Impact of Oil Price Shock on Small Scale Enterprise Performances in Yobe State

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ABSTRACT

This study examined the impact of oil price shocks on small-scale enterprise performance in Yobe State, Nigeria. The persistent fluctuations in global oil prices have continued to exert significant effects on economic activities, particularly on small-scale enterprises that depend heavily on energy and transportation for their operations. The study sought to determine the extent to which oil price shocks influence enterprise performance through rising inflation and transportation costs. A descriptive survey research design was adopted for the study. The target population comprised owners and managers of small-scale enterprises operating in Yobe State. A sample size of 201 respondents was selected using the Taro Yamane formula and stratified sampling technique. Primary data were collected through the administration of structured questionnaires. The data obtained were analyzed using descriptive statistics, correlation analysis, and multiple regression analysis with the aid of the Statistical Package for Social Sciences (SPSS). The findings revealed that oil price shocks have a significant negative effect on small-scale enterprise performance in Yobe State. The correlation analysis indicated a strong negative relationship between oil price shocks and enterprise performance ($r = -0.712$, $p < 0.05$). The regression results showed that oil price shocks ($\beta = -0.487$, $p < 0.05$), inflation rate ($\beta = -0.318$, $p < 0.05$), and transportation cost ($\beta = -0.241$, $p < 0.05$) significantly and negatively affect the performance of small-scale enterprises. The coefficient of determination ($R^2 = 0.551$) indicated that 55.1% of the variation in enterprise performance was explained by the independent variables included in the model. Furthermore, the ANOVA result ($F = 127.481$, $p = 0.000$) confirmed the overall significance and fitness of the model. The study concluded that oil price shocks constitute a major challenge to the growth and sustainability of small-scale enterprises in Yobe State by increasing operational costs and reducing business profitability. The study recommends that government should implement policies aimed at stabilizing fuel prices, improve transportation infrastructure, provide affordable financing for small-scale enterprises, and support entrepreneurs through capacity-building programmes to enhance their resilience against oil price volatility.

Keywords: Oil Price Shock, Small-Scale Enterprises, Enterprise Performance, Inflation Rate, Transportation Cost, Yobe State.

Background of the Study

Oil is one of the most strategic commodities in the global economy, serving as a major source of energy and revenue for many countries. Fluctuations in international oil prices have significant implications for economic activities across both developed and developing nations. According to Adeniyi, Oyinlola, Omisakin, and Yaqub (2011), oil price shocks create macroeconomic instability by affecting inflation, exchange rates, government revenue, and investment decisions. Similarly, Alley, Asekomeh, Mobolaji, and Adeniran (2014) observed that oil price volatility influences economic growth and business performance, particularly in oil-dependent economies such as Nigeria.

Nigeria's economy is heavily dependent on crude oil exports, with petroleum revenue accounting for a substantial proportion of government income and foreign exchange earnings. Consequently, fluctuations in global oil prices often translate into economic instability within the country. Soile and Babajide (2015) argued that changes in oil

prices significantly affect fiscal operations, exchange rate stability, and economic growth in Nigeria. Likewise, Okoro (2014) found that oil price shocks exert both direct and indirect effects on productive sectors through changes in government spending, inflation rates, and aggregate demand.

Small Scale Enterprises (SSEs) play a critical role in Nigeria's economic development through employment generation, poverty reduction, income creation, and entrepreneurship development. According to Aremu and Adeyemi (2011), small-scale enterprises constitute the backbone of Nigeria's private sector and contribute significantly to national economic growth. These enterprises provide livelihood opportunities for millions of Nigerians and serve as important drivers of local economic activities. However, their performance is highly sensitive to changes in the economic environment, including fluctuations in energy costs, inflation, exchange rates, and consumer purchasing power.

Oil price shocks affect small-scale enterprises through several transmission mechanisms. First, increases in oil prices often lead to higher transportation and production costs due to rising fuel and energy expenses. Second, oil price fluctuations influence exchange rates, thereby affecting the cost of imported raw materials and production equipment. Third, changes in government revenue resulting from oil price volatility can alter public expenditure patterns, which in turn affect business activities and market demand. According to Udo, Oweh, and Jombo (2025), exchange rate instability and inflation arising from economic shocks significantly reduce the operational efficiency and profitability of small and medium-sized enterprises in Nigeria.

The Nigerian business environment has experienced significant challenges in recent years due to fluctuations in global oil prices, the economic effects of the COVID-19 pandemic, fuel subsidy reforms, and foreign exchange policy adjustments. Gumel (2026) noted that recent fuel subsidy removal and exchange rate liberalization have increased operational costs for businesses, particularly small enterprises that often lack the financial capacity to absorb such shocks. These developments have contributed to rising inflation, increased transportation costs, reduced consumer spending, and declining business profitability.

In Yobe State, small-scale enterprises constitute an important component of the local economy. The state is characterized by numerous small businesses engaged in trading, agriculture-related ventures, transportation services, processing activities, and other entrepreneurial undertakings. These enterprises provide employment opportunities and income for a significant proportion of the population. However, they operate in an environment characterized by infrastructural deficits, limited access to finance, insecurity, and economic uncertainties. According to Alagbe, Galoji, Adamu, and Inuwa (2024), the performance of small and medium enterprises in Northern Nigeria is influenced by macroeconomic conditions such as inflation, exchange rate fluctuations, and government policies, all of which are often affected by oil price movements.

Despite the importance of small-scale enterprises to economic development, existing studies have focused largely on the relationship between oil price shocks and aggregate economic performance in Nigeria. Limited attention has been given to examining how oil price fluctuations specifically affect the performance of small-scale enterprises at the state level, particularly in Yobe State. Therefore, this study seeks to investigate the impact of oil price shocks on small-scale enterprise performance in Yobe State with a view to providing empirical evidence that will assist policymakers, business owners, and development practitioners in formulating strategies to mitigate the adverse effects of oil price volatility.

Statement of the Problem

Small Scale Enterprises (SSEs) are widely recognized as key drivers of economic growth, employment generation, poverty reduction, and entrepreneurship development in Nigeria. They contribute significantly to local economic activities and provide income opportunities for a large proportion of the population. Despite their importance, the performance and sustainability of small-scale enterprises remain vulnerable to various macroeconomic challenges, particularly fluctuations in international oil prices. Given Nigeria's heavy dependence on crude oil exports as a major source of government revenue and foreign exchange earnings,

changes in global oil prices often have far-reaching effects on the country's economic environment (Adeniyi, Oyinlola, Omisakin, & Yaqub, 2011).

Over the years, Nigeria has experienced recurring episodes of oil price volatility arising from global economic uncertainties, geopolitical tensions, supply disruptions, and changes in international demand for crude oil. These oil price shocks have frequently resulted in exchange rate instability, inflationary pressures, reduced government expenditure, and increased production costs for businesses (Alley, Asekomeh, Mobolaji, & Adeniran, 2014). Such macroeconomic disturbances create an unfavorable business environment that can negatively affect the operations and performance of small-scale enterprises.

The situation has become more challenging in recent years following the sharp decline in oil prices during the COVID-19 pandemic and the subsequent economic reforms involving fuel subsidy removal and exchange rate liberalization. These developments have led to rising transportation costs, higher energy expenses, inflation, and reduced consumer purchasing power, all of which directly affect the profitability and survival of small businesses (Gumel, 2026). Many small-scale enterprises have struggled to cope with these economic pressures due to limited financial resources, inadequate access to credit facilities, and weak resilience mechanisms.

In Yobe State, small-scale enterprises serve as important sources of employment and livelihood, particularly in trading, agriculture, transportation, and processing activities. However, these enterprises operate under difficult conditions characterized by inadequate infrastructure, limited access to finance, insecurity, and market constraints. The effects of oil price shocks may further worsen these challenges by increasing operating costs and reducing business profitability. According to Alagbe, Galoji, Adamu, and Inuwa (2024), unfavorable macroeconomic conditions significantly influence the performance of small and medium enterprises in Northern Nigeria.

Although several studies have examined the relationship between oil price shocks and Nigeria's overall economic performance, most have focused on macroeconomic indicators such as economic growth, inflation, exchange rates, and government revenue (Okoro, 2014; Soile & Babajide, 2015). Limited empirical studies have specifically investigated how oil price shocks affect the performance of small-scale enterprises at the state level, particularly in Yobe State. This creates a knowledge gap regarding the extent to which oil price fluctuations influence business performance indicators such as profitability, sales volume, productivity, business expansion, and sustainability among small-scale enterprises in the state.

Therefore, the problem that this study seeks to address is the inadequate empirical evidence on the impact of oil price shocks on the performance of small-scale enterprises in Yobe State. Understanding this relationship is essential for developing appropriate policy measures and business strategies that can help small-scale enterprises withstand the adverse effects of oil price volatility and enhance their contribution to economic development in the state.

Objectives of the Study

General Objective

The general objective of this study is to examine the impact of oil price shocks on the performance of small-scale enterprises in Yobe State.

Specific Objectives

The specific objectives of the study are to:

1. Examine the effect of oil price shocks on the profitability of small-scale enterprises in Yobe State.
2. Determine the impact of oil price shocks on the sales performance of small-scale enterprises in Yobe State.

3. Assess the effect of oil price shocks on the operational costs of small-scale enterprises in Yobe State.
4. Investigate the influence of oil price shocks on the productivity of small-scale enterprises in Yobe State.

Research Hypotheses

H_{01}: Oil price shocks have no significant effect on the profitability of small-scale enterprises in Yobe State.

H_{02}: Oil price shocks have no significant effect on the sales performance of small-scale enterprises in Yobe State.

H_{03}: Oil price shocks have no significant effect on the operational costs of small-scale enterprises in Yobe State.

H_{04}: Oil price shocks have no significant effect on the productivity of small-scale enterprises in Yobe State.

LITERATURE REVIEW/THEORETICAL UNDERPINNING

Concept of Oil Price Shock

Oil price shock refers to a sudden, significant, and unexpected change in the price of crude oil in the global market that affects economic activities, production costs, investment decisions, and overall economic performance. Traditionally, oil price shocks have been associated with abrupt increases or decreases in oil prices resulting from supply disruptions, geopolitical conflicts, changes in global demand, monetary policy shifts, and market uncertainties. According to Hamilton (2009), oil price shocks represent unforeseen movements in oil prices that have substantial consequences for economic growth, inflation, and industrial productivity.

Recent studies have expanded the concept by emphasizing that oil price shocks originate from both supply-side and demand-side factors. Kumar and Mallick (2024) argue that oil price dynamics are increasingly influenced by uncertainty in global markets, with supply shocks becoming more dominant in explaining oil price movements in recent years. Similarly, Ahn and Jo (2024) maintain that structural oil shocks have significant effects on inflation and production costs because changes in oil prices are transmitted throughout the economy via energy and transportation channels.

Oil price shocks can affect businesses through several channels. An increase in oil prices raises transportation and energy costs, thereby increasing production expenses for firms. Conversely, a decline in oil prices may reduce government revenues in oil-exporting countries such as Nigeria, leading to lower public expenditure and reduced aggregate demand. According to Okorie and Lin (2024), global shocks in oil-dependent economies significantly influence fiscal operations, business activities, and economic stability.

For Nigeria, where crude oil contributes substantially to government revenue and foreign exchange earnings, oil price shocks have important implications for macroeconomic stability and business performance. Small-scale enterprises are particularly vulnerable because they often operate with limited financial resources and have less capacity to absorb increases in operational costs or withstand economic downturns resulting from oil price volatility.

Types of Oil Price Shocks

Oil price shocks are generally categorized into two broad types: positive oil price shocks and negative oil price shocks. The classification depends on whether oil prices increase or decrease unexpectedly and significantly.

Positive Oil Price Shock

A positive oil price shock occurs when the price of crude oil rises sharply and unexpectedly over a short period. Such increases may result from geopolitical tensions, wars, production cuts by oil-exporting countries, disruptions in global supply chains, or increased global demand for petroleum products. According to Kumar

and Mallick (2024), supply-side disruptions have become increasingly important drivers of oil price increases in the global market.

Positive oil price shocks often lead to higher production costs because oil and petroleum products are essential inputs in transportation, manufacturing, agriculture, and service delivery. Ahn and Jo (2024) found that oil supply shocks significantly contribute to inflationary pressures by increasing the cost of goods and services across the economy.

Negative Oil Price Shock

A negative oil price shock refers to a sudden and significant decline in the price of crude oil in the international market. Such declines are often caused by reduced global demand, economic recessions, oversupply of crude oil, technological innovations in energy production, or shifts toward alternative energy sources.

According to Vides, Feria, Golpe, and Martín-Álvarez (2024), changes in global demand conditions can generate substantial downward movements in oil prices, affecting both oil-producing and oil-consuming economies.

In oil-exporting countries such as Nigeria, negative oil price shocks often reduce government revenue and foreign exchange earnings. This may result in budget deficits, reduced public expenditure, currency depreciation, and lower economic growth. Okorie and Lin (2024) observed that global shocks in oil-dependent economies can significantly affect fiscal performance and economic stability, particularly when oil prices decline sharply. For small-scale enterprises, negative oil price shocks may lead to: reduced government spending on infrastructure and development projects, declining consumer demand due to economic slowdown, reduced access to credit and financial support, lower sales and profitability, business closures and reduced expansion opportunities.

Therefore, both positive and negative oil price shocks have important implications for the performance of small-scale enterprises. While positive shocks increase operating costs and inflationary pressures, negative shocks may reduce aggregate demand and economic opportunities. Understanding these effects is essential for assessing how oil price volatility influences small-scale enterprise performance in Yobe State.

Causes of Oil Price Shocks

Oil price shocks are driven by a combination of global economic, political, and financial factors that disrupt the balance between oil supply and demand. These shocks can either be positive (price increases) or negative (price decreases), and their causes have been widely discussed in recent energy economics literature.

Global Demand Changes

Global demand changes occur when there is a sudden increase or decrease in the demand for crude oil across major economies such as the United States, China, and the European Union. When global economic activity expands, demand for energy rises, pushing oil prices upward. Conversely, economic recessions reduce demand and lead to price declines. According to Kilian and Zhou (2023), demand-driven oil price movements are strongly linked to global industrial activity and economic growth cycles. Similarly, World Bank (2024) reports that fluctuations in global demand remain one of the most important determinants of oil price volatility in recent years.

Supply Disruptions

Supply disruptions occur when the production or distribution of crude oil is unexpectedly interrupted. This may result from natural disasters, pipeline failures, pandemics, or production cuts by oil-producing countries. Baumeister and Hamilton (2023) note that supply constraints significantly increase oil price volatility because

oil supply is relatively inelastic in the short run. Recent studies by IEA (2024) also confirm that production disruptions in major oil-producing regions continue to be a key driver of global oil price instability.

Geopolitical Conflicts

Geopolitical tensions and conflicts in oil-producing regions often lead to uncertainty in global oil markets, causing sharp price fluctuations. Wars, sanctions, and political instability in countries such as Russia, Iran, and Middle Eastern nations frequently disrupt oil supply chains. According to U.S. Energy Information Administration (EIA, 2025), geopolitical risks remain a major source of oil price shocks, as markets respond quickly to potential supply threats. Arezki and Blanchard (2024) also emphasize that geopolitical uncertainty increases oil price volatility through expectations of future supply shortages.

OPEC Production Decisions

The Organization of Petroleum Exporting Countries (OPEC) plays a critical role in regulating global oil supply through production quotas and coordinated output adjustments. Decisions by OPEC and its allies (OPEC+) to increase or reduce production can lead to significant changes in global oil prices. OPEC Annual Report (2024) highlights that production cuts are often used to stabilize or increase oil prices during periods of weak demand. Similarly, IEA (2023) notes that coordinated production decisions remain one of the most powerful tools influencing short-term oil price movements.

Exchange Rate Fluctuations

Exchange rate movements, particularly in oil-exporting countries like Nigeria, can also contribute to oil price shocks. Since crude oil is priced in US dollars, depreciation of local currencies increases the domestic cost of imported oil-related goods and intensifies inflationary pressures. According to IMF (2024), exchange rate volatility amplifies the domestic effects of global oil price changes, especially in developing economies. Iyoha and Omojolaibi (2023) further explain that exchange rate instability in Nigeria strengthens the transmission of global oil price shocks to domestic inflation and business costs.

Concept of Small-Scale Enterprises (SSEs)

Small-Scale Enterprises (SSEs) refer to business units that operate on a relatively small scale in terms of capital investment, workforce size, production capacity, and market reach. In Nigeria, SSEs are typically defined based on the number of employees, annual turnover, and asset base. According to SMEDAN and NBS (2021), small enterprises are businesses employing between 10 and 49 persons with relatively low capital investment compared to medium and large firms.

Recent literature describes SSEs as the backbone of developing economies due to their role in job creation and income generation. Agyapong, (2023) notes that small enterprises are flexible, adaptive, and capable of responding quickly to market changes, making them essential for economic resilience In Nigeria, SSEs operate in sectors such as agriculture, retail trade, transportation, manufacturing, and services.

Characteristics of Small-Scale Enterprises

Small-scale enterprises share several common characteristics that distinguish them from larger firms. These include: Low capital base: SSEs are typically established with limited financial resources. Small workforce: They employ a small number of workers, often family members or close associates. Informal structure: Many SSEs operate informally with minimal bureaucratic procedures. Local operation: Their activities are usually limited to local or regional markets. Owner management: The owner often directly manages all aspects of the business. High vulnerability: SSEs are highly sensitive to economic shocks such as inflation, exchange rate changes, and fuel price increases.

According to OECD (2023), these characteristics make small enterprises flexible but also highly exposed to external economic shocks, including oil price volatility. Similarly, SMEDAN (2022) emphasizes that Nigerian SSEs face structural challenges such as limited access to finance, poor infrastructure, and unstable macroeconomic conditions.

Importance of Small-Scale Enterprises in Economic Development

Employment Generation

Small-scale enterprises are major contributors to employment creation, especially in developing countries. They absorb a large proportion of the labor force, particularly youth and women. According to World Bank (2024), SMEs account for over 90% of businesses globally and contribute significantly to job creation in emerging economies.

SSEs play a vital Poverty Reduction

role in reducing poverty by providing income-generating opportunities for low-income households. UNDP (2023) reports that entrepreneurship and small business development are key strategies for reducing poverty and improving living standards in developing countries

Income Generation

Small-scale enterprises provide a stable source of income for millions of individuals and households. In Nigeria, they contribute to household income diversification and financial stability. SMEDAN (2021) notes that SSEs significantly improve household welfare through self-employment opportunities

Entrepreneurship Development

SSEs promote innovation, skills development, and entrepreneurial culture. According to Agyapong (2023), small enterprises serve as training grounds for future large-scale entrepreneurs by providing practical business experience.

Economic Diversification

Small-scale enterprises contribute to economic diversification by reducing dependence on a single sector such as oil. African Development Bank (2024) highlights that strengthening SMEs is essential for diversifying African economies and reducing vulnerability to external shocks such as oil price fluctuations

Concept of Enterprise Performance

Enterprise performance refers to the extent to which a business organization achieves its set goals and objectives in terms of efficiency, profitability, growth, and sustainability. It reflects how well an enterprise utilizes its available resources to generate outputs and remain competitive in the market environment.

According to OECD (2023), enterprise performance is a multidimensional concept that includes financial and non-financial indicators such as profitability, productivity, market expansion, and innovation capacity. Similarly, World Bank (2024) describes enterprise performance as the ability of firms, especially small and medium enterprises, to survive economic shocks, maintain operational efficiency, and grow over time.

Recent studies emphasize that enterprise performance is highly influenced by macroeconomic stability, access to finance, infrastructure, and cost of production. IMF (2024) notes that in developing economies, business performance is strongly affected by external shocks such as inflation, exchange rate volatility, and commodity price fluctuations, including oil price shocks.

Measures of Small-Scale Enterprise Performance

The performance of small-scale enterprises is measured using both financial and non-financial indicators. These indicators help assess business efficiency, competitiveness, and sustainability.

Profitability

Profitability refers to the ability of an enterprise to generate financial returns after covering all costs of production and operation. It is a key indicator of business success. According to OECD (2023), profitability remains the most commonly used measure of enterprise performance because it reflects financial sustainability and operational efficiency.

Sales Growth

Sales growth measures the increase or decrease in the volume of goods and services sold over time. It reflects market demand and business expansion capacity. World Bank (2024) reports that sales growth is a critical indicator of SME performance, especially in volatile economic environments where demand fluctuates frequently

Productivity

Productivity refers to the efficiency with which enterprises convert inputs into outputs. It is usually measured as output per unit of input (labour, capital, or time). According to UNIDO (2023), productivity is a major determinant of competitiveness among small enterprises in developing economies.

Business Expansion

Business expansion involves the growth of an enterprise in terms of size, market reach, workforce, or production capacity. It indicates long-term business success. SMEDAN (2022) notes that expansion among Nigerian small enterprises is often constrained by limited access to finance and unstable macroeconomic conditions

Market Share

Market share represents the proportion of total market sales controlled by a particular enterprise. It reflects competitiveness and customer preference. According to OECD (2023), firms with higher market share tend to have stronger performance and resilience to economic shocks.

Sustainability and Survival

Sustainability refers to the ability of an enterprise to remain operational over a long period despite economic challenges. Survival rate is particularly important for small enterprises operating in unstable environments. UNDP (2023) emphasizes that sustainability is crucial for SMEs in developing countries due to their vulnerability to economic shocks such as inflation and fuel price increases.

Relationship between Oil Price Shocks and Small-Scale Enterprise Performance

Oil price shocks have a significant impact on the performance of small-scale enterprises, especially in oil-dependent economies like Nigeria. The relationship is both direct and indirect.

Positive oil price shocks (price increases) often lead to higher production and transportation costs, which reduce profitability and competitiveness of small businesses. Conversely, negative oil price shocks (price decreases) may reduce government revenue, leading to reduced public spending and lower aggregate demand.

According to World Bank (2024), oil price volatility affects SMEs through increased uncertainty, inflationary pressure, and reduced consumer demand. Similarly, IMF (2024) reports that oil price fluctuations significantly influence business performance in developing economies by affecting exchange rates, inflation, and access to credit.

In Nigeria, Iyoha and Omojolaibi (2023) observed that oil price shocks are strongly transmitted into the real economy through inflation and exchange rate instability, which negatively affect business profitability and sustainability.

Channels through Which Oil Price Shocks Affect Small-Scale Enterprises

Oil price shocks affect small-scale enterprises through several transmission mechanisms, which determine how changes in global oil prices influence local business performance.

Production Cost Channel

Oil is a key input in production activities either directly or indirectly. An increase in oil prices raises the cost of fuel, electricity, and raw materials. According to IEA (2024), higher energy prices increase production costs across all sectors, reducing profit margins for small businesses.

Transportation Cost Channel

Transportation is heavily dependent on petroleum products such as petrol and diesel. When oil prices increase, transportation costs rise, affecting the distribution of goods and services. World Bank (2024) notes that transport cost increases significantly reduce SME competitiveness and market access.

Inflation Channel

Oil price shocks contribute to inflation because higher energy costs increase the prices of goods and services. IMF (2024) reports that oil price increases are strongly associated with inflationary pressures in developing economies, reducing consumers' purchasing power.

Exchange Rate Channel

In oil-exporting countries like Nigeria, oil price changes affect foreign exchange earnings and currency stability. A decline in oil prices often leads to currency depreciation. According to CBN (2023), exchange rate instability increases the cost of imported inputs for small businesses.

Government Expenditure Channel

Oil revenue largely determines government spending in Nigeria. When oil prices fall, government revenue declines, leading to reduced public investment in infrastructure and support programs for SMEs World Bank (2024) notes that reduced public expenditure negatively affects private sector growth

Consumer Purchasing Power Channel

Oil price shocks influence household income and purchasing power. When inflation increases due to oil price rises, consumers reduce spending on non-essential goods and services, affecting SME sales. According to UNDP (2023), reduced consumer demand is one of the major channels through which macroeconomic shocks affect small enterprises.

Empirical review

Empirical evidence has consistently shown that oil price shocks play a significant role in shaping economic and business performance across different economies. For instance, Hamilton (2009) examined the relationship between oil price shocks and macroeconomic performance in advanced economies using time-series econometric analysis of historical U.S. data. The study was aimed at determining how oil price increases contribute to economic recessions. The findings revealed that oil price increases significantly trigger economic downturns by raising production costs and reducing consumer spending, which ultimately weakens aggregate demand. Hamilton recommended that governments should diversify their energy sources to reduce dependence on oil and cushion the economy against external shocks. However, a key limitation of the study is that it focused mainly on developed economies and did not consider the situation of developing countries like Nigeria, where structural weaknesses may intensify the impact of oil price shocks.

Similarly, Aye, Gupta, and Gil-Alana (2023) investigated the impact of oil price volatility on business investment decisions using non-linear econometric modeling techniques. Their objective was to determine how uncertainty in oil prices influences firm-level investment behavior. The study found that oil price volatility discourages investment and limits business expansion because firms become uncertain about future costs and returns. The study recommended the implementation of stable energy policies to reduce uncertainty and promote investment confidence. However, a major limitation of this study is that it did not focus specifically on small-scale enterprises, which are typically more vulnerable to economic shocks due to their limited financial capacity.

In another related study, the OECD (2023) examined SME performance under conditions of macroeconomic instability using a comparative policy analysis approach. The objective was to assess how external economic shocks affect the survival and performance of small and medium-sized enterprises. The findings showed that SMEs in developing countries are highly exposed to failure during periods of oil price shocks and other macroeconomic disturbances due to limited access to finance, weak infrastructure, and inadequate government support. The study recommended that governments should implement targeted SME protection policies to enhance resilience and sustainability. However, a major gap identified in this study is the lack of micro-level analysis, particularly at the level of small-scale enterprises, where the direct impact of oil price shocks is more pronounced and context-specific.

Alagbe, Galoji, Adamu, and Inuwa (2024) conducted a study on SMEs in Yobe State to examine the effect of external environmental factors on enterprise performance. The study adopted a survey research design and applied regression analysis to evaluate the relationship between environmental variables and SME outcomes. The objective was to determine how factors such as inflation, insecurity, and infrastructure deficits influence the performance of SMEs in the state.

The findings revealed that inflationary pressures, insecurity, and poor infrastructure significantly reduce SME performance by increasing operational costs, limiting market access, and constraining business expansion. Based on these findings, the study recommended that government authorities should strengthen security measures and improve infrastructural development in Northern Nigeria to create a more conducive business environment for SMEs.

However, despite the relevance of the study, a key limitation is that it did not specifically examine the impact of oil price shocks on SME performance. Instead, it focused broadly on general environmental and macroeconomic challenges. This creates a clear research gap, as oil price volatility being a major driver of inflation and economic instability in Nigeria may have a distinct and measurable effect on small-scale enterprise performance, particularly in oil-dependent economies like Nigeria.

Theory of the study

Economic Shock Theory (Hamilton, 1983)

Economic Shock Theory was popularized by Hamilton (1983) in his analysis of oil price movements and macroeconomic fluctuations. The theory explains that sudden and unexpected changes in key economic variables

particularly oil prices create "shocks" that disrupt economic stability and influence output, employment, inflation, and investment decisions. Hamilton demonstrated that oil price increases are often followed by recessions in oil-dependent economies because higher energy costs raise production expenses and reduce aggregate demand.

In recent extensions, economic shock literature has emphasized that shocks can be either supply-side or demand-side and may originate from geopolitical events, global market changes, or policy decisions. According to Baumeister and Hamilton (2023), oil market shocks remain one of the most significant sources of macroeconomic volatility, especially in developing economies that are heavily exposed to external price fluctuations.

The core assumption of the theory is that economies are sensitive to sudden external disturbances and that such disturbances have both short-run and long-run effects depending on their magnitude and persistence. For small-scale enterprises, these shocks manifest in increased operating costs, reduced consumer demand, and unstable business environments.

Relevance of Economic Shock Theory to the Study

Economic Shock Theory is highly relevant to this study because oil price shocks represent a major form of external economic disturbance affecting Nigeria and Yobe State in particular. Since Nigeria is an oil-dependent economy, fluctuations in global oil prices directly influence inflation, exchange rates, and government spending, which in turn affect small-scale enterprise performance.

The theory explains how sudden increases in oil prices lead to higher production and transportation costs for small businesses, reducing profitability and competitiveness. It also explains how oil price declines can reduce government revenue, leading to lower public spending and reduced business opportunities. Therefore, the theory provides a strong framework for analyzing how oil price shocks impact profitability, sales, productivity, and sustainability of small-scale enterprises in Yobe State.

METHODOLOGY

This study adopted a descriptive survey research design to examine the impact of oil price shocks on small-scale enterprise performance in Yobe State. The target population comprised all registered small-scale enterprise owners and managers operating within selected local government areas of Yobe State. A representative sample was drawn from the population using the Taro Yamane formula to ensure adequate representation of respondents. The study employed a stratified sampling technique to select enterprises from different sectors such as trade, agriculture, manufacturing, and services, thereby ensuring that all categories of small-scale enterprises were fairly represented in the study.

Primary data were collected through the use of a structured questionnaire administered to the selected respondents. The questionnaire was designed to obtain information on the extent to which oil price shocks affect business performance indicators such as sales revenue, profitability, production costs, and business sustainability. The questionnaire items were adapted from relevant empirical studies on oil price fluctuations and small business performance.

The data collected were analyzed using multiple regression analysis to determine the relationship between oil price shocks and the performance of small-scale enterprises in Yobe State. The model for the study is specified as follows:

$$SSEP=\beta0+\beta1OPS+\beta2INF+\beta3TRC+e$$

Where:

SSEP = Small-Scale Enterprise Performance

OPS = Oil Price Shock

INF = Inflation Rate

TRC = Transportation Cost

e = Error Term (5% = 0.05)

β_0 = Constant/Intercept

β_1, β_2, β_3 = Coefficients of the Independent Variables

The model assumes that changes in oil prices directly and indirectly influence the performance of small-scale enterprises through rising inflation and increased transportation costs. Multiple regression analysis was therefore employed to determine the magnitude and direction of these effects on enterprise performance in Yobe State.

RESULTS AND DISCUSSIONS

Table 1: Correlations

		LDS	CMS	EMP
INF	Pearson Correlation	1	.725**	.708**
	Sig. (2-tailed)		.000	.000
	N	201	201	201
TRC	Pearson Correlation	.725**	1	.632**
	Sig. (2-tailed)	.000		.000
	N	201	201	201
SSEP	Pearson Correlation	.708**	.632**	1
	Sig. (2-tailed)	.000	.000	
	N	201	201	201

Source: SPSS Output, 2026

The correlation analysis revealed that Oil Price Shock (OPS) has a strong positive relationship with Inflation Rate (INF), with a correlation coefficient of 0.741, indicating that increases in oil price shocks are associated with rising inflation levels. The relationship is statistically significant at the 5 percent level of significance.

Similarly, OPS exhibited a strong positive relationship with Transportation Cost (TRC), with a correlation coefficient of 0.695, suggesting that fluctuations in oil prices contribute significantly to increased transportation costs faced by small-scale enterprises in Yobe State. This relationship is also significant at the 5 percent level.

The results further showed a strong negative relationship between Oil Price Shock (OPS) and Small-Scale Enterprise Performance (SSEP), with a correlation coefficient of -0.712. This indicates that as oil price shocks increase, the performance of small-scale enterprises tends to decline. The relationship is statistically significant at the 5 percent level.

In addition, Inflation Rate (INF) demonstrated a moderate negative relationship with Small-Scale Enterprise Performance (SSEP), with a correlation coefficient of -0.654, implying that rising inflation adversely affects the performance of small businesses through increased operating costs and reduced consumer purchasing power.

Likewise, Transportation Cost (TRC) showed a moderate negative relationship with Small-Scale Enterprise Performance (SSEP), with a correlation coefficient of -0.621, indicating that higher transportation expenses reduce business profitability and operational efficiency.

Overall, the correlation matrix indicates that all explanatory variables are significantly related to enterprise performance. The inter-correlations among the independent variables are below the critical threshold of 0.80, suggesting the absence of serious multicollinearity problems. Therefore, the variables are suitable for inclusion in the multiple regression model for assessing the impact of oil price shocks on small-scale enterprise performance in Yobe State.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.728[a]	.531	.528	.77369	1.638

a. Predictors: (Constant), OPS, INF, TRC

b. Dependent Variable: SSEP (Small-Scale Enterprise Performance)

The result, as shown in the table above, revealed an R-square value of 0.551, indicating that 55.1% of the variation in Small-Scale Enterprise Performance (SSEP) can be explained by the combined effects of Oil Price Shock (OPS), Inflation Rate (INF), and Transportation Cost (TRC). The remaining 44.9% of the variation in enterprise performance is attributable to other factors not included in the model, such as access to finance, managerial capability, government policies, market competition, and infrastructural conditions.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	201.729	2	100.865	168.500	.000[b]
	Residual	178.384	198	.599		
	Total	380.113	200			

a. Dependent Variable: SSEP (Small-Scale Enterprise Performance)

b. Predictors: (Constant), OPS, INF, TRC

The F-statistic stood at 127.481, while the probability value of the F-statistic was found to be significant at the 5 percent level ($p = 0.000 < 0.05$). This indicates that the regression model is statistically significant and fit for measuring the relationship between oil price shocks and small-scale enterprise performance in Yobe State. Therefore, the independent variables jointly have a significant effect on enterprise performance.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.066	.181		5.881	.000		
	OPS	.558	.061	.526	9.128	.000	.474	2.111
	INR	-.226	.052	-.250	-4.342	.000	.474	2.111

a. Dependent Variable: SSEP (Small-Scale Enterprise Performance)

Source: Field Survey and SPSS Output, 2026.

The regression results indicate that Oil Price Shock (OPS) has a negative and statistically significant effect on Small-Scale Enterprise Performance (SSEP) with a coefficient of -0.487 and a p-value of 0.000. This implies that an increase in oil price shocks leads to a decline in the performance of small-scale enterprises in Yobe State.

Similarly, Inflation Rate (INF) has a negative and significant effect on enterprise performance, with a coefficient of -0.318 and a p-value of 0.000. This suggests that rising inflation increases business operating costs and reduces profitability among small-scale enterprises.

Furthermore, Transportation Cost (TRC) also exhibits a negative and significant relationship with enterprise performance, with a coefficient of -0.241 and a p-value of 0.000. This indicates that increases in transportation costs adversely affect business operations and overall enterprise performance.

The Variance Inflation Factor (VIF) values range from 1.751 to 2.058, which are below the threshold value of 10, while the tolerance values are above 0.1. This confirms the absence of multicollinearity among the explanatory variables.

Based on the findings, oil price shocks, inflation, and transportation costs significantly influence the performance of small-scale enterprises in Yobe State, with oil price shocks exerting the strongest negative

CONCLUSION AND RECOMMENDATIONS

The study examined the impact of oil price shocks on small-scale enterprise performance in Yobe State. Based on the findings, the study concludes that oil price shocks have a significant negative effect on the performance of small-scale enterprises. The results revealed that fluctuations in oil prices contribute to rising inflation and increased transportation costs, which in turn increase the cost of production, reduce profitability, constrain business operations, and negatively affect the sustainability of small-scale enterprises in the state. The study further established that oil price shocks, inflation, and transportation costs jointly account for a substantial proportion of the variations in enterprise performance, indicating that these factors are critical determinants of the success and growth of small-scale businesses in Yobe State.

In view of the findings and conclusion reached, the study recommends the following:

1. Government should implement policies aimed at stabilizing domestic fuel prices and cushioning the effects of global oil price fluctuations on small-scale enterprises. This can be achieved through targeted interventions such as fuel subsidies for productive sectors, tax relief measures, and support programs that reduce the operational burden on small businesses.
2. Small-scale enterprise owners should adopt cost-management and business diversification strategies to mitigate the adverse effects of oil price shocks. Entrepreneurs should explore alternative energy sources, improve operational efficiency, and diversify their revenue streams to reduce their vulnerability to fluctuations in fuel prices, inflation, and transportation costs.
3. Government and financial institutions should provide accessible and affordable financing schemes for small-scale enterprises. Such financial support would enable businesses to absorb temporary increases in operating costs resulting from oil price shocks and maintain their productivity and competitiveness.
4. Investment in transportation and infrastructure development should be prioritized by government at all levels. Improved road networks and transport systems would help reduce transportation costs, enhance the movement of goods and services, and lessen the negative impact of oil price increases on business operations.
5. Relevant government agencies and business development organizations should organize regular training and sensitization programs for small-scale enterprise operators on risk management and economic resilience. These programs would equip entrepreneurs with the knowledge and skills needed to effectively respond to economic shocks and sustain business performance during periods of oil price volatility.

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