


# Chapter 14

## Business Environment as Key Driver of SME Performance

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### ABSTRACT

*The chapter established the effects of Nigerian market environment on SMEs performance. An empirical study was conducted with survey research design of 21,444 firms and a sample size of 1,102 was arrived at scientifically. Probability sampling methods were employed. An adapted validated questionnaire, and a 0.82-0.96 reliability coefficients range was used. Inferential statistics were used to analyse the data using SPSS software version 22.0. The findings reveal that Nigerian market environment had significant negative effects on the SME performance. The different components of the Nigerian market environment have different effects on the SME performance. The results imply that the environmental turbulence could be responsible for the high failure rate of SMEs in Nigeria. The study contributes to the body of knowledge on environmental and performance management by noting the criticality of the industry market environment in facilitating organizational performance.*

### 1. INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are a crucial driver that drives a country's GDP and GNP. They create jobs and reduce poverty within a country. Governments are now seeing the value in supporting SMEs. However, SMEs' main goal is to maintain its' sustainability within a volatile business environment. This research study evaluated business values and other factors that are instrumental in facilitating Nigerian SMEs performance. SMEs in the South West, Nigeria which is the region that has the highest number of functional SMEs in Nigeria (Smedan, 2016). To be sustainable, SMEs performance needs to be consistently maintained. Key drivers of performance amongst SMEs vary. Some important

DOI: 10.4018/978-1-7998-7951-0.ch014

drivers of performance are quality of goods/services sold, the competitive performance of the business against other firms in the same industry, firms resource capabilities and constraints and the ability of SMEs to adopt innovation into their business operations.

## **2. BACKGROUND**

The study of the drivers of performance is important in facilitating the growth of firms. Different researchers have researched different aspects of the Nigerian environment and its impact on SMEs performance. For example, Eze & Ogiji (2013) assessed the impact of fiscal policy on the manufacturing output of Nigerian firms. Adelegan (2011) examined the effects of infrastructural development on the performance of Nigerian firms. Gado & Nmadu (2011) evaluated the infrastructural resource impact on textile companies' performance. Few researchers have specifically studied the totality of the Nigerian market environment impacts on SMEs' performance.

Recent events revealed that the World Bank's ease of 'doing business report' of 2016 ranked Nigeria 169 out of 189 countries, though this position is the same as the previous year, yet it was regarded as a positive development because the nation's ranking has been on the decrease in the last 8 years. The major indicators of ease of doing business are; starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and getting electricity. Specifically, the nation ranked 138<sup>th</sup> on starting a business, 174<sup>th</sup> on getting a construction permit, 182<sup>nd</sup> on registering property, 44<sup>th</sup> on getting credit, 32<sup>nd</sup> on protecting minority investors, 182<sup>nd</sup> on paying taxes, 181<sup>st</sup> on trading across borders, 138<sup>th</sup> on enforcing contracts, 140<sup>th</sup> on resolving insolvency and 180<sup>th</sup> on getting electricity. However, the 2019 ranking revealed a position of 146 in the country's ranking of ease of doing business, the rank deteriorated to 146 in 2018 from 145 in 2017, though business confidence increased from 22.10 INDEX points to 28.20 points (World Bank Report, 2019).

## **3. MAIN FOCUS OF THE CHAPTER**

### **3.1 Issues, Controversies, and Problem**

There is no consensus on how the different aspects of the business environment impinge on the performance of firms (Enu & Havi, 2014; Muogbo & Enemuo-Uzoezie, 2019). Hence, it is important to establish how the Nigerian market environment drives SMEs performance. A report of eighty-five per cent failure rate of SMEs before their 5<sup>th</sup> anniversary, adduced to lack of knowledge of the market environment has been corroborated with the recent closure of 216 manufacturing companies identified by the Manufacturing Association of Nigerian (SMEDAN, 2012; Manufacturing Association of Nigerian, 2016). It is therefore important to establish the components of the Nigerian market environment that affect the performance of SMEs.

Different researchers have researched different aspects of the Nigerian environment and its' impact on SMEs performance. For example, Eze & Ogiji (2013) in assessing part of the macro-environment; evaluated the impact of fiscal policy on the manufacturing output of Nigerian firms. Igwe et al. (2018) assessed the factors affecting the investment climate, SMEs productivity and entrepreneurship in Nigeria

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