

SOCIAL ENVIRONMENT AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN LAGOS STATE

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Abstract

This paper investigated social environment and performance of small and medium enterprises (SMEs) in Lagos State. The study was guided by three research questions and three research hypotheses. Survey research design was employed in the study. The sample size for the study was 387 respondents out of a total population of 11,663 registered SMEs in Lagos State. These respondents were randomly selected in Ikeja, Yaba, Agege, Ikorodu, and Oshodi. A self-designed questionnaire titled “Social Environment and Business Performance Questionnaire (SEBPQ)” was used for data collection. Data collected were analysed using simple regression at 0.05 level of significance. The results showed that interpersonal networks have significant effect on business performance among SMEs in Lagos State; relational social capital has significant impact on business performance among SMEs in Lagos State; and structural social capital has significant effect on business performance among SMEs in Lagos State. The study concluded that social environment has significantly positive impact on business performance among SMEs in Lagos State. The study recommended among others that SMEs owners should create and increase their interpersonal networks; and SMEs owners should embrace trust and integrity in their dealings with customers and members of the public.

Keywords: *Business performance, Interpersonal networks, Small and medium enterprises, Social environment, Structural social capital*

Introduction

Business environment comprises all internal and external factors that influence the operations, productivity and survival of a firm. The external environment comprises of political factors, technological factors, economics factors, legal factors, social factors and ecological factors. One of the most important external dimensions of this environment is the social environment. The social environment encompasses the relationships, networks, norms, and structures within which a business operates. It is widely accepted that SMEs do not operate in isolation; rather, their performance is shaped by interactions with customers, suppliers, competitors, regulators, and other stakeholders (Adesina & Ojo, 2018). Elements of the social environment such as interpersonal network, relational social capital, and structural social capital play crucial roles in providing access to resources, information, and opportunities that are vital for business performance (Ogunnaike & Kehinde, 2013). Interpersonal network refers to the direct and indirect ties that business owners and managers maintain with individuals who can provide information, advice, or resources (Burt, 2000). These networks can enhance access to financial resources, market intelligence, and technical expertise, which in turn positively influence business performance (Ajayi & Olotu, 2020).

Relational social capital relates to the trust, obligations, norms and quality of relationships that exist between a business and its stakeholders (Ogunyomi & Bruning, 2016). It is the strength and quality of these relationships that fosters cooperation, reduces transaction costs, and enhances long-term performance (Nwankwo & Kanyangale, 2022). On the other hand, structural social capital refers to the overall pattern and configuration of a network, including formal linkages, group memberships, and participation in business associations or clusters (Adler & Kwon, 2002). SMEs with higher structural social capital are better positioned to access collective resources, coordinate with partners, and capitalize on collaborative opportunities (Salami & Akinwale, 2021).

Small and Medium Enterprises (SMEs) are business ventures that operate on a modest scale in terms of workforce, capital and structure. In Nigeria, SMEs generally include enterprises with employees ranging from 10 to 199 and limited capital investment (Small and Medium Enterprise Development Agency of Nigeria [SMEDAN], 2020). SMEs are widely recognised as critical drivers of economic growth, employment generation, poverty reduction and innovation in both

developed and developing economies, including Nigeria. As reported by SMEDAN (2021), SMEs account for well over 80% of enterprises and contribute significantly to national Gross Domestic Product (GDP) and employment in Nigeria. In addition, SMEs stimulate entrepreneurial capacity, support domestic value chains, and enlarge income distribution. All these depend on the performance of the SMEs. Business performance often viewed in terms of firms' ability to achieve their desired economic and non-economic outcomes. It can be understood as the ability of a business to achieve desired outcomes such as sales growth, profitability, market share, customer satisfaction, innovation, operational efficiency and long-term sustainability (Mojokuku, Odeyemi & Lawal, 2024). Business performance can also be considered as the extent to which a business venture is able to improve profitability, increase customer base, sustain its operations and attain its goals. Thus, business performance is a multidimensional construct encompassing financial indicators (profitability, revenue growth) and non-financial indicators (customer satisfaction, market share, innovation capacity). Business performance is influenced by both internal capabilities and external environmental factors. Although financing, managerial practices and technology matter, social factors (including networks, trust, cultural alignment and community support) have been proven to influence performance outcomes (Ozigbo, 2021).

In the context of small and medium enterprises, the social environment determines the level of patronage, reputation, business growth, stability and ability to compete (Ekpe & Razak, 2021). All these in turn determine how the businesses such as Small and Medium Enterprises will flourish and survive. This may be why Olawale and Garwe (2010) asserted that the interplay between the social environment and business performance is critical, particularly for SMEs in Nigeria, where resource constraints, market volatility, and institutional challenges can hinder firm growth. In line with view, Olaleye and Adebayo (2022) reported that business performance among SMEs is highly sensitive to changes in their social environment because they lack large financial buffers to absorb shocks arising from insecurity, poor infrastructure or unfavourable public perception. Entrepreneurs majorly depend on relationships (such as family, ethnic networks, trade associations), community reputation, and increasingly social media to obtain customers, credit, and labour (social capital). Lagos State is regarded as one of the Nigeria's commercial hubs and has a dense urban population and diverse cultures. In this type of state, the social environment plays a vital role for small and medium enterprises (SMEs). The business climate in Lagos State is highly competitive, and survival depends on the ability to build strong customer relationships, leverage informal financial networks, understand cultural consumption patterns and sustain positive reputational capital (Iwara & Udofia, 2020). These variables in turn influence the performance and survival of firms, especially the SMEs.

Recent empirical studies revealed that social environment variables like social networks, relational capital and structural capital predict SME performance. For instance, Bello and Nwoye (2019) noted that local beliefs, cultural attitudes and community norms can either encourage or frustrate small business development. Similarly, Akintimehin et al. (2019) found that relational and cognitive social capital significantly improve SME profitability and competitive advantage. Also, Ahmed and Popoola (2020) asserted that social networks and referrals within communities significantly affect patronage and market expansion. Likewise, Onyekachi and Muogbo (2023) showed that cultural norms and community acceptance shape customer loyalty and business survival. Equally, Bolaji (2024) discovered that trade associations provide informal credit, market regulation and protection from exploitation, thus improving SME survival. Thus, social factors are inseparable from the performance of SMEs. Studies above highlighted significant impact of social capital and social networks on the SMEs' performance in Nigeria. However, there is a dearth of comprehensive empirical research that examines the combined effect of interpersonal networks, relational social capital, and structural social capital on SME performance within a unified social environment framework. Addressing this gap is crucial for understanding how SMEs can leverage social environment elements to enhance competitiveness, efficiency, and sustainability. It is against this background that this paper investigated social environment and business performance among small and medium enterprises in Lagos State.

Statement of the Problem

SMEs play significant role in the growth and development of Nigerian economy. However, SMEs in Nigeria generally face challenges such as limited access to capital, weak institutional support, inadequate market information, and intense competition. While social environment factors such as networks and social capital can help firms overcome these challenges, the mechanisms through which they enhance performance are not fully understood. Most existing studies focus on one dimension of social capital or network relationships, often neglecting the holistic effect of the social environment. This gap in knowledge limits the ability of policymakers, business owners, and support institutions to design interventions that effectively leverage social environment resources. Therefore, this study investigated the effect of social environment elements (interpersonal networks, relational social capital, and structural social capital) on business performance among SMEs in Lagos State, Nigeria.

Research Objectives

The key objective of this paper was to investigate social environment and performance of small and medium enterprises in Lagos State. The paper's specific objectives are to:

- i. examine the effect of interpersonal networks on business performance among SMEs in Lagos State;
- ii. ascertain how relational social capital impacts on business performance among SMEs in Lagos State; and
- iii. assess the effect of structural social capital on business performance among SMEs in Lagos State.

Research Questions

The following research questions guided this study:

1. What is the effect of interpersonal networks on business performance among SMEs in Lagos State?
2. How does relational social capital impact on business performance among SMEs in Lagos State?
3. What is the effect of structural social capital on business performance among SMEs in Lagos State?

Research Hypotheses

The following null hypotheses were tested in this study.

Ho1: Interpersonal networks have no significant effect on business performance among SMEs in Lagos State.

Ho2: Relational social capital has no significant impact on business performance among SMEs in Lagos State.

Ho3: Structural social capital has no significant effect on business performance among SMEs in Lagos State.

Methodology

This study was conducted in Lagos State. The study employed survey research design. The population for the study was all the 11,663 registered small and medium enterprises (SMEs) operating within Lagos State. The sample size was 387 SMEs owners using the Taro Yamane sample size calculator. The respondents in this study were selected using purposive sampling as well as simple and stratified random sampling technique. The respondents were randomly selected in Ikeja, Yaba, Agege, Ikorodu, and Oshodi. Only literate business owners were used for this study. A questionnaire titled "Social Environment and Business Performance Questionnaire (SEBPQ)" was designed by the researchers. The questionnaire contained fifteen (15) items. The developed questionnaire was subjected to face and construct validity. Also, the reliability of the questionnaire was determined using Cronbach's Alpha reliability method and reliability coefficient of 0.88 was obtained. Four trained research assistants were employed and used for data collection. Data collected were analysed using simple regression analysis at 0.05 level of significance.

Results

Out of the three hundred and eighty-seven (387) copies of the questionnaire administered, only three hundred and seventy-eight (378) copies were properly filled and returned by the sampled respondents. This represents 97.7% rate of returns. Hence, 378 was used for analysis of data in this section. In addition, all the three research questions were hypothesised and tested in this section.

Hypothesis One: Interpersonal networks have no significant effect on business performance among SMEs in Lagos State

Table 1a: Model Summary on Interpersonal Networks and Business Performance among SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.987 ^a	.974	.974	.474

a. Predictors: (Constant), Interpersonal Network

The model summary in Table 1a indicates a high positive relationship between interpersonal network and business performance ($R = 0.987$). The R^2 value of 0.974 shows that 97.4% of the variation in business performance among SMEs is explained by interpersonal network.

Table 1b: ANOVA (Interpersonal Network)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3196.538	1	3196.538	14202.500	.000 ^b
	Residual	84.626	376	.225		
	Total	3281.164	377			

a. Dependent Variable: Business Performance Among SMEs

b. Predictors: (Constant), Interpersonal Network

The ANOVA result in Table 1b reveals that the regression model is statistically significant ($F(1,376) = 14202.50$, $p < 0.05$), indicating that interpersonal network significantly predicts business performance among SMEs.

Table 1c: Regression Coefficients (Interpersonal Network)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.759	.144		-5.269	.000
	Interpersonal Network	1.044	.009	.987	119.174	.000

a. Dependent Variable: Business Performance Among SMEs

Table 1c reveals that the calculated “t” value of 119.174 is significant since the returned p-value of 0.000 is less than the criterion level of significance of 0.05. Hence, the null hypothesis which stated that “Interpersonal networks have no significant effect on business performance among SMEs in Lagos State” was rejected. This implies that interpersonal networks have significant effect on business performance among SMEs in Lagos State.

Hypothesis Two: Relational social capital has no significant impact on business performance among SMEs in Lagos State

Table 2a: Model Summary on Relational Social Capital and Business Performance among SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954 ^a	.910	.910	.886

a. Predictors: (Constant), Relational Social Capital

The model summary in Table 2a shows a high positive relationship between interpersonal network and business performance ($R = 0.954$). The R^2 value of 0.910 shows that 91.0% of the variation in business performance among SMEs is explained by relational social capital.

Table 2b: ANOVA (Relational Social Capital)

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	2985.877	1	2985.877	3802.026	.000 ^b
Residual	295.287	376	.785		
Total	3281.164	377			

a. Dependent Variable: Business Performance Among SMEs

b. Predictors: (Constant), Relational Social Capital

The ANOVA result in Table 2b shows that the regression model is statistically significant ($F(1, 376) = 3802.026$, $p < 0.05$), indicating that relational social capital significantly predicts business performance among SMEs.

Table 2c: Regression Coefficients (Relational social capital)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.601	.292		-5.487	.000
	Relational Social Capital	1.072	.017	.954	61.661	.000

a. Dependent Variable: Business Performance Among SMEs

Table 2c shows that the calculated “t” value of 61.661 is significant since the returned p-value of 0.000 is less than the criterion level of significance of 0.05. Hence, the null hypothesis which stated that “Relational social capital has no significant impact on business performance among SMEs in Lagos State” was rejected. This implies that relational social capital has significant impact on business performance among SMEs in Lagos State.

Hypothesis Three: Structural social capital has no significant effect on business performance among SMEs in Lagos State

Table 3a: Model Summary on Structural Social Capital and Business Performance among SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958 ^a	.918	.918	.846

a. Predictors: (Constant), Structural Social Capital

The model summary in Table 3a indicates a high positive relationship between structural social capital and business performance ($R = 0.958$). The R^2 value of 0.918 shows that 91.8% of the variation in business performance among SMEs is explained by structural social capital.

Table 3b: ANOVA (Structural social capital)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3012.308	1	3012.308	4212.775	.000 ^b
	Residual	268.856	376	.715		
	Total	3281.164	377			

a. Dependent Variable: Business Performance Among SMEs

b. Predictors: (Constant), Structural Social Capital

The ANOVA result in Table 3b reveals that the regression model is statistically significant ($F(1, 376) = 4212.775$, $p < 0.05$), indicating that structural social capital significantly predicts business performance among SMEs.

Table 3c: Regression Coefficients (Structural social capital)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	-2.203	.286	-7.691	.000
	Structural Social Capital	1.112	.017	64.906	.000

a. Dependent Variable: Business Performance Among SMEs

Table 3c reveals that the calculated “t” value of 64.906 is significant since the returned p-value of 0.000 is less than the criterion level of significance of 0.05. Hence, the null hypothesis which stated that “Structural social capital has no significant effect on business performance among SMEs in Lagos State” was rejected. This implies that structural social capital has significant effect on business performance among SMEs in Lagos State.

Discussion of the Findings

This study revealed that interpersonal networks have significant effect on business performance among SMEs in Lagos State. This implies that interpersonal networks have significant influence on business performance among SMEs in Lagos State. This finding aligns with Akinruwa, Awolusi, and Ibojo (2013) who found that strong entrepreneurial networking significantly improved sales growth and market expansion of SMEs in Nigeria. Similarly, Adesina and Ojo (2018) revealed that SMEs with wider interpersonal networks recorded higher profitability and survival rates. Equally, Ajayi and Olotu (2020) reported that entrepreneurs’ social networks had a statistically significant effect on both financial and non-financial performance indicators. Likewise, Ahmed and Popoola (2020) found that businesses leveraging social networking platforms experienced increased market reach and improved customer acquisition. Supporting the finding of this study, Lawal and Omonijo (2021) concluded that informal interpersonal networks enhanced access to finance and business information, thereby improving SME performance.

This study revealed that relational social capital has significant impact on business performance among SMEs in Lagos State. This implies that relational social capital has significant effect on business performance among SMEs in Lagos State. This result is strongly supported by study by Ogunyomi and Bruning (2016) who found that relational capital, especially trust and mutual respect was a significant predictor of firm performance. Similarly, Oyerinde and Bello (2017) established that relational capital had a positive and significant effect on profitability and sales growth of manufacturing firms. Likewise, Adeleke and Aminu (2019) reported that SMEs with strong relational ties recorded better customer retention and business growth. Equally, Nwankwo and Kanyangale (2022) established that relational social capital significantly influenced revenue growth and competitive advantage among Nigerian small enterprises. Hence, relational social capital has significant impact on business performance among SMEs.

This study also found that structural social capital (business association/organizational membership) has significant effect on business performance among SMEs in Lagos State. This means that structural social capital (business association/organizational membership) significantly influenced business performance among SMEs. This finding aligns with Adelekan and Ojo (2018) who found that membership in business associations significantly improved access to market information and overall performance of small firms. Similarly, Ogunlusi (2020) showed that structural connections with trade associations and business clusters positively influenced firm productivity. Supporting this view, Salami and Akinwale (2021) revealed that structural embeddedness enhanced coordination, collaboration, and competitiveness of SMEs. Also, Olatunji and Gbadegesin (2023) established that well-structured networks significantly predicted sales growth and operational efficiency among Nigerian SMEs. Likewise, Bolaji (2024) reported that SMEs connected with cooperative groups and unions experience superior performance compared to isolated firms. Thus, structural social capital such as

business association/organizational membership has significant effect on business performance among SMEs in Lagos State.

Conclusion

Small and medium enterprises (SMEs) are essential to economic development of any country. However, social environment plays a pivotal role in sustaining their performance, especially in Lagos State, where social structures and informal networks are highly influential. Consequently, this is found that social environment indices such as interpersonal networks, relational social capital (e.g. trust and reciprocity) and structural social capital (e.g. business association/organisational membership) critically impact business performance. This implies that interpersonal networks, relational trust, and structural connections jointly contribute to improved business performance. Therefore, strengthening these dimensions of social capital is essential for the sustainable growth and competitiveness of SMEs. Hence, it can be concluded based on the findings of this study that social environment has significantly positive impact on business performance among SMEs in Lagos State.

Recommendations

Based on the findings of this study, the following recommendations are hereby suggested:

1. Small and medium enterprises (SMEs) owners should create and increase their interpersonal networks. This may involve investment in social networking as it has the tendency to increase customer patronage and enhance business performance.
2. SMEs owners should embrace trust and integrity in their dealings with customers and members of the public. This is based on the fact that high levels of trust improve referrals, long-term relationships and brand reputation, which are critical for business survival, growth and improved performance.
3. Small and medium enterprises (SMEs) owners should participate actively in formal business networks, trade associations, cooperatives, and industrial clusters. This has the tendency to enhance information flow, collective problem-solving, and access to shared resources as well as improved profitability and performance among the SMEs.

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