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IMPACT OF ENVIRONMENTAL FACTORS ON BUSINESS PERFORMANCE IN KWARA STATE, NIGERIA

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Abstract

It has been argued that more than 70% of SMEs go into extinction within first five years of establishment. Despite their contribution to the economy, high mortality rate amongst them is great concern to all stakeholders. Therefore, the main purpose of this study was to determine the impact of environmental factors on the performance of SME. The population of this study was 2703 SMEs in Ilorin. The study adopted purposive sampling technique to select a sample size of 336. Data was analysed using both descriptive and inferential statistics. The hypothesis was tested using both regression and correlation. The result of the analysis reveal that: (i) with the result of hypothesis one ($R = 0.747$, $R^2 = 0.558$, $(0.000) < 0.5$). This implies that 55.8% variation in the dependent variable (Efficiency of SMEs) is caused by the independent variables (Employees' competencies). (ii) while hypotheses two result indicate $R(325) = 0.125$, $p = 0.024 < 0.05$. This revealed that a positive relationship exists between technological advances and innovativeness of SME, which is significant at p-value of 0.024. (iii) and lastly for hypothesis three result ($R = 0.855$, $R^2 = 0.732$, $(0.000) < 0.5$). This implies that 73.2% variability of the dependent variable (Sustainability of SMEs) is accounted for by the independent variables (Economic factors). The study concluded that employees' competencies, technological advances and economic factors are key determinants of SME performance. It is therefore essential for SMEs to put their business environment into consideration in their strategic management planning in order to survive the complexity and dynamism of the environment.

Keywords: Environmental factor; Performance; Innovativeness, sustainability, SME

Introduction

The accomplishment of an organization largely depends on how well it explains, apprehends and faces vicissitudes in its environments. No business can operate in isolation without having to depend on various factors, bodies and institutions. This means that organizations cannot exist in a vacuum, there is constant interaction between business environment and the business itself. This interaction enables business to make use of the available resource in the environment such as human resource, material resource and machinery.

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The concept of organizational performance can only be understood if the variables that constitute environmental factors are well recognized. These variables include customers, competitors, suppliers, distributors, substitutes, government, the economic, demographic, social and cultural factors. Others are innovations and technological steadfastness (Nnamani & Ajagu, 2014). These factors could be internal to the organization or external. Therefore, examining the environment of business is essential for the survival, growth and performance of any business especially the Small and Medium Scale Enterprises (SMEs).

SME in any country serves as a major basis of employment, competition, economic dynamism and innovation which arouse the entrepreneurial spirit and the integration of skills. Although smaller in size, they are the most important enterprises in the economy due to the fact that when all the individual effects are aggregated, they surpass that of the larger companies. Being highly innovative, they lead to the utilization of natural resources which in turn translates to increasing the country's wealth through higher productivity.

However, the environment of a business has a far-reaching or greater impact on its success, survival and growth. In view of these, SMEs need to adapt to the complexity and dynamism of their environment for their survival being the ground upon which their continuous performance is based. And this adaptation will no doubt, help SMEs exploit the rich opportunities inherent in their environments. It is against this background that the study examined and assessed the impact of environmental factors on the performance of small and medium scale enterprises in Kwara State, Nigeria.

Statement of Problem

In recent time, most SMEs are born out of individuals or groups of individuals that have vision to operate or run prosperous businesses. These individuals may be coming from various backgrounds with no exposure to any managerial knowledge or skills. Low performance of SMEs therefore is questionable on the incompetence of employees in areas such as knowledge, skills and ability. The development of technology over the years has contributed to the noticeable development in the business sector. However, SMEs find it difficult and most times fail to upgrade to the advances recorded in technology because of limited financial resources. The affordability of these technological advances needed by SMEs, and their availability are therefore considered a problem. Small and medium scale enterprises operate in economic environment characterized with macroeconomic factors such as inflation rate; exchange rate and interest rate interact on a regular basis in predicting their performance.

Objectives of the Study

The broad objective of this study was to examine the impact of environmental factors on the performance of Small and Medium Scale Enterprises in Kwara State, Nigeria. The specific objectives were to:

i. Determine the extent to which employee competencies affect the efficiency of small and medium scale enterprises.

ii. Ascertain the relationship that exists between technological advances and innovativeness of small and medium scale enterprises.
iii. Determine the impact of economic factors on the sustainability of small and medium scale enterprises.

Literature Review

Concept of Business Environment

Environment in management does not only mean the physical surrounding, but it extends to factors and forces that have effects on business effectiveness. Managers must respond to these forces in a way that maximizes their resources to exploit the opportunities and manage the threats all to pursue their objectives. The ability of managers to adapt to the changes in the environment determines how effective they will be in the achievement of their goals and objectives.

Essie (2012) defined business environment as the set of norms and ethics, legal and governing frameworks, and the overall policy conditions that set rules for conduct of business, and influence positively or negatively the outcome of markets, the flow of investment, factors of productivity and the cost of doing business. These can both be from both internal and external settings and affect the smooth operation and function of an organization.

Oginni & Adesanya (2013) defined business environment as the combination of many factors both tangible and non-tangible elements that provide lifeblood support for the organizational success through provision of market for its products and services and also by serving as a source of resources to others. Therefore, the environment of a business is the aggregation of the pattern of all the external and internal conditions and influences that affect the existence, growth and development of the business.

In this work, business environment will be defined as the factors, forces and influences that are within or without the control of the business, external or internal to the business that affect the operation of the business either in the posing of threats, offering of opportunity and regulation of operations.

Classification of Business Environment

Eruemegbe (2015) classified business environment into:

i. Internal Environment
ii. External Environment: (Direct/Task Environment and Indirect/General Environment).

1. The Internal Environment

The internal business environment comprises of factors within the company which impact the success and approach of operations. An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which define employee behaviour, capital, personnel, profit, procedure, policy, structure, objective etc. These factors are largely the

result of decisions of the management process, most times under management control. The internal environmental factors according to Nnamani et al. (2014) include: Value system, Management structure and nature, Mission and objectives, internal power relations, Marketing, Finance, Production/operations, and Human resources.

2. The External Environment

The external environment is the source of inputs for organisation's which they take through transformation process to produce output; these outputs are in turn given back to the environment of the business. The External environment of business cannot be controlled by business and they are sources of threat and opportunities to organisations.

An overall assessment of the conditions that affect firms today indicates that for most organizations, their external environment is filled with uncertainty. To successfully deal with this uncertainty and achieve strategic competitiveness in order to thrive, firms must be aware of and fully understand the different manifestations of the external environment (Welch & Welch, 2005).

However, by classification, the external environment of business can be classified into task/micro and general/macro environment.

1. Micro/Task Environment

The environment which is closest to organisations and affects their operations is known as task/micro environment. This environment consists of individuals, groups or entities that affect business directly and are directly affected by business operations and performance. They include customers, competitors, suppliers, market intermediaries, labour, regulators etc. These individuals, groups or entities are independent of the organisations. Although completely external to business organisations, they have impact on their activities.

2. Macro/General Environment

Macro environment is also known as general environment. Macro environment refers to those factors which are external forces in the company's activities and do not concern the immediate environment. The macro forces are generally, more uncontrollable than the micro forces, and the company is powerless and incapable of exercising any control over them. According to Nwaeke (2013), macro environment can be classified into:

i. Political/legal environment
ii. Economic environment
iii. Socio-cultural environment
iv. Technological environment

Concept of Small and Medium Scale Enterprises (SMEs)

There is no universal definition for small and medium enterprises (SMEs). Each country tends to adopt definitions based on the needs of public policy, the level of economic development, the role SMEs are expected to play in the economic development of that country and the programmed of assistance designed to achieve the goal (Emmanuel, 2003).

In Nigeria, there is no generally acceptable definition of SMEs but it varies over time with organization, business and industry. The National Association of Small and Medium Scale Enterprises (NASME) described an SME as a business with less than fifty

employees and an annual turnover of ₦ 100 million. Furthermore, NASME still provided more definition, which states that Small medium scale enterprise is a business with less than 100 employees and an annual turnover of ₦500 million (Onugu, 2005 & Sanni, 2009).

In addition, The Central Bank of Nigeria (CBN) defines SME as a business entity in which the asset cannot be more than ₦200 million without the value of its land and working capital. Also, its employees are between 10 and 300 people (Ayodeji, 2015).
This study adopted the definition given by The Central Bank of Nigeria (CBN) that states SME as a business entity in which the asset cannot be more than ₦200 million without the value of its land and working capital. Also, its employees are between 10 and 300 people.

Characteristics of SMEs

i. Simple management structure resulting from the fusing of ownership and management in one or very few individuals.
ii. Greater subjectivity in decision making and the prevalence of largely informal employer-employee relationship.
iii. Limited access to long-term capital and their access to short term financing is often limited and sometimes obtained at a penal rate of interest based on the perception of the sector as risky by the formal financial institutions.

Business Environment and Organizational Performance

Organizations face turbulent and rapid changing environments that are translated into complex, multifaceted and interlinked streams of initiatives. This turbulence affects work, organizational designs and resource allocation thus leading to variations in performance (Messah & Kariuki, 2011). Delays in availability of resources, political interference and variations on the economic situations have been attributed to poor organizational performance even with a perfectly formulated strategy (Kobia & Mohamed, 2006). Organisations must adapt to their environment if they have to survive. According to Bagire & Namada (2013), organizational outcomes are partially predicted by the environmental manifestations. Changes in the external environment may be favorable or unfavorable to organizational outcomes. Factors in the external environment influence organizational processes differently (Tacheva, 2007). Superior organization performance is realized when the responsiveness of an organization's strategy matches the turbulence in the environment (Ansoff & Sullivan, 1993). The environment remains a crucial aspect in the management. Thus, it can be said that the environment has an influence on organizational performance.

Theoretical Review

The Systems Theory

The 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 doesnot have access to feedback, it could not compete effectively.

Nwachukwu (2006) defines a system as "a set of interrelated and interdependent parts arranged in a manner that produces a united whole" while Kuhn (1974) considers a system as "any pattern whose elements are related in sufficiently regular way to justify attention".

The systems theory holds that an organization is a system that needs to work harmoniously not only within itself but that it is a system within a collection of other systems and, therefore, needs to work also in congruence with the other systems around it. What happens in the larger system is capable of affecting the organization either positively or negatively.

Empirical Review

Fatoki (2011) evaluates the 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 three hundred and thirty-two questionnaires were self-administered, but only one hundred and twenty-two were returned. Ordinary least square method was used to test the hypotheses generated from study. The result of the research work revealed that there is a positive relationship between human, social, financial capital and the performance of SMEs.

Chittithaworn, Islam, Keawchana & Yusuff (2011) in their work, studied the factors affecting business success of small and medium scale enterprises (SMEs) in Thailand. In their study of management and know-how, customer and market, SMEs characteristics, the way of doing business and cooperation, product and services resources and finance, strategy and external environment are used as a variable that influences business success of SMEs in Thailand. Data use for the study was collected through questionnaire, and ordinary least square was used to measure or test the hypotheses under study. The result of the study revealed that SMEs characteristics, customer and markets, the way of doing business and cooperation, resources and finance, and external environment have a positive and significant effect on the business success of SMEs in Thailand.

Methodology

The study adopted a survey research design using primary data which were gotten through questionnaires. The scope of this study is limited to SMEs in Kwara State of Nigeria. The study population is the 2,703 SMEs in Ilorin. Purposive sampling technique was adopted because not all members of the population are knowledgeable about the trends and factors in their environment hence, cannot give reliable and accurate information. Therefore, environmental sensitivity is the attribute considered for this sampling technique. A sample of 336 was selected using Cochran (1977) formula

The research instrument is a structure Questionnaires in which five point likert scale rated was adopted as: Strongly agree (SA) – 5, Agree (A) – 4, Undecided (UN) – 3, Disagree (D) – 2, and Strongly disagree (SD) – 1.
The test of first and third hypotheses was done using regression analysis, and the second using correlation. Out of the 336 questionnaires that were administered, 325 were completed and returned. Therefore the analysis was based on 325 questionnaires.

Results and Discussion of Findings
Hypothesis One:
Employee competencies have no significant effect on the efficiency of small and medium scale enterprises.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.558	.553	.40651

a. Predictors: (Constant), Abilities., Skills., Knowledge.
Source: Researcher's Computation, 2018

The coefficient of determination (R Square) 0.558 in Table 1 above showed that the model has a good fit. This implies that knowledge, skills and abilities of employees account for 55.8% variation in efficiency of small and medium scale enterprises. The remaining 54.2% are explained by other factors that are not captured in this study. It can be inferred from this result that knowledge, skills and abilities of employees are key determinants of the organizational efficiency.

Table 2: ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	66.827	4	16.707	101.097	.000[b]
Residual	52.881	320	.165		
Total	119.708	324			

a. Dependent Variable: Efficiency of Small and Medium Scale Enterprises
b. Predictors: (Constant), Abilities., Skills., Knowledge.
Source: Researcher's Computation, 2018
The f-test result in Table 2 above shows that there is a joint significant relationship between knowledge, skills, abilities of employees and efficiency of small and medium scale enterprises. This assertion is justified since the p-value which is 0.000 is less than 0.05 (critical value).

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.475	.260		1.832	.068
	Knowledge	.112	.043	.108	2.609	.010
	Skills	.121	.038	.130	3.165	.002
	Abilities	.090	.041	.085	2.209	.028

a. Dependent Variable: Efficiency of Small and Medium Scale Enterprises
Source: Researcher's Computation, 2018

The result of the test showed that there is a positive relationship between knowledge of employees and efficiency of small and medium scale enterprises. This implies that a unit increase in knowledge of employees will cause a corresponding unit increase in efficiency of small and medium scale enterprises. At p-value of 0.010 which is less that 0.05 (critical value), knowledge of employees has a significant effect on the efficiency of small and medium scale enterprises.

The result of the test also showed that there is a positive relationship between skills of employees and efficiency of SMEs. This implies that a unit increase in skills of employees will result in a corresponding unit increase in efficiency of small and medium scale enterprises. At p-value of 0.002 which is less that 0.05 (critical value), skills of employees have a significant effect on the efficiency of small and medium scale enterprises.

Finally, the result of the test showed that there is a positive relationship between abilities of employees and efficiency of SMEs. This implies that a unit increase in abilities of employees will bring about a corresponding unit increase in efficiency of small and medium scale enterprises. At p-value of 0.028 which is less that 0.05 (critical value), abilities of employees have a significant effect on the efficiency of SME.

Decision Rule:
Since the t-calculated of knowledge, skills and abilities are greater than the t-tabulated (1.99 at 5% level of significance) and the p-value of f-test which is 0.000 is less than 0.05 (critical value), the null hypothesis is rejected, and the alternative hypothesis that states that employee competencies have significant effect on the efficiency of small and medium scale enterprises is accepted. This is related to the conclusion of Sembiring (2016) in his work that human resource knowledge and skills have significant influence on the performance of SMEs.

Hypothesis Two:
There is no relationship between technological advances and innovativeness of small and medium scale enterprises.

Table 4: Correlations

		Technological Advances	Innovativeness of SME
Technological Advances	Pearson Correlation	1	.125*
	Sig. (2-tailed)		.024
	N	325	325
Innovativeness of SME	Pearson Correlation	.125*	1
	Sig. (2-tailed)	.024	
	N	325	325

*. Correlation is significant at the 0.05 level (2-tailed).
Source: Researcher's Computation, 2018

As shown in Table 4 above, technological advances is positively related to innovativeness, r (325) = 0.125, $p = 0.024 < 0.05$. This implies that at p-value of 0.024 which is less than 0.05 (critical value), the positive relationship that exists between technological advances and SMEs innovativeness is significant. The import of this to SMEs is that, as there are advances in technologies, SMEs are able to display their creativity and implement their new ideas. Therefore, technology is a facilitator of innovation for SMEs

Decision Rule:
Since the p-value of the correlation is 0.024 which is less than 0.05 (critical value), the null hypothesis that states that there is no relationship between technological advances and innovativeness of small and medium scale enterprises is rejected, and the alternative hypothesis that otherwise states that there is a relationship between technological advances and innovativeness of small and medium scale enterprises is accepted. This is related to the findings of Hanadi & Aruna (2013) in their work where they concluded that technology adoption is influential in improving the performance of SME.

Hypothesis Three:
Economic factors have no impact on the sustainability of small and medium scale enterprises.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.855[a]	.732	.728	.59058

a. Predictors: (Constant), Interest rate., Exchange rate., Inflation rate.
Source: Researcher's Computation, 2018

The coefficient of determination (R Square) 0.732 in Table 5 above showed that continuous increase in inflation rate, fluctuation in exchange rate and interest rate account

for 73.2% variation in sustainability of small and medium scale enterprises. While the remaining 26.8% are explained by other factors that are not included in this study. Each of these economic trends have their effects on the performance of business. High inflation rate would result to increase in production cost and other overheads, which will eventually cause increase in prices of goods, the end result of this interactions is that household demand decreases in case of goods with high elasticity. The reduction in the demand of these goods is the variation in which high inflation rate is part of the causes. SMEs are therefore not immune to the effects of these economic interactions.

Table 6: ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	304.242	4	76.060	218.070	.000[b]
Residual	111.613	320	.349		
Total	415.854	324			

a. Dependent Variable: Sustainability of Small and Medium Scale Enterprises
b. Predictors: (Constant), Interest rate., Exchange rate., Inflation rate.
Source: Researcher's Computation, 2018

The f-test result in Table 6 above showed that there is a joint significant relationship between continuous increase in inflation rate, fluctuation in exchange rate, interest rate and sustainability of SME. This is justified since the p-value which is 0.000 is less than 0.05 (critical value).

Table 7: Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.677	.219		7.651	.000
	Inflation rate	-.090	.042	-.074	-2.142	.033
	Exchange rate	-.092	.039	-.081	-2.361	.019
	Interest rate	.013	.024	.016	.539	.590

a. Dependent Variable: Sustainability of Small and Medium Scale Enterprises
Source: Researcher's Computation, 2018

The result of the test showed that there is a negative relationship between continuous increase in inflation rate and sustainability of small and medium scale enterprises. This simply means that a unit increase in inflation rate will result in a corresponding unit decrease in sustainability of small and medium scale enterprises. At p-value of 0.033 which is greatly less that 0.05 (critical value), continuous increase in inflation rate has a significant effect on the sustainability of SME. The t-calculated is 2.142 while the t-tabulated is 1.99 at 5% significance level.

Furthermore, the result of the test showed that there is a negative relationship between fluctuation in exchange rate and sustainability of small and medium scale enterprises. This connotes that a unit increase in exchange rate will result in a corresponding unit decrease in sustainability of small and medium scale enterprises. At p-value of 0.019 which is less that 0.05 (critical value), fluctuation in exchange rate has a significant impact on the sustainability of SME.

Lastly, the result of the test showed that there is a positive relationship between interest rate and sustainability of SME. This implies that a unit increase in interest rate will result in a corresponding unit increase in sustainability of SME. However, the test showed that at p-value of 0.590 which is greater than 0.05 (critical value), interest rate has no significant impact on the sustainability of SME. This positive insignificant impact is possibly due to the fact that most SMEs because of their limited capacity and the rate of interest don't opt in for bank borrowing. Therefore, the continuous increase in interest rate would have no effect on their performance.

Decision Rule:

Since the t-calculated of increase in inflation rate and fluctuation in exchange rate are greater than the t-tabulated (1.99 at 5% level of significance) and the p-value of f-test which is 0.000 is less than 0.05 (critical value), the null hypothesis is rejected, and the alternative hypothesis that states that economic factors have impact on the sustainability of small and medium scale enterprises is accepted. This is in support of the conclusion of Orogbu, Onyeizugbe & Chukwuma (2017), when they asserted that economic factors such as government tax, exchange rate, interest rate and inflation rate have significant negative effect on the operations of small and medium scale enterprises.

Conclusions and Recommendations

It was observed in the study that employee competencies which include knowledge, skills and abilities go a long way in determining the performance of small and medium scale enterprises or their efficiency in the case of this study. Also, the study revealed that a positive relationship exists between technological advances and the innovativeness of small and medium scale enterprises. And lastly, economic factors have impact on the sustainability of small and medium scale enterprises.

The study therefore concluded that employee competencies, technological advances, and economic factors are crucial contributors to failure or success of SMEs.

In view of this, the study recommended that:

i. Organizations should carefully select their screening techniques to ensure that employees with the right requirements are selected, and are afterwards assigned to jobs where their skills and abilities fit and can be best utilized.
ii. Small businesses should avail themselves of the advances in technology and integrate them into their systems. These technologies will be of great use in their functional units.
iii. Government should look into the economic factors that pose unnecessary constraints on businesses in Nigeria. Nigerian economic trends such as interest rate, inflation rate and multiple tax systems should be attended to.