

Effect of External Environmental Factors on the Performance of Small and Medium Scale Enterprises in Makurdi Metropolis Benue State, Nigeria

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Abstract: The study will be carried out to examine the Effect of External Environmental Factors on the performance of small and medium scale enterprises in Makurdi Metropolis Benue State, Nigeria. The study focused on SMEs in Makurdi metropolis since the town has the largest concentration of businesses where most registered SMEs operate. The study covers SMEs operating in different lines of businesses for a period of 10 years (2007-2017) in order to determine the sample size for the study, Taro-Yamane (1967) formula for calculating sample size for finite population was adopted which reports 303 as the sample size drawn from the total population of 1,250. The questionnaires is adopted as the instrument for data collection because, it allows for large number of information to be collected from large number of people in a short time period and the results of the questionnaires can be quickly and easily quantified by the researcher. Findings of the study showed that environmental factors significantly affect the performance of SMEs. The study concluded that economic factors such as interest rate, inflation and price regulations have affected the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The study also concluded that political factors such as government regulations and taxation affect the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The study further concluded that technological factors have affected the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. However, the study concluded that socio-cultural factors have no effect on the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The study Government of Benue State should put in place economic policies that regulate competition among SMEs. The study recommended that government should also check multiple taxes levied on SMEs which discourage many people from establishing businesses. Benue State government should regulate activities of businesses to help detect and remove all aspect of activities that discourage business start-up and prevent the continuous emergence, survival and growth of small business operation in the state.

Key Words: Environmental Factors, Performance, Small and medium Scale Enterprises.

1.0

INTRODUCTION

The business environment today is dynamic and competitive due to globalization and this has paved way for international competition amongst businesses. The operating environment of business organization is characterized by different factors that might affect the organization's cost, supply and demand. Business organization opera within environments which is an aggregate of all conditions, events, circumstances and influenced that surround and affect the business organization. Consequently, the success of every business depends on adapting itself to the environment within which it functions. Narayana and Fahey (2001) asserts that environmental issues influencing a firm's performance can be classified by source or by proximity. The source can further be classified into such factors as political, economic, social and technological

(PESTEL) analysis) whereas the proximity factor is the micro- environment or task environment which are factors internal to firm are distinguishable from the wider influences that forms the macro- environment.

According to Johnson and Scholes (2002) as local firm find themselves in a changing environment subject to the influences of global competition, they are forced to reassess their competition mode and view the industry around them. Also, a competitive organization must scan the business market, know and operate within the accepted norms or way of life of the community it is selling its products and services to and abide by rules and regulations. The business environment refers to the sum total of factors or variables that may influence the present and future survival of an organization (Dauda and Ismaila, 2013). These factors encompass various internal and external influences under which the organization operates. The business environment plays a very important role by shaping the ability of the organization to maintain successful relationship with its clients. It is the environment that is likely to determine to a great extent the success of business (Shaikh, 2010). Consequently, successful firms recognize the importance of constantly scrutinizing and adapting to the changes in the business environment. Every business organization has to interact and transact with its environment, this therefore, means that the business environment has a direct relation with the organizations (Alkali and Isa, 2012).

Small and medium scale enterprises operate within the external environment which affects the functioning of their operations. Gillespie (2007) explains that the external environment consists of external influences that affect the firm's decision making process and performance. The external environment is made up of key factors which are outside the direct control of the business. These factors such as the economy, social change and government policy affect the survival of the firm significantly. Understanding the macro-environment raises helps management understand, analyze and monitor environmental conditions. Small and medium scale enterprises (SMEs) constitute large population of businesses worldwide and they play a significant role in the economy. Fernando (2011) explains that SMEs play very important role towards fostering accelerated economic growth, development and stability within several economies.

In support of this, Dauda and Ismaila (2013) averred that SMEs play tremendous roles in employment generation, provision of goods and services, creation of better standard of living and contribution to the growth of Gross Domestic Product (GDP) of nations. They added that, small firms create new jobs, open up opportunities for upward social mobility, foster economic flexibility, and contribute to competition and economic efficiency. Beal (2000) considers SMEs as the driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved and as a feeder service to large- scale industries.

Small and medium scale enterprises in Nigeria represent a vital part of the economy, being the source of various economic contributions through; the generation of income via exporting, providing new job opportunities, introducing innovations, stimulating competition, and engine for employment (Dauda and Ismaila, 2013). Akinyele et al. (2014) indicated that SMEs provide an effective means of stimulating indigenous enterprises, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology in Nigeria. They also help in mobilizing surplus income and resources through savings for investment, enhance the strengthening of industrial linkages and the integration of industry with other sectors of the economy via production of intermediate products such as raw materials and spare parts. In similar vein they also encourage, as well as, promote the use of local raw materials.

External business environmental factors (political, economic, socio-cultural, and technological) have been known to influence the functioning of organizations in various ways (Fernando, 2011). Dauda and Ismaila (2013) assert that, businesses depend on their environment to get input resources such as information, ideas, raw materials, finance and labour among others, and for the consumption of finished goods and services. This implies that organizational business activities are influenced and shaped by environmental forces such as social, economic, technological, legal or regulatory forces among others. In Nigeria For example, technological environmental factors prompted quoted manufacturing firms in the food and beverage industry to adopt multi product marketing strategies to remain competitive. It is against this background that this study investigates the effect of external environmental factors on the performance of small and medium scale enterprises in Makurdi metropolis, Benue State, Nigeria.

Business organizations operate within environments which is an aggregate of all conditions, events, circumstances and influences that surround and affect the business organization. Thus, the success of every business depends on adapting itself to the environment within which it functions. Small and medium scale enterprises operate within the external environment which represents all forces, factors and institutions that are beyond their control. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the firm, others may operate indirectly. The effects of environment on business organizations vary from one situation to another. The environment suitable for the growth of particular business may be hostile to the survival of another business. Environment can provide means of survival for organizations, the same environment can pose threats on organizations. Threats such as new regulatory requirements, hostile shifts in market demands, revolutionary technologies and competitors make the business environment very fatal. This study therefore examines the effect of external environmental factors on the performance of small and medium scale enterprises in Makurdi metropolis, Benue State, Nigeria.

The main objective of this study is to examine the effect of external environmental factors on the performance of small and medium scale enterprises in Makurdi metropolis, Benue State, Nigeria. The specific objectives of the study are to:

- i. Determine the effect of economic environmental factors on the performance of small and medium scale enterprises in Benue State, Nigeria;
- ii. Examine the effect of political environmental factors on the performance of small and medium scale enterprises in Benue State, Nigeria;
- iii. Ascertain the effect of socio-cultural environmental factors on the performance of small and medium scale enterprises in Benue State, Nigeria;
- iv. Examine the effect of technological environmental factors on the performance of small and medium scale enterprises Benue State, Nigeria.

2.0

LITERATURE REVIEW

2.1 Mark Casson's Economic Theory (1945)

Casson (1945) propounded the economic theory. The theory holds that the success of entrepreneurship or business is a result of conducive economic conditions. He stated that economic factors that encourage or discourage entrepreneurship include; taxation policy, industrial policy, easy availability of raw materials, easy access to finance on favorable terms, access to information about market conditions, availability of technology and infrastructure, marketing opportunities.

The theory is relevant to the study because the factors identified above helps business organizations in taking decisions to go for new ventures and determine how successful they will operate in the environment.

2.2 Concept of External Environment

The external environment of every enterprise is defined as that which consists of such factors that affect its business from outside. These include competition, the behaviour of its targeted customers and suppliers, the influence its owners, especially those who do not participate in its management, macroeconomic dynamics, government policy (Yunggar, 2005). According to Alkali and Isa (2012), the external environment of a firm is also characterized by the nature of the prevailing economic system as defined by the operational state of the macroeconomic and international economic forces like foreign exchange rates, inflationary pressures, ongoing levels of global and domestic economic activity, and levels of taxation and purchasing power. External environment includes the role of legislation, fiscal policy and political atmosphere of a business (Pearce and Robinson, 2011). The external environment consists of all events outside the company that has the potential to affect the company (Wan and Yiu, 2009). Wai et al., (2013) explain that the external environment is divided into two, namely the social environment (Societal environment), and the work environment (Task environment). Social environment including general powers that are not directly related to the activity-activity organization short term but can and often can affect the long-term decisions, these include: (1) economic forces that govern the exchange of materials, money, energy, and information; (2) The power of the technology, which resulted in the discovery of problem solving; (3) The Power of Political Law, which allocates power and provide coercion and protection laws and rules; (4) The power of Socio-cultural that set the values, traditions and customs of indigenous environment. Work environment, including the elements or groups that directly and in turn will be influenced by the company. The group consists of government, local communities, suppliers, competitors, customers, creditors, labor, special interest groups and trade associations.

Thomson, Strickland and Gamble (2010), divided the external environment into two, namely the macro environment (macro environment), including economic conditions, population demographics, technology, social values and lifestyles, the regulations; environmental and industry I competitive (industry and competitive environment), including suppliers, customers, competitors, new entrants, substitute products. The external environment consists of the macro environment and micro environment, which both affect the performance of SMEs. Macro environment, including in this case include the socio-cultural, political, technological, demographic, and economic. While the microenvironment of the actors involved directly with the company and also affect the company, consisting of suppliers, customers. Rufaidah (2012) explains that the external environment consists of macro and micro environment. Macro environment is often referred to as a remote environment or remote environments, while the microenvironment called environmental task. Macro environment consists of factors that are difficult to control because it is beyond the reach of the company's management is often abbreviated with PEST (Politics, Economics, Social and cultural, and Technology). For components microenvironment consists of customers, competitors, suppliers (collaborators), and lenders (creditors). External environment is made of the micro and macro environment. Micro (task) environment consists of the actors in the company's immediate environment that affects the performance of the company. The task environment is divided into competitors, consumer's substitution product producers and the prospective enters of business. They are more intimately

linked with the company. Macro (general) environment consists of larger societal forces that affect all the actors in the company's micro environment. The macro, general environment is further divided into political and legal, economical, social and cultural, technological, natural! ecological, demographic and global (Wai et al., 2013). External environmental factors in this study refers to factors outside the control of a business organization which include changes in government policies and regulations, value systems, technological changes and market trends. This implies that external environmental can positively or negatively affect the performance of business organizations.

2.3 Dimensions of External Business Environment

For the purpose of this study, political, economic, socio-cultural and technological factors have been selected to examine the effect of external business environment factors on the performance of Small and Medium Scale Enterprises (SMEs).

i. Economic Environmental Factors

Economic factors include the general economic climate, trade rates, inflation rate, labour unemployment rate, interest rates, the rate of economic development, per capita domestic product and trade deficit or surplus, Gamble, 2014 cited in (Litavniece and Znotiq, 2015). Economic factors help SMEs to make strategic decision. It is important for entrepreneurs of Small and Medium Sized Enterprises in pharmaceutical industry to comprehend monetary elements and indicators and to utilize the information to help marketing decision-making and planning process. For instance, if there is a variation in interest rates, then it is likely that SMEs may be involved in considering increases in cost. According to Related & Rights, 2007 stated that high trade barriers in Ghana leads to high local production cost of pharmaceutical products which affect the local drugs not to be competitive with the imported drugs.

Economic forces affect the general health and well-being of a country, this include interest rates, inflation, unemployment and economic growth. These factors create many opportunities and threats for entrepreneurs. High level of employment and falling interest rates mean more people having more money to spend. This makes the entrepreneur to sell more of his goods and services. On the contrary, worsening condition pose a threat as they limit the entrepreneur's ability to gain access to the resources his firm needs. Furthermore, poor economic conditions make the environment more complex and the manager's work more difficult and demanding (Nongo, 2005).

ii. Political Environmental Factors

Political factors according to Kamugisha (2008) are regulations adopted by the government in controlling of businesses which include, screening of premises, monitoring or registration of renewal applications, collating and managing inventories of all documents for registration and renewals etc. Political factors consist of government rules and regulations that apply to organizations. Governments make rules and regulations to ensure the smooth operations of organizations and to control organizations' activities through government subsidies, contracts, research and promotion. It also promotes business through tariffs that restricts foreign competition with local industries. Government awards contracts for production, service and constructions to government also support most of the research efforts in form of research grants to research institutions and this stimulates business operations (Kurtulus, 2014).

iii. Socio-Cultural Environmental Factors

Socio-cultural environmental factors are forces that emanate from the social structure of a society or from national cultures. They both have a profound effect on organizations and businesses and their members. Everyone is influenced by the customs, traditions, beliefs, norms and values that

are inculcated by the society and its complex cultures (Nongo, 2005). The entrepreneur's decision making is affected by persistence of core cultural values. The major cultural values of a society are expressed in people's relationship to themselves, others, institutions, society, nature and outer space.

iv. Technological Environmental Factors

Technological forces refer to the rate of scientific change and fastest growth of technology that have potential wide-ranging effects on society Gamble, (2014) cited in (Litavniece and Znotii,ia, 2015). In Nigeria, small scale entrepreneurs find it difficult to gaining access to new technologies which limits innovation and SMEs competitiveness. Technological factors have rendered some SMEs not competitive and not able to meet the needs of customers. However, entrepreneurs need to recognize the need for technological change, and the need to go with the flow, to have competitive advantage. Decisions to improve change or implement new technological processes must be made in order to meet customer wants and needs. Information Technology has been identified as a major player in innovation and competitiveness of SMEs but according to European Union (EU), a full potential of IT will be harnessed if labour force is equipped with right skills and having access to high-tech infrastructure. However, in the case of Nigeria, some SMEs lack physical telecommunication infrastructure and high speed internet to compete globally (Dauda and Ismaila, 2013).

2.4 Concept of Performance of Small and Medium Scale Enterprises

SMEs performance is a measure of SMEs success in achieving its goals. Performance of SMEs is defined as an association's capacity to make activity and worthy results, (Pfeffer and Salancik, 1978) as cited in (Anggadwita and Mustafid, 2014). Performance is defined by Hornby (2000) as an action or achievement considered in relation to the successful operation of a firm. According to Wang (2005) performance of small and medium scale enterprises is viewed as their ability to contribute to job and wealth creation through enterprises start-up, survival and growth. The performance and growth of small and medium enterprises (SMEs) is a major driver and indices for the level of- industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry (Aremu and Adeyemi, 2011), because SMEs contribute to employment growth at a higher rate than larger firms (Farouk and Saleh, 2011). Performance serves as an instrument to determine whether the company has the ability to sustain life (going concern), as well as a basis for formulating operational planning company in the future and for the information of shareholders, stakeholders, customers, regarding the achievements and success of the company. There are many approaches, in defining the performance, according to Mulyadi (2007) is the successful performance of personnel, team, or organizational unit in achieving the strategic objectives that have been set previously with the expected behavior.

2.5 Measures of Performance of Small and Medium Scale Enterprises

Different scholars have different view of performance measurement of SMEs. Henezel (2002) explained that to measure performance, SMEs must establish some standards and then they must gauge and evaluate their strategies, values, practices by benchmarking with high performance SMEs. Also, Kravchuk Schack, (1996) said that performance is measured for evaluating how well SMEs is performing. For the purpose of this study sales growth, profitability and innovativeness are used as measures of SMEs performance.

i. Sales Growth

Sales growth refers to the amount a company derives from sales compared to a previous corresponding period of time in which the later sales exceed the former. It is usually given as a percentage (McGrath, 2001). Sales growth is considered positive for a company's survival and profitability. It is an important measure of performance (Wang, 2005). Sales growth targets play a major role in the perceptions of business managers. Kaplan and Norton (1996) argue that firms must use a wide variety of goals, including sales growth, to effectively reach their financial objectives. Factors that influence sales growth range from promotion to internal motivation and retaining of talented employees to the implicit opportunities for investments in new technologies and equipment in the production process.

ii. Profitability

Profitability is a very significant indicator for measuring the performance of SMEs. It is an important factor for an enterprise to survive in competitive environment. Profitability is a definitive goal for any business association and is the ability to make-benefit. Revenue and costs are used to calculate profitability. Income increase capital is the gross profit generated during the accounting period, as a result of the normal activities carried out by the enterprise. Expenses are outflows incurred through the normal activities carried out in an organization, resulting in reducing both fixed and current assets or increase liabilities and reducing capital (Mian et al., 2014).

iii. Innovativeness

Thompson (1965) defines innovation as, originator, receipt and implementation of new ideas, processes, products or services. The practical evidence for a association between innovativeness and performance seems to be mixed. Some publications have argued about positive relationship between innovation and performance whiles other empirical studies have contradicted these conclusions (Heimonen 2012). According to Mian et al., (2014) entrepreneurs with competitive innovation skills have a deep understanding of the SMEs which catapults their performance on the large extent. As indicated by (Dzisi et al., 2013) SMEs characteristics the root of their advancements level of innovative capacities to inside components, for example, self-inspiration, learning, knowledge, specialized capability and outer elements like client prerequisites and interest, data gave by suppliers of gear and materials, market open doors and rivalry.

2.6 Empirical Studies

Oladimeji and Muhammed (2016) investigated on the effect of international business environment on SMEs growth in a competitive environment in Nigeria. The secondary data were gathered from the Nigerian Bureau of Statistics and the Central Bank of Nigeria (CBN) annual report. The data generated in the study were analyzed using the OLS technique, which was employed to test the overall effect of the independent variable on the dependent variable. The data gathered were analyzed using E-views (v7). The finding revealed that trade openness as a measure of competitiveness and FDI has no significant effect on SMEs growth in Nigeria. It was also revealed that the exchange rate has a significant effect on SMEs growth in Nigeria, and the level at which exchange rate affects SMEs growth is relatively high. It further showed that the exchange rate has a negative coefficient indicating that, as the exchange rate reduces SMEs growth increases. It concluded that trade competitiveness had no significant .effect on SMEs growth in Nigeria. It recommended that government should formulate policies, which will encourage the reduction of exchange rate in the country in order to enhance competition and improve business activities across the country, and improve the growth of SMEs across the country, as well as encouraging entrepreneurship spirit in the country, Unlike the present study which used primary data, the

former study used secondary sources of data. The study identified international business environmental factors that affect SMEs growth which are also used in the current study.

Fred *et al.* (2018) conducted a study on political environment and financial performance of small and medium scale enterprises in Lagos State, Nigeria. The study explored the impact of financial assistance on the performance of SMEs across three states in Nigeria. Mixed methods approach was adopted using the survey and semi-structured interview methods. The study used stratified and simple random technique to select the respondents. A total of four hundred (400) copies of questionnaire were administered to owners/managers of SMEs, out of which only three hundred and sixty (360) were returned and adjudged usable for the analysis, while 20 semi-structured interviews were conducted on the owners/managers of SMEs. Descriptive statistics and multiple regression were used to facilitate the estimation process. In addition, thematic analysis was used to analyze the qualitative interviews. The study identified that while financial assistance has significant impact on the performance of SMEs, these supports are inadequate and characterized by stringent, unrealistic bureaucratic details. The study recommended that facilitating access to adequate funding are highly effective in enhancing performance.

Appiah *et al.* (2018) examined the impact of external business environment on SMEs willingness to invest in the Ghanaian oil and Gas Sector. Using binomial logistic regression analysis the researchers analyzed primary data from 245 SMEs from Ghana during the periods between 2015 and 2016. The study found that SMEs that had ready access to finance, reliable electrical supply, required technical qualification, no competition from foreign companies, well informed on Oil and Gas investment opportunity were more likely to invest in Ghanaian oil and gas sector. The study also found that corruption perception, political stability and training support in the capacity building had no significant influence on SMEs willingness to invest. The study was limited to the external environmental factors just like the present study though it was carried out in Ghana with focus on only Oil and Gas sector. The current study however, covers SMEs across different sectors which fills the gap created.

Tambari *et al.* (2018) carried out a study on implications of environmental factors on the productivity of selected small and medium scale enterprises in Port Harcourt, Rivers State, Nigeria. The study used a descriptive survey approach and relied on a five point likert scale questionnaire as its major source of data collection. The study covered a population of 150 employees of three SMEs selected from the three senatorial zones of Rivers-state and a sample of 124 respondents was drawn using purposive sampling technique. The data gathered were analyzed using multiple regressions with the aid of the Statistical Package for Social Sciences (SPSS 20.0). Results obtained from the analysis showed that environmental factors affect the productivity of SMEs. The study recommended that SMEs should strategically engage in constant monitoring and conducting of environmental scanning and they should learn to align their operational strategies with present market and environmental realities. The two studies are related though they differ in terms of scope. The study was carried out in Port Harcourt, Rivers State, Nigeria while the present study is carried out in Makurdi metropolis, Benue State, Nigeria.

3.0

METHODOLOGY

The research design for this study is survey method since it provides a quantitative description of some fraction of the population that is sampled through the data collection process. The study area is Makurdi Metropolis. Makurdi town is the capital of Benue state, North Central Nigeria. The population for this study consists of 1,250 small and medium scale enterprises (SMEs) in Makurdi

metropolis according to the Benue State Ministry of Trade, Industries and Investment and Benue Chamber of Commerce, Industries, Mines and Agriculture (BECCIMA, 2018). The breakdown of the population according to the nature of the SMEs is presented in Table 1 as follows:

Table 1: Population of SMEs in Makurdi Metropolis, Benue State

Nature of Business	Population
Services Enterprises	250
Agro-allied Enterprise	182
Manufacturing Enterprises	200
Computer/IT Enterprises	170
Restaurants/Hotels	128
Trading Enterprises	320
Overall Total	1250

Source: Ministry of Trade and Investment, BECCIMA, 2018.

In order to reduce the population to a manageable number, the sample size was determined using Taro-Yamane's (1967) formula, which has given a sample size of 300. The data for this study were collected through the questionnaire. To ensure validity of the instruments, factor analysis will be employed by the researcher to measure the dimensions of the variables on a scale and the researcher employed Cronbach's alpha to ensure reliability of the instruments. Primary and secondary data were used and in this study. Primary data was collected through questionnaire. The questionnaires were administered to the respondents by the researcher and two research assistants. On the other hand, secondary data was sourced through available information from textbooks, journals and internet. The researcher collected literature reviewed on the topic from different sources. In this study SMEs performance is regarded as a function of external environmental factors. Environmental factors in this study comprises of economic factors, political factors, socio-cultural factors and technological factors. Performance of small and medium scale enterprises is measured using sales growth, profitability and innovativeness.

Performance of Small and Medium Scale Enterprises (PSMEs) is regarded as a function of External Environmental Factors.

$$PSMEs = f(ENF)$$

Where;

PSMEs = SMEs Performance (dependent variable)

EXF = External Environmental Factors (independent variable)

Given that external environmental factors comprises of three dimensions, the implicit form of the model is given as follows:

$$PSMEs = f(EEF, POF, SCF, TCF)$$

Where:

EEF = Economic factors;

POF = Political-Legal factors;

SCF = Socio-cultural factors

Thus, the explicit form of the model for the study will be as follows:

$$PSMEs = b_0 + b_1 EEF + b_2 POF + b_3 SCF + b_4 TCF + \varepsilon$$

Where:

b_0 = intercept of the mode (Constant)

b_1, b_2, b_3 = regression coefficient

ε = error term

Simple tables, frequency and percentages will be used for data presentation and analysis. Regression was used for test of hypothesis. The analysis of the data was done with the aid of Statistical Package for Social Sciences (SPSSP 21).

4.0 RESULTS AND DISCUSSION

4.1 Regression analysis results

The result of the regression analysis was presented in model summary, analysis of variance and regression coefficient tables.

i. Model Summary

The result from Table 10 shows that coefficient of determination (R square) explains the variation in the dependent variable due to changes in the independent variable. The R square value of .617 is an indication that there was 61.7% variation in performance of SMEs in Makurdi Metropolis, Benue State, Nigeria due to changes in economic factors, political factors, socio-cultural and technological factors at 95% confidence interval. Also, the value of R (.876) indicated that there was a strong relationship between the study variables.

Table 10: Model Summary

R	R-square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.786 ^a	.617	.612	.453	1.653

a. Predictors (Constant), Technological factors, socio-cultural factors, economic factors, political factors.

b. Dependent variable: Performance of SMEs

Source: Field Survey, 2019

ii. Analysis of variance (ANCOVA)

The result of the ANCOVA statistics in Table 11 indicates that the processed data, which is the population parameters, had a significance (p-value) level of .000 which is less than 5%. This implies that economic factors, political factors, socio-cultural factors and technological factors significantly affect the performance of small and medium scale enterprise in Makurdi Metropolis, Benue State, Nigeria. The significance value was less than 0.05 which indicates that the model was statistically significant (F = 120. 180, P = .000 < 0.05).

Table 11: Analysis of Variance (ANCOVA)

	Sum of Square	Df	Mean Square	F	Sig.
Regression	98.433	4	24.608	120.180	.000 ^b
Residual	61.019	298	.205		
Total	159.452	302			

- a. Predictors Variable: performance of SMEs.
- b. Predictors (Constant), Technological factors, socio-cultural factors, economic factors, political factors.

Source: Field Survey, 2019

iii. Analysis of variance (ANCOVA)

The result in Table 12 indicated that a unit change in economic factors will affect the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria by 15.5%, a unit change in political factors will affect performance of SMEs in Makurdi Metropolis, Benue State, Nigeria by 52.5% and a unit change in socio-cultural factors will affect the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria by 0.013%. The study also revealed that a unit change technological factors will affect performance of SMEs in Makurdi Metropolis, Benue State, Nigeria by 29.5%. The p-value for economic, political and technological factors (.001, .000 and .000) respectively were less than 0.05 implying that external environmental factors have significant effect on performance of SMEs. The result shows that political environmental factors have more significant effect on performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The coefficients of the variables were as follows: Economic factors (.481), political factors (.502), socio-cultural factors (.033) and technological factors (.256).

Table 12: Regression Coefficient

	Unstandardized		Standardized		
	Coefficient		Coefficient		
	B	Std. Error	Beta	t	Sig.
(Constant)	.118	.181		.653	.514
Economic Factors	.155	.048	.481	3.208	.001
Political Factors	.525	.058	.502	9.109	.000
Socio-cultural Factors	.013	.015	.033	.902	.368
Technological Factors	.295	.063	.256	4.669	.000

a. Dependent Variable: Performance of SMEs

Source: Field Survey, 2019

4.2 Test of Hypotheses and Discussion of Findings

The analysis of the data collected from the respondents revealed that economic factors have significant effect on performance of small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Regression analysis was used to test the hypothesis at 5 % level of significance and the p-value (0.001) was lower than the significance level. This can be statistically given as $P\text{-value } 0.001 < \alpha = 0.05$. This result in agreement with Nongo (2005) who established that the prices charged by organizations for goods and services, cost of operations demand for product and supply of input for production are some of the issues that hinge on the economic environment. Alkali and Isa (2012) also showed that economic policies such as the monetary system, inflation and interest rates have significant effect of performance of small and medium scale enterprises. This is supported by Makokha and Theuri (2014) who established that high inflation makes the value of the revenue in domestic currency fall, and this exposes firms to foreign exchange risks. They added that disparities in taxation practices and lack of double taxation agreements can significantly affect the performance of a business organization.

Findings of the study indicated that political factors have significant effect on performance of small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Regression analysis was used to test the hypothesis at 5 % level of significance and the p-value (0.000) was lower than the significance level. This can be statistically given as $P\text{-value } 0.000 < \alpha = 0.05$. This finding is in agreement with Suder (2004) who asserted that the political environment in a country influences the legislation and government rules and regulations under which a firm operates. A study by Makokha and Theuri (2014) also found significant relationship between political factors and performance of small and medium scale enterprises. They asserted that government regulations

and changes in government policies are likely to affect the performance of small and medium scale enterprises. In support of this result, Michael (2004) showed that government regulations have significant effect on the performance of small and medium scale enterprises.

Responses collected from participants indicated that socio-cultural factors have no significant effect on performance of small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Regression analysis was used to test the hypothesis at 5 % level of significance and the p-value (0.368) was greater than the significance level. This can be statistically given as $P\text{-value } 0.368 > \alpha 0.05$. The result disagrees with previous studies who found significant effect of socio-cultural factors on performance of SMEs. Nongo (2005) averred that socio-cultural environment factors such as changes in lifestyle affect products and services offered by organizations. In their study, Olarewaju and Elegunde (2012) found that culture affects the survival of the organization.

Result of the analysis of the data collected from respondents revealed that technological factors have significant effect on performance of small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Regression analysis was used to test the hypothesis at 5 % level of significance and the p-value (0.000) was lower than the significance level. This can be statistically given as $P\text{-value } 0.000 \leq 0.05$. The result is in agreement Richardson (2014) who established that business organizations that adapt to changes in international technological environment reap the benefits of reduced cost of production, enhanced efficiency and opportunity to avoid obsolescence through dumping. Dauda and Ismaila (2013) also emphasized the importance of technology to the performance of SMEs in developing countries.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study was carried out to examine the effect of external environmental factors on performance of small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Findings of the study showed that environmental factors significantly affect the performance of SMEs. The study concluded that economic factors such as interest rate, inflation and price regulations have affected the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The study also concluded that political factors such as government regulations and taxation affect the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. The study further concluded that technological factors have affected the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria. However, the study concluded that socio-cultural factors have no effect on the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria.

5.2 Recommendations

Based on findings of the study, the following recommendations are made:

- i. Government of Benue State should put in place economic policies that regulate competition among SMEs. The government should also check multiple taxes levied on SMEs which discourage many people from establishing businesses.
- ii. Benue State government should regulate activities of businesses to help detect and remove all aspect of activities that discourage business start-up and prevent the continuous emergence, survival and growth of small business operation in the state.
- iii. Owners and managers of SMEs in Benue State should keep abreast with changing consumer behaviour and income which will affect their performance.

- iv. Owners and managers of SMEs in Benue State must learn how to adapt and cope with technological changes in order to remain in business.

5.3 Limitations of the study and Suggestion for Further Studies

The study is limited to small and medium scale enterprises in Makurdi Metropolis, Benue State, Nigeria. Another limitation of the study was uncooperative attitude of the respondents in filling the questionnaire. They were not willing to provide answers to the accompanying questions. The researcher however handled this problem by assuring them of confidentiality of information provided and this accounted for the high response rate. The study focused on only four dimensions of external environmental factors (economic, political, socio-cultural and technological factors) that affect performance of SMEs. These limitations were carefully handled and they do not affect the validity of this study. The study suggests that further studies should cover other towns in Benue State and Nigeria at large since the present study was limited to Makurdi Metropolis. Also, further studies should examine the effect of other external environmental factors such as ecological environmental factors and legal environmental factors on the performance of SMEs. Finally, other researchers should investigate on government regulation and performance of small and medium scale enterprises.

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