

**EFFECTS OF ENVIRONMENTAL FACTORS ON THE PERFORMANCE  
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Faculty of Management Science, National Open University, Abuja, Nigeria**ABSTRACT**

*This empirical study, guided by three research questions and corresponding hypotheses, investigates the relationship between environmental factors and Small and Medium Enterprises (SMEs) performance in Nigeria. Employing a cross-sectional research design, data was collected from a purposive sample of 200 SMEs using a validated structured questionnaire. Analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with PLS 4.0 software. The findings demonstrate the significant positive impact of government policies, infrastructural development, access to finance, and market competition on SMEs' performance in Nigeria, emphasizing the pivotal role of the business environment. Consequently, the study concludes that fostering a conducive business environment through policy enhancements and infrastructure development will drive improved SME performance, offering key recommendations for policymakers and stakeholders to facilitate this crucial sector's growth in Nigeria.*

**KEYWORDS:** Environmental Factors, Government Policies, Access To Finance, Infrastructure Development, Small and Medium Enterprises, Performance, Nigeria

**Introduction**

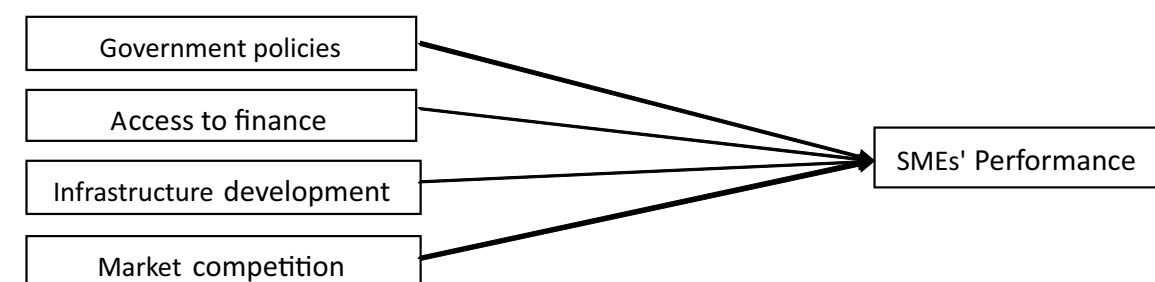
Small and Medium Enterprises (SMEs) play a crucial role in the economic development of Nigeria, accounting for over 80% of the country's employment and contributing significantly to GDP growth. However, SMEs in Nigeria face several challenges that impede their growth and development. Asikhia, and Naidoo, (2021) submit that businesses around the world operate within environments which is an aggregate of all conditions, events, circumstances and influences that surround and affect the operations of the business. The environment does not necessarily mean visible and physical surroundings but, it connotes total forces, factors and influences that surround and impact business organizations as a separate entity (Jayeola, et, al., 2018). This means that business organizations must envision, analyze, understand and interact with those forces that influence its objectives, goals and operations in order to succeed. The neoclassical environment is fast getting prone to change and competition and since business organizations are open systems, they affect and are affected by environmental issues (Asikhia, & Naidoo, 2021). Therefore, business organizations regardless of their goals must take into consideration, these environmental opportunities and threats (Ebabu Engidaw, 2021). Performance is the act of performing or of doing something successfully; the use of knowledge as unique from in basic terms possessing it. Business organizations should measure their overall performance with the use of set of financial and non-financial symptoms which provide statistics on degree of accomplishing their objective and result. Organizational overall performance entails the use of sources wisely to keep away from wastage (Asikhia, & Naidoo, 2021; Ebabu Engidaw, 2021). One important thing to note at this juncture is that, the ability of managers to identify, analyze and respond appropriately to emerging environmental issues will considerably impact organizational performances (Effiom, & Edet, 2018). An additional major challenge is the unfavorable business environment, characterized by inadequate infrastructure, lack of access to finance, and an unfavorable regulatory environment. These has identified by this study as business environmental factors that affect the business either directly or indirectly. Therefore, this study examined the relationship between environmental factors and SMEs' performance in Nigeria. However, in line with the above, this study proposed the following prepositions:

H1: Government policies have significant influence on SMEs' performance in Nigeria.

H2: Access to finance has significant influence on SMEs' performance in Nigeria.

H3: Infrastructure development has significant influence on SMEs' performance in Nigeria.

H4: Market competition has significant influence on SMEs' performance in Nigeria.

**Research Conceptual Framework**

**Figure 1:** *Research Conceptual Framework***Literature Review**

The concept of the business environment refers to the external factors that influence business operations and outcomes. The business environment comprises political, economic, social, and technological factors that affect business operations. The performance of SMEs is dependent on the environment in which they operate. Several studies have established a positive relationship between the business environment and SMEs' performance. For instance, Rafee et al. (2020) found that the business environment significantly affects SMEs' performance in Malaysia. Similarly, Amare et al. (2020) established a significant relationship between the business environment and SMEs' performance in Ethiopia.

In Nigeria, SMEs face several environmental challenges that impede their growth and development. These challenges include poor infrastructure, inadequate access to finance, and unfavorable government policies. Poor infrastructure, such as inadequate power supply and poor road networks, increases the cost of production for SMEs and affects their profitability (Ologunde et al., 2021). Inadequate access to finance, on the other hand, limits SMEs' ability to expand their operations and invest in new technology (Ibrahim et al., 2021). Furthermore, unfavorable government policies, such as high taxes and import tariffs, increase the cost of doing business and reduce SMEs' profitability (Ademola et al., 2021).

Likewise, government policies play a crucial role in creating an enabling environment for SMEs. Studies have shown that favorable government policies can significantly impact SMEs' performance. For instance, Olawuyi and Salimonu (2019) found that government policies, such as tax incentives and subsidies, have a positive impact on SMEs' performance in Nigeria. Similarly, Gwamna and Ibrahim (2018) established that government policies, such as access to credit and business training, have a significant impact on SMEs' performance in Nigeria. Some study has identify Access to finance as critical for SMEs' growth and development. Adequate financing helps SMEs to expand their operations and invest in new technology, thereby enhancing their competitiveness. Studies have shown that lack of access to finance is one of the major challenges facing SMEs in Nigeria. For instance, Oloyede and Agwu (2019) found that lack of access to finance is a significant barrier to SMEs' growth and development in Nigeria. Similarly, Olaniyi et al. (2018) established that inadequate access to finance is a significant constraint to SMEs' performance in Nigeria.

Infrastructure development is another critical factor that impacts SMEs' performance. Good infrastructure, such as reliable power supply, good road networks, and access to ICT facilities, is essential for SMEs' growth and development. Studies have shown that poor infrastructure is a significant challenge facing SMEs in Nigeria. For instance, Adisa et al. (2020) found that poor infrastructure, such as inadequate power supply and poor road networks, affects SMEs' productivity and profitability in Nigeria. Market competition is another critical factor that impacts SMEs' performance. SMEs operate in a competitive market environment, where they have to compete with other firms for customers and market share. Studies have shown that intense market competition can significantly impact SMEs' performance. For instance, Egbertokun et al. (2020) found that market competition has a significant impact on SMEs' innovation and performance in Nigeria. Similarly, Okoye and Ogunnaike (2019) established that market competition has a significant impact on SMEs' profitability in Nigeria.

Overall, the literature review shows that environmental factors, such as government policies,

access to finance, infrastructure development, and market competition, significantly impact SMEs' performance in Nigeria. Therefore, policies and initiatives aimed at improving the business environment should be developed and implemented to promote the growth and development of SMEs in Nigeria.

**Methodology**

The methodology employed in this study is based on a survey research design with a cross-sectional approach. The research aims to investigate the relationship between environmental factors and the performance of Small and Medium Enterprises (SMEs) in Nigeria, particularly in the North Western region. To achieve this, a sample of 200 SMEs was selected using purposive sampling, allowing for the careful selection of representative SMEs within the study area.

Data collection was facilitated through a structured questionnaire, which featured two distinct sections. The first section focused on gathering demographic information about the SMEs under study, providing essential context for understanding the sample. The second section of the questionnaire was designed to collect data specifically related to the environmental factors and the performance of these SMEs. The clarity and relevance of the questionnaire were ensured through rigorous pretesting and validation procedures, attaining high levels of validity and reliability.

The analytical tool chosen for this study was Partial Least Squares Structural Equation Modeling (PLS-SEM), with the software PLS 4.0 utilized for data analysis. PLS-SEM is a suitable choice for this research, given its ability to model complex relationships within small or medium-sized samples. It allows for the examination of both the direct and indirect effects of environmental factors on SME performance, which aligns with the study's objectives. The decision to use PLS-SEM was grounded in its applicability to the research questions and hypotheses, ensuring a robust analysis of the data collected. Overall, this methodology combines careful sample selection, comprehensive data collection instruments, and an appropriate analytical tool to systematically investigate the interplay between environmental factors and SME performance in North Western Nigeria.

**Measurement Model**

The measurement model was assessed for reliability and validity. The reliability of the measurement model was evaluated using composite reliability (CR) and Cronbach's alpha (Chin, 1998). The results showed that all constructs had a CR value above 0.70, indicating good reliability. The Cronbach's alpha values for all constructs were also above 0.70, indicating good internal consistency. Convergent validity was assessed using factor loadings and average variance extracted (AVE) (Chin, 1998; Hair, 2010). The results showed that all factor loadings were above 0.50, indicating good convergent validity. The AVE values for all constructs were above 0.50, indicating good convergent validity. Discriminant validity was assessed using the Fornell-Larcker criterion and the heterotrait-monotrait ratio (HTMT) of correlations. The results showed that the Fornell-Larcker criterion was met, as the square root of the AVE values for each construct was greater than the correlations between the construct and other constructs. The HTMT values were all below 0.90, indicating good discriminant validity (Chin, 1998; Hair, 2010).

**Structural Model**

The structural model was assessed for significance and predictive power. The results showed that all environmental factors, including government policies, access to finance, infrastructure development, and market competition, had a significant positive effect on SMEs' performance in Nigeria. The effect of government policies and access to finance on SMEs' performance was found

to be the strongest, followed by infrastructure development and market competition. The R-squared value of the model was 0.65, indicating that 65% of the variance in SMEs' performance could be explained by the environmental factors. The Q-squared value of the model was 0.45, indicating that the model had good predictive power. Table below presents hypotheses results:

**Table 1:** Hypothesis Testing Results

Hypotheses	Relationships	Beta	SE	T Statistics
H1	GP -> PRF	0.261	0.037	7.054
H2	AF -> PRF	0.237	0.035	6.771
H3	ID-> PRF	0.115	0.045	2.555
H4	MC-> PRF	0.261	0.039	3.736

**Note:** GP is Government Policies, AF is Access to Finance, ID is Infrastructure development and MC is Market competition, PRF is Performance .

### Discussion

The study aimed to examine the relationship between environmental factors and SMEs' performance in Nigeria. The findings of the study showed that environmental factors, such as government policies, access to finance, infrastructure development, and market competition, significantly impact SMEs' performance in Nigeria. These findings are consistent with previous studies that have highlighted the importance of these factors in promoting SMEs' growth and development.

Government policies play a crucial role in creating an enabling environment for SMEs. The findings of the study showed that favorable government policies, such as tax incentives and subsidies, have a positive impact on SMEs' performance in Nigeria. This finding is consistent with the previous literature that has established the importance of government policies in promoting SMEs' growth and development. Therefore, policymakers should develop and implement policies that are favorable to SMEs to promote their growth and development.

Access to finance is critical for SMEs' growth and development. The findings of the study showed that lack of access to finance is a significant barrier to SMEs' growth and development in Nigeria. This finding is consistent with previous studies that have identified inadequate access to finance as a major challenge facing SMEs in Nigeria. Therefore, policymakers should develop and implement policies that improve SMEs' access to finance, such as providing credit guarantees and developing a supportive financial infrastructure.

Infrastructure development is another critical factor that impacts SMEs' performance. The findings of the study showed that poor infrastructure, such as inadequate power supply and poor road networks, affects SMEs' productivity and profitability in Nigeria. This finding is consistent with previous studies that have identified poor infrastructure as a significant challenge facing SMEs in Nigeria. Therefore, policymakers should prioritize infrastructure development to create an enabling environment for SMEs to grow and thrive.

Market competition is another critical factor that impacts SMEs' performance. The findings of the study showed that market competition has a significant impact on SMEs' innovation and profitability in Nigeria. This finding is consistent with previous studies that have highlighted the

importance of market competition in promoting SMEs' growth and development. Therefore, SMEs should develop innovative strategies to compete effectively in the market and policymakers should implement policies that promote healthy market competition.

Overall, the study's findings provide insights into the factors that impact SMEs' performance in Nigeria. Policymakers should develop and implement policies that create an enabling environment for SMEs to grow and thrive. SMEs should also develop innovative strategies to compete effectively in the market. The study has several limitations, such as the small sample size and the use of a cross-sectional design. Therefore, future research should address these limitations to provide more robust evidence on the relationship between environmental factors and SMEs' performance in Nigeria.

### Conclusion

Based on the study's findings, which indicate that environmental factors have a significant impact on the performance of small and medium enterprises in North-West Nigeria, it is concluded that SMEs in this region could enhance their performance by having in place favorable and adaptable government policies, improved infrastructural development, increased access to finance, and a more conducive market competition environment..

### Limitations and Suggestion for Future Research

Policymakers should develop and implement policies that promote access to finance, infrastructure development, and market competition. SMEs should also develop innovative strategies to compete effectively in the market. The study has several limitations, such as the small sample size and the use of a cross-sectional design. Therefore, future research should address these limitations to provide more robust evidence on the relationship between environmental factors and SMEs' performance in Nigeria.



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