



# International Journal of Research Publication and Reviews

Journal homepage: [www.ijrpr.com](http://www.ijrpr.com) ISSN 2582-7421

## Business Environment and Performance of Small and Medium Scale Enterprises in Benue State, Nigeria

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### ABSTRACT

This study investigated the effect of business environment on the performance of SMEs in Benue State, Nigeria. The specific objectives examined were economic, political and legal, Socio-cultural and technological environment on the performance of SMEs in Benue State, Nigeria. The study adopts a survey design and questionnaire was used as an instrument for data collection. The population of the study comprises of 650 licensed SMEs in Benue State, Nigeria and a sample of 376 was determined through Stratified sampling. Validity results of KMO, and Bartlett's test indicate that variables are highly significant, and principal component analysis was suitable (0.784). The test-retest result of reliability reported a reliability index of (0.755). Data collected from the organizations' surveyed were analyzed and presented using regressions analysis. Results of tested hypotheses indicated that economic environment (46.2%), political and legal environment (32.6%), socio-cultural environment (38.0%), technological environment (58.2%) all have positive and significant impact on the performance of SMEs in Benue State, Nigeria. It is established that, business environment have influence on the performance of SMEs in Benue State, Nigeria. The study recommends among others that having information about the environment is not always readily available thereby making it difficult for managers of business organizations to predict and monitor the future. It is recommended that managers of business organizations should encourage the evaluation of the business environment through scenario development, forecasting and benchmarking in order to increase profitability in their business organizations so as to predict changes and concentrate on the opportunities for exploitation.

Keywords: Business Environment, Performance Of Smes, Technology, Economic, Socio-Cultural

### 1. Introduction

Globalization, changes in technology, intense competition and increase in customers' demands and expectations for quality products and services have dramatically changed the business environment. Businesses do not operate in a vacuum but rather in a dynamic environment that has a direct influence on how they operate and whether they will achieve their objectives. Business environment is marked by different dynamic features such as global competition, information technology, quality service revolution, and corporate social responsibility which are compelling managers to rethink and reshape their approach to their various operation responsibilities (Obasan, 2014). Competitive pressure as it is the most striking change has made competitors apply different strategies to adjust to the unpredictable nature of the business enterprise environment most especially, the external business environment which the study is focused on. However, the external environmental conditions that affect businesses are generally beyond the control of management and

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change constantly. To compete successfully, business owners and managers must continuously study the environment and adapt their businesses accordingly. To Babatunde, Bayode and Adebola (2012), it is important for a business to keep a pace with the various changes in the environment.

The business environment is considered as being central to economic activities and growth worldwide. The business environment is very crucial to the success or failure of businesses. Businesses does not operate in isolation but within a given environment which might shape their performance, survival, and profitability. For business to grow, there is a need for them to be able to adapt as external challenges arises. For a business to realize its objectives, it depends greatly on the ability of the enterprise to accomplish its key performance indicator in a sustainable manner. The business environment, therefore, is the basis of formulating company objectives, mission statement, policies, strategies, and tactics (Aneke, Ndubisi-Okolo and Chuka, 2019). Put differently, Business as an open system in the society interacts with its environment, which must be favourable to the business for achievement of set objectives. The entrepreneur must plan, take decisions, and execute them within the limits imposed by the environment. In other words, the environment is a strong determinant of the success or failure of an organization.

Over the years researchers identified internal factors as the major cause of failure of small business in developing countries with little attention on the external factors. Kazooba (2006) revealed that poor recordkeeping and lack of basic business management experience and skills was the major contributor. He further identified inadequate managerial skills, inexperience in the field of business, lack of planning, lack of technical knowledge and lack of market research. To Okpara and Wynn (2007) also, many literature have supported this notion. However, according to Barclays bank business bulletin (2000), they believed that high failure of small business is because of the economic cycle, or the external environment of a given country. They accounted in 2000 which was a year with relative economic prosperity that, there was high rate of small business survival. Adelaja (2006) identified multiple taxes, new law, trade polies, demographic changes, changing government policies are some of operating challenges managers are faced with. Thorsten (2002) in a survey study of 54 countries, find that firm growth is determined by legal institutions, corruption and financing, and small firms are affected most. Faultless legal system facilitates firm growth, while corruption and lack of finance adversely affects firm survival and growth. The study suggests that countries, especially the developing countries where these problems are more prevalent, need to improve their financing environment and reform legal system as well as take proper measures to reduce corruptions to minimum to create an environment suitable for small businesses.

Business environment of an external environment is a group of factors or conditions that are outside the organization but affect it in some extent. In business, this term commonly applies to elements related to out-of-control dimensions such as society, economy, regulations, and political system. Every organization must understand key aspects of its external environment because institutions do not exist alone. They interact with other entities and are influenced by a wide range of events, situations and other player's decisions that are out of its control. No matter how the firm controls its internal processes, there are many other aspects that also impact the performance and ultimately affect profitability and growth. Government decisions, competitor movements and changes in the socio-economic environment are some issues that must be known and understood by the company. Identification and comprehension of those elements allows more complete analysis of risks and potential threats. Monitoring trends and forecasting events support better strategies because the firm can take advantage of positive situations and minimize the effect of adversities. This study dwells on the external environment and its effect on the performance of SMEs.

In Nigerian, the economy has since in the late 1980s being faced with challenges of reintegration into the global economy because of corrupt policy makers and self-centered leaders. Some researchers have suggested that for Nigeria to be among the best economies i.e. to achieve the objective of economic growth through competitiveness, employment generation and income redistribution, small businesses must be actively promoted. According to Saunsi (2003), he stated that SMEs has played and will continue to play significant roles in the growth, development, and industrialization of many economies of the world. Data from Federal Office of Statistics reveal that about 97 per cent of the entire enterprises in the country are SMEs and they employ an average of 50 percent of the working population as well as contributing up to 50 per cent to the countries industrial output. It was suggested that SMEs in Nigeria are the catalysts of economic growth and development, as well as the backbone of the nation (Ihua, 2005). However, SMEs in Nigeria have performed below expectations due to external factors such as government regulation, economic recession, political turmoil, low-cost competitors, changes in customer behavior, environmental / health issues, technological changes, natural disasters, changes in input supply, changes in macro-economic variables and terrorist attacks. To fill the identified gap in literature, the current study investigates the effect of business environment on the performance of small and medium scale enterprises in Benue State, Nigeria. The specific objectives of the study include to; examine the effect of economic environment on the performance of SMEs in Benue State, Nigeria, assess the effect of political and legal environment on the performance of SMEs in Benue State, Nigeria, examine the effect of socio-cultural environment on the performance of SMEs in Benue State, Nigeria, find out the effect of technological environment on the performance of SMEs in Benue State, Nigeria. To achieve these objectives, the study is segmented in to five parts as follows: introduction, literature review, methodology, results and discussion of findings, and the last part conclusion, and recommendations.

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## **2. Literature Review**

### ***Business Environment***

Business Environment is sum or collection of all internal and external factors such as employees, customers' needs and expectations, supply and demand, management, clients, suppliers, owners, activities by government, innovation in technology, social trends, market trends, economic changes. Business environment is a set of elements closely involved with a business' activities. Fernando (2017) regards business environment as external forces, factors and institutions that are beyond the control of the business, and they affect the functioning of a business enterprise, these include customers, competitors,

suppliers, distributors, industry trends, substitutes, regulations government activities, the economy, demographics, social and cultural factors, innovations, and technological developments. To Ciano (2011), business is a series of collisions with the future while its present-day challenges include convergence, corporate governance, corporate reporting, fraud, operating globally, improving business performance, managing assets, change and People, mergers and acquisitions, risk management, shareholder's values, and Sustainability.

Business environment indicates the aggregate total of all people, organisations and other forces that are outside the power of industry but that may affect its production. Therefore, the financial, cultural, governmental, technological, and different forces which work outside an enterprise are part of its environment. The individual customers or facing enterprises as well as the management, customer groups, opponents, media, courts, and other establishments working outside an enterprise comprise its environment. Kinuu (2014) posit that the business environment in which organization operates exerts pressure on them the pressures from the environment provoke different responses as organizations seek legitimacy to survive and prosper in the environment. Blurtit (2013) also regards business environment as those conditions and forces which are eternal to the business and are beyond the individual business unit, but they all operate within it. Business Environment means a collection of all individuals, entities, and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival. According to business dictionary (2013) business environment can be defined as the combination of internal and external factors that influence organization operating situation. The business environment can include factors such as clients and suppliers, its competitors and owners, improvement in technology laws and government activities, markets, social and economic trends. According to Adebayo *et al.* (2005) business environment can be broadly categorized into internal and external environment with the former comprising variables or factors within the control and manipulation of the firm to attain set objective while the latter encompasses factors that are outside the control and manipulation of the firm.

Adeoye (2012) opined that for business to cope with the dynamic and rapidly changing business environment, there is a need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results. Business Environment has the following features: Business environment is the sum of all factors External to the business firm and that greatly influence their functioning. It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological, and legal conditions. The business environment is dynamic in nature, which means, it keeps on changing. The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment. Business environment differs from place to place, region to region and country to country (Ogunde, 2005). In this study, business environment is the combination of many factors both tangible and non-tangible that provides the live blood for the organizations success by providing a market for its products and services and by serving as a source of resources to others. In this study, the external business environment adopted are economic, political, and legal, socio-cultural, and technological environment.

### ***Dimensions of Business Environment***

**Economic Environment:** The term economic environment refers to all the external economic factors that influences buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control and may be either large-scale (macro) or small-scale (micro). Ogunde (2005) says that it is vital concern to an organization. He further posits that the economic environment goes a long way to determine and define the opportunities for an organisation, this is because an expanding economy provides operational scope for the organisational existence as well as for the establishment of new ones. However, a period of recession can bring about failures and probably liquidation of the organisation, moreover during liquidity trap it can collapse the organisation's structure. Economic environment includes the type of economic system that exists in the economy, the nature and structure of the economy, the phase of the business cycle (for example, the conditions of boom or recession), the fiscal, monetary, and financial policies of the government, foreign trade, and foreign investment policies of the government. These economic policies of the government present both the opportunities as well as the threats (i.e., restrictions) for the business firms. The type of the economic system, that is, socialist, capitalist or mixed provides institutional framework within which business firms must work. An economic policy includes monetary policy, fiscal policy, supply side policy etc. Economic indices: includes gross domestic product, consumer price index, and per capita income (Samson, 2012). This category is one of the most important external influences on businesses. Fluctuations in the level of economic activity create business cycles that affect businesses and individuals in many ways. When the economy is growing, for example, unemployment rates are low, and income levels rise. Inflation and interest rates are other areas that change according to economic activity. Through the policies it sets, such as taxes and interest rate levels, a government attempts to stimulate or curtail the level of economic activity. In addition, the forces of supply and demand determine how prices and quantities of goods and services behave in a free market. When promoting, selling a product it is important for an organization to consider the extra financial information including current rates, taxes etc. in the economy of the country (Samson, 2012).

**Political and Legal Environment:** The political climate of a country is another critical factor for managers to consider in day-to-day business operations. The amount of government activity, the types of laws it passes, and the general political stability of a government constitutes major components of political climate. Ongeti (2014) observed that political factors are the government regulations on businesses, political instability has ramification on planning, for example no organisation want to set up business in another country where the trade relationships are not relatively defined and stable. Businesses are closely related to the government. The political philosophy of the government wields a great influence over business policies. Political environment consists of the elements relating to government affairs. The political environment provides the framework within which businesses must function. According to Okeyo (2014), the implication of political environment to business enterprises is the risk emanating from it which is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone). The main components of political environment are the constitution of the country, political organisation which includes philosophy of political parties, ideology of the government, nature and extent of bureaucracy, influence of primary groups. Political stability includes structure of military and police force, election system, Law, and order situation etc. Image of the country and its leaders, foreign policy alignment or non-alignment and law governing business operations. The laws and regulations will influence the way in which an organization will market or sell the product and services. The legal factors influence trade agreements between different governments and states. The governments that have a well-developed public

policy about selling and marketing goods may limit competition and place other obligations on retailers (Armstrong, 2012). The main components legal environment are current legislation, international legislation, regulatory bodies and processes, tax regulations, competitive regulations, industry specific regulations and government regulations. According to Adeoye (2012), legal environment consists of laws, regulations that improves the enabling environment that leads to greater levels of investment by the private sector, more wealth, job creation and ultimately more poverty reduction. Government passes regulations on industries, this has considerable effect and impact on businesses, the regulatory agencies being set up by government to prevent the public from certain business practice for example the FEPA, NAFDAC and NDLEA. However often business can anticipate issues by performing a political risk analysis. The political instability can influence the business and the duration of time that business / organisation is profitable (Samson, 2012).

**Socio-Cultural Environment:** Social environment becomes important, its participation in a broadly defined network helps to define the contour of the set of its entrepreneurial tasks. In effect, the socio-cultural environment refers in this research to the social network, beliefs, attitudes, behaviors, and values of a society. It refers to people's attitude to work and wealth, role of family, marriage, religion, and education (Tacheva, 2007). The social environment of business includes social factors like customs, tradition, values, beliefs, poverty, literacy, life expectancy rate etc. Social factors like our attitudes, values, ethics, and lifestyles influences what, how, where, and when people purchase products or services. They are difficult to predict, define, and measure because they can be very subjective. They also change as people move through different life stages. People of all ages have a broader range of interests, defying traditional consumer profiles. They also experience a poverty of time and seek ways to gain more control over their time.

Moreover, several studies argue that the social environment refers to the social capital. It allows businessman to have access to skills, funding or contacts which would be difficult without interpersonal relations (Estay, 2004). Members of a society wield important influence over business firms. People these days do not accept the activities of business firms without question. Activities of business firms may harm the physical environment and impose heavy social costs. Besides, business practices may violate cultural ethos of a society. Social responsibility is the felt obligation or self-enforced duty of business firms to serve or protect social interests. By doing so they promote social well-being. Good corporate governance should be judged not only by the productivity and profits earned by a business firm but also by its social welfare promoting activities. To Ajonbadi (2017), the social structure and the values that a society cherishes have a considerable influence on the functioning of business firms. The main components of social and cultural environment are demographic forces composition and mobility of population. Organisations look at the cultural characteristics of the society and consider all values and customs that are often associated with the culture while they try to market and sell the product or service (Samson, 2012).

**Technological Environment:** Technological environment refers to the state of science and technology in the country and related aspects such as rate of technological progress, institutional arrangements for development and application of new technology (Galbraith, 1967). The nature of technology used for production of goods and services are important factors responsible for the success of a business firm. Technology consists of the type of machines and processes available for use by a firm and the way of doing things. The improvement in technology raises total factor productivity of a firm and reduces unit cost of output. The use of a superior technology by a firm gives it a competitive advantage over its rival firms. The use of a particular technology by a firm for its transformation process determines its competitive strength. In this age of globalisation, the firms must compete in the international markets for sales of their products. The firms which use outdated technologies cannot compete globally. Therefore, technological development plays a vital role in enhancing the competitive strength of business firms. The competitive advantage depends on the firm capability to adopt new technology (Voola *et al.* 2012). The main components of technological environment are rate of technological changes and diffusion, new approaches to the production of goods and services, the use of new processes and equipment, transfer of foreign technology, its cost, quality and value chain.

The application of technology can stimulate growth under capitalism or any other economic system. Technology is the application of science and engineering skills and knowledge to solve production and organisational problems. New equipment and software that improve productivity and reduces costs can be among a company's most valuable assets. Productivity is the amount of goods and services one worker can produce. Our ability as a nation to maintain and build wealth depends in large part on the speed and effectiveness with which we use technology to invent and adapt more efficient equipment to improve manufacturing productivity, to develop new products, and to process information and make it instantly available across the organisation and to suppliers and customers. The technological environment is becoming a lot more important in the modern-day business environment. New technology produces new opportunities for companies and organisations to create, sell and promote a product. Technology is rapidly growing and forever changing. Telecommunication technology e.g., cellphones and laptops are increasing the opportunity within an organisation to promote and sell a product. The internet has made information available to the consumer to easily compare current prices of a product or service with the price of the competitors of the same product or service. The internet has also created more opportunity to market the product or service via the use of social media (Armstrong, 2012).

### **Performance of SMEs**

According to Wu (2009) performance is a measure of how effective and efficient the mechanism/process put in place by an organisation attains its desired results. Performance is a notion that permeates contemporary societies (Michili and Mari, 2013). Performance can be defined as the result of all activities. The emphasis in evaluating performance is on assessing the current behavior of the organization in respect to its efficiency and effectiveness (Ghosh and Mukherje, 2006). Otokiti (2010) defined performance as the willingness of an individual to carry out the goals and objectives of an organisation. Organisation performances is however, defined as a group of people that come together and are willing to carry out goals and objective and planned or strategize. Organization performance is the ability of group of individuals to achieve certain of specific goals (Machuki 2015). Organisation faces turbulent and rapid changing environment, delays in availability of resources, political interference and variations in the economic situations have been attributed to poor organizational performance (Kobia and Mohamed, 2006). Organisational performance involves using of resources wisely to avoid wastage. Given by the interaction between organisations and environment, it follows that performance relates to how an organization reacts, understands and influence on certain environment changes. In this study, performance is considered as follows but not limited to:

**Profitability:** To Adudu, Asenge and Torough (2020), profitability means the ability of a business to make profit and remain sustainable. It indicates and measures the success of the business. Profitability is a situation in which an entity is generating a profit. Profitability arises when the aggregate amount of

revenue is greater than the aggregate amount of expenses in a reporting period. If an entity is recording its business transactions under the accrual basis of accounting, it is quite possible that the profitability condition will not be matched by the cash flows generated by the organization, since some accrual-basis transactions (such as depreciation) do not involve cash flows. To Amah (2006), profitability is the state of producing a profit in an organisation or business or the degree to which a business or an organisation is profitable which the primary goal for all business ventures is.

**Business Growth:** Business Growth is a stage where the business reaches the point for expansion and seeks additional options to generate more profit. Business growth is a function of the business lifecycle, industry growth trends, and the owners' desire for equity value creation. Business growth capital is critical for all scale-up minded businesses. The process of improving some measure of an enterprise's success. Business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs. To Achtenhagen, Naldi, & Melin (2010), an organisation's growth can be multidimensional and include complex processes related to internal development that increase the organisation's value. Thus, entrepreneurs use indicators of internal development as a sign of organisational growth.

**Productivity:** Productivity is the measure of how efficiently and effectively resource inputs are brought together and utilization to produce goods and services of the quality needed by the society in the long term (Amah, 2006). Productivity shows the level of the degree of efficiency in the utilization of organisational inputs or resources and how it relates to the target of an organization. To Nongo (2011), productivity is a required tool in evaluating and monitoring the performance of an organization as an indication of more or higher profit as well as growth of the organisation. From the literature review, productivity is the amount of output produced in relation to the amount of input put into production, while efficiency is the value of output in relation to the cost of inputs used in the achievement of goals or objectives with the minimal use of resources as well as waste. Profitability, efficiency, and effectiveness are all related most especially when producing something of value with the use of minimal waste towards achieving maximum results and goal attainment.

**(d). Market share:** Market share is said to be a key indicator of market competitiveness, i.e., how well a firm is doing against its competitors. Firms with market shares below a certain level may not be viable. Similarly, within a firm's product line, market share trends for individual products are considered early indicators of future opportunities or problems (Farris *et al.*, 2010). Market share competition drives companies to support climate change policies with a view to imposing costs on domestic competitors (Kennard, 2020). Research has also shown that market share is a desired asset among competing firms (Scott and Kesten 2007).

### ***The Theoretical Framework***

A contingency factor is anything that cannot be accurately predicted or forecasted in the future. A contingency is the unexpected, or things that are out of our control. As it pertains to small- and large-scale businesses, preparing for the contingency factor is critical. Whatever the way, in which organisations construct, their organisational structure, it is dependent upon the contingency variables such as technology, size, degree of environment and the organisations' strategy. This study focuses on the degree of environmental variables its influence on the performance of SMEs. This study is anchored on the contingency theory propounded by Fiedler in 1960s. The contingency theory claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is dependent upon the internal and external situations. Contingent leaders are flexible in choosing and adapting to succinct strategies to suit changes in situations at a particular period in the running of the organisation. previous theories such as Weber's bureaucracy and Taylor's scientific management had failed because they neglected that management style and organisational structure were influenced by various aspects of the environment. Fiedler (1964) believed there was a direct correlation to the traits of a leader and the effectiveness of a leader. The main ideas underlying contingency theory is that organisations are open systems that need careful management to satisfy and balance internal needs and to adapt to environmental circumstances. The appropriate form depends on the kind of task or environment one is dealing with. Different types or species of organisations are needed in different types of environments. The best way to organize depends on the nature of the environment to which the organization must relate. A major empirical test was furnished by Pennings (1975), who examined the interaction between environmental uncertainty, organization structure and various aspects of performance. Pennings carried out an empirical study on a sample of retail brokerage offices in which aspects of their market environment such as competitiveness, change and munificence, versus organizational arrangements such as decision-making templates, power distribution was juxtaposed for possible implications for performance. While structural attributes of offices strongly impacted performance, the evidence for contingency was less pronounced.

Scott (1981) adds that in contingency theory the best way to organize depends on the nature of the environment to which the organisation relates. Contingency theory is guided by the general orienting hypothesis that organisations whose internal features best match the demands of their environments will achieve the best adaptation. Different subunits within an organisation may confront different external demands. To cope with these various environments, organisation creates specialized subunits with differing structural features. For example, differing levels of formalization, centralized versus decentralized, planning time horizon. The more varied the types of environments confronted by an organisation, the more differentiated its structure needs to be. Lawrence and Lorsch's classic 1967 study, especially the six companies in the plastics industry, highlight their argument that in complex environments the organisation developed separate departments to confront these differing environmental segments. But these separate departments created coordination problems. Therefore, the extent that the companies could differentiate to the level required by the environment and at the same time integrate these different departments into collective action determined the organisation's success rate. Lawrence and Lorsch (1967) argue that if the open system perspective is taken, rational and natural perspectives identify different organisational types which vary because they have adapted to different types of environments. The more homogeneous and stable the environment, the more formalized and hierarchical the form. Their view is ecological because, those organisations that can best adapt to the environment will survive. They see the rational system coming first because environments were initially stable and are becoming increasingly more volatile. It can be concluded that there is no one best way or approach in management or doing things, different situation calls for different approach to handle, manage, and solve the arising issue concerned (Friedberg, 1997). Management and organisation are open systems, which embrace anomalies or challenges every now and then, and requires adaptable and situational solution to overcome or solve the problem or issue

concerned (Jeong, Hai, and Nor, 2012). Other situational or contingency factors are changes in customer demand for goods and services, change in government policy or law, change in environment or climate change, and so forth. The contingency theory is relevant to present study because it is supportive in appreciating the dynamic business environment and its ability to strive and adapt in the changing business environment. The theory renders universality of management that preaches same application of management functions by introducing situational issues that demands different solutions. Finally, contingency theory recognizes organic structures in business environment.

### ***Empirical Review***

Laouiti, Gharbi and Naoufel (2014), examines different framework characterizing the business environment and assess their impact on companies' performance in order to identify the most dimension environmental affecting companies' performance; new created as well as developed companies. Three main categories of the business environment are suggested: socio-cultural, institutional, and technological environment. To achieve this goal, our research is based on a literature review on the question followed by an empirical study on a sample of 96 companies to make the association between theory and reality an empirical study provides that the institutional and the technological factors are the most positively and significantly related to performance. Regarding the socio-cultural environment has a less significance on companies' performance. The study is in line with current in terms of some dimensions of business environment but in a different environment.

Kehinde, O. (2014) examine the impact business environment on the survival of small-scale businesses in Nigeria. using the logistic regression technique to analyze primary data obtained through a structured questionnaire administered to Eighty small scale businessmen and women operators in Ijebu North Local Government area, (Ogun State) South-west Nigeria, this study seeks to ascertain the nature of the relationship between business environment and the survival of small and medium scale businesses in Nigeria. The obtained result revealed that the model of logistic regression was able to predict the distribution of 72.15% of the observed values of the dependent variable as factors such inflationary trend; infrastructural facilities accessibility and government policy serve as barriers to business growth and survival. Hence, it is recommended that small business operators must developed and adopt scientific and rational business management strategies that will aid and increase their understanding of both their business and its environment to facilitate planning and predictions on the most significant factors that affects business survival. This study contradict the current study based on dimensions dependent and independent variables.

Akpoviroro; Sabitu and Mufutau (2018) examined the impact of external business environment on organizational performance of frozen fish companies in Nigeria. It also reveals literature on business environment, organizational performance, and Nigeria business environment. Secondly a questionnaire was developed to collect information from the respondents based on a sample of 3 companies with 120 sample size. Data collected were analyzed using multiple regression analysis. The study concluded that the external business environment political, economic, and technological and socio cultural etc. have impact on organizational performance. Thus, organization should understand the implications of organizational performance of their business activities to identify, opportunities and threats to their business and organization. The study is in line with the current study but places more emphasis on a different sector that is parallel to the current study.

Aneke, Ndubisi-Okolo and Chuka (2019) conducted a research that focused on the Sustainability in the Nigeria Business Environment: Problems and Prospects. The study adopted conceptual approach to identify some challenges confronting Nigeria business environment, Measures of tackling challenges confronting Nigeria business environment and key strategies for business sustainability. System theory was adopted. It was concluded that the business environment is considered as being central to economic activities and growth worldwide. For a business to realize its objective, it depends greatly on the ability of the enterprise to accomplish its key performance indicator in a sustainable manner. The study therefore recommends that Government should create friendly and enabling environment that would be conducive for both business organizations and investors to thrive to ensure sustainability and growth of the economy. This study is much more concerned about business sustainability while the current study beams its search light on SMEs performance.

Oluwafolakemi, Abiodun and Bukola (2019) carried out a study that seeks to examine the impact of the business environment on SMEs' performance in Nigeria with reference to Oyo State. A survey of 153 randomly selected SMEs from three cities in every three senatorial zones of Oyo State. The data collection instrument was a questionnaire designed for the study. Descriptive statistics and Multiple Regression were used to analyze the data. The results reveal that the business environment has a significant impact on SMEs' performance. Furthermore, the results also show that infrastructural facilities accessibility, financial related problems, technological changes, and attitude of people to locally made products are the most environmental factors militating against SMEs survival in Nigeria. Subsequently, the study recommends that government should do the needful in terms of provision of infrastructural facilities and implantation of National Financial Inclusion Strategy (NFIS) of making sure that a financial system is accessible to all Nigerian adults, at an inclusion rate of 80%, and to promote the country's economic growth.

From the above review, there are limited empirical evidence on the phenomenon of interest on developing market like Nigeria. This necessitated the current study to examine the effect of business environment on the performance of small and medium scale enterprises in Benue State, Nigeria. Thus, the following hypotheses are formulated.

- H<sub>01</sub>. Economic environment has no significance effect on the performance of SMEs in Benue State, Nigeria.
- H<sub>02</sub>. Political and legal environment has no significance effect on the performance of SMEs in Benue State, Nigeria.
- H<sub>3</sub>. Socio-cultural environment has no significance effect on the performance of SMEs in Benue State, Nigeria.
- H<sub>04</sub>. Technological environment has no significance effect on the performance of SMEs in Benue State, Nigeria

### 3. Methodology

A descriptive research design using survey method was adopted in this study. This design was adopted on the ground that it involves the field of enquires by collecting data using questionnaire or interview from the target population. The population for this study comprises of 650 licensed SMEs operating in Benue State, which was obtained from Benue Chamber of Commerce, Industries, Mines and Agriculture (BECCIMA) and Benue State Ministry of Trade and Investment. In selecting the desired sample size for this study, the study adopted a multi-stage (2 stages) sampling technique in order to get the desired sample size for this study. In the first stage of the sampling process, all the 650 licensed SMEs operating in Benue State were selected. In the second stage, 376 SMEs with higher number of employees were selected for the study and these SMEs are scattered across all the three senatorial districts of Benue State. Census sampling was adopted and the study made use of the entire population since it is manageable. The 376 self-administered questionnaire were issued out to employees of this SMEs chosen for the study out of which 366 were properly answered and returned for analysis. Iacobucci (2010), recommends a sample of 200 as fair and 300 as good. Considering the challenges of survey methodology in developing countries which can lead to low response rates, a drop-off-pick-up (DOPU) technique was also used to disseminate the questionnaire.

To measure the variables used in this study, several steps were taken to ensure that the different levels of measurement, the language, response format, order of questions, type of scales, design as well as the general context were adequately considered to avoid bias. The questionnaire was divided into to three sections. The first section captures demographic characteristics of the respondents. The second section focuses on the explanatory variables such as economic, political and legal, natural, socio-cultural and technological environment in line with the objectives of the research study. The third section captured the performance of SMEs which is the dependent variable. Factor analysis was used in this study to measure the validity of the instrument. Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) were used to assess the construct validity of each variable in the study. At 1% level of significance, the result Shows that the data is highly significant ( $p < 0.001$ ). The result shows that the Kaiser- Meyer- Olkin (KMO) which measures the sample adequacy was .784 while the Bartlett's Test of Sphericity was significant (App. chi-square= 236.567, sig. = .000) which indicates the sufficient inter correlations of the factor analysis. Before the questionnaire was administered to the management of the selected SMEs, the researcher tested its reliability by conducting a pilot research on one hundred and twenty two ( $\frac{1}{3} \times 366 = 122$ ) entrepreneurs in Benue State. The Cronbach's coefficient alpha was applied on the results obtained to determine how items correlate among them in the same instrument. Cronbach's coefficient Alpha of more than 0.70 was taken as the cut off value for being acceptable which enhanced the identification of the dispensable variables and deleted variables. It is evident through the Cronbach's Alpha values that the reliability coefficients of all the study variables are high and suitable for the current study objectives.

**Table 3:1 KMO and Bartlett's Test**

Kaiser-Meyer-Oklin Measure of Sampling Adequacy		.784
Bartlett's Test of Sphericity	Approx. Chi-Square	236.567
	Df	10
	Sig.	100

Source: SPSS Output, 2021

**Table 3: 2. Cronbach's Alpha Reliability Coefficient of the Study Variables**

Variables	Number of Items	Reliability Coefficient
Economic environment	5	0.720
Political and legal environment	5	0.716
Socio-cultural environment	5	0.760
Technological environment	5	0.728
SMEs performance	15	0.736
<b>Overall Reliability</b>		<b>0.755</b>

Source: Field survey, 2021

Data were statistically analyzed after being collected from the field using Multiple Regression Analysis as the main statistical tool with the aid of SPSS version 21 to explain the relationship between business environment and performance of SMEs as well as hypotheses testing.

#### Model Specification

This study is anchored on two major variables namely; the independent variable (Business Environment) and the dependent variable (SMEs performance). The beta ( $\beta$ ) coefficients for each independent variable generated from the model, was subjected to a t-test, in order to test each of the hypotheses under study. The regression model used to test is shown below:

$$PSMEs = f(BE)$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where; y = SMEs Performance

$\alpha$  - Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  - Coefficient estimates.

$X_1$  - Economic environment

$X_2$  – Political and Legal environment  
 $X_3$  – Socio-cultural environment  
 $X_4$  – Technological environment  
 $\varepsilon$  - Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 21. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at  $p < 0.05$ .

#### 4. Results and Discussion

This section presents the result of analysis of data collected through questionnaire. Notable items discussed here are regression analysis and discussion of findings.

##### Regression Analysis

The result in Table 4.1 showed that the regression coefficient,  $R=.822$  which indicates a positive relationship between the independent variables and the dependent variable. The coefficient of determination ( $R^2$ ) was .707. The coefficient of determination showed that 72.0% of the variation in performance of SMEs is explained by economic, political and legal, natural, socio-cultural, and technological. More so, Durbin-Watson statistic was employed to determine the presence or absence of auto-correlation. For the model, the value of Durban Watson statistic was computed to be 1.737 which was reasonably closed to 2. This implied that there was no auto- correlation.

##### The result in Table 4.1. Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durban-Watson
1	.822 <sup>a</sup>	.707	.720	.3891	1.737

- a. predictors: (Constant) Economic, political and legal, natural, sociocultural and technological  
b. Dependent Variable: SMEs Performance

Source: SPSS output, 2021.

The result in Table: 4.2 shows the results of Analysis of Variance (ANOVA) test which revealed that the combined independent variables (economic, political and legal, natural, socio-cultural, technological) have a positive and significant effect on SMEs performance. This can be statistically explained by the F-value and p-value ( $F=263.034$ ;  $P = .000$ ) which is less than 5 % level of significance. The valid regression model implies that all the variables are related. This means that economic, political and legal, natural, socio-cultural, technological jointly contribute to the observed changes in SMEs performance.

Table 4.2: ANOVA<sup>a</sup>

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	134.336	4	38.642	263.034	.000 <sup>b</sup>
Residual	48.388	302	.182		
Total	182.724	307			

- a. Dependent Variable: SMEs Performance  
b. Predictors: (Constant) Economic, Political and Legal, Natural, Socio-Cultural, Technological

Source: SPSS Output, 2021.

From the regression findings in Table 4.3 the substitution of the regression equation ( $Y=\alpha+\beta_1x_1+\beta_2x_2+\beta_3x_3+\beta_4x_4+\beta_5x_5$ ) becomes:  $Y= 0.70 + 0.46x_1+ 0.32x_2 + 0.40x_3 + 0.38x_4 + 0.58x_5$ . Where Y is the dependent variable (extent of business environment),  $X_1$  Economic environment,  $X_2$  Political and Legal environment,  $X_3$  Socio-cultural environment  $X_4$  Technological environment.

Table 4.3 Regression Coefficients<sup>a</sup>

B	Unstandardized Coefficients			Standardized Coefficient			
	Std. Error	Beta	T	Sig	Tolerance	VIF	Decision
(Constant)	.702	.146		1.628	.052		
Economic	.462	.037	.840	3.660	.040	.659	Rejected
Political and Legal	.326	.066	.228	3.221	.001	.720	Rejected
Socio-Cultural	.380	.038	.367	3.114	.003	.632	Rejected
Technological	.582	.058	.890	3.280	.000	.708	Rejected

- a. Dependent Variable: Organizational Performance

Source: SPSS output, 2021



The regression equation above revealed that holding Economic, political and Legal, Socio-cultural and technological environment to a constant zero, SMEs performance would be 0.702, a unit increase in economic environment would affect performance by a factor of 46.2 % a unit increase in political and Legal environment would affect performance by 32.6 % and a unit increase in Socio-Cultural environment would affect performance by 38.0% and a unit increase in technological environment would affect performance by 58.2%. The study also found that the p-values of economic environment (.040), political and legal environment (.001), Socio-Cultural environment (.003) and technological environment (.000) respectively were less than 0.05. Furthermore, the result of the analysis shows that technological environment (58.2 %) has more significant effect on the performance of SMEs in Benue State, Nigeria.

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## 5 Testing of Hypotheses

**Hypothesis one:** Economic environment have no significant effect on the performance of SMEs in Benue State-Nigeria. The strength of the effect on performance of SMEs in Benue State-Nigeria was measured by the calculated p-value=.040 at a significance level ( $\alpha$ ) of 0.05. Since the computed p-value is less than the significance level ( $\alpha$ ) of 0.05 ( $p\text{-value } .040 \leq \alpha 0.05$ ), the null hypotheses was rejected, and we concluded that economic environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria.

**Hypothesis Two:** Political and legal environment have no significant effect on the performance of SMEs in Benue State-Nigeria. The strength of the effect on performance of SMEs in Benue State-Nigeria was measured by the calculated p-value=.001 at a significance level ( $\alpha$ ) of 0.05. Since the computed p-value is less than the significance level ( $\alpha$ ) of 0.05 ( $p\text{-value } .001 \leq \alpha 0.05$ ), the null hypotheses was rejected, and we concluded that Political and legal have a positive and significant effect on the performance of SMEs Benue State-Nigeria.

**Hypothesis Three:** Socio-cultural environment have no significant effect on the performance of SMEs in Benue State-Nigeria. The strength of the effect on performance of SMEs in Benue State-Nigeria was measured by the calculated p-value=.030 at a significance level ( $\alpha$ ) of 0.05. Since the computed p-value is less than the significance level ( $\alpha$ ) of 0.05 ( $p\text{-value } .030 \leq \alpha 0.05$ ), the null hypotheses was rejected, and we concluded that Socio-cultural have a positive and significant effect on the performance of SMEs Benue State-Nigeria.

**Hypothesis Four:** Technological environment have no significant effect on the performance of SMEs in Benue State-Nigeria. The strength of the effect on performance of SMEs in Benue State-Nigeria was measured by the calculated p-value=.000 at a significance level ( $\alpha$ ) of 0.05. Since the computed p-value is less than the significance level ( $\alpha$ ) of 0.05 ( $p\text{-value } .000 \leq \alpha 0.05$ ), the null hypotheses was rejected, and we concluded that Technological environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria.

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## 6 Discussions of Findings

The result from the test of hypothesis one revealed that economic environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria. This result is consistent with Akpovororo; Sabitu and Mufutau (2018), who examined the impact of external business environment on organizational performance of frozen fish companies in Nigeria and found significant relationship between economic environment and performance of SMEs.

The result from the test of hypothesis two revealed that that political and legal environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria. This result is consistent with Akpovororo; Sabitu and Mufutau (2018), who examined the impact of external business environment on organizational performance of frozen fish companies in Nigeria and found a significant relationship between political and legal and performance of SMEs. Mark & Nwaiwu (2015), investigated the impact of political environment on business performance of multinational companies in Nigeria. Their findings showed that political environment has a negative significant impact on business performance of multinational companies in Nigeria. Empirical studies have shown that the effectiveness of legal institutions and corporate performance are related (Beck, Demircuc-Kunt and Maksimovic, 2006). Legal systems, by reducing business risks, affect enterprise performance. With the improvement of the legal system quality, the enterprise performance will increase (Laeven, 2007).

The result from the test of hypothesis three revealed that socio-cultural environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria. This result is consistent with Akpovororo; Sabitu and Mufutau (2018), who examined the impact of external business environment on organizational performance of frozen fish companies in Nigeria and found a significant relationship between social-cultural and performance of SMEs. As regards socio-cultural environment, Laouiti, Gharbi and Naoufel (2014) found that socio-cultural environment has a less significance on companies' performance. The result corroborated that of Tang, (2006); Fan, (2007), that Social and cultural environment affect the company's management system, management efficiency, employment mechanism and corporate culture (Tang, 2006; Fan, 2007). It can also affect the success of entrepreneurs and employees desire, spirit of innovation, decision-making ability, market awareness and market development capability, ultimately affecting growth performance.

The result from the test of hypothesis four revealed that that technological environment have a positive and significant effect on the performance of SMEs Benue State-Nigeria. This result is consistent with Akpovororo; Sabitu and Mufutau (2018), who examined the impact of external business environment on organizational performance of frozen fish companies in Nigeria and found a significant relationship between technological and performance of SMEs. The result is in line with Laouiti, Gharbi and Naoufel (2014), who investigated different framework characterizing the business environment and assess their impact on companies' performance in order to identify the most environmental dimension affecting companies' performance; new created as well as developed companies. They found that technological factors are the most positively and significantly related to performance.

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## 7 Conclusion and Recommendations

This study showed a positive and significant effect of business environment to influence the overall performance of SMEs. This study also proves that business environmental dimensions like economic, political and legal, socio-cultural and, technological influences performance of SMEs. The study further found that technological environment is the highest predictor of performance of SMEs among the dimensions of business environment under review. Based on the findings of the study, it has become necessary for business organizations operating in turbulent and dynamic business environment by adapting to the environment, influencing the environment and even to the extent of selecting a new environment in order to survive, gain a competitive advantage over competitors, and achieve superior performance. This study therefore conclude that business environment have influence on the performance of SMEs in Benue State, Nigeria.

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## 8 Recommendations

Having information about the environment is not always readily available thereby making it difficult for managers of business organizations to predict and monitor the future. It is recommended that managers of business organizations should encourage the evaluation of the business environment through scenario development, forecasting and benchmarking in order to increase profitability in their business organizations.

Based on the finding above, we suggest that the Nigerian government should avoid frequent changes in government policies and programmes and ensure stability of democratic institutions and political integration. These are necessary to make the political terrain stable and out of violence for business growth and development accordingly.

Since socio-cultural environment affect the company's management system, management efficiency, employment mechanism and corporate culture that affects the success of entrepreneurs and employees desire, spirit of innovation, decision-making ability, market awareness and market development capability, ultimately affecting growth performance. It is recommended that management of business organizations need good deal of time and resources in order to monitor the business environment so as to understand and make some predictions about changes, opportunities and threats in the environment as it affect their operations and productivity.

With the discovery that technological factors are the most positively and significantly related to performance. It is recommended that understanding of the technological environment will assist managers of business organizations in improving products, seek new customers, lower cost of operations, generate more profits, achieve organizational goals and hasten the introduction of new products so as to increase their market share.

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## 9 Limitations and Suggestions for Further Studies

Some limitations in this study should be considered as opportunities for future research. This study was carried out to examine business environment and performance of Small and Medium Scale Enterprises Benue State, Nigeria. The study only focused on selected SMEs within Benue State, hence it is limited in scope and the findings cannot be generalized to other sectors. To augment the research finding of this study, the study recommends that another research be done on a wider geographical area. Furthermore, conducting a replication study in other industries is also needed; for example in the manufacturing sector. Although the study revealed that corporate entrepreneurship significantly relate to the performance of small and medium scale enterprises, there is no evidence that business performance is entirely dependent on the four independent variables. As such further research need to be carried out to establish what other factors contribute significantly to the performance of SMEs Benue State, Nigeria.

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## 10 Practical Implications of Findings

This research contributes to the business environmental literature by integrating prior studies on business environment including the conceptualization, antecedents, and outputs. More importantly, it identifies missing links and knowledge in the extant literature and suggest paths for future research. The findings from this study are essential for practical reasons as business owners and entrepreneurs are expected to evaluate and explore business opportunities in seeking their career path by developing self-competencies. This study contributes to an evolving body of literature on the effect of business environment on the performance of small and medium scale enterprises. The insights are meant to create an understanding to the policy makers, practitioners and other stakeholders on the need to continuous evaluation of business environment and create the necessary avenue for such. The findings will challenge the entrepreneurs and business owners to strategize and promote the constant evaluation of business environment in their business organizations for good performance.

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