



# **Environmental Factors and the Performance of Micro and Small Scale Enterprises (MSEs) in Nigeria: Lessons from Some Selected MSEs in Ondo State Nigeria**

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## **Authors' contributions**

*This work was carried out in collaboration between all authors. Author OJ designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Author YKK managed the analyses of the study. Author TI managed the literature searches. All authors read and approved the final manuscript.*

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## **ABSTRACT**

Micro and small-scale enterprises (MSEs) are very vital for economic growth and development. Despite their importance, they still contend with myriad of environmental factors (internal and external) which negatively affect their performance. This paper examines the relationship between environmental factors and the performance of MSEs focusing on two commercial towns (Ikare and Ugbe Akoko) in Akoko North East local government of Ondo State, Nigeria. Data were gathered through a structured questionnaire and analysed using descriptive statistics and Spearman Product-Moment Correlations. A purposive sampling technique was employed and a sample of 204 owners/managers of MSEs was surveyed. The findings revealed that environmental factors (inadequate finance, inadequate infrastructure and poor managerial skills) have a significant ( $p = .05$ ) and negative relationship with MSEs performance (profit, revenue and employees). The

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findings imply that majority of MSEs are chronically underfinanced as a result of funding inaccessibility. Owners/managers of MSEs do not possess the requisite managerial skills because of the ignorance of training benefits. Lastly, inadequate infrastructure affects MSEs performance minimally because of substitute like generators, sachet water, etc.

*Keywords: Environmental factors; Micro and small-scale enterprises (MSEs); performance; Ondo State; Nigeria.*

## 1. INTRODUCTION

Micro and small-scale enterprises are no doubt the engine room for economic growth, poverty alleviation, job creation and by extension crime rate reduction in third world countries. Most of the existing MSEs employ less than 20 workers which comprise mainly of family members; they rarely expand by not employing more workers and opening other branches [1]. Microbusiness has  $\leq 10$  employees,  $\leq 5$  million naira total asset,  $\leq 20$  million naira annual turnover and  $\leq 10$  million naira loan amounts while small business has  $>11 \leq 50$  employees,  $> 5 \leq 100$  million naira total asset,  $\leq 100$  million naira annual turnover and  $>10 \leq 100$  million naira loan amounts [2].

They have been the means through which accelerated economic growth and rapid industrialization have been achieved [3]. Moreover, small businesses have been identified as renderers of feeder service to large businesses [4]. While the contributions of small businesses to development are generally recognized, entrepreneurs in this sector go through series of obstacles that inhibit their long-term survival and growth. Researchers have indicated that starting a business is a risky venture and predict that the probability of small-business owners surviving the first five years of running the business is almost nil [5]. Some researchers into small-business development have also shown that the rate of failure of small-scale businesses in developing countries is higher than in the developed world [6].

The problems of poverty, unemployment and malnutrition have undermined the capacity of the economy and small-scale enterprises are seen as the only viable options of salvaging the situation. Regrettably, MSEs have been unable to propel economic growth and development which are capable of alleviating the impact of Poverty, crime, hunger, unemployment, and low standard of living on the economy. The challenge of addressing the problem of hunger, poverty and unemployment is even more worrisome when

considering the actualization of the millennium development goals which Nigeria is still struggling to fulfil till this year 2018, surpassing the deadline of 2015. Significant issues identified by the millennium development goal such as hunger, poverty, literacy, maternal and mortality rate were not achieved because the problems of SMEs were ineffectively handled.

It is argued that small-scale businesses in many countries where they operate are germane to the economic growth and development of that country or nation and they significantly better the lives of people [7].

Small businesses open up new jobs, create opportunities for upward social mobility, enable economic flexibility, and contribute to competition and economic efficiency and effectiveness [8].

Adidu and Olannye [9] 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. 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 [10]. Therefore, business organizations regardless of their goals must take into consideration, these environmental opportunities and threats. 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.

[11] emphasized that the need to study business environments is very crucial considering the fact that business organizations are not islands and an effective management in complex and dynamic society requires the assessment of strengths and weaknesses of the organization and the opportunities and threats provided by the challenges of the external environment, hence for survival and growth, organizations must cope and adapt to these challenges posed by the ever changing environment (internal & external) in which managers operate means that managers must not only be aware of what constitutes the elements of their business environment but also should be able to respond to the forces of the environment which inevitably impinges on the operations of the business organization.

The relationship between a business organization and its host environment can be viewed from three strategic angles; Firstly, the organization can be viewed as importing various kinds of inputs (resources), such as human resources, capital, managerial and technical inputs [10]. These inputs are then transformed to provoke output which takes the form of goods and services. The second view is the study of the relationship between the organization and the society. It focuses on the demands and legitimate rights of various stakeholders such as consumers, suppliers, stakeholders, employees, government and the host community itself. The third view is to see the organization as operating in an external environment of opportunities and constraints. All these approaches are equally important and complement each other.

Factors that affect businesses and their performances are many, ranging from internal to external factors and those internal factors are predictable and controllable while external factors are unpredictable and uncontrollable [12, 13].

MSEs have not performed to standard and consequently contributed miniscule efforts towards economic growth and development in Nigeria. (A Basil, St Clement University, Liberia, unpublished P.hD. Thesis). The low standard of MSEs towards vibrant and robust economic health could be attributed to internal and external environmental factors that need a holistic approach to manipulate.

Business performance is usually measured financially and non-financially. Focusing on one of these aspects could bring about incomprehensive approach. This study like other

empirical studies made use of both measures of performance.

Although many studies have been done on environmental factors and performance of small and medium sized enterprises in Nigeria, only a few focused on MSEs and none has been carried out in Ikare Akoko and Ugbe Akoko. Ikare Akoko is the headquarters of Akoko north east local government of Ondo state while Ugbe is a neighbouring town. These towns serve as a commercial hub for the whole Akoko area; have hundreds of businesses predominantly owned by Igbo people of the South-eastern region of Nigeria, hence a need for studying, identifying and explaining the environmental factors that affect business performance. This study focuses on this research gap and contributes to body of existing knowledge.

The rest of this paper is literature review, research methods, data analysis, conclusion and recommendation.

## 2. LITERATURE REVIEW

### 2.1 Definitions of Micro and Small Business (MSEs)

Generally accepted definition of Micro and Small Business (MSEs) does not exist because the categorization of businesses into either small or large is not objective and quantitative in terms of judgment [1,14]. Although many people have an idea of what small scale business is, but defining it poses a challenge and its definition depends on who is defining it and the purpose [12]. Definition of MSEs is peculiar to each country, development agency or institution and as such definitions of MSEs arise due to purpose for which it is being defined, giving rise to different definitions [15]. The parameter employed in describing and defining SMEs which MSEs is borne out of include capital, financial power and number of workers [16]. Julius I [17] described small business as having total assets in capital, plant, equipment and working capital that is not more than ₦250,000 and employs at most 30 full-time workers.

The yardsticks that have been utilized in the definition of small scale business include, capital investment, sales turnover, accessibility, employment, output and in some cases, a synthesis of some or all of these parameters [12]. Eniola AA [18] explains that MSEs are classified

in the USA, Canada and Britain on the basis of annual turnover and the number of paid workers while in Japan MSEs are classified on the basis of industry paid up capital and the number of workers.

Generally MSEs produce light consumer goods like food and beverages, electrical parts, automotive parts, clothing manufacture, soap and detergents, leather products, woodworks etc. [19]. A small scale business has total assets of less than ₦50 million, with less than 100 employees [18] usually, small scale enterprises operate in informal and semi-formal sectors [20]. Small scale business in Nigeria comprises of three sectors: (1) Trading sector (2) Production sector (3) Service sector [4]. Ajibefun and Daramola [21] explained that small scale enterprises are commercial enterprises that have up to ten or lesser number of employees. Abubakar S [12] gives the classification adopted in the recent survey of the enterprises in Nigeria as: Micro enterprises less than 10 employees and small scale enterprises (10-49) employees. Meanwhile [2] defines Micro business as having  $\leq 10$  employees,  $\leq 5$  million naira total asset,  $\leq 20$  million naira annual turnover and  $\leq 10$  million naira loan amounts while small business has  $> 11 \leq 50$  employees,  $> 5 \leq 100$  million naira total asset,  $8 \leq 100$  million naira annual turnover and  $> 10 \leq 100$  million naira loan amounts. Given that different criteria and purposes are used in defining MSEs across countries and institutions, it is plausible to adopt one of the definitions reviewed above. This study therefore adopts [2] classification of MSEs.

## 2.2 Conceptual Review

### 2.2.1 Business environmental factors (internal and external)

Business environment is described as the combination of both internal and external factors of the business outfit influencing the continued and successful organisational existence [22]. The environment and its components undoubtedly have effects on the performance of MSEs. Internal environmental factors consists of variables that are easily controllable by the business [23]. These variables include finance, managerial competencies and skills, technological capabilities, raw materials and marketing. Finance is a vital variable of the internal environment and access to finance is one of the main obstacles for growth and survival of start-up SMEs in Africa [1,24]. Managerial

competencies and skills in MSEs context is the ability of managers or owners to produce a good business plans, do thorough accounting job, introduce sophisticated and appropriate technologies and expertise and ensure a high level human resources management [25]. Technological capabilities is germane to the survival of MSEs especially in this era of stiff competition. Technology changes rapidly hereby has the potential of affecting the competitiveness of firms [26]. Raw materials are the basic inputs for businesses to generate goods and services. The non-availability or low supply of raw materials pushes cost of operations up [27]. Marketing literally is the ability to attract potential and actual customers and eventually stimulate a demand. However, many MSEs accept that poor marketing is a major growth obstacle [1].

On the other hand, external environmental factors encompass factors that the firms can neither control nor manipulate [5]. External environment broadly consists of economic, socio-cultural, political, technological and legal/public policy environment. Specifically they include competition, infrastructure, government policies and political factors. Competition is a major issue that affects the performance of MSEs. Competition significantly affects MSEs market share and subsequently their inability to grow [1]. Infrastructure plays a significant role in the performance of MSEs and this role cannot be over-emphasized, because infrastructural issues like: power, steady water supply, good road network, market and sound communication system are regarded as flavour on MSEs performance [25]. Government policies are tools used by government to create a conducive environment for SMEs to thrive [26]. So, government policies are naturally expected to favour local businesses at the expense of foreign ones. Political factors are hinged on the politics being played by the government of the day in power to assist MSEs and all forms of business. Political issues include nationalization, expropriation, government policy etc. [25].

The internal and external environmental factors need to be holistically identified, analysed and tackled effectively and efficiently for good business performance.

From the foregoing review of the literature, this study adopted three internal and external factors namely: inadequate finance, inadequate infrastructure and poor managerial skills.

### **2.2.2 Performance (financial and non-financial)**

Performance simply means the willingness and ability to be committed to specified goals and objectives and vigorously and genuinely pursue these goals and objectives and bringing them to fulfillment. [28] defined performance as the act of performing; doing something in a successful manner and utilizing knowledge as distinguished from ordinarily possessing it. Performances are diversely measured and the perspective are unified and are constantly monitored from the contextual view of the organization [29]. Meanwhile, performance is likely to be conceptualized, measured and operationalized differently thus making comparison an enormous task [12,19]. Past researches as noted by [30] and [31] indicated that the determinants of small business performance are subdivided into three categories namely: individual, firm, and environmental characteristics. Under the individual characteristics of the firm, the studies focused on individual characteristics like education, experience, entrepreneurial competence, age leadership practices, race, MD personality, gender, industry experience and how they affect performance. The second set of studies that focused on the firm characteristics examined top management team, family control, and operations management, stage of development, structure, strategy /planning, competitive orientation and how all of these characteristics affect performance. The last category of studies that focused on environmental characteristics examined stockholders, financial institutions, suppliers, customers, regulatory agencies, consultants and competitors.

Performance means different things to different organisations and should both be measured financially and non-financially. Before the 1980s, financial criteria (profit, ROI, sales and productivity) were used to measure performance but after 1980s till the present moment, non-financial criteria have received considerable attention from scholars, researchers and industrialists. These non-financial criteria include: communication, stakeholder satisfaction, competitive position, just-in-time delivery, total quality management and trust [32,33]. Abubakar S [12] opines that small business performance can be measured in terms of size, profitability, capital base, turnover and employment. These criteria are both financial and non-financial in nature.

In the literature, business performance has been widely measured basically in three parameters namely growth (turnover, number of workers and market share); survival and profitability (profit and return on investment) [34-37]. Some scholars have argued that growth is the best criterion for measuring performance and is an important precursor to achieving other financial goals [35,38]. Be it growth, profitability or survival, the criteria for performance measurements are expected to be holistic in nature i.e. both financial and non-financial. Hence, this study adopts both financial and non-financial measurement of performance, namely; profit, revenue and employment (number of employed workers).

### **2.3 Empirical Review**

The ever changing and dynamic business environment in which many business outfits operate has contributed to the significant impact business environment has on organizational survival and performance [39]. Adeoye AO [40] further explains that changes in the environment continuously affect company's performance and to cope with these environmental changes, companies often strategize by reorganizing and reforming the methods products are produced and distributed to the final consumers. [41] also argue that factors influencing business performance are related to personal factors such as demographic variables and business factors like business age, business location, finance, technology etc.

Sharmilee and Muhammad [22] conducted a survey in Kwazulu-Natal South Africa to evaluate the factors affecting the performance of SMEs. They reported that only competition revealed a significant relationship with performance amongst all the internal and external environmental factors they analysed.

Akinruwa et al. [26] in their study on determinants of small and medium enterprises performance in Ekiti state give factors determining the performance of SMEs as finance, politics, education, infrastructure, government policies, raw materials, entrepreneur competencies, patronage, technology and channel of distribution. Furthermore [42] summarized a comprehensive number of factors influencing business performance as individual characteristics, business strategies, parental influence, networking and entrepreneurial orientation etc. and other factors. External

environmental factors assist in forecasting business survival analysis and growth in order to boost the understanding of how environmental factors blend well with the variables of business sound performance to ascertain the future of business enterprise [5].

In addition, the findings of [25] in their study on the impact of environmental factors on small scale enterprises performance in East Gojjan zone, Ethiopia, indicate that infrastructure and finance have a significant positive relationship with MSEs performance. This implies that lack of these two factors will bring about negative and significant relationship.

A handful of studies focused on different types of factors and how they may be connected to small business performance [12,43]. As earlier explained, good performance of business could be attributed to the personality traits of the entrepreneur, however [35] vehemently opposed this view using the logic of 'boat rowing on a turbulent sea'. Even with storey's criticism, virtually all studies have shown that entrepreneur's personality has a significant effect on the operation and existence of business. Key factors that are critical in analyzing MSEs success factors include entrepreneur's characteristics ; MSES development [44].

Aminul [45] in a survey of SMEs in Bangladesh established that business modus operandi, product and services rendered, managerial know-how and the external environment are mostly significant to determining small business success.

Akinruwa et al. [26] studied the determinants of SMEs performance in Ekiti State, measuring performance of SMEs through some environmental factors like funding, politics, education, infrastructure, government policy were significantly related to performance ,while, raw materials ,patronage, channels of distribution, political environment and technology were insignificantly related to performance.

Further contributing to the factors affecting business performance is in the work of [46], they conducted a survey on the determinants of business success of SMEs in Pakistan and concluded that funds, marketing strategy, government support, technology and entrepreneurial skill positively and significantly impact business success.

From this study, finance being significant and positively related to business success is in harmony with the work of [42]; these authors studied factors affecting small-scale enterprises performance in informal economy in Lagos State Nigeria.

Finally, [12] in his study on the effect of environmental factors on small-scale businesses performance in Kano and Sokoto States identified and utilized five key environmental factors affecting small business performance, i.e management inefficiency ,marketing and sales problems, inadequate infrastructure, market competition and financial inadequacy. He concluded that environmental factors have significant impact on the performance of small scale businesses in Kano and Sokoto States in Nigeria.

From the review of the literature and analysis of previous related researches, we, therefore, postulate the following hypothesis:

H1 -There is no significant relationship between environmental factors and the performance of MSEs.

## 2.4 Theoretical Review

The environment in which businesses operate as earlier explained are both internal and external. The internal environment can to some extent be controlled by management and entrepreneurs while the external are uncontrollable by business operators. The environment can be assessed from the acronym 'SWOT' which simply means strength and weaknesses, opportunities and threats. Strengths and weaknesses are internally viewed and opportunities and threats are externally viewed. The healthier the relationship between a firm and its environment, the better the chances of success [12].

The relationship between firm performance and its environments have been anchored on some theories. Tsai et al. [47] asserted that the most common theories in research are the strategic management and population ecology. These two theories explain business performance antithetically: strategic management explains the internal performance while the population ecology explains the external performance. Various research streams dominate the strategic management theory, but the most dominant one is resource-based view of the firm [48]). This

theory is hinged upon firm's internal resources, which literarily means organization's internal factors. Resources and capabilities are the units of analysis within the resource-based view [49]. Resources of the firm are often referred to as finance, physical, technological, human, organizational and intangible [50]. The resource-based view principally centres on leveraging current capabilities for achieving and maintaining competitive advantage [51].

On the other hand, the population ecology i.e. environmental selection explains organizational adaptation through environmental determinants. Adaptation of firms to change in the environment is limited to the inactive forces of the firm, consequently the differences in inactive forces among firms favours and at the same time negatively affects some firms [12]. The population ecology theory studies the firms' totality (population) rather than single firm [52]. Three stages of evolutionary change occur under the population ecology theory, they are; variation, selection and retention. The variability in firms population makes environmental factors affect firms performance differently, hence some survive and some go into extinction [53-54].

Another theory that explains environmental factors and firm performance is the contingency theory. The contingency theory of [55] states that effective leadership and success of organization is not only dependent on leadership style but on the control over the overall situation. This theory also opines that firm performance is contingent upon adequate alignment of organizational design and the contextual factors of operations [56-57]. The contingency theory simply asserts that no one best way exists to successfully manage business organisations, but success is dependent on the ability to manage and adapt to environmental situation. Rather than isolating the strategic management theory and the population ecology theory that both focus on the internal and external environmental factors separately, scholars have argued and suggested an integrated approach to encapsulate both internal and external factors affecting business performance. Such integrated approach is referred to as "dialectical approach" [12]. The rationale for this approach is based on the combination powers of all environmental factors affecting business performance.

From the foregoing theoretical review, it is pertinent to affirm that this study theoretically fits the dialectical approach and the contingency

theory. The justification for these two theoretical locations is based on the premise that this study made use of both internal and external factors affecting MSEs performance and that business performance is contingent upon existing environmental factors.

### 3. RESEARCH METHODOLOGY

This study adopted the survey research design to evaluate the impact of environmental factors on the performance of micro and small enterprises (MSEs). This research design was adopted because it suits the study, since the researchers collected data directly from the field through the use of questionnaire.

A questionnaire was designed for data collection purposes majorly from relevant SMEs, MSEs and environmental factors literature. The population of the study was operators of Micro and Small Enterprises operating in Ikare and Ugbe Akoko Ondo State, Nigeria. In selecting a sample for this study, MSEs owners or managers from the selected council area of Akoko northeast local government, specifically in Ikare Akoko and Ugbe Akoko were selected through purposive sampling technique. Purposive in the sense that, only owners or managers of MSEs were identified and sampled. We recruited 4 Master of Science students for data collection. They were trained on how to administer the questionnaire. Since no record exists for the total number of MSEs operating in Ikare and Ugbe Akoko, we opted for a large sample of 240 MSEs owners/managers. 60 questionnaires in hard copies were given to each MSc students to administer. They followed up on the respondents for over two months after which 228 questionnaires were returned. Eventually, 204 were found to be valid for analysis.

The questionnaire has three sections; section A consists of questions on the demographic and business information of sampled MSEs, section B consists of questions on performance and section C consists of questions on environmental factors affecting businesses.. Section B, C consist of questions in a 5-point Likert scale ranging from 1-5 where 1(strongly disagree), 2 (disagree), 3 (undecided), 4 (agree), 5 (strongly agree).

Data collected were analysed using Pearson Product-Moment Correlations of the SPSS version 20 to assess if environmental factors are significantly related with the performance of

MSEs. Descriptive statistics was also used in analysing the bio-data characteristics of the respondents. The independent variables as identified in the literature are environmental factors given as- inadequate finance, inadequate infrastructure and poor managerial skills. Inadequate finance, poor managerial skills are internal factors while inadequate infrastructure is an external factor. The dependent variables measuring performance and extracted from the literature are profit, revenue and employment (number of employees). The research instrument was extracted and compiled from past related researches, hence, validated. Meanwhile, we conducted the reliability test using Cronbach Alpha test of SPSS. The average reliability score for environmental and performance scales was 0.9. This score surpasses the benchmark of 0.7 as opined by [58].

#### 4. FINDINGS AND DISCUSSION

The descriptive analysis reveals that 167(81.9%) of the respondents were owners and managers were 37(18.1%). It shows that a large number of MSEs principals preferred to own and manage their businesses themselves. Male respondents were 176(86.3%) and female were 28(13.7%). This again shows that men participate more in MSEs than women in the area of study. 108(52.9%) of the MSEs are aged 11-20 years, many of them have been in business for a considerable number of years. 56(27.5%) are aged 1-10 years while 40(19.6%) are aged 20 years and above. Manufacturing business was 16 (7.8%), Wholesale and Retail was 86(42.2%), Agricultural sector was 14(6.9%), Building and Construction business was 14(6.9%), Education business was 24(11.8%), Health related business was 8(3.9%) and Service business was 42(20.6%). This reflection is also not strange given that majority of the MSEs are apparently into wholesale and retail business. Micro business was 160(78.4%) while small business was 44(21.6%); indicating a high level of individual and family businesses in the area of study.

The relationship between performance (as measured by profit, revenue and employee) and environmental performance (as measured by inadequate finance, inadequate infrastructure and poor managerial skills) was investigated using Pearson Product-Moment correlation coefficient. Preliminary analyses were conducted to ensure that all the assumptions of correlation were not infringed. In Table 1, a small negative

correlation is revealed between profit and inadequate finance,  $r = -.239$ ,  $P < .001$  (significant), with inadequate finance resulting into about 24 % reduction in the profit of MSEs. The correlation between profit and inadequate infrastructure also shows a small negative correlation,  $r = -.125$ ,  $P < .005$  (significant), which implies that inadequate infrastructure accounts for reduction of about 13% in MSEs profit. Lastly profit and poor managerial skills reveals a little negative correlation,  $r = -.152$ ,  $P < .005$  (significant), which indicates that poor managerial skills brings about 15% cut in the profit of MSEs.

In Table 2, a small negative correlation is revealed between revenue and inadequate finance,  $r = -.287$ ,  $P < .001$  (significant), with the implication that inadequate finance reduces revenue by 29%. The correlation between revenue and inadequate infrastructure also shows a small negative correlation,  $r = -.134$ ,  $P = .05$  (significant), with inadequate infrastructure bringing about a reduced revenue to the tune of 13%. Lastly, revenue and poor managerial skills reveals a little negative correlation,  $r = -.170$ ,  $P < .001$  (significant), which suggests that poor managerial skills are prevalent and this lowers the revenue generated but only to about 17%.

In Table 3, a small negative correlation is revealed between employee and inadequate finance,  $r = -.236$ ,  $P < .001$  (significant), with inadequate finance resulting to about 24% reduction in staff strength. The correlation between employee and inadequate infrastructure also shows a small negative correlation,  $r = -.157$ ,  $P = .05$  (significant), with inadequate infrastructure bringing about a reduced staff number to about 16%. Lastly, employee and poor managerial skills reveals a little negative correlation,  $r = -.172$ ,  $P < .01$  (significant), which suggests that poor managerial skills adversely affect staff strength, only by 17%.

From the above analysis, inadequate finance has the highest significantly negative impact on the performance of MSEs. Most of the studied MSEs are supposedly not operating with adequate finance. This is an indication that external funds are difficult to access and this seems to be a major challenge. This finding is consistent with the findings of [1, 5, 12, 25, 26, 59, 60, 61, 62]. All these studies established that finance is a major factor for business success and its insufficiency plagues SMEs and MSEs performance. A significant relationship was established between inadequate finance and



business performance by all the studies. Poor managerial skills has the second highest significantly negative effect on MSEs performance. Majority of the MSEs studied are lacking the required management skills and competencies to successfully manage their businesses. This finding is consistent with the research findings of [25,26,59,62]. All these studies found a significant relationship between poor managerial skills and MSEs performance. They noted that most MSEs owners and managers are ill-trained to successfully manage the business and this could be attributed to lack of willingness to acquire management skills or total absence of organised training by the government and small business owners. Lastly, the opinion of MSEs owners and managers is that inadequate infrastructure least affect the performance of MSEs. Infrastructural amenities are inadequate but its impact on MSEs performance are not excruciating. Electricity, water, good roads etc affect MSEs performance but not as inadequate finance and poor managerial skills. This finding is in harmony with the findings of [1,5,12,25,26,60]. A consensus exists among these studies that inadequate

infrastructure is a bane of MSEs good performance especially in developing African countries. Poor electricity supply, lack of potable water, extremely bad roads etc all significantly affect MSEs performance.

It is apparent that environmental factors (inadequate finance, inadequate infrastructure and poor managerial skills) have a significantly negative relationship with performance (profit, revenue and employees) of MSEs in the area of study.

The correlation analysis results were able to successfully reject the null hypothesis. We, therefore, reject the null hypothesis that there is no significant relationship between environmental factors and the performance of MSEs and conclude that there is a significant relationship between environmental factors and the performance of MSEs.

The results of the correlation between performance and environmental factors are presented in the tables below.

**Table 1. Pearson Product-Moment correlations between profit and environmental factors**

Scale	1	2	3	4
1.Total Profit	-	-.239***	-.125*	-.152*
2.Total Inadequate Finance		-	.710***	.784***
3.Total Inadequate Infrastructure			-	.781***
4.Total Poor Managerial Skills				-

Note: [\*P=.05, \*\*P<.01 and \*\*\*P<.001, (2-tailed)]  
Source: Field Survey, 2018

**Table 2. Pearson Product-Moment correlations between revenue and environmental factors**

Scale	1	2	3	4
1.Total Revenue	-	-.287***	-.134*	-.170**
2.Total Inadequate Finance		-	.710***	.784***
3.Total Inadequate Infrastructure			-	.781***
4.Total Poor Managerial Skills				-

Note: [\*P=.05, \*\*P<.01 and \*\*\*P<.001, (2-tailed)] Source: Field Survey, 2018

**Table 3. Pearson Product-Moment correlations between employee and environmental factors**

Scale	1	2	3	4
1.Total employee	-	-.236***	-.157*	-.172**
2.Total Inadequate Finance		-	.710***	.784***
3.Total Inadequate Infrastructure			-	.781***
4.Total Poor Managerial Skills				-

Note: [\*P=.05, \*\*P<.01 and \*\*\*P<.001, (2-tailed)]  
Source: Field Survey, 2018

## 5. CONCLUSION

The purpose of this paper was to assess the relationship between environmental factors and performance of MSEs in Nigeria, focusing on Ikare and Ugbe Akoko as the study areas. The environmental factors considered are - inadequate finance, inadequate infrastructure and poor managerial skills and the performance measures- are profit, revenue and employee of MSEs. From the findings of the study, significant and negative relationships were revealed between environmental factors and performance. This study concludes that inadequate finance posed the greatest threat to MSEs performance because of the "smallness" nature of MSEs, inability to provide collateral for loan and government negligence in providing flexible financial platforms for MSEs. In addition, managers and owners of MSEs do not possess adequate managerial skills for good performance, simply because of ignorance and lack of motivation from government. Lastly, inadequate infrastructure least affect MSEs performance because of alternative remedies like generators, sachet water, etc.

## 6. RECOMMENDATIONS

This study recommends that government should do more by making MSEs friendly policies in terms of loan access and zero interest rate. They should also put in a place strict disciplinary measures against government official who may want to corruptly allocate funds meant for MSEs growth. Although Nigerian government recently raised Sukuk bond of ₦100 billion solely for infrastructural development and also has almost concluded arrangements on raising \$3 billion Eurobond. Borrowing alone would not change the face of poor roads, bad railway system, non-existing water system etc., but concretely investing the money to give our moribund infrastructure a facelift. Government should regularly organise seminars, workshops and conferences for MSEs owners and managers to develop their management skills and competencies. MSEs owners/managers should also avail themselves of the training opportunities.

## 7. IMPLICATIONS, LIMITATIONS AND FUTURE STUDY

### 7.1 Implications

The major implication of the findings of this study is that it provides a more comprehensive

understanding of the environmental factors that affect MSEs performance. The findings also reflect that a large proportion of Micro and Small Scale Enterprises in the study area are still seriously unable to get adequate finance to start or run a successful business. The little one they use as capital are from personal savings, family members and friends or micro credit banks- Lift Above Poverty Organisation (LAPO). This is further supported by [25] where they concluded that most MSEs relied on personal finance and lacked access to finance from other financial institution because of collateral security. This finding signals a need for more robust financial policies and aids for MSEs by the current government. Also poor managerial skills affect MSEs performance because many of MSEs owners/managers in Ikare and Ugbe Akoko do not know the importance of acquiring more management training through education, seminars, workshops and conferences. This finding is further confirmed by [22] that micro and small enterprises owners/ managers have little or limited knowledge about sound and articulate business management especially in financial matters and do not know the value of the extracted financial statement. Managers/owners of MSEs are expected to take a cue from this finding and avail themselves of periodic training to enhance better business performance. Dilapidated infrastructural amenities affect MSEs performance in the area of study, even though this is not pronounced as inadequate finance and poor managerial skills, this could be attributed to the ability to proffer substitutes for some needed infrastructure e.g power failure can be alleviated through the use of generating set and drinking water could be sourced through sachet water popularly called "pure water". This finding is corroborated by the work of [25] that the absence of infrastructures like power, good road network, steady water supply, effective communication and market could bring about less performance of enterprises which invariably could lead to winding up if urgent step is not taken on time. This finding will be another reminder to the government to hasten up on revamping infrastructure that will always ensure MSEs continue to be the life wire of the economy.

### 7.2 Limitations and Future Study

This study has some limitations that could be an avenue for future study to explore. First, this study made use of three variables of internal and external environmental factors i.e inadequate finance and poor managerial skills (internal

factors) and inadequate infrastructure (external factor). Meanwhile the environmental factors have additional variables like technology, firm strategy, political, raw materials, channel of distribution, firm structure, government policies. These could be included in the variables to get a more inclusive environmental factors influence. Second, three variables were used to measure performance- profit and revenue (financial) and employees' growth (non- financial). This aspect can also be augmented to allow more performance variables input. Third, the area of study is limited to two cities (Ikare and Ugbe Akoko) in Ondo state and the empirical findings may be difficult to generalise to Nigeria as a whole because of the different characteristics across the 36 states of the six geo-political zones in Nigeria. Future studies can enlarge the database to address this issue. Lastly, the statistical tool used in this study is Pearson Product Moment Correlation Coefficient, which does not allow for control variables like size, age education etc which might affect MSEs performance as well. Future studies should adopt partial correlation that can control for these intervening variables.

### COMPETING INTERESTS

Authors have declared that no competing interests exist.

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