

## The Impact of Business Environment on the Survival of Small Scale Businesses in Nigeria

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### ABSTRACT:

In this digital age, information is the popular currency while knowledge is the preferred coin essential in getting the best deal. Nowhere is more real than today business environment which affect the success or otherwise of any business venture. Several authors have attributed failure of businesses particularly small and medium scale enterprises to various factors ranging from training of the entrepreneur to exposure and experience while some analysts opined that business environment could impact on small and medium scale enterprises. Hence, using the logistic regression technique to analyze primary data obtained through a structured questionnaire administered to Eighty small scale businessmen and women operators in Ijebu North Local Government area, (Ogun State) South-West Nigeria, this study seeks to ascertain the nature of the relationship between business environment and the survival of small and medium scale businesses in Nigeria.

The obtained result revealed that the model of logistic regression was able to predict the distribution of 72.15% of the observed values of the dependent variable as factors such inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival. Hence, it is recommended that small business operators must developed and adopt scientific and rational business management strategies that will aid and increase their understanding of both their business and its environment in order to facilitate planning and predictions on the most significant factors that affects business survival.

**Keywords:** *Business environment, Small scale business, Survival, Strategies, Opportunities, Threats*

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### INTRODUCTION

The present day business environment is marked by different dynamic features such as global competition, information technology, quality service revolution and corporate social responsibility which are compelling managers to rethink and reshape their approach to their various operation responsibilities. Due to this paradigm shift, new firms are emerging that are more responsive to both their internal and external environments (Luthans, 1995).

The internal factors exist within the operational base of an organization and directly affect the different aspect of business. These

internal factors include firms Mission, resistance to change, poor quality staff, lapses in internal control, bad resource/financial management, operational weaknesses, high staff turnover and over-leveraging while the external factors include government regulation, economic recession, political turmoil, low cost competitors, changes in customer behavior, environmental/health issues, technological changes, natural disasters, change in input supply, changes in macro economic variables and terrorist attacks. Hence, it is important for a business to keep a pace with the various changes in the

environment in order to survive in the long run.

Similarly, every business settings often bring in new way of thinking about the business environment and new ways of acting. (Belohlav,1996). Hence, coping with these multitude of challenges require a firm that can easily adapt to change. This makes the small and medium scale enterprises (SMEs) the driving force in economic growth and job creation in both developed and developing countries due to their ability to experiment new approach at minimum cost and create a standardized product/ services that can meet the needs of a large target market (Sunter, 2000). However, more than half of newly established businesses survive beyond five years. Hence, the identification of those factors which empirically lead to entrepreneurial success/failure would assist in equipping small business owners with the necessary managerial skills to survive in today's competitive environment as well as exploit several strategies that will improve their operational efficiencies. The remaining parts of this study include a brief literature review, research methods, data analysis, conclusions and recommendations.

#### **Literature Review**

According to Ciano (2011), business is a series of collisions with the future while its present day challenges include convergence, corporate governance, corporate reporting, fraud, operating globally, improving business performance, managing assets, change and people, mergers and acquisitions, risk management, shareholder's values and sustainability. He opined that since it is neither the strongest of the species that survives, nor the most intelligent; it is the one that is most adaptable to change; hence companies that make up the industry have faced the need for equivalent of self-administered surgery with no insurance, no aesthetic, and no assurance of long-term health.

Thus, the success of every business depends on adapting itself to the environment within which it functions. Hence, the term business environment represents all forces, factors and institutions that are beyond the control of the business and affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some

of these factors or forces may have direct influence over the business firm, others may operate indirectly (Duncan, 1972). Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affect the business decisions of a firm.

According to Adebayo et al. (2005) business environment can be broadly categorized into internal and external environment with the former comprising variables or factors within the control and manipulation of the firm to attain set objective while the latter encompasses factors that are outside the control and manipulation of the firm. Hence, firm must develop a plan that will help it to cope with the various environmental forces (Oluremi and Gbenga, 2011).

Similarly, the nature of business environment are said to be classified as dynamic, stable and unstable which often help a firm in the selection of appropriate strategies (Ibidun and Ogunde, 2013). Adeoye (2012) opined that in order for business to cope with the dynamic and rapidly changing business environment, there is a need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results. Similarly, Ogunde (2005) added that a firm perception of the nature of the business environment is a function of its size and industry.

Business survival is the ability of a firm to continuously be in operation despite various challenges i.e. the managerial process of directing the affairs of a firm regularly on a going concern basis and meets the needs of all stakeholders (Akindele et al., 2012). Dun and Bradstreet (1979) viewed business failures as a situation where a business go into bankruptcy or cease operations which results in losses and failure to meet its various financial commitment to creditors. In order to survive, firms always keep a close tab on the various activities that determine their continuity. Adeoye (2012) submitted that the present form of complexities facing firms include leadership styles, changes, uncertainty, conflict, culture, technology,

structure, competitive market, profitability and workplace motivation. Hence, firms must develop a strategical plan and tactical procedure that is appropriate and adaptive to the present business environment that will aid its optimum resources utilization and attainment of set goals.

Burns (2001) opined that small scale business cannot be characterized as only scaled down versions of large firms since they show a number of fundamental differences which can be explained through absence of economies of scale and scope which amongst others is also caused by less provision of factors of production. Thus, Ciano (2011) opined that there are four determining factors in any transformation initiative for any business entity. This includes duration of time between reviews of milestones; the project team's performance integrity which is the ability to complete the initiative on time that depends on members' skills and traits relative to the project's requirements; the commitment to change of the top management and employees affected by the change display and the effort over and above the usual work that the change initiative demands of employees.

Alexander (2000) observed that the dynamic and rapidly changing business environment in which most businesses operate has made business environment to have significant impact on organizational survival and performance. This implies that the external environment is complex and constantly changing and its significant characteristic is competition. The recognition of the presence of an intense competition often compel the need to seek more information about customers for the purpose of evaluation and to use such information to their advantage thus enabling competition to drive business organizations to look for their customers in order to understand better ways to meet their needs, wants, and thereby enhances organizational performance (Azhar, 2008).

Porter (2004) developed the five forces of competitive position analysis as a simple framework for assessing and evaluating the competitive strength and position of a business organisation. His theory is based on the concept that there are five forces which determine the competitive intensity and attractiveness of a market and helps to identify where power lies in a business situation. This is useful both in understanding the strength of an organisation's

current competitive position, and the strength of a position that an organisation may look to move into. The five forces are supplier power, buyer power, threat of substitution, threat of new entry and competitive rivalry.

Ogundele and Opeifa (2004) submit that external business environment and their factors helps visualize the analysis of business survival and growth in an attempt to enhance understanding of how environmental factors work together with the variables of business survival and growth to determine the future of business organisation.

Ghazali et al. (2010), showed that the internal source of firm's strengths are related to their financial resources while the weaknesses are related to the firms' management. On the other hand, the external source of opportunities to the firms are support and encouragement from the government while threats come from the various bureaucratic procedures that firms have to face in order to get plan approval and certificate of fitness. Similarly, Norzalita and Norjaya (2010) investigated the influence of the external environment in the market orientation-performance linkage among SMEs in the agro-food sector in Malaysia and reported that market-technology turbulence and competitive intensity did not moderate the relationship between market orientation and business performance.

Adeoye (2012) reported that environmental changes are continuously exerting new pressures on company performance and in order to adapt with these changes, companies often formulate and implement strategies to reorganize and reform the way products are manufactured and distributed to final consumers. Thus, the impact of environmental factors on business performance towards profit objective is found to have increasingly stronger interrelationships which require more sophisticated business strategies.

#### **Hypothesis**

**H<sub>0</sub>:** Business environment does not influence SMEs survival.

#### **RESEARCH METHOD**

This study examined impact of business environment on the survival of small scale businesses in Nigeria in terms of how the business environment shape the survival,

relevance, growth and extinction of small scale business. In order to achieve the study objective, the author developed a questionnaire which tests the various aspects of business environment parameters that are peculiar to the study area. The self administered questionnaire measures the views of the selected entrepreneurs who have been operating for at least three years since the period provides a minimum basic exposure and experiences in business operations. In order to discover the particular internal problems of a business, a strengths and weaknesses analysis was used. A weakness of the business can be considered as a specific problem of the business. This weakness may not, however, be a problem for another business. Buhalis (1992) argued that the strengths and weaknesses of a business indicated the competitive position of the business. On the other hand, an opportunity and threat analysis was used to discover the various external problems facing businesses in the region. A total of 120 questionnaires were administered out of which 86 were returned although 6 were excluded from the analysis due inertia responses.

Using the logistic regression which is an extension of multiple regressions in which the dependent variable is not a continuous variable with only two values, it is possible to make predictions about a categorical dependent variable from independent variables. The probability estimates will always be between 0 and 1. The Logistic regression analysis was performed on the two main categories of variables which are external and internal variables and they were combined and included into final run and reached the logistic regression final environmental model (Simsek and Yuzbasioglu, 1999).

## **RESULTS AND DISCUSSION**

From table 1, it is observed that majority of the respondents still suffer from all the external business environment challenges such as Competition, Inflationary trend, Technological changes, Government policy, Infrastructural facilities accessibility, Changing consumer behaviour and Income. Only few claim to have control on government policy and consumer behaviour as a source of opportunity for the business while others still find it difficult to cope with them due to their dynamic nature. The

majority of the respondents consider inflationary trend, competition and Infrastructural facilities accessibility as the most important external problems to the growth of their businesses. Equally, marketing related problems, financial related problem, business strategies and product quality are still being considered as important weak points in business to the respondents while a sizeable number see business size, qualified employees, locations of business and personal relation with customer as a great source of strength to their business operation.

Similarly, the results obtained from data analysis as presented in table 2 and 3 shows that the model of logistic regression was able to predict the distribution of 72.15% of the observed values of the dependent variable, with a -2 Log Likelihood value of 105.20 while factors like inflationary trend, Infrastructural facilities accessibility and government policy are barriers to business growth and survival, the other variables that can be controllable by managers are making a positive effects on their business continuity.

## **CONCLUSION**

Small scale businesses are indispensable catalyst and important contributor to the economic growth in every nation due to their vast irreplaceable prospect in the economy. Small businesses serve as laboratory for the development and innovation of new ideas and offerings before market commercialisation in order to prevent the production of goods and services that does not meet consumer expectation. This unique nature of small scale business makes the personalization and modification of product to meet consumer preference easy. Hence, small business operators must develop and adopt scientific and rational business management strategies that will aid and increase their understanding of both their business and its environment. A sound knowledge of the dynamic business environment will facilitate the planning and predictions on the most significant factors that affect business survival.

This study indicated that competition, inflationary trend, technological changes, government policy, Infrastructural facilities accessibility, changing consumer behaviour and income are still problems to small business

managers. Hence, it is concluded that small business operators must learn how to adapt and cope with them in order to remain in business. Also, they should use the experience gained during the last three years of operations to learn how to deal with the various business environment forces in order to survive, make meaningful profit and expand their operation base by meeting the needs of consumers, increase business capacity in

order to adapt to their business environment, effectively plan their operations and control cost in order to ensure the attainment of their set goals. Also, government should check their various regulation and control towards business formation in order to detect and remove all aspect of their activities that discourage hard work and prevent the continuous emergence, survival and growth of small business operation in the stat.

**Table 1: Key business environment factors facing respondents**

	FREQUENCY		PERCENTAGE	
	Yes	No	Yes	No
<b>External Environment (Opportunity or Threat)</b>				
Competition	68	12	85	15
Inflationary trend	74	6	93	8
Changing consumer behaviour and Income	59	21	74	26
Infrastructural facilities accessibility	73	7	91	9
Government policy	59	21	74	26
Technological changes	58	22	73	28
<b>Internal Environment (Strength or Weakness)</b>				
Marketing related problems	52	28	65	35
Business Size	15	65	19	81
Financial related problem	61	19	76	24
Qualified employees	34	46	42	58
Business strategies	54	26	68	32
Locations of Business	32	47	40	60
Personal Relation with Customer	15	65	19	81
Product Quality	59	21	74	26

**Table 2: The log likelihood result**

<b>-2 log likelihood</b>	105.20		
<b>Goodness of fit</b>	120.31		
	<b>Chi-square</b>	<b>d.f.</b>	<b>Sig.</b>
<b>Model Chi-Square</b>	100.62	14	0.0002
<b>Overall percent correct</b>	72.15%		

Table 3: The logistic regression results

Variables	B	S.E.	t	Wald	d.f.	Sig	R
Constant	1.2754	0.6512	1.958538	8.247	1	0.5512	
Competition	0.6894	0.025	27.576	13.199	1	0.0000	0.286
Inflationary trend	-0.2955	0.362	-0.8163	5.654	1	0.0012	-0.465
Changing consumer behaviour and Income	0.5894	0.058	10.16207	11.0625	1	0.003	0.652
Infrastructural facilities accessibility	-0.4235	0.0235	-18.0213	9.2568	1	0.015	-0.457
Government policy	-0.6324	0.865	-0.7311	12.697	1	0.002	-0.235
Technological changes	0.3959	0.5324	0.743614	7.5647	1	0.017	0.429
Marketing related problems	0.2357	0.2347	1.004261	5.2462	1	0.023	0.389
Business Size	0.7568	0.1547	4.892049	15.5647	1	0.051	0.823
Financial related problem	0.2561	0.0258	9.926357	6.2358	1	0.0421	0.485
Qualified employees	0.4655	0.069	6.746377	8.2364	1	0.054	0.286
Business strategies	0.5813	0.451	1.288914	8.2589	1	0.571	0.364
Locations of Business	0.6242	0.568	1.098944	12.2544	1	0.004	0.512
Personal Relation with Customer	0.2371	0.023	10.3087	6.2358	1	0.012	0.340
Product Quality	0.3897	0.269	1.448699	11.2588	1	0.234	0.201

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