

EFFECT OF BUSINESS ENVIRONMENT ON THE SURVIVAL AND GROWTH OF SMALL SCALE ENTERPRISE IN NIGERIA

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Abstract

Examining the effect of business environment on the survival and growth of small scale enterprise in Nigeria is the main aim of this study while the objectives include to examine the relationship between business environment and small scale enterprise survival and growth in Nigeria; to evaluate the difference between internal business environment and external business environment; to identify internal environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria; to identify external environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria; and to assess the challenges confronting small scale enterprise survival and growth in Nigeria. The study dealt with the conceptual clarification and reviewed related literature focusing on the concept of business environment as well as the concept of small scale enterprise survival and growth. The study furthermore assessed the difference between internal and external business environment and x-rayed the relationship between business environment and small scale enterprise survival and growth. The study also identified the internal and external environmental factors that influence the survival and growth of small scale enterprise along with the challenges confronting small scale enterprise survival and growth in Nigeria. The study further concluded that internal and external business environment influence the survival and growth of small scale enterprise and that successful business operations require adequate knowledge of the environment in which the business is situated.

Keywords: *Effect, Business Environment, Survival, Growth, Small Scale Enterprise*

1. INTRODUCTION

The modern business manager operates in more dynamic and turbulent environment. The change in the environment has been rapid and unpredictable. Economic variables have been complex both in form and impact on the practice of business in Nigeria. Consumers and clients have been showing complex behaviours both in local and international markets. The most dramatic change

has been that exhibited by competitive pressures. Competitors have been applying one strategy or the other to adapt to the dynamic and unpredictable nature of the business environment. The dynamic environment in which a business operates provides opportunities for it to grow develop and create value and wealth. It also poses some threats to the business. The primary concern is how the business affects people and natural environment as it produces and sells products necessary to satisfy customers, stakeholders and other constituents. By building key stakeholder relationships among government agencies, consumer entities, environmental groups and other constituents, a business can anticipate and manage issues and concerns that might otherwise have gone undetected until they had grown into major problems (Rainey, 2008). These entail conscientious analysis of both external and internal environment by the business.

No business organisation can operate successfully in isolation without dependence on supportive institutions, variables and factors (Oginni, 2010) i.e. business organisation exists and operates within an environment where there is complex interplay in terms of activities as well as networks of relationship between and among human resources, material resources and other systems. In the views of Aborade (2005) all business decisions are found to be contingent upon a good analysis of the environment which is often the bane of all the constraints as this environment creates the opportunities, threats and problems for the business organisation. Evolving from this is the belief that business organisation is an integral part of its environment on the ground that they are mutually interdependent and exclusive where the environment plays the role of providing the resources and opportunities to organisation for its existence, and the business organisation in turn, offers its goods and services to the people living in the environment for survival and enlightenment (Ajala 2005).

This is also in line with the views of Adi (2006) that the most important sole influence on organisational policy and strategy at any point in its development is the environment, both within and outside the organisation. Akanji (2003) was of the opinion that the more complex, turbulent and dynamic an environment becomes, the greater the impact on human attitudes, business, organisational structure, market and process as well as facilities, therefore there is need for all organisations to direct their attention to the environment when formulating their strategic management policies in order to facilitate their survival, growth and profit motives.

1.1 Study Aim and Objectives

The main aim of this research is to investigate the influence of business environment on the survival and growth of small scale enterprise in Nigeria. In achieving the main aim there are specific objectives and they are to:

- i To examine the relationship between business environment and small scale enterprise survival and growth in Nigeria.
- ii To evaluate the difference between internal business environment and external business environment.
- iii To identify internal environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria.
- iv To identify external environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria.
- v To assess the challenges confronting small scale enterprise survival and growth in Nigeria.

1.2 Research Questions

The following questions were highlighted to be the framework providing guidance for the research work;

- i What is the relationship between business environment and small scale enterprise survival and growth in Nigeria?
- ii Is there any difference between internal business environment and external business environment?
- iii What are the internal environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria?
- iv What are the external environmental factors that influence the survival and growth of small scale enterprise survival and growth in Nigeria?
- v What are the various challenges confronting small scale enterprise survival and growth in Nigeria.

2. CONCEPTUAL CLARIFICATION AND REVIEW OF RELATED LITERATURE

2.1 Concept of Business Environment

Environment is expressed as the sum total of the external forces that influences individuals, businesses and communities (Oginni & Faseyiku, 2012). In the views of Adebayo et al. (2005), environment is summarised as the surrounding of a phenomenon which from time dictate and shape the direction. Business organisation does not operate in vacuum; it operates within the environment where the production and distribution of goods and services are carried out. Duncan (1972) opined that as any other activity of the individual is greatly affected and usually controlled by his total social environment so is the business activity in which individuals or groups of individuals participate.

Business environment is widely categorised into internal and external environments (Duncan, 1972). The internal environment of an organisation is made up of all relevant physical and social variables within the organisation, whereas the external environment is made up of all relevant physical and social variables outside the organisation's borders. According to Obiwuru, Oluwalaiye, and Okwu (2011), the term "business environment" refers to the totality of external and internal factors that influence a company's ability to survive and flourish. The business environment elements listed by Onwukwe and Ifeancha (2011) include firm improvements in competitiveness and ownership, market, technology, clients and suppliers, laws and government policy, and socio-economic trends. Economic, infrastructure, political, socio-cultural entities, international institutions, and technology environments are all part of the business environment (Blurtit, 2013; Yusuf, 2014). Customers, industry trends, policies and regulations, competitors, customers, suppliers, distributors, substitutes, government activities, demography, the economy, cultural and social influences, innovations and improved technology are all examples of these environmental variables (Adeoye & Elegunde, 2012).

2.2 Concept of Small Scale Enterprise Survival and Growth

Business survival is described as the operation of business organisation on — going concern sometimes refers to as manage to stay in business (Akindele et al., 2012). In an attempt to respond to the activities that will enable organisation to operate on going — concern, organisations are constantly in the process of structuring and restructuring to keep abreast with these activities which do come in form of complexities to include leadership styles, changes, uncertainty, conflict,

culture, technology, structure, competitive market, profitability and workplace motivation (Adeoye, 2012). In view of these complexities as challenges, organisation needs to strategically plan and develop the most appropriate and adaptive structure that will enable it to utilise and maximise its resources and ultimately achieve organisational objectives (Mullins, 2002 & Akindele et al., 2012).

In the views of Laosebikan et al. (2013) organisational growth means different things to different organisations because there are many parameters a company may use to measure its growth. This is so because the ultimate goal of most organisations is profitability, most organisations will measure their growth in terms of net profit, revenue, and other financial data. Other criteria for assessing the organisational growth are volume of sales, number of employees, physical expansion success of a product line, or increased market share (Lipton & Mark, 2003). In the views of Roberts and John (2004), organisational growth will be gauged by how well a firm does relative to the goals it has set for itself and in the same vein, Coffiman et al. (2002) in Oginni (2010) were of the opinion that the intention and desire to keep the business to operate on going concern definitely calls for growth of the organisation otherwise such organisations will cease to exist. Aluko et al. (1999) however added another dimension to what organisation growth is all about by saying that it is something for which most organisations strive, regardless of their size.

2.3 Difference between Internal and External Business Environment

Internal environment variables are all elements of any given organisation that it can control and have a clear impact on the organisational culture, philosophies, policies, human resource, mission and purpose (Genç, 2014). Internal environment is a broad concept and includes all the organisational material and human resources within the organisation. They are in the control of the organisation, can manipulate them for achieving the strategic objectives and goals. Thus, they are termed controllable variables in some previous management literature (Bin Ahsan, 2013). Al Sanfi and Al Ereeqi (2006) defined internal environment as all forces within the same organisation. For this author, internal environment includes board of managers, workers and employees, organisational culture, structure, management strategies, and finally material and human resources.

External environment is an attempt to understand the outside forces of the organisational boundaries of SMEs. External can provide both facilitating and inhibiting influence on organisational performance. Below are the types of external environments: economic environment, political environment, legal environment, socio cultural, demographic environment, natural environment, internal environment, financial environment, social environment, competitive environment. The external environment is studied to aid understanding on the possible threats facing the organisation to enable the Organisation eliminate or minimise the threat, on the flip side, opportunities also lay within the external business environment, those opportunities could be maximised (Bin Ahsan, 2013).

2.4 Relationship between Business Environment and Small Scale Enterprise Survival and Growth

Asika (2001) was of the opinion that analysis of business environment is the examination and appraisal of the opportunities and threats provided by the environment as well as the potential strengths and weaknesses the business possesses. Carrasco (2007) in Oginni (2012) however,

opined that opportunities and threats are associated with external environment of a business while strengths and weaknesses are associated with internal environment of the business. Consequently, external analysis examines opportunities and threats that exist in the environment while internal analysis examines strengths and weaknesses within the business with a view of using these to combat the external forces. However, both opportunities and threats exist independently of the firm.

To Oginni (2010), the internal environment is always manipulated in response to the dictate of the external environment in an attempt to meet Organisational objectives and this belief was supported by the views of Ghazali et al. (2010). Ghazali et al. (2010) analysed the critical internal and external factors that affect firms strategic planning in Malaysia. The internal and external factors examined in their study included strengths, weaknesses, opportunities and threats. Their study showed that firm's strengths are related to their financial resources and the weaknesses are related to the firms' management. The study further revealed that the external factors which become opportunities to the firms are support and encouragement from the government, and that threats are the bureaucratic procedures that firms have to face in order to get plan approval and certificate of fitness.

In the works of Norzalita and Norjaya (2010) which investigated the role of the external environment in the market orientation performance linkage among SMEs in the agro-food sector in Malaysia and found that market-technology turbulence and competitive intensity did not moderate the relationship between market orientation and business performance Pulendran et al. (2000) in their related work on business environment observed that the external environment in which organisations operate is complex and constantly changing and found that a significant characteristic of the external environment and business organisation is competition. This was supported by the views of Asika, (2001) that organisations that recognises the presence and intensity of competition have a greater tendency to seek out information about customers for the purpose of evaluation and to use such information to their advantage thus enabling competition to drive business organisations to look for their customers in order to understand better ways to meet their needs, wants, and thereby enhances organisational performance (Azhar, 2008).

According to Alexander (2000), the dynamic and rapidly changing environment in which most organisations compete had made business environment (political, economic, socio-cultural, technological, etc.) to have significant impact on organisational survival and performance (effectiveness, efficiency, increase in sales, achievement of corporate goals etc..) thus, organisations should pay more attentions to their environment by conducting and embarking on periodic scanning. In a related work by Adeoye (2012), it was stated that in the manufacturing industry, environmental changes are continuously exerting new pressures on company performance and to respond to these changes, some companies within the apparel industry have formulated and implemented strategies to reorganise 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 an increasingly stronger interrelationship which require a more sophisticated business strategies. Ogundele and Opeifa (2004) summed it up in their related work on environment and entrepreneurship by saying that external environment and their factors helps visualise 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.

2.5 Internal and External Environmental Factors that Influence the Survival and Growth of Small Scale Enterprise

Oyebanji (1994) defined business environment as those factors that can influence the individual's business organisation. He stressed further by saying that every organisation must take into consideration the environmental constraints, material and human resources in their respective business in spite of their differences in status and that the effect of the environment carries from one situation to another. Aldrich (1979) said the environment was made up of stable and unstable homogenous, heterogeneous, rich and poor, complex and simple, unpredictable variables. He further stressed that business environmental factors change along with factors of production and environmental influences may be stable over a certain period of time. The importance of business environment has been attested to by numerous scholars such as Oyebanji (1994), Lawal (1993) and Aldrich (1979). All these scholars have discussed extensively that business environment is an important process to influence on a group in particular situation to motivate others to goals achievement. Environment in management does not mean the surrounding but it covers the factors of forces that affect business effectiveness in the process of producing an intended result.

In Adebayo et al. (2005), environment can be divided into two namely internal and external and can then be deduced that business environment can be also be classified into two. By internal business environment, this is made up of variables or factors that organisation has control over and can easily manipulate to suit its purpose as may be dictated by the prevailing, circumstances such as capital, personnel, profit, procedure, policy, structure, objective etc.. The external business environment is made up of extraneous variables or factors which are outside the control of the organisational management and cannot be manipulated such as technology, politics, and government legislation. In addition are economic, socio-cultural and physical factors.

Asheghian & Ebrahimi (1990) and Grant (1999) in Adeoye (2012) identified another environmental variable from the external environment known as task environment which is found immediately outside the organisation and argued that the task environment is the closest environment of the organisation with customers, suppliers, labour union, labour market, competitors, financial institutions and raw materials as the main elements of the environment which have direct influence on the organisation unlike the other external environment that have indirect influence on the business organisation. Daft et al. (1988) opined that the task environment is characterised by uncertainty because it is believed that the task environment which is connected with the short-run is somewhat more volatile than the general environment that is connected with the long-run and the environmental uncertainty arises from the organisation's inability to predict its environment (Oluremi & Gbenga 2011). Therefore, the internal and external environmental factors that influence the survival and growth of small scale enterprise are:

Internal Environmental Factors

- i Objectives
- ii Structure
- iii Task
- iv Technology

- v People
- vi Capital
- vii Profit
- viii Procedure
- ix Policy

External Environmental Factors – Direct (task)/Micro

- i Customers
- ii Competitors
- iii Labour Unions
- iv Labour Markets
- v Government Regulatory Agencies
- vi Financial Institutions
- vii Suppliers
- viii Raw Materials

External Environmental Factors – Indirect (general)/Macro

- i Economic Factors
- ii Technological Factors
- iii Ethical/Socio-Cultural Factors
- iv Political Factors
- v Government Legislative Factors
- vi Physical Factors

2.6 Challenges Confronting Small Scale Enterprise Survival and Growth in Nigeria

Business environment refers to those factors that are related to a business which affects enterprise decision and business performance. Business's survival and growth is determined by its integral strength (the resources at its disposal, such as physical resources, financial resources, human resources, skill, and organisation) and its capability to acclimatise to the environment. In industrialised countries, a link has been discovered between the operating environment and corporate growth. According to Okpara (2011), insufficient financial assistance, corruption, poor management, inadequate infrastructure, weak managerial skills, and low demand for products and services are among the factors that cause low performance in the SME sector. The business world is growing complex, and organisations must be able to cope with problems that these complexities presents. Many businesses have been unable to supplement their internal business environment with the external business environment, resulting in organisational inefficiencies and, as a result, being mostly unproductive over time (Kurtulus, 2012).

3. METHODOLOGY

This study adopted a singular source of data collection which is the secondary source. The secondary source of data generation include the use of textbooks written by different authors on the subject matter, journals, magazines, information from the internet and other published and unpublished materials relevant to the effect of business environment on the survival and growth of small scale enterprise. The data was analysed using the content analysis approach. This is because of its major dependence on the secondary source data.

4. DISCUSSION

The study focused on the effect of business environment on the survival and growth of small scale enterprise in Nigeria. According to Alexander (2000), the dynamic and rapidly changing environment in which most organisations compete had made business environment (political, economic, socio-cultural, technological, etc..) to have significant impact on organisational survival and performance (effectiveness, efficiency, increase in sales, achievement of corporate goals etc..) thus, organisations should pay more attentions to their environment by conducting and embarking on periodic scanning. In a related work by Adeoye (2012), it was stated that in the manufacturing industry, environmental changes are continuously exerting new pressures on company performance and to respond to these changes, some companies within the apparel industry have formulated and implemented strategies to reorganise 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 an increasingly stronger interrelationship which require a more sophisticated business strategies. Ogundele and Opeifa (2004) summed it up in their related work on environment and entrepreneurship by saying that external environment and their factors helps visualise 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.

Oluremi and Gbenga (2011) asserted that business organisation that wants to succeed must develop a clear understanding of the trends of business environment and forces that shape competition. The understanding in question will enable the organisation to choose the appropriate strategy or strategies that fit the trends in the business environment arrived at through environmental scanning analysis with focus on the variables such as strengths, weaknesses, opportunities and threat (SWOT). The views of Adeoye (2012) was in support as he opined that the dynamic and rapidly changing environment in which most business organisations compete is important that organisations maintain their performance measurement system through adoption of appropriate strategies that would provide information found to be relevant to the issues that are of paramount importance. However, Ibidun and Ogundele (2013) was of the opinion that understanding the nature of business environment which can be classified into three namely dynamic (continuous changes), stable (relative changes) and unstable (frequent changes) would further help in repositioning the organisation through appropriate strategies while Ogundele (2005) added that the perception of the organisations about the nature of the business environment to a large extent depends on their size and industry in which it operates. The implication of this is that what constitute dynamic, stable or unstable business environment is contingent upon size and industry and that all business organisations can never be faced with the same nature of business environment (dynamic, stable or unstable) as each would derive its own peculiarity on the basis of size and sector of the economy it belongs to.

5. CONCLUSION

The business environment is increasingly becoming complex, and businesses must become accustomed to the challenges posed by the complexity of the environment. It is obvious from the findings of this study that internal and external environment influenced the success of SMEs. Successful business operations require adequate knowledge of the environment in which the business is situated. Modern business environment demand proactive business strategies to combat emerging challenges. Therefore, SMEs operators must acquire necessary capacity to understand

and mitigate the effects of external business to achieve their business visions and objectives. It has become important for small scale enterprises to study their environment considering the fact that business organisation do not operate in vacuum and effective management in complex and dynamic society such as Nigeria, requires the assessment of strengths and weaknesses of the organisation and the opportunities and threats posed and the challenges of the external environment by the challenges of the external environment. For survival and growth, organisation must adapt to these changes.

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