

Working Capital Requirements and Management of Financial Obligations in Medium-Size Businesses in Akwa Ibom State

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Abstract

This study was conducted to determine the extent to which working capital requirements influence management of financial obligations in medium size businesses in Akwa Ibom State. Two research questions were answered and two null hypotheses were tested at .05 level of significance. Related literature and empirical studies were reviewed. A descriptive survey was used in the design of the study. The study area was Akwa Ibom State. The population of the study comprised 247 managers of medium scale enterprises in Akwa Ibom State. Simple random sampling technique was used in selecting a sample of 152 managers of medium scale enterprises in Akwa Ibom State. The researcher- developed 40-item structured questionnaire was used for data collection. The questionnaire items were face-validated by three research experts. Cronbach Alpha method was used in determining the reliability of the instrument and a correlation coefficient index of 0.82 was obtained which showed that the instrument was reliable. Data were analyzed using simple linear regression to answer research questions and to test the null hypotheses. The findings of the study indicated that nature of business and business size have high influence on management of financial obligations in medium size businesses in Akwa Ibom State. The study concluded that nature of business and business size significantly influence management of financial obligations in medium-size businesses in Akwa Ibom State. It is recommended that Managers of business organizations should implement a cash flow forecasting system to anticipate and manage financial obligations.

Keywords: Capital, Financial, Management, Obligations, Requirements,

Introduction

In today's complex business environment, it is observed by the researcher that some business organizations are currently facing numerous challenges in managing their financial obligations which include but not limited to fluctuating interest rates, changing market conditions, and increased regulatory requirements. Moreover, the COVID-19 pandemic has exacerbated financial uncertainty, highlighting the need for robust financial obligation management in Business organisations. Business generally is the activities or actions undertaken by a profit-seeking individual organization that involves production and/or provision of services. Usip and Ukoima (2023) stated that business is any organized set of legal activities carried out by an individual or group of individuals or an organization for the purposes of producing goods or rendering services, in exchange for other goods, services, or

money to the mutual benefit of the individuals or organizations concerned. From the foregoing, it could be deduced that the primary objective of a business organization is to make profit irrespective of the type or size of the business. Basically, the different sizes of business as identified by Udukeke (2020) are micro, small, medium or large-size business. The study focused on medium-size business.

A Medium-Size Business (MSB) is any organization with a total cost (including working capital, but excluding the cost of the land) that is above ₦50 Million but not exceeding ₦200 million and with a labour size between 101 and 300 workers (Udukeke and Usoro, 2023). Looking at the capital base required to float a medium sized business, one can understand the reason most of the business owners go for facilities such as term loans to boost the capitals needed either to start or maintain or expand the operation of a medium size business. Many businesses prefer to take advantage of capital mix by sourcing funds from outside creditors for many reasons. One of such reasons is when a business is faced with limitations in terms of inadequate funds, the need to source for fund outside becomes imperative. The advantages of outsourcing include: financial flexibility, diversification of financial sources and ability to balance risks and rewards. This capital mix enables businesses to manage costs effectively, respond to market opportunities, and align their capital structure with strategic objective of enhancing their long-term financial health and performance of the business among competitors.

The foregoing benefits of capital mix can only be guaranteed when a business organization is able to entrench management to its financial obligations. Management of financial obligation according to Bamidele (2017) is the strategic handling of all organization's financial commitments, including debt repayments, upcoming bills, and long-term liabilities. The concept of management of financial obligation as maintained by Bamidele (2017) is viewed within the following framework: Focus - primarily focuses on negotiating loan terms, setting up a debt repayment plan, establishing a line of credit for unexpected expenses; scope - in terms of scope, it looks at the entire spectrum of the organisation's financial commitments, both short-term and long-term and strategies - emphasizes securing financing with favorable terms, maintaining good credit standing, and ensuring timely repayments to avoid penalties and manage debt effectively.

Regrettably, the researchers have observed that many medium-sized businesses either hardly live beyond its few years of commencement or perform abysmally poor or outrightly fold up within short time after its commencement; perhaps as a result of poor management of financial obligation of the business. It is based on this perceived shortcoming regarding management of financial obligation that the researcher was worried and became concerned to proffer solution to it by determining if poor management of financial obligation is influenced by working capital requirements. Guthmann (2019) defined working capital as “the portion of a firm's current assets which are financed from long-term funds.” The excess of current assets over current liabilities is termed as ‘net working capital’. In this concept “net working capital” represents the amount of current assets which would remain if all current liabilities were paid. Both the concepts of working capital have their own points of importance. Particularly the

working capital requirements which the study covers include: nature of business, and business size.

Nature of business as a working capital requirement refers to the business fundamental characteristics that define its purpose, what it offers, and how it operates in the market. It can be likened to business organization's Deoxyribonucleic Acid (DNA), that assumes the function of shaping its identity and setting the stage for its goals (Berger, 2020). Nature of business encompasses;

- i. Core activities: What the business does on a day-to-day basis to deliver value. This could be manufacturing products, providing services, or selling goods.
- ii. Products or services: What the business offers to its customers.
- iii. Target market: The specific customer group the business caters to.
- iv. Legal structure: How the business is organized, such as a sole proprietorship, partnership, or corporation.
- v. Market approach: How the business positions itself in the market and competes with others.

Berger furthered that understanding the nature of a business is important as it directly impacts the management of its financial obligations in a few key ways:

- i) Funding Needs: Different businesses have different funding requirements. A manufacturing company needs capital for equipment and inventory, while a service-based business may need less upfront investment. Understanding the nature of your business helps you determine how much funding you need and the best way to acquire it (loans, investments, etc.).
- ii) Cash Flow: The nature of your business also affects your cash flow cycle. For example, a retail store might have a quick turnaround on inventory and customer payments, leading to more consistent cash flow. In contrast, a construction company might have long project timelines and delayed customer payments, requiring them to manage cash flow gaps strategically.
- iii) Profitability: The profit margins associated with your business model affect your ability to meet financial obligations. A high-margin business like software development can generate more profit to cover debt payments compared to a low-margin business like a restaurant.

Specifically, business aspects influence financial obligations in that when it's certain that industries are inherently riskier or require more capital investment than others. This can affect loan terms and interest rates. Also, subscription-based services might have predictable recurring revenue, making debt repayment more manageable compared to a business relying on one-time sales.

Business size as averred by Glueck (2022) has to do with scale of operation (ie the scope of activities directly and diversity of product lines) as it influenced the amount of working capital needed. In essence, the size of a business directly correlates with its working

capital demands, with larger businesses requiring more liquidity to sustain their operations effectively. Larger businesses typically have larger operational costs. This is because it might need to purchase more inventory, have a higher payroll, and manage more accounts receivable and payable. This translates to a greater need for cash at hand to cover these ongoing expenses. Business size determines the level of inventory required. Businesses that hold a lot of inventory, like manufacturers or retailers, will need more working capital to finance those stocks while smaller businesses, like consultancy or service provision, might have minimal inventory, reducing their working capital requirements. Size and scale typically have more resources and potentially more borrowing power, while smaller businesses might rely on alternative financing options.

Statement of the Problem

Management of financial obligations seems to be one of the major challenges facing medium-size business organizations in Akwa Ibom State. It was observed by the researcher that the conditions of medium-sized businesses have worsened to a noticeable difference between the general performance of similar businesses in other states when compared to those in Akwa Ibom State. Medium-size businesses seems to be experiencing decrease in sales or revenue and increase in expenses resulting from higher costs of materials and labour. The researcher was curious and concerned whether these situations could arise from poor planning and management of the organization's financial obligations. This observation seems to align with Akpan (2021) who purported that when financial obligations become challenging to manage, it often leads to serious problems for the business, such as difficulty in paying bills, suppliers, or employees, and increased risk of defaulting on loans or other debt obligations.

The consequences of poor planning and management of financial obligation could lead to cash flow problems, delays in settlement of payables, difficulties meeting payroll demands and inability to take advantage of new business opportunities or not being able to expand the business due to gross inadequate and unstable financial positions among others. It is based on these problems that the researcher carried out this study to determine the influence of working capital requirements on management of financial obligations of medium-size businesses in Akwa Ibom State.

Significance of the Study

The findings of this study would be of benefits to the financial institutions, Business organizations, policy makers, regulatory bodies and researchers. To the financial institutions, the findings would be of benefit because by understanding how businesses manage their working capital and financial obligations, financial institutions can better assess the creditworthiness of potential borrowers and make more informed lending decisions. The findings would be of benefit to the business organizations in that, businesses can use the information from the study to improve their own working capital management and financial obligations.

Policy makers would benefit significantly in that by understanding how businesses are managing their working capital and financial obligations, policy makers can make more

informed decisions about regulations and policies that affect businesses. Regulatory bodies would benefit from the study by ensuring that businesses are complying with regulations and policies related to working capital management and financial obligations.

Finally, researchers who may conduct studies on working capital requirements and other related areas would benefit from the findings of this study as they would use the work as reference materials.

Research Questions

The following research questions guided the study:

- i) To what extent does nature of business influence management of financial obligations in medium-size businesses in Akwa Ibom State?
- ii) To what extent does business size influence management of financial obligations in medium size businesses in Akwa Ibom State?

Research Hypotheses

The following research hypotheses were formulated to guide the study:

Ho₁: There is no significant influence of nature of business on management of financial obligations of medium-size businesses in Akwa Ibom State.

Ho₂: There is no significant influence of business size on management of financial obligations of medium-size businesses in Akwa Ibom State.

Methodology

The descriptive survey design was adopted for this study. The study was carried out in Akwa Ibom State. The State is one of the thirty-six States of the Federation of Nigeria. It was created from the former Cross River State on September 23, 1987 and is currently one of the oil producing State in the country. The State capital is Uyo with over 500,000 inhabitants. It has thirty-one Local Government Areas with Ikot Ekpene as the oldest local government area in Nigeria created in 1951 (Akwa Ibom bulletin, 2011 and Local Government Information System, 2012). Others include Uyo, Etinan, Itu, Ibesikpo Asutan, Uruan, Nsit Ibom, Nsit Atai, Nsit Ubium, Ibiono Ibom, Abak, Essien Udim, Obot Akara, Ika, Etim Ekpo, Oruk Anam, Ukanafun, Ikono, Ini, Eket, Onna, Okobo, Mbo, Urue Ofong Oruko, Eastern Obolo, Ikot Abasi, Esit Eket, Mkpato Enin, Ibomo, Oron and Udung Uko Local Government Areas. Hence, the researcher's interest in the area was to determine the influence of working capital requirements on management of financial obligations of medium-size businesses in Akwa Ibom State. The population of the study comprised all the 247 managers of medium scale enterprises in Akwa Ibom State (Akwa Ibom State Ministry of Trade and Investment, 2023). The rationale for the use of managers is that they are responsible for the implementation of internal control mechanisms in their respective medium scale enterprises. The sample comprised 152 managers of medium scale enterprises in Akwa Ibom State. The sample size

was determined through Taro Yamane sample size table. This sample was selected using simple random sampling technique. The researcher-developed instruments titled “Working Capital Requirements and Management of Financial Obligations Questionnaire” (WCRAMFOQ) was used in collecting data for the study. The questionnaire was sub-divided into three sections (A, B and C). Section A requested for respondents’ personal data. Section B solicited information from the respondents on the independent variables, section C sought information on the dependent variables while on a four-point rating scale of Very Great Extent (VGE) – 4, Great Extent -3, Little Extent – 2 and Very Little Extent -1. The instruments were given to three research experts, two from the Department of Business Education and one from the Department of Psychological Foundations of Education, all in the University of Uyo for face validation. These experts were requested to read through the instruments item by item, make corrections, indicate the suitability of the items, language used and the arrangement of the items in logical and chronological sequence. Their comments, suggestions, corrections and other inputs were included in the instrument and used for adjustments and modifications of the final copy. The internal consistency of the instrument was determined by trial testing on 20 respondents who were not part of the actual study. The Cronbach Alpha statistics was used to analyze the obtained data to establish the reliability coefficient. The distribution of the questionnaire was carried out by the researcher with the help of six research assistants in order to achieve high rate of return and prevent loss of instrument. The six research assistants were briefed on procedures for administering the instrument. Out of 152 copies of the questionnaire administered, 148 copies were successfully retrieved and used for data analysis. Simple linear regression was used in answering research questions and testing of the null hypotheses at .05 level of significance. In carrying out the study, the researcher ensured that all managers involved in the study were properly informed of the intent of the study so as to give them the opportunity to decide either to participate or not. All the respondents that took part in the study were assured of the confidentiality of every information they obliged.

Results

Research Question 1: To what extent does the following component of nature of business influence management of financial obligations in medium-size businesses in Akwa Ibom State?

Table 1: Regression Analysis of Nature of Business on Management of Financial Obligations in Medium-Size Businesses in Akwa Ibom State

Source of Variation	R	R Square
Nature of Business	.48	.48
Management of Financial Obligations		

Source: Field data (2025)

A simple linear regression analysis was conducted to determine the extent to which nature of business influence management of financial obligations in medium-size businesses in Akwa Ibom State. Table 1 reveals that the coefficient of determination (R^2) of 0.48 is obtained. This is interpreted that 48% is the overall contribution of all items on nature of

business to management of financial obligations in medium-size businesses. With a percentage of 48, it therefore means that there is a little extent to which nature of business influences management of financial obligations in medium-size businesses in Akwa Ibom State.

Research Question 2: To what extent does business size influence management of financial obligations in medium-size businesses in Akwa Ibom State?

Table 2: Regression Analysis of Business Size on Management of Financial Obligations in Medium-Size Businesses in Akwa Ibom State

Source of Variation	R	R Square
Business Size	.55	.31
Management of Financial Obligations		

Source: Field data (2025)

A simple linear regression analysis was conducted to determine the extent to which business size influence management of financial obligations in medium-size businesses in Akwa Ibom State. Table 2 reveals that the coefficient of determination (R^2) of 0.31 is obtained. This is interpreted that (31%) is the overall contribution of all items on business size to management of financial obligations in medium-size businesses. With a percentage of 31, it therefore means that there is a little extent to which business size influences management of financial obligations in medium-size businesses in Akwa Ibom State.

Research Hypothesis 1: There is no significant influence of nature of business on management of financial obligations in medium-size businesses in Akwa Ibom State.

Table:3 Regression Analysis of Nature of Business on Management of Financial Obligations in Medium-Size Businesses

Source of Variation	Sum of Square	df	Mean Square	F	Significance
Regression	111.82	1	111.82	133.79	.00
Residual	120.35	144	.84		
Total	232.16	145			

Source: Field data (2025)

The computed F-value of (133.79) has the probability level of 0.00 which is less than the significant level of 0.05. This is interpreted to be statistically significant at the degree of freedom of 2 and 143. Therefore, the null hypothesis which states that nature of business does not significantly management of financial obligations in medium-size businesses in Akwa Ibom State is rejected. This means nature of business significantly influence management of financial obligations in medium-size businesses.

Research Hypothesis 2: There is no significant influence of business size on management of financial obligations in medium-size businesses in Akwa Ibom State.

Table: 4: Regression Analysis of Business Size on Management of Financial Obligations in Medium-Size Businesses

Source of Variation	Sum of Square	df	Mean Square	F	Significance
Regression	70.89	1	70.89	63.31	.00
Residual	161.27	144	1.12		
Total	232.16	145			

Source: Field data (2025)

The computed F-value of (63.31) has the probability level of 0.00 which is less than the significant level of 0.05. This is interpreted to be statistically significant at the degree of freedom of 2 and 143. Therefore, the null hypothesis which states that business size does not significantly management of financial obligations in medium-size businesses in Akwa Ibom State is rejected. This means business size significantly influence management of financial obligations in medium-size businesses.

Discussion of Findings

Nature of Business and Management of Financial Obligations in Medium-Size Businesses in Akwa Ibom State.

The finding revealed that the nature of business has influence on management of financial obligations in medium-size businesses in Akwa Ibom State. The finding is in consonance with the findings of Rehman (2017) that indicated the nature of business has positive on organizational debt recovery. Hence, owners/operators of business should consider the nature of their business before deciding on the extent of debt that the business should owe. This way, it will enable the business utilize the facility optimally without negative impact on the business. It was concluded that nature of business has a significant positive relationship on organization debt recovery. recommended that organisations should understand the type or uniqueness of their organisations before designing suitable policy for ease of debt recovery.

The finding revealed that the nature of business has a significant influence on financial obligations in medium-size businesses in Akwa Ibom State. The finding of Anyaegbu (2019) agrees with the finding of this study in that it showed that business characteristics influence management of finance obligation. The study concluded that poor performance in terms of management of some financial obligations can be traceable to characteristics possessed by some business organisations. It was recommended that managers of business organisations should always take the peculiarity of their business into consideration when designing policy regarding management of financial obligations.

Business Size and Management of Financial Obligations in Medium-Size Businesses in Akwa Ibom State

The finding revealed that business size has influence on management of financial obligations in medium-size businesses in Uyo, Akwa Ibom State. The finding is in agreement with the findings of Owolabi (2013) which showed that different class of business have different level of propensity to sustainable business operation. Hence, a pointer that owners/operators of business should know that deciding on the extent of debt that the business should owe is dependent on their business size. It was concluded that class of business relates with its operation. Based on the finding, it was recommended that owners of business should consider the class of business particularly if the aim of setting up the business aligns with the principle of going concern.

The finding revealed that the business size has a significant influence on financial obligations in medium-size businesses in Akwa Ibom State. The finding of Tarus (2016) supports the finding of the present study in that it showed that business capacity is the strongest predictor of corporate social responsibility influence management of financial obligation. The study concluded that lack of commitment to corporate social responsibility accounts for most business inability to show capacity. It was recommended that government should provide incentives to businesses to boost their capacities so that they can in turn show commitment to their corporate social responsibilities.

Conclusion

Effective management of financial obligations in medium-size businesses using the understanding of working capital requirements is crucial for ensuring the liquidity, profitability and long-term sustainability of business organizations. The research highlighted the significance of optimizing working capital requirements. Therefore, the study concluded that nature of business and business size significantly influence management of financial obligations in medium-size businesses in Akwa Ibom State.

Recommendations

The following are the recommendations made in the light of the findings of the study:

1. Managers of business organizations should implement a cash flow forecasting system to anticipate and manage financial obligations.
2. Management of business organizations should optimize working capital requirements through efficient inventory management, account receivable and payable policies and cash management.

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