

Innovations

Perceived Dynamics in Economic Environment and Entrepreneurship in Nigeria

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Abstract

This study focused on the economic environment and entrepreneurial development. The study adopted a survey search design, where 377 participants were randomly selected. Data were gathered and analysed using descriptive and inferential statistics. The study used descriptive statistics to analyse the demographic characteristics of its participants. Model fit was evaluated using the data in the study, which used a route modelling technique based on the Structural Equation Model (SEM). Among others, findings showed that the unemployment rate has a significant positive effect on entrepreneurial development and that a moderate inflationary rate has a significant positive effect on the market expansion of SMEs. The study recommended that the government establish targeted support programmes that facilitate entrepreneurship education, mentorship, and access to resources for the unemployed population and that policymakers implement measures that mitigate the impact of inflation on SMEs.

Keywords: *Entrepreneurial Development, Unemployment, Domestic Interest Rate, Innovativeness, Exchange Rate Fluctuation, Market Expansion.*

Introduction

The economic environment plays a pivotal role in determining market potential and opportunities. A thorough analysis is crucial, focusing on critical factors such as the inflationary rate, employment and unemployment rates, total tax rate, domestic interest rate, and exchange rate fluctuation. Neglecting this analysis may result in missed opportunities and suboptimal outcomes. Emerging economies, such as those in Africa and specifically Nigeria, face a disadvantage due to their reliance on primary material exports. Nigeria relies heavily on oil production as one of

its primary exports. Nigeria's oil output peaked at 17.77 thousand barrels per day in 2020 and 2021; by 2022, it had risen to 1.5 million barrels per day.

Nonetheless, there was a little decrease in daily production to 1.35 million barrels in October 2023. Studies show that a decline in oil production and prices affects the trade balance, increases inflation, and causes the Nigerian economy's currency to depreciate (Baek & Kwon, 2019; Bala et al., 2022; Yildirim & Arifli, 2021). The nation must formulate policies and strategies aimed at achieving rapid Industrialisation (Emodi & Boo, 2015). Central to this effort is the promotion of entrepreneurial development.

The success or failure of a business, from its establishment and management to growth and development, is influenced mainly by the economic conditions in which it operates. A significant obstacle is that the current economic conditions under which business enterprise's function do not favour the implementation of significant measures that will facilitate sustainable development (Holliday et al., 2017). The current condition of the economy in Nigeria has had a variety of effects on business operations in recent years. Researchers in the field have undertaken much research to show how the economic environment relates to starting a business or running an existing one (Needle & Burns, 2019). Improvements to the enabling environment led to more investment from the private sector, improved wealth creation, the creation of jobs, and, ultimately, poverty reduction (Ros-Tonen et al., 2019).

The current national economic crisis, characterised by an economic downturn, significant rises in unemployment, inflation, tax rates, perceived domestic interest rates, and perceived exchange rate fluctuations, highlights the necessity for renewed research attention on the economic environment and entrepreneurship. The total tax rate is a significant factor influencing entrepreneurial activity. Scholars such as Djankov et al. (2010), Salman (2014), and Vidal-Sune and Lopez-Panisello (2013) state that high tax rates have a negative impact on starting new businesses and general business activities. It has been observed that the higher the availability of domestic credit provided by banks, the higher the launch of new businesses and, by extension, the continuous improvement in the operations of the existing ones (Aghion et al., 2007; Sayed & Slimane, 2014; Vidal-Sune, & Lopez-Pansello, 2013).

Frequently, entrepreneurs import various kinds of raw materials or finished products to enhance their production or provision of services (Ehimiaghe & Adejoh, 2022; Uma et al., 2019). Exchange rate fluctuations may cause erratic shifts in the cost of imports. This uncertainty can affect an enterprise's overall operating costs and cause disruptions to the supply chain management process. Given that SMEs are an economic

development and progress engine, a high unemployment rate stimulates more desire to engage in entrepreneurial activities in Nigeria (Gherghina et al., 2020).

The economic environment, which includes variables like interest rates, inflation rates, unemployment rates, and exchange rates, affects entrepreneurial activities beyond the scope of individual enterprises. These outside forces impact not just particular businesses but also the larger business community and the economy as a whole, which impacts every player in it. However, the specific objectives of this study are to:

- i. Determine the relationship between unemployment and entrepreneurial development.
- ii. Ascertain how a moderate inflationary rate affects market expansion.
- iii. Investigate the nature of the relationship between total tax rate and the growth of business enterprises.
- iv. Assess how perceived domestic interest rates by banks to the private sector affect entrepreneurship.
- v. Determine the extent to which perceived fluctuation of the exchange rate affects innovativeness.

Literature Review

The economic environment is a concept that has factors that cut across all facets of the business landscape. The general system of economic elements affects and moulds business operations in a particular nation or area. The legal and regulatory frameworks that control economic activity are part of the economic environment. This includes unemployment, inflation, tax, domestic interest rates, and exchange rate fluctuations. It is an indisputable fact that the state of the economy affects whether entrepreneurial ventures succeed or fail. An important factor influencing the results of entrepreneurship is these economic dynamics. The study of Sayed and Shimane (2014) provided empirical evidence that economic forces mainly affect entrepreneurial activity. Global dynamics, innovation, and economic stability all influence the possibilities and problems entrepreneurs face, which they must skillfully handle.

Unemployment and Entrepreneurship Development:

The effect of unemployment on entrepreneurship development is a complex interplay of economic dynamics with far-reaching implications. While high unemployment rates traditionally signify economic distress and societal challenges (Achdut&Refaeli, 2020; Córdoba-Doña et al., 2016), they can paradoxically catalyse entrepreneurial initiatives. Individuals with limited employment opportunities may turn to entrepreneurship as a

viable alternative, driven by necessity or the pursuit of innovative solutions.

Unemployment often fuels a spirit of resourcefulness and resilience, prompting individuals to leverage their skills and talents to create opportunities. Entrepreneurship becomes an avenue for self-employment, where individuals without traditional job options establish and manage their businesses (Brändle & Kuckertz, 2022; Eppler-Hattab, 2022). This phenomenon is particularly pronounced during economic downturns or recessions when job scarcity is prevalent. Moreover, the effect of unemployment on entrepreneurship extends beyond individual endeavours. High levels of unemployment can stimulate a broader entrepreneurial ecosystem, fostering the creation and growth of SMEs. These enterprises, borne out of a response to economic challenges, contribute to job creation, innovation, and overall economic resilience (Fatoki, 2018; Gherghina et al., 2020).

Based on the preceding, we hypothesise as follows:

H₁: Unemployment affects entrepreneurial development.

Rate and Market Expansion:

Inflationary rate profoundly influences entrepreneurial activity (Carmichael & Mazonde, 2016). High inflation can erode purchasing power, increase costs, and create economic uncertainty, deterring entrepreneurs from investing or expanding ventures (Okon et al., 2023; Wahidin, 2023). On the other hand, moderate inflation may encourage entrepreneurship as individuals look for ways to protect themselves against declining monetary value. Striking a balance is essential because low or deflationary pressures can threaten economic health, while high inflation impedes long-term planning. In order to overcome these obstacles and adjust their plans to deal with the unpredictable inflation rates, entrepreneurs highlight how crucial economic stability is to create an atmosphere favourable to long-term market expansion. There is a possibility that moderate inflationary rates will affect market expansion. While mild inflation may signal economic health, encouraging spending and investment, it also introduces uncertainties in the market. Entrepreneurs face the challenge of adjusting pricing strategies and managing costs (Faith & Agwu, 2018). Hence, the hypothesis that:

H₂: Moderate inflationary rate affects market expansion

Domestic Interest Rate and Entrepreneurial Development

Interest rates are a representation of the cost of borrowing money. In essence, it is a charge that a lender levy on a borrower for using borrowed money; this charge is typically expressed as an annual percentage of the

principal amount. Interest rates are essential in controlling the amount of money that enters firms (Ingram et al., 2018). High interest rates can reduce inflation and slow firm operations (Egbunike & Okerekeoti, 2018). Lower interest rates, on the other hand, may stimulate corporate activity but run the danger of causing inflation (Egbunike & Okerekeoti, 2018). Zachary (2012) asserts that even if these effects are not always immediate, they are significant enough to boost the market when interest rates are low. Brei et al.'s (2020) research furnish empirical support, indicating that a decline in interest rates prompts banks to adapt their strategies, shifting their focus from interest-generating to fee-generating and trading business lines.

However, we perceive a fair domestic interest rate as pivotal in shaping the landscape of entrepreneurial development within an economy. When interest rates are equitable and reflective of market conditions, entrepreneurs can access capital at reasonable costs, fostering investment and business growth (Egbunike & Okerekeoti, 2018; Igwe et al., 2020). Fair interest rates encourage entrepreneurship by lowering financial obstacles and making it easier for new and established firms to get the capital they need for growth, innovation, and day-to-day operations. Fair interest rates also help to maintain a healthy economy, which gives investors and business owners confidence. Conversely, excessive interest rates can discourage entrepreneurs, especially those with little capital, hindering business growth and startup activity (Atiase et al., 2019; Huang, 2018).

H₃: Fair domestic interest rates by banks to the private sector affect entrepreneurial development.

Total Tax Rate and Growth of Business Enterprises

One significant factor that may affect entrepreneurial activity is the total tax rate. Whereas high tax rates negatively impact entrepreneurship, especially in the case of new venture creation, low interest rates enhance new venture creation and other entrepreneurial activities (Djankov, 2010; Salman, 2014; Vidal-Sune & Lopez-Panisello, 2013). By analysing tax burdens, there is a possibility of uncovering how taxation influences the expansion and growth of businesses. Understanding the dynamics between acceptable total tax rates and business growth is crucial for policymakers and stakeholders to formulate effective strategies that foster economic development.

H₄: Acceptable total tax rate affects the growth of business enterprises.

Fluctuation of Exchange Rate and Innovativeness

Exchange rate fluctuations may affect creativity (Aharon et al., 2021; Ilzetzki et al., 2022). Unpredictable currency fluctuations add uncertainty to the business environment and impact innovation-related strategic decision-making. Excessive volatility can make long-term planning and resource allocation more difficult, but moderate exchange rate changes can encourage innovation by fostering adaptation and competitive reactions. The relationship between exchange rate dynamics and innovativeness is critical for firms looking to navigate international markets and adjust to the difficulties presented by currency fluctuations. This relationship shapes a firm's capacity for innovation and ability to stay competitive in the always-changing economic landscape. We suspect/predict that there is a tendency for moderate fluctuations in exchange rates to affect how innovative businesses are.

H₅: Moderate fluctuation of exchange rate affects innovativeness.

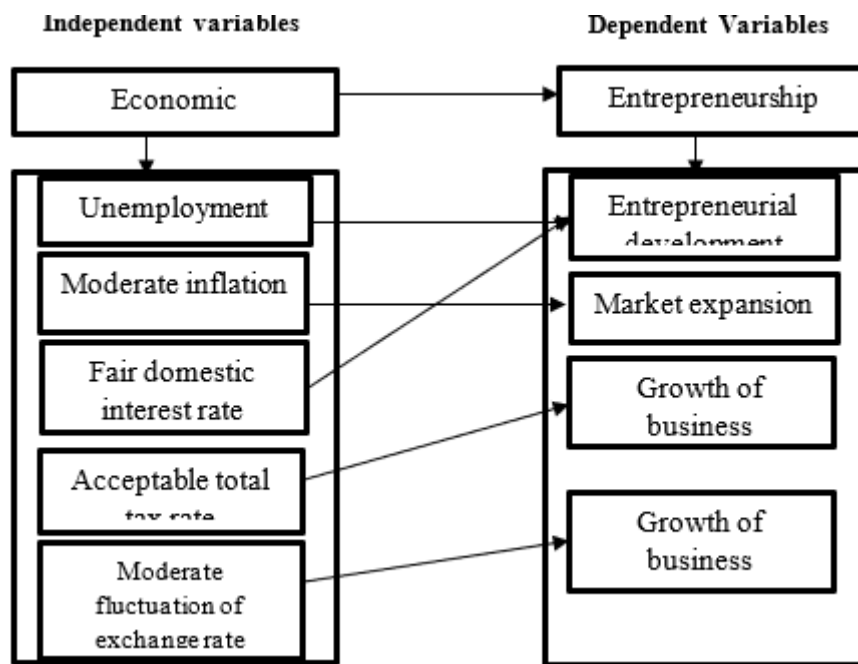


Figure 1: Conceptual Framework

Source: Researchers, 2024.

Methodology

Participation and Procedure

This research systematically focuses on SMEs since they are the hub of the Nigerian economy. As such, the survey research design was used. The target participants are SME owners. Thus, 377 participants were purposively selected. The snowball sampling technique was employed. This facilitated referral to SME owners currently being hit by the economic

conditions. The primary instrument that was used in this study is a structured questionnaire. The 28-item questionnaire was designed on a 5-point Likert scale. The Likert scale is chosen to allow for a more significant distinction of the intensity of the respondents' feelings and opinions regarding the issue in question (Asika, 1991).

Table 1.
Participants profile

Profile	Response	No.	Percent
Gender	Male	272	72.15
	Female	105	27.85
Age Distribution	30 – 40 years	30	7.96
	41 – 50 years	140	37.14
	51 – 60 years	105	27.85
	61 and above	102	27.05
Educational Qualification	SSCE	22	5.84
	ND/NCE	90	23.87
	B.Sc/BA/B.Ed/HND	215	57.02
	M.Sc/MA/MBA	20	5.31
	PhD	-	-
Types of Business	Professional Certificate	30	7.96
	Manufacturing	45	11.94
	Trading	130	34.48
	Transportation	90	23.87
	Agro-allied	97	25.73
	Services/Hospitality	15	3.98

Source: Field Survey (2024)

Table 1 shows the respondents' gender, where 272 respondents (72.15%) were males, while 105 respondents (27.85%) were females. This implies that the majority of the respondents were male.

The table indicates the age brackets of the respondents. The result shows that 30 respondents (7.96%) were between 30 – 40 years of age; 140 respondents (37.14%) were between 41 – 50 years of age; 105 respondents (27.85%) were between 51 – 60 years of age, and 102 respondents (27.05%) were 61 years and above. This shows that most of the respondents in the study area were between 41 – 50 years of age.

The table reveals the educational qualifications of respondents. It shows that 22 respondents (5.84%) were SSCE holders, 90 respondents (23.87%)

were ND/NCE holders; 215 respondents (57.02%) were B.Sc/BA/B.Ed/HND holders; 20 respondents (5.31%) had M.Sc/MA/MBA; no were PhD holders, and 30 (7.96%) were Professional Certificate holders. The implication is that most respondents in the study area were B.Sc/BA/B.Ed/HND holders.

Table 1 shows the types of business organisations owned by the respondents. It indicates that 45 respondents (11.94%) were in the manufacturing business, 130 respondents (34.48%) were in the trading business, 90 respondents (23.87%) were in the transportation sector; 97 respondents (25.73%) were in agro-allied business, and 15 respondents (3.98%) were in service/hospitality industry. It shows that the majority of the respondents were in the trading business.

Validity and Reliability of Instrument

Uzoagulu (2011) asserts that the accuracy of a measurement tool determines its suitability in gauging the intended parameters. This study specifically employed content validity. This was also triangulated with a thorough pre-test conducted using the Structural Equation Model (SEM) within the Amos framework. This meticulous approach ensured that the survey questions effectively measured the intended variables and could yield reliable results. The choice of utilising the Structural Equation Model from Amos reflects the need to ensure a scientifically rigorous validation process. By leveraging this analytical tool, the study aimed to enhance the precision and credibility of its findings, reinforcing the confidence in the instrument's ability to capture and measure the targeted constructs accurately.

Internal consistency reliability was adopted to establish the reliability of the instrument. The assessment of internal consistency was conducted using a statistical measure known as Cronbach's coefficient alpha. Creswell (2003) posits that reliability coefficients of 0.70 or higher indicate high reliability. In Table 2, we present the results of the internal consistency and accuracy of the instruments' constructs.

Table 2. Validation of Instrument

S/N	Question Items	A	Factor Loading	SE	AVE	CR
	Perceived Level of Unemployment	.982			0.935	0.967
1	UNR1		1.000	-		
2	UNR2		.957	.016		
3	UNR3		.943	.012		
	Perceived level of	.986			0.966	0.983

	Inflation					
4	INR1		1.005	.006		
5	INR2		.943	.018		
6	INR3		1.000			
	Perceived level of Total Tax Rate	.990			1.013	1.007
7	TTR1		1.031	.011		
8	TTR2		1.032	.015		
9	TTR3		.962	.014		
10	TTR4		1.000	-		
	Perceived level of Domestic interest rate	.957			1.126	1.061
11	DIR1		1.134	.042		
12	DIR2		1.028	.043		
13	DIR3		1.077	.044		
14	DIR4		1.000	-		
	Fluctuation of exchange rate	.993			0.972	0.986
15	FOE1		1.000	.010		
16	FOE2		.976	.013		
17	FOE3		.967	.015		
18	FOE4		1.000	-		
	Market Expansion	.991			0.966	0.983
19	MKE1		1.000	-		
20	MKE2		.979	.011		
21	MKE3		.969	.009		
	Entrepreneurship Development	.951			0.962	0.981
22	EDV1		1.000	-		
23	EDV3		.961	.034		
	Growth of Enterprises	.986			1.007	1.004
24	GOE1		1.000	-		
25	GOE2		1.008	.016		
25	GOE3		1.003	.013		
	Innovativeness	.985			1.029	1.014
26	INN1		1.000	-		
27	INN2		1.034	.017		
28	INN3		1.009	.019		

Source: AMOS SPSS, 2024

In Table 2, we present the results of the validation of the instrument, assessing the factor loadings, standard errors (SE), average variance extracted (AVE), and composite reliability (CR) for each question item within the identified constructs. The factor loadings for UNR1, UNR2, and UNR3 are 1.000, 0.957, and 0.943, respectively. These values indicate a high level of correlation between the items and the perceived level of unemployment construct. The composite reliability is 0.967, suggesting good internal consistency. INR1, INR2, and INR3 show factor loadings of 1.005, 0.943, and 1.000, respectively, indicating a strong correlation with the perceived level of inflation construct. The composite reliability is 0.983, indicating good internal consistency.

For the perceived level of total tax rate, the factor loadings for TTR1, TTR2, TTR3, and TTR4 are 1.031, 1.032, 0.962, and 1.000, respectively. These values demonstrate a high correlation with the perceived level of the total tax rate construct, and the composite reliability is 1.007, indicating good internal consistency. For the perceived level of domestic interest rate, DIR1, DIR2, DIR3, and DIR4 have factor loadings of 1.134, 1.028, 1.077, and 1.000, respectively. These values strongly correlate with the perceived level of the domestic interest rate construct. The composite reliability is 1.061, indicating good internal consistency; for fluctuation of the exchange rate, FOE1, FOE2, FOE3, and FOE4 exhibit factor loadings of 1.000, 0.976, 0.967, and 1.000, respectively, demonstrating a high correlation with the fluctuation of the exchange rate construct. The composite reliability is 0.986, indicating good internal consistency.

MKE1, MKE2, and MKE3 show factor loadings of 1.000, 0.979, and 0.969, respectively, indicating a strong correlation with the market expansion construct. The composite reliability is 0.983, suggesting good internal consistency. EDV1 and EDV3 have factor loadings of 1.000 and 0.961, respectively, indicating a strong correlation with the entrepreneurship development construct. The composite reliability is 0.981, suggesting good internal consistency. GOE1, GOE2, and GOE3 exhibit factor loadings of 1.000, 1.008, and 1.003, respectively, indicating a strong correlation with the growth of enterprises construct. The composite reliability is 1.004, indicating good internal consistency. INN1, INN2, and INN3 show factor loadings of 1.000, 1.034, and 1.009, respectively, indicating a strong correlation with the innovativeness construct. The composite reliability is 1.014, suggesting good internal consistency.

In Table 2, we have the reliability statistics for different constructs measuring the elements of the economic environment. The Cronbach's Alpha for perceived unemployment level is exceptionally high at 0.982, indicating a very high internal consistency among the three items

assessing the perceived level of unemployment. For the perceived level of inflation, Cronbach's Alpha is equally high at 0.986, indicating a strong internal consistency among the three items measuring the perceived level of inflation. The perceived level of total tax rate has a high internal consistency with a Cronbach's Alpha of 0.990. The Cronbach's Alpha for the perceived level of domestic interest rate is 0.957, while that of the exchange rate fluctuation is 0.993.

Table 2 shows that Cronbach's Alpha for the Market Expansion construct is 0.991, the Entrepreneurship Development construct is 0.951, the Growth of Enterprises construct is 0.986, and the Innovativeness construct is 0.985. Each of these indicates a very high level of internal consistency.

Data Analysis Techniques

The study used descriptive statistics to analyse the demographic characteristics of its participants. Model fit was evaluated using the data in the study, which used a route modelling technique based on the Structural Equation Model (SEM). Hypotheses were tested using regression weight. The root mean square residual (RMR) was used to emphasise the discrepancies between the actual and predicted matrices. The degree to which the observed covariance matrix and the model-reproduced covariance matrix lined up was measured by the Goodness of Fit Index (GFI). Model complexity was considered while adjusting the GFI using the Adjusted Goodness of Fit Index (AGFI). Concerning its complexity, the model's fit was evaluated using the Parsimony Goodness of Fit Index (PGFI). An analysis of the percentage of fit improvement over the null model was performed using the Normed Fit Index (NFI). Relative fit improvement over the null model was measured using the Relative Fit Index (RFI). The measure of the improvement in fit over a baseline model was called the Incremental Fit Index (IFI). Considering model complexity, the Tucker-Lewis Index (TLI) assessed the fit improvement over the null model. The fit of the proposed and null models was assessed using the Comparative Fit Index (CFI). The trade-off between complexity and model fit was investigated using the parsimony ratio (PRATIO). Parsimony-adjusted fit indices that considered gains in fit over the null model while considering model complexity were the Parsimony Normed Fit Index (PNFI) and the Parsimony Comparative Fit Index (PCFI). After adjusting for model complexity, the difference between the proposed model and the actual data was assessed using the Root Mean Square Error of Approximation (RMSEA).

Data Analysis and Results

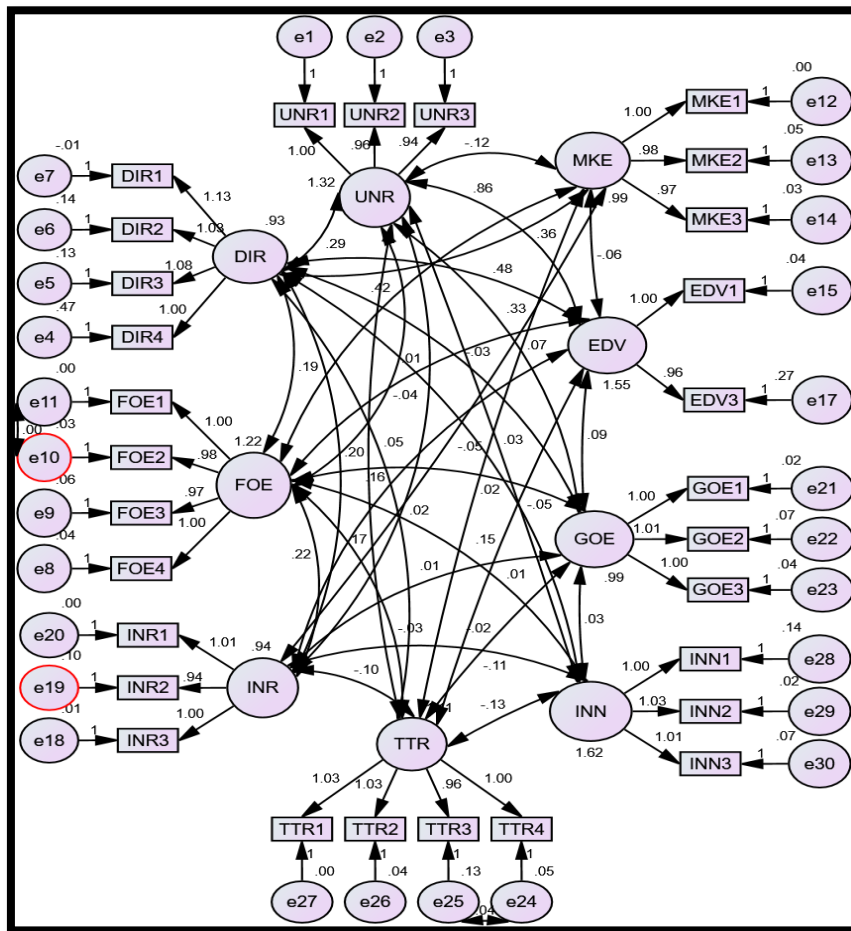


Figure 3: Structural Equation Model

Source: AMOS SPSS, 2023

Figure 3 shows the correlations between the latent variables. This is presented in Table 3.

Table 3. Covariance of Variables

Latent Variables			Estimate	SE.	CR.	P-value
Unemployment Rate	<-->	Market Expansion	-0.119	.059	-2.026	.043
Unemployment Rate	<-->	Domestic Interest Rate	.291	.060	4.863	***
Unemployment Rate	<-->	Fluctuation Of Exchange Rate	-0.043	.065	-0.667	.505

Unemployment Rate	<-- >	Inflation Rate	.018	.05 7	.319	.749
Unemployment Rate	<-- >	Total Tax Rate	.167	.06 3	2.650	.008
Unemployment Rate	<-- >	Entrepreneurship Development	.858	.08 7	9.912	***
Unemployment Rate	<-- >	Growth Of Enterprises	.074	.05 9	1.252	.211
Unemployment Rate	<-- >	Innovativeness	.032	.06 0	.524	.601
Domestic Interest Rate	<-- >	Fluctuation Of Exchange Rate	.188	.05 6	3.348	***
Domestic Interest Rate	<-- >	Market Expansion	-.362	.05 4	6.644	***
Domestic Interest Rate	<-- >	Inflation Rate	.197	.05 0	3.974	***
Domestic Interest Rate	<-- >	Total Tax Rate	.055	.05 3	1.043	.297
Domestic Interest Rate	<-- >	Innovativeness	-.045	.05 3	-.854	.393
Domestic Interest Rate	<-- >	Growth Of Enterprises	-.033	.04 6	-.724	.469
Domestic Interest Rate	<-- >	Entrepreneurship Development	.478	.07 0	6.876	***
Fluctuation Of Exchange Rate	<-- >	Inflation Rate	.220	.05 6	3.908	***
Fluctuation Of Exchange Rate	<-- >	Total Tax Rate	-.027	.06 0	-.447	.655
Fluctuation Of Exchange Rate	<-- >	Innovativeness	.013	.06 7	.197	.844
Fluctuation Of Exchange Rate	<-- >	Growth Of Enterprises	.024	.05 3	.446	.656
Fluctuation Of Exchange Rate	<-- >	Entrepreneurship Development	.009	.07 2	.132	.895
Fluctuation Of Exchange Rate	<-- >	Market Expansion	-.416	.06 1	6.861	***
Inflation Rate	<-- >	Total Tax Rate	-.100	.05 3	- 1.884	.060
Inflation Rate	<-- >	Innovativeness	-.107	.06 0	- 1.790	.074
Inflation Rate	<--	Growth Of	.011	.04	.240	.810

	>	Enterprises		7		
Entrepreneurship Development	<--	Inflation Rate	.159	.063	2.514	.012
Market Expansion	<--	Inflation Rate	-.328	.052	6.273	***
Total Tax Rate	<--	Innovativeness	-.128	.070	-1.835	.066
Growth Of Enterprises	<--	Total Tax Rate	-.016	.055	-.286	.775
Entrepreneurship Development	<--	Total Tax Rate	.145	.069	2.112	.035
Market Expansion	<--	Total Tax Rate	-.052	.054	-.969	.332
Market Expansion	<--	Entrepreneurship Development	.061	.064	-.941	.347
Entrepreneurship Development	<--	Growth Of Enterprises	.092	.065	1.406	.160
Growth Of Enterprises	<--	Innovativeness	.025	.066	.381	.704

Source: AMOS SPSS, 2023

Table 3 shows the covariance of latent variables. The threshold for the covariance outcome is less than 50% (that is < 0.5). The table shows that a one-unit decrease in the unemployment rate is associated with a 0.119-unit increase in market expansion, statistically significant at p -value < 0.05 . A one-unit increase in the unemployment rate is associated with a 0.291-unit increase in the domestic interest rate, highly statistically significant at p -value < 0.001 . A slight negative association exists between the unemployment rate and the exchange rate fluctuation, but it is not statistically significant (p -value = 0.505). A one-unit increase in the unemployment rate is associated with a 0.018-unit increase in the inflation rate; not statistically significant (p -value = 0.749). A one-unit increase in the unemployment rate is associated with a 0.167-unit increase in the total tax rate, statistically significant at p -value < 0.01 . A one-unit increase in the unemployment rate is associated with a substantial 0.858-unit increase in entrepreneurship development, highly statistically significant at p -value < 0.001 . A one-unit increase in the unemployment rate is associated with a 0.074-unit increase in the growth of enterprises; not statistically significant (p -value = 0.211). A one-unit increase in the unemployment rate is associated with a 0.032-unit increase in innovativeness; not statistically significant (p -value = 0.601).

The table also shows that a one-unit increase in the domestic interest rate is associated with a 0.188-unit increase in the exchange rate fluctuation, highly statistically significant at $p\text{-value} < 0.001$. A one-unit increase in the domestic interest rate is associated with a 0.362-unit increase in market expansion, highly statistically significant at $p\text{-value} < 0.001$. A one-unit increase in the domestic interest rate is associated with a 0.197-unit increase in the inflation rate, highly statistically significant at $p\text{-value} < 0.001$. A one-unit increase in the domestic interest rate is associated with a 0.055-unit increase in the total tax rate; not statistically significant ($p\text{-value} = 0.297$). There is a slight negative association between the domestic interest rate and innovativeness, but it is not statistically significant ($p\text{-value} = 0.393$). There is a slight negative association between the domestic interest rate and the growth of enterprises, but it is not statistically significant ($p\text{-value} = 0.469$). A one-unit increase in the domestic interest rate is associated with a substantial 0.478-unit increase in entrepreneurship development, highly statistically significant at $p\text{-value} < 0.001$.

The table shows that a one-unit increase in the exchange rate fluctuation is associated with a 0.220-unit increase in the inflation rate, highly statistically significant at $p\text{-value} < 0.001$. There is a slight negative association between the fluctuation of the exchange rate and the total tax rate, but it is not statistically significant ($p\text{-value} = 0.655$). There is a small positive association between the fluctuation of exchange rate and innovativeness, but it is not statistically significant ($p\text{-value} = 0.844$). There is a small positive association between the fluctuation of the exchange rate and the growth of enterprises, but it is not statistically significant ($p\text{-value} = 0.656$). There is a minimal positive association between the exchange rate fluctuation and entrepreneurship development, but it is not statistically significant ($p\text{-value} = 0.895$). A one-unit increase in the exchange rate fluctuation is associated with a substantial 0.416-unit increase in market expansion, statistically significant at $p\text{-value} < 0.001$.

The table shows that a one-unit increase in the inflation rate is associated with a -0.100-unit decrease in the total tax rate, marginally insignificant at $p\text{-value} = 0.060$. A one-unit increase in the inflation rate is associated with a -0.107-unit decrease in innovativeness. There is a small positive association between the inflation rate and the growth of enterprises, but it is not statistically significant ($p\text{-value} = 0.810$). A one-unit increase in entrepreneurship development is associated with a 0.159-unit increase in the inflation rate. A one-unit increase in market expansion is associated with a 0.328-unit decrease in the inflation rate, statistically significant at $p\text{-value} < 0.001$.

The table shows that a one-unit increase in the total tax rate is insignificantly associated with a -0.128-unit decrease in innovativeness ($p\text{-value} > 0.05$).

value = 0.066). There is a slight negative association between the growth of enterprises and the total tax rate, but it is not statistically significant (p-value = 0.775). A one-unit increase in entrepreneurship development is associated with a 0.145-unit increase in the total tax rate, statistically significant at p-value < 0.05. There is a slight negative association between market expansion and the total tax rate, but it is not statistically significant (p-value = 0.332). There is a slight negative association between market expansion and entrepreneurship development, but it is not statistically significant (p-value = 0.347). A one-unit increase in entrepreneurship development is insignificantly associated with a 0.092-unit increase in the growth of enterprises. There is a small positive association between the growth of enterprises and innovativeness, but it is not statistically significant (p-value = 0.704). These results provide insights into the covariance between the latent variables in the model. The statistical significance does not imply causation, and all the results are below 0.5 except for the covariance between the unemployment rate and entrepreneurship development. However, these unveil that there is no covariance between the latent variables.

Table 4.
Model Fit Summary

	Default model	Independence model
RMR	.031	.375
GFI	.931	.264
AGFI	.912	.211
PGFI	.732	.246
NFI	.981	.000
RFI	.977	.000
IFI	.996	.000
TLI	.996	.000
CFI	.996	.000
PRATIO	.842	1.000
PNFI	.826	.000
PCFI	.839	.000
RMSEA	.025	.373
LO 90	.016	.369
HI 90	.033	.377

Source: AMOS SPSS, 2023

Table 4 shows the RMR value of 0.031, which suggests a reasonably good fit, as it is a relatively small value. The GFI value 0.931 suggests a good fit,

as it is close to 1. The AGFI value of 0.912 indicates model fit, although it is slightly lower than GFI. The PGFI value of 0.732 indicates that considering the model's simplicity, it still provides a reasonably good fit. The NFI value of 0.981 suggests a perfect fit, as it is close to 1. The RFI value 0.977 indicates a perfect fit relative to the null model. The IFI value of 0.996 indicates a significant fit improvement over the baseline model. The TLI value 0.996 suggests a perfect fit, accounting for model complexity. The CFI value of 0.996 suggests an excellent fit.

The PRATIO value of 0.842 indicates a relatively good balance between fit and complexity, with a lower value being preferable. The PNFI value of 0.826 suggests a reasonable fit after adjusting for model complexity. The PCFI value of 0.839 suggests a relatively good fit after adjusting for model complexity. The RMSEA value of 0.025 suggests a relatively good fit of the default model to the observed data. The lower 90% Confidence Interval for RMSEA represents the lower bound of the 90% confidence interval for the RMSEA. It provides a range of plausible values for the true RMSEA. The lower limit of 0.016 indicates a relatively narrow range of plausible values for the RMSEA. The upper 90% Confidence Interval for RMSEA represents the upper bound of the 90% confidence interval for the RMSEA. A higher upper limit suggests a broader range of plausible values for the RMSEA. Thus, the upper limit value of 0.033 is still relatively small, indicating a relatively precise estimate of the RMSEA.

Table 5.
Regression Weights

			Estimate	SE.	CR.	P-value
Entrepreneurial development	<---	Unemployment	.957	.016	58.464	***
Entrepreneurial development	<---	Fair Domestic interest rate	1.077	.044	24.524	***
Innovativeness	<---	Moderate exchange rate fluctuation	.967	.015	66.428	***
Market expansion	<---	Moderate inflationary rate	.943	.018	53.134	***
Growth of business enterprises	<---	Acceptable total tax rate	.962	.014	66.781	***

***p < .001.

Table 5 shows the regression weights on the effect of different variables. The estimated regression weight ($\beta = 0.957$; C.R.= 58.464) for the relationship between entrepreneurial development and unemployment has a p-value less than 0.01. This implies an expected 0.957-unit increase in entrepreneurial development for a one-unit increase in unemployment. This means that unemployment has a significant positive effect on entrepreneurial development.

The result ($\beta = 1.077$; C.R.= 24.524) for the relationship between entrepreneurial development and the fair domestic interest rate has a p-value less than 0.01. A one-unit fair domestic interest rate increase relates to an estimated 1.077-unit increase in entrepreneurial development. This shows that a fair domestic interest rate has a positive significant effect on entrepreneurial development.

The result ($\beta = 0.967$; C.R.= 66.428) on the relationship between innovativeness and moderate exchange rate fluctuation has a p-value of less than 0.01. This suggests that a one-unit increase in moderate exchange rate fluctuation is associated with a 0.967-unit increase in innovativeness. This shows that moderate fluctuation of the exchange rate significantly positively affect innovativeness.

The result ($\beta = 0.943$; C.R.= 53.134) shows the relationship between a moderate inflationary rate and market expansion with a p-value less than 0.01. This suggests that a one-unit increase in moderate inflationary rate is associated with a 0.943 unit increase in market expansion. This shows that a moderate inflationary rate has a positive significant effect on market expansion.

The result ($\beta = 0.962$; C.R.= 66.781) shows the relationship between the growth of business enterprises and an acceptable total tax rate with a p-value less than 0.01. A one-unit increase in acceptable total tax rate is associated with an estimated 0.962 unit increase in the growth of business enterprises. This means that an acceptable total tax rate has a significant positive effect on the growth of business enterprises.

Discussion of Findings

Findings showed that the unemployment rate significantly positively affects entrepreneurial development. This implies an interesting and potentially complex relationship between unemployment and entrepreneurship. This builds upon Akinyemi et al.'s (2018) finding, indicating that engaging in

entrepreneurial endeavours will decrease unemployment. The finding of this study aligns with that of Mahadea and Kaseeram (2018), who indicate a positive linear connection between the unemployment rate and total entrepreneurial activity. The finding reveals that high levels of unemployment create a pool of individuals seeking alternative means of livelihood. The finding also reflects a scenario where individuals are driven to entrepreneurship out of necessity rather than choice. Fairlie and Fossen (2020) asserted that entrepreneurship is necessary when individuals start their businesses due to a lack of other viable employment options.

Findings showed that a moderate inflationary rate positively affects SMEs' market expansion. This supports the finding of Isola and Mesagan (2018) that a high inflation rate negatively affects the output of SMEs. This study advances the finding of Ceylan (2021) that the inflation rate significantly affects financial distress. Inflationary rates affect financial distress and negatively affect SMEs' market expansion. Also, high inflation often leads to increased operational costs for businesses. When faced with rising costs, SMEs could face challenges sustaining and expanding their operations. Di Giovanni et al. (2022) asserted that inflation can disrupt supply chains as suppliers may adjust prices or face financial challenges. SMEs that are heavily reliant on specific suppliers or with supply chain networks will always anticipate a moderate inflationary rate.

Findings showed that an acceptable total tax rate has a significant positive effect on the growth of business enterprises. The significant positive effect implies that an increase in the acceptable total tax rate is associated with an increase in the growth of business enterprises. The finding unveils essential implications for the relationship between fair tax policies and business development. This supports the finding of Harju, Koivisto, and Matikka (2022) that the corporate tax rate significantly impacts small businesses' overall operations. High total tax rates can reduce the profitability of businesses, leaving them with fewer resources to reinvest in their operations. Often more sensitive to financial constraints, SMEs may be particularly vulnerable to the negative effect of high total tax rates. The finding also indicates that a favourable tax environment is crucial for fostering an entrepreneurial climate that encourages innovation and business expansion.

Findings showed that fair domestic interest rate by banks has a significant positive effect on entrepreneurial development. This refutes the finding of Adeleke et al. (2018) that the lending rate of banks showed a non-significant negative impact on entrepreneurship development. The finding of this study reveals important insights into the complex relationship between financial variables and entrepreneurial activities. The positive

effect of fair domestic interest rates on entrepreneurial development implies that considerable interest rates make borrowing more affordable for entrepreneurs. High domestic interest rates could disproportionately affect SMEs, which may have limited access to alternative financing options. Entrepreneurs, particularly those with innovative ideas or needing startup capital, may find it easy to secure affordable loans, impacting their ability to initiate or grow their ventures.

Findings showed that moderate fluctuation of the exchange rate has a significant positive effect on the innovativeness of SMEs. This advances the study of Belghitar et al. (2021), which found that fluctuations in the exchange rate exert a significant negative impact on the performance of SMEs. Moderate fluctuations in the exchange rate can significantly affect the costs of importing raw materials and goods. Businesses that struggle to predict and manage currency risks may become more risk-averse, diverting resources away from innovation to build financial stability and resilience against unforeseen economic challenges.

Conclusion and Recommendations

This study elucidates the relationship between the economic environment and entrepreneurial development within SMEs. The catalytic role of unemployment in fostering entrepreneurial initiatives characterises the dynamic nature of Nigerian business environments. Simultaneously, the importance of a balanced and favourable tax environment, as revealed by the positive impact of an acceptable total tax rate on business-firm growth, highlights the necessity of business-supportive policy measures. The affirmative effect of fair domestic interest rates on entrepreneurship development indicates the necessity of deliberate policy measures to guarantee a favourable financial environment for SMEs. The primary effect of mild exchange rate fluctuations on the innovativeness of SMEs highlights how crucial it is to preserve stability in the face of external economic forces.

The government should establish targeted support programmes that facilitate entrepreneurship education, mentorship, and access to resources for the unemployed. By investing in training programmes and initiatives that enhance entrepreneurial skills, governments and relevant organisations can harness the latent potential within the unemployed workforce, fostering the creation of new ventures and contributing to economic growth. Policymakers and stakeholders should also consider a comprehensive approach to strike a balance that promotes entrepreneurship while concurrently addressing the broader issues related to employment and economic stability.

Policymakers should implement measures that mitigate the impact of inflation on SMEs. This may include adopting inflation-targeting monetary policies, providing financial support mechanisms, and creating a stable economic environment. Also, incentivising innovation and productivity enhancements within SMEs can help counteract the adverse effects of inflation. Policymakers should consider tax reforms aimed at reducing the burden on businesses. This may involve simplifying tax structures, providing tax incentives for business expansion, and ensuring a fair and transparent tax system. Targeted policies that promote growth can be developed by conversing with stakeholders and business executives to learn about their unique issues and tax-related worries.

Financial institutions and policymakers should explore measures that make financing more accessible and affordable for entrepreneurs. This might involve implementing policies to cut interest rates for small businesses, developing programmes specifically for lending, and encouraging financial literacy to enable business owners to manage funding alternatives successfully. Policymakers should consider implementing measures to stabilise exchange rates and provide SMEs with tools and resources to navigate currency risks effectively. Collaboration between government agencies, financial institutions, and SMEs is crucial to developing strategies that foster an environment conducive to innovation and sustainable growth.

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