

# Rationalization of financial data by entrepreneurs

[Business](#), [Entrepreneurship](#)



Regardless of whether one is an enthusiastic and conferred entrepreneur, investing hours diving into the detail of your organization's monetary execution may sound unappealing. However, organizations are settled on and broken on the choices that are made (Forges ; lehlé, 2012). Accordingly, how to utilize the data acquired from the finances is indicative of the decision to settle on better business choices with comprehension of the fundamental financial data utilized.

A choice ought to never be founded on data based on one budgetary explanation since one monetary report will not give the total data expected to settle on the most ideal choice (Stalebrink ; Sacco, 2007). It would not give the entrepreneur a perspective of the whole monetary state of its business.

Every business-related explanation depends on financial data or information available. In this manner, any choice made will be based off patterns that may never happen later on (Forges ; lehlé, 2012). An organization's objectives, deals or profit estimates, and estimating business execution are everything that can be resolved with data from the rationalization of financial data alongside a comprehension of best business practices and market patterns (Stalebrink & Sacco, 2007).

Effective entrepreneurship and budgetary articulations are critical to Prospective financial specialists who utilize financial data to perform money related investigation, which is the premise of their choice to put or not in your business (Veiga, 2008). A loaning foundation analyses the monetary soundness of an organization and utilizes the budgetary

articulation to affirm on the off chance that it has the ability to benefit the obligation (Forges & lehlé, 2012). Vendors who expand credit may utilize financial data to evaluate the credit-value of a business.

Independent of the extent of association, financial data are viewed as the existence blood of the business. One of the unavoidable duties regarding the entrepreneur is to guarantee that the organization has adequate financing (Veiga, 2008).

## **Background of the study**

Rationalization in accounting refers to the process through which a given company or organization undergoes structural changes with a view to increase the business efficiency and achieve great financial gains (Brown, 2014). These kinds of changes often lead to the growth in both physical size of a company or on the contrary, a reduction in the actual company size. These changes are brought about by changes in company policies, modification of the planning strategies and methods of production of given products and services.

Entrepreneurs are often faced with a lot of challenges when running their newly established enterprises (Schuster, 2013). Decision making tends to become a key process during the early stages of the business growth. In order to avoid any shortcomings, the entrepreneur should always ensure that the business decisions made are for the utmost good of the business (Tsalikis & Peralta, 2014). Among the sources of data available that an entrepreneur can use to inform his decisions include the business financial data.

The financial data of a given business entity refers to data that contains all the finances and use of finances within a given company or organization (Baumeister & Kilian, 2015). This data often entails the nature of spending a company engages in. This kind of data can give a clear picture of the company's profitability by exhibiting the profits and losses made in a given financial year (Jang, 2015). An entrepreneur can, therefore, be informed to a great extent on the progress of his or her business entity and therefore make proper decisions (Tsalikis ; Peralta, 2014).

### **Problem statement**

Entrepreneurs are often presented with various challenges during decision making that often translates to either success or failure of the given business entity. Decision making, therefore, stands out a determinant factor that dictates the success or failure of a given business entity (Martinez, Yang ; Aldrich, 2011).

Decision making in an enterprise relies on various factors that affect and influence the business from both within and without. It is therefore very prudent for an entrepreneur to ensure that he or she takes into account all that influences the daily operations of a business. Financial data presents a key opportunity in this case. A lot of information can be obtained especially relating to the profitability of a given entity. Utilization of this kind of data during decision making can greatly result in informed choices that would translate to business success (Tsalikis ; Peralta, 2014).

It has been realized that many young entrepreneurs often fail to take into account the business financial data when making key decisions that affect

the business. This has often led to unfortunate business failure that could be easily avoided if they were made aware of the significance of taking into account rationalization of financial data when making decisions that relate to the business enterprise.

### **The significance of the study**

The study aims at assessing the level of awareness of financial data among various business entrepreneurs and how they utilize the information obtained from this while making business decisions. The study will establish a clear relationship between rationalization of financial data and decision making in a business entity. Further descriptions of the level of understanding and the frequency and reliance on financial data rationalization when making decisions will also be assessed in great depths.

The information and knowledge to be obtained from this study will go a long way in informing policies and influence decision making processes among entrepreneurs all with a view to ensuring business survival while maximizing profits.

### Research aim

The study to be conducted aims at assessing the extent of rationalization of financial data by various business entrepreneurs when making decisions.

### Research objectives

The study objectives include:

1. To establish the level of understanding of financial data among entrepreneurs
2. To determine the factors that influence an entrepreneurs' decision-making process
3. To find out the level of rationalization of financial data by entrepreneurs in decision-making processes

### Research questions

The research questions set for the study include:

- What is the level of understanding among entrepreneurs about financial data?
- What are the factors that influence decision making in an enterprise?
- How is the rationalization of financial data utilized in the decision-making process in an enterprise?

### Literature review

Every business venture or enterprise is built upon decisions. In fact, an entrepreneur has been described as one who has several traits and one of these is that of quality decision making. He or she is described as one who must make decisions over everything, some decisions that have a significant impact on the success or failure of the given venture, (Les Coleman, 2007).

This, therefore, insists on the importance of decision making in entrepreneurship. There is, however, need for quality decisions to be made as these will ensure the success of the business venture. To enhance the ability of entrepreneurs in making these good decisions, it is necessary that

they use all the information they can get, or that is around their business.

This is where financial data comes in.

Financial data is simply financial information that includes all the assets within the business against the expenditures made. The profits and growth, as well as the financial power of the said business, can be obtained from this data (Milne, 2016). It therefore not only gives a good picture of a company's performance but also helps tell the market trends within industries.

Financial statements and accounting systems offer a good source of obtaining financial information which is of higher quality and is therefore key in the making of better and smarter decisions by an entrepreneur (Katarina; Lajos Zager, 2006). This is because it is assumed that financial statements offer a bit more of an objective and realistic understanding of the overall position of a company.

There are four financial statements that are very significant and important to consider when assessing the quality of the entire business and for future decision making and they include; balance sheets, profit and loss accounts or statements of income, cash flow statement and changes if owner's equity (Baker & Wallage, 2000). When an entrepreneur collects, and gathers such information, and then analyses it to make it sensible, it can then be used to assist in making decisions that ensure the growth of the business.

Financial data can be used by companies in the following ways;

- To assess the subdivisions within the company that are productive against those that are not.

- To analyze and understand the performance of the company's suppliers and prospects.
- To evaluate the strengths as well as the weaknesses of the business relatively.
- To determine the profitability trends and the revenue in the industry.

Contrary to what may be a common opinion, financial data as seen above is not only useful in making decisions that are financially based or that are financially inclined. Granted, most of the decisions will be as such, but others are not entirely. A good example is that of analyzing the productivity of various subdivisions within the company.

Solutions thought to improve productivity could cut across other aspects of business and not necessarily the financial input. Such include, an improvement in the marketing strategies around the products, rebranding or changing of the product slightly to suit a market where it is more popular to enhance the returns from it (Davenport, Harris; Morison, 2010).

Another decision can be around the already existing suppliers as well as prospective ones in that those whose products seem to be bringing in high profits to the business are retained while those that are not being let go. In the same spirit, to ensure maximum profit, the suppliers can be urged to increase or decrease their supplies for the company.

Prospective suppliers, who can be within the emerging ones and seem very promising can be tested by the businesses to increase returns based on the financial power and position of the company as assessed from the financial data (Kariyawasam, 2016). Whether a company is doing terrible and on the



verge of collapse, is another aspect that comes out after analysis of financial information.

This serves as a revelation or a warning sign that the business venture could be running on debt and therefore stimulate generation of new ideas to aid in its recovery (Lusardi, 2012). Such include, identifying new sources of capital, a review of expenditures to do away with the unnecessary ones. In cases where the situation does not seem salvageable, then liquidation of assets is also an option before they become short of their worth completely.

## **Methodology**

### Research design and approach

The study to be conducted would be descriptive in nature. It will involve two variables: rationalization of financial data and decision making by an entrepreneur. The independent variable in this study would be the rationalization of financial data. In this variable, the researcher will be aiming at assessing the rationalization of financial data in a business organization. This would then affect the dependent variable, which is decision making. The relationship between financial data rationalization of financial data and impact on decision making by entrepreneurs forms the core of this research.

A mixed study design will be used in the study. It will include both qualitative and quantitative methods. This is the appropriate study design as it is able to explore the methods used by the business owners in rationalizing financial data, assess their knowledge of this concept and also attempt to assess the impact on decision making.

### **Study Population and Sampling**

The target population is business entrepreneurs. This will include owners of both small size and medium-sized businesses. The sampling technique to be employed in the study was non-probabilistic convenience sampling. It would favour easy accessibility of research participants and also minimize the cost of data collection. The sample size will be calculated using the Fischer's formula.

The margin of error of the study will be conveniently modified to fit the purposes of the study. The large size of the target population would translate to a considerable sample population, for this reason, the sample size was modified to fit the study. This is due to cost and time limitation of the study.

### **Data collection**

The data collection technique that will be used will be the administration of questionnaires to the participants. The questionnaires to be used will be a mix of open-ended and close-ended questions. The reason for using questionnaires as a data collection method is because of the ability to collect a lot of information from a large number of subjects in a short period.

This is specifically important given that the limited study duration. The use of questionnaires is also a cost-effective technique. Another added advantage was the ease to analyze the data collected in questionnaires. The data to be obtained will be kept safely in order to ensure consistency and accuracy.

### **Data analysis.**

The data to be collected will be a mix of qualitative and quantitative data. SPSS software version 23 will be used to analyze the data. Codes will be generated and used to group and tally the data. The data will be analyzed to get descriptive statistics such as frequencies from it.

Data differentiation and data association will be a key analytic technique in the study. This is because these techniques aid in establishing relationships between the two variables; financial data rationalization and decision making

Ethical Considerations.

The study to be conducted will first seek approval from the relevant research institutional bodies one of which will be the Institutional Review Board (IRB). Upon approval, the researcher will proceed to carry out the study. First, the questionnaire will contain an informed consent form to read and filled by the participant prior to the study.

This will ensure potential participants are made aware of the full details about the research and its implications. The potential participants were given the option to decline to participate. The research will also ensure the privacy and anonymity of the participants and their businesses. At no point will the participants be required to give personal details or technical details of their businesses. The data to be obtained will not be used in any way to cause harm to the respective businesses except for the purposes of research.

There will be no coercion of the participants and that willingness to participate in the study will be highly regarded throughout the study. In

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order for this study to meet the international standards, the participants will not be given any form of incentive to lure them in providing the information required in the data collection process for this research. Further, code of conduct will be followed.