BUSINESS ENVIRONMENT AND THE POTENTIALS OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

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ABSTRACT

Friendly environment enhances enterprise and management practice. This study analysed potentials of SMEs in relation to business environment of Lagos State; to contribute to environment-enterprise policy mechanism and regulatory framework of the State and Nigeria, industry and management practice. With World Bank's sample size model, and relevant criteria, 228 SMEs were drawn via convenience technique. Multifactor business environment-enterprise questionnaire (MBEEQ), akin to assessment tools of various agencies and institutions, was used to elicit cross-sectional survey responses. A system of simultaneous equations model (SSEM) was used to investigate environmental effects on the SMEs. Findings: legal-regulatory frameworks, policy stance and socio-cultural factors reduced potentials, competition aided innovation and growth; on aggregate, the environment significantly enhanced SMEs' potentials. Recommendations: legal-regulatory and policy reformation towards SME-friendly environment, and SMEs should leverage on opportunities in the environment.

Keywords: *Business environment, Small and medium enterprises, potentials, Simultaneous equations model, empirical investigation.*

1. INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD) (2005) explains SMEs as important agents of development throughout the

world, and promoting a country's SME sector is important for high employ-ment and income generation for sustainable growth and development. SME sector plays positive role in the growth and development processes of India (Baskaran, 2013; Ruchika, 2012), Malaysia (Saleh and Ndubuisi, 2006), Nigeria (Aremu and Adeyemi, 2011) among others. It contributes to poverty allevia-tion, economic development and promotes democratic and pluralist societies (Henriques, 1998).

It has been shown that the business environment of the SME sector shapes its job creation, employment, innovation and growth potentials, which ulti-mately translate to overall economic growth and development (Olugbenga, 2012; Cai et al., 2011; Kayanula and Quartey, 2010; Ashrafi and Murtaza, 2008). In the literature, government legal-regulatory stance and access to finance (Lixin, 2010); infrastructure and policies (Akinbogun, 2008; World Bank, 2000), taxes and power supply (SMEDAN, 2005) have been identified among environ-mental elements that affect the potentials of SMEs. The Nigerian business en-vironment in general and Lagos State in particular seem to be characterized by inappropriate state policies, heavy tax and regulatory burdens, erratic   power supply and hindered access to credit facilities amongst others. The results are the absence of a strong and virile SME sector and industrial gap (Udechukwu, 2003; SMEDAN, 2005).

Available literature suggests paucity of empirical studies in Nigeria that consider a wide range of environmental variables to investigate the effects of business environment on SMEs, especially for the enterprise nerve centre of the country, Lagos State. Moreover, studies by Terungwa (2011), Onwukwe and Iheanacho (2011) and Obamiyu (2007) did not provide multifactor-based em-pirical evidence. This, and the desire to re-examine for the enterprise hub of Nigeria, Lagos State, the studies of Golden et al. (1995) and Han et al. (1998), informed this research interest.

Therefore, this study examined the effects of the business environment of Nigeria's enterprise nerve centre, Lagos State, on the potentials of SMEs to create job, employment, innovate and grow. These indices are deemed appro-priate to measure potentials of the SMEs as management outcomes because they are among the criteria used in the literature to assess the SME sector and justify the need to promote enterprise-friendly environment (World Bank & IFC, 2012; Babalola, 2012; Stewart, 2010; UNIDO/OECD, 2004). Moreover, they have not attracted enough attention in empirical research on the SMEs in Ni-geria. This study is premised on the proposition that the business environment has not significantly affected these potentials of the SMEs and, thus, indicated the direction of management outcome.

This paper has five sections. This introduction is section one, section two is a review of related literature, section three discusses the methodology, section four is data analysis and discussion, and section five is the conclusion and recommendations.

2. CONCEPTUAL, THEORETICAL AND EMPIRICAL CONSIDERATIONS

2.1 CONCEPTUAL CONSIDERATION

Though the concept and definition of SMEs vary among agencies, institutions, scholars and authors, the common criteria are size, asset value, annual turnover and number of employees. How SMEs are defined usually depends upon the scale and structure of business in the economy, and varies from country to country (OECD, 2004). While Britain conceives SMEs as firms with annual turnover of 2 million pounds or less and fewer than 200 paid employees, Japan considers them to have 100 million yen paid up capital and 300 employees. In the wholesale business, they are firms with 300 million yen paid up capital and 100 employees; but in the retail trade they have 100 million yen paid up capital and 50 employees (Ekpeyong & Nyang, 1992). For the developing countries, UNIDO (as in Elaian, 1996) considers a firm with 5 – 19 workers as small and 20 - 99 workers as medium. For the industrialised countries, enterprises having 99 or fewer employees and 100 – 499 employees are considered as small and medium firms, respectively. In Nigeria, The National Council on Industry (NCI, 2001) as in Udechukwu (2003) defines SMEs as enterprises with a maximum asset base less than ₦200 million (equivalent of $1.43 million), excluding land and working capital, and employing minimum 10 and maximum of 300 employees.

For this study, SMEs are firms which, in addition to the above specifics, produce goods or render services, manage their activities and have the potentials to create jobs, employment, innovate and grow; adapt to threats and leverage on opportunities in the business environment.

Similarly, business environment has varying views in concept and definition. DFID (2003) and ILO (2004) consider it as a broad range of external elements that affect the growth and performance of small enterprises. Stern (2002) explains it as the policy, institutional and behavioural environment, both present and expected, that influence the returns and risks associated with investment in a specific location. White (2004:8) refers to it as "everything that affects enterprise performance from outside such as corruption, policies, laws, culture and infrastructure". To Lixin (2010), the concept integrates mac-

roeconomic aspects: fiscal, monetary and exchange rate policies; governance: institutions and politics; and infrastructure: transportation, electricity and communication. Donor Committee for Enterprise Development (DCED, 2008) considers it as a complex of policy, legal, institutional and regulatory conditions that govern business activities.

This article considers it to comprise such factors as Legal/Regulatory, Political/Policy, Infrastructure, External Finance, Technology, Competition, Taxes and other Fees, Social-Cultural Factors, Labour and Costs, and Corruption that affect job creation, employment, innovation and growth potentials of SMEs in Nigeria in general and Lagos State in particular.

2.2 THEORETICAL CONSIDERATION

Some theories have focused on the business environment in relation to enterprise management and performance. However, Thompson's (1967) Contingency Theory and Cyert's and March's (1963) Behavioural Theory of the Firm, which emphasise system resource approach to firm management and performance evaluation, bear specific relevance to this article. They are a set of behavioural analysis that emphasises the internal and external situations as the determinants of optimal course of action. The literature has a wide range of contingency frameworks (Zeithaml et al., 1988). Its approach to management derives from general systems theory and the open system variant (Von, 1951; Boulding, 1956; Katz and Kahn, 1966; Anderson, 1957). The open system perspective considers the complex organisation as a set of interdependent components that, taken together, constitute a whole which, in turn, is interdependent with some larger environment such that interactions among elements within the organisation and between the organisation and the environment result in adaptation and equifinality. That is, elements within the system adapt to one another to preserve the basic character of the system, and a system can reach the same final state from differing initial conditions by a variety of paths. The perspective considers an enterprise as problem-facing and problem-solving entity and, thus, developed rational decision processes [management] to cope with the complex and uncertain dimensions of the business environment to achieve a satisfactory level of performance for its ability to obtain resources. The most common system resource measures of the SMEs include number of employees, annual turnover, market share [growth] and revenue per employee (Orser et al., 2000; Mohr and Spokeman, 1994).

2.3 EMPIRICAL CONSIDERATION

Several studies have investigated the association between different environmental factors and firm potentials or performance, and established varying

effects on enterprise variables (Norzalita and Norjaya, 2010; Han et al., 1998; Jaworski and Kohli, 1993). Dollar et al. (2005) used the World Bank Enterprise data for Bangladesh, China, Ethiopia and Pakistan. For the enterprise, the study considered total factor productivity (TFP), wages, profits, growth rates of output, employment and fixed assets; and for the environment, it used infrastructure (custom efficiency, power loss, and the number of days to install phones), ratio of firms with overdraft access, and the frequency of inspection visits per year by relevant government agencies. The study found infrastructure to be the most important in explaining performance. Similarly, Fernandes (2008) found that infrastructure (measured by power) enhances performance in Bangladesh. Hallward-Driemeier et al. (2006) examined the effect of physical infrastructure at city-level on firm outcome in China, and found that the proxies for physical infrastructure are not significantly associated with performance.

The opposing views of Dollar et al. (2005) and Hallward-Driemeier et al. (2006) seem to emanate, perhaps, from considerations of infrastructure variables. Firms can provide alternatives to government electricity and telephone lines with relative ease but not such other variables like roads and security of lives and property. Nonetheless, the findings suggest that the effects of physical infrastructure seem to differ by countries and city levels.

Some other studies have analysed the business environment in relation to job and employment, and innovations and growth potentials of SMEs in national economies. Ayyagari et al. (2005) used a new and unique cross-country database to examine the contribution of the SME sector to total employment in manufacturing and GDP across 76 countries. The study considered entry costs, contract enforcement costs, exit costs, property registration costs, employment rigidities and access to finance as environmental factors; and firm size (SMEs' shares in total labour force and gross domestic product) for the SME sector. The study found elements of the business environment to predict a large SME sector in manufacturing, but establish a weak association between high exit costs and employment rigidities. Thus, it found stronger support for the hypothesis that a large SME sector is due to a competitive business environment that allows and encourages entry of new innovative firms.

Corruption is one other factor of bad political environment of business. Fisman and Svensson (2007) used a Ugandan firm data set containing information on bribe payments to determine which, taxes or corruption, is more damaging for firm growth. The study found both to have a negative effect. Cai et al. (2011) used a large sample of Chinese firms to investigate the effects of corruption on firms' performance. They considered entertainment and travelling costs (ETCs) of firms as a proxy for corruption (these are higher when government services

are poor which induce firms to bribe for services as grease payment, and also when tax burdens are high so that they tend to reduce tax burden and enforcements through bribes). The study found that, on the average, ETCs have significant negative effects on firm productivity, and that official effective tax rates are not, on the average, significantly related to productivity. The negative effects are less pronounced and can completely disappear in areas where there are particularly high tax burdens and bad government services. Djankov et al. (2009) used cross-sectional regressions on cross-country data to examine the effect of corporate tax rates on aggregate economic outcome, and found that effective corporate tax rate correlates negatively with aggregate investment, foreign private investment and firm activities, but is positively correlated with the share of informal sector in the economy.

Some studies have analysed the effects of the environment on enterprises in Nigeria. Akinbogun (2008) examined the impact of infrastructure and government policies on survival of small-scale ceramic industries in South-West of Nigeria, and found infrastructure and government policies not to have encouraged the industries. Obokoh (2008) used 500 manufacturing SMEs in Lagos State to investigate the effects of the 1986 trade liberalization policy in Nigeria. With tenets of the trade liberalisaton policy, labour availability, infrastructure, technology, competition and access to finance as environmental factors; and turnover, profit, production level and market coverage as enterprise variables, the study found that effects of the policies are not felt by most manufacturing SMEs due to improper planning and the absence of favourable investment climate. Onwukwe and Ifeanacho (2011) examined the impact of government intervention on the growth of SMEs in Imo State, Nigeria, and found that policy formulation and implementation constitute a major constraint to growth of the SMEs, despite several specialised institutions in charge of micro credit and policy instruments to enhance development of the sector.

This review shows no consensus yet on the effects of business environment on SMEs' potentials as the pivots of enterprise and management practice.

2.4 OPERATING AN ENTERPRISE
IN LAGOS STATE RELATIVE TO 37 CITIES/REGIONS IN NIGERIA

The World Bank, in its 2012 and 2014 'Doing Business' surveys, showed the relative ease of or difficulty in starting or doing a business in Lagos State. Based on certain indicators of business environment, the survey showed relative position of the State among 37 cities/regions in Nigeria. Lagos State ranked 8th & 4th, 35th & 36th, 27th & 31st and 15th & 28th among the 37 cities/regions. The measuring indicators are in terms of starting a business, dealing with construction permits, registering property and enforcing contracts, respectively. The

survey showed the firsts to be: Starting a business (Federal Capital Territory, FCT) Abuja, dealing with construction permit (Jigawa); registering property (Gombe, Zamfara) and enforcing contracts (Katsina). These indicate that Lagos has not fared well in terms of policy and regulatory business environment. This is expected to affect the potentials of the SMEs sector in the State.

3. METHODOLOGY

3.1 DESIGN, DATA AND SOURCES

This research employed cross-sectional survey design to elicit required information from the respondents whose response behaviours were not influenced by the researcher. The study was conducted in Lagos State because the State is the enterprise hub of Nigeria. Sampling frame was limited to 456 of the SMEs listed in the 2014 edition of Lagos Business Directory (LBD), published by Ministry of Commerce and Industry. Judgmental and convenience techniques were used to select 228 (50%) of SMEs in the LBD based on the World Bank's (2009) model for sample size determination.

$$n = \left[\frac{1}{N} + \frac{N-1}{N} \frac{1}{PQ} \left(\frac{k}{Z_{(1-\alpha)/2}} \right)^2 \right]^{-1}$$

where N = population size, P = population proportion, $Q = 1 - P$, k = desired level of precision, $Z_{(1-\alpha)/2}$ = the value of the normal standard coordinate for a desired level of confidence, $1 - \alpha$.

The selection was after initial contacts with 380 SMEs through telephone numbers in the LBD and follow-up discussions about the research intent, where more convenience, via email correspondences. Information was elicited from both primary and secondary sources. The secondary source was the LBD which provided information needed to ascertain the number of registered SMEs in the State and identify those that met the definitional criteria. The primary source was the field survey in which Multifactor Business Environment and Enterprise Questionnaire (MBEEQ) was used to elicit responses from the SME operators. Enterprise managers are usually more open about offering their general views when answering survey questions than about providing accurate quantitative data (Montes, Moreno and Morales, 2005). Therefore, this study used an approach that determined the perceptual measures of environmental factors {legal-regulatory (LGR), politics and policy (POP), infrastructure (INF), external finance (ESF), technology (TEC), competition (COM), taxes

and other fees (TOF), social-cultural factors (SCF), labour availability and costs (LAC) and corruption (COR)} and non-financial metrics of SME potentials {job creation (JCN), employment generation (EMP), innovation (INV) and growth (GRT)}. The questionnaire had four sections: A (demographic information of respondents), B (enterprise characteristics of the SMEs), C (business environ-ment factors) and D (metrics of SME potentials). Sections C and D contained close-ended and exhaustive pattern statements. Factors of the business envi-ronment considered in this study were adapted mainly from key elements of the business environment that White (2004) identified for the Committee of Donor Agencies for Small Enterprise Development, those used in business en-vironment rankings methodology by The Economist Intelligence Unit (2006), World Bank's Enterprise Surveys (2009, 2011) and World Bank/IFC's (2012) En-terprise Survey Indicator Descriptions. The response options had pre-codes of the Likert-type scale: Always (4), In Most Cases (3), Sometimes (2), On Rare Oc-casions (1), and Never (0). Validity and reliability of the survey instrument were ascertained through scrutiny by experts and Cronbach's alpha coefficients of 0.7823 and 0.7112, respectively. Most copies of the MBEQ were administered at the business premises of the respondents, and few via emails. The pre-codes were used to process numerical data used for analysis. Descriptive statistics were used to evaluate the responses for consistency and spread. Causal effects were investigated with a System of Simultaneous Equations Model (SSEM) dis-aggregated from a Generalised Linear Regression Model (GLRM): $Y_i = \beta_i X_i + \mu_i$. Parameters of the SSEM were estimated via Least Squares (LS) techniques.

3.2 ANALYTICAL MODEL

The model expresses the non-financial metrics of SME potentials as de-pendent on the factors of the business environment. Each equation in the sys-tem is a modified version of the model Nexus Associates Inc. (2003) used to assess the poverty impact of enterprises in Nigeria. Vector-matrix notation of the SSEM is:

$$
\begin{pmatrix} Y_i \\ JCN \\ \\ EMP \\ \\ INV \\ \\ GRT \end{pmatrix}
=
\begin{pmatrix}
\alpha_1 & \alpha_2 & \alpha_3 & \alpha_4 & \alpha_5 & \alpha_6 & \alpha_7 & \alpha_8 & \alpha_9 & \alpha_{10} \\
\beta_1 & \beta_2 & \beta_3 & \beta_4 & \beta_5 & \beta_6 & \beta_7 & \beta_8 & \beta_9 & \beta_{10} \\
\lambda_1 & \lambda_2 & \lambda_3 & \lambda_4 & \lambda_5 & \lambda_6 & \lambda_7 & \lambda_8 & \lambda_9 & \lambda_{10} \\
\theta_1 & \theta_2 & \theta_3 & \theta_4 & \theta_5 & \theta_6 & \theta_7 & \theta_8 & \theta_9 & \theta_{10}
\end{pmatrix}
\begin{pmatrix} X_j \\ LGR \\ POP \\ INF \\ ESF \\ TEC \\ COM \\ TOF \\ SCF \\ LAC \\ COR \end{pmatrix}
+
\begin{pmatrix} \mu_i \\ \mu_1 \\ \\ \mu_2 \\ \\ \mu_3 \\ \\ \mu_4 \end{pmatrix}
$$

where Y_i ($i = 1, 2, 3, 4$) = vector of the indices of the SMEs' potentials (JCN, EMP, INV and GRT). X_j ($j = 1, 2, 3, …, 10$) = vector of the business environment factors (LGR, POP, INF, ESF, TEC, COM, TOF, SCF, LAC and COR). β_j ($j = 1, 2, 3, …, 10$) = matrix of the coefficients (effects) of the environmental factors. μ_i ($i = 1, 2, 3, 4$) = vector of the stochastic variables to accommodate exogenous influences on the SMEs' potentials.

A priori, enterprise-centred LGR, POP, INF, ESF, TEC and LAC were expected to enhance the potentials of the SMEs while COM, TOF, SCF and COR were expected to dampen them.

4. ANALYSIS, RESULTS AND DISCUSSION

4.1 DESCRIPTIVE ANALYSIS

Table 1 shows the descriptive statistics computed from responses of the respondents on environmental factors. The statistics are used to check the responses for consistency and spread, as well as determine the nature of distribution of the data processed from the responses.

Table 1: Descriptive statistics – Business environment factors

	LGR	POP	INF	ESF	TEC	COM	TOF	SCF	LAC	COR
Mean	1.33	1.27	2.77	1.49	1.62	1.99	1.85	0.89	1.82	1.57
Median	1.40	1.20	2.60	1.40	1.60	1.80	1.60	0.40	1.80	1.40
Maximum	3.80	3.00	4.40	4.00	4.00	4.00	4.00	4.00	3.80	4.40
Minimum	0.00	0.00	0.40	0.00	0.00	0.60	0.00	0.00	0.00	0.00
Std. Dev.	0.92	0.68	0.93	0.79	1.00	0.78	0.84	1.11	0.69	1.03
Observations	190	190	190	190	190	190	190	190	190	190

Source: Analysis from field survey data

DISCUSSION

The mean of the data-responses on the environmental factors is in the range of 0.89 - 2.77, with standard deviation in the range of 0.68 - 1.11. The mean and median values are closely equal. These strongly suggest that the response data-values are approximately normally distributed. On the ordinal scale, the distribution implies that on the average, the responses ranged between On Rare Occasions (1) and In Most Cases (3), thereby leaving out the Always (4) and Never (0) response options. Low standard deviations of the data-values show that the respondents were consistent in their responses.

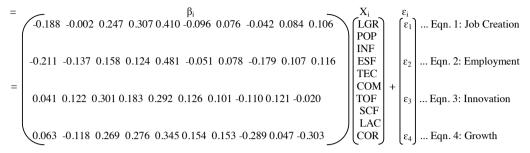### 4.2 INVESTIGATION OF CAUSAL EFFECTS

Table 2 shows the regression estimates, and associated standard errors, of the parameters or coefficients of the equations in the model. The coefficients are used to indicate the effects of the environmental factors on potentials of the SMEs while the standard errors are used to determine the significance or otherwise of such effects at 0.05 level.

Table 2: Regression estimates and standard errors of equations 1, 2, 3 & 4 of the SSEM

Method: Least squares   Sample: 1 190   Included observations: 190

Envt. Factor	Equation 1 Dept. Var: JCN Effect (α_i)	Equation 2 Dept. Var: EMP Effect (β_i)	Equation 3 Dept. Var: INV Effect (λ_i)	Equation 4 Dept. Var: GRT Effect (θ_i)
LGR	-0.188 (0.095)**	-0.211 (0.081)**	0.041 (0.085)	0.063 (0.095)
POP	-0.002 (0.1079)	-0.137 (0.092)	0.122 (0.096)	-0.118 (0.108)
INF	0.247 (0.0699)**	0.158 (0.060)**	0.301 (0.062)**	0.269 (0.070)**
ESF	0.307 (0.0731)**	0.124 (0.062)**	0.183 (0.065)**	0.276 (0.073)**
TEC	0.410 (0.0852)**	0.481 (0.078)**	0.292 (0.076)**	0.345 (0.085)**
COM	-0.096 (0.0877)	-0.051 (0.075)	0.126 (0.078)	0.154 (0.088)
TOF	0.076 (0.0880)	0.078 (0.075)	0.101 (0.078)	0.153 (0.088)
SCF	-0.042 (0.0690)	-0.179 (0.059)**	-0.110 (0.062)	-0.289 (0.069)**
LAC	0.084 (0.10000)	0.107 (0.085)	0.121 (0.089)	0.047 (0.099)
COR	0.106 (0.0765)	0.116 (0.065)	-0.020 (0.068)	-0.030 (0.076)
	Adjst. R-sqrd = 0.482 Prob(F-stat = 0.000)	Adjst. R-sqrd = 0.405 Prob(F-stat = 0.000)	Adjst. R-sqrd = 0.614 Prob(F-stat = 0.000)	Adjst. R-sqrd = 0.469 Prob(F-stat = 0.000)

Standard errors are enclosed in parentheses. **Significant at 5%; p-value < 0.05.
Estimated Vector-Matrix of SSEM (see Table 2)

$$
=
\begin{pmatrix}
\multicolumn{1}{c}{\beta_i} \\
-0.188 \;\; -0.002 \;\; 0.247 \;\; 0.307 \;\; 0.410 \;\; -0.096 \;\; 0.076 \;\; -0.042 \;\; 0.084 \;\; 0.106 \\
\\
-0.211 \;\; -0.137 \;\; 0.158 \;\; 0.124 \;\; 0.481 \;\; -0.051 \;\; 0.078 \;\; -0.179 \;\; 0.107 \;\; 0.116 \\
\\
0.041 \;\; 0.122 \;\; 0.301 \;\; 0.183 \;\; 0.292 \;\; 0.126 \;\; 0.101 \;\; -0.110 \;\; 0.121 \;\; -0.020 \\
\\
0.063 \;\; -0.118 \;\; 0.269 \;\; 0.276 \;\; 0.345 \;\; 0.154 \;\; 0.153 \;\; -0.289 \;\; 0.047 \;\; -0.303
\end{pmatrix}
\begin{pmatrix} X_i \\ LGR \\ POP \\ INF \\ ESF \\ TEC \\ COM \\ TOF \\ SCF \\ LAC \\ COR \end{pmatrix}
+
\begin{pmatrix} \varepsilon_i \\ \varepsilon_1 \\ \\ \varepsilon_2 \\ \\ \varepsilon_3 \\ \\ \varepsilon_4 \end{pmatrix}
\begin{matrix} \text{... Eqn. 1: Job Creation} \\ \\ \text{... Eqn. 2: Employment} \\ \\ \text{... Eqn. 3: Innovation} \\ \\ \text{... Eqn. 4: Growth} \end{matrix}
$$

where ε_i (i = 1, 2, 3, 4) is vector of estimation errors

DISCUSSION

In Equations 1 and 2, the signs of the coefficients and the associated standard errors indicate that estimates of the effects of the business environment factors show that INF, ESF and TEC exert significant positive effects on job creation and employment potentials of the SMEs; TOF, LAC and COR have positive but insignificant effects, while LGR exerts significant negative effect and POP, COM and SCF exert negative but not significant effects, with SCF having significant negative effect on employment. The negative effects of LGR and POP, which lend support to Obokoh's (2008) finding, are contrary to pre-estimation expectations, and indicate that the legal-regulatory frameworks and business policy stance of the State dampen the potential of the SMEs to create jobs and generate employment. These factors might have contributed to the relatively poor ranking of the State in the World Bank's (2012, 2014) "Doing Business Surveys". The effects of COM and SCF are consistent with expectations, and suggest the possibility of unhealthy competition among the SMEs as well as social-cultural considerations in job and employment decisions. However, p-value of the F-statistic provides empirical evidence that the factors jointly exert significant effect (p-value = 0.0000) on the SMEs' job creation and employment potential in the State. This suggests that despite the heterogeneous effects of the environmental factors on enterprises, on the aggregate, the environment enhances their potentials to create jobs and generate employment. The estimated models of job creation-environment and employment-environment relationships show that the environmental factors exhibit moderate strength in explaining variations in job creation and employment potentials of the SMEs (Adjusted R-Squared 0.482 or about 48% and 0.405 or about 41%).

Similarly, estimated equations 3 and 4 reported heterogeneous effects of the environmental factors on potentials of the SMEs to innovate and grow. The

estimates show that effects of INF, ESF and TEC on INV and GRT are positive and significant at the 0.05 level; LGR exerts positive but insignificant effect on INV and GRT, and while the effect of POP on INV is positive but not significant, it is negative and insignificant on GRT as indicated by the respective standard error values. Further, effects of COM, TOF and LAC on INV and GRT are positive but not significant. This is consistent with finding of Cai et al. (2011; Han et al., 1998 and Golden et al. 1995). While COR has insignificant negative effects on INV and GRT, the negative effects of SCF is significant on GRT but not significant on INV. The negative effect of COR supports the finding of Fisman and Svensson (2007).

While positive effects of LGR, POP, INF, ESF, TEC and LAC, and negative effects of SCF and COR are as expected, positive effects of COM and TOF are contrary to expectations. As in equations 1 and 2, p-value of the F-statistic (p-value = 0.000 < 0.05) provides evidence that the environmental factors jointly have significant effect on the SMEs' innovation and growth potentials. This suggests that despite the heterogeneous effects of the factors, the State's business environment also enhances potentials of the enterprises to innovate and grow and, thus, to be very relevance in economic growth and development processes of the State and Nigeria. The strength of the environmental factors in explaining variations was moderately high for innovation (Adjusted R-squared 0.614 or about 61%) but relatively low for growth (Adjusted R-squared 0.469 or about 47%) in equations 3 and 4, respectively. This suggests that a considerable proportion of dynamism in the potentials of enterprises to create job, generate employment, innovate and grow could be attributed to some other factors that are not considered in this study, especially the internal environment of the enterprise.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study has employed the tools of descriptive statistics and empirical analysis to investigate the effects of business environment on job creation, employment generation, innovation and growth potentials of SMEs in Nigeria, with the business nerve centre of the country, Lagos State, in focus. The study considered ten business environmental factors vis-à-vis four metrics of SMEs' potentials. The variables were modified from previous related studies that form part of literature review. Descriptive statistics provided evidence of consistency of responses by the respondents. It is also evident that no two environmental factors measured same phenomenon and the variables have been treated on their own individual merits in the literature; similarly for the metrics of SME potentials. The environmental factors exert heterogeneous effects on the measures of SMEs' potentials. Specifically, legal-regulatory frameworks and business policy stance of the business nerve centre cum Nigeria,

and socio-cultural factors proved to hinder potentials of the SMEs. Also, corruption was found to weaken the potentials to innovate and grow. Competition drives innovation and growth but retards job creation and employment. In totality, however, the business environment significantly enhances the potentials of the SMEs to create jobs, generate employment, innovate and grow. The environment also moderately explains the dynamics of SMEs' potentials.

The study emphasises the need for legal-regulatory and policy reformation to make the environment more SMEs-friendly. In this regard, the relevant authorities should reduce the procedures (stages), time (days) and costs of starting and operating an enterprise in the State. Managers of the enterprises should take more advantage of available infrastructure, credit facilities and technology for their significant positive effects. Managers of the enterprises should ensure that socio-cultural considerations are not the main driver of employment decisions. The managers should be more innovative and steer their enterprises towards growth-oriented goal for competitive advantage. In this regard, research and development (R&D) as well as avoiding corrupt practices are appropriate strategies. The managers should strengthen the internal environments of their enterprises since the external environment explain only moderately the dynamics of the potentials. Functional and effective internal control systems are essential in this regard. For instance, socio-cultural considerations should be minimal in employment policy and decisions.

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POSLOVNO OKRUŽENJE I POTENCIJALI MALIH I SREDNJE VELIKIH PODUZEĆA U NIGERIJI

SAŽETAK RADA:

Okruženje naklonjeno poduzetnicima poboljšava poduzetnički i menadžerski duh. Ova studija analizirala je potencijale malih i srednjih poduzeća u odnosu na poslovno okruženje pokrajine Lagos te kako poboljšati mehanizam politike odnosa okoline i poduzeća i pravnog okvira države Nigerije vezano za industrijsku i menadžersku praksu. Koristeći primjereni model uzoraka Svjetske banke i relevantne kriterije 228 malih i srednjih poduzeća odabrano je za istraživanje. Ispitivanje višestrukih čimbenika koji utječu na poslovno okruženje poduzeća provedeno je uz pomoć procjena različitih agencija i institucija, kako bi se dobili odgovarajući profili odgovora. Korišten je model simultanih jednadžbi, kako bi se istražili utjecaji okruženja na mala i srednje velika poduzeća.

Rezultati su pokazali da pravni okvir i kulturno-socijalni čimbenici smanjuju potencijale, da je konkurencija inicirala inovativnost i rast, te da je okruženje u cijelosti utjecalo na potencijale malih i srednjih poduzeća. Preporuča se promijeniti pravni okvir i politiku, koji bi bili više naklonjeni malim i srednjim poduzećima, a poduzeća bi trebala više koristiti mogućnosti, koje im pruža okolina.

Ključne riječi: poslovno okruženje, mala i srednje velika poduzeća, potencijali, model simultanih jednadžbi, empirijsko istraživanje.