# THE EFFECTS OF GOVERNMENT POLICY AND LEGAL REGULATORY FRAMEWORK ON THE ENVIRONMENTAL COMPLIANCE OF SMES IN NIGERIA

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Abstract
The adaptation of existing legislation and regulation is one of the key reasons that SMEs engage in environmental activities in the operation of their enterprises. The Government makes laws to ensure environmental sustainability to reduce the impact of businesses on the Environment. Government legislation requires that some organizations put in place formal programmes to reduce their level of negative impact on the environment. Government regulations are dominant motivators of environmental activities in the SMEs rather than self motivation. It is believed that compliance with ISO14001 and other international standard certification can play significant role in reporting environmental information. The environmental agencies have a number of programmes and schemes that are developed to help SMEs by Education and training, support and advice. Monitoring and enhancing legislation requires benchmarks and formalized standards. The legal requirements by the Government are used to organize and control the operations of the SMEs. By ISO14001 certification a small medium enterprise shows its commitment to reducing wastes and recycling materials. This Study is on the effects of government policy and legal framework on the environmental compliance of SMEs. The Variables of the study are Government Policy, Legislation/Regulations, Monitoring and enforcing legislations, ISO14001. Regression Analysis will be used to test the relationship between the dependent and independent variables and the Cronbach Alpha will be used to test the reliability of the variables.

Keywords: *SMEs, ISO 14001, Regulations, Environmental Compliance.*

Background to the Study

The emphasis on sustainable development in recent times has emerged in response to increasing environmental challenges and depletion of natural resources which have been traced to business activities. This has implied changes in various facets and endeavours to ensure that all societies comply with the demands required for sustainable development as demanded by the global conferences of 1997. In developed economies of Australia, United States (US) and United Kingdom (UK) large organisations have adopted ISO14001, ISO 9000 and other innovative strategies which they incorporate into their organisations to improve their environmental performance and comply with environmental regulations (Miles, Munilla & McCurg,1999; Tayyer, 2009; Steger, 2000). In parts of Africa many MSMEs have been found not to adopt proactive measures to the environment partly due to lack of legislation or poor enforcement particularly that many of the MSMEs are unregistered (Muduvanhu, Dzamba, Mudavanhu & Mazorodze 2013). In Nigeria only about 21% of MSMEs have consciously taken steps to ensure that their business impact on the environment is minimal by taking proactive steps as the implementation of an environmental management system (Okerenta 2013).The Nigerian policies on environmental management as FEPA act 1988, Harmful waste act of 1988, National policy on environment 1989 appear not to be making impact. The adoption of sustainable business practice is essential to environmental health because small businesses have major impact on the quality of the environment. However, inspite of this most MSMEs are ignorant of environmental legislations and their implications (Fashawe, 2000).

Legislation requires some organizations to put in place formal programmes to reduce their environmental impact (Gaddene, Kennedy& Mckeiver 2009). (Uhlaner, Berent-Braun, Jeurissen and Zoetenneer, 2011) note that government regulation is a dominant motivator of environmental activities in the United Kingdom MSMEs rather than self motivation. MSMEs in United Kingdom appear to have little incentive to improve environmental performance but companies and firms in the UK, and Europe comply with environmental sustainability standards for different reasons, among which are the fact that they need to get their license or permit and also for their yearly renewal. In Australia legislation requires MSMEs to have formal programmes and requires them to plan to reduce their environmental impact. In the UK, Japan, US government policy is being linked to Environmental Management Systems (Marko, Jaukovic, Nikola Slansic, 2013).

Nigeria adopted the UN agenda 21 and has policies on environmental management among which are the Federal Environmental Protection Agency Act of 1988, Harmful Waste Act 1988, National Policy on Environmental of 1989. However there is doubt as to whether Nigerian MSMEs consider these legislations when operating their businesses (Okerenta 2010).

It is also believed that compliance with ISO14001 and other international standard certification could play a significant role in reporting environmental information and reducing green house glass emissions.

The specific research question is what is the effect of regulatory framework on MSMEs implementation of sustainable environmental practices in Nigeria?

## Statement of the Problem

Traditional microeconomic analysis treats the external costs of environmental degradation as a by-product of economic activity. Nevertheless, there is a conventional belief that such environmental degradation would resolve as soon as a country grows economically since that would enable them to afford environmental friendly technology as well as pro-environmental regulations and policies (Lizuka, 2000). However, empirical evidences (Huber, Richard, Jack, Ruthenbeck & Ronaldo 1998, Fujisaki, Shigeaki, Hattentojyo 1997) indicates that most developing countries already equipped with environmental policies of international standards still face worsening environmental conditions.

## Theoretical and Conceptual Framework

A conceptual framework is a group of concepts that are broadly defined and systematically organized to provide a focus, a rationale, and a tool for the integration and interpretation of information. Concepts help to put a study in the right perspective, even though they may be abstract in nature, they have the ability to explain complex processes, make them simple and systematically provide theoretical foundations to put the study in perspective (Nukpezah 2010). They serve as guiding principles and provide a framework and scope within which a study is conducted. (Nukpezah 2010). The conceptual framework below demonstrates the relationship between the variables of the study.
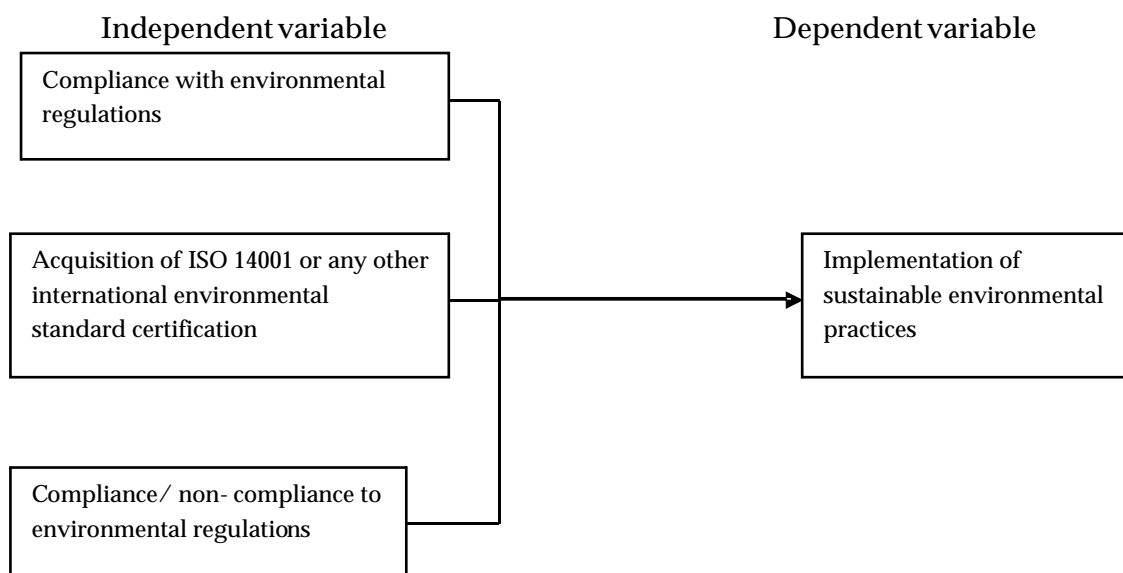
Independent variable          Dependent variable

| Compliance with environmental regulations |
| Acquisition of ISO 14001 or any other international environmental standard certification | → | Implementation of sustainable environmental practices |
| Compliance/ non- compliance to environmental regulations |

Fig.1 Theoretical Framework

Method
The research design and methodological approaches that will be used to investigate information and knowledge availability as a determinant of implementation of Sustainable environmental practices for sustainable entrepreneurship of MSMEs in Nigeria. The data used will be both quantitative and qualitative so as to investigate the patterns that will emerge in order to obtain answers to the research questions and the research hypotheses (Cooper & Schindler, 2008). The sampling frame consists of all the MSMEs population. Thus a workable frame of MSMEs in Kaduna metropolis has been obtained from the Manufactures Association of Nigeria, National Association of Small and Medium Enterprises, National Association of Small Scale industrialists. A Triangulation method will be used to collect data. A variety of instruments will be employed to collect data. This is to facilitate the collection of a wide range of data for analysis of the variables of the study.

Primary data will be collected using questionnaires, the questions will be open and close ended to enable respondents express themselves and give the most accurate information. Interviews and observation will be used to obtain primary data from the field. Secondary data will be obtained from books, library, and internet, through intensive recovery of theoretical and empirical studies from academic journals, electronic media and books. The secondary data would enrich the study greatly. Research assistants will be trained to administer and obtain responses from the respondents. There is always the need to validate instruments to make sure that they measure exactly what they are supposed to measure. Validity of the instrument means the ability of the questionnaire to capture exactly the data it was designed to collect (Cooper & Schindler, 2008 Imosili Imonite 1996). In this case, the content of the questionnaires, will be validated by relevant experts in statistics measurement and evaluation to ensure that content, construct and face validity are achieved in the instruments. After scrutiny by the relevant experts, positive comments or criticism would be implemented thereby modifying the instrument and ensuring that they are suitable and valid.

Results
The following tables show the results from the field concerning whether firms comply with environmental regulations, if firms have acquired ISO 14001 or any other international environmental standard certification and reasons for compliance/ non-compliance to environmental regulations.

Table 1
ISO 14001 or any International Environment Standard Certification

| COMMENT | FREQUENCY | PERCENT |
|---------|-----------|---------|
| YES | 37.0 | 30.9 |
| NO | 83.0 | 69.2 |

Table 2
Firm Compliance

| COMMENT | FREQUENCY | PERCENT |
|---------|-----------|---------|
| NIL | 31.9 | 26.6 |
| Yes | 37.0 | 30.9 |
| No | 51.1 | 42.6 |

Table 3
Compliance/ Non-Compliance

| COMMENT | FEQUENCY | PERCENT |
|---------|----------|---------|
| Its time consuming | 1.1 | 1.1 |
| Poor enforcement | 2.6 | 2.1 |
| We do comply so as to please our customers | 5.1 | 4.3 |
| I do comply so as to avoid my license from being withdrawn | 7.4 | 7.4 |
| It brings about competitive advantage | 10.6 | 10.6 |
| So as to keep a healthy environment | 21.2 | 21.2 |
| Lack of finance / resources prevent me from complying | 24.5 | 24.5 |
| NIL | 34.4 | 28.7 |

Table 1, seeks to investigate whether firms complied with environmental regulations. It indicated that 27% did not specify if they comply with environmental regulations, 31% revealed they do comply with environmental regulations, while 43% do not comply with environmental regulations.

Table 2, clearly revealed that 27% of the respondents did not specify if they complied with environmental regulations, 31% revealed they do compile with environmental regulations, while a whopping total of 43% of the total respondents do not compiled to environmental regulations.

The study in table 3 revealed why firms do comply or do not comply with environmental practices. 1% revealed they do not comply to implementation of sustainable environmental practices because it is time consuming, 2% revealed they do not comply with environmental practices due to poor enforcement, 4% revealed they do comply with environmental practices so as to meet their customer demands, 7% revealed that they do comply so as to avoid their license from being withdrawn, 11% revealed they do comply because it brings about competitive advantage, 21% revealed they complied with the

implementation of sustainable environmental practices so as to keep a healthy environment, 25% revealed that lack of finance/ resources hinders them from complying with the implementation of sustainable environmental practices, while 29% did not specify their reasons of compliance/ non-compliance.

Discussions

The Observatory of European MSMEs' (2002) surveyed 7,600 MSMEs in 19 countries, and found that regulation was an important driver of environmental reforms in MSMEs. Also Masurel (2007) found that satisfying legislation and 'moral duty' was the key motivating forces amongst MSMEs in the Dutch printing sector but from the study conducted by Mudavanhu, Dzamba, Mudavanhu and Mazorodze (2013) revealed that most firms in Zimbabwe do not practice environmentally responsible behaviour due to lack of legislation and hence they do not comply to environmental regulations. In Nigeria only about 21% of MSMEs have consciously taken steps to ensure that their business impact on the environment is minimal by taking proactive steps as the implementation of an environmental management system (Okerenta 2013). All the previous findings tend to be in accordance with the findings in Table 1 where a larger part of the total respondents indicated that they do not comply with ISO 14001 or any international environment standard certification. It is however believed that compliance with ISO14001 and other international standard certification could play a significant role in reporting environmental information and reducing green house glass emissions.

From Table 2, 43% of the total respondents indicated that their firms have not acquired ISO 14001 or any other international environmental standard certification. This is not surprising however because SME literature identifies that owner/managers are generally not risk takers (Levy &

Powell, 2005) and have been reportedly hesitant to invest in environmental innovations. While the 31% that agreed to the adoption of ISO14001 and other international regulation provides an evidence of environmental reform in the Nigerian SME sector.

Regarding ISO14001 and other international environmental regulations there are many underlying factors as to why SME owners comply with the regulations as depicted in table 3% from the field research conducted 11% of the respondents agreed that the major reason why they comply to international environmental regulation was due to the competitive advantage that comes along with it and this is in line with (Chen, 2008) who also agreed that implementation of international environmental regulations can be key to establishing a competitive advantage. Businesses with employees trained in environmental technologies and systems were better at finding cost savings from energy efficient design improvements, and as a result were more efficient than their competitors (Chen, 2008). Another 25% of the respondents indicated that lack of finance/ resources prevented them from complying that is why (Parker et al., 2009) suggested that financial incentives can be used to complement regulatory measures.

Conclusion

It is evident from the study that compliance to ISO14001 and other international environmental regulation would increase the level of implementation of sustainable environmental practices of Micro Small and Medium Enterprises (MSMEs) in Nigeria. Moreover, the result of the study confirms that there is a relationship between ISO14001 and other international environmental regulation in the implementation of sustainable environmental practices of Micro Small and Medium Enterprises (MSMEs) in Nigeria.

Recommendations
1. There should be legislation in place that requires some organizations to put in place formal programmes to reduce their environmental impact.
2. The government should assist some smaller firm owners by providing financial incentives to them in order to complement their effort in the implementation of sustainable environmental practices.
3. The government should also ensure that all firm owners adheres to all environmental regulations.

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