Economic Policies and Business Performance: A Study of Selected Small-Scale Businesses in Ikom Local Government Area Cross River State Nigeria

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Abstract

The focus of this paper is on company performance and economic policy. The goal of the study is to understand better how lending rates and infrastructure policies affect the performance of small companies in Nigeria's Ikom Cross River State. The objectives of this study are to determine the extent to which interest rate policy has affected the performance of a few selected small enterprises in Nigeria's Ikom Cross River State and to ascertain the extent to which the performance of certain small-scale enterprises in Ikom Cross River State, Nigeria is impacted by infrastructure development policies. The research design used in the study was a survey. The 158 small enterprises that are currently registered and operating in Ikom make up the target group for this study. The sample size was set at 47 using the statistical technique created by Smith (1984). For the study, primary sources of data were employed. Data was collected through a standardised questionnaire. Utilising content validity, the research tool was validated. Test-re-test The Cronbach Alpha test was used to determine reliability. A chi-square statistical tool was employed to test the research hypotheses. The findings revealed that all the tested hypotheses (interest rate and infrastructure development policies have a strong and favourable correlation with business performance x2= 16.653 and 17.295; p < 0.001, 0.022, respectively. The study concluded that it is imperative to know that the ultimate aim of any business organisation is to maximise profit; such organisations must operate under peaceful and favourable economic policies. The study, therefore, recommended that the Government should ensure that the interest rate charges by banks on loans obtained by small-scale businesses are minimal and provide relevant social amenities such as roads and electricity as that will encourage the free flow of goods and services.

Keywords: Economic policy, Business Performance, Interest rate.

Introduction

Small businesses are now completely recognised by governments at all levels – federal, state, municipal, and development experts – as a crucial instrument for economic growth and development in both developed and developing nations (Ihua, 2004).

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In order to determine the policies that will be used to try to stabilise the economy, Gbosi (2002) claims that the economic environment in which businesses operate evaluates the strengths and weaknesses of all small-scale organisations globally. Nigeria's economy must industrialise, promote entrepreneurship, foster job creation, and grow through increasing export commerce, according to the development plan, in order to achieve self-sufficiency (NDP, 1970).

Small and medium-sized businesses (SMEs) were chosen by the federal government as the focus of its participation. The government made the decision to support regional small businesses in order to keep its commitment to the development plan and the indigenisation policy. Small enterprises are increasingly being acknowledged in development planning as a development strategy for attaining fair and sustainable industrial diversification and growth. Small businesses account for more than 50% of Nigeria's GDP and more than 70% of all industrial jobs.

In developed nations like Japan, the United States, and the United Kingdom, SMEs account for more than half of all employment, sales, value contributed, and GDP (Aftab & Rahim, 1989; Odeyemi, 2003; Schnitz, 1982). The government has enacted a number of restrictions over time to safeguard small businesses. Alawe (2004) lists a few pieces of legislation, including the Industrial Promotion Act No. 40 of 1979, the Patient Right and Design Act No. 60 of 1979, the Customs Duties, Dumped and Subsided Goods Act No. 9 of 1959, and the Nigeria Enterprise Promotion Act No. 3 of 1977.

A small firm in Nigeria is any manufacturing process or service sector with a capital of little more than N150,000 in manufacturing and equipment alone, according to the Federal Government's Small Scale Sector Development Plan from 1980. Additionally, the Small-Scale Industries Association of Nigeria (1973) classified small-scale enterprises as those that employed little more than fifty people and had an investment (i.e. capital, land, building, and equipment) of up to N60,000 pre-SAP Value.

According to a study by Beck, Demirgüç-Kunt, and Maksimovic (2005), the financial system and law enforcement are crucial for corporate success. SMEs play a significant role in the development of local and state economic systems. With a majority of import-dependent processes and components, the sector's activity mix is still also fairly constrained. In order to generate enough revenue to help reduce the prevalence of high-level economic conditions in the majority of developing economies, policymakers in developing economies have been urged to step up their efforts to support the growth of the non-public sector, with SMEs serving as the vanguard (Snodgrass & Winkler, 2004). The success of SMEs is constrained by both internal and external variables, such as the environment's carrying capacity, governmental regulations, or competition. According to

Bubou, Siyanbola, Ekperiware, and Gumus (2014), as well as Okpara and Kumbiadis (2008), SMEs must be able to generate the required number of skilled and semi-skilled employment. According to the company's resource-based point of view, it has a competitive advantage because of a variety of resources and assets that are much superior to those of its rivals.

According to surveys, Nigeria has a sizable population of SMEs, which are the main provider of employment prospects for older workers in the nation. For instance, one of the difficulties SMEs in Nigeria encounter that prevents growth is government rules (Bubou et al., 2014). Without access to government support programs, SMEs are limited in their ability to enhance their performance. Studies on SMEs do not adequately capture the performance of small businesses. The performance of SMEs with a history of development has received particular attention in studies (Harvie, Narjoko, & Oum, 2010). Reviewing the limited systematic and empirical studies that have been carried out in Nigeria is essential to understanding how government policies affect how the SME sector operates.

Statement of the Problem

The economic environment of small-scale enterprises has a significant impact on the success or failure of commercial endeavours in a country (Emefiele, 2012). According to Shane (2014), an economy is stable when there is steady economic growth, a moderate level of inflation, a high Gross Domestic Product, and an interest rate that is neither too high nor too low.

One may argue that the aforementioned economic policies draw a number of conclusions concerning the operation of small businesses. In response to changes in economic circumstances, some projected that small businesses would perform badly, while others predicted extremely high-performance responsiveness. However, this demonstrates that these factors have an effect over time on how well small businesses do. The issue of small-scale performance connected to economic variables could be limited to those already postulated or proven by empirical inquiry, given the large variety of potential economic factors that could possibly predict small-scale performance in Nigeria. Small-scale performance in Nigeria is influenced by a number of variables, including the interest rate, currency rate, high inflation rate, government tax revenue, and foreign finance. In Nigeria, the cost of making domestic products has increased per unit owing to high loan rates and currency rates, which has led to an increase in the price of those commodities (inflation), according to the research. As a result, Nigeria's economic unpredictability has historically had a significant negative influence on the performance of small-size businesses. The purpose of the study is to determine how economic policies affect the performance of small businesses in Ikom, Cross River State.

Objectives of the Study

This study's primary goal is to examine how economic policy affects the performance of a few chosen small enterprises in Nigeria's Ikom Cross River State. The study specifically looked for:

i. To determine the extent to which interest rate policy has affected the performance of a few selected small enterprises in Nigeria's Ikom Cross River State.
ii. To ascertain the extent to which the performance of certain small-scale enterprises in Ikom Cross River State, Nigeria, is impacted by infrastructure development policies.

Research Hypotheses

The 5% threshold of significance was used to test the following null hypotheses.

Ho1: In Ikom Cross River State, Nigeria, there is no correlation between interest rate policy and the success of a few selected small companies.
Ho2: In Ikom Cross River State, Nigeria, there is no substantial correlation between the success of several small-scale enterprises and infrastructure development policies.

Literature Review

Conceptual Review

Government Economic Policy

In impoverished nations like Nigeria, necessity typically drives entrepreneurship. According to changes in social and customary norms, the diversity of sectors, and business environments, government policies favouring SMEs vary from industrialised countries to developing economies and from country to country (Naudé, Szirmai, & Goedhuys, 2011). According to Sathe (2006), governmental policies and associated bureaucratic procedures, such as those involved in launching new businesses, may both encourage and hinder entrepreneurship. Government policy may promote and assist the development of new technology, goods, and services. On the other hand, when the government imposes rules that limit entrepreneurial flexibility and autonomy, it may appear that the performance of SME enterprises is being affected. The government made the decision to make the former institution sector sound, stable, honest, trustworthy, and globally competitive in an effort to reduce the failure rate of SMEs. It also made the decision to enhance its capacity to identify SMEs. Governments provide the structures and guidelines that promote competition among many different lines. The infrequent modifications made by the government to these standards and plans will aid SMEs in streamlining their operations. Government policies significantly hinder the performance of SMEs. The open government frequently modifies legislation to reflect its political stances. Because of this, SMEs frequently need to adapt to changes in the legal system. These efforts will have a significant impact on SMEs' ambition, speed, and competitiveness. Radical industry changes, strict regulations, intense competition among rivals (Werner, Brouthers, & Brouthers, 1996); competitive markets, and uncertainty surrounding products (Dess & Beard, 1984); precarious industry settings, oppressive business climates, and the absence of exploitable opportunities (Covin & Slevin, 1989); shifting demand conditions, and radical innovations that can make a company's technological capability obsolete (Zahra & Garvis, 2000); Nevertheless, research demonstrates that the launch of new products has a negative link with ROE (return on equity) in contexts where there is competition (Zahra & Bogner, 2000). Covin & Slevin (1989) found that entrepreneurial tactics seemed to encourage/promote high levels of business success in extremely competitive and hostile environments. Despite these concerns, Zahra (1996) adamantly argued that hostile environments might prevent firms from making large investments in the creation of new technologies because they limit the resources available for innovation and lower profit margins. As a result, the working conditions of SMEs are just as important to their survival as their ability to get funding. The level of business judgment and the discipline of cash management are two additional areas of business management skill that many SMEs struggle with. As a result, the SME growth plan must be comprehensive. Despite the various suggestions that have emerged from the literature, governments still need to make intentional efforts to maintain a market environment that is supportive of the lucrative and successful operations of SMEs (Dandago & Usman, 2011). These recommendations are a reflection of the government's decision to take specific steps to stop predatory pricing, counterfeiting, and the importation of low-quality foreign goods, as well as to reduce corruption, advance social justice, provide market information, upgrade infrastructure, train SMEs, and promote private investment. To have an impact on the range of a maintainable market component, the government might adopt an entrepreneurial role. The success of SMEs is influenced by a number of variables, the majority of which are complicated and unstable.

Economic Policy and Business Performance

Performance is the strategic outcomes an organisation employs to accomplish its objectives, regardless of whether it is successful or not (Barney, 1991; Davidson, 2004; Dess & Robinson, 1984; McMahon, 2001; Ostgaard & Birley, 1995; Sefiani & Bown, 2013). Firm performance activities may be found in a variety of fields (Marr & Schiuma, 2003). Performance is the top priority for every manager or company owner. The efficiency of the company as a whole depends on the correct management at each of the three levels of management (Gibcus & Kemp, 2003). Business performance is used to gauge market-related indications of present operations, such as sales growth and market share, as well as future positioning of the firm, such as new product development and diversification. There are these two dimensions. Financial performance is at the centre of the organisational effectiveness area. Such performance requirements are deemed necessary but insufficient by Murphy, Trailer, and Hill (1996) to evaluate overall efficacy.

Financial success is measured using accounting-based profitability measures such as return on sales (ROS), return on assets (ROA), and return on equity (ROE) (Parker, 2000). Almost often, a company's effectiveness is evaluated in reference to stakeholders outside shareholders. There are indications of quality in two categories: employee satisfaction, general quality, and social duty, including environmental and community responsibility.

It is a challenging topic for management researchers since the term "performance" is ambiguous, there isn't agreement on essential vocabulary, and it's challenging to define and evaluate how well a firm is performing (Jogaratnam, Tse, & Olsen, 1999; Otley, 1999). Rosenbusch, Rauch, and Unger (2007) claim that one important factor in business research is company performance. Growth (Dobbs & Hamilton, 2007; Wolff & Pett, 2006), survival, success, and competitiveness as a multidimensional concept are a few of the adjectives used to describe performance. Performance may be summed up as a company's ability to provide actions and outcomes that are regarded as acceptable. According to Penrose (1995), a company's performance is correlated with how well it has accomplished its objectives. Despite differences in how performance is defined in research, they all concur that it is primarily correlated with numerical success tactics. The performance of other companies, both locally and globally, determines how well SMEs perform. Using performance data, it is possible to determine how well or poorly the firm is performing in accordance with its set objectives. Performance in the fourth dimension is widely used as a gauge of a company's health throughout time. These points to performance as one of the main issues SMEs face.

Monitoring an organisation's performance can reveal its assets and weaknesses. Accurate performance evaluation is essential to understanding business success and failure (Murphy et al., 1996). Both objective and subjective viewpoints have been used to analyse the measurement of company performance. Because of this, there are differing views among academics over which of these firm assessments best evaluates performance. The objectives of assessing company performance are to improve existing performance through the pursuit of new opportunities, whether internal or external, the development of more effective strategies or action plans, the enhancement of overall business performance and capabilities, and the achievement of long-term sustainable growth. As a consequence, this research takes into account both financial and non-financial dimensions of success.

Interest Rate Policy and Business Performance

The government's financial strategy and the interest rates charged by the banks may greatly influence the economy and the business climate (Okojie, 2013). For instance, companies won't want to take out a loan from a bank with a high-interest rate. Unfortunately, because businesses won't have the money to boost their expenditure, this tendency will result in a significant drop in investments. It is essential to remember that the creation of the frameworks and regulations that direct economic activity throughout the nation is mostly the responsibility of the government. Due to the fact that these regulations are not constant and may occasionally change, business owners must modify the way they conduct their operations. Government policies may thus have a considerable influence on the functioning and performance of businesses.

The most crucial element of every nation's economic strategy is still the government's position in the economy. Governments all across the globe started to interfere in the economy more after the Second Globe War by establishing state-run businesses. There are several publicly traded companies in these sectors. However, following 1999, there was a large phase of privatisation as different private investors purchased out the state-owned businesses. Nigeria is not the only country with this pattern. However, in Okojie's (2013) opinion, these private purchases increase competition in the corporate sector.

Another crucial element of economic policy that is greatly influenced by legislative directives is the interest rate (Ocampo & Vos, 2008). In Nigeria, the Monetary Policy Committee, which meets once a month with the main goal of deciding the specific amount of interest to adopt in the nation's economy, is responsible for this duty. It goes without saying that the merchants of the nation would immediately feel the effects of whatever decision they made. For instance, every increase in borrowing rates will cause a corresponding increase in company spending. Additionally, it may significantly reduce consumer purchasing power, which would result in a decline in business sales.

Another element that might have a significant influence on corporate operations is the government's spending objectives (Wallace, 2000). In general, increasing government investment in a particular industry would eventually drive more economic activity in that sector since companies that provide inputs to that industry would see a significant rise in their income. The availability of subsidies for certain commercial activities may also cause the economic activity of a particular industry to increase. There are several common ones, such as implementing tax holidays, offering fuel subsidies, eliminating excise taxes, etc.

Infrastructural Development and Business Performance

There have been many academic studies that have looked at the precise relationship between infrastructure development and economic growth (Ayogu, 2007; Dorosh Wang, You, & Schmidt, 2010; Dorward, Shengen, & Kydd, 2004; Estache Foster, & Woden, 2002; Estache & Vaglisaindi, 2007; Khander & Koolwall 2010; Krishna & Shariff, 2011). The findings of this study suggest that substantial infrastructure improvement may lower poverty, increase productivity, and promote economic growth. As an illustration, 2011 empirical research by Onyeiwu and Liu found that raising the proportion of Bangladeshi houses with access to electricity and paved roads by only 1% would raise per capita income overall by 33% and 0.8%, respectively. This result gives some indications of the potential consequences of a major increase in infrastructure in Nigeria's economic sector. There will surely be serious impacts because Nigeria has one of the lowest cost recovery and operational efficiency in all of sub-Saharan Africa. A 2011 World Bank research found that at a cost to society of up to 3.7% of GDP, the nation's present electrical production only just meets 50% of Nigeria's power requirements. In addition, years of poor management and neglect have badly harmed Nigeria's road network, leaving the country's transportation sector in terrible health (World Bank, 2011). Even the traditionally risky aviation industry is not exempt from this. Inadequate transportation infrastructure substantially restricts the expansion of SMEs in Nigeria, just like it does in the majority of other African nations (Bryceson, Mbara, & Maunder 2003). This deficiency caused Igwe (2016) to emphasise that considerably increasing public infrastructure is a fantastic method to increase the competitiveness, profitability, and productivity of SMEs. He recommended that the Nigerian government construct additional energy facilities, hospitals, schools, roads, etc., as a result of his research.

Theoretical Framework

The contingency theory will serve as the study's foundation.

In 1964, Fred Edward Fiedlerin developed the contingency hypothesis. A competitive advantage can potentially be created by various resource types that SMEs own and manage, which eventually leads to greater business performance in accordance with the company's resource-based viewpoint. The resource-based point of view contends that different economic activities in different environments necessitate different government regulations. In a competitive economy, SMEs must do research and utilise society's knowledge resources to enhance their organisational performance. How well SMEs run may be impacted by the choice of governmental policy implemented. Government policies frequently benefit businesses that generate large quantities of goods. This study seeks to understand how government economic policy-related elements affect the performance of small enterprises.

Empirical Review

Essien (2011) investigated the impact of governmental policies on the expansion and survival of small and medium-sized firms in Lagos State, Nigeria. A questionnaire was employed in the study to collect information from 211 small company managers and owners who were located in certain Nigerian cities. A straightforward random sample method was applied to choose the respondents. Simple percentages were utilised in the study's data analysis, and correlation was performed to evaluate its premises. According to the survey's findings, the biggest obstacles to the expansion and survival of small businesses in Nigeria include poor management, corruption, a lack of knowledge and training, poor infrastructure, a lack of profitability, and a weak market for products and services.

Zindiye, Chiliya, and Masocha (2012) looked into how assistance from the government and other institutions affected the performance of Small and Medium Enterprises (SMEs) in Harare, Zimbabwe's manufacturing sector. 609 SMEs made up the survey's target population, and 241 of those companies' owners or managers took part in the study as a sample. Using the Chi-square test, relationships in the data were looked for. The findings demonstrate that, despite the current economic situation, SMEs are prospering due to the government and other organisations. The research's findings indicate that the duty drawback system and talent development are the two most crucial measures for the growth of SMEs in Harare, Zimbabwe's manufacturing sector.

The effect of the tax system on the expansion of Small and Medium Enterprises (SMEs) in Shinyanga Municipality was studied by Mungaya, Mbwambo, and Tripathi in 2012. One hundred twenty managers and executive officers from the chosen SMEs in Tanzania's Shinyanga Municipality made up the study's sample. A questionnaire and an interview with the chosen respondents were used to conduct the survey. The descriptive analysis approach was used to investigate the data, and the results were given as percentages and frequencies. According to the findings, the majority of respondents believe that the nation's current tax laws hinder the expansion of SMEs. They thus call for a reform to the tax code.

Methodology

The study used a survey research methodology. Survey research is one in which a group of people or things is researched by gathering and analysing data from just a small number of individuals or objects assumed to be representative of the full group, according to Ekott & Nseyen (2006).

Method of Data Collection

Owners of 158 registered small businesses, including hotels (30), supermarkets (96), and manufacturing companies (32) in the area, who are in charge of running day-to-day operations and are therefore qualified to provide the necessary information, make up the study's population.

The sample size for this investigation is determined using the Smith (1984) method. The purpose of using Smith's (1984) sample size calculation is to provide each and every one of the chosen SMEs with an even distribution that would be consistent with the sampling method.

Out of the whole population, a sample of 47 respondents was selected, and generalisations were drawn from their responses. The study's data came from original sources.

Validity and Reliability of The Instrument

A test and measurement expert reviewed the questionnaire items as part of the study's content validity procedure to ensure they were relevant to the research project.

The test-retest approach was utilised to test the reliability of a research instrument, and the questionnaires were sent to the respondents who weren't part of the sample. We compared their answers to the first and second surveys. Because the results were over the 0.7 cut-off threshold recommended in the literature for reliable instruments, the dependability result demonstrates that the study's instrument was valid. Cronbach's Alpha yields the following results: infrastructure (0.826) and interest rate (0.843). This indicates that the instrument was reliable enough for this study.

Hypotheses Testing

Hypothesis 1

The formulation and testing of hypothesis one, expressed in null form, was done in order to meet the study's stated goals.

Ho1: In Ikom Cross River State, Nigeria, there is no substantial correlation between the success of selected small businesses and interest rate policy. We used SPSS to do a Chi-square statistical test on this claim in order to test it. The result of the analysis is presented in Table 1 below:

Table 1: Chi-square Analysis

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.653a	5	.001
Likelihood Ratio		5	.031
Linear-by-Linear	16.482	1	.069
Association	.325		
N of Valid Cases	42		

Researcher's Computation using SPSS 20

Result: X2 cal = 16.653, X2 tab = 12.592

Decision Rule: If X2 computed is more than X2 tabulated, reject the null hypothesis (Ho) and accept the null hypothesis (H0) if X2 calculated is less than X2 tabulated.

Decision: From the SPSS result as shown above in table 1.1, X^2 calculated is 16.653 at a 5% level of significance, and X^2 tabulated at a degree of freedom of 5 and a 95% confidence level is given as 12.592. We reject the null hypothesis. Hence, we conclude by saying that there is a significant relationship between interest rate policy and the performance of selected small-scale businesses in Ikom Cross River State, Nigeria.

Hypothesis 2

To achieve the stated objectives of this study, hypothesis two, stated in null form, was formulated and tested.

H_{o2}: Infrastructure development policy does not have a significant relationship with the performance of selected small-scale businesses in Ikom Cross River State, Nigeria. To test this hypothesis, we subjected it to a chi-square test through the use of a Statistical Package for Social Science (SPSS). The result of the analysis is presented in Table 2 below.

Table 2: Chi-square Analysis

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.295a	5	.022
Likelihood Ratio	16.482	5	.383
Linear-by-Linear Association	.383	1	.066
N of Valid Cases	42		

Researcher's Computation using SPSS 20

Result: X^2 cal = 17.295, X^2 tab = 12.592

Decision Rule: If X^2 computed is more than X^2 tabulated, reject the null hypothesis (Ho) and accept the null hypothesis (H0) if X^2 calculated is less than X^2 tabulated.

Decision: From the SPSS result as shown above in table 4.14, X^2 calculated is 17.295 at a 5% level of significance, and X^2 tabulated at a degree of freedom of 5 and a 95% confidence level is given as 12.592. We reject the null hypothesis; hence, we conclude by saying that infrastructure development policy has a significant relationship with the performance of selected small-scale businesses in Ikom Cross River State, Nigeria.

Discussion of Findings

Interest Rate Policy and Business Performance

There is a significant relationship between interest rate policy and the performance of selected small-scale businesses in Ikom Cross River State, Nigeria**.** The finding is in line with Okojie (2013), who conducted a study on policy space for capital control and macroeconomic stability: Lessons from emerging economies. The paper demonstrates a significant relationship between interest rate policy and business performance. The study concluded that the government's financial policy and banks' interest rates have considerable effects on the economy as well as the business environment. For instance, if the bank's lending rate is high, then businesses will be discouraged to borrow from the financial institution.

Infrastructure Development and Business Performance

Infrastructure development policy has a significant relationship with the performance of selected small-scale businesses in Ikom Cross River State, Nigeria. The findings are in line with Essien (2011), who examined the effect of government policies on the growth and survival of small and medium-scale businesses in Lagos State, Nigeria. The study used a survey method, and a questionnaire was used to gather data from 211 small business owners and managers located in selected cities in Nigeria. According to this research, the responses indicate that most of the respondents agreed that government infrastructure policy has a significant influence on business performance. The study concluded that the most common factors affecting the growth and survival of small businesses in Nigeria include lack of financial support, poor management, corruption, lack of training and experience, poor infrastructure, insufficient profits, and low demand for products and services.

Conclusion and Recommendations

According to the study's findings, government economic policy significantly affects the expansion and survival of small enterprises in Ikom. Government interest rates and infrastructure development policies have been shown to have a big impact on how well businesses function. Knowing that any corporate organisation's primary goal is to maximise profit is crucial; for such an organisation to function, peaceful and advantageous economic policies must be followed.

Following the study's findings, the researcher provided the following recommendations:

a. The government should make sure that banks only charge a modest interest rate on loans taken out by small enterprises. The conclusion is that low-interest rates encourage more company owners to apply for loans, which will help those businesses develop and expand.

b. The government needs to provide enough funding for several important social facilities, such as roads and power. The assumption is that innovators will move to a region where there is a steady source of electricity. Additionally, easy access to roads will promote the free flow of products and services.

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