACCESS

RESEARCH ARTICLE

DOI: https://doi.org/10.26524/jms.14.8

Financial indicators for measuring and improving the emerging entrepreneurial ventures' performance

Pule Aaron Motsoetla[a*]

Abstract

This study offers a critical analysis of the financial indicators for measuring and improving the emerging entrepreneurial ventures' performance in South Africa. The study was motivated by the fact that the effective use of the required financial performance measure is a challenge that most of the emerging entrepreneurial ventures are still grappling with. By addressing such a gap, the study not only aims to discern the improvement strategies that must be adopted, but also to enrich the existing literature and theories on entrepreneurial financial management. To accomplish that, the study uses integrative review as the primary qualitative method for the study. Despite certain limitations, outcomes of integrative review indicated that financial statements' analysis still provides relevant measures for evaluating and improving the emerging entrepreneurial venture's financial performance to achieve its corporate mission. Financial statement analysis is often accompanied with the use of more specific relevant financial performance measures and target analysis like profitability and liquidity analysis. Using the provided accounting and financial information, most of profitability analysis often entails analysis of gross profit margin, operating profit margin, net profit margin, return on capital employed and return on equity. Liquidity analysis utilizes financial performance measures and targets like cash, quick and current ratios as well as inventory, receivables and payables turnover periods. But even if these financial performance measures and targets are relevant for measuring and improving the performance of the emerging entrepreneurial venture to achieve its corporate mission, future studies must still explore the entrepreneurial financial measurement framework that can be adopted for improving the effective performance of the emerging entrepreneurial ventures.

Keywords: Financial Indicators; Emerging Entrepreneurial Ventures' Performance; Entrepreneurial Financial Measurement; Profitability Analysis; Liquidity Analysis; Financial Performance.

Author Affiliation: [a]Department of Economics and Management Sciences, Vaal University of Technology, South Africa.

Corresponding Author: Pule Aaron Motsoetla, Department of Economics and Management Sciences, Vaal University of Technology, South Africa.

Email: pule.hushmail@gmail.com

How to cite this article: Pule Aaron Motsoetla, Financial indicators for measuring and improving the emerging entrepreneurial ventures' performance, Journal of Management and Science, 14(1) 2024 61-69. Retrieved from https://jmseleyon.com/index.php/jms/article/view/718

Received:10 January 2024 **Revised:** 20 February 2024 **Accepted:** 27 March 2023

1. Introduction

As most of the emerging entrepreneurial ventures aspire to perform more effectively, measuring financial performance measurement becomes quite essential for improving the overall effective performance of the emerging entrepreneurial ventures (Durand, 2019). It enhances the analysis of the state of a firm's financial performance. Through such analysis, it becomes easier for the managers to discern the improvement strategies that must be adopted. The use of profitability analysis ratios enables the emerging entrepreneurial venture assess their overall state of profitability. It enables the evaluation of whether the strategies that the business is using are influencing the attainment of the desired profitability outcomes (White, 2023).

In such a process, financial measurement through the use of liquidity analysis enables the emerging entrepreneurial venture assess whether they have adequate liquid as well as the easily cash-convertible assets that can improve their overall financial position to meet the unfolding short-term financial obligations. It is through the evaluation of the state of the financial performance of the emerging financial institutions that most of the emerging entrepreneurial ventures are able to discern the strategies that can be applied to improve their overall financial sustainability(Waweru & Oribu, 2023).

The application of the appropriate remedial financial and non-financial strategies improves the sustainability of the business. Unfortunately even if that is the case, the effective use of the required financial performance measure is still a challenge that most of the emerging entrepreneurial ventures are still grappling with. Most of the emerging entrepreneurial ventures face the challenge of having adequate financial resources to employee the required specialist financial experts(Baboukardos & Rimmel, 2016). This often affects the effective accomplish of

© The Author(s). 2024 Open Access This article is distributed under the terms of the Creative Commons Attribution 4.0 International License (http://creativecommons.org/licenses/by/4.0/), which permits unrestricted use, distribution, and non-commercial reproduction in any medium, provided you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license, and indicate if changes were made. The Creative Commons Public Domain Dedication waiver (http://creativecommons.org/publicdomain/zero/1.0/) applies to the data made available in this article, unless otherwise stated.

the often more complex financial analysis. Especially if the business is performing very well with multiple sources of revenue but also expenditures, it also limits the in-depth evaluation of the state of the business' performance.

Quite often, such a challenge arises not only from the lack of the required adequate financial resources, but also the unwillingness of some of the emerging entrepreneurs to use the required financial measurement ratios and metrics (Horrigan, 2015; Jooste, 2016). This is because some of the founders of the emerging entrepreneurial ventures often feel that since the business has just been created and it is still small, usage of more complex financial measurement indicators is not essential. Instead most of them prefer to operate without the thorough analysis of the state of their financial performance. Unless the emerging entrepreneurial venture is applying for a loan from the commercial banks that often require financial statements and the statement of accounts, most of the emerging entrepreneurial ventures often do not bother to evaluate the state of their financial performance (Batchimeg, 2017; Zorn, Esteves, Baur & Lips, 2018).

For as long as daily sales are being generated, most of the emerging entrepreneurial ventures do not bother to assess the state of cash inflows and cash outflows in order to discern how the business' expenditure can be effectively managed to influence the improvement of profitability and liquidity of the business. This poor usage of financial performance measures affect the discerning how the performance of the emerging entrepreneurial ventures can be improved to minimise their high failure rates (Patjoshi, 2016; Stefko, Jencova, Vasanicova & Litavcova, 2019). Thus, it is such poor usage of financial measurement indictors by the emerging entrepreneurial ventures in South Africa that most motivate the analysis in this study so as to discern the improvement measures that must be adopted. However, it is not the problems arising from the practical use of financial performance measurement indicators by the emerging entrepreneurial ventures in South Africa that motivate this study, but also the epistemological gap that has arisen from the limited studies conducted on the use of relevant financial performance measures to improve the performance of the emerging entrepreneurial ventures in South Africa.

Such a gap is reflected in the study of Msomi and Olarewaju (2021) that though examined the factors affecting small and medium enterprises' financial sustainability in South Africa, did not assess any specific financial measurement metrics that can be adopted for improving the financial sustainability of the emerging entrepreneurial ventures. Instead the study found that the factors affecting small and medium enterprises' financial sustainability in South Africa often arise from poor financial awareness, accounting skills, budgeting and access to the required financial resources.

Risk identification and management constitute part of the measures for improving financial performance because it enables identification and mitigation of risks that can affect revenue generation, but Kruger, Dickason and Meyer (2021), in their study that assessed the "factors affecting South African small and medium enterprises risk identification and management" did not highlight any of the specific financial performance measures that can be integrated with risk management to improve the financial performance of the emerging entrepreneurial ventures. As Kruger et al., (2021) isolated poor risk awareness to affect risk identification and mitigation, similar lack of awareness also seem to affect the utilisation of the required financial measurement indicators.

In the beginning stages, most of the emerging entrepreneurial ventures tend to focus on building and improving the performance of their businesses through creating, advertising, promoting, marketing and selling their products. Thus whether or the business is making loss or profits is not part of their concerns since more insightful entrepreneurs know that with time, things will change and they will begin to make profits. In another study, Okanga and Groenewald (2017) assess the leveraging effects of triple bottom lines (Planet, People & Profits) business model on the market performance of the building and construction small and medium-sized enterprises.

Triple bottom lines deal with the analysis of whether strives to achieve outcomes that improve its profitability as well as the wellbeing of people and the planet. However, even if it also touches how to improve profitability, Okanga and Groenewald (2017) did not highlight any specific financial performance measure that can be used for improving profitability as the building and construction small and medium-sized enterprises also pursue goals that improve the wellbeing of people and the planet.

Just like Okanga and Groenewald (2017), Sitharam and Hoque (2016) also did not address any specific financial performance measures for improving the performance of the emerging entrepreneurial ventures. Though Sitharam and Hoque (2016) highlight poor financial management among the factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa, lack of specific analysis of the financial performance measures that must be adopted still creates the gap in the entrepreneurial financial management that must be further explored in this study. Such a gap is not only reflected in Sitharam and Hoque's (2016) study, but also in the studies by Olarewaju and Msomi (2021) that only examined the general "Factors Affecting Small and Medium Enterprises' Financial Sustainability in South Africa". Also without evaluating any specific financial performance measure that can be adopted to improve the financial sustainability of the emerging entrepreneurial ventures, Drotskie and Okanga (2016) also just focused on assessing the strategies for managing customer-supplier relationship between big businesses and SMEs in South Africa.

Though poor financial management was highlighted by Sekhametsi (2017) as some of the factors influencing sme failure in South Africa. Cape Town, in-depth evaluation of financial performance measures was still lacking. It is such a gap that motivates this study to evaluate the financial indicators for measuring and improving the emerging entrepreneurial ventures' performance in South Africa. Through such analysis, the study not only aims to discern the improvement strategies that must be adopted, but also to enrich the existing literature and theories on entrepreneurial financial management. To accomplish that, the study uses integrative review as the primary qualitative method for the study.

2. METHODOLOGY

In a bid to evaluate the types of financial performance measures and indicators that are used by the emerging entrepreneurial ventures, this study used the integrative review as a technique in the qualitative research method. Integrative review refers to the research technique where the study evaluates all the studies and articles that have been published on a particular topic with the motive of discerning new insights that can be used to understand and improve the phenomenon being investigated. Integrative review differs from the concept of critical content analysis systematic review that only focus on gathering, analysing and interpreting the published peer-=reviewed articles. It is such focus on just the published articles that rendered the usage of critical content analysis and systematic review ignored in this study. This is because the study aimed to evaluate both the published articles and the texts from the grey literature on the kinds of financial performance measures, indicators, metrics and ratios that are used for evaluating and improving the performance of the emerging entrepreneurial ventures. Usage of such approach was considered to be essential for enabling the study reach logical conclusions on the types of financial performance measures and indicators that are used by the emerging entrepreneurial ventures. To accomplish that, the integrative review process just focused on probing and re-probing the question on what kinds of financial performance measures, indicators, metrics and ratios are used for evaluating and improving the performance of the emerging entrepreneurial ventures. To probe such a question, the integrative review was structured according to four steps encompassing defining the research questions for integrative review, searching literature, analysing literature and interpreting whether the emerging findings offer coherent explanations on the kinds of financial performance measures, indicators, metrics and ratios that are used for evaluating and improving the performance of the emerging entrepreneurial ventures. As all these were integrated with the measures for improving credibility, dependability and trustworthiness of the study as well as its ethical considerations, the details of the findings are as reflected below.

3. FINDINGS

Even though there are some limitations, outcomes of integrative review revealed that the relevance of financial performance measures and targets are often reflected in the fact that they are key accounts and financial indicators/metrics that aid analysis of the entrepreneurial ventures' overall financial health and performance in a given period of time (Collier, Grai, Haslitt & McGowan, 2004). Financial performance measures and targets aid discerning areas of good and poor performance for a business to undertake the required incremental and radical improvements to achieve its corporate mission. Corporate mission is the purpose for which a business exists to create, deliver and capture values in a way that differentiates it from competitors to achieve the designated long term outcomes of attaining the desired profitable and sustainable state of operation(Kaplan & Norton, 1992). It defines not only the emerging entrepreneurial venture's scope of value offerings, market and customers, but also its structure, plans, strategies and organisational behaviours that are critical for a business to achieve the desired long term outcomes.

Thus, periodic evaluation of financial performance measures and targets is relevant for diagnosing the overall level of the emerging entrepreneurial venture's profitability, efficiency, liquidity, solvency and valuation to achieve the intended periodic outcomes and metrics(Kipkirui & Kimungunyi, 2022). In turn, this also aids the achievement of its corporate mission. To accomplish that, financial performance measures and targets require a critical analysis of a business' financial statements like balance sheet, income statement, cash-flow statement, statement of changes in equity and notes to accounts to discern whether the emerging entrepreneurial venture is in a healthy financial state to create the desired values for customers, business and shareholders(Lefley, 1996).

As such financial statements are used as the basis for financial performance analysis, the emerging entrepreneurial venture also often utilizes a combination of certain profitability and liquidity analysis. But the question as to whether such financial performance measures and targets are relevant for diagnosing and improving the emerging entrepreneurial venture's financial performance is what is evaluated in the subsections below.

4. Financial Statements' Analysis

Relevance of financial performance measures and targets are often reflected in the analysis of financial statements like the balance sheet that offers a snapshot of the emerging entrepreneurial venture's overall book value by evaluating its assets and liabilities against shareholders' equity (Magni, 2011; Zizlavskya, 2014). Assets include fixed and current assets of which fixed assets also encompass tangible and intangible possessions. Such tangible assets are machinery, land, buildings, vehicles and computers as reflected at

Eleyon Publishers

depreciated values, and intangible possessions include business relationships, intellectual property and goodwill. Current assets are short-term possessions that can easily be liquidated, but with daily fluctuating values to finance a business daily operations. Such assets include cash, receivables, inventory, prepayments and short-term investments(Lasher, 2017).

Liabilities are financial obligations that the emerging entrepreneurial venture has to pay other businesses for the provided services or goods, and such financial obligations are often reflected in current and non-current liabilities. Current liabilities that are short-term financial obligations that a business must respond to in a year include payables to suppliers, overdrafts, short-term loans and taxes like PAYE and national insurance(Batten & Vo, 2019). Non-current liabilities that are financial obligations that the emerging entrepreneurial venture must meet after one year and above encompass loans and trade payables extending over a period exceeding one year as well as deferred tax(Beaver, 2017).

Shareholders' equity reflects the invested equity capital and retained earnings. Relevance of balanced sheet as one of the financial performance evaluation measures is that it reflects the emerging entrepreneurial venture's good financial position if its assets and liabilities equate shareholders' equity. This signifies the emerging entrepreneurial venture has the financial capabilities to meet its present and future financial obligations(Bird & McHugh, 2017). However, relevance of balanced sheet is often still eroded by historical data usage that may not reflect the future, over or undervaluation of certain assets without easily ascertainable market and monetary value, window-dressing risks and subjection of asset valuation to different rules.

Despite such limitations, a balance sheet is often still analysed in conjunction with income statement analysis. Income statement aids analysis of the emerging entrepreneurial venture's revenue as deducted from direct costs, operating profit subtracted from indirect costs and net profit after interest and tax(Liu, Gould & Burgan, 2014). It is relevant for discerning costs factors impacting negatively on revenue and profits for the emerging entrepreneurial venture to apply the appropriate cost minimisation strategies. Income statement's analysis aids subtraction of sales income from the annual (cost of sale) immediate direct cost of goods/services sold excluding purchases/inventory to determine the emerging entrepreneurial venture's gross profit(Nariswari & Nugraha, 2020).

A negative gross profit implies the emerging entrepreneurial venture is making losses and unlikely to have a sustainable profitable operation into the future. Gross profit analysis is accompanied with operating profit evaluation in which operating costs (cost of sales plus distribution and administrative costs) are subtracted from revenue. A negative operating profit signifies the emerging entrepreneurial venture is making loss to meet its distribution and administrative expenses (Nariswari & Nugraha, 2020) . Income statement is also relevant for evaluating the emerging entrepreneurial venture's net profit after interest and tax by adding finance income (returns from spare cash and deposits' investments) and deducting finance costs (interests on loans) and taxes.

Any negativity implies the emerging entrepreneurial venture is making loss and unable to sustainably operate into the future and a positive net profit reflects a good financial performance and extend to indicate the earning per share(Mautz & Angell, 2006). Even if such information tends to be quite relevant to creditors, lenders, employees, shareholders and potential investors about the emerging entrepreneurial venture's overall profitability and financial health, income statement is also often limited by risks of misrepresentation by including account receivables not yet received and liabilities from expenses not yet paid (Stanly & Hirt, 2014).

Revenue and profits may rise due to a sudden surge in aggregate demand that may also easily and negatively change with time. Income statement may therefore not necessarily be a good reflection of a good financial state of a business going into the future. Besides that, income statement analysis is often integrated with cash-flow statement analysis that reflects the inflow and outflow of the generated cash (Nariswari & Nugraha, 2020). Using the balance sheet and income statement, cash-flow statement offers insights on the receipt and expenditure of revenues from operating, investing and financing activities. Operating activities include all cash received and paid from the emerging entrepreneurial venture's daily operations like accounts payables and receivables, deferred revenue and current and non-current liabilities (Casey, 2018).

Investing activities include cash-flows from marketable securities, property, plant and equipment and other intangible assets. Financing activities integrate cash-flows from creditors' debts and investors' equity financing(White, 2023). Ending balance of the cash-flow reflects net cash signifying the cash lost or gained and can be negative to indicating the emerging entrepreneurial venture spent more than it received or positive to imply more flowed in than it went out. Yet as the cash-flow statement is relevant for a emerging entrepreneurial venture to discern how it can control its costs to limit expenditure while also generating more revenues, it is also often undermined by its ambiguity about a business' profitability, liquidity and solvency position (Casey, 2018). In addition to cash-flow statement, other relevant financial performance measures often entail analysis of the statement of changes in equity and notes to accounts (Negash & Veni, 2019).

Statement of changes in equity indicates beginning equity plus net income from which dividends and other changes are subtracted to reflect ending equity, as notes to accounts offer more insights on certain accounts information by elucidating on the basis

of accounting presentation, policies, asset depreciation, inventory valuation, intangible assets, financial statements' consolidation and employee benefits. As much as financial statements' analysis provide relevant measures for evaluating the emerging entrepreneurial venture's financial performance to achieve its mission, such analysis has often still been accompanied with more specific financial performance measures and target analysis like profitability and liquidity analysis (Casey, 2018; Bitar, Pukthuanthong & Walker, 2018).

5. Profitability Analysis

Using accounting and financial information, most of profitability analysis often entails analysis of gross profit margin, operating profit margin, net profit margin, return on capital employed and return on equity(Nariswari & Nugraha, 2020).

6. Gross Profit Margin, Operating Profit Margin and Net Profit Margin

As these financial performance measures are relevant for assessing whether the emerging entrepreneurial venture is operating and performing at the profitability levels desired to attain its mission, gross profit margin shows the emerging entrepreneurial venture's percentage of profits earned on sales after deducting costs of goods sold from its total revenue (Nariswari & Nugraha, 2020):

Gross Profit Margin=(Gross Profit)/Sales x 100%

It evaluates the direct costs like labour, materials and equipment used in the manufacturing of the goods sold, but not the indirect costs like selling, distribution and marketing costs. Gross profit margin analysis is relevant for a emerging entrepreneurial venture since higher gross profit margin suggests the company is operating profitably and most likely to remain sustainable in the future, as contrasted to low ratio that implies inefficiencies and certain poor cost management approaches are undermining the company's profitability to achieve its mission (Amalia, Fadjriah & Nugraha, 2020). It also acts as the basis for price adjustments and control mechanisms to aid profit maximisation as well as a standard measure for benchmarking the emerging entrepreneurial venture's performance against its rivals in the same industry (Thijssen & Iatridis, 2016).

However, relevance of gross profit margin as a financial performance measure and target is also affected by indirect costs' exclusion to undermine in-depth diagnosis of a company's operational efficiency as well as variances in methods for inventory valuation. It is also vulnerable to fluctuations in prices of production factors, product components and output levels (Singhania & Mehta, 2017).

Despite such limitations, gross profit margin still remains relevant for setting the base for calculating other ratios like operating and net profit margins. Operating profit margin aids the emerging entrepreneurial venture understand the percentage of profits that it earns from each dollar of sales after deducting the variable costs of production like raw-materials and labour, but prior to paying interest and tax:

Operating Profit Margin=(Total Sales-Operating Expenses)/(Total Sales) x 100%

Higher ratios signify the business is operating efficiently and able to convert its sales into profits. Changes in gross profit margin as deducted from operating profit margin reflects the percentage of the emerging entrepreneurial venture's revenue it is using to meet administration and distribution costs (Amalia et al., 2020). However, relevance of operating profit margins for comparing performance is only limited to the firms in the same industry, but not different unless accompanied with profitability ratio analysis to minimise impacts of financing, accounting and tax policies (EBITDA) earnings before interest, taxes, depreciation and amortization) (Collier, Grai, Haslitt & McGowan, 2004).

Operating profit margin is still often used in conjunction with net profit margin analysis to diagnose a business' overall profitability. Net profit margin is a ratio of net-income to revenue that measures the amount of net profit extracted as a percentage of the emerging entrepreneurial venture's revenue:

Net Profit Margin=(Total Sales-Total Expenses)/(Total Sales) x100%

Net profit margin is quite relevant for assessing the emerging entrepreneurial venture's level of profitability to achieve its targets and mission since a higher ratio signifies it is being managed efficiently with significant cost controls that it possible for the emerging entrepreneurial venture's offerings to be provided at prices higher than the incurred costs(Nariswari & Nugraha, 2020). This contrasts with lower ratios signifying inefficiencies and poor cost controls that render it difficult for the emerging entrepreneurial venture to achieve its profitability targets and mission in the long-run.

It is not only gross, operating and net profit margins that are the financial performance measures and targets relevant for assessing the emerging entrepreneurial venture's operational ability to fulfill its corporate mission. Instead return on capital employed (ROCE) and return on equity (ROE) also tend to be quite important financial performance measures for evaluating a business' ability to achieve its targets and mission (Singhania & Mehta, 2017).

7. Return on Capital Employed and Return on Equity

ROCE aids a emerging entrepreneurial venture to measure every dollar of income earned from every dollar of the assets used for generating such revenues. It is measured by adding operating profit to finance income and dividing it with opening capital employed plus closing capital employed divided by 2. Expressed in percentage terms, ROCE can also be measured using (Aminu & Zainudin, 2012):

ROCE=(EBIT-Earnings Before Interest and Tax)/(Total Assets-Total Current Liabilities) x 100%

ROCE measures how efficiently each of the emerging entrepreneurial venture's assets is being utilised and leveraged to create the desired values and profits. The effect is that higher ROCE signifies better efficient and assets' leverage as contrasted with lower ROCE. As it is a better financial performance metric that relatively compares profitability to debt and equity, ROCE can also be susceptible to accounting craftiness that treats certain non-current liabilities as current liabilities as well as usage of book value that may not be reflective of the actual market value (Amalia et al., 2020). Thus, mitigation of such risks signifies ROCE can still be quite relevant for measuring the level of the emerging entrepreneurial venture's asset leverage to create the desired values to achieve it targets and mission(Burke & Wieland, 2017).

In such quests, ROCE analysis is often accompanied with return on equity (ROE) evaluation. ROE is critical for the emerging entrepreneurial venture to discern the amount of dividends that shareholders will earn in return to the capital invested in the company (Aminu & Zainudin, 2012). It is a relevant financial performance measure because it enables the emerging entrepreneurial venture to evaluate whether it is achieving its target and mission of increasing market growth to increase shareholders' equity through dividend growth. To accomplish that, ROE is often evaluated using:

ROE=(Net Income-Preferred Dividend)/(Average Shareholder' s Equity) x 100%

Using information drawn from income statement and balance sheet, higher ROE signifies more dividends for shareholders and is a good performance indictor that implies the emerging entrepreneurial venture is doing well. This can attract more investors to introduce more equity capital for growth and for the emerging entrepreneurial venture to remain sustainable to achieve its mission (Bolek, 2014). But ROE's relevance as one of the financial performance measures and targets for the emerging entrepreneurial venture to achieve its mission is often still constrained by dependence on balance sheet equity that can vary according to capital and industry structure.

ROE also significantly relies on net income that does not take cognisant of time value of money and depends on accounting and estimation approaches that can easily be manipulated by management like through project life increment and depreciation rate decrement(Dewi & Suputra, 2019). ROE is often accompanied with gearing ratio analysis to evaluate the extent to which the emerging entrepreneurial venture is funded by debt vis-a-vis equity (Data, Alhabsji, Rahayu & Handayani, 2017).

ROE is evaluated by dividing total debts with the overall shareholders' equity and a ratio of more than 50% implies the emerging entrepreneurial venture is highly geared and dependent on debt that would render it vulnerable to loan repayment default and bankruptcy in the event of low profitability and high interest rate. In contrast, a ratio lower than 25% exposes investors and lenders to less risk as ratios falling between 25% and 50% suggests a desirable level for relatively well-established commercial companies (Data et al., 2017). However, besides these profitability ratios, relevance of financial performance measures and targets in assessing the ability of the emerging entrepreneurial venture to fulfill its corporate mission is also often reflected in liquidity analysis(Horrigan, 2015).

8. Liquidity Analysis

Liquidity analysis is the evaluation of the degree to which the emerging entrepreneurial venture is in a good financial state to have adequate cash to continuously meet its financial obligations as they unfold(Clampit, Dinesh, Dugan & Gamble, 2021). It determines the emerging entrepreneurial venture's mission to be sustainable since it offers critical information that influences lenders and creditors' decisions on whether to offer the required credits. Such analysis utilises financial performance measures and targets like cash, quick and current ratios as well as inventory, receivables and payables turnover periods.

9. Cash, Quick and Current Ratios

Cash ratio analyses the emerging entrepreneurial venture's overall amount of cash and investments against its shot-term liabilities to discern adequate cash availability to meet short-term liabilities(Almagtome & Zahraa, 2020). However, using a conservative approach, cash ratio excludes assets and inventory that cannot be immediately converted into cash. Thus, a cash ratio of one signifies current cash assets equate current liabilities and ratio less than one implies less cash or cash equivalents to meet the emerging entrepreneurial venture's short-term financial liabilities as they fall due(Gitahi, Kiprotich & Kipyego, 2020). Cash ratio is a relevant financial performance measure for diagnosing the liquidity difficulties that the emerging entrepreneurial venture could be experiencing. But it is rarely used in financial analysis and it also tends to be unrealistic as most commercial companies tend not to keep excessive cash on their balance sheets. Instead, most cash is often either paid out to equity holders or reinvested to generate more returns to avoid risks of poor cash asset's optimisation (Westland, 2020).

Quick ratio is also analogous to cash ratio, but it analyses assets like accounts receivables, cash, marketable securities, short-term investments and cash equivalents whilst excluding assets and inventory that cannot be converted into cash. Quick ratio is relevant for a emerging entrepreneurial venture holding a larger amount of old inventory to diagnose its overall level of liquidity to achieve its desired mission. However, cash ratio assumes that commercial companies utilise their quick assets in meeting financial obligations when instead it is the operating cash flow which is used and not quick assets (Gitahi et al., 2020).

Quick ratio lower or equal to one indicates adequate liquid assets to meet the unfolding short-

term financial obligations. Even if quick ratio analysis is often accompanied with current ratio analysis, they still differ because current ratio analyses all current assets including not easily liquidatable inventory and prepaid expenses against overall current liabilities(Jooste, 2016). As it includes inventories and prepaid expenses that are not available for meeting current liabilities within 90 days, current ratio as contrasted to cash and quick ratios may easily misrepresent the emerging entrepreneurial venture's liquidity position (Singhania & Mehta, 2017).

Despite such limitations, cash, quick and current ratio are still relevant financial performance measures and targets in assessing the ability of the emerging entrepreneurial venture to fulfill its corporate mission. Such analysis must still be accompanied with analysis of inventory, receivables and payables turnover periods to gain in-depth insight into the overall liquidity position of the emerging entrepreneurial venture.

10. Inventory, Receivables and Payables Turnover Periods

Inventory turnover periods measure how fast and the number of days it takes the emerging entrepreneurial venture to sell its inventory before they lose value to gain liquidity position that eases meeting of its short-term liabilities (Singhania & Mehta, 2017). The faster the emerging entrepreneurial venture can sell its inventory signifies its better financial position to finance its short-term liabilities to continuously meet its daily targets and subsequently achieve its long-term mission. Depending on the type of inventory, inventory turnover period may use either current inventory ratio or acid-test ratio that ignores difficult to sell inventories to instead use balance sheet information(Samiloglu & Dermigunes, 2008).

As such ratios analyse different forms of inventories against liabilities, a ratio greater than 1.0 implies not only a good liquidity position, but also possibilities of using good marketing strategies to quickly convert inventory into cash (Singhania & Mehta, 2017). In contrast, a ratio below 1.0 signifies poor liquidity position that can easily plunge the emerging entrepreneurial venture into more debts as it seeks for credit facilities to finance its current operational activities. A low ratio also suggests underlying problems of overstocking or even poor marketing and sales to drive quicker inventory's conversion into cash(Westland, 2020). Despite being undesirable, a low ratio is also palatable if demand and prices are anticipated to rise due to future shortages. In contrast, a higher ratio can also suggest inadequate inventory exists to meet the available demand thereby leading to risks of customer dissatisfaction, defection and lost business as customers fail to find all that they need(Myskova & Hajek, 2017).

Thus, inventory turnover period not only aids discerning level of the emerging entrepreneurial venture's liquidity, but also strategies for balancing inventory with demand for it to achieve its targets, goals and mission in the long-run(Samiloglu & Dermigunes, 2008). But even still, ratios of inventory turnover period do not single out specific best-selling products as it just offers a general picture of inventory turnover periods. Yet, besides that, receivables turnover period is also another relevant financial performance measures and targets for the emerging entrepreneurial venture to assess its liquidity ability to achieve its corporate mission. Receivables turnover period is the number of days or how quickly it takes the emerging entrepreneurial venture to collect all the money owed by its clients or customers(Zimon, 2020). It is the capability to easily convert account receivables into cash and it influences liquidity of the emerging entrepreneurial venture to continuously meet its operational liabilities as they fall due.

That implies a higher ratio means the existence of more efficient debt collection system as well as quality and lucrative quality customers. In contrast, a lower ratio suggests the emerging entrepreneurial venture is taking more days to convert its accounts receivables into cash as well as liquidity risks of paying its creditors like suppliers and lenders(Ben, 2019). Lower ratio is also associated with ineffective debt collection system and credit policies to proactively assess customers' creditworthiness. Besides that, payables turnover period is also the other financial performance measures and targets used by the emerging entrepreneurial venture to assess its ability to achieve its corporate mission. It measures the rate and fastness at which the emerging entrepreneurial venture pays off its creditors and suppliers(Ben, 2019). A lower ratio implies the company is taking longer and perhaps symptom of a financial problem that could cause loss of valuable suppliers and creditors to undermine ability to achieve the designated corporate mission. It also suggests the company could be paying more interests due to the delayed payments. In contrast, a higher ratio indicates faster payment rates, but quite higher rate could also signify the company is foregoing a lot of other business opportunities in which such monies could be invested prior to paying its creditors and suppliers(Ben, 2019).

11. CONCLUSION

Despite certain limitations, financial statements' analysis still provides relevant measures for evaluating the emerging entrepreneurial venture's financial performance to achieve its corporate mission. Such analysis has often still been accompanied with more specific relevant financial performance measures and target analysis like profitability and liquidity analysis. Using accounting and financial information, most of profitability analysis often entails analysis of gross profit margin, operating profit margin, net profit margin, return on capital employed and return on equity(Pascareno & Siringoringo, 2016). Liquidity analysis utilises financial performance measures and targets like cash, quick and current ratios as well as inventory, receivables and payables turnover periods.

Eleyon Publishers

But even if these financial performance measures and targets are relevant for the emerging entrepreneurial venture to assess its ability to fulfill its corporate mission, future studies must still explore the entrepreneurial financial measurement framework for improving the effective performance of the emerging entrepreneurial ventures.

Acknowledgement

Nill

Funding

No funding was received to carry out this study.

References

1. Amalia, S., Fadjriah, N.E., & Nugraha, N.M. The influence of the financial ratio to the prevention of bankruptcy in cigarette manufacturing companies subsector. Solid State Technology 2020, 63(3), 4173–4182.
2. Aminu, Y., & Zainudin, N. An analysis of proposed framework on impact of working capital management on the profitability of an analysis of proposed framework on impact of working capital management on the profitability of manufacturing companies listed on the Nigerian stock exchange. *Journal of Economics and Behavioral Studies* 2012, 4(1), 730-736.
3. Almagtome, A.H., & Zahraa, F.A. Value relevance of financial performance measures: An empirical study. International Journal of Psychological Rehabilitation 2020, 24(7), 6777-6791.
4. Baboukardos, D., & Rimmel, G. Value relevance of accounting information under an integrated reporting approach: A research note. *Journal of Accounting and Public Policy* 2016, 35(4), 437-452.
5. Batchimeg, B. Financial performance determinants of organisations: The case of Mongolian companies. *Journal of Competitiveness* 2017, 9(3), 22-33.
6. Batten, J., & Vo, X. V. Liquidity and firm value in an emerging market. The Singapore Economic Review 2019, 64(2), 365-376.
7. Ben, L. Working capital management and firm's valuation, profitability and risk Evidence from a developing market. International Journal of Managerial Finance 2019, 15(2), 191-204.
8. Beaver, W. Financial statement analysis: Handbook of modern accounting. New York: McGraw-Hill, 2017 .
9. Bird, R.G., & McHugh, A.J. Financial ratios - an empirical study. *Journal of Business Finance and Accounting* 2017, 4(1), 29-45.
10. Bitar, M., Pukthuanthong, K., & Walker, T. The effect of capital ratios on the risk, efficiency and profitability of banks: Evidence from OECD countries. *Journal of International Financial Markets, Institutions and Money* 2018, 53, 227-262.
11. Burke, Q.L., & Wieland, M.M. Value relevance of banks' cash flows from operations. Advances in accounting 2017, 39(2), 60-78.
12. Bolek, M. Return on current assets, working capital and required rate of return on equity, e-Finanse: Financial Internet Quarterly, 2014, 10(2), 1-10.
13. Casey, C.J. Cash Flow—It's Not the Bottom Line. Boston: Harvard Business Review, 2018.
14. Clampit, J., Dinesh, H., Dugan, M., & Gamble, J. The effect of risk, R&D intensity, liquidity, and inventory on firm performance during COVID-19: Evidence from US manufacturing industry. *Journal of Risk and Financial Management* 2021, 14(4), 499-462.
15. Collier, H. W.; Grai, T.; Haslitt, S., & McGowan, C.B. An example of the use of financial ratio analysis: the case of Motorola 2004. Wollongong: University of Wollongong, 2004.
16. Data, A., Alhabsji, T., Rahayu, S. M.,& Handayani, S. R. Effect of growth, liquidity, business risk and asset usage activity, toward capital structure, financial performance and corporate value (study at manufacturing companies listed in Indonesia stock exchange in 2010-2015). *European Journal of Business and Management* 2017, 9(2), 9-25.
17. Dewi, N.M.L., & Suputra, I.D.G.D. The effect of profitability and leverage on company value with corporate social responsibility as a moderating variable. *E-Journal of Accounting* 2019, 28(1), 26-54.
18. Durand, P. On the impact of capital and liquidity ratios on financial stability. Paris: EconomiX - UMR7235, Université Paris, Nanterre, 2019.
19. Drotskie, A. & Okanga, B. Managing customer-supplier relationship between big businesses and SMEs in South Africa. *Journal of Contemporary Management* 2016,13 (1), 190-221.
20. Gitahi, M.J., Kiprotich, I.N., & Kipyego, L. Management of accounts receivable and financial performance of manufacturing firms listed in Nairobi stock exchange, Kenya. *International Journal of Scientific and Research Publications* 2020, 10(12), 513-523.
21. Horrigan, J.O. Some empirical bases of financial ratio analysis. Accounting Review, 2015, 9(5), 558-568.
22. Jooste, L. Cash flow ratios as a yardstick for evaluating financial performance in African businesses. *Managerial Finance* 2016, 32(7), 569-576.
23. Kaplan, R. S., & Norton, D.P. The balanced scorecard – measures that drive performance. Boston: Harvard Business Review, (1992).
24. Kipkirui, L.P., & Kimungunyi, S. Effect of net present value investment appraisal practice on financial performance of cement manufacturing firms in Kenya. *International Research Journal of Economics & Finance* 2022, 4(2), 242-255.
25. Kruger, N., Dickason, Z., & MEYER, N. Factors affecting South African Small and Medium Enterprises risk identification and management. *Journal of Contemporary Management* 2021, 17(2),

266-281.
26. Lasher, W.R. Practical financial management. St. Paul MN: West Publishing, (2017).
27. Lefley, F. The payback method of investment appraisal: A review and synthesis. *International Journal of Production Economics* 1996, 44(3), 207-224.
28. Liu, C., Gould, G., & Burgan, B. Value-relevance of financial statements: Evidence from A- and B-share markets in China. *International Journal of Managerial Finance* 2014, 10(3), 332-367.
29. Magni, C.A. Average internal rate of return and investment decisions: a new perspective. *The Engineering Economist* 2011, 55(2), 150-180.
30. Morara, K., & Athenia, B.S. Determinants of financial performance of insurance companies: Empirical evidence using Kenyan data. *Journal of Risk and Financial Management* 2021, 1(4), 566-577.
31. Mautz, R.D. & Angell, R.J. Understanding the basics of financial statement analysis. Commercial Lending Review 2006, 21(5), 27-34.
32. Msomi, T.S., & Olarewaju, O.M. Factors Affecting Small and Medium Enterprises' Financial Sustainability in South Africa. African Journal of Inter/Multidisciplinary Studies 2021, 3(1), 103-117.
33. Myskova, R., & Hajek, P. Comprehensive assessment of firm financial performance using financial ratios and linguistic analysis of annual reports. *Journal of International Studies* 2017, 10(4), 63-102.
34. Nariswari, T. N., & Nugraha, N. M. Profit growth: impact of net profit margin, gross profit margin and total assests turnover. *International Journal of Finance & Banking Studies* 2020, 9(4), 87–96.
35. Negash, D.W & Veni, P. Impact of asset and liability management on Profitability of selected commercial banks in Ethiopia. Int J Manag, IT & Eng 2019, 9(5):176–193.
36. Okanga, B. & Groenewald, D. 'Leveraging effects of triple bottom lines business model on the building and construction small and medium-sized enterprises' market performance', Acta Commercii 2017, 17(1).
37. Olarewaju, O. Msomi, T. "Factors Affecting Small and Medium Enterprises' Financial Sustainability in South Africa", *African Journal of Inter/ Multidisciplinary Studies* 2021, 3(1), 103–117.
38. Pascareno, B. E., & Siringoringo, H. The effect of financial performance on company's value moderated by dividend policy. JEL classification: D53, G210, G220, 2016.
39. Patjoshi, P. K. A study on liquidity management and financial performance of selected steel companies in India. *International Journal of Advanced Information Science and Technology* 2016, 5(7), 108-117.
40. Samiloglu, F., & Dermigunes, K. The effect of working capital management on firm profitability: Evidence from Turkey. *International Journal of Applied Economics and Finance* 2008, 2(1), 44–50.
41. Sekhametsi, T.L. The Factors Influencing SME Failure in South Africa. Cape Town: The Graduate School of Business, University of Cape Town, 2017.
42. Singhania, M., Mehta, P. Working capital management and firms' profitability: evidence from emerging Asian countries. *South Asian Journal of Business Studies* 2017, 6(1), 80-97.
43. Sitharam, S., Hoque, M., Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, *South Africa. Problems and Perspectives in Management* 2016, 14(2), 277-288.
44. Stanly B. B. & Hirt, G.A. Financial management. London: ABS Publishing House, 2014.
45. Stefko, R., Jencova, S., Vasanicova, P. & Litavcova, E. An evaluation of financial health in the electrical engineering industry. *Journal of Competitiveness* 2019, 11(4), 144-160.
46. Thijssen, M. W. P., & Iatridis, G. E. Conditional conservatism and value relevance of financial reporting: A study in view of converging accounting standards. *Journal of multinational financial management* 2016, 37, 48-70.
47. Waweru, E., Oribu, W. Assessing the Impact of Liquidity Ratio Requirements on the Financial Performance of Commercial Banks in Kenya. *East African Journal of Business and Economics* 2023, 6(1), 203-210.
48. Westland, J.C. Audit Analytics : Data Science for the Accounting Profession. Cham: Springer International Publishing, 2020.
49. White, C. Managing Liquidity Risk and the Importance of Bank Contingency Funding Plans. St. Louis: Federal Reserve Bank of St. Louis, 2023.
50. Zimon, G. Financial liquidity management strategies in Polish energy companies. *International Journal of Energy Economics and Policy* 2020, 10(2), 365–68.
51. Zizlavskya, O. Net present value approach: method for economic assessment of innovation projects. 19th International Scientific Conference; Economics and Management 2014, ICEM, 23-25 April 2014, Riga, Latvia. Procedia - Social and Behavioral Sciences 2014, 15(6), 506 – 512.
52. Zorn, A., Esteves, M., Baur, I., & Lips, M. Financial ratios as indicators of economic sustainability: A quantitative analysis for Swiss Dairy Farms. *Sustainability* 2018, 10(8), 2942.

Eleyon Publishers