



EVALUATING THE IMPACT OF ECONOMIC ENVIRONMENT ON ENTREPRENEURSHIP PERFORMANCE IN NIGERIA

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Abstract

The environment which business operates has been a vital point to consider in evaluating entrepreneurial performance, researches have established that there is relationship between entrepreneurial activities and the environment in which it is domiciled. This seminar paper set out to reviewed the impact of economic environmental factors on entrepreneurship performance in Nigeria. The paper depends on scholarly articles on entrepreneurship performance and economic environmental factors articles were reviewed in line with the objective of the study. The finding of the review reveals that economic environmental factors have great impact on entrepreneurship performance in Nigeria. The economic factors (an element of external-environmental factors) such as exchange rate, interest rate, inflation rate, government tax revenue etc. are not under the control of the business operators (entrepreneur) and usually have negative effect on the performance of entrepreneurship in Nigeria. Base on the findings, it was recommended that entrepreneurs must learn how to adapt and cope with these environmental factors (Interest rate, inflation rate, exchange rate and government tax revenue) in order to enhance the performance of their ventures. And the government should create favorable and stable fiscal and monetary policies to enhance the operational performance of entrepreneurship in Nigeria.

Keywords: Economic Environment, Entrepreneurship, performance, Nigeria

Introduction

There is a convergent of though among scholars on the place of entrepreneur and entrepreneurship performance in economic growth and development of any nation be its developed or developing countries but the survival and performance of these entrepreneur and entrepreneurship development is usually hamper by several environmental factor especially economic environmental factors. These economic environmental factors are an integral part of external (macro) environmental factors whose frequent interaction with the entrepreneur ventures create better opportunities to enhance the ventures performance or served as threat to the survival or performance of the entrepreneur ventures (Apeh & Amos 2016). Economic environmental factors in this contest are action-driven statement of the government that explains workable strategies for sustainable economic growth (Akam, 2014).

Economic environment is the totality of economic factors such as interest rate, exchange rate, inflation rate, income, unemployment, government tax revenue etc., which exert considerable impact on the performance of entrepreneurship performance in Nigeria (Salleh, 2016). These economic environmental indicators according to Gabriel (2014) are essentially strong indicators of economic stability of a country. The fluctuations of the aforementioned macroeconomic indicators as observed by Allen (2005) have propulsive effect on the operations of small and medium scale enterprises. Similarly, Bernard (2016) opines that economic instability of a given country affects the performance of small and medium scale enterprises and has a multiplier effect on the Gross Domestic Products. The environment which entrepreneur operate plays a significant role in shaping and determining the performance or otherwise of the

entrepreneur ventures. Economic environment is one of the macro-environment (external factors) which influences the survival and performance of entrepreneurship in Nigeria and the world over. Other element in the external environment include: political turmoil, low cost competitors, changes in customer behavior, environmental/ health issues, technological changes, natural disasters, change in input supply, Cultural factors, Energy supply, religion and terrorist attacks (Idris, 2016). Hence, it is important for entrepreneurs to keep pace with the various changes in the environment in order to survive in the long run. Similarly, every entrepreneur often bring in new way of thinking about the environment in which their venture operate and new ways of acting. (Belohlav, 2013). Hence, coping with these multitude of challenges require an entrepreneur that can easily adapt to change, this is because entrepreneurs are the driving force in economic growth and job creation in both developed and developing countries due to their ability to experiment new approach at minimum cost and create a standardized product/ services that can meet the needs of a large target market (Sunter, 2000). Evolving from this is the belief that business organization is an integral part of its environment on the ground that they are mutually interdependent and exclusive, where the environment plays the role of providing the resources and opportunities to organization for its existence, and the business organization in turn, offers its goods and services to the people.

From the foregoing, entrepreneurs need to understand and appreciate its environment as they proactively respond to it. Entrepreneurs operate in economic environment characterized with macroeconomic factors such as inflation rate, exchange rate, interest rate and government tax revenue which interact on a regular basis in predicting their performance. The fluctuations of these variables according to Bello (2015) have a multiplier effect on the productive capacity of small and medium scale enterprises. This is predicative of the fact that these firms operate as an open system as they depend on the environment for their material-inputs needed for their operations and heavily rely on its environment for their output. From the aforementioned, CBN statistical Bulletin (2017) has succinctly shown the proportionate increase on inflation rate, exchange rate, and interest rate from 1970 to 2016 as: 0.23% to 17.65%, 0.564% to 18.2%, and 7% to 14.00%, respectively. More so, Federal Ministry of Finance (2017) showed a detailed increase of government tax revenue from 1970 to 2016. Entrepreneurs overtly rely on the environments for their raw-material inputs, as such, persistent increase on these variables make their venture to incur high production costs on their operations as their purchasing power are affected. This situation tends to affect their productive capacity and may have negative effect on their performance. Therefore, it would be difficult to determine the underlying net effect(s) of the interactions of these economic variables of inflation rate, exchange rate, interest rate and government tax revenue on the operations of small scale enterprises without research-based evidence.

However, more than half of newly established businesses survive beyond five years (Idris, 2016). Hence, the identification of those factors which empirically lead to entrepreneur success/failure would assist in equipping new entrepreneurs with the necessary managerial skills to survive in today's competitive economic environment as well as exploit several strategies that will improve their operational efficiencies. More so, business all over the world does not operate in vacuum, business enterprise operates within an environment where its takes material (raw) both human and non-human, transform them to consumable goods and services and then return them to the environment and vice versa. This frequent interaction of entrepreneur ventures with their operational environment has great influence on the performance of entrepreneurship development in Nigeria. Over the year's successive government have committed huge resource to create an enabling environment for entrepreneurship development in Nigeria, but these effort by government has not yielded the desire result, as entrepreneurs ventures in Nigeria hardly survival for five to six years due to harsh environmental factors Confronting the operation and performance Nigeria (Adebayo, 2015), therefore the need to investigate the impact of economic environment on entrepreneurship performance in Nigeria become imperative.

This seminar paper reviews the impact of economic environmental factors on entrepreneurship performance in Nigeria. The main purpose of this seminar paper is to review scholarly articles on the impact of economic environmental factors on entrepreneurship performance in Nigeria. Specifically, the review seeks to ascertain the extent to which economic environmental factors such as: inflation rate, exchange rate, interest rate and Government tax revenue impact on the performances of entrepreneurship in Nigeria.

Literature Review

Conceptualization

Economic Environment

Economic environment consists of those economic parameters that directly or indirectly influence the performance of entrepreneurship development in Nigeria, it include inflation rate, exchange rate, interest rate, government tax revenue, etc. Asiedu (2004) affirms that economic stability is the attainment of price stability, low inflation, fixed exchange rate, interest rate and maintaining full employment on the economy. Mathew [2002] opines that economic environment exerts considerable influence on the operations of small scale enterprises. He, however, suggested that firms must have holistic knowledge or understanding of the interactions of these variables in order to make pertinent decisions. The reality and relevance of understanding the complexities of economic environment underscores the nitty-gritty of proactive management which is quintessential for superior performance.

Exchange rate (EXR)

Exchange rate is the rate at which the naira is converted to another currency (James,2012). It is measured as domestic price x nominal exchange rate x 1 divided by foreign price. Exchange rate is expected to have either positive or negative effect on the economy. High exchange rate culminates to hike in price of raw material inputs used for their production. James (Beck, 2011) averred that price increase on raw-materials transient to increase per unit cost on their production. It is therefore expedient to note that since exchange rate has propulsive influence on the performance of small scale enterprises, they should take abreast of the economic environment for effective decision making, since it is external to them (Beck,2011)

Interest rate (INTR)

This is the proportion of a loan that is charged as interest to the borrower. It is expressed as an annual percentage of the loan outstanding. Interest rate is the amount charged, expressed as a percentage of principal, by a lender. Interest rate is the annualized cost of credit or debt capital computed as the percentage ratio of interest to the principle (Odu & Peter, 2016). Interest rate refers to the cost of borrowing capital or it is the cost of capital, and with high interest rate small business owner will not be able to borrow to finance their business. Small business tends to operate with limited cash flow, so when interest rates rise, the additional cash needed to repay loan can be scarce. In addition, short-term loans covers cash flows gap may be difficult to qualify for or too pricey to afford. This could cause a host of issues. Business owner may have to delay paying their receivables, or put off investment and expansion plans, which can further slow the growth of the new venture.

Inflation rate

Inflation rate is a sustained increase in the general price level of goods and services in an economy over a period of time. Consequently, inflation reflects a reduction in the purchasing power of individuals as well as small scale businesses per unit of money on the economy. More so, inflation rate is a tool for measuring the stability of the economy. A country with a consistently lower inflation presents a suitable economy that favors the activities of small scale enterprises in the country (George,2005).

Government tax revenue (GTR)

This is a proportionate measure of total tax revenue that is collected by government through taxation (Franklin, 2015). Tax includes personal and corporate income taxes, value added taxes, excise taxes, and tariffs. This is a measure of total tax revenue which explains the income received by the government through tax. Therefore, it is a fee charged by government on products produced, income and businesses. Multiple-taxation on small and medium enterprises as observed by Tolu (2013) affects their operations especially on their purchasing power. When the purchasing power of these firms is affected, their productive capacity is also affected and the resultant effect is decline in gross domestic products

Entrepreneurship performance

The objective of SMEs is not only to gain competitive advantage but to improve on its operations toward the attainment of organizational goal. SMEs performance could be sustained through effective throughput system to improve their output. Veer (2012) argues that most SMEs strive to strengthen their supply-chain channels to improve on their sales, thereby enhancing their performance. Improved sales through supply-chain interconnectivity are one of the construct measurements of performance which must be entrenched for effective flow of products from the manufacturer down to the ultimate consumers. In addition, Jerill (2013) sees SMEs performance as the nexus between effective cost and realized output and also relationship between output and results achieved over a period of time.

More so, enterprise performance explains how organization successfully appropriates their resources in meeting the demands of the changing environment. Thus, efficiency in resource allocation, utilization and mobilization that result to improved performance is referred to as improved performance. For organization to achieve enhanced performance, every segment of the organization must work in synergy that has collective effect on the output, rather than individual output (Nuah, 2010). Therefore, SMEs performance is measured succinctly with the registered products and services produced over the years by SMEs. This is SMEs specific relative to gross domestic products (GDP).

Empirical literature

A lot of researches have been carried out on the impact of economic environmental factors influencing the performance of entrepreneurship performance in Nigeria, but in a disaggregated manner. Each research normally takes a particular aspect of economic environment and examines its impact on entrepreneurship performance. Some of the reviewed work includes the following: Adeoye (2012) studied impacts of External Business Environment on Organizational Performance in the Food and Beverage Industry. The study was designed to evaluate the implications of external business environment on organizational performance in Nigeria. The study used descriptive research design of which structured questionnaire was administered to sample of one hundred and fifty (150) drawn from three companies in Nigeria. The data collected were analyzed with multiple regression. The result revealed that external environment factors (political, socio-cultural, economic and technology) have considerable effect on the performance of these organizations and concluded that organizations should pay adequate attention on the business environment through periodic scanning of the environment to cushion the effect on business performance.

In the same vein, Imoisi and Ephraim (2015), studied Small and Medium Scale Enterprises and Economic Growth in Nigeria. The objective of the study was to explore the effects of small and medium scale enterprises on economic growth in Nigeria, from 1975-2012. The study employed ex-facto research design, of which secondary data were used. Ordinary least Square, cointegration and error correction models were employed on the study. The result of the findings revealed that money available to SMEs has a positive relationship between economic growth, while interest and inflation rate revealed a negative and positive influence on economic development. The study concludes that those economic environmental factors play a vital role in ascertaining the implications of SMEs on economic growth in Nigeria. Maupa (2015) studies the impact of entrepreneurship intention and small business growth in Nigeria. He submitted that external business environment and their factors helps visualize the analysis of business survival and growth in an attempt to enhance understanding of how environmental factors work together with the variables of business survival and growth to determine the future of business organisation.

Ridwan and Ina (2015) conducted a study on the influence of business environment on the performance of an organization. The study showed that the internal source of firm's strengths is related to their financial resources while the weaknesses are related to the firms' management. On the other hand, the external source of opportunities to the firms are support and encouragement from the government while threats come from the various bureaucratic procedures that firms have to face in order to get plan approval and certificate of fitness. Similarly, Adebayo (2005) investigated the influence of the external environment in the market orientation performance linkage among SMEs in the agrofood sector in Malaysia and reported that market-technology turbulence and competitive intensity did not moderate the relationship between market orientation and business performance. Eze and Ogiji (2013) considered the impact of Fiscal policy on manufacturing output of Nigerian companies. They showed a long term relationship between government expenditure on one hand and manufacturing output and capacity utilization on the other hand. The impact was positive and significant.

Gado and Nmadu (2011) similarly showed that electricity as an infrastructural resource significantly determines the performance of textile companies in the North West zone of Nigeria. This research aggregates various environmental issues and assesses the impact of the aggregate on the performance of companies. The impact of external environmental

factors and the survival of small and medium scale business in FCT the energy was understudied by Apeh and Amos (2016) using cross-sectional research design to collect data from the respondents and SPSS was adopted to test the hypotheses. The finding reveals that poor and erratic power supply and excess tax affect the survival of small and medium scale business in Fct. Adenaju (2008) studied the effect of government policies on the growth and sustainability of small and medium scale business in Nigeria The study was designed to ascertain the effect of high exchange rate on performance of small scale enterprises. Secondary data was obtained from Central Bank of Nigeria (CBN) and ordinary least formed the basis for estimation. The study found that high exchange rate affects the performance of small scale businesses in Nigeria, and therefore concludes that federal government should come up with stringent policy and regulations that will maintain

Literature Mapping

S/N	Authors and Years	Research Title	Variables	Methods and Findings	Limitations
1	Adeoye B.H.(2012)	External Business environment and organizational performance in the food and beverages' industry	External business environment, organizational performance, Nigeria	Descriptive research design, questionnaires were used to collect Data and Multiple Regression analysis adopted .Finding reveal that external environmental factors have a considerable impact on these organization.	The study was only limited to the food and beverages industries and therefore cannot be generalized
2	Imoisi and Ephraim(2015)	Small and Medium Scale Enterprises environment and Economic Growth in Nigeria	Environment of small and medium enterprise, Economic growth, Nigeria	Ex-post-facto research design, of which secondary data were used. Ordinary least Square, co integration and error correction models were employed on the study. Findings revealed that money available to SMEs has a positive relationship between economic growth, while interest and inflation rate revealed a negative and positive influence on economic development.	The study relies on secondary documentation only whose source of information is questionable
3	Maupa,N.T.(2015)	Entrepreneurial intention and small business growth: An empirical study of small firms	Entrepreneurial intention, Small business growth and survival	Stratified random sampling and questionnaire as techniques and tools to collect data, and analyze the data with path-aided engineering analysis. Findings shows that both internal and externals environments simultaneously and positively affect the growth of small businesses.	The conceptualization of organizational growth was not clearly formulated in terms of its proxies , so that the further research of this variable should be developed in a more measured, such as organizational performance variables
4	Ridwan,I and Ina, P.(2015)	Influence Business Environment On The Organization Performance	Business environment, Organizational performance	Conceptual review of scholarly articles on the subject matter. Finding reveals that business environment influence organizational performance.	Conclusion was based on other scholar views.
5	Eze and Ogiji (2013)	The impact of Fiscal policy on manufacturing	Fiscal policy, Manufacturing output,	The finding showed a long term relationship between government expenditure on one hand and manufacturing output and capacity utilization on the other hand. The impact was positive and significant.	The study fail to indicates the methodology adopted in collecting and analyzing the data so collected.

		output of Nigerian companies.	Nigerian companies		
6	Gado and Nmadu (2011)	Electricity as an infrastructural resource and the performance of textile companies in the North West zone of Nigeria	Electricity as an infrastructural resource, performance of textile companies, North west Nigeria.	Primary data was used and SPSS statistical tool was adopted to analyze the data collected. Findings shows that electricity as an infrastructural resource significantly determines the performance of textile companies in the North West zone of Nigeria	Over concentration of the study in one zone may limit the generalization of the study findings.
7	Adebayo (2005)	The relationship between environmental factors and business strategy in Nigeria	Environmental factors, business strategy, Nigeria	Cross-sectional research design was used for data collection; parametric analysis for empirical linkage was adopted. Findings reveal a significant relationship between environmental factors and business strategy in Nigeria.	The finding of the study focused only on power supply which is one element of external environment in contradiction to the topic of the study.
8	Apeh and Amos(2016)	External environmental factors and the survival of micro and small business in FCT.	External environmental factors, survival of micro and small business, FCT	Cross-sectional research design, Questionnaire used to collect data and SPSS adopted to analyze the data collected. Findings reveal that, factors such as excess tax and poor power supply affect the survival of most micro and small business in FCT.	The study was only restricted to FCT, finding only focus on tax and power supply which are not the only external environmental factors confronting SMES in FCT.
9	Ogar (2015)	The impact of Nigeria Business environment on the operational performance of SMES in Nigeria.	Nigeria Business environment, operational performance of SMES, Nigeria	Ex-post-Factor design, correlation coefficient used as an analytical tool, finding shows a strong positive relationship between Nigeria business environment and the performance of SMEs in Nigeria.	The proxy for SMEs operational performance was not clearly stated.

10	Adenoju (2008)	The effect of government policies on the growth and sustainability's of small and medium scale business in Nigeria.	Effect of government policies, Growth and sustainability's of small and medium scale business, Nigeria.	Secondary source of data, E-view statistical tool used to analyze the data collected, finding shows long run impact of government expenditure on SMEs growth and sustainability.	The reliability of the secondary source of data collected for the study was not stated, therefore the finding could not be generalizes
11	Bala and Nuhu (2017)	The role of socio-cultural factors on start-up business in North-west Nigeria.	Socio-cultural factors, Start-up business, North-west Nigeria	Questionnaire used to collect primary data from the respondents, Chi-square statistical tool was adopted to test the hypotheses, finding shows that cultural factor play a significance role in the performance of start-up business in North west.	The tool of analysis used, chi-square is a non parametric which is design to analyze group differences when the dependent variable is measured at a nominal level. Chi-square is robust with respect to the distribution of the data. Therefore it could not be used to measure impact as used in the study. Ordinary least square (OLS) regression method could have been better .

Theoretical literature

The Schumpeterian theory on innovation Schumpeter theory of Economic Development on Innovation was propounded by Schumpeter (1934). The theory believes that individuals with mental and creative ability to convert innovative ideas to economically viable products or services that meet the demands of the people. This assertion is premised on the fact that business environment changes over-time and exerts considerable influence on the performance of businesses. The theory argues that entrepreneurs are risk-takers and their innovative ideas are orchestrated based on their proactiveness on the environment.

Although, environmental factors are succinctly external to them but responding to the environmental factors calls for holistic understanding on the interplay of those factors for sound decision making. The theory opines that being proactive to the business environment helps entrepreneurs to secure and sustain greater operational effectiveness that afford them greater leverage for improved performance. However, the theory describes entrepreneurs as visionary change management agents who introduce new economic activity that leads to a change in the market. Consequently, the creative activity of the entrepreneur is independent of the organizational or legal setting in which he/she may work. Second, entrepreneurship is not a profession and it is not a long-lasting state. The kind of business an entrepreneur is doing perhaps does not matter, what matters is linking the markets needs with innovation. Third, Schumpeter portrayed entrepreneurship as individual that add values to their businesses. For instance, carving an inch in the market place that distinguishes you from others. The entrepreneur breaks up with established practices and destroys the status quo while moving the market forward in a different direction.

Entrepreneurs are agents of change, creating chaos by disrupting the status quo in constructive ways to instigate new products, processes or knowledge. The forgoing is essentially premised that innovation is the hallmark of entrepreneurship. The theory contends that innovativeness and creativity as a hallmark of entrepreneurship which play a crucial role in defining business performance. Schumpeter had linked innovation and inventions to the entrepreneur. The theory states that when the economy is in distress, profit motivated entrepreneurs will innovate, create and invent new things, products and services to stimulate productivity and job creation, thereby increasing wealth and profit. The theory assumed that there are prevailing economic parameters that interact within the environment of business operations and those parameters could be control when entrepreneurs innovate and invent new things to revamp the economy.

Methodology

This seminar papers review the impact of economic environment on entrepreneurship performance in Nigeria in terms of how economic environment enhance entrepreneurship performance in Nigeria. In order to achieve the study objective, the author adopted the conceptual, empirical and theoretical approach in reviewing exiting work on the subject matter.

Discussion of Findings

The impact of economic environmental factors in shaping and directing the performance of entrepreneurship in Nigeria is well documented by various scholars. This is due to the influence of these factors on the sustenance or other wise of the business enterprise that interacts with its (Idris, 2016). The influence of these economic environmental factors on entrepreneurship performance according to Duncan (2012) varies in terms of the ventures location, type of venture engage in and the size of venture. The economic environmental factors such as exchange rate have either positive or negative effect on entrepreneurship performance. High exchange rate culminates to hike in price of raw material inputs used by entrepreneur. Beck (2011) averred that price increase on raw-materials transient to increase per unit cost on their production. It is therefore expedient to note that since exchange rate has propulsive impact on entrepreneurship performance, entrepreneurs should be abreast of the changes in the economic environment factors for effective decision making, since it is external to them. Inflation rate is a tool for measuring the stability of the economy. A country with a consistently lower inflation presents a suitable economy that favors entrepreneurship performance (George, 2005).

Interest rate refers to the cost of borrowing capital or it is the cost of capital, and with high interest rate small business owner will not be able to borrow to finance their business. Small business tends to operate with limited cash flow, so when interest rates rise, the additional cash needed to repay loan can be scarce. In addition, short-term loans covers cash flows gap may be difficult to qualify for or too pricey to afford. This could cause a host of issues. Business owner may have to delay paying their receivables, or put off investment and expansion plans, which can further slow the growth of the new venture(Odu & Peter, 2016)..

Government tax revenue is the fee charged by government on products produced, income and businesses. Multiple-taxation on small and medium enterprises as observed by Tolu (2013) affects their operations especially on their purchasing power. When the purchasing power of these firms is affected, their productive capacity is also affected and the resultant effect is decline in gross domestic products

All the scholarly articles reviewed seemingly agree that economic environmental factors are the major determinants of entrepreneurship performance in Nigeria.

Conclusion

From the findings, the study concludes that economic environmental factors such as government tax revenue, exchange rate, interest rate and inflation rate have significant negative impact on entrepreneurship performance in Nigeria. The implication of this negative impact is that consistent increase in government tax revenue, exchange rate, interest rate and inflation rate will result to attendant decline on the performance of entrepreneurship in Nigeria. And consistent decline on the performance of entrepreneurship would have a negative impact on the gross domestic products and thus resulting to economic crisis. The review provided evidence that economic environmental factors predict the performance of entrepreneurship and therefore points to the need for federal government and policy makers to pay greater attention to government tax revenue, exchange rate, and interest rate and inflation rate in stabilizing the economy. The imperativeness of stabilizing these economic environmental factors in revamping the economy cannot be over-emphasized especially given the prevailing economic quagmire in Nigeria.

Recommendation

Based on the findings, it is recommended that the federal government should come up with economic policy and regulatory framework that will maintain fixed exchange rate, interest rate and low inflation. Stabilizing these economic environmental factors would drive the operations of entrepreneur, as they will innovate, create and invent new things, products and services to stimulate productivity, which in turns, create resource-based economy. The federal government should equally look at issues relating to tax revenue and address the problems of multiple-taxation on entrepreneurs in Nigeria. Reduction of tax imposition will enhance their purchasing power to diversify their businesses and this may equally attract foreign investors, to invest on the economy, thereby creating job employment as the economy would be stimulated. Government should evolve in effective spending on strategic area with multiplier effect such as agriculture and manufacturing sector to encourage made in Nigeria products. The Nigeria government needs to increase her productive capacity (made in Nigeria products) to improve her export earnings.

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