



Business Environment and Small and Medium Enterprises Performance: Pragmatic Evidence from Oyo State, Nigeria

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Authors' contributions

This work was carried out in collaboration among all authors. 'All authors read and approved the final manuscript.

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ABSTRACT

The dynamic and rapidly changing business environment in which most businesses operate has made a significant impact on organizational survival and performance. This study seeks to examine the impact of the business environment on SMEs' performance in Nigeria with particular reference to Oyo State. A survey of 153 randomly selected SMEs from three cities in every three senatorial zones of Oyo State. The data collection instrument was a questionnaire designed for the study. Descriptive statistics and Multiple Regression were used to analyze the data. The results reveal that the business environment has a significant impact on SMEs' performance. Furthermore, the results also show that infrastructural facilities accessibility, financial related problems, technological changes and attitude of people to locally made products are the most environmental factors militating against SMEs survival in Nigeria. Subsequently, the study recommends that government should do the needful in terms of provision of infrastructural facilities and implantation

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of National Financial Inclusion Strategy (NFIS) of making sure that a financial system is accessible to all Nigerian adults, at an inclusion rate of 80%, and to promote the country's economic growth.

Keywords: Business environment; SMEs; performance; competition; technological changes.

1. INTRODUCTION

The pivotal role of Small and Medium Enterprises (SMEs) in economic growth and sustainable development cannot be overemphasized in both developed and developing countries. Data from the Federal Office of Statistics reveal that about 97 per cent of the entire enterprises in the country are SMEs and they employ an average of 50 per cent of the working population as well as contributing up to 50 per cent to the countries industrial output. It was suggested that SMEs in Nigeria are the catalysts of economic growth and development, as well as the backbone of the nation [1,2]. Statistics reveal that SMEs are currently experiencing a period of growth, perhaps due to an array of entrepreneurial skills acquired by unemployed youths via entrepreneurship education. However, the sector has been befuddled by the rapidly changing business environment. Oginni and Adesanya [3] confirm that the business environment has impeded the growth and survival of SMEs in Nigeria.

Adaptation to a changing environment has been admitted by scholars, researchers, and professionals as a key to business organization survival [4]. Alexander [5] argues that the dynamic and rapidly changing business environment in which most businesses operate has made a significant impact on organizational survival and performance. According to Verdu-Jover et al. [6], managerial perceptions of the exogenous business environment influence firm strategy which in turn influences firm performance. In the same vein, Oghojafor [7] also argues that organizations' survival and success depend on the appropriate adoptions to a complex and over changing the environment. Adeoye [8] opines that for business to cope with the dynamic and rapidly changing business environment, there is a need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results. Similarly, Ogundele [9] also adds that a firm perception of the nature of the business environment is a function of its size and industry.

Many studies have been done on the business environment relating to SMEs especially in

developed countries [10,11]. Surprisingly, reviewed literature shows that many scholars in Nigeria have expressed interest in examining the conceptual issues of the business environment as it affects SMEs in Africa in general and Nigeria in particular. Interestingly, few attempts have been made in empirically relating business environment to SMEs performance but none has been conducted in Oyo State. Therefore, there is a need to examine the effect of the business environment on the performance of SMEs in Oyo State to fill the gap in knowledge.

1.1 Research Objectives

The main objectives of this study are;

- i. To examine the extent business environment has an impact on SMEs' performance.
- ii. To identify environmental factors affecting the survival of SMEs in Nigeria.

1.2 Research Questions

The following questions shall be the focus of this study.

- i. To what extent does the business environment have an impact on SMEs' performance?
- ii. What are the environmental factors affecting the survival of SMEs in Nigeria?

2. LITERATURE REVIEW

2.1 Concept of Business Environment

The word "environment" is used to describe all those influences that bear upon the individual organization. Bernard [12] notes that the environment consists of atoms and molecules, agglomerations of things in motion, laws of men, emotions of physical laws, social laws, social ideas, norms, action, of forces and resistances. Their number is infinite and they are always changing. Atsegbua [13] sees the environment as the system of abiotic, biotic and interact and simultaneous to which he adapts and transforms and uses to satisfy his needs. Harrison [14] also defines the environment as all the conditions

circumstances, and influences surrounding and affecting the development of the total organization or any of its internal systems. The business environment, therefore, is the aggregate of all conditions, events, and influence that surrounds and affects it". According to Oyebanji [15], the business environment is a factor that can influence an individual's business organization. The author further explains that every organization must take into consideration the environmental constraints, material and human resources in their respective businesses in spite of their differences in status and that the effect of the environment varies from one situation to another. According to Adebayo et al. [16], the business environment can be broadly categorized into the internal and external environment with the former comprising variables or factors within the control and manipulation of the firm to attain set objectives while the latter encompasses factors that are outside the control and manipulation of the firm. Marcus [17] also sees the business environment as external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government and the social, political, legal and technological factors, etc. Blurtit [18] also regards the business environment as those conditions and forces which are external to the business and are beyond the individual business unit, but they all operate within it.

2.2 Concept of SMEs in Nigeria

SMEs have been conceptualized in different ways in Nigeria. There is no universal definition given to SMEs by government agencies, researchers and scholars. For instance, the National Council on Industry classifies small and medium scale enterprises in Nigeria with regards to the employed labour force and capital investment [19]. The Centre for Industrial Research and Development (CIRD) defines small and medium scale enterprises as those enterprises with total assets not exceeding two hundred and fifty thousand Naira (N250,000) and employing full-time workers not exceeding fifty (50) people. Also, the CAMA of Nigeria of 1990 defines a small business as one with an annual turnover of not more than two million naira [20] and a net value of not more than one million naira. National Council on Industry defines SMEs as an industry with a labour size of 11-100 workers or a total cost of not more than N50 million, including working capital but excluding

the cost of land. While Medium Scale Industry is an industry with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding the cost of land. The National Association of Small and Medium Scale Enterprises (NASME) defines a small scale enterprise as a business with less than 50 people employed by the enterprise and with an annual turnover of N100,000,000(100 million Naira). NASME further defines a medium scale enterprise as a business with less than 100 employees and with an annual turnover of N500, 000,000 (500 million Naira) [21]. Also, the Central Bank of Nigeria (CBN) and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) define SMEs as any enterprise with a maximum asset base of N200, 000,000 (200 million Naira) excluding land and working capital with the number of staff employed by the enterprise expected to be not less than 10 and not more than 300.

2.3 Concept of Organizational Performance

The organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). It is a broad construct that captures what organizations do, produce, and accomplish for the various constituencies with which they interact. Derek [22] defines performance as the willingness of an individual to carry out the goals and objectives of an organization. Organization performances are, however, defined as a group of people that come together and are willing to carry out goals and objectives and planned or strategize. Organization performance is the ability of a group of individuals to achieve certain specific goals. Organizational performance is the measure of efficiency and effectiveness, with which administrators take advantage of resources to satisfy customers and achieve the goals of the organization. Nancy and Mine [23] on assessing organizational performance stated that most organizations view their performance in terms of "effectiveness" in achieving their mission, purpose or goals. According to Pitt and Tucker [24], organizational performance is defined as "a vital sign of the organization, showing how well activities within a process or the outputs of a process achieve a specific goal". It is also defined as "a process of assessing progress towards achieving pre-determined goals, including information on the efficiency by which

resources are transformed into goods and services, the quality of these outputs and outcomes, and the effectiveness of organizational objectives” [25].

3. EMPIRICAL REVIEW

Prior studies on the relationship between business environment and business performance are reviewed because they are relevant to this study. For instance, Akpoviroro and Owotutu [26] examine the impact of the external business environment on the organizational performance of frozen fish companies in Nigeria. A structured questionnaire was developed to collect information from the respondents based on a sample of 3 companies with 120 sample size. Data collected were analyzed using multiple regression analysis. The study reveals that the external business environment political, economic, and technological and socio-cultural etc...have an impact on organizational performance. The study of Gado [27], examines the impact of the business environment on the performance of the business organization with particular reference to the 20 most capitalized companies in Nigeria. Data analysis was performed with the aid of ordinary least square and simple multiple correlation methods. The study reveals that the variables of the environment have a significant and positive impact on the companies' performance.

In another study, Obasan [28] examines the impact of the business environment on the survival of small scale businesses in Nigeria. logistic regression technique was used to analyze primary data obtained through a structured questionnaire administered to Eighty small scale businessmen and women operators in Ijebu North Local Government area, (Ogun State) South-West Nigeria. The obtained result revealed that the model of logistic regression was able to predict the distribution of 72.15% of the observed values of the dependent variable as factors such as inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival. Similarly, Nnamani and Ajagu [29] also investigate the effect of environmental factors on organizational performance in Enugu Metropolis, Nigeria. A survey method was used and the research instrument for data collection was a structured questionnaire. Data were analyzed using both descriptive and inferential statistics. The study reveals that there was an unsafe and unhealthy workplace environment, poor

motivation, lack of innovation, high cultural interference and allow organizational interpretation process. It goes further to explain the unsafe and unhealthy situation at Juhel which has caused low productivity in the company.

Wael and Raed [30] investigate the impact of environmental dynamism on Marketing Strategy Comprehensiveness and Organizational Performance. A total of (53) managers and head of the section from (60) organizations answered the questionnaire. Results indicate that environmental dynamism has a significant impact on organizational performance and Comprehensiveness Marketing Strategy, Comprehensiveness Marketing Strategy has a significant impact on organizational performance. Results showed that the Frequency of Changes is a superior impact on organizational performance than the Intensity of Changes. In a similar study, Babatunde and Adebisi [31] investigate the impacts of strategic environmental scanning on organization performance in a competitive business environment with particular reference to Nestle Nigeria Plc and Cadbury Nigeria Plc. The opinions of the selected respondents were sought by the use of a structured questionnaire; the collected data were analyzed and interpreted with regression and coefficient of correlation method of analysis. The study shows that strategic environmental scanning has a significant influence on organizational performance.

Based on the above empirical findings, this study, therefore, hypothesized that:

Ho: Business environment has no significant impact on SMEs performance.

4. THEORETICAL FRAMEWORK

This study anchors on Strategic choice theory because the theory considers the interaction between organizational actions and environment. According to De Rond and Thietart [32], the integrative approach of strategic choice theory is of importance and beneficial for strategic management, for instance, by stressing cross-functional cooperation in organizations. Jemison [33] notes that strategic theory assists organization to take cognizant of complex and dynamic environments. In the same vein, Companys and McMullen [34] argues that strategic choice theory depicts the relationship between top management's choices and firm

performance and the overall interaction between environment and organizations. The theory views organizations to be partially influenced by environments and primarily affected by organization management choices.

5. METHODOLOGY

A survey of 153 randomly selected SMEs from three cities in every three senatorial zones of Oyo State as indicated in Table 1. The study sample was drawn from services (hairdressing, tailoring, trading); manufacturing (bakeries, block- making industries, and packaged water production) and farming/ agro-allied (poultry, vegetable bed, goat rear, and palm-tree plantation). The data collection instrument was a questionnaire designed for the study. The reliability and content validities of the research instrument was determined by making use of a test-retest method and experts respectively. Descriptive statistics and Multiple Regression were used to analyze the data with the aid of SPSS version 27.

6. DATA ANALYSIS, RESULTS AND DISCUSSION

Table 2 depicts that majority of the respondents established that environmental changes are continuously exerting new pressures on business performance with a mean value of 4.5135 and standard deviation value of 0.61049. Others in ranked order [high to low] are; intense competition compels SMEs to seek more information about customers' needs., technology changes have posed fear to the survival of our business, stiff competition has been a threat to our business's survival, unsafe and unhealthy situation has caused low productivity, market-technology turbulence and competitive intensity have significant effect on our business performance, changing consumer behaviour and Income have significant influence on our business performance, consumerism serves as barriers to business growth and survival and dynamic and

rapidly changing business environment has helped us to develop and implement appropriate strategies with mean values of. 4.4966, 4.4730, 4.4696, 4.4628, 4.4257, 3.9211 and 2.8596, respectively.

This connotes that the business environment is a major causal factor of SMEs' survival in Nigeria. The study consistent with Akpoviro [26] and Gado [27] that the business environment is a major predictor of business survival. In another study, Obasan [28] reaffirms that the business environment is a germane determinant of SMEs' survival and growth. This finding implies that if the SMEs intend to remain and wax stronger in this global cut-throat business environment, they need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results.

In Table 3 above, the grand mean of 3.81 which is above the criterion mean of 3 shows that respondents agreed that the above-listed items are the environmental factors confronting SMEs in Nigeria. Furthermore, the results show that infrastructural facilities accessibility, financial related problems, technological changes and attitude of people to locally made products are the most environmental factors militating against SMEs survival in Nigeria. The result is similar to the finding of Obasan [28] that factors such as inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival. Equally, Ajayi [35] also confirms that finance, technological changes, and lack of infrastructure are the major environmental factors that bedevilled SMEs growth in Nigeria.

Table 4 reveals that business environment ($\beta = 0.768$; $t = 11.999$; $P < .05$) has significant influence on business performance. The estimated Durbin - Watson value of 1.982 clears any doubts as to the existence of positive first-order serial correlation in the estimated model. The model was constructed to test the null

Table 1. Distribution of sample size

Location	Services	Manufacturing	Farming/Agro-Allied	Total
Ibadan	20	26	18	64
Ogbomoso	16	18	14	48
Oyo Town	10	12	19	41
Total	46	56	51	153

Table 2. Distribution of respondents by the business environment

Statement	Obs	Mean	SD	Rank
Market-technology turbulence and competitive intensity have a significant effect on our business performance.	153	4.4257	.59479	6 th
Stiff competition has been a threat to our business's survival.	153	4.4696	.56965	4 th
Technology change posed fear to the survival of our business.	153	4.4730	.59314	3 rd
Intense competition compels SMEs to seek more information about customers' needs.	153	4.4966	.57636	2 nd
An unsafe and unhealthy situation has caused low productivity.	153	4.4628	.59828	5 th
Environmental changes are continuously exerting new pressures on business performance.	153	4.5135	.61049	1 st
Consumerism serves as barriers to business growth and survival.	153	3.7193	1.20110	8 th
Changing consumer behaviour and Income have a significant influence on our business performance	153	3.9211	1.22036	7 th
The dynamic and rapidly changing business environment has helped us to develop and implement appropriate strategies.	153	2.8596	1.28212	9 th

Table 3. Distribution of respondents by the perceived environmental factors confronting SMEs

Statement	Obs	Mean	Remark
Government policy	153	3.97	Accepted
Technological changes	153	4.07	Accepted
Inflationary trend	153	3.10	Accepted
Infrastructural facilities accessibility	153	4.94	Accepted
Financial related problem	153	4.28	Accepted
Rivalry among the competitors	153	3.89	Accepted
The attitude of people to locally made products	153	4.01	Accepted
Business size	153	3.07	Accepted
Location of Business	153	3.02	Accepted
Grand Mean		3.81	

Table 4. Regression Analysis on Impact of Business environment on SMEs performance

Model		Sum of squares	Df	Mean square	F	Durbin - Watson
1	Regression	20.805	1	20.805	143.980	1.982
	Residual	14.450	151	.144		
	Total	35.255	152			
Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. error	Beta		
1	(Constant)	1.296	.266		4.878	.000
	Business Environment	.718	.060	.768	11.999	.000

a. Dependent Variable: SMEs Performance

hypothesis that the business environment has no significant impact on SMEs performance. The F-statistic of 143.980 indicates that the overall regression plane is statistically significant. Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted. This

finding implies that the business environment is a major predictor of SMEs performance.

7. CONCLUSION AND POLICY IMPLICATION

The dynamic and rapidly changing business environment in which most businesses operate has made the business environment to have a significant impact on organizational survival and performance. This study seeks to examine the impact of the business environment on SMEs' performance in Nigeria with particular reference to Oyo State. The study establishes that the business environment has no significant impact on SMEs' performance. This implies that SMEs need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results. Furthermore, the results also show that infrastructural facilities accessibility, financial related problems, technological changes and attitude of people to locally made products are the most environmental factors militating against SMEs survival in Nigeria. This finding is similar to the previous studies that factors such as inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival.

This finding implies that government should do the needful in terms of provision of infrastructural facilities and implantation of National Financial Inclusion Strategy (NFIS) of making sure that a financial system is accessible to all Nigerian adults, at an inclusion rate of 80%, and to promote the country's economic growth.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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