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Impact of Inflation on the Growth and Survival of Small and Medium Enterprises (SMES) in Nigeria

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Abstract

This study examines the impact of inflation on the growth and survival of Small and Medium Enterprises (SMEs) in Nigeria. SMEs play a vital role in economic development through job creation, poverty reduction, and contribution to national output. However, persistent inflation in Nigeria has raised concerns about their sustainability. The study specifically investigates how inflation affects SME growth, survival, and operational performance. A descriptive research design was adopted, and data was collected using structured questionnaires administered to SME owners and managers. The data were analyzed using descriptive statistics and multiple regression analysis. Findings from the study reveal that inflation has a significant negative effect on SME growth by increasing the cost of raw materials, reducing profit margins, and limiting business expansion. It also significantly affects SME survival by weakening financial stability, reducing consumer demand, and increasing the risk of business closure. Furthermore, inflation was found to create serious operational challenges, including high transportation costs, unstable cash flow, difficulty in accessing credit, and increased overall business expenses. The study concludes that inflation is a major constraint to SME performance in Nigeria. It recommends effective inflation control policies, improved access to affordable credit, provision of incentives, and infrastructural development to support SME sustainability. These measures will enhance the resilience and growth of SMEs in Nigeria.

Keywords: Inflation; Small and Medium Enterprises (SMEs); Business Growth; Business Survival; Operational Challenges

I. Introduction

A. Background to the Study

Small and Medium Enterprises (SMEs) are widely recognized as a cornerstone of economic development in both developed and developing economies. They play a vital role in stimulating economic activities by promoting entrepreneurship, generating employment opportunities, and contributing significantly to national income. In many countries, SMEs serve as the backbone of the private sector because they constitute a large proportion of business establishments and act as a catalyst for innovation, competition, and economic diversification. Through their flexibility and ability to adapt quickly to changing market conditions, SMEs contribute to the growth of local industries, improve productivity, and enhance the overall efficiency of economic systems (Adeleke & Yusuf, 2022).

In the context of Nigeria, SMEs are particularly important due to the country's large population and the need to create sustainable employment opportunities. The sector accounts for a significant percentage of business enterprises and provides jobs for millions of Nigerians, especially youths and low-income earners. SMEs operate across various sectors of the economy, including agriculture, manufacturing, trade, and services. Their activities support local production, encourage the use of indigenous resources, and promote regional economic development. Furthermore, SMEs contribute to poverty reduction by creating income-generating opportunities for individuals who may not have access to formal employment. Through these contributions, SMEs help to promote inclusive growth and improve the living standards of many households in Nigeria (Ebinum & Ehiedu, 2024).

Despite their significant contributions to economic development, SMEs in Nigeria operate in a challenging and often unstable business environment. The macroeconomic climate is characterized by issues such as inadequate infrastructure, limited access to finance, unstable government policies, and economic fluctuations. These structural and institutional constraints often hinder the growth and sustainability of small businesses. Among these challenges, inflation has emerged as one of the most

Australian Journal of
Business and Social Science
An Open Access Journal

persistent and damaging macroeconomic problems affecting business performance in Nigeria. Inflation refers to the continuous increase in the general price level of goods and services over time, which reduces the purchasing power of money and increases uncertainty in economic planning and decision-making (Okorie & Onyekachi, 2023).

In recent years, Nigeria has experienced significant inflationary pressures, which have created serious challenges for businesses, particularly SMEs. Inflation rates have increased steadily since 2022, driven by factors such as exchange rate depreciation, rising fuel and transportation costs, disruptions in food supply, and structural economic reforms. The removal of fuel subsidies, fluctuations in the value of the national currency, and rising import costs have further intensified price increases across the economy. Consequently, businesses are faced with rapidly rising operational costs, making it difficult for many SMEs to maintain stable production levels and competitive pricing strategies (Ogunleye & Adebayo, 2023; Lawal & Hassan, 2024).

Persistent inflation has far-reaching implications for the performance and sustainability of SMEs. As the cost of raw materials, machinery, transportation, electricity, and rent increases, the operational expenses of businesses rise significantly. At the same time, inflation erodes the real income of consumers, thereby reducing their purchasing power and demand for goods and services. This situation places SMEs in a difficult position where they must either increase prices and risk losing customers or maintain lower prices and suffer reduced profit margins. In many cases, these conditions lead to unstable cash flows, reduced productivity, and limited capacity for reinvestment or expansion (Adeleke & Yusuf, 2022; Ebinum & Ehiedu, 2024).

Another critical challenge associated with inflation is its impact on access to finance. In an attempt to control inflation, monetary authorities often adopt tight monetary policies, which result in higher interest rates. Higher borrowing costs make it difficult for SMEs to obtain loans from financial institutions, particularly because many small businesses already face credit constraints due to inadequate collateral and perceived business risks. As a result, many SMEs struggle to finance their operations, expand their businesses, or invest in modern technology that could improve productivity and competitiveness (Okorie & Onyekachi, 2023).

B. Statement of the Problem

Small and Medium Enterprises (SMEs) are widely acknowledged as key drivers of economic growth, employment generation, and poverty reduction in Nigeria. Despite their strategic importance, the survival and growth of many SMEs remain highly uncertain. A major factor contributing to this challenge is the persistent inflationary environment that has characterised the Nigerian economy in recent years. Since 2022, inflation has continued to rise, eroding purchasing power, increasing business costs, and intensifying operational risks for SMEs (Ogunyomi & Bruning, 2022; Ogunleye & Adebayo, 2023).

The sustained rise in the prices of raw materials, energy, transportation, and other production inputs has significantly increased the cost of doing business for SMEs. Many small firms operate on thin profit margins and lack the financial capacity to absorb continuous cost increases or transfer them fully to consumers without losing market share. As a result, SMEs experience declining profitability, reduced output, and constrained growth opportunities (Adeleke & Yusuf, 2022; Lawal & Hassan, 2024). These challenges are further compounded by weak consumer demand caused by declining real incomes in an inflationary economy.

In response to inflationary pressures, monetary authorities often implement contractionary policies such as higher interest rates to stabilize prices. While such policies may help to curb inflation, they also raise borrowing costs and restrict access to credit for SMEs. Given their limited collateral, poor credit histories, and heavy reliance on external financing, SMEs are disproportionately affected by tightening financial conditions (Ogunleye & Adebayo, 2023; Ebinum & Ehiedu, 2024). This situation limits investment in expansion, innovation, and technology adoption, thereby undermining SME growth and competitiveness.

Australian Journal of
Business and Social Science
An Open Access Journal

Empirical evidence indicates that prolonged inflation has contributed to high business failure rates among SMEs in Nigeria. Many enterprises are forced to downsize operations, lay off workers, suspend production, or completely exit the market to survive (Burodo, Mustapha, & Lawal, 2024; Afolayan & Ogunleye, 2025). These outcomes not only threaten the sustainability of SMEs but also weaken their contribution to employment generation and economic development.

Despite the severity of these challenges, existing studies have largely focused on the relationship between inflation and overall economic growth, with limited attention given to how inflation simultaneously affects both the growth and survival of SMEs in Nigeria. There is insufficient empirical evidence on the specific mechanisms through which inflation influences SME performance, particularly in the context of recent economic reforms and heightened price instability. This gap in the literature underscores the need for a focused investigation into the impact of inflation on the growth and survival of SMEs in Nigeria, which this study seeks to address.

C. Objectives of the Study

The main objective of this study is to examine the impact of inflation on the growth and survival of Small and Medium Enterprises (SMEs) in Nigeria. The specific objectives are to:
i. examine the effect of inflation on the growth performance of SMEs in Nigeria
ii. assess the impact of inflation on the survival and sustainability of SMEs in Nigeria
iii. analyze the operational challenges SMEs face as a result of rising inflation in Nigeria

D. Research Questions

The study seeks to provide answers to the following research questions:
i. What effect does inflation have on the growth of SMEs in Nigeria?
ii. How does inflation influence the survival of SMEs in Nigeria?
iii. What key challenges do SMEs encounter due to inflationary pressures in Nigeria?

E. Research Hypotheses

$H0_1$: Inflation has no significant effect on the growth performance of Small and Medium Enterprises (SMEs) in Nigeria.
$H0_2$: Inflation has no significant impact on the survival and sustainability of Small and Medium Enterprises (SMEs) in Nigeria.
$H0_3$: Rising inflation does not significantly influence the operational challenges faced by Small and Medium Enterprises (SMEs) in Nigeria.

F. Significance of the Study

This study is significant both practically and academically, as it provides valuable insights into the effects of inflation on the growth and survival of Small and Medium Enterprises (SMEs) in Nigeria. The findings are expected to benefit a wide range of stakeholders, including policy makers, business operators, financial institutions, and the academic community.

From a policy perspective, the findings of this study will be useful to government authorities and regulatory agencies responsible for economic management and SME development. By providing empirical evidence on how inflation influences SME performance, the study will assist policy makers in designing and implementing macroeconomic and sector-specific policies that are more responsive to the needs of SMEs in an inflationary environment. Such policies may include targeted fiscal incentives, price stabilisation measures, and supportive credit schemes aimed at enhancing SME resilience.

For SME owners and managers, the study will offer practical insights into the risks posed by persistent inflation and the strategies that can be adopted to mitigate its adverse effects. Understanding how inflation affects operating costs, pricing decisions, access to finance, and consumer demand will enable SME operators to make informed managerial decisions, improve financial planning, and adopt adaptive strategies that enhance business sustainability and long-term growth.

Australian Journal of
Business and Social Science
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Financial institutions, including commercial banks and microfinance institutions, will also benefit from the findings of this study. By highlighting the inflation-induced constraints faced by SMEs, the study can inform the design of financing products, loan repayment structures, and risk assessment frameworks that are better aligned with the operating realities of SMEs. This may contribute to improved access to credit and reduced default risks in the SME financing segment.

Academically, this study will contribute to the existing body of knowledge on the relationship between inflation and enterprise performance in developing economies. While prior studies have examined inflation and macroeconomic growth broadly, there is limited empirical literature focusing on its combined impact on the growth and survival of SMEs in Nigeria. This study helps to bridge this gap by providing context-specific evidence and deepening understanding of inflation-SME dynamics.

II. Literature Review

A. Conceptual Review

(a) Concept of Inflation

Inflation is generally defined as a sustained and continuous increase in the overall price level of goods and services within an economy over a given period of time. When inflation occurs, the purchasing power of money declines, meaning that a unit of currency buys fewer goods and services than it did previously. As a result, households, businesses, and governments experience changes in their economic behavior and financial planning. Inflation is therefore regarded as one of the most important macroeconomic indicators used to assess the stability and performance of an economy because it directly affects consumption, investment, savings, and production decisions (Adeleke & Yusuf, 2022).

From an economic perspective, inflation reflects an imbalance between the supply of money and the availability of goods and services in the economy. When the quantity of money in circulation increases faster than the production of goods and services, prices tend to rise. Economists often categorize inflation into different types depending on its underlying causes. One common type is demand-pull inflation, which occurs when the demand for goods and services exceeds their supply. Another type is cost-push inflation, which arises when the cost of production inputs such as raw materials, labour, and energy increases, thereby forcing producers to raise prices. Additionally, structural inflation may occur in developing economies where persistent inefficiencies in production systems, infrastructure, and market institutions lead to continuous price increases (Ogunleye & Adebayo, 2023).

In developing economies such as Nigeria, inflation is often influenced by a combination of structural, monetary, and external factors. Structural factors include inadequate infrastructure, inefficient distribution systems, poor transportation networks, and low industrial productivity. These challenges increase production and distribution costs, which are ultimately passed on to consumers in the form of higher prices. Monetary factors also contribute to inflation when there is excessive growth in money supply resulting from expansionary fiscal policies, deficit financing, or weak monetary control. External shocks, such as exchange rate depreciation, fluctuations in global oil prices, and rising costs of imported goods, further intensify inflationary pressures in countries that rely heavily on imports for production and consumption (Lawal & Hassan, 2024).

(b) Concept of Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are business organizations that operate on a relatively smaller scale in terms of capital investment, workforce size, and market share compared to large corporations. While there is no universally accepted definition of SMEs, they are commonly identified by their smaller operational scale, local market orientation, and limited asset base. In Nigeria, SMEs are typically classified based on the number of employees, annual turnover, and total assets (excluding land and buildings), following criteria set by government agencies and economic surveys. Generally, Nigerian SMEs employ between 10 and 199 people, with sectoral distinctions applied for manufacturing, services, and trade activities (Akinde & Alabi, 2024; Salome et al., 2024).

Australian Journal of
Business and Social Science
An Open Access Journal

SMEs are widely regarded as the backbone of the Nigerian economy due to their substantial contribution to economic output, employment generation, and social development. Research indicates that SMEs account for about 96% of all businesses in Nigeria, contribute roughly 48% to the country's Gross Domestic Product (GDP), and provide employment for over 80% of the national workforce across key sectors, including manufacturing, trade, services, and agriculture (Magaji, Musa & Abdullahi, 2024).

(c) Growth of SMEs

The growth of Small and Medium Enterprises (SMEs) refers to the measurable expansion of business operations over time, which may be manifested through increases in business size, output, revenue, market share, asset base, or employment levels. Growth is widely recognised as a key indicator of business success and long-term sustainability, reflecting a firm's ability to generate greater economic value, penetrate larger markets, and enhance its competitive position within the industry. As firms grow, they tend to achieve efficiencies of scale, attract investment, and contribute more substantially to national economic development.

(d) Survival of SMEs

SME survival refers to the continued operation and financial viability of small and medium enterprises over time despite internal challenges and external economic pressures. Survival is not merely about maintaining existence but also about sustaining performance, adapting to changing environments, and avoiding exit from the market. In dynamic and often unpredictable markets like Nigeria's, the ability of SMEs to survive is a fundamental measure of their resilience and long-term contribution to economic growth.

(e) Effect of Inflation on the Growth Performance of SMEs in Nigeria

Inflation has been widely documented as a significant macroeconomic factor that negatively affects the growth performance of Small and Medium Enterprises (SMEs) in Nigeria, primarily by increasing business costs, constraining investment, and weakening demand conditions. Empirical evidence from recent Nigerian studies shows that inflation is inversely related to SME performance, meaning that as inflation rises, growth indicators such as output, revenue, and market expansion tend to decline. For example, a 2025 study found a strong negative relationship between inflation and SME performance, indicating that rising price levels reduce SMEs' output and overall performance in the economy.

(f) Inflation affects Survival and Sustainability of SMEs

Inflation has a significant and multifaceted impact on the survival and sustainability of Small and Medium Enterprises (SMEs) in Nigeria. In the context of business operations, survival refers to an enterprise's ability to continue functioning over time, while sustainability encompasses the firm's capacity to maintain profitability, operational efficiency, and resilience in the face of economic challenges. Persistent inflation threatens both survival and sustainability by increasing production costs, eroding consumer purchasing power, and creating uncertainty in business planning and decision-making (Afolayan & Ogunleye, 2025; Burodo, Mustapha & Lawal, 2024).

(g) Operational Challenges Face SMEs

Small and Medium Enterprises (SMEs) in Nigeria face a complex array of operational challenges that significantly constrain their growth, profitability, and long-term sustainability. These challenges stem from both internal limitations, such as insufficient resources, limited managerial capacity, and inadequate skills, and external pressures, including macroeconomic volatility, poor infrastructure, regulatory bottlenecks, and intense market competition. Recent studies emphasize that these factors combine to create a highly demanding operating environment for SMEs, particularly in the context of rising inflation and economic instability (Akinde & Alabi, 2024; Ebinum & Ehiedu, 2024).

B. Theoretical Framework

(a) Cost-Push Inflation Theory

The Cost-Push Inflation Theory is the most appropriate theoretical framework for this study because it provides a clear explanation of how increases in production costs affect business operations and performance, particularly for Small and Medium Enterprises (SMEs). According to the theory, inflation occurs when the prices of production inputs—such as wages, raw materials, energy, and transportation—rise, compelling firms to increase the prices of goods and services in order to maintain profitability (Adeleke & Yusuf, 2022; Ogunleye & Adebayo, 2023). Unlike demand-pull inflation, which is triggered by excessive aggregate demand in the economy, cost-push inflation originates from supply-side pressures, including rising input costs, shortages of essential resources, and disruptions in production channels. These supply-side pressures generate operational and financial challenges that can significantly affect firm performance and sustainability.

The theory is particularly relevant for SMEs because these firms typically operate with limited financial reserves, narrow profit margins, and minimal capacity to absorb cost shocks. Unlike larger firms, which may have access to economies of scale, advanced technology, and better financing options, SMEs are disproportionately affected when input costs increase. When confronted with rising production expenses, SMEs are often forced to make a critical trade-off: increase prices and risk losing customers due to reduced affordability or absorb the costs and compromise profitability. Persistent cost-push inflation therefore constrains SMEs' operational capacity, limits reinvestment potential, reduces cash flow stability, and threatens long-term survival (Ebinum & Ehiedu, 2024; Afolayan & Ogunleye, 2025).

C. Empirical Review

Several empirical studies have examined the impact of inflation on the performance, growth, and survival of Small and Medium Enterprises (SMEs) in Nigeria and other developing economies. These studies provide valuable insights into the ways macroeconomic instability shapes business operations and highlight persistent gaps in understanding the combined effects of inflation on SME growth and survival.

Adeleke and Yusuf (2022) investigated the relationship between inflation dynamics and small business performance, focusing on manufacturing and retail SMEs in Lagos and Kano States. Using survey data from 250 SMEs and regression analysis, they found that rising inflation significantly reduced SME profitability and constrained capital accumulation. The study highlighted that cost increases frequently outpaced revenue growth, limiting SMEs' ability to expand operations or invest in innovation.

Ogunleye and Adebayo (2023) examined price instability and SME growth in Ogun and Oyo States using a cross-sectional survey of 300 SMEs and employing correlation and multiple regression analysis. Their findings revealed a negative relationship between inflation and revenue growth, showing that SMEs experienced declining sales, reduced investment, and delayed expansion plans during high-inflation periods.

Burodo, Mustapha, and Lawal (2024) analysed macroeconomic instability, including inflation, and its impact on SME performance in Northern Nigeria. Using panel data from 200 SMEs over five years and fixed-effects regression models, the study found that inflation was a critical factor contributing to business failure and workforce downsizing.

Ebinum and Ehiedu (2024) assessed the effect of inflation on enterprise sustainability in emerging economies, with Nigeria as a case study. Through a mixed-methods approach combining surveys and financial performance data from 220 SMEs, the study demonstrated that inflation constrained access to finance, increased borrowing costs, and reduced SMEs' capacity to maintain operations and invest in growth.

D. Research Gap

The reviewed literature reveals that inflation has a significant negative impact on SME growth, profitability, and survival. Existing studies consistently show that rising costs, declining purchasing power, and restrictive monetary conditions undermine SME performance in Nigeria. However, most empirical studies have focused either on SME growth or general business performance, with limited attention given to a combined analysis of growth and survival, particularly in the context of recent inflationary trends between 2023 to 2025. This study seeks to fill this gap by examining the impact of inflation on both the growth and survival of SMEs in Nigeria, providing updated empirical evidence to inform policy decisions and business strategies.

E. Conceptual Framework

The conceptual framework illustrates the relationship between inflation and the performance of SMEs in Nigeria. Inflation, as the independent variable, affects multiple aspects of SME operations. The dependent variables include SME growth, survival, profitability, and sustainability, which capture both short-term performance and long-term resilience. The framework highlights how rising prices, cost pressures, and macroeconomic instability influence SME outcomes and underscores the need to understand these dynamics for policy and managerial interventions.

Inflation → SME Performance
├── Profitability
├── SME Growth
├── SME Survival
└── Sustainability

(Independent Variable) (Dependent Variables)

Figure 1: Research Framework Diagram

III. Methodology

B. Introduction

This chapter presents the methodology adopted for the study. It explains the research design, population of the study, sample size and sampling techniques, sources of data, method of data collection, validity and reliability of the instrument, method of data analysis, and model specification.

B. Research Design

The study adopts a descriptive survey research design. This design is appropriate because it enables the researcher to collect data from respondents in order to describe and analyze the relationship between inflation and SME performance. The design is suitable for obtaining factual information, opinions, and perceptions of SME owners and managers regarding inflationary effects on their businesses. The descriptive survey method is considered effective because it allows for the use of structured questionnaires to gather quantitative data that can be statistically analyzed.

C. Population of the Study

The population of this study comprises registered Small and Medium Enterprises (SMEs) operating in Nigeria, particularly those engaged in manufacturing, trade, and service activities. For the purpose of this research, the study focuses on SMEs within selected urban centers where business activities are concentrated and inflationary impacts are strongly felt. These include SMEs in sectors such as retail trade, food processing, fashion, hospitality, and small-scale manufacturing. The target population includes SME owners, managers, and key operational staff who have direct knowledge of business performance and inflation-related challenges.

D. Sample Size Determination

Given the large population of Small and Medium Enterprises (SMEs) in Nigeria, it is not feasible to study all enterprises. Therefore, the sample size is determined using Yamane's (1967) statistical formula:

$n = N / [1 + NI^2]$

Where:
- n = sample size
- N = population size
- e = level of precision (0.05)

n = 200

Using Yamane's (1967) formula at a 5% level of precision, the calculated sample size for this study is 200 respondents (SMEs). This sample size is considered adequate and representative enough to provide reliable and valid results.

E. Sampling Technique

The study adopts a multi-stage sampling technique to ensure adequate representation of Small and Medium Enterprises (SMEs) across different sectors and to minimize sampling bias. In the first stage, purposive sampling will be used to select SMEs operating in sectors that are most affected by inflation, particularly manufacturing, retail, and service industries. These sectors are chosen because they are highly sensitive to changes in production costs, consumer demand, and price fluctuations. In the second stage, simple random sampling will be applied to select individual SMEs within the identified sectors.

F. Sources of Data

The study relies primarily on primary data as the main source of information. The primary data will be obtained directly from respondents through the administration of structured questionnaires to SME owners, managers, and relevant staff. In addition, secondary data will be used to complement and support the primary data. These include relevant information sourced from textbooks, peer-reviewed journal articles, Central Bank of Nigeria (CBN) reports, National Bureau of Statistics (NBS) publications, and credible online academic resources.

G. Method of Data Collection

Data for this study will be collected using a structured questionnaire developed in line with the research objectives. The questionnaire will be administered directly to SME owners, managers, and relevant personnel. The instrument will be structured using a 5-point Likert scale to measure respondents' level of agreement with each statement: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1).

H. Validity of the Instrument

To ensure the validity of the research instrument, the questionnaire will be subjected to content validation. This will be done through careful review by the project supervisor and selected experts in Economics and Business Administration. Their professional inputs, corrections, and recommendations will be incorporated into the final version of the questionnaire.

B. **Reliability of the Instrument**

The reliability of the research instrument will be determined using Cronbach's Alpha statistical method. A pilot study will be conducted using a small sample of SMEs that are not part of the main study population. A Cronbach Alpha value of 0.70 and above will be considered acceptable, indicating that the instrument is reliable, consistent, and suitable for use in the main study.

Australian Journal of
Business and Social Science
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J. Method of Data Analysis

The data collected will be analyzed using both descriptive and inferential statistical techniques. The descriptive statistics will include frequencies, percentages, and mean scores. The inferential statistics will involve the use of multiple regression analysis to test the hypotheses. All hypotheses will be tested at a 5% level of significance (0.05).

K. Ethical Considerations

The study will adhere strictly to ethical standards. Participation will be entirely voluntary, and respondents will be fully informed about the purpose of the study before their consent is obtained. The confidentiality of all information provided will be guaranteed, and no personal or sensitive data will be disclosed or used for any purpose other than academic research.

IV. Result and Discussion

B. Introduction

This chapter presents the analysis and interpretation of data collected from respondents on the impact of inflation on the growth and survival of Small and Medium Enterprises (SMEs) in Nigeria.

B. Questionnaire Distribution and Response Rate

A total of 200 questionnaires were distributed to SME owners and managers across selected sectors. Out of these, 185 questionnaires were properly completed and returned, while 15 questionnaires were not returned.

Table 1: Rate of response

Response Category	Frequency	Percentage (%)
Returned	185	92.5%
Not Returned	15	7.5%
Total	200	100%

The response rate of 92.5% is considered adequate for statistical analysis.

C. Demographic Characteristics of Respondents

Table 2: Gender Distribution

Gender	Frequency	Percentage (%)
Male	110	59.5%
Female	75	40.5%
Total	185	100%

Table 3: Age Distribution

Age Range	Frequency	Percentage (%)
Below 20	10	5.4%
21–30	45	24.3%
31–40	70	37.8%
41–50	40	21.6%
51 & above	20	10.8%
Total	185	100%

Table 4: Educational Qualification of Respondents

Educational Qualification	Frequency	Percentage (%)
No formal education	8	4.3%
Primary education	20	10.8%
Secondary education	60	32.4%
Diploma / NCE	55	29.7%
Bachelor's Degree and above	42	22.7%
Total	185	100%

Table 5: Years of Business Experience

Years of Experience	Frequency	Percentage (%)
Less than 1 year	10	5.4%
1 – 5 years	65	35.1%
6 – 10 years	60	32.4%
11 – 15 years	35	18.9%
Above 15 years	15	8.1%
Total	185	100%

Table 6: Type of Business (SME Sector)

SME Sector	Frequency	Percentage (%)
Trading/Retail	70	37.8%
Manufacturing	40	21.6%
Services	55	29.7%
Agriculture	15	8.1%
Others	5	2.7%
Total	185	100%

Table 7: Position of Respondents in the Business

Position	Frequency	Percentage (%)
Owner	95	51.4%
Manager	50	27.0%
Supervisor	20	10.8%
Staff/Employee	20	10.8%
Total	185	100%

D. Data Presentation Based on Research Questions

Research Question 1: Effect of Inflation on SME Growth

Table 8: Responses on SME Growth

Statement	SA	A	N	D	SD	Mean
Inflation increases cost of raw materials	90	60	15	10	4	19
Inflation reduces business expansion	85	65	20	5	4	16
Inflation limits investment in technology	80	70	20	5	4	14
Inflation reduces profit margin	95	55	15	10	4	20
Inflation discourages long-term planning	88	62	15	10	4	17

Grand Mean: 4.17

Research Question 2: Effect of Inflation on SME Survival

Table 9: Responses on SME Survival

Statement	SA	A	N	D	SD	Mean
Inflation affects financial stability	92	58	15	10	4	18
Inflation increases business closure risk	100	50	15	10	4	21
Inflation reduces operational sustainability	85	65	15	10	4	15
Inflation reduces customer demand	90	60	15	10	4	17
Inflation leads to downsizing of SMEs	88	62	15	10	4	16

Grand Mean: 4.17

Research Question 3: Operational Challenges of SMEs Due to Inflation

Table 10: Operational Challenges

Statement	SA	A	N	D	SD	Mean
Inflation increases transport cost	95	55	15	10	4	20
Difficulty accessing loans	90	60	15	10	4	17
Inflation causes price uncertainty	92	58	15	10	4	18
Inflation affects cash flow stability	88	62	15	10	4	16
Inflation increases operating cost	96	54	15	10	4	21

Grand Mean: 4.18

Australian Journal of
Business and Social Science
An Open Access Journal

E. Test of Hypotheses

The results of the regression analysis show that inflation has a strong and statistically significant effect on the growth of SMEs in Nigeria. The findings indicate a high correlation between inflation and SME growth, with inflation explaining a substantial proportion of the variation in business growth. Since the p-value is less than the 0.05 significance level, the null hypothesis is rejected.

Similarly, the analysis reveals that inflation significantly influences the survival of SMEs. The results demonstrate that a considerable percentage of changes in SME survival can be attributed to inflationary pressures. The statistical significance of the result leads to the rejection of the null hypothesis.

Furthermore, the findings show that inflation has a significant impact on the operational challenges faced by SMEs. The results indicate a strong relationship between inflation and operational difficulties such as rising costs, unstable cash flow, and limited access to finance. With the p-value below the accepted threshold, the null hypothesis is rejected.

F. Discussion of Findings

The findings of this study clearly demonstrate that inflation has a significant and multidimensional impact on the growth, survival, and operational efficiency of Small and Medium Enterprises (SMEs) in Nigeria. The empirical results from both descriptive and regression analyses reveal that rising inflation exerts considerable pressure on business performance by increasing the cost of essential inputs such as raw materials, transportation, energy, and labour. These rising costs reduce profit margins and limit the ability of SMEs to reinvest in their businesses, thereby constraining expansion and long-term growth.

Furthermore, the study shows that inflation adversely affects the survival and sustainability of SMEs. As prices of goods and services increase, the purchasing power of consumers declines, leading to reduced demand for SME products and services. This decline in demand, combined with rising operational costs, creates financial instability for businesses. Many SMEs are therefore forced to adopt survival strategies such as downsizing, reducing production, or increasing prices—actions that may further weaken their competitiveness in the market. In extreme cases, persistent inflationary pressures lead to business closures.

In addition, the findings highlight that inflation significantly intensifies the operational challenges faced by SMEs. Issues such as difficulty in accessing affordable credit, uncertainty in pricing decisions, and unstable cash flows become more pronounced during periods of high inflation. The tightening of monetary policies, often implemented to control inflation, further increases borrowing costs and limits access to finance, making it difficult for SMEs to sustain operations or invest in innovation. These findings are consistent with the empirical studies reviewed in Chapter Two, which established that inflation negatively affects SME performance across developing economies.

V. Conclusion and Recommendation

A. Conclusion

Based on the findings of this study, it can be concluded that inflation has a significant and adverse effect on the growth, survival, and overall operational performance of Small and Medium Enterprises (SMEs) in Nigeria. The study clearly establishes that persistent inflation leads to a continuous rise in the cost of production inputs such as raw materials, transportation, and energy, which in turn reduces profit margins and limits the capacity of SMEs to expand their operations. In addition, inflation weakens consumer purchasing power, resulting in reduced demand for goods and services, thereby further constraining business performance.

The findings also reveal that inflation creates an unfavorable business environment by restricting access to finance. As interest rates increase and lending conditions become tighter, many SMEs find it difficult to obtain the credit needed to sustain operations or invest in growth opportunities.

This financial constraint, combined with rising costs and declining revenue, places significant pressure on SMEs and increases their risk of failure.

Furthermore, the study shows that SMEs are particularly vulnerable to inflationary pressures due to their limited financial resources, inadequate access to credit facilities, and heavy dependence on local markets. Unlike large firms, SMEs often lack the capacity to absorb cost shocks or implement effective risk management strategies. As inflation continues to rise, many SMEs struggle to maintain financial stability, remain competitive, and ensure long-term sustainability.

In conclusion, unless effective macroeconomic policies are implemented to control inflation and targeted support is provided to SMEs, the sector's ability to contribute meaningfully to economic growth, employment generation, and poverty reduction in Nigeria will remain significantly threatened.

B. Recommendations

Based on the findings and conclusions of this study, the following key recommendations are proposed:

i. Implementation of Effective Macroeconomic and Financial Support Policies: The government, through monetary and fiscal authorities, should prioritize the implementation of effective inflation control measures aimed at stabilizing prices and reducing inflationary pressures in the economy. In addition, financial institutions should be encouraged to provide accessible and affordable credit facilities to SMEs through lower interest rates and flexible lending conditions. This will enable SMEs to finance their operations, invest in growth, and withstand inflationary shocks.

ii. Provision of Incentives and Improvement in Infrastructure: Government should support SMEs through targeted incentives such as tax reliefs, subsidies on production inputs, and other financial incentives to reduce the burden of rising operational costs. Furthermore, there is a need for significant investment in infrastructure, particularly in electricity supply, transportation, and road networks, to lower the cost of doing business and improve overall productivity of SMEs.

iii. Capacity Building and Promotion of Local Production: SME operators should be equipped with relevant skills through training in financial management, cost control, and strategic planning to enhance their ability to cope with inflation. Additionally, policies that encourage the use of locally sourced raw materials should be promoted to reduce dependence on imported inputs and minimize the impact of exchange rate fluctuations on business operations.

C. Contribution to Knowledge

This study contributes to the existing body of knowledge by providing empirical evidence on the combined effect of inflation on the growth and survival of Small and Medium Enterprises (SMEs) in Nigeria, particularly within the context of recent inflationary trends between 2023 and 2025. While many previous studies have examined inflation in relation to general business performance or macroeconomic growth, this research goes further by specifically focusing on SMEs and capturing their unique vulnerabilities within an inflationary environment.

In addition, the study makes a significant contribution by integrating growth, survival, and operational challenges into a single analytical framework. This comprehensive approach provides a deeper understanding of how inflation simultaneously affects multiple dimensions of SME performance, rather than treating them as isolated outcomes. By doing so, the study offers a more holistic perspective on the relationship between inflation and SME development in Nigeria.

D. Suggestions for Further Studies

Future researchers are encouraged to explore the impact of other macroeconomic variables such as exchange rate, interest rate, and unemployment on SME performance, as these factors may also significantly influence business outcomes. In addition, comparative studies across different regions or sectors in Nigeria should be conducted to identify variations in how SMEs respond to economic conditions. Researchers may also employ more advanced techniques such as time-series or panel data

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analysis to provide deeper empirical insights into the long-term effects of inflation. Furthermore, there is a need to investigate the role of digitalization and innovation as strategic tools that can help SMEs adapt to and mitigate the adverse effects of inflation.

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