

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

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### Abstract

*This study determined the extent to which working capital requirements influence management of financial obligations in medium size businesses in Akwa Ibom State. Two research questions and two null hypotheses guided the study. Descriptive survey research design was used in the study. The population of the study comprised 247 managers of medium scale enterprises in Akwa Ibom State. Simple random sampling technique was used to draw a sample of 152 respondents from the population. A validated 40-item structured questionnaire was used for data collection. Cronbach Alpha method was used in determining the reliability of the instrument and a correlation coefficient index of 0.82 was obtained. Simple linear regression was used to answer the research questions and to test the null hypotheses at .05 level of significance. Findings revealed among others that nature of business and business size have high influence on management of financial obligations in medium size businesses in Akwa Ibom State. Based on the findings, it is concluded that the nature and size of a business are critical determinants of how financial obligations are managed in medium size businesses and that strategic financial management must consider these factors to ensure sustainability and growth. It was recommended that Managers should ensure that financial management is aligned with the business nature while strengthening cash flow management.*

**Keywords:** Business, Capital, Management, Obligations, Working.

### Introduction

In today's complex business environment, it could be observed that some business organizations are faced with numerous challenges which invariably affects management of financial obligations. These challenges include but not limited to rising interest rates, changing market conditions, and increased regulatory requirements. The Post COVID-19 realities have also exacerbated financial uncertainties, highlighting the need for robust financial obligation management in Business organizations.

Management of financial obligation could be seen as the strategic handling of all organization's financial commitments, including debt repayments, upcoming bills, and

long-term liabilities (Bamidele, 2017). The concept of management of financial obligation could primarily be focused on negotiating loan terms, setting up a debt repayment plan and the establishment of a line of credit for unexpected expenses. It also looks at the entire spectrum of the organisation's financial commitments, both short-term and long-term strategies, and emphasizes securing financing with favourable terms, maintaining good credit standing, and ensuring timely repayments to avoid penalties and manage debt effectively. Regrettably, the authors 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.

Guthmann (2019) defined working capital as “the portion of a firm’s current assets which are financed from long-term funds.” Thus, net working capital is the excess of current assets over current liabilities. Net working capital represents the amount of current assets which would remain if all current liabilities were paid. The aspects of working capital requirements considered in this study are 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.

Understanding the nature of a business is important as it directly impacts the management of its financial obligations in a few key ways (Berger, 2020):

- 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, and investments, among others).

- 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 has to do with scale of operation of the business (that is, the scope of activities and the diversity of product lines). Some businesses seem to require more liquidity to sustain their operations effectively even as they have larger operational costs. This is because the business 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.

### **Statement of the Problem**

Management of financial obligations seems to be one of the major challenges facing medium-size business organizations. The authors observed that the conditions of medium-sized businesses have worsened to a noticeable difference between the general performance of similar businesses in nearby States comparatively with Akwa Ibom State. Medium-size businesses seem to be experiencing decrease in sales or revenue and increase in expenses resulting from higher costs of materials and labour. The authors were curious and concerned whether these situations could arise from poor planning. 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.

### 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:

Ho<sub>1</sub>: There is no significant influence of nature of business on management of financial obligations of medium-size businesses in Akwa Ibom State.

Ho<sub>2</sub>: 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. 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 formula and simple random sampling technique was used in selecting the sample size. 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 instrument was validated by three research experts. 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. 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 and Discussion

**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,  $n=145$**

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  $n=145$** 

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	.000
Residual	120.35	144	.84		
Total	232.16	145			

Source: Field data (2025)  $df = 2, 143$

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	.000
Residual	161.27	144	1.12		
Total	232.16	145			

Source: Field data (2025)  $df = 2, 143$

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 finance obligation. The study concluded that lack of commitment to corporate social responsibility is 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 medium size businesses should ensure that financial management is aligned with the business nature while strengthening cash flow management.
2. Managers of business organizations should implement a cash flow forecasting system to anticipate and manage financial obligations.
3. 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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