

Influence of Cash Requirements and Business Cycle on Medium Scale Enterprises in Akwa Ibom State

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Abstract

This study determined the extent to which cash requirements and business cycle influence management of financial obligations in medium scale 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. The findings of the study indicate that cash requirement and business cycle have high influence on medium scale enterprises in Akwa Ibom State. It study concluded that it is eminent that cash requirements and fluctuations in the business cycle significantly influence how MSEs manage their financial obligations. It is recommended that Managers of business organisations should develop a comprehensive risk management strategy to mitigate financial risk.

Keywords: Cash, Cycle, Enterprise, Medium-Scale, Requirements

Introduction

Cash is an important current asset for the operation of a business, be it public or private. Cash is the basic input required to keep the business running on a continuous basis and it is also the ultimate output expected to be realised by selling the services or products manufactured by the firm (Pandey, 2020). Medium Scale Business would need to have sufficient cash and cash equivalents which are considered as liquid assets for daily operations. However, in as much as cash is required to meet financial demands of

business enterprises, it is necessary to note that ‘insufficient cash’ or ‘idle cash’ can impact negatively on profitability.

Kumar (2020) viewed cash requirements as the amount of cash needed by an MSE to meet its financial obligations, such as paying employees, suppliers, and taxes, as well as investing in new projects and technologies. Ross (2020) stated that MSEs must carefully manage their cash flows, which is cash inflows and outflows to ensure they have sufficient cash to meet their financial obligations. This involves forecasting cash flow, managing accounts receivable and payable, and maintaining a cash reserve.

Cash requirements refer to the amount of cash a business needs to meet its financial obligations, such as paying bills, wages and other expenses. It is the amount of cash necessary to fund a business’s operations, pay off debts and invest in growth opportunities. Ikpe (2018) posited that understanding cash requirement is essential for businesses to manage their cash flow, make informed financial decisions and maintain financial stability and that cash requirements serve as the lifeblood of any business. Cash requirements represent the amount of cash a business organization needs to meet its financial obligations, such as paying bills, wages, and other expenses (Ikpe, 2018). Without sufficient cash, a business can quickly become insolvent and face financial ruin.

Brown and Ajala (2023) opined that there are several factors that can influence cash requirements. The authors name them to include sales and revenue, accounts receivable and payable, inventory levels, operating expenses, capital expenditures, and debt repayment. To determine cash requirements, businesses can use various methods such as cash flow forecasting, break-even analysis, ratio analysis, and cash conversion cycle analysis. These methods help businesses predict their future cash needs and make informed financial decisions (Brown & Ajala, 2023).

Business cycle is an important concept which helps businesses understand how long their cash is tied up in inventory and accounts receivables, and how long they have to pay their suppliers. The time taken to convert raw materials into finished products is referred to as the business cycle or operating cycle. The longer the business cycle, the greater the requirements of the working capital. In order to minimize working capital requirements, utmost care should be taken to shorten the period of the business cycle.

Mustafa (2021) maintained that business cycle can only be effective if there is a system of business cycle information. The author defined business cycle as a recurring set of business activities and related information processing operations associated with the manufacture of products. A similar definition was given by Samson and Jeff (2020) that business cycle is a series of activities involved in transforming raw materials or

inputs into finished goods or services. Mustafa (2021) listed the four basic activities or stages in the business cycle to include: product design, planning and scheduling, business operation and cost accounting. It is a crucial component of any manufacturing or business-based business. Mustafa (2021) also noted that at every phase of the business cycle that the manager/accountants are more involved in the fourth task (cost accounting) but must understand other processes well enough to design an accounting information standard that provides the necessary information and supports these functions.

Business cycle control involves performance control of data integrity, restrictions on access to high detail, updates all changes to optimize data, access controls encryption and backup and disaster recovery procedures (Stephen, 2020). The stages of business cycle include:

- i.** Business Design: This is the initial stage where the business concept is developed, including its features, specifications, and target market. Market research, design, prototyping, and testing are integral parts of this phase.
- ii.** Business Planning and Scheduling: Once the business design is finalized, business planning involves determining the business quantity, resources required (labour, machinery, materials), and the business schedule. Tools like Gantt charts and Pert charts are often used for effective planning and scheduling.
- iii.** Business Operations: This is the core of the business cycle where the actual manufacturing or assembly process takes place. It includes various activities like material handling, business processes, quality control, and inventory management.
- iv.** Cost Accounting: Cost accounting involves tracking and analyzing the costs incurred during the business process. It helps in determining product costs, pricing decisions, and overall profitability. All these activities play utmost importance in business cycle.

Business cycle according to Paul (2019) is a set of steps and methods of converting raw materials into finished goods to fulfil customer orders or meeting market demand, by streamlining the business process and optimizing the cost of business while maintaining business quality and design specifications that meet client requirements on time. It is a period during which inventories are being turned by the company into finished goods. It is also the time during which stocks (raw materials, materials, semi-finished and finished parts) remain in the business process, from the start of processing to the finished product. Business cycle and management of financial obligations are

closely linked in terms of resource utilization, budgeting for business and cost control. Management of financial obligations provides budgets to business management to ensure optimal resource allocation for manufacturing processes. Management of financial obligations assists in monitoring business costs and identifying areas for cost reduction.

Effective financial obligations management is crucial for medium scale enterprises (MSEs) to navigate the business cycle successfully. McKenzie and Paff (2017) pointed out that this involves adopting a proactive and adaptive approach to financial management, leveraging digital tools and platforms, and prioritizing financial flexibility and innovation. One key strategy for MSEs is to maintain a healthy debt-to-equity ratio. Ross (2020) observed that MSEs with high debt levels are more vulnerable to financial distress during economic downturns. To mitigate this risk, MSEs must prioritize debt management, reduce costs, and explore alternative financing options.

Statement of the Problem

The role played by Medium Scale Enterprises (MSEs) in Akwa Ibom State through economic development, employment generation, income distribution, and local innovation is very critical. In spite of these, MSEs are faced with significant challenges in the area of financial management, especially in maintaining sufficient cash flow and adapting its operations following the business cycle fluctuations.

The sustainability of Medium Scale Enterprises anchors the availability of cash requirements which encompasses working capital needs, availability of emergency funds and liquidity for operations. Insufficient cash reserves can result in the disruptions in business operations, inability to meet business obligations, and subsequent business failure. Business cycles, which are characterized by the expansion and contraction in economic activities, seem to exert large impact on business performance which invariably affect customer demand, sales volume, input costs, and access to credit.

In Akwa Ibom State, observations would suggest that many MSEs are susceptible to these financial dynamics. During economic declines, cash shortages become critical, and businesses struggle to survive which is suggestive of lack of preparedness and application of adaptive financial strategies. The paucity of empirical research that specifically examines the interactions of cash requirements and business cycle on Medium Scale Enterprises in this context is of great concern. This empirical gap presents a critical concern for business owners, policymakers and researchers. Understanding the extent of influence these variables would enhance the design of financial management strategies and supportive policies tailor-made to the needs of MSEs in Akwa Ibom State. It is based on the above that this study was conducted to

determine the extent of influence of cash requirements and business cycle on medium scale enterprises in Akwa Ibom State.

Research Questions

This work provides answers to the following questions:

- i) To what extent does cash requirement influence medium scale enterprises in Akwa Ibom State?
- ii) To what extent does business cycle influence medium scale enterprises in Akwa Ibom State?

Research Hypotheses

The following research hypotheses were formulated to guide the study and were tested at .05 level of significance:

Ho₁: There is no significant influence of cash requirement on medium scale enterprises in Akwa Ibom State.

Ho₂: There is no significant influence of business cycle on medium scale enterprises 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 "Cash Requirements and Business Cycle and Management of Financial Obligations Questionnaire" (CRBCMFOQ) 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 cash requirement influence medium scale enterprises in Akwa Ibom State?

Table 1: Regression Analysis of Cash Requirement on Medium Scale Enterprises in Akwa Ibom State *n=145*

Source of Variation	R	R Square
Cash Requirement	.45	.20
Management of Financial Obligations		

Source: Field data (2025)

A simple linear regression analysis was conducted to determine the extent to which cash requirement influence medium scale enterprises in Akwa Ibom State. Table 1 reveals that the coefficient of determination (R^2) of 0.48 is obtained. This is interpreted that (20%) is the overall contribution of all items on cash requirement to medium scale enterprises. With a percentage of 20, it therefore means that there is a very little extent to which cash requirement influences medium scale enterprises in Akwa Ibom State.

Research Question 2

To what extent does business cycle influence medium scale enterprises in Akwa Ibom State?

Table 2: Regression Analysis of Business Cycle on Medium Scale Enterprises in Akwa Ibom State *n=145*

Source of Variation	R	R Square
Business Cycle	.69	.48
Management of Financial Obligations		

Source: Field data (2025)

A simple linear regression analysis was conducted to determine the extent to which business cycle influence management of financial obligations in medium-size businesses in Akwa Ibom State. Table 2 reveals that the coefficient of determination (R^2) of 0.48 is obtained. This is interpreted that (48%) is the overall contribution of all items on business cycle to medium scale enterprises. With a percentage of 48, it therefore means that there is a little extent to which business cycle influences medium scale enterprises in Akwa Ibom State.

Research Hypothesis 1: There is no significant influence of cash requirement on medium scale enterprises in Akwa Ibom State.

Table 3: Regression Analysis of Cash Requirement on Medium Scale Enterprises

Source of Variation	Sum of Square	df	Mean Square	F	Sig.
Regression	46.37	1	46.34	35.91	.000
Residual	185.83	144	1.29		
Total	232.16	145			

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

The computed F-value of (35.91) 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 cash requirement does not significantly medium scale enterprises in Akwa Ibom State is rejected. This means cash requirement significantly influence medium scale enterprises.

Research Hypothesis 2: There is no significant influence of business cycle on medium scale enterprises in Akwa Ibom State.

Table 4: Regression Analysis of Business Cycle on Medium Scale Enterprises.

Source of Variation	Sum of Square	df	Mean Square	F	Sig.
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 business cycle does not significantly medium scale enterprises in Akwa Ibom State is rejected. This means business cycle significantly influence medium scale enterprises.

Discussion of Findings

Cash Requirement and Medium Scale Enterprises in Akwa Ibom State

The finding revealed that cash requirement has influence on medium scale enterprises in Akwa Ibom State. The finding is in consonance with the findings of Amusa (2015) that indicated cash requirement has positive influence on meeting organization's financial obligation. Hence, determining the requirements needed for cash by owners/operators of business is a pre-requisite for effective medium scale enterprises. It was concluded that the volume of cash available among business organisations is function of the requirements needed to access the cash. It was recommended that managers should consider essentials needed for cash and ensure that they are in line with the obligation of medium scale business enterprises.

The finding revealed that the cash requirement has a significant influence on medium scale enterprises in Akwa Ibom State. The finding of Gathungu (2015) agrees with the finding of this study in that it showed significant relationship with organizational commitment. The study concluded that cash requirement relates positively with organizational commitment. It was recommended that management of business organizations need to evaluate the essentials for cash in order to enhance organizational commitment.

Business Cycle and Medium Scale Enterprises in Akwa Ibom State

The finding revealed that the business cycle has influence on medium scale enterprises in Akwa Ibom State. The finding is in consonance with the findings of Amusa (2015) that indicated the industrial helps to quicken the process of meeting obligation of the business organisation. Hence, owners/operators of business should drive their business process to ensure they achieve high business cycle in order to meet the obligations of the business. This way, it will enable the business to accelerate the liquidation of the debt standing against it. Based on this, it was recommended that business organisations should improve the levels of physical facilities and train personnel so as to enhance the cash flow.

The finding revealed that the business cycle has a significant influence on medium scale enterprises in Akwa Ibom State. The finding of Usie (2015) agrees with the finding of this study in that it showed that there is relationship between current assets strategies and meeting the liabilities of agro-allied industries. The study concluded that current asset management is a necessity and it was recommended that managers of medium scale enterprises should develop policies that will not tie up capital for too long.

Conclusion

Medium Scale Enterprises (MSEs) operate in highly dynamic environments where effective financial management is critical to sustainability and growth. Based on the findings, it is eminent that cash requirements and fluctuations in the business cycle significantly influence how MSEs manage their financial obligations. During periods of economic growth, increased sales and revenue generation enhance liquidity, enabling timely settlement of debts and reinvestment in the business. Conversely, economic downturns often result in reduced cash inflows, leading to difficulties in meeting obligations such as loan repayments, supplier payments, and payroll expenses.

Recommendations

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

1. Management of medium scale enterprises should monitor and adjust financial obligations to maintain a healthy debt-to-equity ratio.
2. Management of business organisations should develop a comprehensive risk management strategy to mitigate financial risk.

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