EFFECT OF ECONOMIC ENVIRONMENT ON THE PERFORMANCE OF SMALL SCALE BUSINESSES IN A SUB-SAHARAN AFRICAN NATION

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Abstract

The study explored the effect of economic environment on the performance of small scale businesses in a Sub-Saharan African Nation. Specifically, it ascertained the effect of high inflation rate on the performance of small scale enterprises; examined the effect of high exchange rate on the performance of small scale enterprises; and explored the effect of high interest rate on the performance of small scale enterprises in Nigeria. The study employed ex-post facto design from data extracted from Central Bank of Nigeria statistical Bulletin and established an integrated model of economic environmental factors and business performance of small scale enterprises in Nigeria, from 1973-2019 through research objectives. Ordinary Least Square (OLS) method of regression test was adopted to estimate the unknown parameters in a linear regression model. Results revealed that; high inflation rate significantly affects the performance of small scale enterprises in Nigeria; high exchange rate significantly affects the performance of small scale enterprises; and high interest rate significantly affects the performance of small scale enterprises in Nigeria. The study recommended that Nigeria government needs to increase her productive capacity (made in Nigeria products) to improve her export earnings which would stabilize the exchange rate. More so, address the problems of high interest rate and collateral securities that made it difficult for small scale operators to

access loan in the bank. Most of the small scale operators who may have viable business ideas may not put it into use, due to dearth of capital. Stabilizing these economic variables would drive the operations of small scale enterprises, as they will innovate, create and invent new things, products and services to stimulate productivity, which in turns, create resource-based economy. The implication of this negative relationship of these economic environmental factors provided empirical evidence that high inflation, high exchange rate and high interest rate predict the operations of small scale enterprises in Nigeria.

Keywords: Economic Environment, Performance, Small Scale Businesses, Sub-Saharan African, Nation

INTRODUCTION

Small-Scale Businesses hitherto have been identified by the three tiers of government as an essential instrument for economic development in both developed and under-developed economies of the world. This is premised on the fact that small scale businesses all over the world are known to have a significant effect on the economy as it bridging the gap between the science, markets and technology. Historically, the recognition of the pertinent role of small scale businesses as a bedrock that drive and sustain economic growth came to the fore when Nigeria adopted the policy of indigenization through its national development plan (Odeyemi in Asogwa, 2019). The national development plan led a structural framework of blue-prints of positioning Nigerian economy that could buoy up the performance of small scale business (Fred, 2018).

The 1970 development plan of Nigeria, succinctly identified the imperativeness of Nigerian economy to be stabilized and self reliant by entrenching industrialization policy and entrepreneurship development (Ihua in Asogwa, 2019). The three tiers of government and economic policy experts identified small scale businesses as a sector that needed government attention by providing conducive environment that thrive their operations (Abiodum, 2017). The aforementioned was necessitated following government predispose desire to stabilize economy as a measure of meeting up with its commitment to the development plan and indigenization policy. Furthermore the Nigerian government establishes and entrench the following establishments to assist small scale enterprises in the country (Paul, 2016). These establishments among others includes: Bank of Industry (BOI), Small and Medium Industries Development Agency of Nigeria (SMIDAN), Nigerian Agricultural Cooperative and Development Bank (NACRDB), Macro Finance Bank. Others include Family Support Programme (FSP), Family Economic Advancement Programme (FEAP) and Obasanjo's programme on National Poverty Eradication Programme (Paul, 2016).

The aforementioned programmes were designed to make the Banking industry contribute towards the effort of the government in stimulating economic growth, through fund mobilization, and small scale business promotion. The establishment of the aforementioned programmes was consistent with the presupposition of Schumpeter who argued that economic recession could be stimulated, when the government of any country provides a sustainable framework that drives small and medium scale enterprises. Shane (2014) observes that small scale business performance thrive in a suitable economy. Economic environment of small scale businesses to a large extent determines the success or failure of business enterprises in the country (Emefiele, 2012). Shane (2014) opines that an economy is considered stable when there is constant output, exchange rate, interest rate and low inflation. More so, Sherl in Asogwa (2019) contends that for small scale enterprises to drive in a giving environment, the government at the center should make the environment conducive, by maintaining a fix inflation and exchange rate. The above assertion was also supported by Adegbite (2016) that government should take proactive steps that would gradually bring about turn-around on the economy by stimulating, mobilizing and encouraging small scale businesses, through provision of enabling environment that supports creative idea that culminates to production of goods and services.

Unfavorable economic environment are in most cases orchestrated by the arbitrary increase or fluctuation of exchange rate, interest rate and inflation rate on Nigeria economy (Salihu, 2015). Aligning with the above, CBN statistical Bulletin (2019) has succinctly shown the proportionate increase on inflation rate from 1973 to 2019 as: 0.23% to 26%, respectively. Most small scale enterprises incur relatively high cost in the procurement of raw materials as a result of inflation. High inflation rate to a large extent affects the operations of small scale business. Following the costs incurred by small scale enterprises as a result of high inflation rate contributed to increase in per unit cost of producing domestic products in Nigeria. This subsequently leads to increase in the cost of their products (inflation). The degree at which high inflation rate affects the performance of small scale enterprises is yet to be established, hence, this study.

The CBN Bulletin (2019) presents a proportionate increase on the exchange rate from 1973 to 2019 as 0.56% to 180.3%, respectively. Most small scale businesses use imported raw materials for their operations and as such are affected by changes in exchange rate but what is not clear is the extent exchange rate affects the performance of small scale enterprises given the survival strategies they adopt. The present study, therefore, wants to provide answers to them.

In addition, the CBN Bulletin (2019) also shows an unprecedented increase on interest rate from 1973 to 2019 as 7% to 14%, respectively. Despite, government intervention, the small

scale businesses still obtain loan facilities at very high interest rates. But the extent to which high interest rate affects the performance of small scale enterprises as perceived by small scale practitioners is yet to be established, thus this study. Hitherto, no research findings from observation have suggested or inferred workable survival strategies that could possibly sustain the performance of small scale enterprises in Nigeria. These were the gaps in knowledge which this present study tends to fill. Therefore, economically, this study by identifying laudable strategies offers immense contributions to the current economic measures towards revitalizing and stabilizing the Nigerian economy.

The main objective of this study is to determine the effect of economic environment on the performance of small scale businesses in Nigeria. Specifically, the objectives are:

i.   To ascertain the effect of high inflation rate on the performance of small scale enterprises in Nigeria.

ii.   To examine the effect of high exchange rate on the performance of small scale enterprises in Nigeria.

iii. To explore the effect of high interest rate on the performance of small scale enterprises in Nigeria.

The following research questions guided the study;

i.   How does high inflation rate affect the performance of small scale enterprises in Nigeria?

ii.   How does high exchange rate affect the performance of small scale enterprises in Nigeria?

iii. How does high interest rate affect the performance of small scale enterprises in Nigeria?

While the following hypotheses were designed for the study;

H_{01}: High inflation rate does not significantly affect the performance of small scale enterprises in Nigeria.

H_{02}: High exchange rate does not significantly affect the performance of small scale enterprises in Nigeria.

H_{03}: High interest rate does not significantly affect the performance of small scale enterprises in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Clarification

Hings (2017) perceives economic environment as those economic factors, such as inflation rate, interest rate, exchange rate, government tax revenue and unemployment which have considerable effect on the performance of small scale business. Asogwa (2019) opines that economic environment of small scale businesses in Nigeria consists of those economic parameters that directly or indirectly influence the performance of small scale businesses. Asiedu in Shane (2014) also observes that small scale enterprises do not only thrive in stable economy but achieve operational efficiency in terms of service delivery to the people.

Economic environment according to Gabriel in Nwekpa and Ewans (2015) is referred to as those economic variables (interest rate, inflation rate, unemployment rate, exchange rate, government and tax revenue) that interact within the environment of small scale business operations. Issues relating to economic environmental problems affecting the operations of small scale enterprises have elicited several presuppositions especially in a developing country like Nigeria, where the economy is in recession, regarding how to stimulate the economy and selling of national assets (Olaniyi, 2015). The resulting flux in the business environment continues to pressurize small scale enterprises towards superior performance, especially by being proactive rather than reactive in responding to the environment (Nwekpa and Ewans, 2015).

The Central Bank of Nigeria (1988) defines small business firm as a firm whose total investment (including land and working capital) did not exceed N500,000 and whose annual turnover did not exceed N5 million. In 1993, it was redefined as firms whose total cost excluding cost of land but including working capital is above N1 million but not exceeding N10 million. In 2002 Monetary Policy, Central Bank of Nigeria redefined Small Business as Firms with capital not exceeding N200, 000. Chris in Udu and Udu (2015) define small scale business as those which are owned and controlled by one or few persons, with direct owner(s) influence in decision making and having relatively small share of the market in the applicable industry.

Organizational performance according to Nwekpa and Ewans (2015) is the measure of how managers effectively and efficiently deploy organizational resources towards attainment of organizational objective. In the same vein, Vien in Asogwa (2019) also view organizational performance as a direct function of ability, effort and opportunity. Employee ability at work synchronizes certain knowledge and technological capabilities acquired that predisposes him/her to greater job commitment that results to improved performance. Effort is also a direct function of goal-expectation and rewards that seek to enhance work-related attitudes especially when workers are motivated to, while opportunity provides a sustainable framework upon which

worker's ability and effort are effectively employed towards attainment of organizational goal. Asogwa (2019) identified return on investments, profitability, product diversifications, market share, business expansion, and increased sales revenues as parameters for performance measurement.

Theoretical Framework

This study anchored on the Keynesian Economic Theory propounded by Keynes (1936). This theory believes that small scale enterprises play a vital role in the economic development of a country. Keynes inferred that government can reverse economic instability through efficient economic policies. The theory asserts that government intervenes on the economic environment by its economic policies to allow effective allocation of resources, regulation of markets, as well as enabling business environment that can make small scale enterprises flourish. The following are the assumptions of the theory:

i. The theory assumes that small scale enterprises operate in environment orchestrated by the interplay of various elements of the environment. Therefore, small scale operators should take abreast of its economic environmental factors, though external to them, but help them to be proactive in their operations.

ii. The theory also assumes that small scale enterprises drive in stable economic environment where there are fixed exchange rate, interest rate and inflation rate.

Keynes (1936) assumes that small scale enterprises strive in an environment where there are policies that maintain fixed interest rate, exchange rate and inflation rate that could have propulsive effect on the operations of small scale enterprises. The ability of the small scale enterprises to understand its environment of operations taking cognizance of the dynamism in the business environment will not only make them proactive to the changing environment but make pertinent decisions that enhance their performance.

Empirical Studies

Empirical study carried out by Mohammed (2012) on the impact of socio-economic factors on the success of small scale business in Khyber-Pakhtunkhwa Province, Pakistan. Primary data were sourced via questionnaire administered to sixty (60) businessmen who were randomly selected through the application of stratified sampling technique. Ordinary least square was employed in predicting the relationship between the studied variables of the study. The study revealed that dearth of advisory services among businessmen constitutes a major set-back on their operations and conclude that having the dexterity to analyze SWOT (strength, Weakness,

Opportunity and Treat) of the business could help them to appreciate and proactively responds to the environment.

Empirical study carried out by Dasa (2014) explored the impact of internal and external environmental factors on the performance of fast-growing small and medium scale business in Croatia. The objective of the study was to bring into limelight the imperativeness of small and medium scale enterprises as a key driver of the economy. The study used both primary data via questionnaire and secondary data obtained from Croatian Central bureau of Statistics, Central Bank of Croatia and the national council for competitiveness and Gem. The study analyzed data collected with Analysis of Variance (F-test). It was found that both internal and external environmental factors have a significant impact on the performance of small scale business and recommended that small scale businesses in Croatia should pay adequate attention to those factors (internal and external) that interact within the environment of their operations for decision making.

In a related study, Essien (2014) studied Nigerian Environment and Growth Constraints of Micro and Small Scale Manufacturing Industries in Akwa Ibom State. Descriptive research design was adopted such that structured questionnaire were administered to 234 small scale business operators through stratified random sampling, out of which 225 of the questionnaire were successfully returned, hence used for the analysis. The data collected were analyzed with simple percentages, frequency table and component factor analysis. The study revealed that that problem of infrastructure (power), inaccessibility of credit, high interest rate on loans, multiple taxation respectively were the major constraints that affected the growth of micro and small scale manufacturing businesses in Akwa Ibom State. From the findings, the study recommended that state government should intensified efforts in finding lasting solutions on electricity as well as reducing interest rate on loan, such that small scale businesses could access loan easily for their business operations in Akwa Ibom State.

A study carried out by Iulian and Petronela (2014) on the influence of business environment on small scale business. The study investigated those environmental factors that influence the operations of small scale businesses in Bucharest, Romania. Secondary data were obtained from research repositories in Romania. The study found that environmental forces was not friendly to small scale businesses, as a result, could not attract foreign investors, who could drive their economy and therefore recommended that government should as a matter urgency create a sustainable environment that can thrive small scale enterprises in Romania.

Babalola and Abel (2013) explored the effect of business environmental factors on the survival of small scale businesses in Lagos, Nigeria. This study was designed to survey those environmental factors that have considerable impact on the survival and growth of small scale

businesses in Lagos. Survey design was employed such that structured questionnaire were administered to selected employees of some small scale manufacturing firms in Lagos. Primary and secondary data were used and data collected were analyzed with simple percentages. It was found that government policy, inflation rate, technology, government politics and electricity supply as external factors that have greater influence on the operations of small scale operators in Lagos State and recommended that government of the day should endeavour to create an enabling environment that would be truly conducive for business organizations to thrive without engaging in any act of fraudulent practices.

More so, Imoisi and Ephraim (2015) studied small and medium scale enterprises on economic growth in Nigeria: 1975-2012. The study explored the implications of small and medium scale enterprises on economic growth in Nigeria. The study used primary data collected via questionnaire from eighty four (84) small and medium scale enterprises across board while secondary data were obtained from bureau of statistics within the period under review. Ordinary least Square (OLS) were used for the estimations. The findings revealed a positive relationship between small scale performance and economic growth, while inflation and interest rate have negative effect on the economic growth of Nigeria. Therefore, they concluded that those economic parameters have a negative effect on the economy and recommended that government should entrench a workable policy measures to maintain reduced interest rate to encourage high investment, which in the long-run will boost economic growth.

Agbolade (2014) carried out a study on the impact of business environment on the survival of small scale business in Nigeria. This study was necessitated following the depressed nature of the economy and to investigate the relationship between business environment and the survival of small scale business in Nigeria. Multiple regression models were used to analyze data obtained via questionnaire across eight small scale enterprises in Ijebu North Local Government Area of Ogun State. The result showed that inflation rate, lack of infrastructural facilities, and government policy constitute major hindrance that affect the survival and growth of the economy. Based on the findings, the study recommended that small scale 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 in order to facilitate planning and predictions on the most significant factors that affects business survival.

On the other hand, Nnadi (2019) studied environmental factors that impact the performance of small and medium scale businesses in Nigeria. The study was designed to examine those business environmental factors that inhibit the performance of small and medium scale businesses in Nigeria. It was survey-type of research which structured questionnaire was administered to selected small scale enterprises via stratified random sampling technique. The

result showed that those established programmes of the federal government to promote small and medium scale businesses were racked in corruption and recommended that the economic planners and regulatory authorities of small and medium scale should consider the establishment of national coordinating body of professionals to overseer and monitor the activities of small scale businesses in line with national policy for improved performance of the SMEs.

On the other hand, the effect of business environmental factors on small and medium scale business performance: Empirical evidence from the Mekong Delta was carried out by Dut (2015) to examine those environmental factors that affect the performance of small and medium scale businesses in Mekong, Delta. The study surveyed 63 small and medium scale businesses selected from the area, within 2011 and 2012, respectively. The study used fixed effect and random effect models in predicting the relationship between environmental factors and small and medium scale business performance. The result showed that environmental factors have negative influence on the performance of SMEs and therefore recommended that organizations should have better understanding on the inter-play of the environmental factors for sound decision making.

In another development, Reddy (2018), conducted a study on problems and prospects of small-scale industries in India. The study examined the environmental factors affecting small scale industries and its prospects with respect to economic growth and development in the area. Secondary data were obtained small scale industries annual report from 1999-2004, respectively. Multiple regression model was employed to determine the relationship between the studied variables under study. The study found economic factors such as increased inflation, exchange, and interest rate have negative effect on the performance of small scale businesses while its prospects could be seen on its imperativeness on job creation, creation of technology and recommended that government should make the environment favourable to drive the operations of small scale enterprises.

Finally, Duru (2018) surveyed the relationship between business environment and small scale business performance in Algeria. The objective of the study was to ascertain the effect of business environment and small scale business performance among selected firms in Nura, Algeria. The study was a survey type of research of which structured research were administered to sample of 45 small scale businesses selected via random sampling technique in Nura. The data collected were analyzed with multiple regressions. Results showed that there is a negative relationship between business environment and performance of small scale business ($r = -0.24$). From the findings, the study recommended that that government should provide a conducive environment that could derive the performance of small scale businesses in the area.

METHODOLOGY

Research Design

This study employed ex-post facto design from data extracted from CBN statistical Bulletin. Agha (2017) confirms that ex-post facto research is conducted with respect to events or influences in a phenomenon after they have occurred. The design adopted build mathematical models that captured the relationship among modeled variables. The focus of the model was on economic factors that influence the operations of small scale businesses in Nigeria.

The Data

The economic environmental factors to which the model was applied include inflation rate, interest rate and exchange rate on business performance. Therefore, the study covered economic environmental factors that influence the performance of small scale enterprises in Nigeria, from 1973-2019. The rationale behind selection of data taken over time (1973-2019) is to reasonably model the correlation structure of the past behaviour of the phenomena under consideration for predicting the trend and cyclical variation pattern of the effect of economic environment on the performance of Small Scale Businesses boom-bust cycles.

Model Framework and Specification

The study established an integrated model of economic environmental factors and business performance of small scale enterprises in Nigeria, from 1973-2019 through research objectives. Thus, the model used in this study is expressed in standalone variables (functional form) and predictive model in regression form. Multiple regressions enable the identification of statistical significant relationship between multiple variables. Specifically, enable the identification of the effect of several independent variables on the dependent variable (the extent to which variation in the dependent variable can be predicted by variation in the independent variables).

The applications of Ordinary Least Square (OLS) method of regression enable the identification of the effect of standalone variables (inflation rate, interest rate and exchange rate) on business performance. Ordinary Least Square (OLS) method of regression test was adopted to estimate the unknown parameters in a linear regression model. This technique, however, reduces the sum of squared differences between the observed responses in the data set and the responses predicted by the linear approximation. The model is specified as:

Model 1: Stand-alone variables in functional form

Business Performance = F(Inflation Rate)   -   -   -   (1)

Business Performance = F(Interest Rate)   -   -   -   (2)

Business Performance = F(Exchange Rate) -   -   -   (3)

Stand alone variables in testable form

$$BF = \beta_O + \beta_1 INFR + U_O \qquad - \quad - \quad - \quad - \quad - \qquad (4)$$

$$BF = \beta_O + \beta_2 INTR + U_O \qquad - \quad - \quad - \quad - \quad - \qquad (5)$$

$$BF = \beta_O + \beta_3 EXR + U_O \qquad - \quad - \quad - \quad - \quad - \qquad (6)$$

Model 4: Predicting Model

Business Performance = F(Inflation Rate, Interest Rate, Exchange Rate)   Specifically econometrically:

$$BP = \beta_O + \beta_1 INFR + \beta_2 INTR + \beta_3 EXR + U_O \quad - \qquad - \qquad (7)$$

Where:

      BP =   Estimated value of Business Performance (the dependent variable)

      $INFR$ =   Inflation Rate

      $INTR$ =   Interest Rate

      EXR =   Exchange Rate

      $INFR$, $INTR$, and EXR =   Independent Variables

      β_O =   Regression Constant

      β_1, $\beta2$, $\beta3$ . . . . are partial regression coefficients

Model Estimation

The estimated parameters were evaluated individually and jointly using regressions analysis. R (Multiple Correlation Coefficient) considered being one measure of the quality of the prediction of dependent variable and R^2 value (coefficient of determination) which is the proportion of variance in the dependent variable that can be explained by the independent variables by the regression model above and beyond the mean model. The F-ratio in the ANOVA table test whether the overall regression model is a good fit for the data (whether the independent variables statistically predict the dependent variable). This technique, however, reduces the sum of squared differences between the observed responses in the data set and the responses predicted by the linear approximation. The justification of the stated models was that the models helped in ascertaining the implications of inflation rate on business performance, exchange rate on business performance and interest rate on business performance.

ANALYSIS AND RESULTS

Table 1: Macro-economic Coefficients of Small Scale Enterprises

Dependent variable: BP

Method: Least Squares

Sample: 1973-2019

No of observations 46

Variable	Coefficient	St.Error	Beta	t-Statistics	Prob.
(Constant)	1.645167	1956.5		.8413	.0500
X_{EXR}	-5851.47	5171.4	.0205	.1135	.0000
X_{INTR}	-.8090	.6643	-0642	.4125	.0000
X_{INFR}	-.6405	.0770	-0624	.3608	.0000
R =	.084302				
R-Squared	0.78672				
Durbin Watson	2.06465				
F-Statistics	29.90467				
Prob.(Statistics)	.0000				

$$BP = 1.645167 - 5851.47 X_{EXR} - 0.8090 X_{INTR} - 6405 X_{INFR} - \quad - \quad - 8$$

Table above shows the regression results of the explanatory variables obtained via Ordinary Least Square (OLS) estimation within the period under investigation. The three predictor variables of X_{EXR}, X_{INTR} and X_{INFR} represent exchange rate, interest rate and inflation rate that interact in the environment of small scale enterprises in Nigeria. The result showed the coefficient of the constant term of 1.645167 and shows where the economic environmental factors intercept the Y axis and statistically insignificant at 5%level of significance. Also, F-Statistics (29.90467) showed the joint effect of the explanatory variables on the stated model.

The result of exchange rate on business performance of small scale enterprises has equally shown a negative (-.5851.47) and it was statistically significant at 5% level of significance. This implies that unit percent increase on the exchange rate will bring simultaneous decrease in business performance by 59%.

Furthermore, the results showed that interest rate has a negative (-.8090) on business performance of the small scale enterprises and it is statistically significant at 5% level of significance. It showed a negative relationship between interest rate and business performance

of small scale enterprises in Nigeria. The implication of the finding is that a unit increase in interest rate will contribute significantly to a decrease in business performance by 81%.

In addition, the coefficient of inflation rate on business performance of small scale enterprises has a negative sign (-.6405) and it's statistically significant at 5% level of significance. This result revealed a negative relationship between interest rate and business performance. This negative sign indicates that a unit increase in interest rate will lead to a significant decrease by 64% on business performance of small scale enterprises in Nigeria.

Test of Hypotheses

The results of data analysis and estimation via Multiple regression in Table 1 were used to test the formulated hypotheses of the study. In testing the hypotheses, the decision rule would be to accept the alternate hypothesis and reject null hypothesis, if the p-value is less than 0.05 or accept the null hypothesis and reject the alternate, if the p-value is greater than 0.05.

Hypothesis One

H_{01}: High inflation rate does not significantly affect the performance of small scale enterprises in Nigeria

H_{a1}: High inflation rate significantly affect the performance of small scale enterprises in Nigeria

Based on the result in Table 1, the computed p-value (0.000) is lesser than the α level of 0.05 (0.000<0.05), the study rejects the null hypothesis that high inflation rate does not affect the performance of small scale enterprises in Nigeria and accept its alternate, that high inflation rate affects the performance of small scale enterprises in Nigeria. Adjudging from the regression results, high inflation rate has a negative effect on the performance of these enterprises. Therefore, high inflation rate affects the performance of small scale business performance in Nigeria.

Hypothesis Two

H_{02}: High exchange rate does not significantly affect the performance of small scale enterprises in Nigeria.

H_{a2}: High exchange rate significantly affects the performance of small scale enterprises in Nigeria.

From Table 1, the flagged p-value (0.000) is lesser than the α level of 0.05 (0.000<0.05), the study therefore rejects the null hypothesis that high exchange rate does not affect the performance of small scale enterprises in Nigeria, and accept its alternate that high exchange rate affects the performance of small scale enterprises in Nigeria. The regression results

provided empirical evidence that increasing rate of exchange rate has a negative effect on the performance of these enterprises. Thus, high exchange rate affects the performance of small scale operations in Nigeria.

Hypothesis Three

H_{03}: High interest rate does not significantly affect the performance of small scale enterprises in Nigeria

H_{a3}: High interest rate significantly affects the performance of small scale enterprises in Nigeria

Relying on the regression results in Table 1, the computed p-value (0.000) is lesser than the α level of 0.05 (0.000<0.05), the study rejects the null hypothesis that high interest rate does not affect the performance of small scale enterprises in Nigeria, and accept its alternate that high interest rate affects the performance of small scale enterprises in Nigeria. From Table 4.1 above, it was shown that high interest rate has a negative effect on the performance of small scale enterprises. Thus, the study concludes that high interest rate affects the performance of small scale operations in Nigeria.

DISCUSSION OF FINDINGS

The study revealed a significant negative correlation between high inflation rate and the performance of small scale enterprise in Nigeria. The implication of this finding is that a unit increase in inflation rate will bring about a substantive decrease on the performance of small scale enterprises by 64%. It revealed from the regression diagnostics that this inverse relationship will equally occur at a significant value since the computed p-value (0.000) is lesser than α level of significance. This finding is consistent with the findings of Imoisi and Ephraim (2015) who found that high inflation rate affects the operations of small scale enterprises in Nigeria.

Similarly, the study found a negative relationship between high exchange rate and the performance of small scale enterprise in Nigeria. This implies that with the increasing rate of exchange rate, the performance of small scale enterprise is bound to be decreasing by 59%. The regression result also revealed that the inverse relationship will occur at a significant level since the computed p-value (0.000) is lesser than α level of significance 0.05. This result was supported by the findings of Reddy (2018) who found that continuous hike in exchange rate has negative effects on the survival of small scale enterprises in Nigeria.

In addition, the study found a negative relationship between high interest rate and the performance of small scale enterprise in Nigeria. This implies that with the increasing rate of exchange rate, the performance of small scale operations is bound to be decreasing by 81%

significantly. The regression result also revealed that the inverse relationship will occur at a significant level since the computed p-value (0.000) is lesser than α level of 0.05. This finding is consistent with the findings of Essien (2014) whose studies revealed that high interest rate, inflation rate have potential negative effect on the operations of small scale enterprises in Nigeria.

CONCLUSION

The study determines the effect of economic environment on the performance of small scale businesses in Nigeria. Specifically, it ascertain the effect of high inflation rate on the performance of small scale enterprises; examine the effect of high exchange rate on the performance of small scale enterprises; and explore the effect of high interest rate on the performance of small scale enterprises in Nigeria.

This study employed ex-post facto design and established an integrated model of economic environmental factors and business performance of small scale enterprises in Nigeria, from 1973-2019 through research objectives. Thus, the model used in this study is expressed in standalone variables (functional form) and predictive model in regression form. Ordinary Least Square (OLS) method of regression test was adopted to estimate the unknown parameters in a linear regression model.

Results revealed that; high inflation rate significantly affect the performance of small scale enterprises in Nigeria; high exchange rate significantly affects the performance of small scale enterprises; and high interest rate significantly affects the performance of small scale enterprises in Nigeria

RECOMMENDATIONS

The federal government of Nigeria should come up with economic policy and regulatory framework that will maintain fixed exchange rate, interest rate and low inflation. Low inflation rate would improve on the purchasing power of small scale enterprises, in terms of business diversification, developing existing business capacity; improve profitability, and starting new businesses. Stabilizing these economic variables would drive the operations of small scale enterprises, as they will innovate, create and invent new things, products and services to stimulate productivity, which in turns, create resource-based economy.

The Nigeria government needs to increase her productive capacity (made in Nigeria products) to improve her export earnings which would stabilize the exchange rate. More so, the federal government through its agencies should come up with viable policy that would address the problems of high interest rate in Nigeria. The problems of high interest rate and collateral

securities have made it difficult for small scale operators to access loan in the bank. Most of the small scale operators who may have viable business ideas may not put it into use, due to dearth of capital.

The researchers suggest that further studies should be conducted to; examine other moderators of the effect of economic environment on the performance of small scale businesses in Nigeria; and the interaction effect of economic environment on the performance of small scale businesses in Nigeria.

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