

## IMPACT OF BUSINESS ENVIRONMENT ON THE PERFORMAMCE OF SMEs IN ABUJA

**Arahyel Ezra Mamza**

*National Open University of Nigeria  
Department of Business administration  
Email: [Arahyelmamza@gmail.com](mailto:Arahyelmamza@gmail.com)*

### **Abstract**

*This study is on the impact of business environment on the performance of SMEs in Abuja. Over the years, small and medium scale enterprises have been an avenue of job creation and the empowerment of Nigeria's citizen, providing about 40% of all jobs in Nigeria and also for local capital formation. However, the mortality rate of these SMEs is very high. Among the factors responsible for these untimely close-ups are tax related issues, poor management practices, and unfavorable laws. The study therefore examines the impact of business environment on the performance of SMEs in Abuja. The paper adopted a singular source of data collection. The data was analyzed using the content analysis approach. This is because of its major dependence on the secondary source data. Findings revealed that economic factors impact performance of SMEs; also it was revealed that managerial factors, legal factors, and strategic factors impact the performance of SMEs in Abuja. The paper recommends that The Government should urgently invest massively in improving the current infrastructural base in the country, also there should be a continuous review of the tax laws in order to enhance tax administration and address ambiguity in tax laws, also Continuous education and training should be given to both management, as well as to the employees to enable them operate at peak performance.*

**Keywords:** *environment, performance, enterprises, SMEs, inflation, price control, tax.*

### **INTRODUCTION**

The historical background of small and medium scale enterprises in Nigeria can be traced back to 1946 when the essential paper no 24 of 1945 on "A ten-year plan of development and welfare of Nigeria 1946 was presented." SMEs have been described as an all time necessary in any economy. It was there at the beginning, it has gained prominence today and will increase its

importance tomorrow. This is simply dictated by the development needs of the Nigerian society (Aremu, & Adeyemi, 2011). According to a recently published report from the World Bank enterprise survey, between the years 2009-2014, about 322 (out of 5833 firms) organized private companies were forced to shut down operations. Furthermore, the survey pointed out that of the firms sampled, at least 1136 of them were at risk of shutting down. We reckon that the time period covered by the survey is not recent and cover a period of reasonable strong growth in economic activities. Between 2014- 2016, Nigeria plunged into a recession, experiencing severe crunch in the foreign exchange market which hampered manufacturing and trade. During the past two decades, the business environment in many sectors has been characterized by rapid changes. SMEs in Nigeria are subjected to a lot of challenges which negatively affect their performance; the major challenges come from both their internal and external environment.

SMEs remain an important sub-sector in the nation's economy. The contributions of small and medium scale enterprise (SMEs) are considered paramount due to their potentials to boost economy's output and human welfare (Akingunola, 2011). It has been stressed by scholars that small and medium scale enterprises (SMEs) is a driving force in developing and developed nations. Small and medium scale enterprise remain a recurring decimal in the lexicon of Nigeria and this is not uncommon with realization of the roles of SMEs in job creation, poverty alleviation and foreign exchange conversation (Jimah 2011; Ikherehon, 2020; Akingunola, 2011).

In light of the recent recession, a handful of small and medium scale enterprises are facing challenges that have a chance to reduce their performance. The challenges usually come from both their internal and external environment. These include inadequate fund, inadequate infrastructure, poor entrepreneurial or technical knowhow, multiplicity of policies, inadequate raw material, lack of proper and accurate data base regarding SMEs, insecurities in the country, lack of proper roads (Adelaja, 2012).Some of the issues mentioned above are critical to the performance of SMEs, therefore there is a need to re-examine and analyze those issues which are responsible for the poor performance of SMEs in Nigeria therefore this study will critically examine those issues which if examined will enhance the performance of SMEs. Studies have shown that SMEs are currently experiencing a period of growth, due to an array of entrepreneurial skills acquired by unemployed youths with the help of entrepreneurship

education. Despite that, the sector has been crippled by the rapidly changing business environment. According to Oginni and Adesanya (2013) the business environment has impeded the growth and survival of SMEs in Nigeria.

Therefore, adaption to changing business environment is key to organizational survival. According to Alexander (2016) the dynamic and rapidly changing business environment in which most businesses operate has made a significant impact on organizational survival and performance. Therefore, this study will seek to research into ways the internal and external environment can affect the performance of small and medium scale enterprises in Abuja.

## LITERATURE REVIEW

According to UBC Net Tutor Commerce (2008), environment is the sum total of conditions that surrounds us at a given point of time and space. It comprised of the interacting systems of physical, biological and cultural elements which are interlinked both individually and collectively. It states further that environment is the sum total of conditions in which an organism has to survive or maintain its life process. It influences the growth and development of living forms. Pannerseelvan and Rarmarknshnan (2015) define environment as the universe of a biotic and other physical elements as organized into dynamic system. These systems are ecological systems or ecosystems which represent the integration of living (biotic) and non-living (abiotic) elements in the environment. Thus, environment refers to anything that immediately surrounds an object and exerting a direct influence on it. It consists of the interacting systems of business physical and cultural elements which are interlinked both collectively.

Organizational performance is one of the most important variables in the management research and arguably the most important indicators of the small and medium scale enterprises. Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its many meanings. For this reason, there isn't a universally accepted definition of this concept. In the 1950s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Georgopoulos Tannenbaum, 1957). Performance evaluation during this time was focused on work, people and organizational structure. The years 1980s and 1990s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Thus,

organizational theories that followed supported the ideal of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998). In this context, profit became one of the many indicators of performance. Lebars & Euske (2006) provide a set of definitions to illustrate the concept of organizational performance: Performance is a set of financial and non-financial indicators which offer information on the degree of achieving of objectives and results; Performance is dynamic, requiring judgment and by using a causal model that describes how current actions may affect future results; to define the concept of performance is necessary to know its elements characteristic to each area of responsibility; to report an organization's performance level, it is necessary to be able to quantify the results.

### ***Internal business environment***

Internal environment variables are all elements of any given organization that it can control and have a clear impact on the organizational culture, philosophies, policies, human resource, mission and purpose (Genç, 2014). Internal environment is a broad concept and includes all the organizational material and human resources within the organization. They are in the control of the organization, can manipulate them for achieving the strategic objectives and goals. Thus, they are termed controllable variables in some previous management literature (Bin Ahsan, 2013). Al Sanfi and Al Ereeqi (2006) defined internal environment as all forces within the same organization. For this author, internal environment includes board of managers, workers and employees, organizational culture, structure, management strategies, and finally material and human resources. The current study takes Jordanian universities as the population of the study, thus, the internal environment variables analyzed in this study will be limited to organizational structure, organizational culture and material and human resources.

### ***External business environment***

External environment is an attempt to understand the outside forces of the organizational boundaries of SMEs. External can provide both facilitating and inhibiting influence on organizational performance. Below are the types of external environments: economic environment, political environment, legal environment, socio cultural, demographic

environment, natural environment, internal environment, financial environment, social environment, competitive environment. The external environment is studied to aid understanding on the possible threats facing the organization to enable the Organization eliminate or minimize the threat, on the flip side, opportunities also lay within the external business environment, those opportunities could be maximized.

### ***Theoretical Review***

Firm strategy theory (Mazdeh, Moradi, & Mazdeh, 2011; Hofer & Schendel, 1978; Porter, 1985). The first perspective is a focus on groups external to the organization that impinge on its activities, including customers, competitors, suppliers, government policies and regulatory agencies. Strategies are descriptions of how the organization proposes to achieve its Goals. They both inform the agency's customers/clients and stakeholders about the agency's general plan for achieving its Goals and provide direction and guidance to program staff as they develop detailed Action Plans for the agency's core programs. The core programs are directly linked to the Mission of the agency and represent distinct business functions, programs or activities which emanate from the Mission. Strategies are valuable because they link core program actions to the overall agency Goals and Objectives. Denzil (2007). Therefore, the firm's strategy will adequately improve or help boost the general performance of the organization if properly applied.

The external business environment (Tan & Liu, 2014; Chang et al., 2011; Collins, 1990). The third perspective is concerned with managerial perceptions of environmental attributes, exemplified by Swamidass and Newell (1987). The external environmental factors are those the business have little or no control over. Therefore, the more favorable the external environmental of an organization is the better for the organization. Given that all of these factors and actors can affect the future of the company, top managers must anticipate their effects to take advantage of opportunities, defend from threats, and measure the effects of both on firm performance (Nicolau, 2015). Drawing from the literature and the social context of the MD, in this study, we consider the favorable treatment of state-owned companies, private firm promotion policy, labor availability, and corruption of local government the main components of the business

environment in the MD. These may have significant effects on the performance of SMEs in the MD.

Balance scorecard (BSC): the BSC theory suggest that management should view organization's performance from four facets, customer perspective, internal perspective, innovative and learning perspective and financial perspective (Kamuga, M. S., Njeru, A & Tirimba, O. I. 2014). BSC incorporates financial and non-financial measures in one measurement system. The objectives and measures of BSC are driven from an organization's vision and strategy. The Balance scorecard provide executives with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures.

## **METHODOLOGY**

The paper adopted a singular source of data collection. The secondary source of data generation, which include the use of textbooks written by different authors on the subject matter, journals, magazines, information from the internet and other published and unpublished materials relevant to work. The data was analyzed using the content analysis approach. This is because of its major dependence on the secondary source data.

## **CONCLUSION AND RECOMMENDATIONS**

The problems of business environment already highlighted were the problems facing SMEs. The researcher took time to check all about the impact of business environment on the performance of SMEs to achieve the objectives of the study e.g. reviews of related literature has been carried out to a reasonable level. Data gathered, collected and analyzed. The results were used to test the four hypothesis, which determine to either accept or reject the hypothesis.

Therefore to conclude the finding of this study, it is important to note that SMEs are greatly affected by internal and external business environment, also SMEs can perform adequately if the government will put in place the right policies and structures in place to enable small and medium scale enterprises operate at peak perform, this in turn will bring about development, increased GDP and also provide employment opportunities.

Based on the statement of the problem, the objective of the study and the result of the findings, the following recommendations are made.

- i. There should be a continuous review of the tax laws in order to enhance tax administration and address ambiguity in tax laws. It should clearly state what is taxable, what amount to tax, when to tax, how to tax, in order to discourage multiple taxes, and to ensure high taxpayers' compliance level.
- ii. There should be an improvement or the organization should put in place measure that will help improve factors such as internal control system, customer relationship management and financial management.
- iii. Measures should be put in place to boost advertisement, sales promotion, marketing and also research and development, these will enable help understand the desire of customer and in so doing help boost performance.
- iv. The Government should urgently invest massively in improving the current infrastructural base in the country.

## REFERENCE

- Adelaja, A.O. (2012). The importance of Small and Medium Scale Industries in a Developing/Underdeveloped Economy: *Nigeria Case Study*.
- Akingunola, R.O. (2011). Small and Medium Scale Enterprises and Economic Growth in Nigeria: An Assessment of financing options. *Pakistan Journal of Business and Economic Review*, 2(1), 77-97.
- Alexander PS (2016) Teens and mobile phones growing up together: Understanding the reciprocal influences on the development of identity. *Paper presented at the Wireless world workshop, University of Surrey*
- Aremu, M. A. (2010). Small and Medium Scale Enterprises as A Means of Employment Generation and Capacity Building In Nigeria, A Paper Presented at the International Conference on Management and Enterprise Development on "Intellectuals and New Strategies for Sustainability Development of the Third World" Held at Conference Center, University of Ibadan, Ibadan, Nigeria, October 5th - 8<sup>th</sup>
- Bin Ahsan, Sallahdin (2013). The strategic role for internal environment variables analysis in promoting competitive advantage: A field study on some Algerian manufacturing companies. *Jordanian Journal of Business Management*, 9 (4), 705-724.
- Creswell, J.W., (2013). *Research design: Qualitative, quantitative, and mixed methods approaches*. Sage publications



- Collins, J. M. (1990). A market performance comparison of U.S. firms active in domestic, developed and developing countries. *Journal of International Business Studies*, 21, 271– 288
- Chang, Y-Y., Hughes, M., & Hotho, S. (2011). Internal and external antecedents of SMEs' innovation ambidexterity outcomes. *Management Decision*, 49(10), 1658– 1676.
- Denzil Verardo (2007) organizational performance management & measurement: Strategic Planning & Performance Measurement Staff Training Handbook 7<sup>th</sup> edition
- Genç Kurtuluş (2014). Environmental factors affecting human resources management activities of Turkish large firms. *International Journal of Business and Management*, 9 (11), 102-123
- Georgopoulos, B. B. and A.A. Tannenbaum (1997): A Study of Organizational Effectiveness. *American Sociological Review*. 22, 534-540
- Lusthaus C.A. and Drien, M.H. (1998) Organizational Assessment: A Review of Experience. Universalia Publications.
- Hofer, C. W, & Schenedel D (1978). *Strategic formulation: analytical concept*. St. Paul, MN: west publisher
- Ikharehon, J.I. (2000). An Introduction to small scale Business Management. Benin: Best printers.
- Inegbenebor, A. U. (2012). Management theory, models and principles: A synthesis of some evidence in Nigeria. In B. A. Agbonifoh, A. B. Agbadudu & F. I. O. Iyayi (Eds), *Management A Nigerian perspective*, Revised Edition (pp 3550). Benin, Nigeria: Mindex Publishing Limited
- Jimah, M.S. (2011). Establishing small and medium scale Enterprises: Problems and prospects. A paper presented at the Institute of Chartered Accountant of Nigeria (ICAN) Zonal conference held in Jalingo, Taraba State from March 8th – 11th.
- Kamuga, M. S., Njeru, A. &Tirimba, O. (2014). “Factors Affecting the Performance of Small and Micro Enterprises in Limuru Town Market of Kiambu County, Kenya”. *International Journal of Scientific and Research Publications*, 4(12), pp. 1-20
- Mazdeh, M. M., Moradi, K., & Mazdeh, H. M. (2011). Strategic planning model for Startups: A case study of Iranian packaging industry. *Management Science Letters*,1,157–166.
- Mukhtar, Hassan (2011). Strategic planning: Concepts and models. The Arab United Co. for Marketing and Imports, Cairo, Egypt.
- Mark, J. and Nwaiwu J. (2015) Impact of Political Environment on Business Performance of Multinational Companies in Nigeria. *Ethiopia International Multidisciplinary Journal* 9, 3:1-10.
- Nicolau, J. L. (2015). Valuing the business environment on a daily basis. *European Journal of Operational Research*, 164, 217–224.



- Okey, W. O. (2014) The Influence of Business Environmental Dynamism, Complexity and Munificence on Performance of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Research* 4, 8: 59-72.
- Oginni B.O, Adesanya AS (2013). Business environmental factors: Implications on the survival and growth of business organisations in the manufacturing sector of Lagos metropolis. *Business and management research*. 2013;2(3):146-156.
- Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York: The Free Press.
- Panneerselven, A. & Ramarkrishman, N. (2015) *Environmental Science Education*. India: Sterling Publishers Private Ltd.
- Thomas P. Kattookaran (2015) “business environment” school of distance education.
- Tan, M., & Liu, J. (2014). Paths to success: An ambidexterity perspective on how responsive and proactive market orientations affect SMEs' business performance. *Journal of Strategic Marketing*, 22(5), 420–441.