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EFFECT OF ENVIRONMENTAL FACTORS ON SMALL AND MEDIUM SCALE ENTERPRISES PERFORMANCE IN ABEOKUTA SOUTH, OGUN STATE, NIGERIA

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Abstract

This study dealt with policy options for growth and development. It examined effect of environmental factors on small and medium scale enterprises performance in Abeokuta South, Ogun State, Nigeria. A well-structured questionnaire was designed to obtain relevant information from 240 respondents chosen through stratified sampling techniques and for the analysis, logit regression was employed. Using the regression model, the research analyzed the determinants of environmental factors on small and medium scale enterprises performance. It identified that environmental factors influenced by gender, age, education and marital status. The results revealed that businesses have no direct control or influence over their external environment, unlike their internal environment. Also, shows that management, capital, labour, competition, government regulation and environmental uncertainty affect SMEs performance in term of their profit generation. Based on this it was recommended that in order to achieve significant positive contribution of SMEs sector to economic development, government should create enabling environment for both existing and potential investors in the sector, this can be done through improvement of infrastructural facilities and formulation of policies favourable to SMEs.

Introduction

Improving small and medium scale enterprises (SMEs) performance is a major concern because they are significant source

for creating value added, unemployment, innovation and economic growth. Despite the vital role of SMEs in building a

competitive private sector and contributing significantly to economic growth and job creation, small and medium scale enterprises are facing more challenges around the world in general and in developing countries in particular. Likewise, Nigeria small and medium scale enterprises face numerous and serious challenges to their growth and this include the cumbersome legal and regulatory constraints, lack of access to external financing, marketing, poor infrastructure especially power supply, low human resources capability, lack of management skills and training and low technology capabilities (Bouazdzal, Ardjouman & Abada, 2015).

The Nigeria business environment has been changing drastically than ever before and managers along with the entrepreneurs must reposition their organizations in order to meet viable change outcome. However, Nigeria is one of the remains preferred business destinations for investors across the world base on its large array of human and material resources (Ananaba & Chukwuka, 2016).

Today, the modern business managers operate in a more dynamic and turbulent environment because the changes in the environment has been rapid and unpredictable. Moreso, the economic factors have been complex both in form and impact on the practice of business in Nigeria. Consumers and clients have been showing different behaviours both in local and international markets. The most common dramatic change has been those exhibited by competitive pressures. Competitors although, have been applying one or more strategy to adapt to the dynamic and unpredictable nature of the business environment.

The dynamic environment in which a business operates ensures opportunities for it to grow, develop and create value and wealth. Although, it also poses some threats to the business. The basic primary concern is how the business affects people and natural environment as it produces and sells commodities necessary to satisfy customers, stakeholders and other constituents. By building the key stakeholder relationships among government agencies, consumer entities, environmental groups and other constituents, a business can anticipate and manage problems and concerns that might otherwise have occurred undetected until they had grown into major issues (Rainey, 2008). These show the complete analysis of how both external and internal environment influences the business.

Statement of the problem

In Nigeria for instance, small and medium scale enterprises have not performed to their expectation. Hence, they have not exercised their expected significant in the economic growth and development of the country (Arinaitwe, 2006). This situation has been of great concern not only to the government but also, citizenry, operators, practitioners and the organized private sector. The governments whether at Federal, State and even Local levels from time to time have been through policies, pronouncements and budgetary allocations have signified interest and acknowledgement of the crucial role play by SMEs in the economy and hence made policies for energizing their operations for future development. The policies include fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutions all geared towards making the SMEs important.

There are many effects of environmental factors on small and medium scale enterprises in Nigeria which have hindered the creditable performance and vibrant role in the economic growth and development of Nigeria. The effect of environment factors on SMEs differ from one situation to another in that the environment suitable for the growth of a particular business may be hostile to the survival of another enterprise. In view of this, it therefore pertinent to examine effect of environmental factors on small and medium scale enterprises performance in Abeokuta South, Ogun State Nigeria.

Theoretical Review

One of the theories relevant to this study is the system approach which has its origin attached to Austrian Biologist, Ludwig Von Bertalanffy (1956). The system postulated the need for organization to interact and operates in an open system rather than a close system. Therefore, a system is seen as an organized whole comprising of several subsystems for effective functioning (Chikere & Nwoka, 2015; Tafamel & Adekunle, 2016).

System dynamism will give room for free interactions and as well overlap with other system to exchange information with the environment. Emphatically, the application and utility of system approach to this study is predicated on the understanding that no business organization can operate in isolation but rather than interact with other elements in the environment to achieve the desired goals and objectives because organizations usually obtained human and material resources (man, money, machine, material) from the environment, transformed them into finished good and invariably sent back to the

environment for human consumption and economic development.

Therefore, for micro, small and medium scale enterprises to operate successfully in any given economy, cognizance must be given to the elements of economic, political, socio-cultural and technological factors that have been considered to have profound effects on their immediate and future survival.

The systems theory treats businesses as open systems, meaning they exist in an environment and must make constant adjustments to survive in that environment, just like a living organism. Systems theory refers to all interactions with the outside environment as energizing processes. For example, the process of market research provides feedback about the effectiveness of the company's efforts. Trade shows and other forms of professional interaction with peers outside the company also provide feedback. If the company does not have access to feedback, it could not compete effectively.

Empirical Review

Several researchers have explored either directly or indirectly the influence of business environmental factors on the survival of small and medium scale enterprises in Nigeria and some of their findings are documented below. For instance, Obasan (2014) examined the impact of business environment on the survival of small scale businesses in Nigeria and found a significant relationship between business environment and the survival of small scale businesses.

The study therefore concluded that inflationary trend, competition, inadequate infrastructural facilities and poor government policies, changing consumer

behavior are the major bane of small scale business survival in Nigeria. Meanwhile, the major deficiency identified in this study is the methodological gap wherein the study fails to explain in detail the adequacy of the study sample size due to inadequate information about the study actual population.

Similarly, Oginni and Adesanya (2013) investigated business environmental factors and its implication on the survival of business organization mostly in the manufacturing company of Lagos metropolis among 550 respondents using random and purpose sampling and found that one of the greatest challenges of organizational survival most especially in the manufacturing industry is infrastructural facilities but identified electricity as the most important factor in the survival and growth of business organization from which its poor supply has constantly led to the relocation of manufacturing industries to neighboring countries.

Adeoye and Elegunde (2012) investigated a study on the impact of external business environment on organizational performance in the food and beverage industry in Nigeria and found that macro environmental forces such as political, economic, socio-cultural and technological environment have a great and significant impact on organizational performance. The study further concluded that organizational effectiveness, efficiency, increase sales can only be guaranteed through proper and continuous scanning of macro environmental forces and provision of enabling environment for the smooth running of businesses in Nigeria.

Essien (2014) carried out study on Nigerian business environment and growth constraints of micro and small scale

manufacturing industries in Akwa Ibom State Nigeria, there, he considered infrastructural facilities, high interest rate on loan, absence of monetary units in bank along with absence of credit facilities as the bane of micro and small scale manufacturing industries but revealed further that infrastructural facilities is a dominant factor among factors that hinders the growth of micro and small scale manufacturing industries in Nigeria. This study was in coincide with Obasan (2014), Oginni and Adesanya (2013), Adeoye and Elegunde (2012).

Ayedun and Awoyemi (2014) stated that the survival of micro, small and medium scale enterprises depends on enabling and conducive business environment that is properly regulated by government through provision of stable power supply and abolishing of multiple taxation currently perceived as barrier to the survival of micro, small and medium scale enterprise in Nigeria. The study therefore found a positive correlation between environment and survival strategy of micro and small scale manufacturing industries in Nigeria.

Mark and Nwaiwu (2015) obtained data on twenty-seven multinational companies in Nigeria on the impact of political environment on business performance and found that there is a significant relationship between the country's political environment and business performance but political instability and violence has created a very volatile business atmosphere and makes the environment unbearable for businesses. It was therefore recommended that government should avoid frequent changes in policies and programmes that impinge on building a virile environment for business survival.

In a very recent study conducted by Odumbakun, Alao, Dairo, & Oba - Abimbola (2017) they examined the role of political marketing environment on business survival and growth among manufacturing companies in Nigeria and equally found that constant and sincere payment of taxes along with total compliance with government regulatory framework by organizations is the only way out to spur government to provide infrastructural facilities and other developmental programmes useful in creating enabling environment for businesses to survive.

Fatoki, (2011) evaluated impact of social, financial, and human capital on the performance of SMEs in South Africa. Questionnaires were used as the method of data collection, and ordinary least square method was used to test the hypotheses generated from study. The result of the research work revealed that there is positive relationship between environmental factors and SMEs performance.

Chittithaworn, Islam, Keawchana & Yusuff (2011) in their work, studied factors affecting business success of small and medium scale enterprises (SMEs) in Thailand. The result of the study revealed that SMEs characteristics, customer and markets, the way of doing business and operation, resources and finance, and external environment have a positive and significant effect on the business success of SMEs in Thailand.

Methodology

The study was carried out in Abeokuta South, Ogun State, Nigeria. Both questionnaire and interviewed techniques were used for data collection from 240 respondents chosen through stratified sampling techniques. In analyzing the data,

Logit regression was employed in addition to conventional descriptive statistics such as tables, frequency distribution and percentages.

Model Specification

In order to test the above hypotheses, the relationship between the dependent variable (Performance) and the explanatory (independent) variables (Age, Education, Gender, internal environment, and External environment) was estimated in the following models specified

The model is in explicit form:

$$Y = f (X_1 X_2 X_3 \dots X_n) + e$$

where

- Y = Performance (Profitability)
- X₁ = Age (years of existence)
- X₂ = Level of Education (formal (1) informal (0))
- X₃ = Gender (Dummy variable, male (1) female (0))
- X₄ = Internal environment (Yes (1) No (0))
- X₅ = External environment (Yes (1) No (0))
- U_i = error term

Results and Discussion

The distribution of these variables that are expected to have important implications for effect of environmental factors on small and medium scale enterprises is presented in Table 1. About 42% of the respondents were male while 58% were female. This shows that female respondents were generally more than their male counterpart. The Table 1, also shows that 13% of the respondents were less than age of 25years. 50% were within 26 – 45 age group, while 33% were between 46 – 55 years age cohort, and just about 4% were

more than 56 years old. This revealed that the population sampled was predominantly middle aged. This age – groups are known to be energetic and strong to display their entrepreneurial skills to and therefore expected to exploring business opportunities.

The result of the educational status of the respondents is in Table 1. Thirteen percent had primary education, 60% had post primary education, 33% had vocational/Technical education while the remaining 4% had attended either polytechnics or Universities. The distribution

clearly reveals that, all the respondents (100%) had acquired one level of education or the other. This presupposes that they were generally able to appreciate the need to make use of wealth experience for business improvement and productivity.

In respect of their marital status, about 77% were married while 23% were single. This implies that, the married are more likely to be relatively stable, making financial institutions to view them as more reliable and makes them more likely to be committed to work compared to the unmarried.

Table 1: Frequency and Percentage Distribution of Respondents by their demographic characteristics *N = 240*

Demographic characteristics	Frequency	Percentage%	Cumulative
Gender			
Male	100	42	42
Female	140	58	100.0
Age			
Less than 25	30	13	13
26 – 45	120	50	63
46 – 55	80	33	96
56 above	10	4	100.0
Educational Status			
Primary	30	13	13
Post primary	145	60	73
Vocational/Technical	55	23	96
Tertiary	10	4	100.0
Marital status			
Single	70	33	33
Married	170	67	100.0

Source:Field Survey, 2021

Table 2: Effect of Environmental Factors on Small and Medium Scale Enterprises Performance

Table 2, shows regression of effect of environmental factors on SMEs performance. The result of regression model shows that Table 2 has coefficient of variables that were statistically significant at 5% probability levels. The variables were education and internal environment and external environment. Education (2.62) positively affects profitability of SMEs

positively. This implies that an increase in the level of the education of the owners the greater the level of their profitability and which eventually leads to high productivity level in the enterprises, which invariably increases the enterprises growth and sales volume which has a positive effect on the realised profit.

Moreso, the relationship between internal environment (management, capital, labour, member participating) and profitability was positive and significant (2.55). This result implies that the higher the level of reasoning of the owners of the enterprises to have maximum control over the above stated variables in terms of internal environment the greater the level of their profitability this is because the longer the period of the owners of the enterprises to have control over internal environment the greater the opportunity for the owners to gather momentum to secure more income which will be used to increase the level of their productivity and stood as sign of growth and development and this will enable owners to generate the required profit because the level of market share has increased tremendously based on control internal environment in the enterprises.

For – instance, insufficient capitals, uneasy access to funding, poor management, and inefficiency of member participating are among the challenges facing SMEs (Basil, 2005) and Alarape (2007). The relationship between external environment and profitability are positive and significant (3.47). This result implies that the higher the rate of access of owners of the enterprises to have control over external environment the greater the opportunity to make required profit. In a recent representative study on failure of young German firms, three main causes for young-firm failure are made out by Egelin, Falk, Heger, Hower & Metzger (2010), among which include problems with the demand. A business failure may happen as a result of inability to compete with other similar businesses, (Wu, 2010).

Table 4.3.1: Regression of Environmental Factors on Small Scale Enterprises Performance
Dependable variable: Profitability

Explanatory variable	Coefficient	Std. Err.	Z	p>/z/	(95% conf.)	Interval
Education	1.52e – 11	1.3472211	2.62**	0.001	.1342432	.1213371
Age	2.09e – 11	1.1220217	0.101	0.201	.3312342	.3722331
Internal Environment	1.01e – 11	0.2341334	2.55**	0.000	.2343421	.4612427
External Environment	.1455211	.05423433	3.47***	0.000	.02612413	.3124821
Ownership	0.2	0.2165032	1.00	0.027	.0133171	1.106211
Constant	4.12.e – 11	.56115432	0.00	1.000	.6378252	.6317251
Number of Obs.	100					
F (15, 45)	13.61					
Prob. > F	0.0000					
Pseudo R2	0.7132					

Source: Field Survey, 2021

** Significant at 5%

*** Significant at 1%

Conclusion and Recommendations

This paper has analysed and appraised business external and internal environments, with specific reference to

the Nigerian small and medium scale enterprises environment. The analysis has shown that both external and internal environmental factors exert influence on

and shape the life, growth and development of the enterprises. It has also shown that external environment and its factors bear more relevance to business strategic management. Specifically, the analysis has shown that businesses have no direct control or influence over their external environment, unlike their internal environment.

Based on this, it was therefore recommended that in order to achieved significant positive contribution of SMEs sector to economic development, government should create enabling environment for both existing and potential investors in the sector, this can be done through improvement of infrastructural facilities and formulation of policies favourable to SMEs.

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