Economic Environment and Organizational Performance of Manufacturing Firms in Rivers State, Nigeria

Oga, Kelechi Charles And Prof. B. Chima Onouha

Department of Management, Faculty of Management Sciences, University of Port Harcourt, Nigeria.

DOI: 10.29322/IJSRP.10.05.2020.p101119
http://dx.doi.org/10.29322/IJSRP.10.05.2020.p101119

Abstract- The aim of this paper is to examine the relationship between economic environment (inflation rates and interest rates were used as the dimensions) and organizational performance (the measures used was profitability) of manufacturing firms in Rivers State, Nigeria. We therefore adopted quasi experimental design in the form of cross-sectional research survey design and our population was 48 manufacturing firms gotten from Manufacturers' Association of Nigeria, Rivers State Chapter and the sample size was 44 using the Krejcie and Morgan (1970) sample size determination table; also, simple random sampling technique was used and the research instrument. Data was collected through questionnaire as the research instrument which was analyzed using spearman's rank order correlation coefficient with the aid of Statistical Package for Social Sciences. Our findings revealed that inflation rates and interest rates significantly influence profitability respectively, thus we concluded that economic environment significantly influence organizational performance. We therefore recommend that managers of manufacturing firms should effectively monitor the likely changes in its economic environment such as changes in inflation and interest rates, so that they can make right decisions that will enhance the performance, especially their profitability.

***Index Terms*-** Economic Environment; Inflation Rates; Interest Rates; Organizational Performance; Profitability

I. Introduction

To achieve a continuous performance is one of the most important aims of any business organization including the manufacturing firms because only through an enhanced performance, organizations are able to grow. Thus, organizational performance has become one of the most important variables in the organization worthy of constant attention by managers. Thus, Evwierhurhoma and Onouha (2020) expressed that in business, organizational performance is known as a central outcome variable of interest, ranging from human resources and marketing to operations department. More so, in today's business environment that is marred with frequent changes, knowing the factors that will yield enhanced performance and the ways in which it can be measured is very essential to the survival of all organization in respective of the size. This is because organizational performance is very important since it provide information on the quality of processes performed which offers support on how the objectives of the organization are attained in an efficient and effective way.

As important as the organization's set objectives, policies as well as strategies to achieve the set objectives, they must be aligned with changes in the business environment; else organizational performance may not be likely attained. Thus, Thompson and Strickland (2003) expressed that no matter how good strategies formulated in the organization are, performance will only be realized and maintained if the formulated strategies are appropriately in conformity with the business environment of the organization.

The relationship between business and its environment is one of mutuality; this is because the environment exerts pressure on the business while the business, in turn, influences its environment. It can thus be seen that organizations are subsumed in the environment with which they interact by importing inputs and exporting outputs. The sum of these interrelationships within the business and between the business and the society is what is referred to as business environment (May, Quinn, Murray & Gibson, 2009). Business environment are factors which surrounds the business organization and have the ability to affects the decisions, strategies, process and performance of the business organization. Since business organization continuously makes demand on the society and the society makes demands on the business organizations; managers in any organization must therefore interact effectively and efficiently with and respond to environmental factors internal or external to their organizations (Otokiti & Awodun, 2010).

Furthermore, Hitt, Ireland, Sirmon and Trahms (2011) expressed that regardless of the sector in which organizations operate in, the business environment especially that of the external environment (such as the economic environment) influences organization's performance as they carry out their operations. Economic environment is changing rapidly and this change is characterized by such phenomena as globalization, changing customer and investor demands, ever-increasing product-market competition. More so, global economic recession of today's world poses threat that can devastate an organization if managers are unable to manage effectively the economic environment. This is because; the quality and the ability of managers to understand the organization's environmental factors and respond aptly and fitly to those factors are essential factors affecting the performance of organizations. To compete successfully in this environment, organizations continually need to improve their performance by reducing cost, innovating products and processes and improving quality as well as productivity.

The environment in which the Nigerian manufacturing firms operate has been marred with various types of turbulence.

Also, manufacturing firms' performance in Nigeria over the years has been affected by environmental factors in different dimensions vis-à-vis reduced sales, stumpy utilization of capital, and soaring production cost brought by the dynamic and uncertain nature of the business environment, which has resulted in the failure in the manufacturing sector to attain stated organizational objectives in terms of performance. Also, the increasing and uncontrollable crime rate, religious and communal clashes and high level of insecurity in Nigeria have resulted in the inability of the manufacturing firm to enhance their performance while government economic policies over the years has not benefited the sector as it should.

The economic environment just like other factors in the external environment is fill with uncertainty, complexity and dynamism; thus to effectively manage this complexity and uncertainty and achieve enhanced performance, organization must be aware of and fully understand the different manifestations of the economic environment. It is such understanding that organizations can take actions such as building capabilities and core competences that would help them to buffer themselves against negative impact of the changes in the economic environment while improving performance. Thus, the purpose of this study is to examine the extent of the relationship between economic environment and organizational performance in the manufacturing sector of Rivers State, Nigeria.

The paper is concerned with the relationship of the economic environment vis-à-vis inflation rate and interest rate as its dimensions on organizational performance vis-à-vis profitability as its measures. Therefore, the research question is: what is the relationship between inflation rate and profitability; and what is the relationship between interest rate and profitability; while the hypotheses is that there is no significant relationship between inflation rate and profitability; and there is no significant relationship between interest rate and profitability of manufacturing firms in Rivers State, Nigeria.

II. Literature Review

Theoretical Framework

Institutional theory is adopted as the underpinning theory for this study which postulates that the business environment that surrounds the business firms exerts pressure on the performance of the firm (Kinuu, 2014). Thus, Scott (2008) expressed that the exerted pressures from the environment incites diverse reaction from the organization as they seek legitimacy in order to survive and prosper in their environment. This theory provides a non-economic explanation of organizational behaviors and strategies (Scott, 2008). Institutions (such as the government, central bank of Nigeria) regulate economic activities which affect organizational performance by setting the rules of the game as the basis for production, exchange, and distribution. Thus, it is important for manufacturing firms to follow established rules, norms, and belief systems emanating from the business environment to gain legitimacy (Yang, Su, & Fam, 2012) and judiciously utilize their resources in order to adapt to specific institutional environments such as the economic environment in view of enhancing their performance.

Concept of Economic Environment

Economic environment is part of the business environment and business environment has to do with a set of forces or factors inside and outside the organization's precincts which are capable of influencing the operations of the organization. These set of environmental forces changes from time to time and the changes can either brings an opportunity or a threat to the organization. There are two types of business environment namely: internal environment and external environment. The internal environment includes situational factors within the organization that the organization has control of. These factors are largely the result of decisions of the management process and they are under management control and they include employee, processes, work environment strategy. The internal environmental forces can be influenced by management of the organization towards attaining organizational goals and objectives. More so, the external environments are set of forces or institutions that are outside the control of the organization which impact on the operations of the organization. These forces include the economic environment, political environment, social environment, cultural environment, and technological environment. However, this paper focused on the economic environment.

The economic environment has to do with the general economic indices of the country or region in which the business organization is operating. Due the fact that today's business organizations are operating in a global environment, the economic dimension has become exceedingly complex and creates even more uncertainty and complexity for organizations as well as managers (Richard, 2013). The economic environment goes a long way to determining and defining the opportunities for an organization; this is because an expanding economy provides operational scope for the organizational existence as well as for the establishment of new ones (Ogundele, 2015).

Furthermore, Olawele (2014) expressed that the economic environment include factors such as fiscal and monetary policies, inflation rates, interest rates, unemployment and foreign exchange rates, which are capable of influencing the performance of the organization. Business organizations function in an economic environment which shapes, and is shaped by their activities and at the same time comprises of variables which are dynamic, interactive and uncertain which, in part are affected by government policy related to the economy. As an essential part of the macro economy, government exercises a significant degree of influence over the flow of income, interest rate as well as inflation rate which can positively or negatively affect the performance of the organization. However, this study is limited to only inflation rates and interest rates.

Inflation rate has to do with an upward and continuous movement in the general level of prices over a given period of time which also means a fall in the value of money. In the same vein, Muthama, Mbaluka and Kalunda (2013) expressed that it is a decrease in the purchasing power of the nation's currency. In order words it is a continual increase in the level of consumer prices which makes things to get more expensive. Inflation can be as a result of rising production costs predominantly from increase in wages as well as from high cost of energy. This eventually makes firms pass on the increased costs to the consumer in the form of higher prices. Another reason for inflation in the economy can be as a result of too much demand in the economy brought about by tax cuts, cheaper borrowing or excessive government spending, which encourages firms to take advantage of the consumer's willingness to spend money by increasing their prices which may cause further price rises.

D' Alberto (2015) defined interest as the cost of hiring money or credit. In other word, it is the dividends one gets for not hoarding money. More so, Kimutai (2003) defines interest rate as the price one pays for using borrowed money. Interest rate is the fee charged by a lender to a borrower for the use of borrowed money, which is expressed as an annual percentage of the principal and it is dependent upon the time value of money, the credit risk of the borrower, inflation rate among others (Udu, 2015). Thus, interest rate has to do with the price lenders expect in exchange of current claims for greater future claims to anything especially money. Thus, it is a certain sum of money paid or received; debtor pays interest when he borrows while creditor receives interest when he lent money.

III. Organizational Performance

The concept of organizational performance has different meaning to different persons just like most concepts in management. However, organizational performance has over the years become synonymous with concept such as effectiveness, efficiency, productivity, earning capacity etcetera. Based on this, there is need for a clearer definition. Didier (2002) articulated that performance has to do with achieving the goals of the organization in conformity with the firm's orientations. In other words, organizational performance is attaining organizational stated objectives. This means that organizational performance is the result of a comparison between the outcome and the objective of the organization. Thus, the fulfillment of stated objectives involves attaining a certain level of performance. In the same vein, Bourguignon (1995) expressed that organizational performance can only be achieved when targeted objectives in the organization are reached.

More so, Rolstadas (1998) expressed that organizational performance is a complex relationship involving seven performance criteria that must be followed which has to do with efficiency, effectiveness, productivity, quality, innovation, quality of work, as well as profitability. An organization can only be deemed to have achieved performance if the criteria listed above have been attained. However, this study is limited to profitability. Profitability according to Griffith and Carroll (2001) is the ability of the organization to generate income minus its expenses. More so, profitability is a major pointer of organization's good performance from its activities (Evwierhurhoma & Onouha, 2020). In today's economy, where strong competition dominates and where all processes are highly dependent on information, the success of an organization requires specific measurement and management systems. To comply with the principle of rational economics, an organization must systematically analyze its financial result. In other words analyze its profitability.

IV. Methodology

This study adopted a cross sectional survey that studies the relationship between economic environment and organizational performance. The above research design was adopted because the variables were not under our control. The unit of analysis was on the organizational level of manufacturing firms operating in Rivers State which consisted of 48 manufacturing firms gotten from Manufacturers' Association of Nigeria, Rivers State Chapter and the sample size was 44 using the Krejcie and Morgan (1970) sample size determination table. More so, simple random sampling technique was used and the research instrument used was the questionnaire which consisted of three respond choices with point scales ranging from 1 to 5 indicating strongly disagree, disagree, indifference, agree and strongly disagree respectively.

Furthermore, economic environment (independent variable) was operationalized using inflation rate and interest rate while organizational performance (dependent) was operationalized using profitability. The validity of the questionnaire was tested using face and content validity while the reliability of the instrument was done using Cronbach's Alpha which show Cronbach's Alpha value greater than 0.7. Specifically, the reliability result is as follows: inflation rate – 0.884; interest rate – 0.852; profitability- 0.795. Furthermore, the retrieved questionnaire was 42(95.45) out of 44(100%) distributed questionnaire and all the 42 retrieved questionnaires were used for our analysis. Collected data was analyzed using the Spearman's Rank Order Correlation Coefficient Statistical with the aid of Statistical Package for Social Sciences (SPSS) within a significance level of 0.05.

V. Data Analysis and Result

Economic Environment and Organizational Performance

The association between economic environment and organizational performance is herein presented. It further displayed the statistical test of significance (PV= 0.05), as the basis of answering our stated research questions.

Table 1: Association between Economic Environment and Organizational Performance

Correlations

			Economic Environment	Organizational Performance
Spearman's rho	Economic Environment	Correlation Coefficient	1.000	.893**
		Sig. (2-tailed)	.	.000
		N	42	42
	Organizational Performance	Correlation Coefficient	.893**	1.000
		Sig. (2-tailed)	.000	.
		N	42	42

**. Correlation is significant at the 0.05 level (2-tailed).

Source**: SPSS: Output version, 25**

Table 1 above reveals a strong positive and significant relationship between economic environment and organizational performance. Economic environment is significant and positively influence organizational performance with (rho = 0.893, P = 0.000 < 0.05).

The Association between Inflation Rate and Profitability

The association between inflation rate and profitability is herein presented. It further displayed the statistical test of significance (PV 0.05), as the basis of answering our stated research questions.

Table 2: Association between Inflation Rate and Profitability

Correlations

			Inflation Rate	Profitability
Spearman's rho	Inflation Rate	Correlation Coefficient	1.000	.758**
		Sig. (2-tailed)	.	.000
		N	42	42
	Profitability	Correlation Coefficient	.758**	1.000
		Sig. (2-tailed)	.000	.
		N	42	42

**. Correlation is significant at the 0.05 level (2-tailed).

Source**: SPSS: Output version, 25**

Table 2 showed the Spearman's correlation coefficient (*rho* = 0.758 and P=0.000), this value showed that a strong association exist between inflation rate and profitability. The + sign of the rho value shows that a positive and significant relationship exists between the study variables.

The Association between Interest Rate and Profitability

The association between interest rate and profitability is herein presented. It further displayed the statistical test of significance (PV 0.05), as the basis of answering our stated research questions.

Table 3: Indicates the Association between Interest Rate and Profitability

Correlations

			Interest Rate	Profitability
Spearman's rho	Interest Rate	Correlation Coefficient	1.000	.886**
		Sig. (2-tailed)	.	.000
		N	42	42
	Profitability	Correlation Coefficient	.886**	1.000
		Sig. (2-tailed)	.000	.
		N	42	42

**. Correlation is significant at the 0.05 level (2-tailed).

Source**: SPSS: Output version, 25**

Table 3 showed the Spearman's correlation coefficient (*rho* = 0.886 and P=0.000), this value showed that a very strong association exist between interest rate and profitability. The + sign of the rho value shows that a positive and significant relationship exists between the study variables.

Regression Analysis/ Testing of Research Hypotheses

Table 4: Effect of Economic Environment vis-à-vis Inflation Rate and Interest Rate on Profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.961[a]	.835	.826	.84160

a. Predictors: (Constant), Inflation Rate, Interest Rate

Source**: SPSS: Output version, 25**

The empirical result (R-value 0.961) indicates that inflation rate and interest rate taken together has a strong effect on profitability. The R^2-value 0.835 implies that inflation rate and interest rate explained 83.5% increase in profitability in the studied firms while the remaining 16.5% could be due to the effect of extra variables that is not included in the study.

Table 5: Regression Analysis of the Coefficients of Economic Environment (Inflation Rate and Interest Rate) and Profitability

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.301	1.048		9.822	.000
	Inflation Rate	.518	.429	.381	6.060	.000
	Interest Rate	.624	.516	.702	8.824	.000

a. Dependent Variable: Profitability

Source**: SPSS: Output version, 25**

Test of Hypothesis 1

Table 2 reveals a PV =0.000< 0.05 as well Table 5 indicates that the relationship between inflation rate and profitability is significant statistically with a t-cal. = 6.060 greater than t-cri =1.96. Thus, the alternate hypothesis is hereby accepted. Similarly inflation rate as a predictor variable contributes (β=0.518) to the variation in profitability.

Test of Hypothesis 2

Table 3 reveals a P-value =0.000< 0.05 as well Table 6 indicates that the relationship between interest rate and profitability is significant statistically with a t-cal. = 8.824 greater than t-cri =1.96. Thus, the alternate hypothesis is hereby accepted. Similarly interest rate as a predictor variable contributes (β=0.624) to the variation in profitability.

VI. Discussion of Findings

From the findings it reveals that economic environment significantly influences organizational performance which is in line with Bagire and Namada (2013); Wehinger (2014) who expressed that the outcomes of organizations are majorly influenced by the changes in its environment such as the economic environment. Also, in concurrence with the above findings, Athanasoglou *et al* (2006) articulated that inflation rate, cyclical output and interest rates as dimensions of economic environment significantly influence the profit of an organization. Thus, economic factors can either bring success or adversity which significantly affects an organization's performance (Ehlers & Lazenby, 2011). In the same vein, Tacheva (2007) articulated that environmental changes can either favor or put the organization in a state of disfavor which affects its performance. Therefore, an enhanced organizational performance can only be attained when the organization effectively and efficiently respond to uncertainties, complexities as well as turbulence in its environment especially that of the economic environment. As a result, organizations should pay adequate attention to the changes that might occur in the economic environment as well as applying appropriate strategy in tackling it.

More so, from the findings, there is significant relationship between inflation rate and profitability, thus, Obamuyi (2013) articulated that business firms (especially manufacturing firms) can be negatively influenced by inflation given that sometimes they have the tendency to hold inventory over duration of time which affects their profitability. Also, Ambler (2003) expressed that higher inflation rates decreases competitiveness with trading partners, thus due to decreased competition, profits are likely to reduce. Therefore, business organization often time make necessary efforts to strive to safe guard their resources because inflation partly results in inefficiencies and its attendant generally decline organizational performance such as profitability.

Also, the findings shows that interest rate significantly affect profitability; this is because it predicts borrowing cost which can either impact significantly on an organization's return on equity (profitability) positively or negatively (Obamuyi, 2013). An increase in interest rates increases business cost, increases borrowing cost as well as decreases the expenditures of consumers which result in the reduction of organization's sales which in turn affects the profit of the organization. Business firms over and over again depends on funds from external sources for expansion; therefore, in a situation whereby an organization borrows money for its operations or expansion, an increase in interest rate will definitely have effect on its debts which have a way of decreasing the profits of the organization. However, in a situation of low interest rates, the cost of borrowing reduces which increase the buying power of consumers and as result the increase in the organization's sales which subsequently increases the profit of the organization.

VII. Conclusion and Recommendations

Our findings indicated that there is positive and significance relationship between economic environment and organizational performance of manufacturing firms in Rivers State, Nigeria. In other words, this study showed a positive and significant relationship between inflation rate and profitability and a significant relationship between interest rate and profitability. We therefore, concluded that economic environment influence organizational performance in the manufacturing firms in Rivers State. Hence, the capability of the manufacturing firms to understand the business environment (economic environment) is very important to enhancing their performance. This is because the business environment provides the needed resources and opportunities to the firm which is very essential to its existence; therefore, organizational performance is greatly tied to the business environment especially to its economic environment. We therefore recommend that managers of manufacturing firms should effectively monitor the likely changes in its economic environment such as changes in inflation and interest rates, so that they can make right decisions that will enhance the performance,

ISSN 2250-3153

especially their profitability. Also, managers of manufacturing firms should carefully analyze the economic trend and develop tactics in order to take advantage of the opportunities the changes might bring at the same time shielding themselves from any threats.

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Authors

First Author – OGA, Kelechi Charles, Department of Management, Faculty of Management Sciences, University of Port Harcourt, Nigeria.

Second Author – Prof. B. Chima Onouha, Department of Management, Faculty of Management Sciences, University of Port Harcourt, Nigeria.