

EFFECT OF BUSINESS ENVIRONMENT ON ORGANIZATIONAL PERFORMANCE OF SMEs IN SOUTH-EAST NIGERIA

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ABSTRACT

The study examined the effect of business environment on the organizational performance of small and medium scale enterprises in South-East Nigeria. The major problems of this study are infrastructural accessibility and Bank Credit towards SMEs in South-East, Nigeria. The broad objectives of the study was to examine the effect of these environmental variables on the performance of small and medium scale enterprises in South-East Nigeria from 2006-2016. Two research questions and hypotheses were posed in lined with the objectives of the study. Related literature was reviewed. The study adopted survey method. Primary sources of data were mainly used. The area of the study was the selected manufacturing companies in south east. Questionnaire and semi structured interview were used to collect data from manager-owners and other key officers in the selected SMEs. The population of the study was 4871 SMEs and sample size of 937 determined using Borg & Gall formulae. The research adopts two sampling techniques; purposive sampling and stratified sampling. Ordinary Least Square Method of regression analysis was employed. From the analyses tested, the study found out that Infrastructural accessibility, and Bank credit has no significant effect on profitability of small and medium enterprise. The study concludes that there is need for all organizations to direct their attention to the environment when formulating their strategic management policies in order to facilitate their survival, growth and profit motives. The study recommends that government of the day should provide infrastructural facilities such as good road network, and should

empower the SMEs to access and get credits from the commercial banks through formal and informal entrepreneurship Education.

Keywords: Business Environment, infrastructural accessibility, Bank Credit, strategic management policies, SMEs.

INTRODUCTION

Business is an economic act, which is carried out by an organization to achieve some target relating to production, profit, diversification, technological improvement and expansion. (Odigbo, 2011). The fulfillment of targets of a business depends not only on its resources but also on the business environment. Environment by definition is something external to an individual or an organization, which is outside the control of those individual or organization.

Business environment means factors outside the control of the business, that influence its objectives, functioning, strategies and the entire performance of organizations in an area

Ezedum; Agbo and Odigbo (2011). The process of starting up and developing a business is more than an adventure, it is a challenge and it will be beneficial to the entrepreneur if a favorable business environment is created from the onset. According to Otokiti and Awodun (2007), business environment is perceived to have been rarely exceeded in complexity, turbulence and in rapid change. As such, all organizations (large or small) must pay greater attention to their environment when formulating and implementing policies and strategies in order to survive and grow.

The Nigeria business environment is characterized by factors such as low-sales, high cost of production, low capacity utilization, lack of foreign exchange to source needed inputs, poor power supply and low quality of goods and services. (Kennerly & Nelly, 2008). These issues have led to lack of proper integration and coordination of various corporate subsystems in Nigerian organizations. Thus, the likelihood of the vagaries and extremities of the environment affect the fortunes of organizations.

Statement of the Problem

According to the European charter for small and medium Enterprises, adopted by EU leaders in 2000, small businesses are the backbone of Europe's economy. They are capable of assuring economic growth, create more and better jobs and to ensure increase of social cohesion. (Julian & Perinea, 2014). This aligns with the World Bank opinion that improvement in the enabling environment leads to greater levels of investment by the private sector, more wealth, job creation and poverty alleviation. (Adeoye & Elegunde, 2012).

Pursuant to this, World Bank (2012) study revealed that around 200 million people are currently unemployed and 600 million jobs need to be created by 2020 mainly in developing countries. These numbers of jobs are expected to be generated in the micro, small and medium enterprise sector given its high labor intensity. Nigeria, as one of the leading economies in Africa is in progress of transforming its SMEs sector to be among the twenty leading economies come year 2020. Similarly, the internationalization of economy, dynamic nature of the environment and emergence of greater competitive firms, the need for continuous innovation, product customization and growing use of ICT all pose a new dimension of challenges to SMEs

in Nigeria. These challenges are greater for small and medium enterprises as empirical evidence has documented that over 70% of SMEs fail in their first three years of operation in Nigeria. (Ebiringa, 2011).

Surprisingly, the 2014 Global competitive index (GCI) placed Nigeria in 127th position against 120th position in 2013. This result pointed out that institution in Nigeria remained weak with a ranking of 127th position out of 144 countries. These was as a result of high corruption, undue influence, insecurity, poor infrastructure as well as non-betterment in its health and primary education. Furthermore, Nigeria still move down to 137th position because of poor availability and affordability of essential amenities in general and difficulties in getting loan. All these and more still remain important bottleneck to economic development. The state is also not tackling the latest technologies for productivity enhancements due to their inability to manage and nurture their business environment. (Antal, et al, 2006). Empirical evidence support that the specific local business environment in which a firm is embedded can create opportunities and constraints and make significant contribution to its performance and can vary from national or regional economic context. (Ng & Kee (2012; Nench & Vanzy 2014).

Government and organizational managers have been criticized for lack of dynamism, resourcefulness and risk taking as employed by vast majority of developed countries to trigger and sustain process of economic growth. Arising from the above. Entrepreneurial development in the Nigerian economy is characterized by heavy dependence on oil, low agricultural production, high unemployment, low utilization of industrial capacity, high inflation rate and lack of industrial infrastructural base.

In the light of the above and driven by findings of past studies, it does appear that SMEs in Nigeria have a long way to go for the sector to be productive enough to play the crucial role it is expected to play in terms of contributing to the growth and development of the Nigerian economy. Surprisingly this major gap (the absence of strong SMEs subsectors) has not been properly articulated in terms of cause-effects between SMEs business environment and performance. More so, the extent to which business environment affect SMEs performance, in South- East Nigeria is non-existent to the best of our knowledge especially those in the manufacturing sub sector. Thus, this study examines Business environment and SMEs performance in the South East, Nigeria with specific interest on those industries in the manufacturing sub sector.

Objective of the study

The main objective of the study is to examine the effect of Business environment on the performance of small and medium scale enterprises in the manufacturing subsector in Nigeria with reference to those in South East Nigeria. Specifically, the study seeks to:

1. Determine how Infrastructural Accessibility affects the selected small and medium scale enterprises in the South East.
2. Investigate how business credit affects the selected small and medium scale enterprises in the South East.

Research Hypotheses

The following null hypotheses were formulated to guide the study and provide answers to the research questions.

Ho₁: Infrastructural accessibility has no significant effect on the small and medium scale enterprises in the South East.

Ho₂: Business credit has no significant effect on the selected small and medium scale enterprises in the South East.

Scope of the Study

This study examines the role of business environment on the performance of SMEs in the five Eastern states of Nigeria namely, Anambra, Abia, Ebonyi, Enugu and Imo state from 2006-2016. The reason for this 10years period is for easy of identification of SMEs that have thrived given certain environmental variables. It was also a period when considerable efforts were made by government at all levels and other stakeholders in Nigeria order to improve the development of SMEs in Nigeria.

CONCEPTUAL FRAMEWORK

Business Environment

Business environment, according to Ukeje (2002) encompasses all those factors within and outside that affect an industry's operation and it includes the following variables customers, competitors, suppliers, industry trends, regulations, other forms of government activities, social, economic and technological factors. By this, it means that no business operates in an environment where it constantly interacts with these internal and external forces. Robbin (2007) asserts that environment of business is very important not only as a determinant of structure but a factor that must be harnessed by organizations to ensure overall organizational effectiveness.

Ernest, Agbo and Odigbo (2011) see business environment as factors outside the control of business that influence its objectives, functioning, strategies and the entire performance of organization in an area. They further classified business environment into internal and external environments. Internal environment of business hinges on human activities like production, extraction or marketing and includes man, money, machinery, materials and management (5Ms). External environment of business are variables that a firm acts and reacts to outside the business which affect implementation and profitability of the business. External business environment may be subdivided into micro and macro environment. Micro environment is the crucial environment in the immediate ambience of the business known also as the operating environment. This, according to Ezedum, Agbo and Odigbo, (2011) refers to variables that affect the capacity of the business to work smoothly such as suppliers, intermediaries, competitors, consumers and the public. Macro environments are those factors that may create both opportunity and threat to the business which may be economic and / or non-economic.

Several environmental dimensions had been presented in the literature for describing the quality of business environment. Dess and Beard (2004) distinguish between dimensions such as munificence, dynamisms and complexity munificence refers to the environmental capacity as the extent to which the environment can support sustained growth. In general, a munificence environment is regarded as more favorable for business success than a scarce environment. Dynamism is related to the turbulence, that is, the dimension of stability versus instability. It has been found that small firms that face an environment with increasing dynamisms tend to grow faster than others. (Wiklund, 2008).

Environmental complexity indicates that there are several different segments of the market with varied characteristics and needs that are to be served by the firm. Thus, the firm sees a heterogeneous environment a complex.

THEORETICAL FRAMEWORK

Three Sigma's Theory

This model is an application of Peter Drucker theory of the business. The essential belief of this theory is that lots of business organizations decline and fail for the reason that the suppositions they formulate that form the root for their basic business decisions become obsolete or invalid (Whittington, 2002). For this cause, all businesses and organizations must from time to time observe their basic suppositions to find out whether they persist to reflect the existing realities they combat with and also how they should modify it just in case they do not. This model makes available for the organization to discover and inspect those suppositions and amend them if required. This model is appropriate for the use of businesses, governments, and non-profit organizations. It can as well be used for new business startups to spot, look at, and formulate precise assumptions that will be the cause of their business planning. The model has three divisions with each one holding one or more components that present a framework to analyze what went before and current decisions. (Ezenwa, 2016).The first division is organizational focus, which necessitates that strategic thinking starts in on a reassessment of organization's mission, vision, and purpose, and the examination of these components for sensibleness and reliability to spot inherent and precise suppositions that have an effect on decision on whether to enter or remain in the business enterprise activity.

The second division of this model has to do with the external environment and contains five components. The first component obliges the enterprise to analyze the social, economic, and political factors in the external business environment to establish the precise suppositions regarding them that influence the business's decisions, and its activities. The second component emphasizes market factors such as existing and potential customers, distribution channel, advertisement, promotion, pricing, product distinctiveness, and among others, which require strategic thinking to find out the relevant suppositions on them that influence the business decisions.

The third component of this division reflects on the users of the enterprise product, and calls for the firm to evaluate the factors of its customer behaviour which include the firm's product purchase decision, influences on the purchase or use of the product and so on, to find out the customers characteristics that influence the decision and expectations of the business organization.

The fourth component obliges the firm to study the technological factors of the business environment to find out the causal features of the technological environmental factors that influence the firm's decisions and expectations.

Lastly, the fifth component dwells on the industry competitive formation and necessitates the need for the business Organisation to examine this formation to determine competitive formation feature that influences the business decisions. This structure includes the potential new entrants into the market, suppliers, substitute products, market segment product, and major competitors. These competitive industry factors which pose the greatest threat that must be neutralized by taking strategic actions.

Empirical Review

[Varun and Chotia](#), (2015) carried out an empirical investigation of the link between infrastructure development and poverty reduction, the case of India. The purpose of the paper is to analyze the relationship between infrastructure development and poverty reduction for India using the yearly data from 1991 to 2015. The authors use the principal component analysis to construct indices for four major sub-sectors, namely, transport, water and sanitation, telecommunications and energy, falling under the broad infrastructure sector and then using these sector wise indices, the authors construct an overall index which represents infrastructure development. The authors provide evidence on the link between infrastructure development and poverty reduction by using the auto regressive distributed lag (ARDL) bound testing approach. Findings reveal that, the ARDL test results suggest that infrastructure development and economic growth reduce poverty in both long run and short run. The causality test confirms that there is a positive and unidirectional causality running from infrastructure development to poverty reduction.

Nhung, and Baiding (2013) carried out an investigation of the empirical Analysis of Credit Accessibility of Small and Medium Sized Enterprises In Vietnam This study surveys SMEs credit accessibility, identify the factors that affect their credit access, and the interest rate charged on their loan in Vietnam. Primary data are obtained from a survey of 487 SMEs in Hanoi in June 2013. Logistic regression is used to determine SMEs' ability to access to credit and ordinary least square to estimate the interest rate charged on the SMEs largest loan. The results show owner characteristics, educational level and gender are the most important factors in determining the access to credit, followed by SMEs relationship with banks and customers.

Parola & Jasmine (2013) investigated in to the Logistics infrastructure projects in emerging economies. The paper performs a large empirical investigation using multivariate multiple regression analysis. The sample from the Private Participation in Infrastructure (PPI) dataset of the World Bank includes over 1300 projects involving private participations in logistics infrastructures of 85 developing countries, for a total investment of around 334 billion USD in the 1996–2013 period. The sample projects belong to major logistics and transport sectors such as ports, airports, roads, and railways. Information is confirmed and complemented by data derived from International Union of Railways, Airports Council International, Drewry Shipping Consultants, and International Association of Ports and Harbours. The results demonstrate the adoption of some dependence-reducing strategies in response to the financial and technical complexity of PPP projects, e.g., large number of private partners in the PPP project company, broad experience of the consortium members, and familiarity of investors with the host cultural area.

Lien-Wenliang, Polak, Lin, Lay, Zheng, & Fuchs, (2014) investigated the impact of SMEs' lending and credit guarantee on bank efficiency in South Korea. The study examines how small and medium-size enterprises' (SMEs') lending and credit guarantee affect Korean banks' efficiency, by employing the stochastic frontier approach on 14 banks over the period 2001–2010. When lending increases to SMEs, the findings indicate that banks' cost efficiency decreases due to information asymmetry. However, the increased proportion of credit guarantee can improve their cost efficiency. This proves that South Korea's credit guarantee system can indeed share SMEs' credit risk of lending in order to help raise bank efficiency.

Binam and Abo (2016) carried out an Empirical Investigation of Ivorian SMEs Access to Bank Finance: Constraining Factors at Demand-Level. They investigate the issue of inadequate funding among SMEs operating in Cote D'Ivoire. Data was collected from SMEs operators in both urban and rural areas. The research applies probability sampling, cross-tabulation and correspondence analysis techniques. The paper finds information asymmetry and inadequate collateral as two major constraints that limit the flow of credit from banks to SMEs. The findings reveal that this phenomenon is more recurrent in the micro-enterprises compared to small or medium enterprises.

Samiul, Wang, Yong and Foliente(2017) carried out an empirical study on Accessibility and socio-economic development of human settlements, they investigated herein the connectivity and accessibility of all 1814 human settlements (population centers exceeding 200 persons) in Australia, and how they relate to the socio-economic characteristics of, and opportunities in, each population center. Assuming population as a proxy indicator of available opportunities, we present a simple ranking metric for a settlement using the number of population and the distance required to access all other settlements (and the corresponding opportunities therein). They find a strikingly unequal distribution of access to opportunities in Australia, with a marked prominence of opportunities in capital cities in four of the eight states. The two largest cities of Sydney and Melbourne have a dominant position across all socio-economic indicators, compared to all the other cities. In general, they observe across all the settlements that a decrease in access to opportunities is associated with relatively greater socio-economic disadvantage including increased median age and unemployment rate and decreased median household income. Our methodology can be used to better understand the potential benefits of improved accessibility based on infrastructure development, especially for remote areas and for cities and towns with much socio-economically disadvantaged population.

METHODOLOGY

Area of the Study

The area of study was the five South Eastern states of Abia, Anambra, Ebonyi, Enugu and Imo states that made up the South East Geo political zone. This is one of the six Geo political zones in Nigeria. The study was directed at the SMEs clusters in each of the states, to be specific, as follows; (1)Abia State: Aba, Umuahia and Ohafia (2)Anambra State: Awka, Onitsha, Nnewi and Ekwulobia. (3) Enugu State: Emene, 9th mile and Nsukka. (4) Ebonyi State: Abakiliki and Afikpo (5) Imo State: Owerri, Orlu and Okigwe.

Sources of Data

The primary source of data was used in this study because of the variables that was used in the study. Questionnaire and semi structured interview was used to collect data from manager-owners and other key officers in the selected SMEs.

Population of the Study

This describes characteristics of SMEs in the five Eastern states of Abia, Anambra, Ebonyi, Enugu and Imo states which constitute the universe of this study. Therefore the population of interest was all operational SMEs in the five Eastern states (between 2006 and 2016) with not less than 10 employees. Thus the population of this study is 4871 SMEs. This population figure was derived from NBS/SMEDAN MSME collaborative survey for 2018.

Determination of Sample Size.

The sample size for this study was determined using the Borg & Gall formulae of (1973) statistically given as,

$$n = (Z_x)^2(e) [N]$$

$$(Z_x)^2 = \text{Confidence level at } 0.05$$

$$e = \text{Error of margin (0.05)}$$

$$N = \text{Population of Interest} = 4871$$

$$X = \text{Significance Level}$$

$$= (1.960)^2 (0.05) [4871]$$

$$n = (1.960)^2 (0.05) [4871]$$

$$n = (3.8461) (243.55)$$

$$= 93672 \implies 937$$

$$n = 937$$

States	Distribution	Sample	Percentages
Abia	1060	204	22
Anambra	1393	268	28
Ebonyi	476	92	10
Enugu	834	160	17
Imo	<u>1108</u>	<u>213</u>	<u>23</u>
Total	4871	937	100

$$r = \frac{x}{N} \times \frac{n}{1}$$

Where r =sample proportion

X=number of SMEs in the state

N=total population

n=total sample.

$$\frac{1060}{4871} \times \frac{937}{1} = \frac{993,220}{4871} = 203.91 = 204$$

$$\text{Anambra} = \frac{1393}{4871} \times \frac{937}{1} = \frac{1305241}{4871} = 267.96 = 268$$

$$\text{Ebonyi} = \frac{476}{4871} \times \frac{937}{1} = \frac{446012}{4871} = 91.565 = 91.57 = 92$$

$$\text{Enugu} = \frac{834}{4871} \times \frac{937}{1} = \frac{781458}{4871} = 160.4307 = 160.4 = 160$$

4871 1 4871

$$\text{Imo} = \frac{1108}{4871} \times \frac{937}{1} = \frac{1038196}{4871} = 213.138 = 213.14 = 213$$

4871 1 4871

Model Specification.

The fundamental linear equation which forms the model is drawn from the theoretical and empirical literatures reviewed in the previous chapters, it is observed that there is a casual link between the business environment and the performance of small and medium enterprise in Nigeria. In this section we pursue the same objective further by specifying our model. The model is to verify the business environment and the performance of small and medium enterprise in Nigeria. This approach is to modify the model by specifying a multiple regression equation made up of small and medium enterprise as a function of the independent variables. As a result, the model is specified below,

$$\text{SMEs} = f(\text{IFA}, \text{INT}, \text{TCH}, \text{BC}, \text{GPO})$$

Where

SMEs = small and medium enterprises, proxy of firm profitability

IFA = Infrastructural accessibility

INT = Interest rate

TCH= Technology

BC= Business credit

GPO= Government policy

f=Functional Notation

The above equation can be put in an econometric form as;

$$\text{SMEs} = b_0 + b_1 \text{ IFA} + b_2 \text{ INT} + b_3 \text{ TCH} + b_4 \text{ BC} + b_5 \text{ GPO} + \mu$$

Where;

- b_0 = Autonomous or intercept
- b_1 = Coefficient of parameter IFA
- b_2 = Coefficient of parameter INT
- b_3 = Coefficient of parameter TCH
- b_4 = Coefficient of parameter BC
- b_5 = Coefficient of parameter GPO
- μ = Stochastic variable or error term

EMPIRICAL REVIEW

This chapter presents the data obtained from the respondents through the administered questionnaire. Nine hundred and thirty-seven (937) questionnaire were administered. However, Nine hundred and twenty two (922) questionnaire were retrieved. 98.4 was the percentage rate of returned questionnaire. Therefore the analysis and interpretation of data were only based on the returned questionnaires. The method used was the Ordinary Least Square (OLS) regression technique. The method was adopted because it possesses unique estimating properties which include unbiased, efficiency and consistency when compared with other linear unbiased estimates.

Respondents Demographic Variables

Gender Distribution (SEX): The gender distribution constitutes a larger chunk in favour of male accounting for about 69%, while female account for about 31%

Status: majority of the respondents are married at the time of this study. Married were at 85.6% while single were 14.4%

Rank: Majority of the respondents representing about 13.0% were WAEC/NECO holders, followed by B.Sc/HND 47.3% while the least where Ph. D 16.2% and M.Sc 23.3%

Age of Respondents: Interestingly, the respondents were in the selected areas in their late twenties and late fifties selected from the five eastern states

Years in service: This is to show the number of years one has been in his/her business 0-10 years is 3.7%, while 11-15 years is 20.4%, follow by 16-20 years which is 45.8% finally 21-above years is 30.1%.

Presentation of the Regression Result

The full part of our regression result for this analysis is attached as an appendix to this study. However, the diagnostic tests or some key statistics or the variable that needs to be interpreted is shown below.

Variable	Coefficient	Std error	T-test	Prob
C	3.934238	1.114921	3.528714	0.0014
IFA	0.299056	0.134492	0.223596	0.6341
INT	-0.236763	0.093245	-0.539144	0.9167
TCH	0.270445	0.060164	4.495097	0.0001
BC	0.601169	0.008875	0.131737	0.8961
GPO	0.821357	0.117079	4.015433	0.0000

Source: Author’s computation using E-view 9 2018

R- Square	0.890644
Adjusted	0.871789
F- Statistics	47.23766
Prob (F- statistic)	0.00000
Durbin-Watson	2.304176

Interpretation of the Result

Coefficient of determination, also called the goodness of fit, explains the percentages, proportion or total amount of variations in the regression and or dependent variables as a result of changes in the regresses or independent variables included in the model. This will portray the usefulness significance of the regression. The closer its values is to 1 the better the fit since it is usually 0-1. From our regression result, R² is 0.89%. This implies that the independent variables can explain about 89% of the variable in the dependent variable, leaving the remaining 11% which would be accounted for by other variable outside the model. The adjusted R² is 87% meaning that even with an adjustment in the independent variables, they can still account for about 87% of the changes in the dependent variables.

The a priori expectation is used to determine the existing business theories and this indicates the signs and magnitude of the variables. From our regression, it is observed that infrastructural accessibility has a positive sign, given us value as 0.299056, this implies that increase in infrastructural accessibility increases the profitability of small and medium scale enterprises by 29%. This conforms to our a priori expectation, Meanwhile interest rate has a negative sign given its value as -0.236763, this implies that decrease in interest rate will increase the profitability of small and medium scale enterprises by 23%, this suggest that it conform to our theoretical expectation. However, Technology has a positive sign, given its value as 0.270445, this suggest that a unit increase in Technology increase the profitability of small and medium scale enterprises by 27% this further suggest that it conform to our theoretical expectation. Business credit confirm to business theories because in increases in Business credit increases profitability of small and medium scale enterprises by 60%, lastly government policy has a positive sign, given us value as 0.821357, this implies that increase in government policy increases the profitability of small and medium scale enterprises by 82%. This conforms to our a priori expectation.

The F- statistics, this is used to test for the overall significant of the model. . From the result in table 4.3 above, our computed value of F- statistics is 47.23766, while the probability is 0.000000. Since the probability of the F- statistics in the computed output is less than the desired 0.05 level of significance, we accept and state that there is a significant relationship between the variable of the estimate and that of the dependent variable.

T- Statistics, this is carried out to know the significant of individual explanatory variables in the model. That is to find out the significant influence of explanatory variables on the dependent variables at chosen level of significant. It was discovered that infrastructural accessibility is statistically insignificant; given its value as 0.223596 this implies it insignificantly affects profitability of small and medium scale enterprises. Meanwhile, it has not contributed significantly to performance of small and medium scale enterprises. It was also noted that interest rate has insignificant effect on profitability of small and medium scale enterprises; this implies that it does not contributes significantly on the performance of small and medium enterprise in south East of Nigeria.

It was shown from the regression table 4.1 above that technology has positively contributed to profitability of small and medium scale enterprises, this simply implies that it enhanced performance of small and medium enterprise in south East of Nigeria.

Bank credit is 0.131737, P.value (0.8961) this implies it's statistically insignificant and has not contributed significantly to the performance of small and medium enterprise in south East of Nigeria. A look at ratio of government policies has shown its value as 4.015433 (0.0000) this maintains that it's statistically significant and has contributed highly to the profitability of small and medium enterprise in south East of Nigeria

Test for autocorrelation, this is to test whether errors corresponding to different observation are uncorrelated. It checks the randomness of the residuals. If the value of the Durbin-Watson from the regression result is close to 2 no autocorrelation in that regression result but if it deviates significantly, then there is autocorrelation. The Durbin-Watson statistic (D.W) of 1.8 reveals no autocorrelation in the models. Hence, the result is good for prediction purposes.

DISCUSSION OF THE FINDINGS

From the analysis done it was found that infrastructural accessibilities is lacking in small and medium enterprises in south east this is made know through the findings from the analysis. Government infrastructure is the one of most basic ingredient of small and medium scale enterprise. It is important to know that road, water, power supply is necessary for development of any business. There is low rate of return without full installation of theses infrastructures. The study shows that interest rate is insignificant, this simply shows that interest rate charged by the lending institutions has not encouraged small and medium scales enterprises in south east. Interest rate should be charged less to enables the small entrepreneurs to procure loan for the expansion of their industries. Findings suggests different outcomes in business performance of small and medium firms operating in different districts. High level of education, high level of sophistication and strong purchasing power of most clients/customers in the affluent areas are shown to be catalysts to ICT-driven business performance of firms operating in such communities. By contrast, the prevailing weak purchasing power and high rate of illiteracy that characterized disadvantaged districts served by studied firms are shown to limit the extent of improvement, communication technology could contribute to business performance of firms in such areas.

Bank credit to small and medium enterprises has significant effect on small and medium scale enterprises; this has been a serious threat to the development of business in south east. Most times lending institution use non existing collateral to scare the borrowers away there by creating a deficiency in the market. Capital is the main catalyst of any business and as such government should include it on its policy to expand the small and medium scale enterprises in South East Nigeria. Government policy has significant effect on small and medium scale enterprise, government should uphold its existing policies and review new policies in terms of infrastructure, business credit and high interest rate charge by the banks.

CONCLUSION AND RECOMMENDATIONS

The study focuses on the effect of Business environment on the performance of small and medium scale enterprises in the manufacturing subsector in Nigeria with reference to those in South East Nigeria. The study adopts descriptive statistics and ordinary least square method on a time series data from 001 to 922. The study regressed Business environment on small and medium scale enterprises in the manufacturing subsector in Nigeria. The regression result reveals that about 89 % of the systematic variation in the dependent variable is explained by the five independent variables. The F-statistic is significant at the 5% level showing that there is a linear relationship between the Business environment and the five independent variables. The researcher selected fifteen towns from the five selected eastern states. Nine hundred and thirty-two questionnaires were distributed but only nine hundred and twenty-two, were successful filled and returned the response rate was 98.4%. The analysis was done using E-view package, this was chosen because it gives us fast, accurate and reliable result

The result revealed that Infrastructural accessibilities has no significant effect on profitability of small and medium enterprise, Interest rate has no significant effect on profitability of small and medium enterprise, Technology has significant effect on profitability of small and medium enterprise, Bank credit has no significant effect on profitability of small and medium enterprise, Government policies has significant effect on profitability of small and

medium enterprise. The researcher concluded that Business environment has no significant effect on small and medium scale enterprises.

In line with the findings of the study the following recommendations were made:

1. Government of the day should provide infrastructural facilities, such as good road network, steady power supply, water etc. to facilitate the activities of small and medium scale enterprise in South East Nigeria.
2. Moreover, the government should empower the SMEs to access and get credits from the commercial banks through formal and informal entrepreneurship education for SMEs to develop their managerial capabilities and be more creditworthy. Certificates of attendance obtained from such trainings should be made a prerequisite to obtain loans.

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