

The Effect of Business Climate on Operations of Small and Medium Scale Enterprises in Nigeria

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Received: 5th July 2017/ Revised: 20th September 2017/ Accepted: 29th September 2017

How to Cite: Olubitan, J. O. (2017). The Effect of Business Climate on Operations of Small and Medium Scale Enterprises in Nigeria. *Binus Business Review*, 8(3), 207-214.
<http://dx.doi.org/10.21512/bbr.v8i3.3715>

ABSTRACT

This research investigated the effect of business climate on operations of Small and Medium Scale Enterprises (SMEs) in Nigeria. Specifically, the aims were to identify the various business climates affecting SMEs, examine how business climates affects sales turnover of SMEs, and evaluate the effect of business climate on Total Factor Productivity (TFP) of SMEs in Nigeria. The research utilized secondary data collected from 2,783 registered businesses in all sectors. The data collected were analyzed using descriptive statistics such as mean and standard deviation. It reveals that majority of SMEs experience one constraints or another as a major obstacle which includes inadequate electricity supply (53,22%) and access to finance (15,74%). Inferential statistics such as Stochastic Frontier Analysis (SFA) indicated that labour (0,9943; $P < 0,05$) and infrastructure (0,7133; $P < 0,05$) are the only significant variables to sales turnover. Meanwhile, the regression analysis shows that raw material, labor, infrastructure and fixed cost are the variables that have a strong predicted variance in TFP at $P < 0,05$ with p-value of 0,000. Water is also observed to be significant at $P < 0,1$ with p-value of 0,087.

Keywords: business climate, enterprises operator, Small and Medium Scale (SMEs), Nigeria

INTRODUCTION

Nigeria plays an important role in political and economic stability of Africa and its sub-regional allies. However, the present outlook of the business environment is a cause for concern as it affects commercial enterprises. Although it had experienced economy boom and buoyancy at one time or the other, the Nigeria currency in the 70's and early 80's was more valuable than the dollar, with a dollar exchanging for 0,8938 Naira, that was less than N1 in 1984. The failure of the government to capitalize on the various gains and sustain them lead to the present economic woes and recession befalling the country and its business sector.

While the business sector experiences varying degree of the effect, the Small and Medium Scale Enterprises (SMEs) in Nigeria appears to be the hardest hit. The state of distress is discouraging

because SMEs are universally seen as the engine of economic growth, job creation, and reduction of abject poverty in the third world countries and Africa in general. According to Harris and Gibson (2006), and Sauser (2005), SMEs are defined as a means in which industrialization is achieved. Meanwhile, Eeden *et al.* (2004), Arinaitwe (2006), and Monk (2000) observed that development of SMEs could be a path for quick economic recovery and growth through accelerated and quick development per capital income increment. Then, the contributions of SMEs to development are acknowledged. It is shown that entrepreneurs face many obstacles that limit the long-term survival and another form in Nigeria.

In extensive terms, the climate of businesses is seen as the combination of all external and internal contributors to firms including the policy, legal, and regulatory framework, and all other macro and microeconomic variable (Simon & Peter, 2004).

Nigeria is endowed with a vast base of resources in human and material if the harness can bring an international standard of social and economic infrastructure by creating wealth, eradicating poverty, and building a fast-growing, dynamic, and prosperous economy. However, the development of Nigeria is undermined by the poor state of the ease of doing business. The huge economic potential has remained largely untapped, and this has also rubbed on the confidence of foreign investor. Meanwhile, the ones operating in the country are finding it difficult to perform at par with business in other countries.

There are several major development challenges. First, it is a large public sector, whose activities tend to crowd out rather than facilitating the private investment. Second, there are inefficient regulatory and service delivery institutions. Third, infrastructure for transportation and energy are inadequate and available, but poor. Fourth, it is the unstable economic indices. Fifth, there are unpredictable and unstable macro-economic policies characterized by frequent policy reversals, regressive GDP growth, high inflation rate, and others. All of which severely constrain private sector activity and growth (Olusesan & Abioye, 2016; Focus Economics, 2016). The more recent report by the International Monetary Fund (IMF) ranks Nigeria business as well. It is below the position of peer countries such as South Africa, Angola, Ghana, Malaysia, and Indonesia (Olusesan & Abioye, 2016). IMF in constructing its index has considered factors such as reduction in the cost of doing business, reduction in business registration fee, reduction in the time of export, and improvement in investment climate among others.

Businesses must bid customers and workers not only from local competitors, but also from businesses in other communities, in other states, and other countries. Hence, maintaining a vibrant business climate is essential. Small changes in taxes, inflation rate, regulations, and other cost-drivers can result in losing customers and possibly failing or relocating. Although most countries have recovered from the recession that hit the globe in 2008 and 2009 through the activities of the governments to design and develop methods to make them overcome the recession, Nigeria has yet overcome its economic recession before been plunged into a 'tsunami' of economic woes that has not yet subsided at first quarter of 2017.

Presently, the government is discouraging overdependence on import and encourages Foreign Direct Investment (FDI) by formulating "point of entry" visa regime, tax free for creating business in new areas, twenty-four hours business registration, reduction and phasing out some bottlenecks at various ports of entry of goods, persons and services, free trade zones to encourage the establishment of production firm, funding and call for increasing investment in agriculture and solid mineral sector for national and foreigners. In clear terms, the researcher can affirm that the government believes that more interest in business productivity which will arise from business

creation will give Nigeria a stable and better economy.

From the foretasted, a need to ask whether the present business climate in Nigeria is conducive for profitable business operations or not. The research can discover this by identifying the various constraints and bottlenecks in the business climate of the country. The level of availability of power for production companies, security for financial and other services companies, road and transportation level for agricultural, extractive and logistics businesses, manpower development through the various educational institutions and vocational training centers need to be viewed succinctly.

The main objective of the research is to identify the various business constraints affecting SMEs in Nigeria and examine the effects of business climates on the sales turnover of SMEs in Nigeria. This research focuses on the existing relationship between the climate and operations of SMEs in Nigeria. It targets the effect that various business climatic factors have as a single entity and collectively on operation of SMEs in Nigeria. It also analyzes how and to what extent this relationship subsists.

Two hypotheses are derived from the objective to form the focus of this research. Those are as follows.

Ho₁: The business climate in Nigeria has no effect on the business operations of SMEs.

Ho₂: The business climate does not have any significant effect on sales turnover of SMEs in Nigeria

This research is basically on SMEs in Nigeria. This work is limited to SMEs that are registered across all sectors. There are manufacturing, production, financial services, agriculture and agro-allied, transportation, food and beverages, wood and wood productions, chemicals, retails, education, mines and minerals, and other services located across the thirty-six states of the Nigeria and Federal Capital Territory (FCT), Abuja.

In business constraints theory, firms struggle to compete in increasingly global markets around the world. A key response to the competition is the effort to improve capabilities and skills including technological upgrading and employee training. The significance of intensifying business capability vis-à-vis knowledge-based international economy is well-recognized in the literature. Recently, there has been relatively little systematic international data about how firms improve their capabilities and whether this effort results in improved performance. Firm performance is critically dependent on the policy and institutional frameworks in the economy which constitutes the investment climate.

Batra and Stone (2004) agreed that investment was highly associated with constraints militating the business environment. Countries with negative or poor business conditions in the areas of financing, taxes, corruption, and policy predictability saw the businesses investment levels grown within the mean of 10,5 percentage points less than those with positive ratings in all of these categories.

Goldratt and Cox (1984) in his book is geared to assist organization in achieving their goals. This was earlier propagated in 1963 by Wolfgang Mewes in Germany. According to his theory, a business constraint is anything that interferes with the profitability of a company or business activity. Improving profitability requires the removal or reduction of business constraints. Ishengoma and Kappel (2008) viewed the theoretical thought on the subject business constraints and the development potential or performance of Medium and Small scale Enterprises (MSEs). They stated that it could be explained in various ways.

Business constraints may limit physical capital accumulation while constraining a firm's capacity to undertake its daily operations. On the other hand, since it may reduce its internal financing and its capacity to make proper business decision, it may lead to interruption of a firm's operations and performance.

Ishengoma and Kappel (2008) argued that the business constraints limited investment upgrading. Therefore, it also limited a firm's growth potential and performance in several ways. When SMEs had limited access to relatively different markets, they were forced to operate in low-income market segments. Sengendo *et al.* (2001) said that this hindered the profitability since most of them competed for the same customers. This condition might discourage firms' future investments and growth.

Moreover, in Uganda, the majority of MSEs especially the manufacturing sector have low external financing opportunity. As a result, they depend mainly on internal financial investments (Arimah, 2001; Mugume & Obwona, 2001; Reinikka & Svensson, 2001; Ishengoma, 2005). Thus, low profit may imply limited internal resources, which may limit firms' capacities to upgrade the investments. However, internal financial source is hampered by high tax rates burden on firms.

In business world localized in a nation or particular economy, the climate of a business is the aggregate pattern of all the external and internal conditions and influences that affect the existence, growth and development of the business. Analysis of business climate is the examination and appraisal of the opportunities and threats provided by the environment as well as the potential strengths and weaknesses that the business possesses. Thus, the application of SWOT analysis is used here. Opportunities and threats are associated with external environment of a business. Meanwhile, strengths and weaknesses are the reflections of internal environment of the business. Consequently, external analysis examines opportunities and threats in the environment, while internal analysis examines strengths and weaknesses in the business. If an issue appears when a given business does not exist, then such issue will be a factor in the external environment. Otherwise, it is an internal environmental factor. Alternatively, an issue is an external environmental factor if it coexists with a business, but the business cannot control or influence the issue. Opportunities are favorable conditions that

could produce rewards for the organization if it is acted upon properly. Threats are conditions or barriers that may prevent the business from reaching its objectives (Obiwuru *et al.*, 2011).

A business firm is an open system. It derives resources from the environment to business process and supplies goods and services back to the environment. Environmental forces may be close and internal forces or open and external forces. External forces may be the national, regional, or international level. These environmental forces make way for opportunities or threats that exist in the business environment. Every business entity looks for a way to positively and adequately utilize the available opportunities, or it may reduce considerably the threats that emerge from the business environment.

Business entities cannot change the external environment except they belong to the cartel of the industry which can make them influence certain factors. However, it changes the internal business components (internal environment) to seize the external opportunities and confronts the external environmental threats. Therefore, it is a vital role of managers to analyze business environment so that they could pursue effective business strategy (Abbey, 2015).

The performance of the business depends on the effects that these factors (business climate variables) have on the sales growth and productivity. On the basis of the discussion, the features of business climate cover factors and forces like customers, competitors, suppliers, government, and the social, infrastructural and cultural, financial, political, technological and legal conditions. It can be seen in Figure 1.

There is a dynamics in business environment which makes it flexible and changeable. The changes in business environment are unpredictable. It can be difficult to predict the exact nature of future happenings and the changes in economic and social environment. Moreover, its dynamics can reveal some trends that can be employed to forecast future trends. Hence, what may affect a business may not have any variable effect on its competitors. In addition, factors affecting a business in a particular location may change if the business relocates.

METHODS

This research focuses on the effect of business climate on the operations of SMEs in Nigeria. This research is limited to the activities in and around the Nigerian SMEs. It is centered on how the business environmental factors such as electricity, technology, globalization, raw material, finance, labor, education, macroeconomic and political factors, and infrastructure affecting the operations of SMEs in Nigeria. The level at which these threats affects the performance of SMEs is the study area. The period is chosen because of the availability of the information on the business climate of Nigeria.

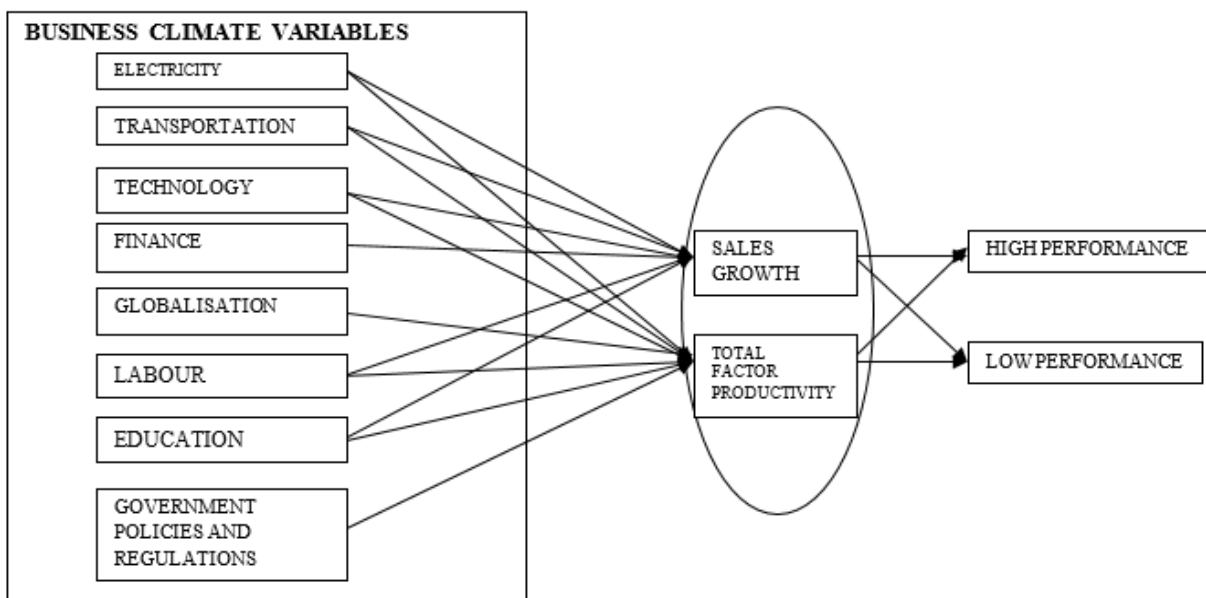


Figure 1 Conceptual Relationship between Business Climates and Performance
(Source: Researcher's Compilation, 2016)

In considering the sample size and population regarding firms, the stratified sampling method is also adopted. 2,783 registered SMEs are considered for this research. The sampled SMEs spread across all sectors in the 36 states and FCT in Nigeria.

The data used are the ones relating to the effect of the current business climate on the performance of SMEs in Nigeria. The sources of data are from the datasets of World Bank through its enterprise survey data, and report published by the Nigeria Bureau of Statistics and the SMEs Development Agency of Nigeria.

The research instrument employed is the descriptive statistics such as frequency and means which are mainly utilized to achieve descriptive objectives. The multivariate method is used in data analysis. In addition, the means are used to rank a set of items and factors according to the relative importance of each one of them to business performance. Descriptive statistics such as frequency means, and percentage is used to determine the sample characteristics regarding the respondents and responding companies. They are used to give insights into the form of the sample distribution and research variables that are formulated in the hypotheses tested. Moreover, regression analysis method is the analytical techniques adopted through the use of Statistical Analysis Package Version 11 (STATA/SE 11.2) to test the hypothesis. STATA is adopted because it has the best support system and the capability of multiple pooled cross-sectional routines.

For the purpose of this research, the method of data analysis is divided into two. Firstly, it examines the present business climate in each selected business and each state to determine if the climate is peculiar only to that business in that state or it is a general phenomenon. Secondly, the hypothesis generated

from the research is tested based on the response received from the effect of business climates on the performance of the businesses.

There are several available and different models for measuring performance. To measure performance of a nation or industry, it is necessary to operationalize the same concept of performance in business. However, the object of modeling is substantially wider, and the information is more aggregate. Ultimately, the true test of the importance of constraints imposed by the investment climate and firm capabilities lies in its performance in markets (World Bank, 2008). Two models are adopted which will be targeted towards specific hypothesis.

The first model is used for the investigation of the relationship between business climates and business performance by combining elements of theory from industrial organization, trade, and growth. It is the model adopted by Batra and Stone (2004) in measuring the investment climate and firm performance in developing countries. The description is:

- Y = Business Productivity
- C = Business Climate
- T = Technology
- E = Training
- Oa = Other Firm Attributes

$$Y = f(C, T, E, Oa) \quad (1)$$

Imputing the business climate variables, the researcher gets:

$$Y = f(F, S, P, Tp, L, W, G, T, E, Oa) \quad (2)$$

The business climate variables considered for this

research are:

- F = Finance,
- S = Taxes,
- P = Electricity,
- TP = Transportation,
- L = Labor (as defined by labor skill and labor mobility),
- W = Globalization (as defined by level of import and export of the nation),
- G = Government policies(G).

Hence, it will be:

$$Y = f(F, S, P, TP, L, W, G, T, E, O, \alpha) \quad (3)$$

In linear form, it will be:

$$Y = \alpha O + F\alpha 1 + S\alpha 2 + P\alpha 3 + TP\alpha 4 + L\alpha 5 + W\alpha 6 + G\alpha 7 + T\alpha 8 + E\alpha 9 + O\alpha 10 + \varepsilon \quad (4)$$

$$\ln Y = \ln \alpha O + \ln F\alpha 1 + \ln S\alpha 2 + \ln P\alpha 3 + \ln TP\alpha 4 + \ln L\alpha 5 + \ln W\alpha 6 + \ln G\alpha 7 + \ln T\alpha 8 + \ln E\alpha 9 + \ln O\alpha 10 + \varepsilon \quad (5)$$

The second model examines the effect of business climates on sales turnover of SMEs. It is the model reviewed by Belotti *et al.* (2012) by using cross-sectional data to determine technical efficiency of a firm. It reflects the capability of a firm to obtain optimal output from a given set of inputs by applying Stochastic Frontier Cost Function (SFCA), and the functional relationship is usually written in the form as follows.

$$y_i = \alpha + x_i\beta + \varepsilon_i, \quad i = 1, \dots, N \quad (6)$$

$$\varepsilon_i = v_i - u_i \quad (7)$$

By substituting ε_i with $v_i - u_i$ in equation (7), it will be:

$$y_i = \alpha + x_i\beta + (v_i - u_i) \quad (8)$$

$$y = \alpha + x_1\beta + x_2\beta + x_3\beta + x_4\beta + (v_i - u_i) \quad (9)$$

where,

- y = Cost of the Productive *ith* Unit
- α and β = Parameters
- x_1 = Raw Material,
- x_2 = Labour,
- x_3 = Total Annual Depreciation,
- x_4 = Infrastructure.

RESULTS AND DISCUSSIONS

This result contains the report and interpretation of the results of data analysis. It starts with the description classification by industry, the description of the salient variable, and the Stochastic result. The discussion of each result comes up immediately after the report.

The secondary datasets are summarized and interpreted along with the relevant research objective and hypotheses. These datasets and the interpretation are used to decide whether to accept or to reject these hypotheses. The analysis of result also contains the presentation and interpretation of the responses obtained from the sample datasets. The dataset contains items relating to the effect of business climates on the performance of SMEs in Nigeria.

Figure 2 shows the sectorial classification of the industries in which the respondents belong. The distribution reflects that 22,13% are the hotels and restaurant sector. 16,03% are from the retail sector. 14,23% are from the wood and wood products and furniture sector. 8,88% belongs to the metal and metal products sector. 7,94% are another form of manufacturing sector. Foods and garments are 7,26% and 5,75% respectively. Meanwhile, 4,38% comprise of other sectors including agriculture, education, financial services, and other service rendering businesses. Construction and transportation sector is around 3,81%.

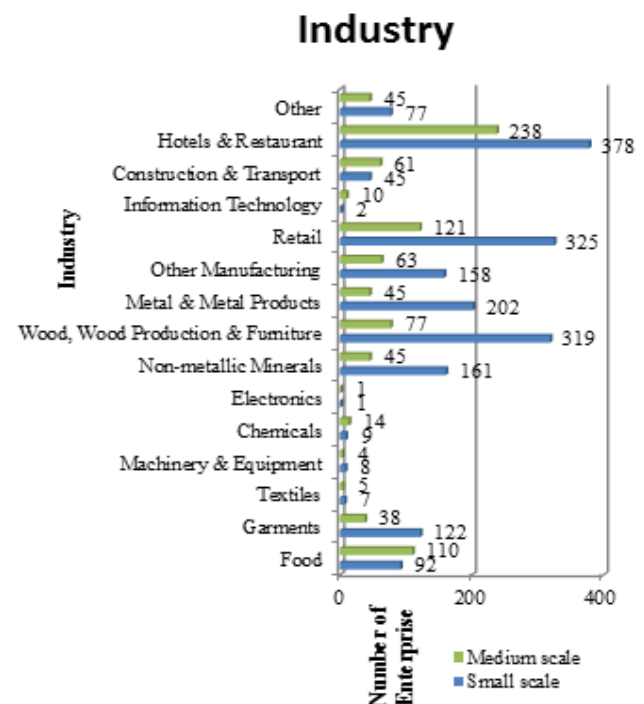


Figure 2 Sector by Industry
(Source: Researcher's analysis (2017) using STATA 11.2)

From this, it is observed that three sectors namely hotels and restaurant, retail, and wood and wood products and furniture make up more than 50% of SMEs in Nigeria. Those are 52,39%. With this, the dependence on basic infrastructural services and factors is highly expected. More than 50% will depend on electricity to operate. In addition, finance and transportation will be the part of the business factors that will be the paramount importance to their operations.

For the effect of business climate on the business operation of SMEs in Nigeria, majority (49,16% of

small scale businesses and 62,03% of medium scale businesses) indicates that electricity is the major obstacle to their business operations. It represents 53,22% of the overall respondents as seen in Table 1.

Electricity is discovered to have a nationwide effect on the operation of SMEs in Nigeria. The access to finance is seen as the next major obstacle with 15,74%. Transportation, tax rates, and tax administrations are also seen as major obstacles that hinder the business operations of SMEs with 5,50%, 3,52% and 3,23% respectively. Access to land (2,87%), corruption (2,66%), and cost of finance (interest rates) (2,66%) are included as major obstacles to SMEs in Table 1.

The results in Table 1 identifies the various business climates constraints that affect SMEs in Nigeria. It also answers the first research question, which finds out how business climate affects SMEs in Nigeria. It reveals the various climates that serve as major constraints to SMEs in Nigeria. It states electricity as the major and number one which is followed by access to finance, transportation, tax rates and tax administration, access to land, corruption, cost of finance, macroeconomic environment, practices of some companies, political environment, crime and theft, policy uncertainties, and labor regulations. These findings also corroborate the research by Oforegbunam and Okorafor (2010) which conclude that SMEs in Nigeria can attain better performance through development of labor. Dionco-Adetayo and

Adetayo (2003) stated that external environments affected the operations of SMEs including political environment and macroeconomic environment. Sengendo *et al.* (2001), and Ishengoma and Kappel (2008) also affirmed that high tax rate was an obstacle to business operations. Then, Collier and Gunning (1999) also observed that crime and theft, corruption, and practices of some companies affected the operations of SMEs.

The other business constraints which are minor compared to the effects that others have are telecommunications, customs and trade regulations, education, labor hour regulations, business licensing, and other firm attributes. Oforegbunam and Okorafor (2010) concluded that education did not lead to the improvement of SMEs business operations. However, this finding contradicts with Ogunrinola and Alege (2007) that education and training can facilitate improvement in the SMEs operations. Dionco-Adetayo and Adetayo (2003) opined that telecommunications played a pivotal role in operations of SMEs, but the findings of this research showed that it was a minor obstacle.

These results also confirm the previous research of Dethier *et al.* (2010) and World Bank (2008). The result shows that SMEs in Nigeria are faced with certain business climates constraints. Based on these findings, the hypothesis one (Ho₁) of the research about the business climates in Nigeria does not affect the business operations of SMEs in Nigeria is rejected.

Table 1 Business Climates Constraints

Most Serious Obstacle	Small	%	Medium	%	Total	%
Telecommunications	20	1,05	7,00	0,80	27	0,97
Electricity	937	49,16	544,00	62,03	1,481	53,22
Transportation	101	5,30	52,00	5,93	153	5,50
Access to land	59	3,10	21,00	2,39	80	2,87
Tax rates	59	3,10	39,00	4,45	98	3,52
Tax administration	87	4,56	3	0,34	90	3,23
Customs and trade registration	8	0,42	2	0,23	10	0,36
Courts	3	0,16	0	0,00	3	0,11
Labour regulations	25	1,31	1	0,11	26	0,93
Inadequately educated	11	0,58	7	0,80	18	0,65
Business licensing an	7	0,37	1	0,11	8	0,29
Political environment	27	1,42	7	0,80	34	1,22
Macroeconomic environ	45	2,36	16	1,82	61	2,19
Corruption	55	2,89	19	2,17	74	2,66
Crime and theft	21	1,10	12	1,37	33	1,19
Practices of some companies	27	1,42	9	1,03	36	1,29
Regulation on labour hour	0	0,00	1	0,11	1	0,04
Other	3	0,16	3	0,34	6	0,22
Policy uncertainty	31	1,63	1	0,11	32	1,15
Access to finance	313	16,42	125	14,25	438	15,74
Cost of finance	67	3,52	7	0,80	74	2,66
Total	1,906	100,00	877	100,00	2,783	100,00

(Source: Researcher's analysis (2017) using STATA 11.2)

Hence, the business constraints in Nigeria SMEs business climate hinder the operations.

The second objective of the research aims to examine the effect of business climates on sales turnover of SMEs in Nigeria. It is derived from the second research question which states whether the current business climate affects the performance of SMEs in sales turnover or not. This objective is examined with the aid of SFCA on the factors of production and sales. Table 2 shows SFCA results are derived from examining the efficiency of production process and the sales turnover. It reveals that various shocks can cause inefficiency of the sales production of SMEs.

Table 2 Pooled Sales Cost

Variable	Small	Medium	Pooled
Raw materials	1,6127 (108,9218)	1,3933 (54,2793)	1,4854 (221,3957)
Labour	0,9943* (14,4107)	1,4758 (9,1084)	1,3282 (20,3334)
Total Annual	1,9829	3,7335	-2,2276
Depreciation	(19,355)	(7,0714)	(-10,5846)
Infrastructure	0,7133* (4,5745)	1,9656 (6,6019)	9,2299 (29,1289)
_cons	2,60E+05 1,9402	-1,70E+06 -0,8413	6,50E+06 1,8456
N	1079	402	1549
r2 a	0,969	0,9858	0,9897

(Source: Researcher's analysis (2017) using STATA 11.2)

* means significant at 10%

The pooled sales cost indicates that labor and infrastructure are the variables that have significant effect on sales turnover. This result is in line with the previous research by Bah and Fang (2015), Batra and Stone (2004), Ishengoma and Kappel (2008) which corroborate the observation that infrastructure plays a vital role in sales turnover. However, it contradicts the result of Ishengoma and Kappel (2008). They suggested that finance, policy uncertainty, tax administration and regulations, technology, and training were the factors that affected sales turnover. In addition, considering the research of Ishengoma (2004), the researcher points out that firm size and increase in export increases sales turnover. Hence, the hypothesis that states that business climates do not have any significant effect on a sales turnover of SMEs in Nigeria (H_0) is rejected.

The research has thrown more light on the happenings in and around the business climates of SMEs in Nigeria. The existence and survival of the business especially SMEs is hinged on how conducive the business climate is. The research shows that most of the SMEs adopt other alternative means especially in electricity, finance, and transportation by making use of the personal resources to run the businesses. It also generates sets that require a high cost of maintenance due to the high cost of fuel in the country, makes use of

personal savings to cushion the effect of unavailability of the fund, and does the conversion of homes and personal vehicles to business use. However, the issues that it cannot employ more hands to curb the shortfall in labor are some of the occurrences in the SMEs business environment. This is the reason why most of them remain in the sole proprietorship level. The evasion of tax is a recurrent phenomenon among SMEs because of harsh tax administration. Although there is a various policy that has evolved over the years, policy change does not affect SMEs because most of them do not benefit from the government policies due to the various bottleneck that they encounter.

The SMEs in Nigeria is filled with many unregistered businesses due to the cost of business registration and permits. Many of them are not healthy businesswise as the result of the shocks that hinders the efficiency and productivity. Efforts should be made by supervising agencies to formulate policies that are SMEs centered. This can be done by ensuring that the SMEs are involved in such policy formulation.

CONCLUSIONS

The research evaluates the effect of business climates on the operation of SMEs in Nigeria. It has specific objectives. It is to identify the various business climates constraints affecting SMEs in Nigeria and examine the effect of the business climates on the sales growth of SMEs in Nigeria.

Different analytical techniques are used to analyze different hypotheses through the use of STATA 11.0. In hypothesis one, the responses to the variables are weighted (assigned weights) and analyzed by generating a one and two-way frequency table for each variable to accept or reject the hypothesis. However, hypothesis one (H_0) which states that the business climate in Nigeria does not affect the business operations of SMEs in Nigeria is rejected. The research concludes that electricity, transportation, access, cost of finance, corruption, tax rates and administration, and access to land are major constraints of business climates affecting SMEs. The political environment, macroeconomic environment, and threats from competitors also have some minor effect on the business operations of SMEs.

In hypothesis two (H_0), the responses of the respondents are weighted and analyzed using Stochastic Frontier Analysis (SFA). The hypothesis states that the business climate does not have any significant effect on a sales turnover of SMEs in Nigeria. It is rejected as the analysis shows that the sales turnover of SMEs is higher than the cost of production. The inefficiency derived through SFA indicates that raw material, labor, infrastructure, and total annual depreciation affect sales turnover.

The implication of this finding to business operations especially SMEs operators/owners is more effort should be put in engaging the government of Nigeria in providing infrastructures needed for the

ease of doing business. The reduction in the cost of electricity and other infrastructures will enhance the profitability and positive performance index for SMEs in Nigeria. The high cost of goods that lead to increase in the total annual depreciation will be mitigated.

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