

BUSINESS ENVIRONMENT AND PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN BENUE STATE, NIGERIA

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ABSTRACT

SMEs do not operate in a vacuum but in an environment that is complex, multi-faceted and dynamic. The complexity and dynamism of the business environment impacts on the performance of such SMEs in Nigeria. How the business environment support or hinder the performance of SMEs has been studied with mix research findings reported. This study contributes to this debate by examining the effect of external business environment on the performance of SMEs in Gboko metropolis. Three hypotheses were tested whereby external business environment was proxied as political environment, economic environment and socio-cultural environment. The study adopted a cross-sectional research design on a population of 1,811 owners of SMEs in Benue State. Sample size was however 327 while questionnaire and multiple regression was method of data collection and analysis respectively. The study found that the political environment, economic environmental and socio-cultural environment all have a significant effect on the performance of SMEs in Benue State. The study recommended that the government and the regulatory authorities should create an environment that will be viewed as contributing to the improvement of the performance of SMEs as a favourable political, economic and socio-cultural environment contributes to SME performance

Keywords: business environment political environment; economic environment; socio-cultural environment; and performance

INTRODUCTION

Small and Medium Scale Enterprises (SMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in every country. Throughout the world, SMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. In Nigeria, SMEs represent 90% of the industrial sector in terms of the number of enterprises (SMEDAN, 2019). They also account for 70% of national industrial employment if the threshold is set at 10-50 employees, contributing 10% of manufacturing output and 1% of Gross Domestic Product (GDP) in 2001 (Ajayi, 2016). Similarly, they have also contributed significantly to economic development through employment, job creation and sustainable livelihood (Ajayi, 2002, 2016).

In spite of the major role, significance and contributions of SMEs to the national economy, these set of enterprises are still battling with many environmental problems and certain constraints that hinder their performances (Sharfaei, Ong, & Ojo, 2022). The outcome of these challenges can be witnessed with the unsatisfactory progress by SMEs culminating into retarded and/or declining SMEs growth, low industrial output, business failure, poor service delivery etc. The major reason why SMEs experience these challenges can be attributed to the environment that the SMEs operate in (Ogundele & Opeifa, 2004; Adeoye, 2014; Samad, 2022). Therefore, no SMEs can operate in isolation successfully without depending on its environment (Oginni, 2010; Ogunmuyiwa, 2022; Du, Razzaq, & Waqas, 2023).

In the views of Aborade (2005), all business decisions are found to be contingent upon a good analysis of the environment as the environment creates the opportunities, threats and problems for the business organisation. As argued by Adi (2006), the most important influence on organizational policy and strategy on the development of SMEs is the environment. Ajayi (2002) therefore, define business environment as the combination of internal and external factors that influence an SMEs operating situation. Fred (2011) also defines business environment as the physical and operational factors, both internal and external, that affect the flow of activities in a business; hence the environment impacts on the performance of SMEs. Ogunmuyiwa (2022) also defines business environment as “the forces in and around the business firm that can make or mar its success.” Likewise, an environment of a business is also defined as the “aggregation of the pattern of all the external and internal conditions and influences that affect the existence, growth and development of the business” (Adagba & Shakpande, 2017). Such impacts could have dire consequences on its performance ultimately threatening its survival.

Indeed, the environment within which SMEs are located and operates is very important and can influence the running of their day-to-day activities (Oluremi & Gbenga, 2011). Where there is a change in the government policies, the SME has to make the necessary changes to adapt its position to the new policies. Similarly, a change in technology may render the existing products or processes obsolete, hence the need to adapt. All these factors are external to the business and beyond

the control of the SME. Research has conclusively shown that the external environment has a significant effect on SME performance (Oginni & Adesanya, 2013; Du, Razzaq, & Waqas, 2023). However, there is a dearth of empirical research exploring the relationship between the external environment and the performance of SMEs in Benue State which has provided the research gap that this study hopes to achieve.

The concern of this research is therefore, to assess whether the external environment has any impact on the performance of selected SMEs in Benue State. Specifically, the study seeks to explore whether the political environment, economic environment and socio-cultural as the dimensions of the external environment has any relationship with the performance of SMEs in Benue State. This study, therefore, proposes the following hypotheses:

- H₀₁:** There is no significant effect of political environment on the performance of SMEs in Benue State.
- H₀₂:** There is no significant effect of economic environment on the performance of SMEs in Benue State.
- H₀₃:** There is no significant effect of the socio-cultural environment on the performance of SMEs in Benue State.

LITERATURE REVIEW

Concept of Environment

The word “environment” is derived from the French word “environ” which means “surrounding”. Environment is defined as

the total of all individuals, institutions, and other forces that are outside the control of a business enterprise, but that may affect its performance. Fernando (2011) 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 while Adeoye (2014) consider business environment as the physical and operational factors, both internal and external, that affect the flow of activities in a business. A business is therefore, influenced by the environment in which it operates and the success of any business is dependent on its ability to adapt to its environment. The complexity of this reality for business owners is compounded by the fact that there are many different environments that each business operates in; these are the internal environment and the external environment.

Duncan (2012) assert that the internal environment of any organization comprises firm-related factors that influence its capacity to achieve set objectives, develop and implement a viable plan. The internal environment includes such factors as financial resources, information and knowledge, firm’s capabilities, incentives, organizational demographics such as size, inter-institutional linkages, company's objectives, goals and employees’ skills (Freeman & Reid, 2006). However, the focus of this study is on the external environment. Duncan (2012) therefore, views external business environment as the totality of factors outside an organization that are taken into consideration by an organization in its decision making. These factors depend largely on the complexity and dynamism of the environment (Duncan, 2012). They

include the political, economic and socio-cultural environment.

The political environment represents bureaucracy, trade control, corruption level, government stability, regulation and deregulation that affect the performance of SMEs (Agheli & Taghvaei, 2022). Gloria (2015) submits that not only the political environment poses direct risks to SMEs, they also posited that regulatory changes have the potential to promote or inhibit market competition. On the other hand, the economic environment represents the economic factors such as inflation rate, taxes, foreign exchange rate, unemployment rate etc that affects the functioning of SMEs. The elements of the economic environment include unemployment, exchange and inflation rates among many others. Socio-cultural environment in broad terms consists of both the social system and the culture of a people. Andersson et al. (2022) maintains that social cultural environment, in relation to business enterprises can be defined as consisting of all the elements of the social system and culture of a people which positively or negatively effect and influence SME emergence, behaviour and performance in general.

Concept of SME Performance

Performance refers to the extent to which an organization meets its strategic objectives (Ogboru, 2005). Organizational performance is an outcome achieved when an organization successfully formulates and implements a value creating strategy which enables customers receive a service or product of value greater than what they are willing to pay for (Barney, 2007). Adidu et al. (2006) sees performance as success. In contributing to the debate, Kompola, (2004) defines performance of

small-scale enterprises as their ability to contribute to job and wealth creation through enterprises start-up, survival and growth.

Organizational performance is a measure of effectiveness and efficiency. A company is effective if it produces the right goods or services that customers desire and are willing to patronize. It is even efficient if it does that at a reduced price. Generally firm performance refers to the success of the firm. It is a measure of an enterprise's success in achieving its goals, it is the degree to which a feat or a deed is being or has been accomplished. Alchian and Demsetz (1972) defined it as "the comparison of the value created by a firm with the value owners expected to receive from the firm." Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the end result of activity, and the appropriate measure selected to assess organizational performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation.

THEORETICAL FRAMEWORK

Resource Based theory was propounded by Penrose (1959) in her work "The theory of the Growth of the firm." The theory conceptualizes organizations from two perspectives which are resource diversity and resource immobility. Resource diversity exists when organizations possess resources or capabilities that are ubiquitous while resource immobility lay emphasis on the capabilities, resources, operational dexterity, skills and working strategies that are not common which distinguish business operators from others. The theory believes that when entrepreneur(s) possess

the aforementioned characteristics, they can strategically allocate resources in a sustainable manner in meeting the demands of the environment.

The theory holds that businesses are facilitated especially when entrepreneurs have unique capabilities, resources and operational skills that enable them to acquire and deploy resources effectively. The theory argues that it is only with appropriate resources and capabilities that can be deployed in a sustainable manner over a long term that entrepreneurs achieve sustainable competitive advantage and success. Without sustainable competitive advantage, entrepreneur's successes are ephemeral as competitors quickly obliterate the successful outcome of the initial effort. The aforementioned addresses the need for small scale enterprises to be proactive giving the changing business environment. In the light of the foregoing, small and medium scale businesses that wish to survive in a changing business environment must possess an exceptional skill and resources that would guarantee good understanding of the economic environment in the attempt to achieve a sustained competitive advantage.

REVIEW OF EMPIRICAL LITERATURE

Agbolade (2014) conducted a study on the impact of business environment on the survival of SMEs in Nigeria. He employed a descriptive survey design administering a total of 120 questionnaires while logistic regression was used. Agbolade reported that the external environment such as such as competition, inflationary trend, technological changes, government policy, infrastructural facilities accessibility impacts on SME performance. Mark and Nwaiwu (2015)

study investigated the impact of political environment on business performance of multinational companies in Nigeria Their findings showed that political environment has a significant impact on business performance of multinational companies in Nigeria. likewise, Rachmad and Sabarudin (2015) study also established that the external environmental factors impact on the performance of manufacturing industries in Indonesia.

Babalola and Abel (2013) on their part carried out a study on business environmental factors on SMEs in Lagos metropolis. Using secondary and primary data, the authors found a significant effect of environmental factors on the survival and growth of SMEs in the manufacturing sector in Lagos. Similar research conclusions were reached by studies conducted by Ajayi (2016) to evaluate whether the external business environment impacts on the performance of Small and Medium Scale Enterprises in Osun State. Using secondary data, the author found that all the types of external business environment (economic, political, legal, socio-cultural, demographic, natural, technological, global, financial, social and competitive) have significant impact on organizational performance of small and medium scale enterprises.

Mulugeta and Getaendale (2015) did a study on the impact of environmental factors on the performance of micro & small-scale enterprises in Ethiopia. The study employed both descriptive statistics and inferential statistics, making use of both the primary and secondary sources of data collection methods. Multiple Regression analysis showed that there is a clear significant relationship between external environmental factors and the performances of MSEs. Lastly, a study

Shah and Yadav (2014) also found a significant impact of the cultural environment on international business performance.

RESEARCH METHODOLOGY

This study adopted a survey research design as the preferred research design because it is cost effective, extensive, flexible and dependable. The population of the study on the other hand are the SMEs operating in Benue State based on the statistics by the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) as of 2017 which is 1,811. The SMEs have been identified as operating in the following sectors: manufacturing sector, services sector, computer and information and communication technology sector, restaurants and hotel sector and wholesalers and retailer sector. Taro Yemane's (1964) formula was used for sample size determination which provided a sample size of 327. Questionnaire was used for data collection while simple random sampling was the sampling technique implemented in this study. For data analysis, descriptive and inferential statistics are the two main techniques used for data. Descriptive captured the respondents' characteristics and was presented using percentages while multiple regression analysis as the inferential statistic was used to test the hypothesis of the study using Statistical Package of the Social Sciences (SPSS) v.23.

Decision Rule: If the p-value in any of the results is less than 0.05, the decision is to reject the null hypothesis and accept the alternate hypothesis. The reverse is the case when the p-value is greater than 0.05.

RESULTS

Based on the questionnaire distributed to the sample size of 327 SMEs in Benue State, 312 were retrieved from the respondents. Out of the 312 questionnaires retrieved, 30 questionnaires were wrongly filled and therefore, removed which produced a final sample size of 297. The descriptive statistics revealed that 41.7% of the respondents were owners of their SMEs, 20.5% were managers, while 37.8% were both owners and managers. This implies that majority of those sampled were owners of the SME. In terms of sectoral distribution, 11.0% were operating in the manufacturing sector, 16.5% in the services sector, 11% in the computer/ICT sector, 35.4% in the restaurant/hotel sector while 26.0% were involved in wholesale and retail business. To determine the duration in years that the sampled SMEs have been in operation or business, 16.5% are less than 3 years in business, 23.6% are in business for 3 to 5 years, 34.6% have been into business for 6 to 8 years while 25.2% are into business for more than 9 years.

Main Results

The focus of this study was to evaluate whether the external environment impacts on the performance of SMEs in Benue State, Nigeria. specifically, the study evaluated whether political environment, economic environment and socio-cultural environment impacts on the performance of SMEs in Benue State. Prior to implementing multiple regression analysis as the tool of data analysis, the regression assumptions were evaluated. The result showed that the normality and linearity assumptions were not violated after

assessing the histogram and normal P-P Plot of Regression Standardized Residual. The histogram was largely normally distributed while the normal P-P Plot of Regression Standardized Residual reasonably followed a straight-line relationship. In terms of multicollinearity, all the independent variables in this study did not indicate any issue of multicollinearity as the values were all within acceptable limits. In testing the significance of the regression model,

political environment, economic environment and socio-cultural environment were entered in a regression model with performance as the dependent variable. The ANOVA result showed that the model is significant as shown in Table 1: $F(3,296) = 39.790$, $p = 0.001$. In addition, the model explained 0.289 or 28.9 percent of the variance in performance of SMEs as also captured in Table 2 by reporting the R^2 and R statistics respectively.

Table 1: ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	71.148	3	23.716	39.790	.000
	Residual	174.637	293	.596		
	Total	245.785	296			

a. Dependent Variable: Performance of SMEs

b. Predictors: (Constant), Political environment, economic environment and socio-cultural environment

Source: SPSS Results (2023)

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.538 ^a	.289	.282	.772

a. Predictors: (Constant), Political environment, economic environment and socio-cultural environment

b. Dependent Variable: Performance of SMEs

Source: SPSS Results (2023)

Hypotheses Testing

Hypothesis One (H₀₁): There is no significant effect of political environment on the performance of SMEs in Benue State. The result of the regression analysis reveals that political environment has a significant effect on the performance of SMEs in Benue State with $B = .115$, $t = 2.549$, $p = 0.011$ as contained in Table 3. Hypothesis one was therefore, rejected in favor of the alternate that political environment has a significant impact on the performance of SMEs. This implies that as the political environment is

favorable, then the performance of SMEs in Benue State will be improved.

Hypothesis Two (H₀₂): There is no significant effect of economic environment on the performance of SMEs in Benue State. Based on the result of regression analysis as contained in Table 3, economic environment has a significant positive impact on the performance of SMEs in Benue State as the evidence shows: $B = .383$, $t = 5.985$, $p = 0.000$. Hypothesis two was therefore, rejected in favor of the alternate hypothesis that economic environment has a significant

impact on the performance of SMEs. The implication is that when owners of SMEs see the environment as providing opportunities for growth, then it will have a positive impact on the performance of such SMEs.

Hypothesis Three (H₀₃): There is no significant effect of socio-cultural environment on the performance of SMEs in Benue State. This hypothesis was also rejected in favor of the alternate hypothesis that socio-cultural environment has a significant positive impact on the performance of SMEs in Benue State based on the results as shown in Table 3: $B = 0.232$, $t = 3.495$, $p = 0.001$. the implication is that the social environment helps support the performance of SMEs in Benue State, Nigeria.

DISCUSSION OF FINDINGS

This study was carried out to assess the effect of the external business environment on the performance of SMEs in Benue State. The study measured external environment using three dimensions: political environment, economic environment, and socio-cultural environment.

Hypothesis One (H₀₁) stated that there is no significant effect of political environment on the performance of SMEs in Benue State. The analysis revealed that there is a significant relationship between the political environment and the performance of SMEs in Benue State implying that the increase in favourable political activities will impact positively on the SME performance in Benue State. This confirms the view Agbolade (2014), Mark and Nwaiwu (2015) and Ajayi (2016) who also found a significant

relationship between political environment and firm performance.

Hypothesis Two (H₀₂) stated that there is no significant relationship effect of economic environment on the performance of SMEs in Benue State. As the results indicated, there is a significant impact of the economic environment on the performance of SMEs in Benue State. This implies that the decrease in inflation, cost of doing business and taxes and the general improvement in the process of doing business will impact positively on the performance of SMEs in Benue State. In order words, when owners of SMEs believe that the economic environment is favourable, then it will contribute positively to the performance of such SMEs. This finding is similar to the findings by Ajayi (2016) who opined that economic forces have an influence on firm performance.

Lastly, hypothesis three (H₀₃) stated that there is no significant effect of socio-cultural environment on the performance of SMEs in Benue State. From the results, the study found that there is indeed a significant impact of the socio-cultural environment on the performance of SMEs in Benue State implying that socio-cultural factors too affect firm performance positively if owners of SMEs belief that the culture of the people and their social activities help support SME performance. This finding agrees with the findings of Ajayi (2016) and Shah and Yadav (2014) who also revealed that socio-cultural have significant impact on organizational performance of small and medium scale enterprises.

CONCLUSIONS AND RECOMMENDATIONS

This study sought to examine the effect of the external environment on the performance of SMEs in Benue State. The study identified three dimensions of external environment: political, economic and social-cultural as independent variables while performance served as the dependent variable. Specifically, the study tested whether the dimensions of external environmental factors have any effect on the performance of SMEs, which resulted to the formulation of three hypotheses. The population of the study was 1,811 owners of SMEs in Benue State while the sample size was 327 based on the Taro Yamane (1967) formula. Questionnaire was therefore, administered on the 327 respondents whereas only 297 was finally used for the data analysis. Using both primary and secondary data sources, and multiple regression analysis as the data analytical technique, the study found that the political environmental factors, economic environmental factors and socio-cultural environmental factors all have a significant effect on the performance of SMEs in Benue State. Based on the findings, the following recommendations were made:

- 1) The government, regulatory and tax authorities should as a matter of urgency reduce the burden of the economic effect as SMEs believe that a favourable economic environment will contribute the most to the performance of their SMEs. Therefore, when owners of SMEs have a favourable disposition that the economic environment support their business, then this will have a positive impact on the performance of their SMEs otherwise it will have a negative impact on their performance hence SMEs in

Benue State should develop strategies that will help them in mitigating these negative factors while exploiting the opportunities available in the environment for better performance.

- 2) SMEs should always be strategically prepared to adapt to issues that may arise from the political environment as policy pronouncement by the government can have a significant impact on the survival of SMEs. Therefore, SMEs can lobby the government in instituting favorable policies that support SMEs as this will have a positive impact on their performance.
- 3) SMEs owners should note that respect for socio-cultural environment in the place of operation is the only way for survival and achievement of desire performance; hence, SMEs in Benue State should be conversant with these factors and therefore, design training programmes for their employees to help build in them the needed motivation to help support the growth of their businesses.

LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER STUDIES

This study faces the following limitations. Firstly, the cross-sectional nature of the research design is one of the limitations of the study. It is impossible to establish the causal relationship in cross-sectional research designs. Secondly, the study is limited to only the three dimensions of external environment (political, economic and socio-cultural) without considering other dimensions such as security and technological among others. Lastly, the

study is limited to only Benue State without considering other states in Nigeria. In suggesting areas for further research, future studies could explore additional dimensions of external environment such as technological environment, security environment among others. Additionally, future studies could increase the scope of the study to cover other states in Nigeria as this will help improve the acceptability of the research findings. Also, future studies could consider introduction mediating or moderating variables to better provide a detailed understanding of the relationship between business environment and performance of SMEs.

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