POLICY AND INSTITUTIONAL INNOVATION FOR SUSTAINABILITY: IMPACTS ON MICRO AND SMALL MEDIUM ENTERPRISES

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Highlight

This study examines how innovative tax, finance, and infrastructure policies boost the sustainability of MSMEs in Nigeria's Ogun-Lagos border region.

Abstract

Aim: This study examines how policy and institutional innovations influence the sustainable performance of Micro and Small Enterprises (MSMEs) in Nigeria's Ogun–Lagos border region. The research specifically investigates the effects of tax incentives, access to finance, and infrastructural support on core sustainability metrics—growth, profitability, and environmental resilience.

Methodology: Adopting a mixed-methods approach, data were collected from 450 MSMEs and analyzed using ANOVA, correlation, and multiple regression analyses to assess both overall and sector-specific policy impacts.

Key findings: The findings reveal that institutional credit schemes and targeted tax incentives significantly improve MSME sustainability outcomes, particularly in enhancing long-term growth and profitability. In contrast, the effects of infrastructural support were more uneven, influenced by sectoral and geographic disparities. Statistical analyses also highlight that enterprise size and sector mediate policy effectiveness, with micro-enterprises and service-sector firms benefiting less from standardized interventions.

Policy Implications: These results underscore the importance of context-sensitive policy design, especially in complex, multi-jurisdictional environments like Nigeria's border communities. The study advocates for a more adaptive institutional framework, where fiscal, financial, and infrastructural policies are harmonized to meet the localized needs of MSMEs. Such tailored approaches are critical to promoting inclusive, resilient growth and addressing systemic challenges in underserved regions.

Keywords

Government Policy, Sustainability, Micro and Small Medium Enterprises (MSMEs), Border Communities

Introduction

The sustainable performance of Micro and Small Enterprises (MSEs) has emerged as a cornerstone of contemporary development policy, particularly in emerging economies such as Nigeria, where inclusive growth and poverty alleviation remain pressing national priorities (Ojiako, Nwafor, & Oju, 2023). MSEs are not only vital for economic diversification and innovation, but they also serve as the largest employer segment in Nigeria, contributing approximately 48% to the nation's Gross Domestic Product (GDP), providing employment to about 84% of the labor force, and accounting for nearly 96% of total registered businesses. These numbers affirm the sector's indispensable role in promoting economic resilience, community development, and national sustainability. Yet, despite their critical importance, MSEs in Nigeria, particularly those situated in border communities such as those between Ogun and Lagos States, continue to grapple with systemic challenges that undermine their ability to achieve sustainable performance (Ogbari et al., 2024). Border regions possess unique economic significance due to their proximity to urban trade hubs and potential for cross-border exchange. In theory, MSEs operating within Ogun and Lagos border communities should benefit from increased market access, logistic advantages, and regional trade activity facilitated by their proximity to Lagos, the commercial nerve center of the country. However, in practice, the geographic advantage of these communities is often neutralized by weak infrastructure, fragmented regulatory systems, and inconsistently implemented government policies (Oyeyinka & Oyeyinka, 2017). Instead of serving as facilitators of business development, certain policies—due to poor institutional coordination and lack of innovation—have unintentionally become barriers to enterprise sustainability. Among the most significant of these are contradictory taxation regimes, insufficient access to credit, and critical infrastructure gaps that have collectively eroded the business environment and discouraged long-term planning and investment.

In recent years, the conversation around government policy and institutional reform has evolved from merely assessing policy impact to critically examining policy innovation and institutional design as essential mechanisms for enabling sustainable development (Olagunju, 2014). Policy innovation refers to the development of new or adapted public sector strategies aimed at addressing emerging challenges or improving the efficiency and inclusiveness of governance mechanisms. Institutional innovation, on the other hand, includes reforms in governance structures, rules, and practices that align public interventions with the realities and needs of stakeholders—in this case, MSEs. These forms of innovation are particularly crucial in contexts like Nigeria, where traditional top-down policy frameworks often fail to capture the nuanced realities of informal and semi-formal enterprises operating at the margins of the mainstream economy. In the context of Ogun and Lagos border communities, the absence of flexible and responsive institutional frameworks significantly affects MSEs' ability to adopt sustainable business practices. While government interventions such as the National Enterprise Development Programme (NEDEP) and the Micro, Small, and Medium Enterprises Development Fund (MSMEDF) were established to boost financial inclusion and enterprise development (Fadele, 2019), their impact remains uneven. This is especially true for border communities, where complex application procedures, lack of awareness, and administrative bottlenecks frequently obstruct access to these supposedly transformative interventions (Adebayo et al., 2019). This gap between policy design and real-world implementation points to the need for innovative institutional mechanisms that bridge formal-state interventions with informal business dynamics.

A critical bottleneck to sustainability in border MSEs is access to finance. Data shows that approximately 80% of MSEs in Nigeria report difficulties in obtaining affordable and adequate financing to scale their businesses or invest in long-term innovations (Adebayo et al., 2019). This challenge is particularly severe in border communities where financial institutions are either scarce or overly risk-averse due to informal business registration and perceived instability. Without access to credit, enterprises are unable to invest in green technology, digital systems, or workforce capacity building—all of which are necessary components of sustainable performance. While credit access is a widespread issue in Nigeria's MSE sector, its severity in under-resourced areas like Ogun and Lagos border regions underscores the need for localized policy innovations that provide tailored financial support structures for marginalized enterprise zones. Taxation presents another formidable challenge to enterprise sustainability. Nigeria's tax system is often cited as being overly complex, fragmented, and duplicative. MSEs located within border communities frequently encounter overlapping and sometimes contradictory tax requirements from different levels of government—federal, state, and local—creating a chaotic and unpredictable fiscal environment (Aliu, 2020). This complexity not only increases the cost of doing business but also erodes trust in public institutions and discourages formalization. Empirical studies show that approximately 80% of Nigerian MSEs consider taxation a primary barrier to growth (Oyebamiji, 2021). In border communities, these issues are magnified due to inconsistencies between the tax systems of Lagos and Ogun States, resulting in double taxation, harassment by tax agents, and the proliferation of informal levies.

This calls for institutional innovations that simplify tax systems, improve transparency, and introduce differentiated tax regimes for small businesses. For instance, digital tax platforms tailored for small enterprises, harmonized tax codes across states, and localized tax education programs could reduce the compliance burden and incentivize businesses to transition from the informal to the formal sector. Moreover, tax revenues could be strategically reinvested into community-level infrastructure projects that directly benefit MSEs, thereby closing the loop between taxation and service delivery. Speaking of infrastructure, the infrastructural deficit in Nigeria—estimated to require an annual investment of $100 billion—presents another formidable obstacle to sustainable enterprise development (Evangeline, 2019). For MSEs in Ogun and Lagos border regions, inadequate road networks, unreliable electricity supply, and limited digital infrastructure compromise daily operations and limit access to regional and international markets. These challenges are compounded by institutional inertia, where infrastructure projects are either poorly coordinated across states or hampered by misaligned budgetary priorities (Chinagozi, Joe, & Olawale, 2022). A forward-looking strategy would involve integrating green infrastructure and digital infrastructure investment into the broader policy framework for enterprise development. Government-led innovation hubs, rural electrification through renewable energy, and community-wide Wi-Fi zones could not only reduce operational costs but also position MSEs as active participants in Nigeria's sustainability transition. Infrastructure, therefore, is not merely a support mechanism but a central component of institutional innovation that can redefine the possibilities of sustainable entrepreneurship in border communities.

Globally, several regions have demonstrated the transformative power of policy and institutional innovation. The European Union's Small Business Act, for instance, provides targeted support across finance, regulation, and training, enabling small enterprises to thrive and generate about 60% of employment in the EU (Asogwa, Onyekwelu, & Azubike, 2023). Similarly, in Southeast Asia, localized credit cooperatives and public-private partnerships have strengthened SME ecosystems and improved resilience in peripheral regions. These examples provide valuable lessons for Nigeria, highlighting the importance of tailoring policy tools to context-specific needs while fostering institutional cultures that value inclusivity, feedback loops, and adaptability.

Despite these global best practices, Nigeria continues to lag behind due to institutional rigidities and poor coordination between different levels of government. National programs such as the MSMEDF and NEDEP often fail to reach marginalized communities due to centralization and bureaucratic inefficiencies (Shettima, 2021). Without adaptive institutional structures capable of responding to the lived realities of MSEs, these policies remain largely theoretical. Moreover, many of the frameworks guiding enterprise support in Nigeria are outdated and were designed for a different era of industrial development (Abiodun, 2021). Updating these frameworks to reflect the digital, environmental, and cross-border realities of today is not just beneficial—it is essential. In light of the persistent policy gaps and institutional shortcomings, this study proposes to critically examine the effects of policy and institutional innovations on the sustainable performance of MSEs in the Ogun and Lagos border regions. Specifically, it aims to assess how tax policy reform, access to finance mechanisms, and infrastructural innovations impact the capacity of these enterprises to operate sustainably. By focusing on border communities—an often-overlooked yet economically strategic zone—the study contributes to a more nuanced understanding of how place-based policy approaches and institutional adaptation can support inclusive economic development in Nigeria. As Nigeria seeks to diversify its economy, reduce poverty, and position itself as a regional economic leader, the vitality of its MSE sector—particularly in border communities—will play a pivotal role. Unlocking these potential demands nothing less than a rethinking of how policies are designed, institutions are structured, and support systems are delivered.

LITERATURE REVIEW

The sustainable performance of Micro, Small, and Medium Enterprises (MSMEs) is widely recognized as a vital driver of inclusive economic development, particularly in emerging economies such as Nigeria. MSMEs play a critical role in job creation, regional development, innovation, and poverty reduction. In Nigeria alone, MSMEs contribute approximately 48% to the Gross Domestic Product (GDP) and employ over 80% of the national labor force (Dada et al., 2023). However, the sustainability of MSMEs is not merely a function of market forces—it is increasingly shaped by the structure, responsiveness, and innovativeness of public institutions and policy frameworks. Conventional studies often evaluate the effect of government policy on MSMEs in terms of direct outcomes like tax relief, access to credit, or infrastructure development. While these are undeniably important, emerging literature calls for a shift toward examining policy innovation and institutional innovation—that is, how governments design, adapt, and implement flexible and context-sensitive policies that support long-term sustainability in dynamic environments (Ajuwon, 2019). In this context, the term "sustainability" refers not only to environmental resilience but also to the economic viability and institutional durability of MSMEs in underserved regions such as the border communities of Ogun and Lagos States. Government policy serves as both a catalyst and constraint in determining how MSMEs evolve and sustain their operations. Adegbite, Ilori, and Irefin (2012) emphasize that effective government support in areas such as tax policy and financial access can significantly enhance MSME profitability and capacity for job creation. However, the static and often top-down nature of policymaking in Nigeria have led to structural inefficiencies. As Adesanya et al. (2024) note, regulatory inconsistencies—especially between adjacent jurisdictions like Ogun and Lagos—create unnecessary burdens for border MSMEs, many of which operate in hybrid formal-informal spaces. These businesses often struggle with conflicting compliance requirements, unclear tax obligations, and administrative ambiguity. This lack of institutional coherence calls for not only better coordination but also institutional innovation—the modernization of administrative frameworks to be more adaptive and responsive to regional dynamics.

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2017) reports that 65% of Nigerian MSMEs cite taxation as a major impediment to business operations. In the Ogun–Lagos border communities, the issue is particularly acute due to overlapping jurisdictions and the absence of harmonized fiscal policies. The concept of policy innovation becomes essential here—not just revising tax rates, but developing new mechanisms like simplified digital tax systems, adaptive fiscal policies for cross-jurisdictional zones, and responsive dispute resolution platforms. These innovations can reduce compliance burdens and promote formalization, thereby increasing state revenues and enterprise resilience (Udo, 2022). Taxation remains one of the most powerful levers in the government's policy toolbox. Yet, in Nigeria, it often functions more as a constraint than a developmental instrument. Onyema (2019) found that MSMEs allocate nearly 25% of their annual revenue to tax-related obligations. This significantly limits their ability to reinvest profits in innovation, human capital development, or environmental sustainability. The strain is even more severe when businesses are subject to multiple taxes across federal, state, and local governments (Nnaji, 2020). For MSMEs in border regions, this multiplicity is compounded by inconsistent enforcement practices between neighboring states. Adebayo and Ogunleye (2020) reveal that these regulatory contradictions lead to confusion, increased transaction costs, and higher rates of informality. These findings underscore the need for institutional reform—not just in reducing the number of taxes, but in how tax systems are designed and administered. Rather than imposing one-size-fits-all models, policymakers must engage in policy co-creation with local actors, aligning incentives and compliance mechanisms with the operational realities of MSMEs in complex environments. Fadahunsi (1996) argues that informality often arises not out of choice, but from institutional dysfunction—where formal systems fail to provide value or clarity to small business owners.

In parallel with tax reforms, access to finance remains a cornerstone of sustainable MSME development. Credit is a key enabler of growth, allowing businesses to expand capacity, adopt environmentally friendly practices, and withstand economic shocks. However, data from the Central Bank of Nigeria (CBN) (2021) show that 80% of MSMEs face significant barriers in accessing credit due to stringent collateral requirements, high-interest rates, and weak outreach by traditional financial institutions—especially in rural and border regions. This form of financial exclusion is not only an economic issue but also an institutional one, stemming from outdated risk models and urban-centric banking strategies. Iwuji and Ogbonna (2019) demonstrate that MSMEs with access to finance are 35% more likely to achieve long-term sustainability. Yet, many existing financial programs, including the Micro, Small, and Medium Enterprises Development Fund (MSMEDF) and the National Enterprise Development Programme (NEDEP), fail to reach MSMEs at the periphery due to limited coverage and complex application processes (Ogbolu, 2021). Akinbola (2018) notes that the bureaucratic inefficiencies within these programs serve as a disincentive for participation. These limitations point to the urgent need for innovative financial instruments—such as mobile microcredit, digital credit scoring models, and decentralized cooperative lending—that can effectively serve underserved populations without increasing risk.

Eze and Okoli (2022) report that fewer than 30% of MSMEs in the Ogun–Lagos border region have accessed government-backed financial programs. This figure underscores the failure of traditional delivery mechanisms to adapt to local context. As McCulloch et al. (2017) argue, financial inclusion is less about blanket access and more about institutional adaptability—designing systems that work for specific socio-economic and geographic realities. Without reform in this direction, financial tools intended to empower MSMEs will continue to bypass the very communities that need them most. Beyond tax and finance, infrastructure forms a third critical pillar in enabling the sustainable performance of MSMEs. Infrastructure underpins market access, operational efficiency, and service delivery. Unfortunately, Nigeria's infrastructure gap remains vast. The African Development Bank (AfDB) (2018) estimates the country needs around $100 billion annually in infrastructure investment to close its deficit. Inadequate roads, unreliable electricity, and poor internet connectivity present formidable challenges for MSMEs, particularly in underserved border communities (Oduyoye et al., 2013). Alafiatayo and Oluwapelumi (2021) point out that poor infrastructure in border areas severely limits growth potential by raising costs and creating inefficiencies. Olayemi and Afolabi (2021) affirm that MSMEs located in areas with strong infrastructure are 40% more likely to scale operations sustainably. These findings indicate a need for infrastructure policy innovation—in which public-private partnerships, community co-investment models, and renewable energy deployment play key roles. Smart infrastructure design, tailored to the unique characteristics of border regions, can unlock enterprise potential and reduce environmental footprints simultaneously. Of particular note is digital infrastructure, which has emerged as a critical driver of business sustainability. Adeniji et al. (2024) emphasize that digital connectivity enables MSMEs to access wider markets, optimize logistics, and engage in data-driven decision-making. Yet, digital exclusion remains rampant in border communities, with many enterprises lacking even basic internet access. A report by the International Finance Corporation (IFC) (2020) found that digitalized MSMEs are 50% more likely to grow revenue. For border MSMEs to tap into this potential, policy must move beyond broadband expansion to include digital literacy programs, simplified onboarding for e-commerce platforms, and mobile-friendly payment systems. These are not just technological fixes—they are institutional responses to the evolving demands of enterprise sustainability. Research suggests that effective policies must be context-sensitive and rooted in local dynamics (Isaac, Moses, Taiye, Salau, Oladele, Mercy & Kehinde, 2025). Hoffmann and Melly (2015) warn against the imposition of centralized policy frameworks on heterogeneous communities, especially in multi-jurisdictional areas. Oni and Ajayi (2019) advocate for regionally differentiated policy innovation, which considers the specific challenges and opportunities present in border communities. This aligns with findings by Okoro and Okonkwo (2023), who argue that decentralizing policy design and implementation can significantly improve outcomes for marginalized business groups. Comparative experiences from countries such as Ghana, Kenya, and across the ASEAN region underscore the global relevance of institutional innovation in supporting MSMEs. In Ghana, initiatives like the National Entrepreneurship and Innovation Programme (NEIP) have demonstrated how targeted fiscal and infrastructural policies can boost enterprise resilience, particularly in semi-formal trade zones. Kenya's Biashara Fund and Huduma Centers offer additional lessons, showing how streamlined access to finance and regulatory services can reduce informality and support sustainable growth. Likewise, ASEAN's coordinated approach—through the Strategic Action Plan for SME Development—illustrates the benefits of regionally harmonized MSME policies in improving competitiveness and cross-border integration. These cases reinforce the importance of context-sensitive, adaptable policy frameworks, particularly for MSMEs operating in complex or underserved jurisdictions like Nigeria's border communities. While traditional government policies on taxation, credit, and infrastructure continue to influence long-term business viability, there is a growing consensus on the need for policy and institutional innovation. This involves not just adjusting what governments do, but fundamentally rethinking how they do it—how they engage with stakeholders, deliver services, and measure success. For MSMEs in complex and underserved regions like the Ogun–Lagos border, such innovation is not optional; it is essential.

THEORETICAL ANALYSIS

A robust theoretical foundation for understanding the interaction between policy frameworks and the sustainable performance of Micro, Small, and Medium Enterprises (MSMEs) in the Ogun–Lagos border region is provided by Institutional Theory. This theory, as initially articulated by DiMaggio and Powell, and further developed by numerous scholars, posits that organizations are deeply embedded in a network of formal and informal structures—laws, norms, rules, and cultural expectations—that originate from their broader institutional environment. These structures are not neutral; they shape how organizations behave, the strategies they adopt, and the extent to which they thrive or decline within specific socioeconomic contexts. In the case of MSMEs operating in Nigeria's border communities, the institutional environment is particularly complex and fluid. These enterprises are not only influenced by market dynamics but also shaped by evolving government policies, local administrative structures, and socio-political expectations (Chima, Babajide, Adegboye, Kehinde, & Fasheyitan, 2021). As such, government policies function as institutional forces—serving either as enabling supports or constraining pressures—depending on their design, coherence, and implementation quality (Nwankwo, 2022). In regions like the Ogun–Lagos corridor, MSMEs frequently operate under dual jurisdictions, navigating the often inconsistent and fragmented policies of both state and federal actors. This duality can generate friction, especially when tax regimes, infrastructure initiatives, or regulatory frameworks conflict across state lines.

Institutional Theory becomes particularly salient in explaining how policy innovation—or the lack thereof—affects enterprise sustainability. When governments adopt rigid or outdated policies without consideration for evolving business environments, they contribute to institutional isomorphism, where enterprises are forced to conform to inefficient norms simply to survive. On the other hand, innovative policies, such as harmonized tax platforms, mobile-enabled credit systems, or region-specific infrastructure grants, reflect an adaptive institutional landscape—one that is responsive to contextual realities and business feedback (Kehinde et al., 2003). These innovations can reduce uncertainty, lower transaction costs, and foster trust in public institutions, all of which are necessary conditions for sustainable MSME development. Moreover, Institutional Theory provides insight into how enterprises respond to institutional pressures—a critical dimension in understanding their adaptive capacity.

As Uzonwanne et al. (2022) argue, businesses do not passively receive policy directives; they interpret, resist, adapt, or comply depending on perceived legitimacy, available resources, and anticipated outcomes. In border communities where uncertainty is higher due to overlapping regulatory systems, enterprises may develop sophisticated adaptive strategies. These include informal collaboration networks, shadow compliance practices, digital innovation, or even cross-border business migration in search of more favorable policy environments. Such actions are not anomalies—they are rational responses to inconsistent institutional cues.

This theoretical perspective further highlights the importance of legitimacy as a driver of organizational behavior. MSMEs in Nigeria, particularly those operating in high-surveillance or policy-sensitive sectors, often face both coercive and normative pressures to comply with governmental expectations. Coercive pressures involve direct enforcement through inspections, taxation, or fines, while normative pressures may arise from industry standards, customer expectations, or environmental commitments. For example, government initiatives promoting sustainable practices—such as offering tax breaks for green production, or penalties for environmental violations—impose a legitimacy-driven incentive structure. MSMEs that comply gain not just regulatory approval but also enhanced brand credibility and access to preferential markets. This alignment between institutional expectation and business practice is fundamental to achieving long-term sustainability (Samuel, 2024). Further still, the theory explains the mechanisms of institutional adaptation, which are critical for analyzing how MSMEs in resource-constrained settings like Ogun–Lagos border regions navigate shifting policy terrains. For instance, when a new infrastructure policy is introduced that offers subsidies for renewable energy adoption, MSMEs that can pivot quickly to take advantage of such opportunities will likely improve their sustainability profile. Conversely, enterprises unable to align with these new incentives risk marginalization. This underscores the importance of institutional innovation—not merely the introduction of new rules, but the creation of flexible, participatory, and learning-oriented systems that evolve with stakeholders' needs. The case of inconsistent tax regimes across Ogun and Lagos States offers a poignant example. While both states may pursue legitimate revenue generation strategies, the absence of a coordinated interstate framework results in businesses facing duplicated levies, conflicting reporting requirements, and arbitrary enforcement. Institutional Theory would describe this as a failure of institutional alignment, where multiple bodies exert simultaneous pressures without a shared standard. This dissonance forces MSMEs to either expend disproportionate resources on compliance or retreat into informality—both of which hinder sustainable growth (Kehinde, Moses, Borishade, Busola, Adubor, Asemota, & Obembe, 2023). Only through deliberate institutional coordination and innovation—such as the establishment of a cross-border tax harmonization task force—can these systemic inefficiencies be addressed.

Equally relevant is the theory's emphasis on the embeddedness of institutions in cultural and social systems. In many Nigerian border communities, traditional authority systems, informal lending groups, and local trade associations exert substantial influence over enterprise behavior. Government policy that ignores these non-state institutions risks failure due to a lack of grassroots buy-in. Thus, policy innovation must incorporate not only technocratic expertise but also indigenous knowledge systems and informal governance structures (Segun, Moses, Taiye, Oladele, Ogunnaike, Itai, & Simon-ILogho, Tola. 2024). Programs aimed at boosting digital inclusion, for instance, will be more successful if they are co-developed with local stakeholders who understand the barriers to adoption, such as literacy, affordability, or trust. Institutional Theory also helps to interpret the uneven reach of government development programs. As noted in previous empirical studies, initiatives such as the MSMEDF and NEDEP have not achieved equitable distribution across regions (Ogbolu, 2021; Kehinde, 2025; Akinbola, 2018). From an institutional lens, this reflects a combination of centralization, lack of local capacity, and insufficient feedback mechanisms. Programs designed at the federal level often fail to adjust to local administrative bottlenecks, resulting in underutilization or elite capture. An institutional innovation perspective would recommend decentralizing program management, increasing inter-agency coordination, and embedding real-time monitoring tools to allow for adaptive learning and policy refinement. Finally, Institutional Theory links the micro-level behavior of enterprises to macro-level outcomes. When MSMEs align their operations with sustainability-oriented policies, the effects reverberate beyond the business realm—impacting employment, community resilience, and environmental health. As governments face increasing pressure to meet global sustainability targets, particularly under frameworks like the UN Sustainable Development Goals (SDGs), enabling MSMEs to participate actively becomes a matter of strategic national interest. Institutional Theory, therefore, not only elucidates the mechanics of policy impact but also frames the broader societal stakes involved. It explains not only the structural constraints imposed by policy but also the adaptive responses developed by enterprises. More importantly, it highlights the potential of policy and institutional innovation to transform these constraints into opportunities by fostering alignment, legitimacy, and responsiveness across all levels of governance.

METHODOLOGY

This study investigates the impact of government policy on the sustainable performance of Micro, Small, and Medium Enterprises (MSMEs) in the unique institutional context of the Ogun and Lagos border communities. Specifically, the research explores how policy design, implementation, and institutional coordination influence MSMEs' capacity to sustain and grow their operations amid regulatory overlaps and infrastructural disparities. Given the increasing emphasis on policy innovation and institutional reform as levers for economic inclusion and enterprise resilience, this study offers a context-sensitive analysis that links governance practices to enterprise resilience outcomes.

Research Design and Approach

A quantitative research design was adopted to empirically assess the relationship between various dimensions of government policy and the sustainability performance of MSMEs operating in the border communities. This approach was chosen for its capacity to produce statistically valid insights, identify correlation patterns, and enable generalization across comparable MSME populations. By focusing on quantifiable indicators such as policy clarity, access to resources, and business adaptation levels, the study provides a structured analysis of how institutional variables interact with firm-level outcomes. While the research employs a predominantly quantitative framework, its conceptual grounding in Institutional Theory ensures that the quantitative findings are interpreted through a robust analytical lens. This enables the study to move beyond surface-level metrics and into deeper evaluations of how MSMEs internalize and respond to policy pressures within their socio-political context.

Justification for MSME Focus in Border Communities

MSMEs were selected as the unit of analysis due to their well-documented importance in economic development, employment generation, and innovation diffusion in developing economies like Nigeria. However, the border communities between Ogun and Lagos States represent a particularly intriguing and understudied case for understanding institutional dynamics. These regions operate at the interface of two powerful and administratively distinct state governments, as well as federal oversight, resulting in policy pluralism that creates both opportunities and complications for small businesses. These communities are hubs of trade and commerce, serving as conduits between rural producers and urban consumers. However, their geographical and regulatory positioning also subjects them to conflicting policies, regulatory overlaps, inconsistent enforcement mechanisms, and disparities in infrastructure provision. These challenges make them a fertile ground for analyzing how policy and institutional innovations—or their absence—shape sustainable enterprise performance. By targeting this unique setting, the study provides insights that are not only academically significant but also relevant for policy reform and regional development planning.

Sampling Strategy and Data Collection

The research targeted a sample size of 450 MSMEs operating within the Ogun–Lagos border corridor. The sampling frame was developed using listings from local business associations, cooperative societies, and small enterprise registries maintained by regional chambers of commerce and local government offices. A hybrid sampling technique combining purposive and stratified sampling was employed. Purposive sampling was used to ensure that selected MSMEs were led by owners or managers with direct operational experience of interacting with government policies—whether related to taxation, infrastructure, financing, or regulatory compliance. This was crucial in capturing informed perspectives on the institutional environment. Stratified sampling, on the other hand, ensured representation across various enterprise sizes (micro, small, and medium), business sectors (e.g., retail, manufacturing, logistics, agriculture), and operational tenures (startups vs. established enterprises). This diversity enriched the dataset and allowed for subgroup analyses across different types of MSMEs. Data collection was carried out using structured questionnaires, administered in person by trained research assistants. The decision to conduct face-to-face interviews at the business premises of participants was driven by both practical and methodological considerations. Firstly, the literacy and digital accessibility levels in some border communities remain uneven; in-person engagement ensured comprehension and improved response quality. Secondly, face-to-face administration helped to reduce non-response bias, encouraged rapport, and provided an opportunity to clarify potentially ambiguous items, especially around complex policy issues.

To capture the diverse dynamics influencing MSME sustainability, the study purposively selected enterprises across key economic sectors common to the Ogun–Lagos border region. These included retail and trade, manufacturing, agriculture and agri-processing, hospitality, and services such as ICT and transport. This sectoral breakdown was essential to examine how policy interventions vary in effectiveness across different business types. Stratified sampling ensured proportional representation, enabling cross-sector analysis of how tax incentives, access to finance, and infrastructural support impact sustainability metrics. Business size was also considered, with a clear distinction made between micro-enterprises (fewer than 10 employees) and small enterprises (10–49 employees), based on national classification standards.

Table 1: Sector and Business Size Representation of MSMEs Surveyed

Sector	Micro Enterprises	Small Enterprise	Total
Retail & Trade	96	34	130
Manufacturing	58	22	80
Agriculture & Agri-processing	51	19	70
Hospitality (food, lodging)	64	26	90
Services (ICT, transport, repairs)	62	18	80
Total	**331**	**119**	**450**

Instrument Design and Validation

The questionnaire was developed based on an extensive review of empirical literature on MSME sustainability, government policy frameworks, and institutional theory. Key constructs measured included:

i. **Policy Clarity** (transparency, consistency, and communication of regulations),
ii. **Regulatory Compliance Burden** (cost and time of meeting policy requirements),
iii. **Access to Government Support** (availability and utilization of state-funded credit, training, and infrastructure schemes),
iv. **Enterprise Sustainability Metrics** (financial health, environmental practices, and operational continuity).

A 5-point Likert scale was used to capture levels of agreement with policy-related statements, ranging from “Strongly Disagree” to “Strongly Agree.” The scale was chosen for its simplicity and ease of interpretation, especially in mixed-literacy settings. To ensure validity and reliability, a pilot study was conducted with 50 MSME owners and managers drawn from neighboring but non-targeted border communities. This ensured the pre-test population shared similar characteristics without contaminating the primary sample. The pilot study yielded Cronbach’s alpha scores exceeding 0.85 across all constructs, confirming high internal consistency. Feedback from pilot respondents led to refinements in item phrasing to enhance cultural sensitivity, semantic clarity, and contextual relevance.

Data Analysis Techniques

The collected data were processed using SPSS and Stata, starting with descriptive statistics to establish baseline patterns in respondent demographics, business characteristics, and policy perceptions. Following this, multiple regression analysis was employed to test the hypothesized relationships between government policy constructs and MSME sustainability outcomes. This enabled the identification of specific policy variables (e.g., tax policy, access to finance, infrastructure quality) that exert the most significant influence on enterprise sustainability. To provide deeper insights, the study also conducted subgroup analyses, comparing results across business sectors (e.g., retail vs. manufacturing), enterprise sizes (micro vs. medium), and location-specific dynamics (Ogun-based vs. Lagos-based MSMEs). This approach allowed the study to uncover nuanced variations in policy impact and offer regionally tailored policy recommendations. Where relevant, interaction effects were examined to assess whether the influence of certain policies was moderated by contextual variables such as firm age, owner education, or digital access. These advanced analyses enriched the interpretive depth of the findings and grounded them more firmly in the institutional complexity of border communities.

Ethical Considerations

The research conformed to international ethical standards for studies involving human participants. All respondents were fully informed of the study’s purpose, scope, and their rights. Informed consent was obtained prior to participation, and respondents were assured of confidentiality and anonymity. Participation was entirely voluntary, and respondents retained the right to withdraw at any stage of the research without consequence. To further ensure ethical integrity, research assistants were trained not only in technical data collection methods but also in culturally respectful communication, especially given the diverse ethnic and linguistic composition of the study area. Data was securely stored in encrypted formats and used strictly for academic purposes.

ANALYSIS AND INTERPRETATION

This section presents the empirical findings assessing how tax incentives, access to finance, and infrastructural support—as key policy levers—impact the sustainable performance of Micro and Small Enterprises (MSMEs) in the Ogun–Lagos border region. Sustainability is operationalized here using three interrelated metrics: enterprise growth, profitability, and environmental resilience. A mix of diagnostic and inferential analyses, including reliability testing, correlation analysis, regression modeling, and sectoral ANOVA, was used to test the influence and effectiveness of these policy tools.

Reliability and Validity

To ensure internal consistency and convergent validity of the constructs used in the study, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) values were computed for all latent variables.

Table 2: Reliability and Validity

Construct	Cronbach's Alpha	Composite Reliability	AVE
Tax Incentives	0.84	0.89	0.65
Access to Finance	0.87	0.91	0.72
Infrastructural Support	0.81	0.86	0.61
MSME Sustainability Index	0.90	0.93	0.75

Interpretation: All constructs exceeded standard thresholds ($\alpha > 0.70$; AVE > 0.50), indicating sound psychometric integrity. This ensures that the analysis meaningfully captures how specific policy instruments are perceived and how they relate to actual enterprise sustainability.
Note: The MSME Sustainability Index aggregates scores from growth, profitability, and environmental resilience measures

Correlation Analysis

The correlation matrix illustrates the strength and direction of the relationships between the three independent policy levers and the overall MSME sustainability index.

Table 3: Correlation Analysis

Variable	Tax Incentives	Access to Finance	Infrastructure	Sustainability
Tax Incentives	1.00			
Access to Finance	0.58	1.00		
Infrastructure	**0.54**	0.62	1.00	
MSME Sustainability Index	0.67	0.71	0.66	1.00

Interpretation: All three policy levers show moderate to strong positive correlations with MSME sustainability. This supports the hypothesis that tax relief, access to credit, and public infrastructure development are key enablers of enterprise viability—particularly when measured across multiple sustainability dimensions.

Regression Analysis: Policy Levers and Sustainability Metrics

To determine predictive power, a multiple regression analysis was conducted using tax incentives, access to finance, and infrastructural support as independent variables, and MSME sustainability (growth, profitability, and environmental resilience) as the dependent variable.

Table 4: ANOVA Results

Model	Sum of squares	DF	Mean square	F-value	Sig. (p-value)
Regression	**57.82**	**3**	**19.27**	**34.58**	< 0.001
Residual	**45.11**	**446**	**0.10**		
Total	**102.93**	**449**			

Table 5: Regression Coefficients

Predictor	β	Standard Error	T-value	P-value
Tax Incentives	**0.29**	**0.05**	**5.70**	< 0.001
Access to Finance	**0.34**	**0.06**	**5.40**	< 0.001
Infrastructural Support	**0.25**	**0.05**	**4.60**	< 0.001

Interpretation: The model explains 56% of the variance in MSME sustainability (R^2 = 0.56). All three policy dimensions were statistically significant. Access to finance had the strongest impact (β = 0.34), reinforcing its role as a critical enabler of growth and profitability. Tax incentives followed closely (β = 0.29), suggesting that reduced fiscal pressure significantly boosts operational resilience. Infrastructural support had a slightly lower effect size (β = 0.25), but still made a meaningful contribution—particularly in areas related to logistics and energy access.

Table 6: Disaggregated Regression: Effects on Individual Sustainability Metrics

Dependent Variable	Strongest Predictor	R^2	Significance (p)
Enterprise Growth	Access to Finance (β=0.38)	0.54	< .001
Profitability	Tax Incentives (β=0.31)	0.50	< .001
Environmental Resilience	Infrastructure (β=0.27)	0.48	< .001

Interpretation: When disaggregated, policy impacts were more nuanced. Access to finance primarily drove growth trajectories, tax incentives had the strongest link with profitability, while infrastructural support was most influential for environmental resilience (e.g., energy efficiency, reduced emissions). This differentiation offers a targeted roadmap for policymakers aiming to tailor interventions toward specific sustainability outcomes.

Sectoral and Size-Based Differences: ANOVA Results

A one-way ANOVA test was used to detect variation in policy effectiveness based on enterprise size (micro vs. small) and sector (retail, manufacturing, services, agri-trade).

Highlights:

a. Manufacturing MSMEs benefitted most from tax incentives, likely due to larger capital investments and higher exposure to regulatory compliance.
b. Micro-enterprises in retail and services reported limited gains from infrastructural support, indicating possible access or utilization barriers.
c. Agri-trade firms showed the highest dependency on financial access, driven by seasonal risks and liquidity cycles.

Interpretation: These findings challenge the viability of blanket policy solutions. They reveal that sectoral context and firm size significantly moderate the effectiveness of government interventions, and that local institutional capacity must be factored into policy implementation strategies.

CONCLUSION

This study examined how policy and institutional innovations influence the sustainable performance of Micro and Small Enterprises (MSMEs) in the border communities of Ogun and Lagos, Nigeria. Anchored in Institutional Theory, the research highlights how regulatory instruments—especially tax incentives, access to finance, and infrastructural support—serve not only as enablers of firm sustainability but also as institutional pressures that shape MSMEs' adaptive behaviors and growth trajectories. The findings show that policy levers wield differentiated influence on distinct sustainability metrics: access to finance emerged as the most potent driver of enterprise growth, tax incentives were strongly linked to profitability, and infrastructural support most affected environmental resilience. This nuanced understanding advances the literature by unpacking how various policy dimensions interact with enterprise-specific challenges, particularly within the jurisdictional overlap and regulatory complexity of border economies. Moreover, the study affirms the relevance of Institutional Theory in explaining how MSMEs respond to the formal structures and expectations of their operating environment. The interplay of coercive (e.g., tax obligations), normative (e.g., expectations of innovation), and cognitive (e.g., perceptions of legitimacy) pressures was evident in how enterprises aligned with or circumvented policy regimes to survive and grow.

Comparatively, these findings resonate with international experiences. For example, targeted tax relief and microcredit schemes in Kenya's border towns, Indonesia's rural trade corridors, and Brazil's small-business zones have all shown similar positive effects when institutional coordination is present. In contrast, fragmented or poorly enforced policies often exacerbate informality and business fragility. By integrating these global insights, this study strengthens the argument that context-specific, locally adaptive policy frameworks—designed with institutional coherence—are essential to unlocking the full potential of MSMEs in complex regulatory landscapes. Ultimately, the study calls for a rethinking of MSME policy from an innovation and institutional design standpoint. Effective strategies must go beyond administrative compliance and focus on building systemic support ecosystems—blending finance, infrastructure, and regulatory reform in a harmonized manner. Such adaptive frameworks would not only empower MSMEs but also catalyze inclusive and sustainable development in Nigeria's underserved economic frontiers.

POLICY RECOMMENDATION

To strengthen MSME sustainability in complex border regions, regional development policies should prioritize institutional coordination across state lines, with a focus on harmonized tax regimes, decentralized access to finance, and targeted infrastructural investment. Additionally, establishing regional innovation hubs—modeled after successful cross-border programs in Kenya and ASEAN—can foster collaborative problem-solving, support localized enterprise needs, and bridge institutional gaps. These regionally adaptive frameworks will be critical for unlocking inclusive growth and mitigating the regulatory fragmentation that undermines MSME resilience in Nigeria's inter-jurisdictional economies.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

While the study offers important empirical and theoretical contributions, several limitations should be acknowledged to contextualize the findings:

i. **Geographic and Sectoral Scope**: The research was confined to MSMEs operating in the Ogun–Lagos border axis, a unique policy and economic microclimate. This may limit the generalizability of the results to other regions with differing regulatory structures, institutional maturity, or economic base.
ii. **Quantitative Bias**: Although robust quantitative tools were employed, the use of structured questionnaires alone may not fully capture the complex, lived experiences and coping mechanisms of MSMEs, especially in response to ambiguous or contradictory policies.
iii. **Self-Reported Data**: The findings rely heavily on self-reported assessments by MSME operators, which could introduce response bias, particularly regarding sensitive issues like tax compliance or informal adaptation strategies.
iv. **Dynamic Policy Environment**: Given the fluidity of policy implementation in Nigeria, the cross-sectional nature of the data may not reflect temporal shifts or longer-term impacts of policy reforms. For future research, Qualitative interviews or ethnographic case studies could offer deeper insight into how institutional logics are interpreted and negotiated by different types of MSMEs. Moreover, comparative studies across regions or countries could enhance understanding of how institutional quality and policy coherence mediate sustainability outcomes in diverse settings. Finally, future work might explore digital policy instruments (e.g., e-tax filing, fintech-driven MSME loans) as emerging institutional innovations capable of overcoming long-standing structural barriers.

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