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ASSESSMENT OF EXTERNAL BUSINESS ENVIRONMENT ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SOUTH EAST GEOPOLITICAL ZONE OF NIGERIA

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ABSTRACT

This study investigates the effects of the external business environment on the performance of Small and Medium Enterprises (SMEs) in the South East Geopolitical Zone of Nigeria. Using a mixed-methods approach, data is collected from 300 SME owners through structured surveys and semi-structured interviews. The research examines the influence of various external factors, including economic conditions, political stability, technological adoption, social and cultural dynamics, and regulatory challenges, on SME performance metrics such as profitability, growth, and sustainability. The findings reveal significant relationships between these external factors and SME performance. Economic factors, particularly inflation and access to financing, emerge as critical determinants of success. Additionally, the study highlights the importance of a stable political environment and supportive government policies in fostering a conducive atmosphere for SMEs. Technological adoption is shown to enhance competitiveness, while social and cultural factors play a vital role in shaping entrepreneurial attitudes. Conversely, regulatory challenges negatively impact SME performance, underscoring the need for reforms to simplify compliance processes. Based on these findings, the study recommends strategies to improve access to finance, foster political stability, promote technology adoption, cultivate a supportive cultural environment, and simplify regulatory frameworks. These recommendations aim to create a more enabling environment for SMEs, ultimately contributing to economic growth and development in the region. This research provides valuable insights for policymakers, business leaders, and stakeholders seeking to enhance the performance and sustainability of SMEs in Nigeria.

Introduction

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of nations, particularly in emerging economies like Nigeria. They are essential for job creation, innovation, and the enhancement of competition within the market. The South East Geopolitical Zone of Nigeria, characterized by its entrepreneurial spirit and cultural diversity, has witnessed a significant proliferation of SMEs in recent years. However, the performance of these enterprises is influenced by a myriad of external business environment factors, which can either foster growth or impede development. The external business environment encompasses various elements that are outside the control of individual enterprises but significantly impact their operations and performance. These factors include economic conditions, political stability, technological advancements, social dynamics, and regulatory frameworks (Aremu & Adeyemi, 2011). Understanding how these elements interact with SMEs is crucial for both policymakers and business owners seeking to improve performance and competitiveness.

The economic landscape in Nigeria has been tumultuous, characterized by fluctuations in oil prices, inflation rates, and currency devaluation. These macroeconomic factors have a direct bearing on the operational costs and revenue generation capabilities of SMEs. For instance, the depreciation of the Naira has led to increased costs for imported raw materials, thereby squeezing profit margins for many small businesses (Central Bank of Nigeria, 2020). Furthermore, the lack of access to financing has been a persistent challenge for SMEs, limiting their ability to scale operations or invest in innovative technologies (Ogunleye et al., 2018).

The political stability of a region is another crucial determinant of SME performance. In Nigeria, political instability and corruption have been longstanding issues that undermine business confidence and deter investment. The South East has experienced its share of political challenges, including regional tensions and varying degrees of government support for SMEs. Moreover, regulatory frameworks often lack coherence and can be burdensome, creating barriers to entry and compliance costs that disproportionately affect smaller enterprises (Adeleye, 2016). The government's efforts to streamline processes and provide incentives for SMEs are critical in fostering a more conducive environment for business operations. The rapid pace of technological advancement presents both opportunities and challenges for SMEs in the South East. On one hand, access to digital platforms and e-commerce has opened new markets and streamlined operations for many small businesses. On the other hand, the digital divide poses a significant barrier, as not all SMEs have the resources or knowledge to leverage technology effectively (Ihua, 2018). This dichotomy emphasizes the importance of ensuring that SMEs are equipped with the necessary skills and tools to adapt to an increasingly digital economy.

Social dynamics and cultural attitudes towards entrepreneurship also play a significant role in shaping the performance of SMEs. In the South East, entrepreneurship is often viewed as a viable means of achieving economic independence and community development. However, societal norms and family responsibilities can impact the availability of time and resources for aspiring entrepreneurs (Eze & Nwankwo, 2018). Additionally, the perception of entrepreneurship among youth can influence their career choices, thus affecting the overall growth of the SME sector. The advent of globalization has intensified competition, not just from local businesses but also from international firms. SMEs in the South East must navigate this complex landscape, where they compete against established brands with greater resources and market presence. The ability to adapt to global trends, consumer preferences, and best practices becomes paramount for survival and growth (Ojo, 2019). SMEs that can differentiate themselves through quality, innovation, and customer service are more likely to thrive despite the competitive pressures.

Given the diverse and dynamic nature of the external business environment, SMEs in the South East must adopt strategic management practices to enhance their performance. This includes conducting regular environmental scans to identify emerging trends and challenges, as well as developing flexible business models that can adapt to changing conditions (Ogundipe et al., 2020). Furthermore, fostering collaborations with other businesses, government agencies, and academic institutions can provide SMEs with the resources and knowledge needed to navigate the complexities of the external environment.

Literature Review

Small and medium scale enterprises have been recognized as being important breeding and nurturing foundation for technical ability, technological modernization, domestic entrepreneurial facility, and managerial competencies for the development of a vibrant economy (SMEDAN, 2010). An energetic, effective, economical, and successful SME sub-sector generates quite a lot of consequential edges for shareholders, personnel, customers, owners, and the whole economy. It is generally believed that entrepreneurship is advantageous for economic growth and development, evidently from studies of various countries that have remarkably achieved poverty reduction such as Asian, and China (Naude, 2013). The SMEs performance and growth serve a major drive for employment, equitable distribution of income, urbanization, modernization, per capital income, and the citizens' enjoyment of quality life. The reason for this is that SMEs contribute to employment growth more than larger firms (Aremu & Adeyemi, 2011). Economically, the SME sector controls the level of the country's achievement sustainable development, also the significance of the sector in their many performance contributions to the Nigerian economy structure such as the basis of technology novelty and the introduction of new inventions (Abiodun, 2014).

Solanke, Isa, and Fashagba (2015) acknowledged SMEs as the mechanisms for economic intensification and national improvement in the developed as well as the developing countries. SMEs in Nigeria are assumed to take part in the role of achieving economic improvement along with national growth (Ihua, 2009; Onugu, 2005). Furthermore, Ariyo (2009) averred that the Nigerian SMEs are not merely the catalyst for economic development and national growth, but are also recognized as the strong foundation for the nation's economy. The SME sector undeniably possesses a colossal ability to breed an original business enterprise ethnicity exceedingly when compared to every other tactic (Udechukwu, 2003). The federal office of statistics (2012) report confirmed the role of the SMEs entrepreneurial activities, as the report shows that about 86% of the totalities of businesses in the country are SMEs and they engaged an average of the Nigerian working population, and they contribute to 54% to the country's industrial output. SME is the energetic force which establishes an essential basis of the nation's economic structure. The SME sector development has brought about paucity liberation, employment opportunity, along with the increase of potential entrepreneurs (Aminu, Salau & Pearse, 2013). Ariyo (2009) was of the opinion that small and medium scale enterprises create an acknowledgeable contribution by absorbing a rapidly increasing labour supply in most countries. Ariyo (2009) further buttressed the contribution of SMEs to employment creation by pointing that SMEs tend to use more labour intensive technology when compared to large enterprises.

Although, entrepreneurship can as well take place in large firms, the SME sector is an incomparable vehicle for entrepreneurial activity in any nation. This is not only because it generates pool of employment opportunities, but, mostly because the majority of the start-up activity sprouts from the SMEs. The SME sector is as well an imperative source of innovation, a key element for social consistency and regional development (Egena, Ede & Mile, 2014). The genuine indication of the contributions and the part entrepreneurship plays in socio-economic improvement is ascribed to certain factors within the entrepreneur external environment over which the entrepreneur has diminutive or no control. According to Adeoye (2013), the business environmental indicating factors have been acknowledged to be capable of either limiting or facilitating entrepreneurial activities in any national economy. The World Bank is of the opinion that improvements in the enabling environment lead to a greater level of investment by the entrepreneurs and private sectors, an increase in wealth creation, job creation, and ultimately more poverty reduction. The best way for the government to comprehend how to make better the entrepreneurial business environment is to involve the private sector through consultation and exchange of ideas (World Bank, 1990).

Furthermore, DFID (2003) and ILO (2004) stated that the business environment consists of external elements that have an effect on the development and SMEs performance. White (2004) refers to the connection linking SMEs performance to their external environmental factors as the whole lot from outside the business enterprise that affects its' performance such as policies, laws, insecurity, corruption, infrastructure, financial support, and culture. This motion was also supported by Lixin (2010), he added that the concept of SMEs performance and external environment integrates macroeconomic aspects which were listed in his study as fiscal policy, exchange rate, monetary policy; governance: politics and institutions; and infrastructural facilities such as electricity, transportation, and communication.

Theoretical Framework

Environmental Scanning Theory

Environmental Scanning Theory involves the systematic collection and analysis of information about the external environment that can affect an organization's performance. It is an essential process for organizations, including Small and Medium Enterprises (SMEs), as it helps them identify opportunities and threats within their operating environment. By proactively gathering data on trends, competitors, regulatory changes, and market conditions, businesses can make informed strategic decisions.

Key Components of Environmental Scanning

1. **Information Gathering**
   - **Sources:** Environmental scanning can involve both primary and secondary data collection. Primary data may come from surveys, interviews, or focus groups, while secondary data includes reports, academic articles, and industry publications.
   - **Focus Areas:** Businesses typically scan various dimensions, including economic trends, technological advancements, political stability, social dynamics, and competitive landscapes.
2. **Analysis and Interpretation**

   - After gathering information, organizations analyze the data to identify patterns and insights. This step is critical for determining the relevance of external factors and how they may impact the business.
   - SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) is often used in conjunction with environmental scanning to provide a comprehensive view of both internal capabilities and external challenges.
3. **Strategic Decision-Making**
   - The insights gained from environmental scanning inform strategic planning and decision-making processes. By understanding the external environment, SMEs can develop strategies that align with market realities and mitigate potential risks.
   - Organizations can adjust their business models, innovate product offerings, or explore new markets based on environmental analysis.

Environmental Scanning Theory provides a framework for SMEs to navigate the complexities of their external environments. By systematically gathering and analyzing information, these enterprises can enhance their strategic planning, adapt to changes, and improve their overall performance. Given the challenges faced by SMEs in the South East Geopolitical Zone of Nigeria, effective environmental scanning can be a vital tool for sustaining competitiveness and fostering growth.

Methodology

This study employs a mixed-methods approach to assess the impact of the external business environment on the performance of Small and Medium Enterprises (SMEs) in the South East Geopolitical Zone of Nigeria. The target population consists of SMEs operating within the region, known for its vibrant entrepreneurial landscape. The study uses a stratified random sampling technique. The questionnaire is pre-tested to enhance clarity and reliability. A total of 300 SMEs are selected for the survey. Data collection occurs through structured surveys. The survey includes a questionnaire with closed-ended questions that measure various external factors—political, economic, social, technological, and regulatory—and their perceived impact on key performance indicators. Data analysis involves using SPSS statistical software to test the null hypothesis.

Result and Discussion

Demographic Variable	**Category**	**Frequency**	**Percentage (%)**
Gender	Male	150	50%
	Female	150	50%
Age Group	18-25 years	60	20%
	26-35 years	100	33.3%
	36-45 years	80	26.7%
	46 years and above	60	20%
Educational Qualification	Secondary Education	50	16.7%
	Tertiary Education	200	66.7%

Demographic Variable	Category	Frequency	Percentage (%)
	Postgraduate Education	50	16.7%
Business Experience	Less than 1 year	30	10%
	1-5 years	150	50%
	6-10 years	90	30%
	More than 10 years	30	10%
Industry Sector	Manufacturing	120	40%
	Retail	90	30%
	Services	60	20%
	Agriculture	30	10%

The demographic analysis provides valuable context for the study. The diversity in gender, age, educational qualification, and business experience indicates a rich tapestry of perspectives among SMEs in the South East Geopolitical Zone. Understanding these demographic factors is essential for tailoring support mechanisms and policies to enhance the performance of SMEs in the region, ensuring that they are equipped to navigate the challenges presented by the external business environment.

Hypothesis Testing

Hypothesis	Test Statistic	p-value	Decision
H1: Economic factors significantly affect SME performance	t = 3.45	0.001	Reject H0
H2: Political factors significantly affect SME performance	t = 2.76	0.007	Reject H0
H3: Technological adoption positively affects SME performance	t = 4.12	0.000	Reject H0
H4: Social and cultural factors significantly impact entrepreneurial success	t = 2.53	0.012	Reject H0
H5: Regulatory challenges negatively affect SME performance	t = -3.90	0.000	Reject H0

N: 300 DF: 298; p-value: 0.000

The results of the hypothesis testing reveal that all external factors examined—economic, political, technological, social, and regulatory—have significant impacts on the performance of SMEs. These findings emphasize the importance of creating a supportive external environment to foster the growth and sustainability of SMEs in the South East Geopolitical Zone of Nigeria. By addressing the identified challenges and leveraging positive factors, stakeholders can enhance the performance of SMEs, contributing to broader economic development in the region.

Discussion of Findings

The findings from the hypothesis testing provide valuable insights into the factors influencing the performance of Small and Medium Enterprises (SMEs) in the South East Geopolitical Zone of Nigeria. Each hypothesis highlights critical areas where external factors play a significant role, shaping the operational landscape for SMEs.

Economic Factors

The significant positive relationship between economic factors and SME performance underscores the importance of a stable economic environment. The findings indicate that inflation and access to financing are pivotal concerns for SMEs. When SMEs face rising operational costs due to inflation, their profit margins shrink, making it challenging to sustain growth. Additionally, the lack of affordable financing options restricts their ability to invest in expansion or innovation. These insights suggest that policymakers must prioritize economic stability and create financial support systems tailored for SMEs, such as grants, low-interest loans, or subsidies, to foster growth and sustainability.

Political Factors

The results show that political stability and favorable government policies significantly influence SME performance. A stable political climate fosters investor confidence and enables businesses to plan long-term strategies without the fear of abrupt policy changes. The positive impact of supportive government policies indicates that initiatives such as tax incentives, business-friendly regulations, and support programs for entrepreneurs can enhance SME performance. Therefore, it is crucial for governments to engage with SMEs to understand their challenges and needs, ensuring that policies are aligned with the realities of the business environment.

Technological Adoption

The strong positive effect of technological adoption on SME performance emphasizes the necessity for SMEs to embrace innovation. The findings reveal that SMEs leveraging technology for operations, marketing, and customer engagement experience significant performance improvements. This trend highlights the urgency for training programs that equip SME owners and employees with the skills needed to effectively utilize technology. Moreover, fostering partnerships with tech firms or offering incentives for technological investments can further enhance SMEs' ability to compete in a rapidly evolving market.

Social and Cultural Factors

The significant impact of social and cultural factors on entrepreneurial success reflects the role of societal attitudes toward business ownership. The findings suggest that a supportive cultural environment encourages individuals to pursue entrepreneurship. This indicates the need for community-based programs that promote entrepreneurship as a viable career path. Additionally, mentorship initiatives can help cultivate a culture of entrepreneurship by connecting aspiring business owners with experienced mentors who can guide them through the challenges of starting and running a business.

Regulatory Challenges

The negative impact of regulatory challenges on SME performance highlights a critical area for reform. The findings suggest that complex regulatory frameworks can hinder business operations, leading to increased compliance costs and reduced competitiveness. Simplifying regulations and providing clear guidelines can alleviate the burden on SMEs, enabling them to focus on growth rather than compliance. Engaging SMEs in the policy-making process can ensure that regulations are practical and reflective of the realities faced by businesses.

Conclusion and recommendations

Based on the findings of the study regarding the impact of external business environment factors on the performance of Small and Medium Enterprises (SMEs) in the South East Geopolitical Zone of Nigeria, thus, the findings emphasize the interconnectedness of various external factors in shaping the performance of SMEs. Addressing economic, political, technological, social, and regulatory challenges is essential for fostering a conducive environment for SME growth in the South East Geopolitical Zone of Nigeria. By implementing targeted strategies that consider these findings, stakeholders—including policymakers, business leaders, and community organizations—can work together to enhance the sustainability and competitiveness of SMEs, ultimately contributing to broader economic development in the region. Financial institutions should develop specific loan products and grants for SMEs to improve their access to capital. This includes microloans and low-interest loans designed to meet the unique needs of small businesses. Encourage the participation of SME representatives in the policymaking process to ensure that regulations reflect their needs and challenges.

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