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INSTITUTIONAL ENVIRONMENT AND SMALL AND MEDIUM ENTERPRISES (SMEs) DEVELOPMENT IN NIGERIA

Vincent EDEWHOR

*Department of Business Administration
University of Benin*

&

Harrison Ogbeide EROMOSELE

*Department of Economics and Development Studies
Federal University Otuoke, Bayelsa State*

ABSTRACT

This study examines the possible influence institutional environment has over small and medium enterprises development in Nigeria. Five variables are identified as proxies for institutional environment in the study, namely: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNIEV). They all serve as regressors, as they are regressed against small and medium enterprises development (SMEDEV), the dependent variable through the use of the ordinary least squares technique. Prior to the OLS estimation, diagnostic tests are conducted using Augmented Dick Fuller Unit Root Test, Error Correction Model and Co-integration. The nature of data collection is in time series, all sourced from United Nations Development Program (UNDP), Global Entrepreneurship Monitor Data base, Institutional Governance Indicators data base in World Bank and Corporate Affairs Commission, (CAC) Abuja Nigeria. The study concludes that except regulatory and legal institutions in Nigeria, other dimensions of institutional environment have not effectively stimulated SMEs development in Nigeria rather have retarded the formation of SMEs in Nigeria. The study recommends that policy makers should effectively channel their effort towards enhancing the quality of legal environment, and the quality of regulatory environment. The negative effect of weak quality of political institutional environment in Nigeria can be mitigated if government of Nigeria intensifies efforts in building strong and stable political environment. Government of Nigeria should reform the cognitive institutions through revamping of educational system (primary, secondary, and tertiary education) as center of innovation where people can gain valuable knowledge and skills to engage themselves in entrepreneurial ventures. Government of Nigeria should be sincere and committed in promoting moral, ethical and positive cultural norm in the country to mitigate the negative effect of weak normative institutional environment on SMEs development in Nigeria.

INTRODUCTION

The importance of Small and medium enterprises (SMEs) to the economic development of a country is easily noticeable in employment generation, wealth creation, bridging income disparity gap, harnessing local resources and stimulating forward integration with large-scale industries among others. SMEs occupy a central place as catalysts that stimulate indigenous entrepreneurship and local technology needed to accelerate economic growth and harness their contribution to Gross Domestic Product (GDP) of a country. A vibrant SMEs sector creates veritable platform for entrepreneurial competitiveness, creativity, industrialization and diversification which are necessary for achieving inclusive economic growth. Through SMEs development, large firms do not only have access to extensive local resources with resultant effects on tax revenue but also can develop new customer base that may not be accessible to their traditional distribution networks (Adesanya, 2015).

Despite the above strategic importance of SMEs to the economic development of the country, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN 2016), documented that many SMEs in Nigeria lack the capacity to create quality jobs though they make up the largest business sector in Nigeria like every other world economy. They reported that the future of most SMEs in Nigeria remains uncertain and bleak with high failure rate which is attributed to high production costs and low productivity occasioned by inadequate entrepreneurial skills, manpower development, frequent power outages, poor transport system, poor finances, road infrastructure, tax administration, and corruption. These challenges facing SMEs tend to be mainly the products of broadened institutional environments (Babatope & Akintunde, 2010).

Institutional Environment is the set of fundamental, political, regulatory, social and legal ground rules that establish the basis for production, trade, exchange, distribution and human interaction (North, 1990). The theory of institutional environment developed by North (1990) indicates that rules derived from formal institutions like Courts and regulatory agencies and informal codes of conduct, cultural practices, belief, values and conventions, set market rules, structure interactions among economic actors. Therefore, compliance to the rules may serve not only to protect firms or individuals (SMEs) from formal economic penalties, but also to create legitimacy which serves to advance the firms current and future performances. These rules direct the behavior of organizations because the rules determine the choices that individuals and organizations make which in turn shape performance of societies, businesses and economies over time. Extending the theory, the new institutional theory identified five key dimensions of institutional environment: regulatory, cognitive, normative, legal and political which the actions or behavior of organizations are embedded in (Busenitz, Gomez Spencer, 2000).

While these initiatives serve as mechanisms through which business environment is developed, structured and strengthened, evidence has shown that the business environment in Nigeria remain hostile, weak, and unfriendly (SMEDAN, 2016). This is reflected in the fact that SMEs in Nigeria generate less than 20% to Gross Domestic Product (GDP) and 30% of total employment, thus indicating that percentage of those gainfully employed in the SMEs sector is quite low when compared with those in developed countries, which accounted for over 80% of the total industrial labor force in Japan, 95% in Germany and 79% in United States of America (USA), 87% in Sweden and 65% of global

employment. SMEDAN, (2016) documents that many SMEs in Nigeria lack the capacity to create quality jobs though they make up the largest business sector in Nigeria like every other world economy. They reported that the future of most SMEs in Nigeria remains uncertain and bleak as over 30% of SMEs surveyed have completely closed, 20% have temporarily halted operations, 40% were ailing or not viable and only 10% were operating at a sustainable level. They attributed the high failure rate of SMEs to high production costs and low productivity occasioned by inadequate entrepreneurial skills, manpower development, frequent power outages, poor transport system, poor finances, road infrastructure, tax administration, and corruption. There is therefore the need to ascertain the impact of institutional environment on the development of Small and Medium Enterprises in Nigeria and this study fills this gap.

This paper seeks to fill the gap in existing literature by specifically investigating the relationship between the institutional environment and small and medium size enterprises development in Nigeria. The paper is structured into five broad sections. Section one is the introduction. Section two focuses on conceptual and empirical literature review while section three discusses the methodology. Section four presents the empirical analyses and section five concludes with recommendations based on the findings.

LITERATURE REVIEW

Small and Medium Scale Enterprises (SMEs)

Small and Medium Enterprises (SMEs) have been defined using qualitative approach. The qualitative approach posits SMEs as business enterprises in which “unity of the leadership and capital” of the business also refer to as “manager and the owner” are the same (Foghani, Mahadi & Omar, 2017). With this definition, it has been suggested that agency problems are usually limited in SMEs unlike in the large organizations whose management is usually contracted out. In addition, the structure of SMEs is usually organic, lack standardized and formal working relation and based on a flat company structure with limited employees training and development when compared to large organizations that are characterized with bureaucratic, large number of employees, massive investment in employees training and development, vertical structure, and formal working relations.

Institutional environment also labeled as institution has historically been defined by several economic and sociological institutional theorists. Though its definition still lack unanimity, the earlier prominent definitions of institution saw it as habits of thought of the generality of men (Veblen, 1914); organized systems of cultural beliefs, norms and values common to most individuals in a society which give rise to socially structured interests, which organize incentives for and constrain the strategic choices of individuals (Veblen, 1919).

Spencer (2016) examined the relationship between national institutional structures and domestic entrepreneurial activity in Europe, U.S.A, and Japan. It tested the relationship between regulatory, cognitive, and normative dimensions of a country's institutional environment and domestic entrepreneurial activity within 11 European countries, the U.S.A. and Japan. The study measures three types of entrepreneurship, ranging from basic self-employment activities, to more complex activities required for small business development, to advanced activities reflected in the listing of new firms on a country's stock exchange. The data collected through the administrations of questionnaire (survey method) was tested with regression statistics and suggest four primary results. First, the normative dimension,

reflecting a society's level of admiration of entrepreneurs, predicted more basic entrepreneurial activities such as self-employment rates, but did not predict more advanced types of entrepreneurship. Second, the cognitive dimension, reflecting residents' knowledge and skill base, predicted the prevalence of small firms. Third, the regulatory dimension, reflecting government policies toward entrepreneurship, was negatively associated with more basic self-employment activities, but marginally associated with advanced entrepreneurship. Finally, per capita GDP predicted more basic forms of entrepreneurship, with poorer countries showing higher rates of self-employment and small business development, but did not associate with advanced entrepreneurship.

Using corrections and estimation of marginal means statistics, Wood and Bylund (2016) found that when pricing power was nominal (i.e. low), entrepreneurs' average rating for attractiveness of the opportunity was 3.87 and when it was significantly high the average rating of attractiveness of opportunity was 4.75. This indicates that as pricing power increases, entrepreneurs rate the opportunity as significantly more attractive. The study further revealed that when use fees were low, entrepreneurs rated the attractiveness of the opportunity at an average of 4.82 and when they were high the average rating dropped to 3.86. This also showed a negative and significant relationship between levels of reporting requirements and opportunity attractiveness. Eunni (2016) empirically validated an instrument developed by Busenitz, Gomez, and Spencer (2000) in the context of western industrialized countries for measuring country institutional profiles for the promotion of entrepreneurship in two leading emerging economies in Latin America: Brazil and Mexico. The study applied the instrument to assess which national context is more favorable for entrepreneurship. Confirmatory factor analysis was performed on the country institutional profile measure, revealed high reliability, internal consistency, and construct validity of the instrument. They employed structural equations modeling and found significant differences in two of the three dimensions of the institutional profiles between these two emerging economies as Mexico ranks higher than Brazil both in regulatory and cognitive dimensions as well as in the overall institutional profile. This reflects their idiosyncratic cultural norms and values, traditions, and institutional heritage in promoting entrepreneurship.

Eunni and Manolova (2016) compared the impact of institutional context on entrepreneurship among nine emerging economies across three global regions: Central and Eastern Europe (Bulgaria, Hungary, Latvia, and Russia), Asia (China, India, and the Republic of Korea), and Latin America (Brazil and Mexico). The study followed instrument developed by Busenitz et al. (2000) for industrialized countries but validated in the context of emerging markets by Manolova et al. (2008) to examined the influence of institutional environments (the regulatory, cognitive, and normative dimensions of the institutional environment) on new venture creation in Nine (9) countries. The study sampled 918 university students (155 from Brazil, 80 from Mexico, 136 from Bulgaria, 64 from Hungary, 54 from Latvia, 143 from Russia, 62 from China, 130 from India, and 94 from South Korea). Using analysis of variance (ANOVA) across the three regional samples, they found significant differences across the three regions in their overall institutional profiles, as well as along the three underlying dimensions: regulatory, cognitive, and normative.

The study specifically found that institutional environment in Asia was most favorable for the promotion of entrepreneurship, followed by CEE and Latin America. Asia also leads the remaining two regions in all three individual dimensions of the institutional environment

(regulatory dimension, cognitive dimension and normative dimension. The study further investigates the differences in student's perceptions within each of the three global regions and found that institutional environment for the development of entrepreneurship and the three dimensions of institutional environment in Mexico were perceived as more favorable compared to Brazil as there were no significant differences in the perceived favorability of the normative pillar of the institutional environment between the two countries. The study however found that in Central and Eastern Europe, there is a significant difference across the four CEE countries in terms of the entrepreneurship, overall institutional environment, the regulatory, the cognitive dimensions except in normative pillar of institutional environment. Interestingly, the study found that Latvia emerged as the country with the most conducive institutional environment for the promotion of entrepreneurship overall, while Hungary was ranked the highest along the regulatory dimension, and Russia was placed at the top along the cognitive dimension. Furthermore, the study observed significant differences across the Asian three economies in the perceptions of the overall institutional environment for entrepreneurship, cognitive institutional environment, normative except perceived favorability of the regulatory environment. The study rank China as the Asian country with the most favorable institutional environment for entrepreneurship overall as well as the country with the most conducive cognitive environment. India emerged at the top along the regulatory and normative dimensions. The institutional environment for entrepreneurship in South Korea was consistently ranked as the least favorable for entrepreneurship among the three Asian economies.

Van-Dut (2015) examined the effects of local business environments on SMEs' performance in the Mekong Delta (MD), Vietnam between the observations periods of 2011–2012. The study measured SME's performance with the ratio of the SME's profit to revenue in percentage using subjective scale. Local business environments were gauged with favourable treatment of SMEs, promotion policy for SMEs, quality of local labour force and bribery (money pay to government officials to obtain business contracts with the government, to obtain permissions from the government more easily, or to lower the legal costs paid to the government such as tariff costs and other fees). Using fixed-effects model-least squares dummy variable approach to test the data collected from managers of 63 SMEs out of 150 SMEs in provinces/cities of the Mekong Delta through interviews and questionnaires, the study revealed that favorable treatment of state-owned companies negatively associated with SMEs' firm performance, and private firm promotion policy is positively associated with SMEs' performance. There is a positive and significant relationship between labour availability and SMEs' performance, and bribery has a positive significant effect on SMEs' performance.

METHODOLOGY

Research Design

This study adopts longitudinal research design. This is based on the premise that the variables under consideration have already occurred or are historical in nature and are therefore inherently non-manipulable. In this regard, secondary data covering the period of 1996 to 2016 were analysed to explain the empirical relationships between institutional environments and the development of SMEs in Nigeria. We have chosen this period because the data on the dimensions of institutional environments were readily available at this period. The data for were sourced from reports and documentations of the United Nations

Development Programme (UNDP), Enterprise Survey unit of the World Bank and Corporate Affairs Commission, Abuja.

Population of the Study

The study adopts aggregate data on the institutional environments and the development of SMEs in Nigeria. The total aggregate number of the registered SMEs in Nigeria between 1996 to 2016 represents the population of the study. This is justified as the data used are aggregate of the parameters of SMEs and institutional environment peculiar to Nigeria. The period is long enough to cater for the loss of degree of freedom.

Model Specification

The model specified in this study followed the theoretical and empirical reviews provided in chapter two. It specifically modified the model of Zmuda (2016) who stated that SMEs development evolves from a vector of institutional environments (regulatory institution, rule of law, political stability, control of corruptions, accountability and government effectiveness). Though Zmuda (2016) proxy SMEs development with invention activity gauged by application of patent right, this study will proxy SMEs development with the number of yearly established SMEs in Nigeria. In this regard, this will have two models with general form of the model specified as:

$$SMEDEV_t = \beta_0 + \beta_1 \sum_{t=1}^n \Delta NORMINEV_{t-1} + \beta_2 \sum_{t=1}^n \Delta POLINEV_{t-1} + \beta_3 \sum_{t=1}^n \Delta REGUINEV_{t-1} + \beta_4 \sum_{t=1}^n \Delta LEGALINEV_{t-1} + \beta_5 \sum_{t=1}^n \Delta COGNINEV_{t-1} + U_t$$

SMEDEV= Small and Mediums Enterprises Development proxy by number of yearly established SMEs in Nigeria.

LEGALINEV = legal institutional environment

NORMINEV = normative institutional environment

REGUINEV = regulatory institutional environment

POLINEV = political institutional environment

COGNINEV = cognitive institutional environment

U_t = represents Stochastic Disturbance or error term

β₀ = represents the general intercept of the equation

β₁ – β₅ = the parameter estimates or coefficients of variables to be estimated.

t respective variables at time

Ecm(–1) = error correction term

Our apriori expectations in both models are that **β₁, β₂, β₃, β₄, β₅ > 0**. This means that SMEDEV which is the dependent variable of this study as decomposed into number of yearly established SMEs will positively be related to LEGALINEV, NORMINEV, REGUINEV, POLINEV, and COGNINEV. The coefficients **β₀, β₁, β₂, β₃, β₄, & β₅** are the parameters of the model. They describe the directions and strengths of the relationship between SMEDEV (number of yearly established SMEs and the explanatory variables, while the **U_t** represents stochastic error term or random residual term which captures other factors that may cause variations in the dependent variable (SMEDEV) but not included in the model.

Data Presentation, Analyses and Interpretation

The section details on the preliminary analyses which include: Augmented Dickey-Fuller (ADF) Unit Roots Test. The second section captures the testing of formulated hypotheses using econometrics statistical tools - E-Views 8.0. It specifically employed Ordinary Least Squares (OLS) and Error Correction Modeling tests to establish the relationship between the institutional environment and SMEs Development (SMEDEV) in Nigeria. The last section concludes with the discussion of findings and their policy implications.

Preliminary Analyses of Data

Unit Roots Test of the Variables

Augmented Dickey-Fuller (ADF) was employed in testing the unit root of the time series properties of the data on SMEs Development (SMEDEV), normative institutional environment (NORMIEV), political institutional environment (POLINEV), and regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV). The unit root test was evaluated using the Augmented Dickey-Fuller (ADF) at one percent level of significance enables us to check or detect the stationary of the time series data at a level, first order difference and second order differences. The data is said to be stationary or have unit root when the result of the test statistics (Augmented Dickey-Fuller (ADF) is greater than the critical value, and if it is the reverse, it is non stationary. The results of the unit root test at a level, first, and second order differences are presented in Table 1 below.

Table 1: Unit root test results

Augmented Dickey-Fuller(ADF) Test				
Variable	ADF Test Statistics	Test of Critical Values at 1%	Order	Remark
SMEDEV	-1.087126	-3.808546	Level (1[0])	Not Stationary
	-4.065167*	-3.831511	1 st Diff (1[1])	Stationary
	-5.855400*	-3.857386	2 nd Diff (1[2])	Stationary
NORMIEV	-3.160220	-4.616209	Level (1[0])	Not Stationary
	-8.960969*	-4.532598-4.616209	1 st Diff (1[1])	Stationary
	-5.076783*		2 nd Diff (1[2])	Stationary
POLINEV	-0.165032	-4.667883	Level (1[0])	Not Stationary
	-6.318773*	-4.667883	1 st Diff (1[1])	Stationary
	-8.494091*	-4.616209	2 nd Diff (1[2])	Stationary
REGUINEV	-6.230101*	-4.498307	Level (1[0])	Stationary
	-14.35246*	-4.532598	1 st Diff (1[1])	Stationary
	-7.543960*	-4.616209	2 nd Diff (1[2])	Stationary
LEGALIEV	-3.601434	-4.667883	Level (1[0])	Not Stationary

	-13.95757*	-4.532598	1 st Diff (1[1])	Stationary
	-18.37511*	-4.571559	2 nd Diff (1[2])	Stationary
COGNNIEV	-1.822906	-4.498307	Level (1[0])	Not Stationary
	-5.129583*	-4.532598	1 st Diff (1[1])	Stationary
	-4.743115*	-4.616209	2 nd Diff (1[2])	Stationary

NB: * represents significance at 1%.

Source: Extracted from E-view 8.0 Output (Author's Computation, 2018)

At a level, the ADF test statistics for SMEs Development (SMEDEV) is -1.087126 with critical value of 3.808546. At first order differencing, the ADF test is -4.065167 with critical value of -3.831511 while at the second order differencing the ADF test is -5.855400 with critical value of 3.857386. These results showed that ADF test-statistics for SMEs Development (SMEDEV) at a level is less than its critical values while ADF at first order and second order differencing are greater their respective critical values. These showed that data on SMEs Development (SMEDEV) are stationary at first (1(1)) and second order 1(2) differencing at 1% significance level. The results indicate absence of a unit root in the variable at first (1(1)) and second order 1(2) differencing.

Normative institutional environment (NORMIEV) has an ADF statistics of -3.160220, 8.960969 and -5.076783 at level (1[0]), first order (1(1)) and second order (1(2)) differencing respectively. The ADF test-statistics on NORMIEV at first (1[1]) and second order (1[2])) differencing are higher than their critical value of 4.532598 and 4.616209 respectively while the ADF test-statistics on NORMIEV is lower than its critical value of -4.616209 at 1% level of significance. These results imply that data on NORMIEV are stationary or integrated at first Level (1[1]) and second order (1(2)) differencing at 1% level of significance. They indicated absence of a unit root in the variable at first Level (1(1)) and second order (1(2)) differencing at 1% level of significance.

For political institutional environment, ADF statistics are -0.165032, -6.318773 and -8.494091 at level (1[0]), first order (1(1)) and second order (1(2)) differencing respectively with critical values of -4.667883, -4.667883 and -4.616209 respectively. These results showed that ADF tests at first (1(1)) and second order 1(2) differencing are greater than their critical values of 4.667883 and -4.616209 respectively, suggesting that data on POLINEV are stationary at first (1(1)) and second order 1(2) differencing but not stationary at levels at 1% significance. They indicate absence of a unit root in the variable at first Level (1(1)) and second order (1(2)) differencing at 1% level of significance.

Table 1 also showed ADF test and their critical values for regulatory institutional environment (REGUINEV). It showed that regulatory institutional environment (REGUINEV) has an ADF statistics of -6.230101, -14.35246 and -7.543960 at level (1(0)), first order (1(1)) and second order (1(2)) differencing respectively. These ADF test-statistics at the three levels are all greater than their critical value of -4.498307, -4.532598, and -4.616209 respectively at 1% level of significance. The results imply that data on NORMIEV are stationary or integrated at a level (1(0)), first level (1(1)), and second order (1(2)) differencing at 1% level of significance. They indicate absence of a unit root in the variable at the three levels.

At a level, the ADF test for legal institutional environment (LEGALIEV) is -3.601434 with critical value of -4.667883. At first order differencing, the ADF test is -13.95757 with critical value of -4.532598 while at the second order difference the ADF test is -18.37511 with critical value of -4.571559. These results showed that ADF test-statistics at a level is lesser than its critical values while ADF at first order and second order differencing are greater their respective critical values. These showed that data on (LEGALIEV) are stationary at first (1(1) and second order 1(2) differencing at 1% significance level. The results indicate absence of a unit root in the variable at first (1(1) and second order 1(2) differencing.

ADF test for cognitive institutional environment (COGNNIEV) at a level is -1.822906 which is lesser than its critical value of -4.498307. At first and second order differencing the ADF tests are -5.129583 and -4.743115, which are greater than their respective critical values of -4.532598 and -4.616209. These results signify that data on institutional environment (COGNNIEV) are stationary at first (1(1) and second order 1(2) differencing at 1% significance level. The results indicate absence of a unit root in the variable at first (1(1)) and second order 1(2) differencing. Since all the data on both the dependent and explanatory variables are stationary and integrated at first order differences, that is I (1), we therefore stick to these ADF test statistics in conducting and testing our formulated hypotheses using ECM and OLS.

Co-integration Results

Table 2: Engle and Granger Co-integration test

Variable	t-Statistic	Critical Values at 1%	Order	Remark
RESID (ECM)	-3.345261	-3.808546	Level (1[0])	Not Stationary
	-6.545441	-3.857386	1 st Diff (1[1])	Stationary
	-10.03119	-3.886751	2 nd Diff (1[2])	Stationary
*stationary at 1% level of significance				

Source: Extracted from E-view 8.0 Output (Author's Computation, 2018)

The Engle and Granger (1987) two stage co-integration techniques result in Table 2, depicts that the residuals from the regression result are stationary at 1% level of significance at first and second orders but not significant at a level. This means that all the explanatory variables are co-integrated with SMEs development in Nigeria at first and second order differencing but not integrated to SMEs development at a level over the periods under consideration. In order words, there exists a long run stable relationship between the dependent and independent variables when the sample size was adjusted. This finding also reveals that any short run deviation in their relationships would return to equilibrium in the long run after the sample size has been adjusted.

Ordinary least square (OLS) regression results

Ordinary least square (OLS) was performed to explore the long run equilibrium properties and aggregate relationships between the dimensions of institutional environments and SMEs development in Nigeria. It was also conducted to test the long run relationship that exists between SMEs Development (SMEDEV) and normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and

cognitive institutional environment (COGNNIEV). Ordinary least squares (OLS) was also used to test our hypotheses and verify the results of ECM test. The results are shown in Tables 3.

Table 3

Dependent Variable: SMEDEV

Method: Least Squares

Date: 02/06/18 Time: 12:28

Sample: 1 21

Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.386032	0.282906	11.96877	0.0000
NORMIEV	-0.008927	0.003844	-2.322308	0.0347
POLINEV	-0.006794	0.002773	-2.449758	0.0271
REGUINEV	0.007179	0.002864	2.506372	0.0242
LEGALIEV	0.006062	0.005096	1.189565	0.2527
COGNNIEV	-3.472766	0.515755	-6.733364	0.0000
R-squared	0.876782	Mean dependent var	1.380952	
Adjusted R-squared	0.835709	S.D. dependent var	0.128915	
S.E. of regression	0.052253	Akaike info criterion	-2.830490	
Sum squared resid	0.040955	Schwarz criterion	-2.532055	
Log likelihood	35.72015	Hannan-Quinn criter.	-2.765722	
F-statistic	21.34709	Durbin-Watson stat	1.596647	
Prob(F-statistic)	0.000002			

The OLS test result shows that when the independent variables: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV) were regressed on SMEs Development (SMEDEV), a coefficient of determination (R^2) value of 0.876782 was obtained. The R^2 value of 0.876782 obtained in the OLS is the strength of the model. It suggests that the independent variables, which include: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV) jointly explain 88% of the variation in the dependent variable (SMEs Development (SMEDEV)) while other factors or elements not included in this regression model, but taken care of by the error terms accounted for 12% explanation of SMEs Development (SMEDEV). After the model has been adjusted for the degree of freedom, The R-squared value of 0.835709 was obtained. This value indicates the dimensions of institutional environment which together explained approximately 83% of systematic variations in SMEs Development (SMEDEV) after the elements in the model have been adjusted to a degree of freedom.

The OLS test also show that the dimensions of institutional environment: Normative institutional environment (NORMIEV), Political institutional environment (POLINEV), Regulatory institutional environment (REGUINEV), Legal institutional environment (LEGALIEV), and Cognitive institutional environment (COGNNIEV) when grouped together has F-statistic of 21.34709 at Prob (F-statistic) value of 0.000002 which is less than 1%, 5% and 10% level of significance respectively. In a nutshell, this means that there exists a significant linear relationship between institutional environment and SMEs Development in Nigeria at 1%, 5% and 10% level of significance.

The OLS results also confirm the significant relationship between individual dimensions of institutional environment and SMEs Development in Nigeria. The results showed that the dimensions of institutional environment except Legal institutional environment (LEGALIEV) had P-Values of less than 5% level of significance. The test results show that cognitive institutional environment (COGNNIEV) has t-statistics of -6.733364 at p-value (sig) of 0.0000 which is less than 5% level of significance. The result also showed that political institutional environment (POLINEV) had t-statistics of -2.449758 at p-value (sig) of 0.0271, normative institutional environment (NORMIEV) had t-statistics of -2.322308 at p-value (sig) 0.0347, and regulatory institutional environment (REGUINEV) had t-statistics of 2.506372 at p-value (sig) of 0.0242 that are all less than 5% level of significance. However, legal institutional environment (LEGALIEV) had t-statistics of 1.189565 at p-value (sig) of 0.2527 which is greater than 5% level of significance.

From these long run OLS results, the null hypothesis which stated that there is no significant relationship between normative institutional environment (NORMIEV) and SMEs Development in Nigeria is rejected at 5% level of significance. The findings of OLS long run results also signify that the null hypothesis which stated that there is no significant relationship between political institutional environment (POLINEV) and SMEs development in Nigeria is rejected. Similarly, the OLS long run result also suggests that the null hypothesis which stated that there is no significant relationship between regulatory institutional environment (REGUINEV) and SMEs development in Nigeria is rejected. The results also imply that null hypothesis which stated that there is no significant relationship between cognitive institutional environment (COGNNIEV) and SMEs development is rejected. However, the OLS long run results indicate that null hypotheses which stated that there is no significant relationship between legal institutional environment (LEGALIEV) and SMEs development in Nigeria is accepted. These results mean that, at the long run, normative institutional environment (NORMIEV), regulatory institutional environment (REGUINEV), political institutional environment (POLINEV), cognitive institutional environment (COGNNIEV) have a significant impact on SMEs Development in Nigeria while legal institutional environment (POLINEV) does not.

With respect to the direction of the relationship between each of the individual dimensions of institutional environment and SMEs Development in Nigeria, the OLS long run results confirm a negative relationship between SMEs development, and normative institutional environment (NORMIEV), political institutional environment (POLINEV), cognitive institutional environment (COGNNIEV). They however also confirm a positive relationship between SMEs development, and the regulatory institutional environment (REGUINEV) and legal institutional environment (LEGALIEV) in Nigeria. These results suggest the normative, political and cognitive institutional environments developed in Nigeria have not been friendly and conducive for development of SMEs in the country both at short and long run. Rather, they have discouraged and hindered development of SMEs in Nigeria both in the short and long run. However, the regulatory institutional environment (REGUINEV) and legal institutional environment (LEGALIEV) tend to have facilitated, encouraged or enhanced the development of SMEs in Nigeria both in short and long run during period under review. The Durbin-Watson statistic of 1.596647, which is higher than 1.5 criterions, reveals the absence of first-order serial correlation which further confirms no presence of multicollinearity in the model as shown by the correlation coefficients in Table 3. Hence, the model has a goodness of fit and can be used for policy making with re-specification.

Error Correction Model (ECM) Results

ECM test was conducted to examine short-run dynamics and aggregate relationship between the dimension of institutional environments and SME development in Nigeria. It was used to test the formulated hypotheses in order determine the relationship that exist in the short run when normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV) were regressed on SMEs Development (SMEDEV). The decision rule for accepting the hypothesis formulated to establish the relationship between the independent variables and dependent variables in the short run is that if the t-value is less than 2 or calculated p-values (sig) are greater than 0.05 (5%) level of significance, we accept the null hypotheses (H_0) stated in chapter one. But if the p-values (sig) are less than 0.05 (5%) level of significance the hypotheses will be reject. The results are shown in Tables 4.

Table 4.

Dependent Variable: D(SMEDEV,2)

Method: Least Squares

Date: 02/15/18 Time: 22:45

Sample (adjusted): 3 21

Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001177	0.013054	-0.090130	0.9297
D(NORMIEV,2)	-0.001368	0.004305	-0.317815	0.7561
D(POLINEV,2)	-0.009445	0.002269	-4.162973	0.0013
D(REGUINEV,2)	0.006294	0.001891	3.329044	0.0060
D(LEGALIEV,2)	0.005566	0.002477	2.247651	0.0442
D(COGNNIEV,2)	-0.951942	1.146146	-0.830559	0.4224
D (ECM (-1))	-1.237273	0.250483	-4.939542	0.0003
R-squared	0.824253	Mean dependent var	1.34E-17	
Adjusted R-squared	0.736380	S.D. dependent var	0.110554	
S.E. of regression	0.056763	Akaike info criterion	-2.622558	
Sum squared resid	0.038664	Schwarz criterion	-2.274606	
Log likelihood	31.91430	Hannan-Quinn criter.	-2.563670	
F-statistic	9.379998	Durbin-Watson stat	1.753936	
Prob(F-statistic)	0.000596			

The ECM test result shows that when the independent variables: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), cognitive institutional environment (COGNNIEV) and their residual (ECM) were regressed on SMEs Development (SMEDEV), a coefficient of determination (R^2) value of 0.824253 was obtained. The R-squared value of 0.824253 observed in ECM results indicated the strength of the model. It suggests that the independent variables, which include: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV) jointly explain 82.4% of the variation in the dependent variable (SMEs Development (SMEDEV) while other factors or elements not included in this regression model, but taken care of by the error terms accounted for 18.6% explanation of SMEs Development (SMEDEV). After the model has

been adjusted for the degree of freedom, the R-squared value of 0.736380 was obtained. This value indicates the dimensions of institutional environment all together explain approximately 74% systematic variations in SMEs Development (SMEDEV) after the elements in the model have been adjusted to a degree of freedom.

The test also shows that the dimensions of institutional environment: normative institutional environment (NORMIEV), political institutional environment (POLINEV), regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV), and cognitive institutional environment (COGNNIEV) when grouped together has F-statistic of 9.379998 at Prob (F-statistic) value of 0.000596 which is less than 1%, 5% and 10% level of significance. This means that overall there exist a significant linear relationship between institutional environment and SMEs Development in Nigeria at 1%, 5% and 10% level of significance.

Equally important is the results of the model which confirm the significant relationship between individual dimensions of institutional environment and SMEs Development in Nigeria. The results showed that the dimensions of institutional environment except normative institutional environment (NORMIEV) and cognitive institutional environment (COGNNIEV) had P-Values of less than 5% level of significance. The test results show that political institutional environment (POLINEV) has t-statistics of -4.162973 at p-value (sig) of 0.00013 which is less than 5% level of significance. The result also showed that legal institutional environment (LEGALIEV) had t-statistics of 2.24765 at p-value (sig) of 0.044 which is less than 5% level of significance. It shows that regulatory institutional environment (REGUINEV) had t-statistics of 3.329044 at p-value (sig) of 0.0060 which is less than 5% level of significance. The results also confirm that the ECM has t-statistics of -4.939542 at p-value (sig) of 0.0003 which is less than 5% level of significance. This further confirms that the relationship runs from institutional environment elements to SMEs development. However, the short run results show that cognitive institutional environment (COGNNIEV) has t-statistics of -0.317815 at p-value (sig) of 0.7561 which is greater than 5% level of significance. It also shows that normative institutional environment (NORMIEV) had t-statistics of -0.317815 at p-value (sig) of 0.7561 which is greater than 5% level of significance. Judging from the t-statistics of each explanatory variables, political institutional environment (POLINEV) tend to have the greatest impact followed by the regulatory institutional environment (REGUINEV) and legal institutional environment (LEGALIEV) in that order.

From the short run results, we reject the null hypothesis which stated that there is no significant relationship between political institutional environment (POLINEV) and SMEs development in Nigeria. The null hypothesis which stated that there is no significant relationship between regulatory institutional environment (REGUINEV) and SMEs development in Nigeria is also rejected. In the same vain, the null hypothesis which stated that there is no significant relationship between legal institutional environment (LEGALIEV) and SMEs development in Nigeria is rejected. However, the null hypothesis which stated that there is no significant relationship between normative institutional environment (NORMIEV) and SMEs Development in Nigeria is accepted. We also accept the null hypothesis which stated that there is no significant relationship between cognitive institutional environment (COGNNIEV) and SMEs development. These findings indicate that regulatory institutional environment (REGUINEV), legal institutional environment (LEGALIEV) and political institutional environment (POLINEV) significantly and negatively impact SMEs

Development in Nigeria while normative institutional environment (NORMIEV) and cognitive institutional environment (COGNNIEV) have a positively significant impact on SMEs development in Nigeria at a short run.

The results also revealed the direction of the relationship between each of the individual dimensions of institutional environment and SMEs Development in Nigeria. It was shown that while normative institutional environment (NORMIEV), political institutional environment (POLINEV), and cognitive institutional environment (COGNNIEV) have a negative relationship with SMEs development in Nigeria. The regulatory institutional environment (REGUINEV) and legal institutional environment (LEGALIEV) have a positive relationship with SMEs development in Nigeria in the short run. This indicates the normative, political and cognitive institutional environments developed in Nigeria have not been friendly and conducive for development of SMEs in the country. Rather, they have discouraged and hindered development of SMEs in Nigeria. However, the regulatory institutional environment (REGUINEV) and legal institutional environment (LEGALIEV) tend to have facilitated, encouraged or enhanced the development of SMEs in Nigeria. The Durbin-Watson statistic of 1.753936 reveals the absence of first-order serial correlation which further confirms no presence of multicollinearity in the model as shown by the correlation coefficients in Table 3. Hence, the model has a goodness of fit and can be used for policy making with re-specification.

CONCLUSION

The conceptual model developed and tested for this study found support for the theoretical framework as it uncovered strong links between institutional environment and SMEs development in Nigeria. In this regard, the study concludes that SMEs development in Nigeria is strongly conditioned by the institutional environment of the country. It specifically concluded that most indicators of institutional environment considered in this study were found not only weak, poor and low but have also discouraged individual engaging on venture creation, and the development of SMEs in Nigeria. The study concludes that except regulatory and legal institutions in Nigeria, other dimensions of institutional environment have not effectively stimulated SMEs development in Nigeria rather have retarded the formation of SMEs in Nigeria.

Recommendations

Based on the findings from the empirical analysis, the following recommendations are made:

1. The study recommends that policy makers should effectively channel their effort towards enhancing the quality of legal environment. This can be done by creating economic courts across the state of the federation to protect business from theft, violence, contractual breaches and other acts of predation that may discourage entrepreneurs. The legal environment of business can also be enhanced by ensuring that justice is accessible in the country, and the process by which justice is delivered and laws enacted, administered and enforced is fair and efficient.
2. The Government of Nigeria should enhance the quality of regulatory environment by directing regulatory bodies like Corporate Affairs Commission (CAC) to further reduce the cost of obtaining permits and registering small scale businesses. The regulatory environment can also be improved upon by directing regulatory agencies to reduce the

procedures (stages) and time (days) of obtaining permits, licenses, verifications, and other notifications to start business operations. It can also improve by reducing the cost and process of enforcing contracts, obtaining Certificates of Occupancy (CofO) and dealing with construction permits. Equally important, the regulatory institutional environment can be enhanced by directing FIRS and other related bodies to give tax holidays and exemptions of newly registered SMEs from stringent and rigid regulatory permits and procedures. Central Bank of Nigeria should also drive credit schemes for SMEs across sectors which should be flexible, supportive, fast and easy to access.

3. The negative effect of weak quality of political institutional environment in Nigeria can be mitigated if government of Nigeria intensifies efforts in building strong and stable political environment. This can be done by formulating and implementing bills that would further strengthen the process of selecting and electing officers into power, making government to accountable to the people, and strengthening the security apparatus in the police, Military and other law enforcement agencies to fight crime and secure the nation. The security should architecture should be empowered to intensify effort in making the country free from politically motivated violence, internal conflicts, religious tensions, terrorism, kidnappings, incessant robberies, activities of militants in the Niger Delta and other issues or actions threatening the unity, stability and security of the people and business in the country.
4. Government of Nigeria should reform the cognitive institutions through revamping of educational system (primary, secondary, and tertiary education) as center of innovation where people can gain valuable knowledge and skills to engage themselves in entrepreneurial ventures. The government should ensure the educational system is structured towards problem-solving, idea generations and creativity to mitigate the negative effect of cognitive institutions on SMEs development.
5. Government of Nigeria should be sincere and committed in promoting moral, ethical and positive cultural norm in the country to mitigate the negative effect of weak normative institutional environment on SMEs development in Nigeria. This can be done by eliminating all forms of bribery and corruption in every sector of economy through devoting special court to corrupt cases to speed up trials, strengthening EFCC and ICPC capacity operate independently in checking the incidences of corruption in the country and teaching of moral values in our educational system.

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