EFFECT OF ECONOMIC AND SOCIO-CULTURAL ENVIRONMENTAL FACTORS ON SMALL BUSINESS FAILURE IN NORTH CENTRAL NIGERIA

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Abstract
The study investigated the effect of business environmental factors on small business failure in North Central States, Nigeria. Specifically, it examined the effect of economic factors as well as socio-cultural factors. The study utilized the survey method. A sample size of 201 was obtained using Taro Yamane's formula from a population of four hundred and four (404) registered SBEs in North Central Nigeria. Structured questionnaire was used to obtain data from respondents. The analysis was based on 201 copies of returned questionnaire representing 100% response rate. Descriptive statistics, Correlation and OLS multiple regressions were used to analyze data. Findings revealed that economic factors have significant and positive effect with the failure of SBEs in North Central Nigeria and the socio-cultural factors have positive or negative relationship with the failure SBUs in North Central Nigeria. The study recommended that managers of SBEs and Government should understand and look into the dynamic nature of economic factors that pose unnecessary constraints on businesses in Nigeria. Specifically multiple tax system should be jettisoned, exchange rate stability should be pursued, and inflation rate and interest rate should be attended to. It also recommended that Government should continue to provide more tax incentives to small businesses in order to trigger more employment opportunity by creating jobs within the economy.
Keywords: *Business Environment, Economic Factors, Socio-cultural Factors, SBEs Failure*

INTRODUCTION
Small Businesses (SBs), Small Business Enterprises (SBEs), Small Scale Enterprises (SSEs) or Small Business Units (SBUs) as they are variously called, were seen in both the developed and the developing countries as the driving force for economic growth, job creation, and poverty reduction (Agwu&Emeti 2020, Dotun, et al. 2023). They play a pivotal role as engine of growth in many economies, providing 80% of jobs in Africa and employing 44 million in sub-saharan Africa.

In developing would particularly in Nigeria SBs make up of 96% of businesses, 84% of employment and account for 48% of Nigeria National Gross Domestic Product, therefore, proper development of the SB sector in Nigeria will bring about greater distribution of income, wealth, economic self-independence, entrepreneurial development and the general socio-economic and political wellbeing of the generality of the populace.

Small Businesses, according to the SMEDAN (2017), are those businesses with total assets (excluding land and buildings) of more than ten million naira but less than one hundred million naira and a total workforce of more than ten but less than forty-nine employees. Medium Enterprises are businesses with total assets (excluding land and buildings) of more than fifty million naira but less than one billion naira and a work force from fifty to one hundred and ninety-nine workers.

But SB industry is a turbulent sector in both the developed and the developing countries. Even in years when an economy is booming, some firms will fail and others will succeed (stokes & Wilson, 2016). However, a failed business is not necessarily a closed one. Failure occurs when a business losses revenue drastically, either because its sales is too low or dropped considerably or that the competitive environment is untenable, causing its cash flow to drawn or slide, making it unable to meet its financial obligations as they become due or payable. Small business failure is therefore a condition where a business find itself unable to pays its debts (insolvent) and generate enough revenue to keep it liquid and sustainable over the long term and is rendered inoperative thereby. That is, a business that consistently declared losses for a

period at least 5 years of performance. The research on small business development has also shown that the rate of failure in developing countries is higher than in the developed world (Salihu & Abubakar, 2019).

A more recent account according to SMEDAN (2023) indicates that over eighty percent (80%) of small business enterprises in Nigeria die within their 1-5 years of existence due to harsh environmental factors. The environmental factors that determine the success or failure of small business enterprises are basically divided in two main categories, the internal factors and external factors. The internal determinants are within the control of management and include factors of organizational resources, technical competence, management systems and organizational culture (Inalegwu et al, 2022). Similarly, the external environmental factors or determinants include those which are beyond the control of management such as social, economic, cultural, technological, legal, infrastructure and demographic factors among others.

The unimpressive performance of SBs in Nigeria has generated considerable research interests on their challenges and prospects. Therefore, the reason for the increased failure rate of SBEs in developing countries like Nigeria is worth investigating.

The researcher has observed that SSEs in North Central Nigeria are faced with a myriad of environmental challenges that have had a great toll on the performance of their business enterprises. Many of the SSEs in the area have been noted to perform poorly and some consequently fail and fold up. This situation is not an ideal one, so it calls for an assessment into the phenomenon of SBEs poor performance in the zone. The intent is that this is one way that will promote adoption of the necessary preventive measures and plan of action to avoid such failures.

The general objective of this study is to determine the effect of the environmental factors on the failure of small-scale businesses in North Central Nigeria. The specific objectives of the study are:
  i.   Determine the effect of economic factors on small business failure in North Central Nigeria
  ii. Establish the extent to which socio-cultural factors affect small business failure in North Central Nigeria

The following hypotheses were tested in this study:
Ho$_1$: Economic factor has no significant effect on small business failure in North Central Nigeria
Ho$_2$: Socio-cultural factor has no significant effect on small business failure in North Central Nigeria

LITERATURE REVIEW
Concept of Small Business
The term small business has been used loosely and without a universal acceptance of what small is all about (Baumback cited in Suleiman, 2016). Attempts are being made to define a small business in terms of employment, asset value or monetary sales volume (Kibiya, 2019, Okwoli & Anyakwu, 2019, Olubumi & Kareem, 2018). All these modes of definitions are proving to be unsatisfactory in some aspects for a number of reasons. For instance, a firm in one industry may loom large relative to its competitors, yet be small in employment, assets or sales, relative to firms of the same classification in other industries, or the reverse may be the case.

However, the National Council on Industries (NCI) cited in Muhammad (2023) and Ajiya (2016) defined SB as an industry with a labor size of 11-100 workers, or total cost of not more than ₦50 million, including working capital but excluding cost of land.

According to National Policy, Micro, Small and Medium Enterprises (MSMEs) can be categorized according to size, sector, organization, technology and location. In fact the definitions of SEs differ across countries, economies, agencies and sectors (Lucky & Olusegun cited in Andah & Onana, 2021). For instance, while Britain, the United States and some European countries define small scale enterprises in relation to sales and numbers of employees, SSEs in Nigeria are defined in relation to capital employed, turnover and number of employees. This study defines SSEs in line with SMEDAN classification as any business with

total assets of more than ten million naira but less than one hundred million naira and total workforce of more ten but less than forty-nine employees (excluding land and buildings).

The Environment of Small Business

The business environment varies from one country or state to another. Some may be favorable to business growth while others may be hostile. This presupposed that if the environment is conducive, it will engender a spate of economic activities and growth of the economy. And where it is hostile, it discourages investment and renders the economy stagnant. The interrelationship between the business and the community it operates is amount to business environment (Aruwa & Tende, 2017).

The adopted definition of business environment in this paper is that of Maza and Gay cited in Andah and Onana (2021) that the business environment is a set of forces and conditions outside the organization's boundaries that have the potential to affect the way the organization operates. The business environment presents opportunities which the organizations can take advantage and threats that the organization should avoid. The quality of managers understanding of organizational environmental forces and their ability to respond appropriately to those forces are critical factors affecting organizational performance.

Business Environmental Factors

There are several environmental factors that can impact success or failure of small businesses, these factors or forces can either be internal or external elements. In this study, only two business environmental factors (economic and socio-cultural factors) were considered as a result of recent development bordering on them.

Economic Factors: According to Ajayi (2021), the survival and success of each and every business enterprise depend fully on its economic. Mangers in the business enterprises should be worried about the trends in economic conditions in their decision making. This is defined by factors such as gross domestic product (GDP), government fiscal and monetary policies, unemployment rate, exchange rate, inflation rate etc. Understanding and managing economic factor is essential for making informed decisions and achieving sustainable growth and prosperity.

According to Yakubu et al (2023), economic factors are external environmental factors that affect the functioning of the economic and the performance of firms. Economic factors can also influence government policies and shape the political agenda, leading to changes in policy and legislation. For example a change in tax rate or government spending can affect the overall level of economic activity and distribution of wealth and income.

Economic factors refer to various aspects of the economic environment that can impact the decisions, behavior and performance of business organizations and individuals. These factors can include economic instability, inflation, high interest rate, currency fluctuations and unemployment rates can significantly affect small businesses.

In fact, the economic policy of the former president Muhammad Buhari in relation to naira redesign, cash deposits and withdrawal policy has adversely affected the operation of many SSEs in Nigeria, particularly the North Central States. Also, subsidy withdrawal policy of the present administration of president Bola Ahmed Tinubu has negatively caused harsh economic environment and has affect the growth and sustainability of SBEs in the zone.

Socio-cultural Factors: Socio-cultural environment deals with the way of life of our people in terms of the norms, belief, custom, attitude and religion that are exhibited in the society (Adeyoriju & Agbadudu 2018). There is no doubt that the socio-cultural values of the society towards small business enterprises will determine their survival rate. Nigeria is a culturally diverse country with various languages, traditions and consumers preferences. Understanding and catering to these socio-cultural factors is crucial for small businesses to effectively market their products or services. Failure to do so may result in low customer interest or inability to meet the specific needs and preferences of the target market. Ajayi, (2021) maintains

that socio-cultural environment in relation to businesses can consisting of all the elements of the social system and culture of a people which positively effect and influence business enterprise. In effect, the socio-cultural environment in this paper, refer to social network, beliefs attitudes, behaviors and values of the society

Empirical Review

Andah and Onana (2021), conducted a study to assess the effect of business environment on performance of selected SMEs in North East Nigeria due to the problem of poor SMEs performance in the region. The population of the study was all SMEs in North East Nigeria from which a sample of 400 was selected respondents from the states. The study utilized multiple regression technique in analyzing the data collected. The findings showed that socio-cultural environment had an insignificant positive effect on SMEs performance in the region while legal and technological environment had positive and significant effects on SMEs performance in the study area. The study therefore recommends that the SMEs should improve their strategies towards socio-cultural environment, always pay attention to technological advancements and changes and consistently adopt and SMEs should unites into strong unions that can liase with government and its regulatory bodies.

The study was recent and conducted in North East Nigeria, where as the present study scope was North Central Nigeria and two environmental factors such as economic and socio-cultural environmental factors. The present study will therefore contribute to the body of knowledge by providing more recent findings and recommendations regarding the effect of environmental factors and small business failure.

Odhiambo and Obere (2019), examined the effects of exchange rate fluctuations on the performance of small and medium-sized enterprises (SMEs) in Kenya. The study aims to investigate whether variations in exchange rate significantly influence the financial performance and competitiveness of SMEs operating in a developing economy. The population of the study was 1,315 SMEs. The research adopted a quantitative approach (Chi-squared) utilizing secondary data collection instrument from a sample of 170 SMEs in various industries across different region in Kenya. Financial performance indicators such as profitability, liquidity and growth rate are analyzed while exchange rate is obtained from official sources.

However, the study was conducted in Kenya and its findings cannot be generalized to the present Nigeria environment for SMEs particularly in North Central region of the country. The present study will therefore contribute to the body of academy knowledge by providing more recent findings and recommendations regarding the effect of business environmental factors on small business failure in North Central Nigeria. Okeke et al. (2019) looked into how the socio-cultural environment affected the development of a few manufacturing companies in Nigeria. The research design used in the study was descriptive. Four hundred and eight respondents comprising of management and employees of 10 manufacturing companies in Anambra state in Nigeria were sampled. Descriptive and simple regression statistics were used to analyze the data. The study found a statistically significant impact on the firms operations and service delivery from the social norms, attitude, cultural values and belief of the environment in which they operate. Results also showed that management must ensured organizational strategies and approaches are consistent with societal and environmental cultural norms in order for businesses to run effectively.

The study was limited only to the manufacturing firms and thus its present conceptual knowledge gap. Moreover, the study was conducted outside North Central states.

Orogbo et al. (2017) conducted a study to investigate the economic environment of small and medium scale enterprises in Nigeria and explores the implications of economic growth. The study also examined the potential ramifications of the economic environment of and medium-sized enterprises (SMEs) on the overall process of economic development. The research utilized a quantitative methodology, employing secondary data to examine the performance of SMEs, as well as government revenue, tax, exchange rate, interest rate and inflation rate. The ordinary least squares (OLS) method was utilized as the foundation for estimation. The study revealed a significant inverse relationship between the operational outcomes of SMEs

and a number of factors that include exchange rates, inflation rate, interest rates and government revenue. The study fails to explain the scope and sample size of the study and also the geographical coverage.

Mbiti et al. (2015) conducted a study to examine the impact of socio-cultural element on the prosperity of micro and small businesses run by women in Kenya's KituiCounty. In this study, descriptive analysis was used. 390 women owned micro and small enterprises were the target demographic for the research. The women owned enterprises were sampled from the manufacturing, agriculture, commerce, and service segments in KituiCounty. 194 female entrepreneurs were chosen as the sample size for the study. Using proportionate stratified sampling to examine the data, descriptive and inferential statistics were utilized. The success of women owned micro and small enterprises was found to be statistically significant influence by socio-cultural factors. The study was limited to only women of micro and small enterprises in Kenya thus presenting a contextual knowledge gap.

From the above review of empirical examination of studies made in the preceding section indicate that there is vast literature on environmental factors and small businesses, thereby placing this study within the frame work of existing literature. But this study notes that, the results of most of these researchers conducted have not been all conclusive in terms of environmental factors determining SBs failure. The study also found that in Nigeria such research effort on failed SSEs has not yet been made. Therefore, this study aims at investigating environmental factors determining SBUs failure in North Central Nigeria through the study of failed SSEs in order to fill in this gap in the literature.

METHODOLOGY

The study adopted a survey research design and a quantitative approach using a structured questionnaire as its tool for data collection as the adopted data type for the study was the primary data. The population of the study was all SBEs in North Central Nigeria. The total population of the SSEs in the region is 404 according to the ministries of commerce of four states in the North Central Zone (2023). The sample size of 201 was ascertained using the Taro-Yamane formula for sample size determination.

Table 1: Population and Sample Distribution of the Study

State	Population	Percentage (%)	Sample Size
Benue	96		48
Niger	118		58
Nasarawa	81		40
Plataeu	109		54
Total	404		201

Sources: Ministries of Commerce of four states in the North-Central Zone, 2024

Primary data was required for the study and sourced through the use of a structured questionnaire. The Likert five-point scales method was used in designing the questionnaire to measure the variables, which include Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree. The research instrument was tested for reliability. To test the reliability of the instrument, a pilot study was conducted on 19 respondents outside the study area. The instrument of the study was found to be reliable as well as the variables had alpha value above 0.7 as shown below:

Table 2: Reliability Test

Variable	Type	Croabach Alpha
Failure	Dependent	0.801
Economic Environmental Factor	Independent	0.801
Socio-cultural Factor	Independent	0.785
Overall Scale	Average	0.801

Source: Research Computation, 2024

Data obtained for this study were coded and analyzed with the aid of statistical software using descriptive, correlation and ordinal regression techniques. Descriptive statistics were used to ascertain that there were no outliers, correlation analysis was employed to ascertain that there no issues of multicollinearity capable creating bias in the result. The benchmark for assessing multicollinearity was 0.801. Ordinal multiple

regression analysis was applied to examine the effect of the independent variables on the dependent variable, given the ordinal Likert scale primary data used for the study. The following regression model was used.

As stated above the reliability test using the Cronbach's alpha for the study is presented in table 2. The result indicates that items for SBF gives a reliability value of 0.801, items of EOF gives a value of 0.801 while items of SOF give 0.785. On the whole the result shows that the reliability value was within the accepted limit.

Model Specification

$SBF = a + B_1 E + B_2 S + e$

Where:

SBF = Small Business Failure (Dependent Variable)

$B_1 E + e$ = Economic Environmental Factor (Independent Variable)

$B_2 S + e$ = Socio-cultural Environmental Factor (Independent Variable)

e = represent the error margin

i = indicator for cross sectional data type

Measurement of Research Variables

Variables	No. of Items	Measurement
Failure	**5**	All variable measured using five-point Likert Scale
Economic Factor	5	questionnaire items ranging from 1 (strongly disagree)
Socio-cultural Factor	5	To 5 (Strongly Agree)
Total	**15**	

RESULTS AND DISCUSSION

Two hundred and one copies of the returned questionnaire were correctly completed having been self-administered and analyzed as follow.

Table 3: Descriptive Statistics for the Variables

Stats	SBF	B_1E	B_2S
Mean	3.46	3.58	3.08
Minimum	1	1	1
Maximum	5	5	5
Sd	1.10	0.97	1.18
N	201	201	201

Source: Research Computation, 2024

Table 3 above shows the descriptive statistics for all the variables used in this study. The total number of observations for each of the variables is 201. The descriptive statistics show the mean and median values were approximately the same implying that average of the responses for variable was the same. The overall minimum and maximum value were 1 and 5 respectively indicating that minimum response was strongly disagree while the maximum response was strongly agreed. The standard deviation values were 1.10, 0.97 and 1.18. These values indicated that there are no outliers in the data used for the study.

Correlation Matrix

The following describes the correlation exhibited between the independent variables of the study as analyzed and expressed in the table below with a view to assess the likelihood of the presence of multicollinearity problem with the data analyzed.

Table 4: Correlation Analysis of Independent Variables

	EOF	SOF
EOF	1	0.204
SOF	0.213	1

Source: Researcher Computation, 2024

The correlation results indicates that there is no likelihood of multicollinearity problem associated with the data of the study as none of the correlation coefficients between the independent variables displayed any

high relationship close to 1, meaning that all the variables are not repetitive in nature or duplicates of each other.

The study analyzed the responses from the returned questionnaire copies and extracted the regression results as follows after having established that the data was good for further analysis from the preliminary descriptive, correlation and multicollinearity statistical tests.

Table 5: Summary of the regression results

Dependent Variables SBF	Constant	EOF	SOF
Coefficient	0.363	0.208	0.013
P-value	(0.100)	(0.038)	(0.906)
F-value	4.370		
R-value	0.0021		
• Significant at 5% level			

Source: Researcher computation, 2024

The result shows that the regression model is valid and can be used to analyze the independence between variables. The regression coefficient for economic environmental factors and small business failure in this study is 0.208 with a P-value of 0.038. These values indicate that there is sufficient statistical evidence to reject the null hypothesis, therefore the null hypothesis is rejected and the alternative hypothesis is adopted to indicate that the economic factor has a positive and significant effect on SSEs failure in the North Central Nigeria.

The regression coefficient for socio-cultural environmental factor and SBs failure in this study is 0.03 with P-value of 0.906. These indicate that there is no sufficient statistical evidence to reject the null hypothesis. Therefore, the findings indicate that the socio-cultural environmental factor has a positive but insignificant effect on small business failure in North Central Nigeria.

Discussion of Findings

The findings of this study revealed that economic factor have positive and significant effect on small business failure (SBF) in North Central Nigeria. This implies that, high inflationary trends, interest rate, multiple tax system, exchange rate are having a great effect on SB failure in Nigeria. This is in line with the study of Agwa and Emeti (2020), they asserted that economic factors such as government tax, exchange rate, interest rate and inflation rate have significant negative effect on the operation of SSEs.

The study indicated that there is insignificant effect of socio-cultural factors on SBF in North Central Nigeria. This implies that, the ways of life, religions believe and cultural background has insignificant effect on SBs failure in North Central Nigeria. The findings is in agreement with that of Mbiti et al. (2015) and Okeke et al. (2019) among others who revealed that socio-cultural factor have insignificant on the operations of SSEs.

CONCLUSION AND RECOMMENDATIONS

In view of the findings that emerged after data analysis and test of hypotheses, the study concludes that economic environmental factors contribute to the failure of small businesses in North Central Nigeria. Regarding the socio-cultural factors, the result shows that these factors are less important in the SBFs failure. The following recommendations are therefore made in line with the findings and conclusions of the study: the study recommends that in order to reduce SBs failure and to achieved significant positive contribution of SBs sector to the economic development of North Central and Nigeria in general; Government should look into the economic factors that pose unnecessary constraints on businesses in Nigeria. Specifically multiple tax system should be jettisoned; exchange rate stability should be pursued; inflation rate and interest rate should be attended to.

Government should continue to provide more tax incentives to small businesses in order to trigger more employment opportunity by creating jobs within the economy.

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