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ENVIRONMENTAL FACTORS AND SMES' PERFORMANCE IN OGUN STATE, NIGERIA

The effect of environmental factors has engendered a lot of debate in the existing literature. This study examines the effect of environmental factors on SMEs performance in Ogun State, Nigeria. The study is premised on the dimensions of environmental factors, which are employees, shareholders, government support and competitive pressure. Survey research design, comprising of 218 business owners in Ijebu Ode and Ago-Iwoye, Ogun State, Nigeria was employed. The F-statistics (Fc = 32.931; P = 0.000) shows that environmental factors are strong determinants of SMEs performance. The findings further revealed that shareholders (Tc = 3.041; P < 0.05) and competitive pressure (Tc = -2.753; P < 0.05) are the critical factors determining SMEs performance in Ogun State, Nigeria while employees and government support are also significantly related to the performance of SMEs. Hence, business owners should pay more attention to the environment factors as well as competitive pressure and shareholders since these are the most critical measures of the environmental factors determining the performance of SMEs in Ogun State, Nigeria.

Keywords: employees, shareholders, government support, competitive pressure, SMEs performance.

1. INTRODUCTION

Environmental factors (internal, intermediate or external) are critical issues that shape and will continue to shape organizations. Whether a business is micro, small medium or large scale and irrespective of the product the firm offers (goods or services) the business entity naturally operates in an environment. These environmental factors present opportunities and threats that every organization must find a means of coping with in order to achieve their stated objectives. It is therefore pertinent for business organizations to take cognizance of these environmental opportunities and threats irrespective of their goals and aspirations. Thus, managers must identify, analyze and respond appropriately to emerging environmental challenge because of their wide impact on the performance of the organization.

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The business environment can be explained in terms of internal (micro) and external (macro) environmental factors. The internal environment can be controlled by managers and entrepreneurs to some extent while the external elements are highly uncontrollable by businessmen or the organization (Ogunmuyiwa, 2022). Business environment can be explained using the 'SWOT' analysis which simply means strength and weaknesses, opportunities and threats. Strengths and weaknesses are related to internal factors and opportunities and threats are looked at from the macro (external) environmental perspective. In the words of Abubakar, (2018), the relationship between a firm and its environment should be healthy to promote the firm's success.

Small and medium enterprises (SMEs) are vital for economic development of emerging and developing countries. Small-scale enterprises are no doubt the engine room for economic growth, poverty alleviation, job creation and by extension crime rate reduction in third world countries. As put by Nuwagaba, and Nzewi (2013), most of the existing SMEs employ less than 20 workers which comprise mainly of family members and part of the shortcomings is that they seldomly expand by employing more workers and opening other branches,

Several past works have studied the relationship between environmental variables and SMEs development on one hand as well as environmental factors and SMEs performance on the other (Arsalan, Arfan, Rohail, 2020; Eze, Ojo, Adedeji, Nwaba, 2019; Tahir, Inuwa(2019; Olakunle, Timothy, Yusau, 2018; Jasra, Asifkhan, Hunjra,Rehman I-Azam, 2011). However, few studies have been done on the effect of environmental factors (employees, shareholders, government support and competitive pressure) on SMEs performance in Ogun State, Nigeria. Sequel to the above, this study fills this gap by investigating the impact of environmental factors on SMEs performance in Ogun State, Nigeria. Arising from the objective, the study hopes to test the following research hypotheses:

$H0_1$: Employees do not have significant impact on SMEs' performance in Ogun State, Nigeria.

$H0_2$: Shareholders have no significant effect on SMEs' performance in Ogun State, Nigeria.

$H0_3$: Government support does not contribute significantly to SMEs' performance in Ogun State, Nigeria.

$H0_4$: Competitive pressure has no significant impact on SMEs' performance in Ogun State, Nigeria.

$H0_5$: Environmental factors (employees, shareholders, government support and competitive pressure) have no combined effect on SMEs' performance in Ogun State, Nigeria.

The remaining part of the study is broken down into four (4) sections. Section II, centers on the review of relevant past studies while section III is on the methodology and section IV discusses the empirical results. Section IV concludes the study and proffers recommendations.

2. REVIEW OF PAST STUDIES

Olakunle, Timothy, and Yusau (2018) examined the relationship between environmental variables and the performance of micro and small scale enterprises (MSEs) in Ikare and Ugbe in Akoko North East of Ondo State, Nigeria. Findings from the results showed that environmental variables (inadequate finance, inadequate infrastructure and poor managerial skills) have a significant but negative relationship with SMEs performance.

Jasra, Asifkhan, Hunjra, Rehman and I-Azam (2011) analyzed the determinants of business success of SMEs in Pakistan and asserted that funds, marketing strategy, government support, technology and entrepreneurial skill have a positive and significant impact on business success. In a similar study conducted by Drbie and Tilaye (2013), they found out that the major factors affecting small business in Ethiopia include scarcity of raw materials, deficit of infrastructural development, and insufficient access to funding, as well as insufficient support from governmental and non- governmental organizations.

Eze, Ojo, Adedeji and Nwaba (2019) examined the impact of business environmental factors on SMEs survival in Oyo State, Nigeria. The study identified and employed three business environmental factors (Business development support, infrastructural facility and regulatory service). The study concluded that environmental elements play a significant role in enhancing SMEs survival in Oyo State, Nigeria. Specifically, the study concluded that business development support and infrastructural facility are the most critical elements of business environment driving SMEs survival in Oyo State, Nigeria.

Idris and Farrah (2019) investigated the influence of environmental problems and challenges of small-scale business in Bauchi Central Market using descriptive analysis and regression analysis. Findings showed that lack of easy access to credit facilities, multiple taxations, poor market competitive advantage and low volume of sales are the elements determining the performance of small-scale business in Bauchi Central Market.

Salisu, Momoh and Uba (2019) analyzed the environmental factors affecting small and medium enterprises in Kogi State, Nigeria. A survey research design was adopted which covered 171 SMEs. The findings revealed that business strategy has a significant but negative on profitability of SMEs. Arsalan, Arfan, and Rohail (2020) investigated the impact of e-commerce on small and medium enterprises performance. The empirical finding showed that competitive pressure and management support have a positive and significant relationship with e-commerce. Also, Ozoh, Okeke and Jacobs (2020) investigated the impact of environment on performance of SMEs in Anambra State, Nigeria. A sample of 304 was drawn from a population of 1393 SMEs in Anambra using a structured questionnaire. The regression result showed that economic, financial, technological as well as political factors have significant effect on small and medium enterprises profitability.

Friday (2020) examined the influence of environmental variables on productivity in oil service firms in Port-Harcourt, Rivers State, Nigeria. Survey research design was used for the study. A sample of 330 was drawn from a population of 1875 employees in 20 oil companies. Using regression analysis, the study affirmed that technological, economic political environmental factors have significant impact on oil service firm's productivity in the area of study.

Ali, Awad and Abduilsalam (2020) while investigating the factors affecting the performance of small-scale enterprises with particular reference to construction firms used focus group participation to identify 82 measures grouped into internal and external measures. Empirical findings showed revealed the basic variables influencing performance of small-scale enterprises such as lack of experience and track records, financial indiscipline by contractors, corruption, multiple taxation, lack of entrepreneurship skills, delay in payment for work done and poor policy by commercial banks on SMEs.

Also, Abraham (2021) while analyzing the impact of external environmental factors on performance of micro and small scale enterprises using 395 Micro Scale Enterprises (MSEs) owners working in manufacturing, trade and service sectors found out that a positive and significant relationship exist between external environmental factors and

industry performance in the study area. In addition, the study specifically found infrastructure, marketing factors, work premises, trade fair factors and financial factors as variables having significant effect on enterprises' performance while political/legal factors do not influence performance of industry in the chosen area.

In addition, Ogunmuyiwa (2022) investigated the influence of business environment on the performance of ICT firms in Lagos State, Nigeria. Survey research design and purposive sampling technique were employed to select a sample of 156 from a total population of 257 employees drawn from Zinox Technologies and Spectranet Nigeria Limited. Data was collected from the two firms through a 5-point Likert rating questionnaire administered to the selected ICT firms. Empirical findings from the O.L.S regression technique revealed that all the explanatory variables (infrastructural environment, insecurity and political environment) are the critical variables determining fluctuations in ICT performance in Nigeria.

3. METHODOLOGY

The study adopts survey research design. The design is suitable for this study as it helps to evaluate the effect of business environmental factors on SMEs survival in Ogun State. The study's population includes all the SMEs operating in Ogun State. According to Business List, Nigeria (2021), the total population of SME operators in Ijebu Ode and Ago- Iwoye, Ogun State, Nigeria is 481 enterprises. The study employed Yamane (1967) sample size formula at 95 % confidence level and margin of error of 5% in arriving at a sample size of 218. Hence, it focuses on the chief executives or owners of SMEs in Ogun State. The reason for choosing the chief executives or owners of SMEs is because they are the major decision makers in SMEs operational activities.

Using a structured questionnaire designed in close ended pattern which was administered directly on the selected operators of small and medium enterprises, the questionnaire was divided into two sections. Section A of the questionnaire captures the demographic data of the respondents, such as status and nature of business while section B addresses the research objective on a 5-point Likert rating scale measurement.

The validity of the instrument was done using content validity index (CVI). The assessors evaluated the instrument on a two-point rating scale (relevant and not relevant), after which the content validity index formula was employed.

$$CVI = n/N \qquad (1)$$

Where: n = numbers of items rated as relevant and N= total number of items in the instrument.

This gave a CVI value of 0.896, which indicated that the instrument is valid.

The test-retest method was employed to test the internal consistency or reliability of the instrument (questionnaire) through a pilot study. The instrument was administered on Thirty-Six (36) SMEs in Ijebu Ode and Ago- Iwoye, Ogun State, twice within an interval of two weeks, which gave a correlation coefficient of 0.8072 indicating the reliability of the instrument.

3.1. The model

The models for this study are stated in simple behavioural forms below:

$$SMEP = \alpha_0 + \alpha_1 EMP + \mu \tag{2}$$
$$SMEP = \beta_0 + \beta_1 SH + \mu \tag{3}$$
$$SMEP = \gamma_0 + \gamma_1 GS + \mu \tag{4}$$
$$SMEP = \delta_0 + \delta_1 CP + \mu \tag{5}$$

Where $\alpha_0, \beta_0, \gamma_0$ and δ_0 are constant parameters while $\alpha_1, \beta_1, \gamma_1$ and δ_1 are the slopes of the equation parameters to be estimated.

For the multiple regression equation for the combined effect of environmental factors on SMEs performance, the behavioural equation is presented thus:

$$SMEP = \beta_0 + \beta_1 EMP + \beta_2 SH + \beta_3 GS + \beta_4 CP + \mu \tag{6}$$

Where $\beta_0, \beta_1, \beta_2, \beta_3$ and β_4 are the parameters to be estimated.

SMEP = SMEs Performance; EMP = Employee; SH = Shareholders;

GS = Goverment Support and CP = Competative Pressure.

In a − priori terms, EMP, GS and CS are all expected to be positive while CP is expected to exhibit a negative relationship with SMEs performance.

$$Thus, \beta_0, \beta_1, \beta_2\ \beta_3 > 0\ and\ \beta_4 < 0 \tag{7}$$

4. RESULTS AND FINDINGS

Table 1. Multiple Regression Analysis of Environmental Variables and SMEs Performance

Dependent Variable: SME Performance

Variables	Beta	Std Error	Standardized Coeff Beta	Tc	Sig
Constant	4.706	0.289		16.295	0.000
Employees	-0.510	0.063	-0.567	-8.167	0.000
Shareholders	0.202	0.066	0.184	3.041	0.003
Government Support	-0.352	0.072	-0.299	-4.916	0.000
Competitive Pressure	-0.123	0.048	-0.171	-2.573	0.011
R = 0.639	$R^2 = 0.408$	Adj. $R^2 = 0.396$	F-Statistics = 32.931	Prob (F-stat) = = 0.000	

Source: Authors' Computation from Regression Output, 2022.

Results from Table 1 show that the constant term, competitive pressure and shareholders are correctly signed in line with the a-priori expectation while the coefficients of employees and government support negate theoretical expectations. For employees, the T-statistics of (Tc = -8.167; P < 0.05) confirmed the significance of the explanatory

variable. Thus, the H_{O1} is equally rejected. Shareholders and government support also showed significant relationships (Tc = 3.041; P < 0.05) and (Tc = -4.916; P < 0.05) respectively. These also led to the non-acceptance of the two hypotheses H_{O2} and H_{O3}. The T-statistics results revealed that competitive pressure with a negative relationship is significantly related to SME performance (Tc = -2.753. P < 0.05) at 5 % significance level and thus the null hypothesis (H_{04}) is rejected.

The adjusted R^2 of 0.396 showed that 39.6 percent variation in SME performance is responsible for by the combined effect of all the four (4) explanatory variables (employees, shareholder, competitive pressure and government support). The F-statistics (Fc = 32.931; P = 0.000) also revealed the significance of the regression equation and the parameter estimates in the model at less than 5 percent.

4.1. Discussion of findings

Hypothesis 1 shows that employee has a significant outcome and this indicates that employees contribute significantly to the variation in SMEs performance in Ogun State, Nigeria. It can be inferred that SMEs should be more concerned about their employees because they contribute to the performance of the business through their skills and experience. Hypothesis 2 indicates a positive and significant outcome and this implies that shareholders or business owners contribute significantly to SMEs performance in Ogun State, Nigeria. The findings negate the argument of Olakunle, Timothy, and Yusau (2018) who submitted that majority of SMEs are not well financed by the owners or shareholders. Hypothesis 3 also revealed a non-significant outcome which implies that government support does not contribute significantly to the performance of SMEs in Ogun State, Nigeria. The result of the analysis supports the findings by Jasra, Asifkhan, Hunjra, Rehmanand I-Azam (2011), who opined that government support (top management support) have significant and positive effect on business success.

Hypothesis 4 indicates that competitive pressure has significant contribution to the variation in SMEs performance. The result of the analysis confirms the opinions by Jasra, Asifkhan, Hunjra, Rehman and I-Azam (2011) who are of the view that competitive pressure has a positive and significant impact on the use of e-commerce. This means that for SMEs to survive on the long run there is need to focus on how to satisfy their customers in order to outwit their competitors in the marketplace. Hypothesis 5 findings revealed the combined effect of employees, shareholders, government support and competitive pressure which equally showed a significant effect on SMEs performance in Ogun State, Nigeria. The outcome of the analysis confirms the argument of Arsalan, Arfan, and Rohail (2020); Olakunle, Timothy, and Yusau (2018) and Jasra, Asifkhan, Hunjra, Rehman and I-Azam (2011) who are of the view that environmental factors are critical determinants of SMEs performance. Consequently, the study further revealed that the dimensions of environmental factors individually contribute to SMEs performance. Additionally, it was found that employees and competitive pressure serve as the engine that drives the performance of SMEs which give them an edge to compete with other competitors in the marketplace leading to greater market share profitability.

5. CONCLUSION AND RECOMMENDATIONS

The study establishes that environmental factors are a significant driver of SMEs performance in Ogun State, Nigeria. Understanding the dimensions of environmental factors (employees, shareholders, government support and competitive pressure) is the key

to providing services which have capacity to bring about positive changes in SMEs performance. In addition, going by the expected theoretical expectations, competitive pressure and shareholders are the critical environmental variables explaining movements in SMEs performance. Arising from the above, business owners should pay more attention to their environment as this will increase their business capacity to tailor their products towards meeting the specific needs of the customers and creating a new and exciting experience. Business owners should be more concerned about their competitive pressure and shareholders since these are the most critical measures of the environmental variables determining SMEs performance in Ogun State, Nigeria.

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