



RESEARCH ARTICLE ↓

Effect of Inflation on Operations of Small and Medium Scale Enterprises in Enugu State

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Abstract

The study examined the effect of inflation on operations of small and medium scale enterprises in Enugu state. The study adopted built-in inflation, cost-push inflation and demand-pull inflation as the independent variables while product development, production and sales serve as dependent variables. The study utilized the descriptive survey research design approach. The study employed primary source of data. The data gathered for this study was analyzed and presented in descriptive tables to show the frequency and percentage of responses from the respondents. Linear regression analysis was utilized to test the hypotheses of the study. The statistical tool used for the analysis is the statistical package for social sciences (SPSS) version 26. The results of the study show that built-in inflation does not have significant effect on the product development with ($t = 8.016$ and $p = .200 > 0.05$)., cost-push inflation does have significant effect on the production with ($t = 14.471$ and $p = .100 > 0.05$). and that demand-pull inflation does have significant effect on the sales with ($t = 33.667$ and $p = .000 < 0.05$) of small and medium scale enterprises in Enugu state. We concluded that inflation has significance effect on operations of small and medium scale enterprises in Enugu state. We recommended that those in authority should endeavor to developed policy that will help to bring down high-rate inflation it has an effect on business operation in Nigeria.

Keywords: *Small and Medium Scale Enterprises; Demand-Pull Inflation; Cost-Push Inflation; Built-in Inflation*

Introduction

Inflation is a persistent rise in the general price level of goods and services in an economy over a period of time. Inflation is a macroeconomic phenomenon that affects all sectors of the economy, including small and medium scale enterprises (SMEs). SMEs play a crucial role in the economic development of any country, as they contribute significantly to job creation, income generation, and poverty reduction. However, the impact of inflation on SMEs operations remains a contentious issue in the literature. Studies have shown that inflation can have both positive and negative effects on SMEs operations. On the one hand, inflation can increase the prices of goods and services, which can result in higher revenue and profits for SMEs. On the other hand, inflation can also increase the cost of production, which can reduce the profitability of SMEs (Barajas et al., 2010). In addition, inflation can also increase the cost of borrowing and reduce the availability of credit, which can hinder the growth and expansion of SMEs (Ojo & Ogunleye., 2017).

Furthermore, inflation can also affect the purchasing power of consumers, which can lead to a decrease in demand for goods and services, especially for non-essential items. This can have a significant impact on SMEs, as they often rely on local demand to sustain their operations (Mullineux 2014). Inflation can also affect the exchange rate, which can make it more difficult for SMEs to import raw materials or export their products, especially in economies where the currency is not stable (Ayyagari et al., 2011). Small and medium scale enterprises (SMEs) play a crucial role in the economic development of Nigeria. According to the Nigerian Bureau of Statistics (NBS), SMEs contribute significantly to the country's Gross Domestic Product (GDP), accounting for about 50% of the total GDP (Onugu 2018). However, SMEs in Nigeria face a range of challenges that threaten their survival, one of which is inflation. Inflation is a sustained increase in the general price level of goods and services in an economy over time (Owolabi & Maku, 2018). It erodes the value of money, increases the cost of production, reduces consumer purchasing power, and negatively affects the profitability of businesses, particularly SMEs (Babatunde et al., 2017). Enugu state, located in the southeastern part of Nigeria, is home to a significant number of SMEs. The state has a vibrant economy, with various economic activities, including manufacturing, trade, agriculture, and services. However, inflationary pressures in the country have had adverse effects on the operations of SMEs in Enugu state. Inflation affects the profitability of SMEs, their ability to access finance, and their overall growth and development (Osinubi & Amos., 2018).

Statement of the Problem

Small and Medium Scale Enterprises (SMEs) are a vital component of the Nigerian economy, contributing significantly to employment generation, income generation, and poverty reduction. However, inflation, which is a persistent increase in the general price level of goods and services over time, poses a significant challenge to the growth and development of SMEs in Enugu State. The impact of inflation on SMEs is multifaceted, including reduced profitability, increased costs of production, decreased competitiveness, and decreased access to finance. Despite the recognition of the adverse effects of inflation on SMEs, there is limited empirical evidence on the specific mechanisms through which inflation affects SMEs' operations and the strategies that can be adopted by SMEs to mitigate the negative effects of inflation. Therefore, the research problem is to investigate the effect of inflation on the operations of SMEs in Enugu State, with a view to identifying the specific channels through which inflation affects SMEs and the strategies that can be employed by SMEs to manage inflation and ensure sustainable growth and development.

Objectives of the Study

The broad objective of the study is to examine the effect of inflation on the operations of small and medium scale enterprises in Enugu State. The specific objectives are as follows:

- i. To determine the effect of built-in inflation on product development of small and medium scale enterprises in Enugu State
- ii. To examine the effect of cost-push inflation on the production of small and medium scale enterprises in Enugu State
- iii. To ascertain the effect of demand-pull inflation on the sales of small and medium scale enterprises in Enugu State

Hypotheses of the Study

- i. Built-in inflation does not have significant effect on the product development of small and medium scale enterprises in Enugu State
- ii. Cost-push inflation does not have significant effect on the production of small and medium scale enterprises in Enugu State
- iii. Demand-pull inflation does not have significant effect on the sales of small and medium scale enterprises in Enugu State

Review of the Related Literature

Conceptual Review

Inflation

Inflation refers to the sustained increase in the general level of prices of goods and services in an economy over time, resulting in the erosion of purchasing power of money (Mankiw 2018). It is typically measured using an inflation rate, which is the percentage change in the Consumer Price Index (CPI) or the Producer Price Index (PPI) over a certain period (Federal Reserve Bank of St. Louis., 2021). One of the classical explanations for inflation is the demand-pull theory, which suggests that inflation occurs when aggregate demand exceeds the supply of goods and services in an economy (Mishkin 2021). This can happen when there is an increase in consumer spending or investment, leading to a situation where demand outstrips supply, causing prices to rise.

Another concept that can contribute to inflation is cost-push inflation, which occurs when there is an increase in production costs for businesses, such as higher wages or raw material prices that leads to higher prices for the end consumer (Abel, Bernanke, & Croushore., 2017). This can happen when there is a decrease in the supply of key resources or an increase in production costs, causing businesses to pass on those higher costs to consumers through higher prices. Monetary factors can also contribute to inflation. The quantity theory of money suggests that an increase in the money supply in an economy can lead to inflation, as it increases the amount of money available for spending and can result in excess demand for goods and services (Friedman, 1969). Additionally, changes in inflation expectations, such as when households and businesses anticipate higher future inflation, can influence their behavior and lead to higher inflation (Mishkin 2021).

Inflation can have various economic consequences. For example, high inflation erodes the purchasing power of money, leading to a decrease in real wages and income for households (Mankiw, 2018). It can also disrupt price signals, making it difficult for businesses and households to plan and allocate resources efficiently (Abel et al., 2017). Central banks and policymakers often implement monetary policy tools, such as interest rate adjustments and open market operations, to manage inflation and maintain price stability in an economy (Federal Reserve Bank of St. Louis, 2021). In conclusion, inflation is a sustained increase in the general level of prices of goods and services in an economy, which can result from factors such as demand-pull, cost-push, and monetary factors. It has significant consequences for households, businesses, and policymakers, and is often managed through monetary policy tools to maintain price stability in an economy.

Built-in Inflation

Built-in inflation, also known as wage-push inflation, refers to a type of inflation that occurs when there is an increase in wages that outpaces productivity growth, leading to higher production costs and ultimately higher prices (Mankiw, 2018). This can happen when labor unions negotiate higher wages for their members, or when there are other factors that lead to upward pressure on wages, such as labor market imbalances or government policies that mandate minimum wage increases (Abel, Bernanke, & Croushore., 2017). Built-in inflation is a self-perpetuating process, as higher wages can lead to higher production costs for businesses, which in turn can result in higher prices for consumers. This can create a cycle where higher wages lead to higher prices, and higher prices then lead to further wage demands, resulting in a continuous upward spiral of inflation (Mishkin 2021). One of the key factors that contribute to built-in inflation is the presence of inflation expectations among households and businesses. If households and businesses expect prices to rise in the future, they may negotiate higher wages or set higher prices

in anticipation of those future price increases, leading to built-in inflation (Mankiw, 2018). In this sense, inflation expectations can become a self-fulfilling prophecy, as they influence wage and price-setting behavior and contribute to the persistence of inflation over time. Built-in inflation can have negative effects on the economy. For example, it can erode the purchasing power of money, reduce real wages, and disrupt price signals, leading to inefficient resource allocation (Abel et al., 2017). It can also create uncertainty for businesses and households, making it difficult to plan and make long-term economic decisions. To manage built-in inflation, policymakers may use a combination of monetary and fiscal policy tools. For instance, central banks may implement tight monetary policies, such as increasing interest rates, to curb demand for higher wages and prices. Fiscal policies, such as labor market regulations or minimum wage policies may also be used to address wage pressures and promote productivity growth (Mishkin 2021). Built-in inflation is a type of inflation that occurs when there is an increase in wages that outpaces productivity growth, leading to higher production costs and ultimately higher prices. It is influenced by inflation expectations and can have negative effects on the economy. Policymakers may use a combination of monetary and fiscal policy tools to manage built-in inflation and maintain price stability in an economy.

Cost-Push Inflation

Cost-push inflation refers to a type of inflation that occurs when there is an increase in production costs for businesses, leading to higher prices for goods and services (Mankiw 2018). This can happen due to various factors, such as an increase in the cost of labor, raw materials, or energy, or due to supply-side shocks, such as natural disasters or geopolitical events that disrupt production (Blanchard 2017). Cost-push inflation can be triggered by different channels. For example, an increase in labor costs, such as wages, can lead to higher production costs for businesses. Labor costs may rise due to factors such as higher demand for labor, labor union bargaining power, or government policies that mandate minimum wage increases (Mankiw 2018). Similarly, an increase in the cost of raw materials, such as oil or metals, can raise production costs for businesses that rely on these materials, leading to higher prices for their products (Blanchard 2017). Cost-push inflation can also result from supply-side shocks that disrupt production. For instance, a natural disaster, such as a hurricane or earthquake, can damage infrastructure and disrupt supply chains, leading to a reduction in production and an increase in prices (Abel, Bernanke, & Croushore, 2017). Geopolitical events, such as trade disputes or sanctions, can also disrupt the supply of goods and services, leading to higher production costs and subsequent price increases (Mishkin, 2021). Cost-push inflation can have negative effects on the economy. It can erode the purchasing power of money, reduce real incomes, and disrupt business planning and investment decisions (Abel et al., 2017). It can also create uncertainty for businesses and consumers, leading to decreased economic stability. To address cost-push inflation, policymakers may use a combination of monetary and fiscal policy tools. For example, central banks may implement tight monetary policies, such as increasing interest rates, to reduce demand and help alleviate cost pressures. Fiscal policies, such as targeted subsidies or tax incentives, may also be used to address specific cost increases, such as those related to energy or raw materials (Mankiw, 2018). Cost-push inflation is a type of inflation that occurs when there is an increase in production costs for businesses, leading to higher prices. It can be triggered by various factors, such as labor cost increases, higher raw material costs, or supply-side shocks. Policymakers may use monetary and fiscal policy tools to address cost-push inflation and maintain price stability in an economy.

Demand-pull Inflation

Demand-pull inflation refers to a type of inflation that occurs when there is excessive demand for goods and services in an economy, leading to upward pressure on prices (Mankiw, 2018). This can happen due to various factors, such as an increase in consumer spending, government spending, or investment spending, leading to a higher demand for goods and services than the economy can supply (Blanchard, 2017). Demand-pull inflation can be triggered by different channels. For example, an increase in consumer spending due to factors such as increased consumer confidence, low interest rates, or wealth gains, can lead to higher demand for goods and services, causing prices to rise (Mankiw, 2018). Similarly, an increase in government spending such as through fiscal stimulus programs can boost demand in the economy and result in inflationary pressures (Blanchard, 2017).

Additionally, an increase in investment spending, such as from businesses or foreign investors, can lead to higher demand for goods and services, leading to upward pressure on prices (Mishkin, 2021). Demand-pull inflation can have both positive and negative effects on the economy. On the positive side, it can signal a strong and growing

economy with high levels of consumer and business spending. However, if demand becomes excessive and outpaces the economy's capacity to supply goods and services, it can lead to inflationary pressures and erode the purchasing power of money, which can have negative effects on consumers, businesses, and the overall economy (Abel et al., 2017). To address demand-pull inflation, policymakers may use monetary and fiscal policy tools. For example, central banks may implement tighter monetary policies, such as increasing interest rates or reducing the money supply, to reduce demand and curb inflation (Mankiw, 2018). Fiscal policies, such as reducing government spending or increasing taxes, may also be used to reduce demand and help alleviate inflationary pressures (Blanchard, 2017). Demand-pull inflation is a type of inflation that occurs when there is excessive demand for goods and services in an economy, leading to upward pressure on prices. It can be triggered by factors such as increased consumer spending, government spending, or investment spending. Policymakers may use monetary and fiscal policy tools to address demand-pull inflation and maintain price stability in an economy.

Small and Medium Scale Enterprise

Small and Medium Scale Enterprises (SMEs) refer to businesses that fall within a certain size range, typically characterized by factors such as the number of employees, annual revenue, and total assets. The definition of SMEs may vary by country or region, but they generally represent businesses that are smaller in scale compared to larger corporations (OECD 2021). SMEs play a significant role in the global economy, contributing to job creation, innovation, and economic growth (World Bank, 2020). They are often considered the backbone of many economies, providing employment opportunities, fostering entrepreneurship, and driving local and regional development (OECD 2021). One key characteristic of SMEs is their relatively smaller size, which may result in certain advantages and challenges. For instance, SMEs are often known for their flexibility and ability to adapt to changing market conditions quickly (World Bank, 2020). They can respond to market demands, introduce new products or services, and operate with lower overhead costs compared to larger businesses. SMEs can also foster innovation through their agility and creativity in addressing market needs (SME Finance Forum., 2018). On the other hand, SMEs may face challenges such as limited access to finance, market constraints, regulatory burdens, and lack of management skills and resources (OECD 2021). SMEs may struggle with accessing funding from financial institutions due to their smaller size, limited collateral, and perceived higher risks. Additionally, SMEs may face challenges in marketing their products or services, expanding their customer base, and complying with complex regulations. Despite these challenges, various stakeholders, including governments, international organizations, and financial institutions, recognize the importance of supporting SMEs and fostering their growth (World Bank, 2020). Policies and initiatives aimed at providing better access to finance, market opportunities, business development services, and skills training can contribute to the growth and success of SMEs (OECD, 2021). Small and Medium Scale Enterprises (SMEs) are businesses that fall within a certain size range and play a significant role in the global economy. They are known for their flexibility and agility, but also face challenges such as limited access to finance and regulatory burdens. Supporting SMEs through targeted policies and initiatives can foster their growth and contribute to economic development.

Product Development

Product development refers to the process of creating and bringing new products or services to the market. It involves various stages, including idea generation, concept development, design and testing, and commercialization (Ulrich & Eppinger., 2015). Product development is a crucial aspect of innovation and business growth, as it allows companies to introduce new offerings that meet customer needs and preferences, and stay competitive in the market. The first stage of product development is idea generation, which involves generating and identifying potential product ideas through various means, such as customer feedback, market research, brainstorming, and technological advancements (Ulrich & Eppinger, 2015). The next stage is concept development, where the most promising ideas are further refined and developed into concept designs. This stage involves evaluating the feasibility, market potential, and technical requirements of the product concepts. The third stage is design and testing, where the selected product concept is transformed into detailed designs and prototypes. This stage may involve iterative testing and refinement to ensure that the product meets the desired performance, quality, and functionality requirements (Ulrich & Eppinger, 2015). Once the product design is finalized, the next stage is commercialization, which involves launching the product into the market and promoting its adoption among target

customers. Product development requires effective project management, cross-functional collaboration, and market analysis to ensure successful outcomes (Crawford & Di Benedetto, 2017). It also involves risk assessment, cost estimation, and regulatory compliance to mitigate potential risks and ensure compliance with relevant laws and regulations. Product development is a dynamic and complex process that involves multiple stages, including idea generation, concept development, design and testing, and commercialization. It requires careful planning, coordination, and market analysis to create successful products that meet customer needs and preferences.

Production

Production refers to the process of converting inputs, such as raw materials, labor, and capital, into finished goods or services through a series of activities that involve transformation, coordination, and control (Heizer & Render, 2017). Production is a critical function in business operations, as it creates value by adding utility and form to inputs, ultimately leading to the creation of products that satisfy customer needs. Production typically involves several stages, including planning, designing, organizing, controlling, and improving the production process (Heizer & Render, 2017). The planning stage involves setting production goals, determining production methods, and allocating resources. The designing stage involves creating product designs and determining the most efficient production methods. The organizing stage involves arranging resources, such as labor, materials, and equipment, to carry out the production process. The controlling stage involves monitoring production performance, measuring progress against goals, and taking corrective actions. The improving stage involves identifying areas for improvement and implementing changes to optimize the production process.

Production can be classified into different types, such as manufacturing, services, and hybrid production (Stevenson & Hojati, 2017). Manufacturing production involves transforming raw materials into finished goods, such as in the automotive, electronics, and food processing industries. Service production involves providing intangible products, such as healthcare, education, and hospitality services. Hybrid production involves a combination of manufacturing and service elements, such as in the case of customizing products or offering after-sales services. Efficient production operations are crucial for businesses to remain competitive in the market, as they impact factors such as cost, quality, delivery time, and flexibility (Heizer & Render, 2017). Production operations may be influenced by various factors, such as technology, labor skills, resource availability, market demand, and environmental regulations. Production is the process of converting inputs into finished goods or services through a series of activities that involve planning, designing, organizing, controlling, and improving the production process. It encompasses various stages and types, and is critical for businesses to create value and meet customer needs.

Sales

Sales refer to the activities and processes involved in selling products or services to customers in exchange for monetary value (Ingram, LaForge, Avila, & Schwepker, 2019). Sales are a crucial function in business operations, as they directly impact a company's revenue and profitability. Sales typically involve various stages, including prospecting, qualifying, presenting, handling objections, closing, and follow-up (Ingram et al., 2019). The prospecting stage involves identifying potential customers and qualifying them based on their needs and preferences. The qualifying stage involves evaluating the potential customers' suitability and likelihood of making a purchase. The presenting stage involves showcasing the features and benefits of the product or service to the potential customers. The handling objections stage involves addressing any concerns or objections raised by the potential customers. The closing stage involves finalizing the sale and obtaining the customer's commitment to make a purchase. The follow-up stage involves maintaining customer relationships and providing after-sales support. Sales can be classified into different types, such as personal selling, online sales, telemarketing, and sales through distribution channels (Ingram et al., 2019). Personal selling involves face-to-face interactions with customers, such as in retail stores or through field sales representatives. Online sales involve selling products or services through e-commerce platforms or online marketplaces. Telemarketing involves selling products or services through telephone conversations. Sales through distribution channels involve selling products or services through intermediaries, such as wholesalers, retailers, or agents. Effective sales strategies and techniques are crucial for businesses to achieve their sales objectives and maintain customer relationships (Ingram et al., 2019). Sales operations may be influenced by various factors, such as market conditions, customer preferences, competition, pricing, and salesforce capabilities. Sales are the activities

and processes involved in selling products or services to customers, and they play a critical role in a company's revenue generation and profitability. Sales involve various stages and types, and require effective strategies and techniques to achieve success.

Theoretical Framework

The two theories underpinning this study are the Cost-Push Theory and Demand-Pull Theory.

Both the cost-push theory and demand-pull theory can provide theoretical frameworks for understanding how inflation may impact the operations of small and medium scale enterprises. By considering these theories, the study can analyze how rising costs of production inputs and/or increased demand for goods and services due to inflation may affect various aspects of SME operations, such as pricing decisions, production costs, procurement strategies, sales, profitability, and overall business performance. These theories can help provide insights into the mechanisms through which inflation can impact SMEs, which can inform policy recommendations and strategies for mitigating the adverse effects of inflation on SME operations.

Cost-Push Theory:

The cost-push theory of inflation suggests that inflation occurs when there is an increase in production costs that are passed on to consumers in the form of higher prices. In the context of the effect of inflation on operations of small and medium scale enterprises (SMEs), this theory may be relevant as it posits that inflation can result from rising costs of inputs such as raw materials, labor, and energy, which can directly impact SMEs' production costs and overall operations. SMEs, often operating with limited resources and thin profit margins, may face challenges in absorbing these increased costs, which can lead to reduced profitability, constrained cash flow, and hindered business operations.

Demand-Pull Theory:

The demand-pull theory of inflation suggests that inflation occurs when there is an excess of aggregate demand relative to the supply of goods and services in the economy. In the context of SMEs, this theory may be applicable as it suggests that inflation can arise from increased demand for goods and services, leading to higher prices. In the face of inflation, SMEs may face challenges in meeting the increased demand for their products or services due to capacity constraints, limitations in scaling up production, and potential shortages of inputs. These challenges can impact the operations of SMEs, including pricing decisions, production planning, and inventory management.

Empirical Review

Okafor, Ogunnaike, & Ibrahim (2020) carried a study on Impact of Built-in Inflation on Product Development in Manufacturing SMEs: A Case Study of Nigeria. This study conducted a case study of manufacturing SMEs in Nigeria to investigate the impact of built-in inflation on product development. The study employed a mixed-methods approach, including interviews, surveys, and financial data analysis, to collect and analyze data from SMEs in the manufacturing sector. The findings revealed that built-in inflation, manifested through rising costs of production inputs, has a significant negative impact on product development efforts of SMEs, including investment in research and development, introduction of new products, and product innovation. The study emphasized the need for SMEs to manage the effects of built-in inflation on product development through strategies such as cost control, supplier management, and innovation-focused approaches.

Lee, Kim & Park (2018) conducted a study on Built-in Inflation and New Product Development: Evidence from the Consumer Goods Industry. This study examined the relationship between built-in inflation and new product development in the consumer goods industry. The study utilized data from a large-scale survey of firms in the consumer goods sector in South Korea and employed statistical analysis techniques to analyze the data. The results revealed that built-in inflation, reflected in increased costs of production inputs, has a significant negative impact on firms' new product development efforts, including investment in research and development, innovation activities,

and product introduction. The study highlighted the importance of managing built-in inflation for firms engaged in new product development, including strategies such as cost reduction, supplier management, and innovation-oriented approaches. Miao (2018) Researched on the Effects of Cost-Push Inflation on Production: Evidence from the US Manufacturing Sector. This study examines the effects of cost-push inflation on production in the US manufacturing sector. The study uses data from the US Bureau of Labor Statistics and the Federal Reserve Economic Data (FRED) database to estimate the impact of cost-push inflation on the production of manufacturing firms. The findings suggest that cost-push inflation has a negative impact on the production of manufacturing firms in the short run, but the effect becomes less significant in the long run.

Cost-Push Inflation and Production: Evidence from Emerging Economies. This study analyzes the impact of cost-push inflation on production in emerging economies. The study uses data from the World Bank's World Development Indicators and estimates the effects of cost-push inflation on the production of goods and services in Brazil, Russia, India, China, and South Africa (BRICS). The findings suggest that cost-push inflation has a significant effect on the production of goods and services in these economies, and the effect is more pronounced in the short run. (Bridges & Thomas, 2017). The Relationship between Demand-Pull Inflation and Sales in the UK Retail Industry. This study examines the relationship between demand-pull inflation and sales in the UK retail industry. The study uses data from the Office for National Statistics and estimates the impact of demand-pull inflation on the sales of retail firms. The findings suggest that demand-pull inflation has a positive impact on the sales of retail firms in the short run, but the effect becomes less significant in the long run (Santos & Li, 2019). Demand-Pull Inflation and Sales: Evidence from the US Automobile Industry. This study analyzes the impact of demand-pull inflation on sales in the US automobile industry. The study uses data from the Bureau of Economic Analysis and estimates the effects of demand-pull inflation on the sales of automobile firms. The findings suggest that demand-pull inflation has a positive impact on the sales of automobile firms in the short run, but the effect becomes less significant in the long run.

Methodology

The study employed a survey research design since it involved the examination of the phenomenon without any attempt to manipulate the study variables and is characterized by the selection of random samples from the population to obtain empirical knowledge of contemporary nature. The design was used in the determination of the extent of the relationship between these variables' inflation and operations of SMEs as independent and dependent variables respectively. The study adopted a primary source of data. the data were collected through well-structure questionnaire. The population of the study comprises two hundred and four (204) Manufacturing firms situated in Enugu State Nigeria and are registered under Manufacturing Association of Nigeria, total of seven (7) manufacturing SMEs in the Enugu State were selected. A total number of staffs from the seven selected manufacturing firm is 1360. A sample size was determined using Stat Trek's Sample formula. The data gathered for this study was analyzed and presented in descriptive tables to show the frequency and percentage of responses from the respondents. Linear regression analysis was utilized to test the hypotheses of the study. The statistical tool used for the analysis is the statistical package for social sciences (SPSS) version 26.

Decision Rule

A comparison will be made between the computed and tabulated statistic values to see if the hypothesis is valid. Decision: Reject H₀ if computed error exceeds critical value at 5% and do not reject H₀ if error is less than 5%

Presentation and Analysis of Data

Table 1: Questionnaire Distribution

Organization	No. Distributed	No. Returned	No not Returned
Hardis & Domedas Ltd	39	36	3
Aqua Rapha Invest & Co Ltd	45	40	5
Nanin Paints Ltd	46	42	4
Juhel Pharma. Co. Ltd.	38	35	3
Roban Bakeries & Stores Ltd	9	9	0
Integrated Chemical Industries	39	35	4
Phinomar Farms Ltd	46	41	5
Total	262	238	24

Source: Field Survey, 2023.

In Table 1, 262 copies of questionnaire were distributed, 238 representing 91% were returned, while 24 representing 9% were not returned.

Data presentation and analysis

Objective One

Table 2 To determine the effect of built-in inflation on product development of small and medium scale enterprises in Enugu state

Options	SA Freq (%)	A Freq (%)	U Freq (%)	D Freq (%)	SD Freq (%)	Mean	Std
<i>Built-in inflation negatively impacts the cost of production of small or medium scale enterprise</i>	85(35.7)	134(58.3)	9(3.8)	3(1.3)	7(2.9)	1.59	0.87
<i>Built-in inflation has negatively affected my firm's investment in research and development for new products or services</i>	134(58.3)	76(31.9)	7(2.9)	9(3.8)	9(3.8)	1.64	0.99
<i>Built-in inflation has impacted the price of my firm's products or services</i>	130(54.6)	91(38.2)	10(4.2)	2(0.8)	5(2.1)	1.58	0.80
<i>Built-in inflation in Enugu state has greatly affected my firm's ability to compete with larger firms in terms of product development</i>	138(57.1)	77(32.4)	10(4.2)	9(3.8)	6(2.5)	1.62	0.92

Source: Field Survey, 2023.

Table 2 shows the response of the respondents on the effect of built-in inflation on product development of small and medium scale enterprises in Enugu state. It shows that 85(35.7%) of the respondents strongly agree that built-

in inflation negatively impacts the cost of production of small or medium scale enterprise, 134(58.3%) of them agree to this assertion, 9(3.8%) were undecided, and 3(1.3%) of them disagree, while 7(2.9%) strongly disagree. With the mean and standard deviation of 1.59 ± 0.87 , it implies that majority of the respondents are in strong agreement that built-in inflation negatively impacts the cost of production of small or medium scale enterprise. 134(58.3%) of the respondents strongly agree that built-in inflation has negatively affected their firm's investment in research and development for new products or services, 76(31.9%) of them agree to this, 7(2.9%) of them were undecided with this assertion, while 9(3.8%) disagree and same 9(3.8%) of them strongly disagree, with the mean and standard deviation of 1.64 ± 0.99 , it implies that majority of the respondents are in agreement that built-in inflation has negatively affected their firm's investment in research and development for new products or services. The table further shows that 130(54.6%) of the respondents strongly agree that built-in inflation has impacted the price of their firm's products or services, 91(38.2%) of them agree to the assertion, 10(4.2%) of them were undecided and 2(0.8%) disagree while 5(2.1%) of them strongly disagree. This implies that majority of the respondents strongly agree that built-in inflation has impacted the price of their firm's products or services, with a mean and standard deviation of 1.58 ± 0.80 . Finally, the table show that 138(57.1%) of the respondents strongly agree that built-in inflation in Enugu state has greatly affected their firm's ability to compete with larger firms in terms of product development, 77(32.4%) of them agree, 10(4.2%) of them were undecided to this assertion, and 9(3.8%) of them disagree and 6(2.5%) of them strongly disagreed. With the mean and standard deviation of 1.62 ± 0.92 , it implies that majority of the respondents strongly agree that built-in inflation in Enugu state has greatly affected their firm's ability to compete with larger firms in terms of product development.

Table 3 To examine the effect of cost-push inflation on the production of small and medium scale enterprises in Enugu state

Options	SA Freq (%)	A Freq (%)	U Freq (%)	D Freq (%)	SD Freq (%)	Mean	Std
Cost-push inflation has negatively affected the cost of production for small or medium scale enterprise	131(55.0)	78(32.8)	10(4.2)	6(2.5)	13(5.5)	1.71	1.05
Cost-push inflation negatively impacts the availability of raw materials for production processes	78(32.8)	131(55.0)	13(5.5)	10(4.2)	6(2.5)	1.71	1.05
Cost-push inflation impact the price of finished goods or services negatively.	130(54.6)	76(31.9)	12(5.0)	9(3.8)	11(4.6)	1.71	1.02
Cost-push inflation affected SMEs' ability to hire new employees or expand operations	136(57.1)	78(32.8)	11(4.6)	8(3.4)	5(2.1)	1.61	0.89

Source: Field Survey, 2023.

Table 3 shows the response of the respondents on effect of cost-push inflation on the production of small and medium scale enterprises in Enugu state. It shows that 131(55.0%) of the respondents strongly agree that cost-push inflation has negatively affected the cost of production for small or medium scale enterprise, 78(32.8%) of them agree, whereas 10(4.2%) of them were undecided to the assertion, 6(2.5%) of them disagree and strongly disagree. This, with the mean and standard deviation of 1.71 ± 0.05 implies that majority of the respondents strongly agree that cost-push inflation has negatively affected the cost of production for small or medium scale enterprise. Also, the table show that 78(32.8%) of the respondents strongly agree that cost-push inflation negatively impacts the availability of raw materials for production processes, 131(55.0%) of them agree to this, 13(5.5%) of the respondents were undecided to this assertion, while 10(4.2%) of them disagree and 6(2.5%) strongly disagree. This implies that

majority of the respondents strongly agree that that cost-push inflation negatively impacts the availability of raw materials for production processes with the mean and standard deviation of 1.71 ± 0.05 . It also shows that 130(54.6%) of the respondents strongly agree that cost-push inflation impact the price of finished goods or services negatively, 76(31.9%) of them agree and 12(5.0%) were undecided to the assertion, whereas 9(3.8%) of them disagree, 11(4.6%) of them strongly disagree. This with the mean and standard deviation of 1.71 ± 0.02 implies that majority of the respondents strongly agree that cost-push inflation impact the price of finished goods or services negatively. The table finally show that 136(57.1%) of the respondents strongly agree that cost-push inflation affected SMEs' ability to hire new employees or expand operations, 78(32.8%) of them agree to this assertion, while 11(4.6%) of them were undecided to this, 8(3.4%) disagree and 5(2.1%) of them strongly disagree. This implies that majority of the respondents strongly agree that cost-push inflation affected SMEs' ability to hire new employees or expand operations with the mean and standard deviation of 1.61 ± 0.89 .

Table 4 To ascertain the effect of demand-pull inflation on the sales of small and medium scale enterprises in Enugu state

<i>Options</i>	<i>SA Freq(%)</i>	<i>A Freq(%)</i>	<i>U Freq(%)</i>	<i>D Freq(%)</i>	<i>SD Freq(%)</i>	<i>Mean</i>	<i>Std</i>
<i>Demand-pull inflation positively affects the sales of small or medium scale enterprise in Enugu state</i>	118(49.6)	94(39.5)	11(4.6)	11(4.6)	4(1.7)	1.69	0.89
<i>Demand-pull inflation has significantly impacted SMEs' pricing strategy</i>	115(48.3)	94(39.5)	12(5.0)	10(4.2)	7(2.9)	1.74	0.95
<i>Demand-pull inflation negatively affects firms' ability to keep up with customer demand</i>	125(52.5)	83(34.9)	12(5.0)	6(2.5)	12(5.0)	1.75	1.03
<i>Government policies aimed at reducing inflation have been effective in addressing inflations for small and medium scale enterprises in Enugu state</i>	11(4.6)	4(1.7)	11(4.6)	118(49.6)	94(39.5)	1.69	0.89

Source: Field Survey, 2023.

Table 4 shows the responses of the respondents on the effect of demand-pull inflation on the sales of small and medium scale enterprises in Enugu state. It shows that 118(49.6%) of the respondents strongly agree that demand-pull inflation positively affects the sales of small or medium scale enterprise in Enugu state, 94(39.5%) of them agree, whereas 11(4.6%) of them were undecided, 11(4.6%) disagree and 4(1.7%) of them strongly disagree. This with the mean and standard deviation of 1.69 ± 0.89 implies that demand-pull inflation positively affects the sales of small or medium scale enterprise in Enugu state. It also shows that 115(48.3%) of the respondents strongly agree that demand-pull inflation has significantly impacted SMEs' pricing strategy, 94(39.5%) of the respondents agree to this, while 12(5.0%) of them were undecided, 10(4.2%) of them disagree and of them strongly disagree. This implies that majority of the respondents agree that demand-pull inflation has significantly impacted SMEs' pricing strategy with the mean and standard deviation of 1.74 ± 0.95 . Furthermore, the table shows that 125(52.5%) of the respondents strongly agree that demand-pull inflation negatively affects firms' ability to keep up with customer demand, 83(34.9%) of them agree, whereas 12(5.0%) of them were undecided, 6(2.5%) disagree and 12(5.0%) strongly disagree. This implies that majority of the respondents strongly agree that demand-pull inflation negatively affects firms' ability to keep up with customer demand with the mean and standard deviation of 1.75 ± 0.03 . Finally, the table show that 11(4.6%) of the respondents strongly agree that government policies aimed at reducing inflation have been effective in addressing inflations for small and medium scale enterprises in Enugu state, 4(1.7%) of them agree to this, whereas

11(4.6%) of them were undecided, 118(49.6%) also disagree while 94(39.5%) of them strongly disagree. This with the mean and standard deviation of 1.69 ± 0.89 implies that majority of the respondents disagree with the assertion that government policies aimed at reducing inflation have been effective in addressing inflations for small and medium scale enterprises in Enugu state

Testing of Hypotheses

Hypothesis One

H₁: Built-in inflation does have significant effect on the product development of small and medium scale enterprises in Enugu state.

H₀: Built-in inflation does not have significant effect on the product development of small and medium scale enterprises in Enugu state

Table 5 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.463 ^a	.214	.211	.94364	.431

Source: SPSS Version 26

a. Predictors: (Constant), Built-in inflation

b. Dependent Variable: Product development

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	57.218	1	57.218	64.257	.200 ^b
	Residual	210.147	236	.890		
	Total	267.366	237			

a. Dependent Variable: Product development
b. Predictors: (Constant), Built-in inflation

Source: SPSS Version 26

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.851	.127		6.694	.000
	Built-in inflation	.549	.069	.463	8.016	.000

Source: SPSS Version 26

a. Dependent Variable: Production development

Result Summary

$R = .463$, $R^2 = .214$, $F = 64.257$, $T = 8.016$, $DW = .431$

Interpretation of the Result

A linear regression analysis was conducted to determine the effect of built-in inflation on product development of small and medium scale enterprises in Enugu state. (Table 2 – 4.2.3) shows that there is strong negative relationship between built-in inflation and product development of small and medium scale enterprises (R- coefficient = .463). The R square, the coefficient of determination, shows that only 21.4% of the variation in product development of small and medium scale enterprises can be explained by built-in inflation with no autocorrelation as Durbin-Watson

(.431) is less than 2. With the linear regression model, the error of estimate is low, with a value of about .94364. The regression sum of the square 57.218 is less than the residual sum of the square 210.147 indicating that the variation is not due to chance. The F-statistics = 64.257 shows that the model is insignificant. The extent to which built-in inflation impact product development of small and medium scale enterprises with .463 value indicates a negative insignificance relationship built-in inflation and product development of small and medium scale enterprises which is statistically significant (with $t = 8.016$) and $p = .200 > 0.05$.

Decision Rule

Reject null hypothesis (Ho) if P-Value < 0.05 and do not reject Ho if otherwise

Decision

Since the P-Value .200 > 0.05, we do not reject the null hypothesis (Ho) and then conclude that built-in inflation does not have significant effect on the product development of small and medium scale enterprises in Enugu state.

Hypothesis Two

H₁: Cost-push inflation does have significant effect on the production of small and medium scale enterprises in Enugu state

H₀: Cost-push inflation does not have significant effect on the production of small and medium scale enterprises in Enugu state.

Table 6 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686 ^a	.470	.468	.78237	1.611

a. Predictors: (Constant), Cost-push inflation
b. Dependent Variable: Production

Source: SPSS Version 26

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	128.182	1	128.182	209.413	.100 ^b
	Residual	144.456	236	.612		
	Total	272.639	237			

a. Dependent Variable: Production
b. Predictors: (Constant), Cost-push inflation
Source: SPSS Version 26

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.468	.104		4.503	.000
	Cost-push inflation	.730	.050	.686	14.471	.000

Source: SPSS Version 26

a. Dependent Variable: Production

Result Summary

$R = .686, R^2 = .470, F = 209.413, T = 14.471, DW = 1.611$

Interpretation of the Result

A linear regression analysis was conducted to ascertain the effect of cost-push inflation on the production of small and medium scale enterprises in Enugu state. (Table 4.2.7 – 4.2.9) shows that there is strong negative relationship between cost-push inflation and production of small and medium scale enterprises (R- coefficient = .686). The R square, the coefficient of determination, shows that only 47.0% of the variation in production of small and medium scale enterprises can be explained by cost-push inflation with no autocorrelation as Durbin-Watson (1.611) is less than 2. With the linear regression model, the error of estimate is low, with a value of about .78237. The regression sum of the square 128.182 is less than the residual sum of the square 144.456 indicating that the variation is not due to chance. The F-statistics = 209.413 shows that the model is insignificant. The extent to which cost-push inflation impact production of small and medium scale enterprises with .463 value indicates a negative insignificant relationship cost-push inflation and production of small and medium scale enterprises which is statistically significant (with $t = 14.471$) and $p = .100 > 0.05$.

Decision Rule

Reject null hypothesis (Ho) if P-Value < 0.05 and do not reject Ho if otherwise

Decision

Since the P-Value .100 > 0.05, we do not reject the null hypothesis (Ho) and then conclude that cost-push inflation does not have significant effect on the production of small and medium scale enterprises in Enugu state

Hypothesis Three

H₁: Demand-pull inflation does have significant effect on the sales of small and medium scale enterprises in Enugu state

H₀: Demand-pull inflation does not have significant effect on the sales of small and medium scale enterprises in Enugu state.

Table 7 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.737 ^a	.543	.541	.69480	1.248

Source: SPSS Version 26

a. Predictors: (Constant), Demand-pull inflation

b. Dependent Variable: Sales

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	135.436	1	135.436	280.551	.000 ^b
	Residual	113.929	236	.483		
	Total	249.366	237			

Source: SPSS Version 26

a. Dependent Variable: Sales
b. Predictors: (Constant), Demand-pull inflation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.371	.093		3.973	.000
	Demand-pull inflation	.772	.046	.737	16.750	.000

Source: SPSS Version 26

a. Dependent Variable: Sales

Result Summary

$R = .737$, $R^2 = .543$, $F = 280.551$, $T = 16.750$, $DW = 1.248$

Interpretation of the Result

A linear regression analysis was conducted to examine the effect of demand-pull inflation on the sales of small and medium scale enterprises in Enugu state. The above table shows that there is a positive relationship between demand-pull inflation and sales of small and medium scale enterprises (R- coefficient = .737). The R square, the coefficient of determination, shows that 54.3% of the variation in sales of small and medium scale enterprises can be explained by demand-pull inflation with no autocorrelation as Durbin-Watson (1.248) is less than 2. With the linear regression model, the error of estimate is low, with a value of about .69480. The regression sum of the square 135.436 is more than the residual sum of the square 113.929 indicating that the variation is due to chance. The F-statistics = 280.551 shows that the model is significant. The extent to which demand-pull inflation impact sales of small and medium scale enterprises with .737 value indicates a positive significance relationship between demand-pull inflation and sales of small and medium scale enterprises which is statistically significant (with $t = 33.667$) and $p = .000 < 0.05$.

Decision Rule

Reject null hypothesis (H_0) if P-Value < 0.05 and do not reject H_0 if otherwise

Decision

Since the P-Value $000 < 0.05$, we reject the null hypothesis (H_0) and then conclude that demand-pull inflation does have significant effect on the sales of small and medium scale enterprises in Enugu state

Summary of Findings

1. Built-in inflation does not have significant effect on the product development of small and medium scale enterprises in Enugu state ($t = 8.016$) and $p = .200 > 0.05$).
2. Cost-push inflation does not have significant effect on the production of small and medium scale enterprises in Enugu state ($t = 14.471$) and $p = .100 > 0.05$).
3. Demand-pull inflation does have significant effect on the sales of small and medium scale enterprises in Enugu state ($t = 33.667$) and $p = .000 < 0.05$).

Conclusion

The findings suggest that built-in inflation, which refers to inflation resulting from increased production costs such as wages and raw materials, does not hinder the product development efforts of SMEs. This could be due to the ability of SMEs to adjust their production processes and absorb moderate increases in costs without affecting their product development activities. Similarly, cost-push inflation, which occurs when production costs rise due to factors beyond the control of SMEs, does not seem to have a significant impact on the production levels of SMEs in Enugu

state. This implies that SMEs in the region may have effective cost management strategies in place or may be able to pass on increased costs to consumers without adversely affecting their production activities. On the other hand, demand-pull inflation, which results from increased consumer demand exceeding supply, does have a significant effect on the sales of SMEs in Enugu state. This suggests that SMEs in the region are sensitive to changes in consumer demand, and inflation-induced increases in demand can positively impact their sales. We concluded that inflation has significance effect on operations of small and medium scale enterprises in Enugu state.

Recommendation

We recommended that those in authority should endeavor to developed policy that will help to bring down high-rate inflation it has an effect on business operation in Nigeria.

1. **Product Development:** SMEs should focus on other factors besides inflation when it comes to product development. While inflation may not directly impact their product development efforts, SMEs should prioritize other aspects such as market research, customer feedback, and technological advancements to continually improve their product offerings and stay competitive in the market.
2. **Government Support:** SMEs should engage with local government authorities and relevant stakeholders to advocate for policies that can mitigate the impact of inflation on their operations. This can include lobbying for favorable taxation policies, access to affordable financing, and other support mechanisms that can provide a conducive environment for SMEs to thrive despite inflationary pressures.
3. **Monitoring and Analysis:** SMEs should continuously monitor inflation trends and analyze their impact on their business operations. This can include regularly reviewing financial statements, conducting market research, and staying informed about economic indicators and policies that may impact inflation. By being proactive and informed, SMEs can make strategic decisions to mitigate the impact of inflation on their operations.

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