

## **EFFECT OF ENVIRONMENTAL FACTORS ON SMALL SCALE BUSINESS**

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### **ABSTRACT**

*The paper is concern with the evaluation of the effect of environmental factors on small scale business and the extent to which some of these influence cause the failure of small scale business. Data were collected from two sources, namely the primary and secondary sources. The primary data were from oral interview in form of discussion with some small scale business owners e.g.(saloon operators, barbers, photographers, soft drink sellers, yam and rice sellers, tomatoes and vegetables sellers etc.). While the secondary data were obtained from internet/web, course papers on the subject matter, magazine, journals and published materials. The study identified a number of environmental factors on small scale business such as technology, economic, political/legal and social cultural influence. The study recommends that managers should have proper knowledge of those external factors and adapt to the opportunities and threats.*

***Keywords:** Effect, Environmental Factors, Small scale, Business, Environment.*

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### **OBJCETIVE OF THE STUDY**

- To identify environmental factors on small scale business and to evaluate the extent to which some of the influences cause the small scale businesses to fail.
- Also to offer possible recommendation that will encourage the growth and expansion of small scale business organization in the country.

### **METHODOLOGY**

The study made use of both primary and secondary sources to obtain the necessary information and data. The primary data were from personal interviews conducted while the secondary data were obtained from the internet/web, periodic journals, magazines and

books. These sources enable us to obtain accurate information and data on the subject matter.

## **INTRODUCTION**

The Nigerian economy is dominated by small scale enterprises.

Small scale businesses are widely recognized as the engine of industrialization and economic development. The World Bank and international finance corporation termed small scale business as micro businesses that require a small amount of capital to establish and usually have a small number of employees or in most cases reasonably handled by the owners. These kinds of businesses are common in many countries and within, depending on the economic system in operation. Examples of those businesses are: street retailing (meat retailing, portrait painting, frying akara): small store businesses (photographers, G.S.M Business, provision stores. marketplace businesses (Yam sellers, Rice sellers etc.)

The successes recorded in the promotion of small scale business have speeded up the process of growth of the developed economies of the developed countries. They represent about 90% industrial sector i.e. in terms of number of enterprises, but contributes only 1% of the gross domestic products. Bazza(2008). The corporate affairs commission in Nigeria estimates that about 90% of all Nigerians businesses in 2001 employed less than 50% of Nigerian populace. In the same vein, a study conducted by the international finance corporation (IFC) during the same period estimated that 90% of all business in Nigeria is small scale enterprises compared to 53% in USA and 65% in European Union (EU) with small scale and medium businesses in both cases accounting for our 50% of their respective country G.D.P.

By way of definition, small scale business or enterprise has no singular acceptable definition. The committee for economic development of United State of America, (2009) identifies that if a business is characterized by two or more of the following features, the business is a small scale business namely:

- a. The owners are managers
- b. The capital for running the business is supplied by one individual or small group holds ownership
- c. The area of business operations is mainly local
- d. When compared to other business in the field the business is small
- e. Low level of education by owners

In Nigeria, small scale business is variously defines as in other economies of the world on the basis of the size or amount of capital/investment excluding real estate sales volume, number of employees, financial strength, independent ownership.

The national council of industry, under the federal ministry of industries, periodically reviews the classification of small scale enterprises or business. But by and large, it defines small scale business as cottage industry with cost excluding land and not more than one million naira or small scale enterprise cost excluding land but working capital of not more than N10 million.

According to Ruth (2009), looks at small scale enterprise as an enterprise employing between 1-35 work/labour force and utilized local materials.

The roles played by small scale enterprises in the economic development of nation are historic. The success recorded during the industrial revolution (1760-1850) was traced to the innovative spirit of small scale enterprises. In fact, small scale businesses have helped in the achievement of the following economic development objectives. Employment generation, utilization of local resources, output expansion, transformation for indigenous technology, production of intermediate goods, increasing revenue base of government etc. it was observed in Nigeria that small scale businesses probably valued as second to agriculture in terms of job creation Nwachukwu, (1990).

## **LITERATURE REVIEW**

Environmental factors could denote the forces that are exogenous or that are outside an organizational set-up. The organization/or business enterprise has no control over those factors, thus it has to create positive relationship with the factors for profitable business operations. Nevertheless, these factors as these pose challenges could be opportunities or threats as the case may be. To survive therefore, small scale business enterprise has to adapt to the influence of the external factors as there is nothing that it can do about them.

According to Bazza (2008), viewed business environment as the study of the complex and changing internal/external factors that affects or influence efficiency or performances with which human efforts are directed towards a profitable production and distribution of goods and services of the organization.

The Webster's (2003) dictionary defines business as occupation that concern trade in goods and services for a profit. The Oxford Dictionary defines it as "a commercial or mercantile activity engaged in as a means of livelihood" to many people, it is the act of buying and selling at a profit. Also (Pickel, et al (1974) defines business as what people do in order to make money.

Buskirk, Green and Rodgers (1976) define business as “a system of transaction. Here, business is considered to be a system of events which take place between two persons (i.e. the seller and buyer) for a profit.

This environment according to Webster’s (2003) dictionary defined it “as the aggregate of social and cultural condition that influences the life of an individual or community. This social & cultural condition could be political/legal, technological, weather, traditional behavior, economic, religion etc.

Both may pose threat and opportunity to business organization. Therefore, business environment according to Bazza (2008) defined it as the study of the complex and changing internal/external factors that affect the efficiency with which human efforts are directed towards a profitable production and distribution of goods and services of an organization.

The analysis of this research work was centered on the following environmental factors namely: technology, economic, political/legal and socio-cultural.

- 1. TECHNOLOGICAL FACTORS:** According to Bazza (2008), technology is a conglomeration of technical, managerial, administrative and skills that are incorporated into the system of production. It is also viewed as the aggregate of technical knowledge and expertise acquired by the society at a particular point in time and utilized in transforming the factors production i.e. land, labour, capital and entrepreneurship into goods and services. The small scale business enterprises have limited access to technology and modern management techniques, business service, consultancy services; training, low level of education of business operators is a case in point. Therefore, there is no gain denying the fact that modern technology is changing the way we live and work. The revolution in information technology, for instance, will touch everything and certainly it will touch everything. Information and idea are key to the new creative economy because every country every company/business enterprise and indeed every individual depends increasingly on knowledge. Inability of small scale business enterprises to meet up with the changing technological advancement is a hindrance to their expansion and development.
- 2. ECONOMIC FACTORS:** The world economics has something to do with efficiency and effective utilization/ allocation of the nation scarce resources to satisfy the need and want of its people. The environment surrounding these scarce resources are flexible and thus may change from time to time. The major economic factors that influence the performance of small scale business is over depending on importation of goods and services, low level of technical know-how,

poor infrastructural development, low per capital income, low level of trained manpower, power supply access to credit facilities etc.

- 3. POLITICAL/LEGAL FACTORS:** This is primarily concerning the ability of government of a country complex law/regulations by the government and their agents as well as their actions which affects the operation of the small scale business enterprises to some extent or varying degree. Although, the effects of these actions are not always inhibitive or unfavorable to business for they may also be beneficial.

However, laws that promote business activities in the country vary with the ability and type of the government in power. If there is relatively very stable government there is hope that there is also stability in the law that affects the operation of the business enterprises. Nevertheless, if there is no stability, the laws governing the operation of the business organization would be replaced with the same speed they were brought into force. In all, government must review all laws that affect business operation with a view to encourage investment for meaningful development.

- 4. SOCIO-CULTURAL FACTORS:** Culture refers to complex whole which includes knowledge belief, act, laws, customs and other capabilities acquired by man as a member of the society (Bronis law, 1996). It is also referred to as the total way of life of a people, the social legacy and individual acquired from a group in a society(Kluckhohn and Immonitie,( 1977) from this definitions, culture is an embodiment of the social heritage of a people, something learned as well as something that could be taught through the process of socialization, e.g. in some communities or societies, paying or accepting bribes to obtain contracts, politics favors etc. are considered as unethical and immoral while is not in others, similarly women are never been accepted as good leaders/managers in some societies but it is in others. These are other cultural behaviors in the form of attitudes and beliefs affect the way small scale business operate in any society especially the third world countries.

## **SUMMARY AND CONCLUSION**

Today, the Nigerian environment is faced with many problems across the length and breadth of the country that affect the operation of most business organization. The political/legal, economic, technology, socio-cultural and physical factors have posed a threat or negative influence on the performance of small scale businesses, which has lead

to little or no profit at all. It was observed that in Nigeria, small scale business enterprises, probably ranked second to agriculture in terms of job creation.

Important as this sector of the economy is several factors have inhibited its growth so that its impact can't be impressively felt in its contribution to the gross domestic product. Presently, small scale business contribute to GDP is 1%, according to the honorary presidential advisory committee on investment (HPACI, 2002).

Some of these factors include out-dated technological and management techniques in running the business, political/legal factors that border on multiple permits and fees that one required at the state, local and municipal government level and other regulatory rule and unfriendly judiciary environment, in the economic point of view, infrastructural facilities, power/electricity, water, telecommunications, access to credit facilities etc has constituted barrier to the expansion of small scale business enterprises e.g. in some communities or societies. Paying or accepting bribe to obtain contracts, political favor etc are considered as unethical and immoral while it is not in others. Similarly women have never been accepted as good leaders/ managers in some societies but it is in others. These are other cultural behaviors in the form of attitudes and beliefs affect the way business enterprises operate in any society especially the third world countries.

## **RECOMMENDATIONS**

In the light of the findings the writer wishes to make the following recommendations.

Government must review laws that affect business operation with a view to encourage investment for meaningful development. Also where government in power is aimed at stabilizing the economy and thus has serious concern on the activities of certain business organization, and otherwise, you as a manager of that organization must either adopt or change to suit the threat/opportunity within the environment.

Government should adopt an economic policy that will protect small scale business. In fact, good strategies should be adopted in the allocation of our scarce resources by focusing attention on such policy decision variables as planning, investment, taxation and international business relation. This could be through good identification of characteristic features of our economy and what of other countries of the world, so as to make our economic business environment unique.

Technology is also an external factor that has great impacts on small scale business. It is therefore, important for managers to understand the type of technology used or appropriate for the organization. If organization must remain competitive, manager needs to keep abreast the technological developments affecting the organization, its operation and be able to respond quickly to new development by creating new innovation on their own.

Manager of small scale business organization should be aware of socio-cultural values and norms of those people within the environment it operate. As a result of those factors , an organizations operate within the constraints impose by socio-cultural values of the society, those engaging in business within their domain must try to understand the institutional characteristics of the business environment and how they affect their business organization.

Finally, a potential manager must study carefully both the natural and infrastructural environment that influence the operation of his organization. He must monitor their availability, the opportunities or threats they present, and try to adapt to the effects and or take action against them by laying down good and efficient strategies.

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