

# ENVIRONMENTAL FACTORS, GLOBALIZATION AND SMALL AND MEDIUM SCALE ENTERPRISES PERFORMANCES IN AKURE, ONDO STATE, NIGERIA

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## ABSTRACT

*The role of small and medium scale enterprises cannot be underestimated because they stimulate growth and development. Over the years, small and medium scale enterprises have been affected by environmental factors such as internal factors, external factors and globalization. Thus, this study examined the effect of environmental factors on the performance of small and medium scale enterprises. The study employed questionnaire instruments to collect information from 256 respondents through a random sampling which were analyzed using multiple regression techniques to establish the effect of environmental factors on the performance of small and scale enterprises. The result of the analysis revealed that internal and external factors had positive and significant effect on small and medium scale performance while globalization had negative and insignificant effect on small and medium scale enterprises performance. The study concluded that environmental factors had significant effect on small and medium scale performance with globalization having undesirable effect on small and medium scale enterprises performance. It was thus recommended that government should design and formulate policies aimed at strengthening the competitive capacity of small and medium scale enterprises in Nigeria.*

**Key Words:** Globalization, Small and Medium Scale Enterprises, Environmental Factors

## Introduction

The role of small and medium scale enterprises in the most developing nations cannot be overemphasized. Ibrahim (2015) asserted that small and medium scale enterprises are deriver of growth and dominated the Nigerian economy. Small and medium scale enterprises contribute to the sustainable growth and development of developing countries through the creation of employment opportunities and contribution to gross domestic product.

Small and medium scale enterprises comprise of business that employed little capital for establishment and operate small scale boniness with the objective of making profit. Small and medium scale enterprises have continued to increase and survive because they require few capitals for establishment, less labour, low technological knowledge and little managerial capacity for establishment (Essien, 2014). Also, small and medium scale enterprises are seen as major tool for reducing unemployment and poverty through the generation of employment, contribution to rapid economic growth and export earnings, industrialization and utilization of local resources.

Business environment comprises of factors within and outside organization which influence operational activities. Adeola (2016) define business environment as factors such as infrastructural, legal, natural, financial, cultural, economic, social and political environments which have influence on the operational activities and performance of an organization. The environment within which business operates is very important for running smooth small and medium scale enterprises. The creation and promoting of dynamic operating environment for small medium scale enterprises has been ranked as priority among developmental goals in emerging countries as

means for enhancing the development of small and medium scale enterprises (Andoh & Nunoo, 2012). Business environment is made up of both internal and external environment. The internal environment is made up factors within a firm and can be control managers while external environment comprises of external comprises factors outside the firm and are not subject to the control of the managers.

SMEs performance is the ability of a firm to provide value to its stakeholders such as owners, customers, society and government. Aminu and Shariff (2015) defined firm performance as the procedures of quantifying business actions in terms of accomplishing its objectives. According to Abdulmalik, Moahammed and Salem (2014) financial performance such as profit maximization, maximizing profit on assets and maximizing shareholders' benefits are the core of the firm's effectiveness. Operational performance measures such as growth in sales and growth in market share, provide a broad definition of performance as they focus on the factors that ultimately lead to financial performance.

The performance of small and medium scale enterprises can be significantly influenced by both internal and external environment factors. The success and failure of an organization is solely not determined by the firm's specific characteristics but also, prevailing factors in the environment in which the firm operates. Small and medium scale enterprises operate in a complex and multi-facet environment which shape organizational objectives and could have a wide effect on the performance of the organization (Eruemegbe, 2015). Chukwuma and Chukwuma (2015) opined that performance of small and medium scale enterprises is affected by environmental factors such as dilapidated infrastructural facilities, problem of finance, undue competition, fluctuation in macroeconomic variables, ineffective and unstable government policies and globalization factors such as competition from international business operation in the economy among others. Oginni and Adesanya (2013) asserted that the Nigerian business environment in the recent years has witnessed slow progress which resulted in underperformance of small and medium of enterprises thereby leading to low growth rate, escalating unemployment and low industrial output. In the face of environmental dynamism and instability, the level of performance and growth of an organization relies on how a firm responds to its environment. While globalization portends opportunities to an economy in terms of inflow of new knowledge, idea and technology, undue competition from international business operating in the national economy may affect the survival of small business. Oyeaghalala and Anele (2014) opined that, while the Nigerian government deregulated the economy with the hope of reaping the benefits of cross boarder relationship through globalization, globalization has not only brought economic gains to Nigeria with the phenomenon posing great challenges to small bunnies in Nigeria. Though studies have been conducted on the effect of external environmental on business performance in Nigeria in the recent years, however, studies that adopted globalization as a major cross broader factors that influenced small and medium scale enterprises performance has not yet been established.

As a result of the significant role of small and medium scale enterprises in the economy and due to the fact the environment in which small and medium scale enterprises operate determines the performance and survival of small and medium scale enterprises, the paper thus examined the effect of environment factors on the performance of small and medium scale enterprises in Akure, Ondo State.

#### **Literature Review**

Babafemi (2015) defined small scale enterprises as enterprises employing up to fifty (50) workers or less than excluding household enterprise. Small business is a business that is privately owned and operated with a small number of employees and relatively low volume of sales. Chinweuba and Sunday (2015) asserted that small and medium enterprises facilitate and enhance economic growth and development through the employment human and capital resources. According to Ranjani (2012), SMEs and entrepreneurship are globally recognized as engine of economic growth and development. Chiyah and Forchu (2010) opined micro enterprises in developing countries have the capacity abilities to promote growth, assuage poverty and engender employment through the utilization of local resources in prediction activities.

Small and medium scale enterprisers serve as vehicle for the reduction of income inequalities by pooling skilled and semi-skilled workers for future industrial expansion and linkages between forward and backward sector of the economy through the provision of opportunities for development by employing appropriate technological coupled with local raw materials (Olowe, Moradeyo & Babalola, 2013).

Adeola (2016) defined business environment as the physical and operational factors, both internal and external, that affect the flow of activities in a business. A business is influenced by the environment in which it operates and the success of any business is dependent on its ability to adapt to its environment. Fernando (2011) asserted that business environment comprises of external forces, factors and institutions which are beyond the control of the business. These include customers, competitors, suppliers, government social, political, global, economic, legal and technological factors.

Adebayo, Ogunyomi and Ojodu (2005) in Oginni and Adesanya (2013) divided business environment into two namely internal and external environments. Internal business environment is made up factors within the organization and are in control of the managers such as capital, personnel, profit, procedure, policy, structure and objective. The external business environment is made up variables which are outside the control of the organisational management and cannot be manipulated such as technology, politics, and government legislation, economic, socio-cultural, global and physical factors.

Oginni and Adesanya (2013) analyzed the implication of the business environmental factors on the survival and growth of business organisations in Lagos metropolis of Nigeria. The study employed questionnaires which were administered to employees of selected business organisations. Electricity, government policies and fraudulent practices were found as factors critical with severe impact on the survival and growth of business organisations in the manufacturing sector among other factors. Ndife (2014) examined the impact of environment on business performance with by employing a sample of 57 respondents was selected from some small tourism businesses in Awka. The study employed Chi-Square test of independence and descriptive statistics and it was found that political and economic environment have significant impact on business performance while the socio-cultural environment does not have a significant relationship. Obasan (2014) ascertained the relationship between business environment and the survival of small and medium scale businesses in Nigeria. Logistic regression technique was employed to analyzed primary data obtained through a structured questionnaire administered to eighty small scale businessmen and women operators in Ijebu North Local Government area, (Ogun State). It was revealed that factors such inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival.

Kinyua (2014) evaluated the factors affecting the performance of SMEs in the Jua Kali sector in Nakuru town by employing primary data collected from 262 study respondents using structured questionnaires and was analyzed using descriptive and inferential techniques. The findings indicate that access to finance, number of years, managerial skills and macroeconomic factors had a positive effect SMEs performance while infrastructure had significant effect performance of SMEs. Essien (2014) examined growth constraints of Micro and Small Scale Manufacturing Industries (MSMI) in Akwa Ibom State through the adoption descriptive survey design and stratified sample of 234 of manufacturing micro and small scale businesses in Akwa Ibom State and it was indicated that the dimensionality of the MSMI's constraints can be explained by 7 factors.

Ikharehon and Briggs (2016) examined the impact of strategic factors on the performance of small and medium scale enterprises in Nigeria by sampling 97 respondents operating in Abuja using random sampling technique. The findings revealed that insufficient capital, deficiencies in infrastructure and inadequate fiscal incentives framework are the main challenges facing their businesses. Kebede and Kimesh (2015) investigated the impact of the internal and external environmental factors on the performance of Micro and Small-scale Enterprises in East Gojjam Zone Ethiopia by employing 362 Micro and Small Scale Enterprises and analyzed using multiple regression analysis. The regression analysis showed that infrastructure and financial environment, technological environment and factors associated with entrepreneurial commitment have a clear significant relationship with performances of MSEs. Orogbu, Onyeizugbe and Chukwuma (2017) examined the effect of economic environment of small and medium scale enterprises on economic growth in Nigeria by employing variables such as government tax revenue, exchange rate, interest rate and inflation rate which were analyzed using Ordinary Least Square (OLS). The study found that exchange rate, inflation rate, interest rate and government tax revenue had negative relationship with SMEs performance.

### Methodology

This study adopted survey research design. The population of this study comprised of selected SMEs owners, marketing manager and sales managers who can provide relevant information for this study. 256 respondents were selected using random sampling technique. Primary data was employed using research questionnaires to obtained relevant information from the respondents. However regression statistical technique was employed for the purpose of analyzing the questionnaires and establishing the relationship between environmental factors, globalization and small and medium scale enterprises performance.

### INTERPRETATION OF RESULTS

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.453 <sup>a</sup>	.605	.597	1.52775

a. Predictors: (Constant), GLOB, EXT, INTER

**Source: Researchers' Computation, 2018**

Table above presents the model summary of the regression results to test the impact of environmental factors on small and medium scale performance. The correlation value of 0.453 or 45.3% shows a strong and direct relationship between environmental factors, globalization small and medium scale performance. The R squared of 0.605 or 60.5% implies that 60.5% variation in small and medium scale performance are explained by environmental factors and globalization while the remaining 30.5% are explained by factors not captured in the model.

**Table 2: ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	178.498	3	59.499	25.492	.000 <sup>b</sup>
	Residual	690.872	296	2.334		
	Total	869.370	299			

a. Dependent Variable: Performance

b. Predictors: (Constant), Globalization, External Factors, Internal Factors

**Source: Researchers' Computation, 2018**

Table 2 reveals the regression results to test the impact of environmental factors on small and medium scale performance. The F statistics value of 25.492 with a corresponding probability value of 0.004 which is significant at 5% level of significance implied that environmental factors and globalization had significant effect on the performance of small and medium scale businesses.

**Table 3: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.650	.754		10.141	.000
EXTER	.184	.031	.358	5.889	.000
INTER	.118	.038	.207	3.130	.002
GLOB	-.045	.041	-.072	-1.100	.272

a. Dependent Variable: Performance

**Source: Researchers' Computation, 2018**

Table 3 reveals the relationship between external factors, internal factors, globalization and small and medium scale enterprises performance. It was revealed that there exist positive relationships between external factors and small and medium scale enterprises performance. Also, it was indicated there exist positive relationship between internal factors and small and medium scale enterprises performance. Finally, globalization was indicated to have negative and significant effect on small and medium scale enterprises performance.

### Conclusion

Small and medium scale enterprises serve as indispensable catalyst to economic growth in every nation due to their vast irreplaceable prospect in the economy. Small and medium scale enterprises possessed the potentials of creating employment opportunities, generating foreign earnings and contributing to economic growth and development. Thus, the role of small and medium scale enterprises in the development of most nations cannot be overemphasized. However, to be successful, small and medium scale operators must have a wide and adequate knowledge of the environment in which they operate. Thus, this study examined the effect of environmental factors on the performance of small and medium scale enterprises.

This study indicated that both internal and external environmental factors significantly influenced the performance of small and medium scale enterprises while globalization had negative and insignificant effect on the performance of small and medium scale enterprises. The implication of this findings is that, both internal and external factors serve as major determinants of small and medium scale performance and must be adequately incorporated into business operations for effective and efficient performance. Thus it was concluded that environmental factors had significant effect on small and medium scale performance with globalization having undesirable effect on small and medium scale enterprises performance. It was thus recommended that government should design and formulate policies aimed at strengthening the competitive capacity of small and medium scale enterprises in Nigeria. Government should formulate effective and efficient policies aimed at creating investment-friendly environment which can support the growth aspiration of small and medium scale enterprises. Business owner and managers



develop and adopt scientific and rational business management strategies that will aid their understanding of both their business and its environment.

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