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MACROECONOMIC BUSINESS ENVIRONMENT AND THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN NIGERIA

The study evaluates the effect of the global macro-economic business environment on the development of Small-Scale and Medium-Sized Enterprises (SMEs) in Nigeria. Secondary data on the global macro-economic index of SMEs businesses were selected over 35 years (1985–2019). The data collected were analysed using descriptive statistics and multiple regression analysis techniques. The study revealed the positive coefficient value of 354 836.6525 and 24 141 873.6 for the gross domestic product (GDP) on Purchasing Power Parity (PPP) and Budget variables. A negative coefficient value of –16347085.61 and –232997.0657 was obtained for the inflation rate and the exchange rate, respectively. The coefficient values show the level at which the development of SMEs businesses was affected through the global environmental factors. The study concluded that the global macro-economic business environment directly affects the development of SMEs businesses. The study recommends a policy strategy that will face out the global macro-economic constraints affecting SMEs businesses.

Keywords: business, environment, inflation rate, small and medium enterprises.

1. INTRODUCTION

The small-scale and medium-sized enterprises (SMEs) are the commercial business activities developed to generate revenues and economy of the nations within their business environment. There is no organisation that can survive without upholding a good affiliation with its environment. This applies to business as an entity because for any business to thrive there must be a symbiotic relationship with its environment. However, the environment could be the local or international business environment (Ayedun & Olufowobi, 2016). This environment is a multi-dynamic environment in which business organisations have

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considerable influence on their business. These environments are pertinent to form the business outlooks of an organization and their magnificent constraint on the development of SMEs in Nigeria. The environmental restraint concentrated here is Gross Domestic Product (GDP) or Per Capital income on Purchasing Power and Parity (PPP), inflation rate, budgets, and an exchange rate that affect the operating activities of SMEs businesses in Nigeria (Ajayi, 2016).

The development of SME businesses was precisely related to the sustainability of the global macro-economic business environment. SMEs have been recognized all over the globe as a catalyst for the developing socio-economy of a nation. This was an instrument for attaining macro-economic objectives and sustainable development (Aribaba, Ahmodu & Yusuff, 2018). The development of SMEs has come to stay in the economic growth of a developing country like Nigeria (Obasan, 2014). Small-Scale and Medium-sized Enterprises play significant roles in an emerging and developed economy in the process of socio-economic changes and development. Apart from the swelling per capita income on purchasing power parity, SMEs generate employment opportunities, enhance regional economic stability through manufacturing dispersion and promote effective utilization of the resource in considering economic development (Aribaba, Ahmodu, Oladele, Yusuff & Olaleye, 2019).

In the sub-Saharan African continent, Nigeria is the most populous nation with a leading economic success. Therefore, understanding the relevance of SMEs to the country is important to drive the economic activities of Africa. In Nigeria, SMEs are dealing with intensified global challenges; new emerging technologies in ICT, the production process, and an increasing factor of production which affect the export attractiveness. The study reviewed both conceptual and empirical literature on the global business environment and SMEs development in Nigeria. The gaps identified from the literature show that several studies have been conducted, but none was able to indicate the extent to which the exploratory variables of the business environment were examined on the effect of SMEs development from the global perspective. It is, therefore, evaluating the effect of the global macro-economic business environment on the development of SMEs in Nigeria with the emphasis on the following global parameters which include; the gross domestic product or per capita income (PPP), inflation rate, budget, exchange rate, and SMEs. Also, the pertinent question is; “what effect does the global macro-economic business environment has on the development of SMEs in Nigeria”? Conversely, the links between the global macro-economic business environment and its effect on the development of SMEs are vague in the literature. But in the Nigerian milieu, the development of Small and Medium Enterprises is apparently not effective. Indeed, SMEs businesses play significant roles to boost the nation’s economy by availing them adequate facilities.

2. LITERATURE REVIEW

2.1. Small and Medium Scale Enterprises (SMEs)

Small and medium scale enterprises have long been identified as an instrument of economic growth and development. Although the importance of small and medium scale enterprises has not been questioned, the classification of enterprises into large and medium scale is unfortunately subjective and based on different value judgments. Ayyagari, Beck, and Demircuc-kunt (2003), and Buckley (1989) argues that “the definition of small and medium scale enterprises varies by context, author, and countries”.

In Nigeria, related definitions have been adopted to identify SMEs in the national economy. The Central Bank of Nigeria (CBN), as part of its Small and Medium Enterprise Credit Guarantee Scheme (SMECGS), defines SMEs as an enterprise with assets (excluding land) of between N5million and N500million and between 11 and 300 labour force. The National Council of Industry in 2011 set the limit at 300 employees and the asset base of N200 million **excluding land**. The national policy on small and medium enterprises also defined SMEs according to employment and assets. A micro-enterprise is defined as a business with less than 10 employees and an asset base of less than N5million. A small enterprise has between 10 and 49 employees and its assets are between N5 and N50 million while a medium enterprise has 50 to 199 employees and an asset base of between N50 million and N500 million (Folorunsho, 2015).

More generally and more broadly, Ogechukwu (2006) presented some general criteria for defining small and medium-sized scale enterprises in different countries. These include the number of employees, annual turnover, local operations, sales volume, financial strength, manager and owner autonomy, relatively small markets relative to their industries, and capital usually provided by individuals or shareholders.

2.2. Small and Medium Scale Enterprises Development

Small and medium-scale enterprises are sub-sectors of the industrial sector that play a vital role in industrial development. Ojo (2009) argued that one of the answers to development challenges in developing countries, particularly in Nigeria, is the support of entrepreneurial development system. The performance and effectiveness of small and medium-scale enterprises as instruments of economic growth and development in Nigeria have long been examined. Despite the government institutional policies to build the capacity of small and medium-scale enterprises, small and medium-scale enterprises have not met expectations. This has raised serious concerns and doubts about the ability of SMEs to stimulate economic growth and national development in Nigeria.

Aminu, Adamu, and Ibrahim (2018) observed that numerous studies have shown that small and medium scale enterprises act as a catalyst for a growth and development of a national economy this was supported by Anthony and Arthur (2008), Chinweuba and Sunday (2015), and Vijayakumar (2013). Chinweuba and Sunday (2015) opined those SMEs activities are growth enhancing through expansion in output and other various means of survival. Motilewa, Ogbar and Aka (2015) also established that SMEs are found to be engine of growth in Nigeria. The challenge of solving the problems of hunger, poverty and unemployment is even more worrying if we consider the achievement of the Millennium Development Goals by the country in 2025. If Nigeria wants to achieve the Millennium Development Goals by 2025, one of the sure ways is to improve the capacity of its SMEs.

2.3. Macroeconomic business environment

Macro environment are the general environment within the economy that affects all the business groups at the same time in term of the working, performance, decision making and strategy. It is not static and so it keeps on changing and fluctuating. They are the outside forces that are not under the control of the firm. It consists of individuals, groups, organizations, agencies and others with which the firm deals during the course of its business. They are classified into economic, social, technological, political and legal, and demographic. The ability of a company to design and adjust its internal variables to take advantage of the opportunities offered by the external environment and its ability to control

the threats posed by the same environment determine its success (Parker, 2017). A more punctual perspective represents the environment, as a global uncontrollable force, to which the company must adapt its policies and that is made up of participants and external forces that influence the possibilities of companies to develop and maintain profitable transactions (Kotler, 1998). The macroeconomic business environment deals with the economic aspect of the business environment which include gross domestic product, inflation rate, budget and exchange rate.

2.4. Theoretical Review

2.4.1. Supporting Theories of Global Business Environment

2.4.1.1. The Systems Theory

A system is a set of interrelated and interdependent parts arranged to produce a unified whole. Systems theory sees an organization as a system that must function harmoniously not only in itself but also in a variety of other systems. Therefore, it must also work in harmony with the other systems around it. Mele, Pels, and Polese (2010) explain a system as an entity, which is a coherent whole such that a boundary is perceived around it in order to distinguish internal and external elements and to identify input and output relating to and emerging from the entity. Scholars such as Burns and Stalker (1961), Lawrence and Lorsch, (1967), Aldrich, (1979) have adopted – implicitly or explicitly – a vision of organizations as systems with the aim of analyzing the relationship between organizations and their environment

The application of open system to the organization is advanced by Katz and Kahn (1966), Mele et al. (2010). The organization is seen as a system built by energetic input-output where the energy coming from the output reactivates the system. Social organizations are then open systems due to their material exchanges with the environment. Emery and Trist (1960) address organizations as socio-technical systems, underlining the two main components of the firm seen as a system: a social component (people), and a technical component (technology and machines).

2.4.1.2. Location Specific Advantage Theory

The theory according to Amarasena, (2017) focuses on the location specific advantages of the foreign market which are mainly categorised as availability of resources and lack of political obstructions for investments. Amarasena, (2017) opined that for a firm to start its foreign businesses, it is better for such firm to have more of foreign location advantages than the home country of operation. This was also supported by Franko, (1971), Sharma and Johanson, (1987). Ozga (1960) argued that location theory could explain why MNEs emerge. Supply oriented location theory and demand oriented location theory are the two folds that emerged in location theory. Supply oriented location theory argues that production takes place where the factor costs for production and distribution are the lowest. Whereas, demand oriented location theory argues that the location of a firm is governed by the location of its market and competitors. The emergence of MNEs was as a result of four location factors which are: raw materials, cheap labour, protected and untapped markets, and transportation costs. Dunning (1973) opined that this actually gave good insights into the understanding of geographical distributions of MNEs.

2.4.2. Supporting Theories of Small-Scale Enterprises

Schumpeter (1949) was the first to advocate a dynamic theory of entrepreneurship that views entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thus initiates the process of development. An innovator who introduces new products or services into the economy receives the status of entrepreneur. Schumpeter is the first great theorist to place the human factor at the heart of the process of economic development.

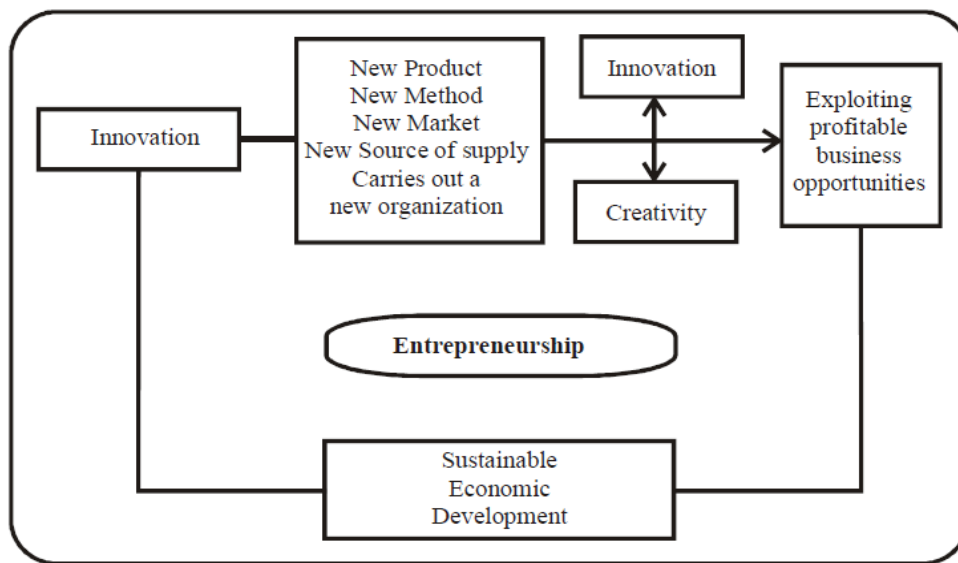


Figure 1. Innovation Theory of Entrepreneurship

Source: (Schumpeter, 1949)

The main figure of this theory, “the innovative entrepreneur”, has played an important role in the rise of modern capitalism. The entrepreneur has been the main driver of the economic development process. On the side of criticism, this theory seems biased because it puts too much emphasis on innovative functions. He ignores the risk-taking and organizational aspects of entrepreneurship. An entrepreneur must not only innovate, but also pool resources and use them optimally. Despite these lacking, the theory supports the “entrepreneurial spirit” of entrepreneur to innovate. It is the act that gives resources a new capacity to create wealth. Innovation, in fact, creates a resource. This gives it an economic value.” Schumpeter's views are particularly relevant in developing countries where innovations need to be encouraged. The transformation of an agrarian economy into an industrial economy has required many initiatives and changes on the part of businessmen and managers.

McClelland (1961) highlighted the characteristics of the entrepreneur to include (i) to do things in a new and better way and (ii) decision-making in uncertainty. McClelland (1961) society proposed a theory based on his research that entrepreneurship ultimately depends on motivation. It is the need for accomplishment (N-Ach), the sense of doing-- and

getting things done, that promote entrepreneurship. According to him, N-Ach is a relatively stable personality characteristic rooted in childhood experiences through family socialization and child learning practices that emphasize standards of excellence, material warmth, self-reliance training and low father dominance.

2.5. Empirical Review

Obasan, (2014) in his empirical study adopted the qualitative method of research and concludes that competition, inflationary trend, technological changes, government policies, accessibility of infrastructural facilities, change in consumer behaviour and income are the problems posed to SMEs managers. SMEs businesses in Nigeria are the victims of the Nigeria environment. This was proven by the President Buhari administration and made the environment hostile for SMEs (Sheu & Mahmood, 2014).

Ayedun and Awoyemi (2014) averred that internal and external environment of businesses could be properly analysed through the use of proper environmental scanning for the enterprise to have a competitive advantage. This is imperative for business environment on the survival of SMEs because without adequate conducive environment, no business will thrive. The government intervention supports could be loan, grants or other social intervention supports facilities to support SMEs businesses and enhance the improvement of socio-economic development of a nation (Adeoye, 2013).

Eruemegbe (2015) posits that among the top ten critical factors that greatly affect the business productivities in Nigeria are not from the external environment. Therefore, internal environment also contributed to the failure of SMEs businesses in Nigeria because the failure of business manager and the workers to work expeditiously in an environment would also reflect on the part of business. These were corroborated in cross-sectional research of a selected economic variable with the confirmation of the highly influenced decision of management of a firm. Specifically, the devaluation of currency and energy resources will discourage a country without adequate infrastructural facilities and face-off some SMEs businesses that are not financially capacitated (Dionco-Adetayo & Adetayo, 2003). Research conducted by Adeoye (2012) was shown that environmental changes are continuously exerting new pressures on companies' performance. In adopting these changes, companies will need to formulate and implement a strategy to reform the business productivities.

Kujala (2015) examined the process of internationalization of an enterprise in the clothing and textile manufacturing sector in Ghana. The study adopted a qualitative approach, using a longitudinal method involving primary and secondary data and an analysis of critical events. The results of the study showed the high level of competition expected of small emerging market operating in the clothing and textile manufacturing industry. Indris and Primiana (2015) conducted a study on the analysis of the internal and external environment of the performance of small and medium industries (SMEs) in Indonesia. The study used a secondary source of data collection through the use of available literature on internal and external performance analyses of small and medium-sized industries (SMEs). The theoretical results of the study showed that the analysis of the internal and external environment had a significant impact on the performance of small and medium-sized industries (SMEs) in Indonesia.

3. METHODOLOGY

The study adopts an ex-post-facto research design for the study. Data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and Nigeria Bureau of Statistics which makes it principally a secondary source of data. The data collected for this study form the basis of the study that covers 35-years between the periods of (1985 - 2019). The study employs a number of analytical tools based on the objectives of the study which includes: descriptive statistics and regression analysis. Engel and Granger Cointegration test was also carried out know if there is long-run movement among the variables in the SMEs.

3.1. Model Specification

Diverse of models have been used to examine the effect of global macro-economic business environment on the development of SMEs in Nigeria but the study adapted Utile, Okwori and Ikpambese (2018) model which was re-modified to determine the effect of macroeconomic business environment on the development of SMEs in Nigeria. In that regard, the study therefore navigates a model to guide its analyses. The model is as follows:

$$SMEs = f(GDP, INF, BUDG, EXCH) \quad (1)$$

This research would specify the above model in econometric form as follows:

$$SMEs = \beta_0 + \beta_1 GDP + \beta_2 INF + \beta_3 BUDG + \beta_4 EXCH + \varepsilon_{it} \quad (2)$$

Where:

SMEs = Small-Scale and Medium-Sized Enterprises

GDP = Gross Domestic Product or Per Capital Income based on Purchasing, Power and Parity

INF = Inflation Rate

BUDG = Budget

EXCH = Exchange Rate

β_0 = intercept

β_{1-4} = coefficient of explanatory variables

ε_{it} = Stochastic error term to represent other explanatory variables not mentioned in research.

The *a priori* expectation of the parameters are:

$$\beta_1 > 0; \beta_2 > 0; \beta_3 > 0; \beta_4 > 0$$

4. RESULTS AND DISCUSSION OF FINDINGS

4.1. Descriptive Statistics of the study variables

The descriptive statistics of the Table 1 displays the mean, minimum, maximum, mid value; and the normality of the variables. The mean values of 1 macroeconomic business environment variables are 3762.33, 19.32, 21.41 and 112.71 respectively. This shows that there is a difference between the macroeconomic business environment variables and the development of SMEs in Nigeria. Thereby, revealing some degree of realistic effect, the macroeconomic business environment has on the development of SMEs. The positive

kurtosis value indicates the level at which the macroeconomic business environment affects the development of SMEs while the negative kurtosis value represents the flatter peak effect of the normal distribution. The mean values of all the explanatory variables are positively skewed except the GDP variable with the value of -0.63 . The skewness describes the positive and negative value of symmetric data as it affects the development of SMEs in Nigeria. The confidence level of (95%) is an indication that the majority of the variables are positively distributed.

Table 1. The Descriptive Statistics Output

	<i>SMEs</i>	<i>GDP</i>	<i>INFR</i>	<i>BUDGET</i>	<i>EXCHR</i>
Mean	2729038086	3762.335	19.317	21.413	112.711
Standard Error	232618069.5	252.617	3.030	4.076	18.502
Median	2226699000	3565	12.09	10.06	118.55
Mode	-	3069	-	10.06	21.89
Standard Deviation	1376187058	1494.502	17.927	24.112	109.461
Sample Variance	1.89389E+18	2233535.546	321.3654328	581.407	11981.778
Kurtosis	-0.618	0.039	1.965	1.401	0.883
Skewness	0.731	-0.629	1.776	1.479303515	1.168
Range	5104152100	5505.76	67.46	89.02	368.01
Minimum	860643300	549.24	5.38	1.1	1
Maximum	5964795400	6055	72.84	90.12	369.01
Sum	95516333015	131681.72	676.1	749.46	3944.87
Count (YEARS)	35	35	35	35	35
Confidence Level (95.0%)	472736794.5	513.379	6.158	8.283	37.601

Source: Author's calculation.

4.2. Regression Analysis

The result of the Engle and Granger co-integration test shows that there is long-run movement among the variables in the SMEs model. This is evidence from the Augmented Dickey-Fuller test statistic that shows a level stationary result at 5% significance level. This result indicates that all variables have long-run co-movement and forecasting ability (Table 2).

Table 2. Co-integration Test

Engel and Granger Co-integration Result				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.1789	0.0001
Test critical values:	1% level		-2.635	
	5% level		-1.951000	
	10% level		-1.610907	
*MacKinnon (1996) one-sided p-values.				

Source: Author (2020).

The result of the implied ECM as shown in the Table 3 indicates that the variables can adjust automatically in the short-run within 13.4 years. This is evidence from the negative and significant coefficient of ECM (-0.3817 , $p < 0.05$). The coefficient of GDP is positive and statistically insignificant at 5% level, indicating that 1% increase in gross domestic product in Nigeria has no significant contribution to the growth of SMEs in the short-run. Also, the coefficients of GBDG, exchange rate and inflation rate are negative and insignificant at 5% level, implying that all these variables have no significant short-run influence on the growth of SMEs in Nigeria. Although, the model is statistically significant at 5% level (evidence from the value of F-statistic) and has no serial correlation problem as shown in the result of Durbin-Watson statistic.

Table 3. Implied Error Correction Mechanism Result

Dependent Variable: DLOG(SMES)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.041553	0.036190	1.148187	0.2606
EG(-1)	-0.381699	0.146979	-2.596962	0.0148
DLOG(GDP)	0.075808	0.097333	0.778856	0.4426
DLOG(GBDG)	-0.027006	0.080697	-0.334661	0.7404
D(EXH)	-0.001519	0.001150	-1.320932	0.1972
D(INF)	-0.003102	0.002629	-1.179843	0.2480
R-squared	0.357659	F-statistic		3.118107
Adjusted R-squared	0.242955	Durbin-Watson stat		1.532657

Source: Author (2020).

Table 4 shows the estimated long-run SMEs model. The result shows that the explanatory power of the model explains almost 70% of the total variations in the growth of SMEs while 30% of the total variations are unexplained. This indicates that the model has high goodness of fit. The model is statistically significant at 5% level as evidence from the value of F-statistic ($20.94 > 9.48$). The model is also free from serial correlation problem since the value of Durbin-Watson statistic is close to 2. The long-run coefficient of GBDG is positive and statistically significant at 5% level implying that 1% increase in GBDG would result to 0.23% increase in SME growth. Thus, GBDG significantly increase the growth of SMEs in the long run. The coefficient of inflation is negative and statistically significant at 5% level. This indicates that in the long run, as price of goods increases by 1%, the growth of SMEs decreases by 0.011%. Hence, increase in price of goods significantly deters the growth of SMEs in Nigeria. The coefficients of gross domestic product and exchange rate are positive and statistically insignificant at 5% level. This indicates that 1% increase in both gross domestic product and rate of dollar to naira exchange in Nigeria has no significant change in the growth of SMEs in the long run. The findings commensurate with the findings of Aribaba et al (2019).

Table 4. Long-run Result

Dependent Variable: LOG(SMES)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.172	0.782	27.073	0.0000
LOG(GDP)	0.003	0.102	0.030	0.976
LOG(GBDG)	0.232	0.084	2.758	0.009
EXH	0.001	0.001	0.636	0.529
INF	-0.011	0.003	-3.756	0.001
R-squared	0.736	F-statistic		20.942
Adjusted R-squared	0.701	Durbin-Watson stat		1.640

Source: Author (2020).

5. CONCLUSIONS

Globalization has made the economy of a nation becomes more exposed to any unfavourable events since the markets are becoming less segmented. The myriad of challenges postured by the country has experienced the vapours of recession as businesses were decelerating; productions were shrinking, unemployment rate upsurges, and capital streams stalled. These affect the SMEs to a large extent in terms of trading and supplying products to other businesses. The study, therefore, recommends that the government should formulate a policy support strategy that will face out the global macro-economic constraints stood on the development of SMEs businesses in Nigeria. They also need to stimulate demand and create an enabling market environment structure through government procurement policies. These will aid in the development of SMEs globally.

The findings of the study lead to the conclusion that most macroeconomic variables do not have a significant effect on the growth of SMEs in the short-run. Consequently, SMEs are more affected by microeconomic factors in the short run. However, statistical evidence indicates that the growth of SMEs is significantly affected in the long run. SMEs are more likely to witness declining growth with an increase in the level of prices over a period of time. This result calls for government intervention on the long-term sustainability of SMEs in developing economies. More importantly, an appropriate framework to regulate inflation will lead to an increasing growth of SMEs in the long run.

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Annex

The Table Showing the Data Used:

YEAR	SMEs	GDP/Per Capital Income (PPP)	Inflation rate %	Budget Billions & Trillions	Exchange Rate (\$)
1985	2521649000	3,222.69	7.44	1.2	1
1986	1823270000	882.52	5.72	2.2	1.75
1987	1607847000	639.01	11.29	3.2	4.02
1988	1733173000	598.26	54.51	4.1	4.54
1989	1323240000	549.24	50.47	4.3	7.36
1990	1606118000	3,361	7.36	4.6	8.04
1991	1611255000	3,288	13.01	5.7	9.91
1992	1424518000	3,355	44.59	6.2	17.30
1993	860643300	3,205	57.17	6.8	22.07
1994	1203093000	3,069	57.03	7.0	22.00
1995	1496441000	2,992	72.84	7.3	21.90
1996	1661213000	3,041	29.27	8.0	21.88
1997	1776028000	3,053	8.53	1.10	21.89
1998	1607914000	3,055	10.00	2.60	21.89
1999	1634716000	2,997	6.62	2.99	92.34
2000	1652325000	3,069	6.93	7.02	101.70
2001	1789778000	3,170	18.87	8.94	111.23
2002	1964082000	3,565	12.88	10.06	120.58
2003	2226699000	3,731	14.03	10.45	129.22
2004	2628652000	3,974	15.00	10.19	132.89
2005	3143849000	4,122	17.86	10.06	131.27
2006	3719532000	4,259	8.24	10.88	128.65
2007	4140298000	4,421	5.38	20.03	125.81
2008	4939627000	4,597	11.58	20.04	118.55
2009	4112168000	4,836	11.54	30.05	148.90
2010	2391031000	5,085	13.72	40.04	150.30
2011	2925834000	5,214	10.84	40.07	153.86
2012	3548488000	5,291	12.22	40.09	157.50
2013	4598098000	5,495	8.48	40.99	157.31
2014	5477949000	5,688	8.06	40.96	158.55
2015	4535702000	5,686	9.01	40.76	192.44
2016	3512263000	5,449	15.68	60.06	348.12
2017	4154302800	5,351	16.52	70.44	369.01
2018	4199741515	5,316	12.09	90.12	365.72
2019	5964795400	6,055	11.32	80.92	365.37

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