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Success of Small and Medium Enterprises in Nigeria: Do Environmental Factors Matter?

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Abstract
This paper provides empirical evidence to support the thesis that both internal and external factors are critical success determinants of SMEs in Nigeria. Relying of primary survey instrument, and analysing the data utilizing the multiple regression analysis, findings indicate that external environmental factors of infrastructure and institutions matter for SME success, though they were constraining variables to SMEs' performance. Marketing practices indicated a negative and insignificant relationship with SMEs' profitability. Policy actions are required on the part of both government and the private sector to address the yawning deficit in infrastructure and institutional efficiency.
Keywords: SMEs, Environmental factors, Institutions, Infrastructure

1.Introduction

Enterprises vary in sizes, structure and complexities, but are generally characterized by the utilization of resources towards the attainment of predetermined ends. Broadly, enterprises are categorized into micro, small, medium and large organizations. Micro enterprises typically include street vendors, petty/artisanal business etc. Micro enterprises are not expected to fulfill stringent regulatory requirements and largely operate in the *informal sector* of the economy especially in developing economies. In contrast, small and medium sized enterprises (SMEs) are larger in size, demands relative formal structure, are impacted substantially by business environmental factors and accounts for a considerable percentage of all businesses in the *"formal sector"* of an economy.

The pervasive nature of SMEs in virtually every sector of the Nigerian economy and their place in national development is well established and documented. These include enhancing diversification and expansion of industrial base, utilization of local materials and skills, increased government revenue, wealth creation, poverty reduction and curbing rural-urban migration etc. The economic imperatives of SMEs are also apparent in the mobilization of idle financial resources, creating competition by offering varieties of products and services, reducing pressure on foreign exchange demand through import substitution, providing intermediate services and supplies to large firms, employment generation, source for innovation etc. (Ogechukwu, 2011; Akingunola, 2011; Dimoji & Onwuneme, 2016; Gberevbie & Isiavwe-Ogbari, 2007; Etuk, Etuk & Michael, 2014; Ogbo & Nwachwukwu, 2012; Bamidele, 2012).

In realization of the centrality of SMEs as drivers of economic growth in Nigeria through ensuring a shift from crude oil export as a major source of government revenue to an industrial and service driven economy, concerted efforts in terms of policy guidelines and interventions have been initiated and implemented by successive governments at all levels to accelerate the growth and viability of the SME sector. Agencies such as Small and Micro Enterprise Development Agency (SMEDAN), and the Bank of industry, for instance, were established to provide technical support and low interest loans, while the Small and Medium Enterprise Industries Equity Investment Scheme (SMIEIS) mandates commercial banks to invest at least 10% of their pre-tax profit in SMEs. In 2014 the Central Bank of Nigeria (CBN) launched 220 Billion naira SMEs intervention fund.

However, despite the quantum of efforts by successive governments and other stakeholders, majority of newly established SMEs fail to survive their first two years, while existing ones are either shutting or operating at sub-optimal levels. This assertion is corroborated by Thompson and MacMillan (2010), who posited that "the failure rate for start-ups is high. And new ventures in emerging economies face such challenges as uncertain prices and cost, non-existent or unreliable infrastructure, and unpredictable competitive response". The high rate of SME mortality calls for scrutiny of internal operational effectiveness and efficiency, as well as an understanding of the intricate web of external environmental factors capable of impeding SMEs ability and flexibility to take advantage of business opportunities needed for growth and profitability. The vast population of Nigeria offers large market to be exploited by SMEs and the business environment no doubt presents a number of inherent challenges for SMEs to overcome. Rogoff, Lee, and Suh, (2004); Sarder, Ghosh, and Rosa,(1997); and Chowdhury (2007), argued that a coherent marshalling of human resources, finance, and marketing on one hand, and the nature of regulatory/legal framework, business support services and infrastructures on the other, are some of the necessary conditions for SMEs success. Firm's size, age, and business location, as well as the entrepreneur's gender, education, age, managerial skills, and experience broadly classified into business and

entrepreneurial characteristics have also been identified to affect SMEs success (Kraut and Grambsch, 1987; Kallerberg and Leicht, 1991).

There exists lack of universality of opinion on the notion of what constitutes business success, as success is largely viewed within the subjective prism of the entrepreneur (Perez &Caninno; 2009, Ibrahim & Goodwin 1986). Generally, SMEs successes have been classified into financial and non-financial components. Financial success encompasses a broad range of indicators such as profit, sales, returns on investment etc., while non-financial measures of SMEs success include sustained business operations for at least three years, personal involvement and autonomy, work-life balance etc. Prior studies for instance Abdullahi & Sulaiman (2015), Bala & Mukhtar (2014), Akinruwa, Awolusi & Ibojo (2013), concluded that the determinants of SMEs performance/success in Nigeria are multi-faceted. They however failed to align these factors to key performance/success indicator. This study therefore seeks to bridge the identified gaps by linking business environmental factors to key SMEs success indicator, especially in an economy like Nigeria where, arguably access to finance, inadequate infrastructure, weak institutional framework calumniating in inconsistent and sometimes hostile regulatory environment etc. constrain business opportunity exploitation. In measuring success, the study limits itself to financial measures of SMEs success specifically, profitability as this is believed to offer a quantifiable, objective and universal appraisal of success. Corroborating this position, Phillips (1999), asserted that long-term goals (market share, brand names and reputations etc.) achievement is contingent upon a firm capability to obtain profitability in the short run.

The paper is organized as follows. Section 2 reviews the literature on SMEs, and evaluates the challenges and what constitutes the deciding factors of SMEs success, while section 3 develops the methodology of investigation. In sections 4 and 5, we present and discuss the results respectively. Section 6 concludes the paper with salient policy recommendations.

2.0 Literature Review

2.1 Conceptual Issues

The meaning of SMEs differs across frontiers (Gunasekaran, Forker and Kobu, 2000). However, numbers of persons employed seem to remain a recurring trend (Adams & Hall, 1993). Capital employed, sales turnover, and/ or assets are also used in categorizing firms. In Nigeria, a small scale enterprise is a firm employing a workforce of 11 – 100 persons or capital not exceeding N50 million, including working capital but excluding cost of land. While a medium scale enterprise is one with a workforce of 101 - 300 persons or capital exceeding N50 million but not more than N200 million, including working capital but excluding cost of land. Central Bank of Nigeria (2010) in its definition of what constitutes SMEs accepted the number of staff employed at the above level, but differs on asset value. Thus, firms with asset ranging between N5 million and N500 million, are classed under SMEs.

Small and Medium Enterprises in Nigeria are believed to account for about 40 percent of GDP and 70 percent of industrial employment (Eniola, *2014).* Duke (2006), notes that about 87 percent of all enterprises in Nigeria by definition are small businesses and contribute an estimated 61 percent of GDP. At the national level, they generate 58 percent of employment. Similarly it is estimated that about 70% of all business enterprises in Ghana are grouped under SME and contribute up to 40% of GDP. Kenya experience also reveals the existence of approximately 1.3 million micro and small enterprises, employing about 2.3 million people, thus creating employment, wealth and export expansion (Dimoji & Onwumere , 2016 ; Mbogua, 2003). In many of the newly industrialized nations like China, India, South Koera etc about 98 percent of businesses are grouped under the SME sector and account for a large chunk of the labour force (Sanusi, 2003).

Even in the developed and highly industrialized nations, SMEs continues to play crucial and significant economic and social stabilization roles. For instance, in Japan, it is estimated that SMEs accounts for 99.7 percent of business enterprises, 87 percent of employment and 51 percent of total goods exported In the USA, SMEs account for approximately more than half of private non-agricultural GDP between 1998- 2004, employed almost 50% non-farm private sector workers in 2006 and is responsible for generation of 64.1 % of net new jobs between 1992- 2009. In addition to providing an avenue for citizens to develop their entrepreneurial skills, SMEs drive innovations faster and more efficiently than larger firms in terms of processes, products and services. In OECD countries, it is estimated that SMEs and micro enterprises account for over 95% of firms, 60- 70% of employment and 55% of GDP (SMEs Agency, 2013, cited in Gamage, 2014; USITC, 2010; Etuk,

The foregoing clearly shows the strategic role SMEs continue to play in the both developed and emerging economies. Such roles cannot be over-emphasized, especially in an economy like Nigeria where there is high dependence on crude-oil export as the major foreign exchange earner these include: employment generation, diversification of national economy and conserving foreign exchange, promotion of indigenous technology and utilization of local resources, as well as poverty reduction, income redistribution and inclusive growth.

2.2Challenges of SMEs in Nigeria

Arguably, the Nigerian economy has not fared better because SMEs have not played their expected role. This is however inspite of concerted interventions by successive government administrations. The under-performance of this sector is perceivably indicative of unaddressed fundamental problems. Literature reveals a myriad of issues which include: inefficient and inadequate infrastructures such as power and water supply, poor road network, business incubation centres etc. SMEs are therefore compelled to provide such critical facilities thereby increasing their operational cost. Also, the administration of subsidies, incentives and other interventions are characterized by corruption and stringent requirements, thus discouraging potential entrepreneurs and crowding-out existing ones. Again, lack of access to finance attributable to the hesitations of banks and other financial institutions to extend credit to SMEs largely because of poor documentation, packaging and presentation of business proposals, lack of collateral of security and high interest rate (Obitayo, 2001; Fabunmi, 2004), are constraints that impede the growth of SMEs. In addition to the aforementioned challenges, Nnanna,(2001), stated that inability to access appropriate technology at low cost and the near absence of facilities for research and development, dwindling demand forlocally made productsand the rising appetite for foreign goods. Weak organisational framework, product/ service marketing, low information technology usage,personnel management challenges, poor accounting records etc. Low formal educational and technical competence of the SME owners and employees are the major challenges of SMEs in Nigeria.

Dimoji and Onwumere (2016), view of the challenges confronting SMEs in Nigeria can be broadly summarized into: human resource and general management, finance, account and internal control, marketing, low technology adoption poor business support services and infrastructure.

2.3.What constitutes success of SMEs?

Success could be seen as the achievement of the desired objective(s) of any pursuit. Therefore, the attainment of success is thus regarded as the climax of any endeavor including business effort. The definition of what success actually means especially for SMEs seem to be elusive as entrepreneurs' perception of success differs as well as the method for measurement by scholars. For these reasons it has been argued that unless a consensus is arrived, identifying success factors and defining success will not be satisfactorily resolved (Ahmad and Seet, 2000**,** Watson, 2003). Nonetheless, one of the bases commonly adopted to appraise SMEs success is the use of what has variously been described as financial, quantitative or tangible indicators such as profit, sales, return on investment, net worth, personal wealth creation etc.

Proponents argued that such measures are imperative, particularly profit and sales because no business can do without them (Chandler and Hanks, 1994 in Ahmad and Seet, 2000; Perren, 2000; Amrit, MacCrimmon, Zietsman, and Oesch, 2000; Hall and Fulshaw, 1993).

Another approach to success focuses on the non-financial predictors such as the entrepreneur's job satisfaction, flexibility, and career progress (Kuratko, Hornsby, and Naffziger, 1997), sustained business operations for at least three years (Taormina and Lao, 2007; Beaver (1997; 2000) as well as personal involvement and autonomy of the entrepreneur, arguing that these factors are valued more than money by most entrepreneur.

A third strand Naman & Slevin (1993), Buttner & Moore's (1997), Wiklund (1999) advocated a hybridized view of SMEs success. It views success as a combination of both financial and non-financial criteria. They argue that this would offer a more holistic and balanced perception than using any one of financial or non-financial measure.

In view of the foregoing, neither financial nor non-financial measure of SMEs success can exclusively offer an encompassing definition of SMEs success. This is predicated on the assumption that human wants changes over-time. By postulating that human needs are hierarchical, Maslow's Needs Theory brings to light the importance/implication of adopting a multi-dimensional approach to SMEs success. Again, Maslow's emphasis on individuals (entrepreneurs) concentrating their efforts towards satisfying immediate needs and thereafter directing same to the next level of needs once lower level needs are fairly satisfied, clearly leans credence to the believe while profit and personal wealth creation may be the initial objectives of entrepreneurial pursuit, they cease to motivate the entrepreneur after such goals have been deemed to be achieved. Thus attaining other goals that may not be expressed in monetary terms, but which brings intrinsic satisfaction and sense of achievement could be viewed as success by the entrepreneur in the long term. Essentially therefore, while the need to adopt an holistic view of success encapsulating financial and non-financial measures might be compelling as advanced by Wiklund and Shepherd (2003). We limit this study to financial measures of success particularly profit since it offers unbiased/ objective criteria for evaluation and base for the achievement of other desired ends especially for SMEs. Arguably, profits represent SMEs *physiological needs.* Harada (2003), asserts that for new firms, continued operation is contingent upon the realization of profit.

2.4 Deciding factors of SMEs success

Various factors have been identified as the determinants of SMEs success. For instance, Chittithaworn, Islam, Keawchana & Yusuf, (2011) in summarizing the strands of research concluded that a number of factors have been identified as crucial for SMEs success. These are; entrepreneur characteristics, SMEs characteristics, managerial know-how, products and services, customers and markets business approach, resources and finance, strategy, external environment and ICT.

Chowdhury, Alam and Arif (2013), argued that factors that account for SMEs success in Bangladesh can be broadly summarized into demographic characteristics (age, education and experience) and environmental variables (marketing, technology, capital access, government, infrastructure, political and information access). Also, Arin, Huang, Minniti, Nandialath and Reich(2015) opined that the cumulative intensity of entrepreneurial (SMEs) activities in an economy is a product of multiplicity of interrelated factors, namely human capital (population, education, and employment status), level of development (GDP per capita, technological development, and financial development), as well as the institutions that set the rules and influence resource allocation. Oyelola, Ajiboshin, Raimi, Raheem and Igwe (2013) found that epileptic power supply, bad roads, multiple taxation, lack of sincere support for SMEs and high telecom/transportation costs are impediments to entrepreneurial development. They conclusively argued that conducive environment for entrepreneurship and economic growth is lacking in Nigeria. Similarly, Ofoegbu, Akanbi and Joseph (2013) investigated the effects of contextual factors on the performance of SMEs in Nigeria and found that enabling environment, capital, availability of raw materials, power, government policy etc significantly impact SMEs growth. Akingunola (2011), studies on the financing options of SMEs revealed that there is a significant positive relationship between SMEs financing and economic growth in Nigeria.

Although, a number of factors have been identified as determinants of SMEs success, these factors can be broadly situated within the context of the environment, broadly categorized into internal and external.

Internal environmental factors: These are set of factors within an organization that are capable of influencing the performance or the attainment of goals. They include the following:

Human resource management (HRM) practices: This is a people centered function and basically involves the attraction, motivation and retention of the human component required by an organization. Although, there are many managerial tasks to be performed, managing the human component is fundamental and indispensable since every other organizational functions rests on human resource management effectiveness. Flippo (1975) defines HRM as "the planning, organizing, directing and controlling of the procurement, development, compensation, integration and maintenance of people for the purpose of contributing to organizational goals". Supporting this assertion, Stone (2005) sees human resource management as the productive use of people in achieving the organization's strategic business objectives and the satisfaction of individual employees. Arguing further, Hall & Goodale (cited in Agulanna and Awoju (2005), see HRM as " the process through which an optimal fit is achieved among the employee, job, organization and the environment so that employees reach their desired level of satisfaction and the organization meets its goals".

An aggregation of the views above clearly reveals that the attainment of corporate goals and objectives in SMEs depend to a large extent on the availability of people in terms of right numbers, skills, competences and attitudes, and functioning at the right place and time. This is because the human beings in an organization are central in achieving competitive advantage and the catalyst for organizing and mobilizing other organizational resources including materials, machines and finance. This therefore calls for institution of appropriate internal structures, programmes, policies and plans to ensure the attraction, hiring, training, reward and retention of quality human elements in the organizations including SMEs. "The human resource of an organization is therefore a significant and strategic resource of distinctive competence that requires to be managed, sustained and planned for in its totality, if the organization is to survive and grow and face future challenges" (Inyang and Akpama, 2002).HRM practices such as recruitment and selection, training and development, reward and compensation, performance appraisal, health and safety are immensely vital for SMEs because of its largely labour-intensive nature of operation. However, despite the perceived importance of HRM practices to organizational survival, such practices are not receiving the required attention in SMEs when compared to large firms.

Marketing: Businesses, no matter their size and location, face severe competition capable of driving them to extinction, if proactive marketing programmes, strategies and tactics are not formulated and implemented. Consequently, the execution of core marketing functions (product, price, place and promotion) have become the precursor to business success. Carson (1990) however observed that marketing in SMEs has unique characteristics that distinguishes it from those practiced in large firms. These can be attributed to limited resources (e.g. finance, time, marketing and knowledge), lack of specialist manager and limited impact in the marketplace. Thus, SME marketing are often times chaotic, casual, impulsive, reactionary and blend to industry expectations (Scase and Goffee, 1980; Gilmore, Carson and Grant, 2001). The informality of SMEs marketing practice is again accentuated by dependent personal networks and informal contacts rather than on systematic

market intelligence (Awan and Hashmi, 2014). The forgoing scenario perceivably account for why in Nigeria, detailed attention is most times not paid by SMEs to scientifically determine the needs/ expectations of consumers, appropriate price, right market segment(s) for the products/ services and the development of effective and efficient promotional tools capable of eliciting patronage and building customers' loyalty.

Finance: Finance has been recognized as an essential requirement for business survival. It is the lubricant that oils the wheels of any organization. This means that SMEs ability to survive, grow and contribute meaningfully to national productivity hinges on access to low cost long-term financing. Presently, Most SMEs in Nigeria are faced with the challenge of capital. There are a number of financing options available to SMEs, namely: owner- finance, equity and debt. Apart from owner finance which in most cases are grossly insufficient to meet the financial requirements of the business, other options carry with it a number of stringent conditions and obligations that majority of SMEs are often times unable to fulfill. Abereijo & Fayomi (2005), noted that the inability of SMEs in Nigeria to raise funds from external sources can largely be attributed to lenders and investors perception of SMEs high risk due to lean asset and capital base, susceptibility to market dynamics and high rate of mortality. Lack of proper accounting records, inadequate financial statements and business plans also makes appraisal of SMEs credit worthiness herculean task, as well as high transaction cost associated with SMEs lending.

Government attempts at solving the problem of finance faced by SMEs through the establishment of institutions like the Bank of industry (BOI) and targeted intervention policy like SMEs Equity Investment Scheme (SMEEIS) have turned out to be a drop in the ocean and characterized by weak capitalization, bureaucracy and poor knowledge of the sector it is supposed to serve. Financial institutions in Nigeria perceive SMEs as high risk, thus unwilling to extend long-term loans. In cases where SMEs are able to secure debt financing through banks and other financial intermediaries (formal or informal), it is usually on short-term basis and at exploitative interest rate. On equity financing option, owners of SMEs in Nigeria are averse to opening up ownership of such business to "outsiders" in order to raise additional capital due to the fear of sharing ownership of the business with someone else (Akingunola, 2005; 2011).

External environmental factors: external environmental factors present opportunities and threat, and outside the direct control of the SMEs owner/ managers; however they have enormous implications on business success. Firms not only monitor this environment, but must adapt to its dynamics. Critical external environmental factors for SMEs are:

Regulatory and legal framework: there are a myriad of regulatory/ legal framework and requirements SMEs have to satisfy depending on the sector it operates. Regulatory institutions in Nigeria include; Standards Organization of Nigeria (SON), National Agency for Food, Drug Administration and Control (NAFDAC), Corporate Affairs Commission, tax authorities. These institutional framework often set stringent and in most cases archaic requirements for business incorporation, permits/ licenses etc. In addition to these, policy guidelines in form of inconsistent monetary and fiscal policies direction manifesting in unpredictable interest/ exchange rates regimes as well as incidences of multiple/ high taxation are some of the regulatory/ legal impediments to SMEs success in Nigeria. Operators of SMEs are often unaware of extant regulatory and legal requirements as they pertain to their businesses. Thus enormous time and resources may have been spent, only to be sanctioned by regulatory authorities for failing to meet prescribed standards. Since most SMEs possess neither the financial capacity to absorb such loss or the ability to negotiate favorable terms with regulatory agencies, they are forced to either shut or operate sub-optimally in other to avoid regulatory scrutiny.

Social infrastructure and business support services: Infrastructure is yet another determinant of SMEs success. Infrastructure like electricity, water supply, transport and communication network needed for smooth operation are not readily available or in short supply. Critical business support services such as business incubation centres, market research services etc. are also lacking. SMEs are therefore compelled to provide these basic services thereby increasing their operating cost.

The cumulative implication of inflexible regulatory/legal framework and derelict infrastructure is the erosion of competitive capability of few surviving local SMEs in the face of cheaper imports on the one hand, and the closure of many others in droves on the other hand. In recognition of challenges posed by regulatory/legal framework as well as the paucity of infrastructure Nigeria slipped from 120th position it occupied in 2008, to 169th in 2015 in the World Bank Ease of Doing Business Index report 2016 (World Bank 2017). The declining ease of doing business index clearly shows that more still needs to be done by the government to improve the external environment of business in Nigeria. This negative trend is further exacerbated by high tax rate and sometimes multiplicity of tax regimes on existing SMEs.

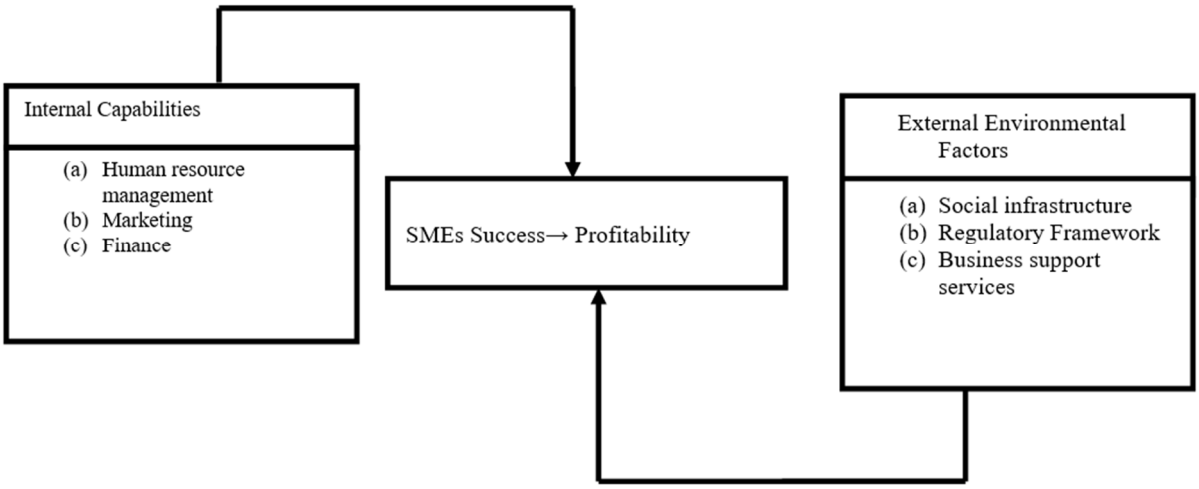

Fig 2.1 SMEs critical success determinant conceptual framework
Source: Authors (2017).

Following the above discussions, we hypothesize that:

Ho: SMEs success (profitability) is determined by the combination of both internal capabilities (human resource management practices, marketing, product/service quality and finance) and external environmental factors (legal/ regulatory framework or institutions, and infrastructure).

3.0 Methodology

3.1 Instrument and Sample

A survey questionnaire was the main instrument used in the collection of data for the study and was divided into two parts. Part "A" sought information on demographic and other characteristics of respondents such as duration of the business, type of business, role in the business, number of employees, form of ownership etc. The second part focused on respondents' view of internal capabilities such as human resource management practices, marketing function, finance, as well as external environmental factors such as regulatory/legal framework and infrastructure and business support services on their business success (profitability). Specific questions requiring respondents to rank items based on their perceived importance to success were included. To ensure consistency, five-point Liket- scale questions were also used to rate respondents perception. Thus, 5, 4. 3, 2 and 1 respectively were used to denote Strongly Agree (SA), Agree (A), Moderately Agree (MA), Disagree (D), and Strongly Disagree (SD). For instance, perception of finance on firm's success, yielded 234, 170, 79, 63, and 45 for SA, A, MA, DA and SA respectively. Similar questions were also repeated for other factors both internal and external. Profitability was determined using information on tax returns and corroborated same with responses provided on the study instrument. Thus firms with annual profit of 1-5 million naira, 6-10 million, 11- 15 million, 16- 20 and those above 20 million, were coded on a scale of 1- 5 respectively.

We adopted the parameters used in defining SMEs by the Central Bank of Nigeria especially number of employees. Thus firms with 11 – 100 and 101- 300 were categorized as *small* and *medium* respectively. Choice of respondents was limited to owner-manager or manager in each SME. Our justification for choice of respondents is hinged on the belief that managerial authority and responsibilities in SMEs is largely concentrated on key personnel who would either be the owner/ manager.

The population frame for the study consisted of SMEs registered with Corporate Affairs Commission (CAC) and was limited to three contiguous states within the Niger Delta Region of Nigeria; Abia, Akwa Ibom and Cross River States. We randomly selected 921 small and medium sized firms across different sectors of the population for administration of the study instrument, whereupon 34% of the administered questionnaire were either not returned or incorrectly filled. We thus achieved a response rate of 64% (589). In selecting sample, we took cognizance of the disparity in SMEs spread within the study area. This problem was addressed by allocating quota to each state based on percentage of contribution to the total number of SMEs in the area on the data base.

3.2 Method of data Analysis

Data were analyzed descriptively, using frequencies and simple percentages, while the hypothesized relationship was tested with regression analysis imputed into IBM SPSS version 20. The paper employs the ordinary least squares technique of multiple regression methodology to estimate the effect of internal and external environmental factors on the profitability of SMEs in our focal area of study. We first proceed by examining the underlying statistical properties of the data, ascertaining the internal consistency and reliability of the data by computing Cronbach alpha, and then estimating our specified model, before drawing relevant econometric,

theoretical and statistical conclusions on the results.

3.3 Model specification

The baseline functional model for the study is specified as follows:

$PRF = f(HRMP, MKT, PDQ, FNC, INST, INFR)$ …… (1)

The econometric specification of equation (1) takes the form:

$PRF=\beta_0+\beta_1 HRMP +\beta_2 MKT +\beta_3 PDQ +\beta_4 FNC +\beta_5 INST +\beta_6 INFR +U_t$ …… (2)

Where:

PRF	=	Profitability
HRMP	=	Human Resource Management Practices
MKTP	=	Marketing
PDQ	=	Product Quality
FNC	=	Finance
INST	=	Institutions (proxy for regulatory/legal framework)
INFR	=	Infrastructure

β_0, β_1, β_2, β_3, β_4, β_5, *and* β_6, are parameters to be estimated. U_t is the error term. On a priori, we expect the estimated parameters to be > 0.

4.Presentation of Results

Table 1 presents the statistical properties of the data. The mean values of all the variables cluster around a common range, with infrastructure having the highest mean of 4.13, while INST has the lowest mean of 3.06. The standard deviation of the data suggests the existence of homogeneity of variance as the deviations of each variable around its mean converged within 1.06 to 1.25.

Table 1: Descriptive statistics

Variables	Mean	Std. Deviation	**N**
PRF	3.1511	1.18777	589
FNC	3.8438	1.25196	589
HRMP	3.9049	1.06958	589
MKTP	3.1851	1.22532	589
INFR	4.1375	1.06255	589
INST	3.0645	1.11082	589

Source: Authors' computation

Table 2: Correlation

Correlations								
		PRF	FNC	HRMP	MKTP	INFR	INST	α
Pearson Correlation	PRF	1.000						0.84
	FNC	.410	1.000					0.89
	HRMP	-.353	-.328	1.000				0.76
	MKTP	-.393	.326	.352	1.000			0.91
	INFR	.415	.406	.316	.313	1.000		0.87
	INST	.402	-.239	-.421	.340	.428	1.000	0.79

Source: Authors' computation

Correlations between the variables (Table 2) indicates varying degrees of largely modest magnitudes but mixed relationships. On the whole, the multivariate correlations do not suggest the existence of multi-collinearity, a critical assumption of the OLS that if proved to be present would lead to biasness and spuriousness of the ensuing regression results. The internal consistency of our measurement items were tested by computing Cronbach alpha (α) values. Results indicate that our measurement instrument (items) are reliable as computed α > 0.70 threshold (Katou, 2008; Nunnally, 1978).Table 3 presents regression results highlighting the estimated coefficients of the predictor variables.

Dependent Variable: PRF

Table 3: Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.936	.347		8.473	.000
	FNC	.107	.039	.112	2.738	.006
	HRMP	.005	.046	.005	.112	.911
	MKTP	-.093	.040	-.096	-2.343	.019
	INFR	-.573	.232	.015	-2.461	.018
	INST	.237	.059	.005	4.016	.000
R-squared: 0.651; Adjusted R-squared: 0.603; Std. Error: 1.179; Durbin Watson: 1.86; F-stat: 2.557 Prob(F-statistic) = 0.027						

Source: Authors' Computation

Results from the regression analysis show that FNC, MKTP, INFR, and INST are statistically significant at the five percent level of significance. However, HRMP was insignificant (p>.05). On theoretical grounds MKTP and INFR turned out with the wrong signs. The joint significance of the predictor variables indicated by the F-statistic (2.557) is also significant at the five percent level (p<0.05). The adjusted R-squared, an indication of the explanatory power of the regressors is .603, while the Durbin-Watson statistic (1.86) does not suggest the presence of serial autocorrelation. The result suggests that the model has a good fit, with over 60 percent of variation in the dependent variable explained by the predictor variables. The error term captures the unexplained variation of 40 percent.

5.Discussion of Results

Our estimated regression coefficients of the regressors indicate that most of the predictor variables had signs inconsistent with a priori theoretical expectations. For instance, marketing practices, infrastructure, and institutions coefficients all turned out negative signs that defied theory. Several economic reasons could account for this. On infrastructure for instance, empirical evidence abound detailing the huge constraint deficit and decaying infrastructure imposes on the success of SMEs in particular and the economy in general (Effiom and Ubi, 2016; Aderamo, 2012). While the revolution in information and communications technology (ICT) has undoubtedly aided economic growth in Nigeria, with SMEs contributing to this growth, challenges still remain in terms of the depth and penetration of mobile telecom lines, especially in rural areas of the country. Equally challenging is the spate of power (electricity) outages (Ubi & Effiom, 2013; Iwayemi, 2008; Okafor, 2008). Electricity is the engine that drives and oils the wheels of any modern economy, and instability in its supply poses a huge problem (burden in the cost of business operations) to the success of SMEs.

The quality of Nigeria's institutions has been shown to be a profound disincentive to the success of SMEs and indeed to the economy at large. Institutional failures are characteristic of Nigeria's socio-political and economic landscape. From failure in the power/electricity sector (Adenikinju, 2005) to a dysfunctional educational system (Babalola, 2012; FME, 2006; Udofot, 2006) to failure in financial institutions (CBN, 2009) to failure in good governance (Ubi & Effiom, 2012), it is therefore no surprise that our regression results indicated a negative relationship between success of SMEs in Nigeria and institutions, contrary to theory. The results however showed that that the quality of institutions was indeed a significant variable influencing the profitability of SMEs in Nigeria.

In Nigeria and in other climes, it has been observed that the operations and business strategies of most SMEs are rather unscientific and ad hoc. The recruitment of staff, for instance, is not done on any known HRM policy (Heneman et al., 2000). This partly explains why HRMP is insignificant (p>0.05) in determining the success or profitability of SMEs in Nigeria. A complacent mindset prevails on the part of most entrepreneurs to the effect that a coherent HRM policy only belongs to large firms (Duberley & Whalley, 1995).However, our findings are in tandem with that of Osman, Ho & Galang (2011) who aver to the existence of a positive relationship between HRM and SMEs success. A key finding in the result is that the availability of finance or capital continues to be a crucial determinant of SMEs success in Nigeria. This has indeed gained notoriety in the SMEs literature. The estimated coefficient of the financial variable was both consistent with theoretical expectations and equally highly significant (p< .01).

Marketing practices of SMEs reveals a negative and insignificant relationship with profitability. This is not surprising because SMEs in Nigeria generally do not evolve any marketing strategies for their products. This affirms the conclusion of Scase and Goffee (1980), Gilmore, Carson and Grant (2001) that SMEs do not have a coherent, structured, strategic, and proactive marketing plan.

6.Conclusion and Recommendation

The objective of this paper was to ascertain if environmental factors matter to the success of SMEs in Nigeria, in addition to the conventional internal factors of HRMP and finance. These environmental factors were conceptualized and empirically verified by prior research to include legal/regulatory framework or institutions as well as social infrastructure. Relying on structured questionnaires as our primary survey instrument, with the associated technical processes of coding, pretesting and retesting, we analyzed our data via IBM SPSS using multiple regression analysis. Our findings generally validated the hypothesis of the study, namely, that SMEs success (profitability) is determined by the combination of both internal capabilities (human resource management practices, marketing, and finance) and external environmental factors (legal/ regulatory framework or institutions, and infrastructure).Our findings departed from the general theoretical expectations on key policy variables of the study. Specifically, we note the following:

1. Though infrastructure was generally perceived as a significant factor influencing the profitability of SMEs, it nonetheless had a negative relationship with profitability in the present study. In other words, respondents were of the view that inadequate and sometimes outright unavailability of critical infrastructure acted as a constraint to their profitability. Similar conclusions are drawn in regard to the regulatory or institutional framework in the economy as a whole. With a high significance level of the estimated coefficient of institutions, the results suggested that respondents believed that strong regulatory institutions and especially good governance across the broad spectrum of the macro-economy was crucial in SMEs success. Yet, the result indicated a paradox of sorts, namely, a negative relationship between institutions and SMEs performance. Put differently, existing institutions and regulatory framework compromised SMEs profitability.
2. Human resource management practices correlated positively with SMEs profitability. But it was not a significant factor in determining their success. Plausible reasons for this have been highlighted above.
3. Finance turned out both positively and significantly correlated with SMEs profitability.
4. Marketing practices of SMEs in Nigeria leaves much to be desired. A formalized, well-structured and strategic marketing plan should be incorporated by SMEs in their overall development plan.

In the light of the above findings, the study recommends that government should use its fiscal policy leverage to address the alarming infrastructure (roads, telecommunications, railways, electricity, etc.) deficit in the country. Similar interventions are required to strengthening the various institutions in the country. The aggregate impact of these measures would ensure a drastic cut in the cost of doing business in Nigeria. SMEs should al**so** initiate sound HRMP in recruitment and selection, rewards and compensations processes. Besides relying on government handouts in the form of short term loans, SMEs might consider alternative ways of funding, as the shrinking revenues of government occasioned by the recession might not ensure the sustainability of government finance to the sector in the long term.

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