

Chapter One

Introduction

1.1 Background to the study

Small and Medium Enterprises (SMEs) play a critical role in the economy, particularly in providing employment for the people that are unemployed and also promoting economy growth. However, a significant number of Small and Medium Enterprises (SMEs) fail within the first few years of operation due to various factors. One of those factors is the environment in which these businesses operate, and they are majorly classified under environmental factors such as climate change, government regulation (policy), and access to useful resources, required managerial skills and many others as they have significant impact on the performance of Small and Medium Enterprises (SMEs). The required managerial skills include skills in strategic planning, financial management, marketing, and human resources management among others. The absence of effective managerial skills can lead to poor decision making, inadequate resources allocation, and ultimately poor business performance.

The business space is dynamic and this to an extent is due to some interconnected and interdependent factors such as globalization, advancement in technology, industrialization, stakeholders' expectations, and customers' preference among others. The business environment encompasses various factors that can influence an organization's costs, supply, and demand¹. Every business operates as an open system, engaging with its surroundings, where people's interactions with the environment both shape and are shaped by ongoing events and trends. In Nigeria, changes in the business environment have posed challenges for small and medium-sized enterprises (SMEs). These challenges arise from their difficulty in competing with larger firms and low-cost imports, particularly from Asian countries with cheaper production processes.

Furthermore, SMEs often face limited government support and lack access to social capital, all of which strain their productivity². Small and Medium Scale Enterprises (SMEs) play a vital role in tackling the issues of job creation, economic advancement, and social equity worldwide. Across the globe, SMEs contribute significantly by creating jobs, exploring new markets, and fueling economic growth through innovative and creative approaches. In Nigeria, SMEs account for 90% of the industrial sector based on the number of businesses (SMEDAN, 2019).

The business environment consists of both internal (micro) and external (macro) factors. Managers and entrepreneurs can exert some control over internal factors, while external factors are largely beyond their control³. A common approach to analyzing the business environment is through 'SWOT' analysis, which stands for strengths, weaknesses, opportunities, and threats. Here, strengths and weaknesses pertain to internal factors, whereas opportunities and threats relate to the external or macro environment⁴.

A strong relationship between a firm and its environment is essential for its success. The internal environment is particularly vital for setting the company's direction and distinguishing it from competitors⁵. This internal environment, unlike the external one, is largely under management's control and includes tangible resources, personnel, management skills, competencies, production, marketing, and strategic decision-making. Together, these components support the firm's efficient and effective operation, helping it adapt to an ever-evolving external environment⁵. Meanwhile, external environmental factors remain crucial, as they continually influence and shape organizations. The term "business environment" refers to the institutions, forces, and external variables that impact a commercial enterprise's ability to operate and are outside of its control⁶. These include economic, social, political, legal and technological factors etc. A corporate entity naturally operates in an environment, regardless of its size—micro, small, medium, or large—and the kind of product it sells (goods or services)⁷. These environmental

factors introduce both opportunities and threats that every organization must address to achieve its objectives. It is crucial for businesses to be mindful of these external opportunities and challenges, regardless of their specific goals or ambitions. Managers, therefore, need to recognize, assess, and respond effectively to evolving environmental challenges due to their significant impact on organizational performance.

Globally, the commercial environment is intricate and constantly changing. The business sector is challenging and dynamic, shaped by numerous interconnected elements. Each company operates as an open system, engaging with its environment and both impacting and being impacted by events and trends. Successful firms understand the need to adapt continually to changes within this environment. This interaction between a business and its environment highlights a direct connection between them⁸. Essential components of a firm's effective and efficient functioning include tangible resources, personnel, management, competencies, and strategic decision-making⁵.

SMEs bear both environmental and social responsibilities, and their responses to these pressures vary globally, depending on resources, external demands, and the owner-manager's stance on sustainability⁹. Recent government efforts to foster a more supportive business environment warrant evaluation, as the previous inadequate framework for entrepreneurship has contributed to high unemployment, inefficient resource use, a dependence on imports, trade imbalances, and economic downturns. It's essential to understand how socio-economic factors, such as inadequate public infrastructure, limited access to financing, corruption, and rising insecurity, impact business growth in Nigeria. For example, if corruption within the state affects business growth, entrepreneurs must develop specific knowledge, skills, and abilities to effectively navigate

corruption in the public sector, as well as determine the best methods to acquire these competencies¹⁰.

Engaging in business without sufficient knowledge, skills, and competencies often leads to failure in Nigeria¹¹. This highlights the need to examine the business environment that Nigerian entrepreneurs must navigate to grow their enterprises. It also raises questions about how successful entrepreneurs acquire the necessary knowledge, skills, and abilities to achieve profitability and growth. Additionally, research explores how the business environment influences the learning needs of entrepreneurs as they establish a business and the various methods they employ to expand their ventures within the Nigerian context¹². There is limited understanding of how external factors, such as economic development level, technological advancement, infrastructure, business size, and cultural values, affect business growth. Consequently, more research is needed to explore these connections.

Globally, and particularly in developing countries like Nigeria, small and medium-sized enterprises (SMEs) face numerous environmental challenges and constraints that limit their performance¹³. These challenges are evident in the slow or declining growth of SMEs, low industrial output, business failures, and poor service delivery, among other issues.

Management skills are a significant factor responsible for SMEs' growth, and a lack of management skills is a barrier to growth and one of the causes of failure to Small and Medium Enterprises (SMEs)¹⁴. The growth patterns of small businesses are linked to their managerial abilities¹⁵. Lack of core competence and a well-trained senior management team is one of the most serious difficulties that Small and Medium Enterprises (SMEs) face¹⁶.

Managerial skills are essential for the survival of Small and Medium Enterprises (SMEs) as equipment and capital alone cannot generate profits without human effort. A country's economic

growth is closely linked to the success of its small enterprises, positioning SMEs as a crucial engine for sustainable development and job creation. Small businesses have greatly contributed to societal progress, yet many fail within a few years of establishment due to poor management. Managers, irrespective of the type or level of organization they oversee, need distinct skills that enhance their performance and influence the success of their teams. Skill refers to the ability, talent, proficiency, or competence needed to complete specific tasks. Thus, managerial skills are the qualities necessary to carry out essential managerial processes and achieve effective outcomes within a business. Managerial skills are the bedrock of the firm's better performance and competitive advantage¹⁷.

Performance does not take place in a vacuum but, within certain environment which has challenges and opportunities¹⁸. The operational environment of a company entity has an impact on various aspects such as profitability, sales revenue, innovation, employee satisfaction, and overall success¹⁹. Environmental forces create challenges and opportunities for the organization²⁰. However, managers and business owners must adapt to changes in their environment to effectively identify the challenges and opportunities that may arise, enabling them to perform efficiently²¹. There is no doubt that the success and performance of Small and Medium Enterprises (SMEs) worldwide are strongly influenced by their operating environment. The location of a business can significantly impacts its performance, either positively or negatively, through various internal and external environmental factors. A healthy business cannot live in an unstable environment; therefore, the business environment is crucial to the survival and development of enterprises²². The success of a business largely depends on how effectively it adapts to its environment. There is little doubt that the political, economic, and technological environments will continue to encounter notable challenges and risks in the near future. Scholars

also recognize the political environment as a key factor impacting business enterprises. A nation's political climate and other environmental elements can have an impact on business performance and introduce risk, which could result in losses for the company or jeopardize its source of profit²³. Studies of the impact of the external environment on organizational performance revealed that all performance measures were significantly positively impacted by the external environment²⁴. While the external environment was expected to negatively impact organizational performance, it surprisingly showed a positive influence. Small and Medium Enterprises (SMEs) are essential to the economic growth of emerging and developing nations. Small businesses undeniably drive economic development, reduce poverty, create jobs, and contribute to lowering crime rates in third-world countries. Most existing SMEs have fewer than 20 employees, primarily made up of family members, and a common limitation is their tendency to rarely expand by hiring additional staff or opening new branches.²⁵

The challenges facing Small and Medium Enterprises (SMEs) in Nigeria seem to be worsening, as frequent shifts in government economic policies fail to account for their impact on industrial development. Additionally, political instability, a lack of clear policy direction, and insufficient investment in technological advancement and socio-cultural sectors have created knowledge gaps within the economy, limiting SME productivity. No business can thrive without supportive institutions, favorable conditions, and conducive environmental factors²⁶. This suggests that a business operates within a complex network of interactions and relationships involving human resources, material resources, and other interconnected systems.

1.2 Statement of the problem

Small and Medium Scale Enterprises (SMEs) serve as a vital means to address the challenges of unemployment, economic growth, and equitable development in emerging nations. Globally, SMEs contribute significantly by creating jobs, entering new markets, and expanding economies through innovative and creative approaches.

Despite these important roles and the substantial contributions of SMEs to national economies, those in the manufacturing sector face numerous environmental challenges and unique constraints that impact their performance²⁷. These challenges result in slow or stagnant growth, low industrial output, business failures, and poor service delivery among SMEs. The primary reason behind these obstacles is often linked to the environments in which SMEs operate^{28, 29}. Therefore, no SMEs can operate in isolation successfully without depending on its environment^{3, 26, 30}.

Prominent among these factors are legal, technological, political, economic, and socio-cultural factors surrounding the operational activities of small and medium scale industries in Nigeria. Those environmental factors always hinder the progress and growth of the organizational goals. The environment in which SMEs are situated and operate plays a crucial role in influencing their daily activities³¹. Changes in government policies, for example, compel SMEs to adjust their strategies to align with new regulations. Similarly, advancements in technology can make existing products or processes outdated, necessitating adaptation. These factors are external to the business and beyond the SME's control. Research has shown that the external environment significantly impacts SME performance^{32, 33}. However, there is limited empirical research examining the relationship between external environmental factors and SME performance in Benue State, highlighting a research gap that this study aims to address.

External environmental factors such as political, economic, socio-cultural, and technological influences significantly affect how organizations operate. Businesses rely on their environment for essential resources, including information, ideas, raw materials, financing, and labor, as well as for markets to consume their goods and services. This means that a business's activities are shaped by environmental forces like social, economic, technological, and legal or regulatory factors. In Nigeria, for instance, technological factors have encouraged publicly listed manufacturing firms in the food and beverage industry to adopt multi-product marketing strategies to stay competitive.

Several past studies have examined the relationship between environmental factors and Small and Medium Enterprises (SMEs) development on one hand, and also environmental factors and Small and Medium Enterprise (SMEs) performance on the other³⁴⁻³⁷. However, there still lacks in depth understanding of the significant effect of business environmental factors on SMEs as few studies have been done on the effect of environmental factors (political factor, economic factor, socio-cultural factor and technological factor) on Small and Medium Enterprises (SMEs) performance in Oyo State, Nigeria. Also, having critically reviewed many previous studies that have been carried out in this study, it is observed that no study has been specifically investigated the combine effect managerial skills and these environmental factors on the profitability, innovation, sales revenue and employee satisfaction as measures of SMEs performance.

This study therefore, aims to address the gap by examining the impact of environmental factors and managerial skills on the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Oyo State, Nigeria, using profitability, innovation, sales revenue, and employee satisfaction as key performance indicators.

1.3 Aim and Objectives of the Study

The aim of this study is to investigate the influence of environmental factors, managerial skills on Small and Medium Enterprises (SMEs) performance in the manufacturing sectors in Oyo State, Nigeria. To achieve the above, the following specific objectives are set out:

- i. examine the influence of environmental factors (economic, political, technological, socio cultural) on profitability in the selected manufacturing SMEs;
- ii. ascertain the influence of environmental factors (economic, political, technological, socio cultural) on innovation in the selected manufacturing SMEs;
- iii. determine the effect of environmental factors (economic, political, technological, socio cultural) on sales revenue in the selected manufacturing SMEs;
- iv. evaluate the impact of environmental factors (economic, political, technological, socio cultural) on employee satisfaction in the selected manufacturing SMEs;
- v. evaluate how managerial skills moderately impact SMEs' performance in the selected manufacturing SMEs; and
- vi. examine the overall influence of environmental factors (economic, political, technological, socio cultural) on SMEs performance in the selected manufacturing SMEs.

1.4 Research Questions

In line with the above stated research objectives, the following research questions are answered in the study:

- i. how does environmental factors (economic, political, technological, socio cultural) influence profitability in the selected manufacturing SMEs?

- ii. what effect does environmental factors (economic, political, technological, socio cultural) have on innovation in the selected manufacturing SMEs?
- iii. how does environmental factors (economic, political, technological, socio cultural) influence sales revenue of the selected manufacturing SMEs?
- iv. to what extent does environmental factors (economic, political, technological, socio cultural) impact employee satisfaction of selected manufacturing SMEs?
- v. how do managerial skills moderately impact SMEs' performance in the selected manufacturing SMEs?
- vi. to what extent do overall environmental factors (economic, political, technological, socio cultural) influence SMEs performance in the selected manufacturing SMEs?

1.5 Research Hypotheses

The following research null hypotheses were tested to achieve the objective of the study:

- H01:** Environmental factors (economic, political, technological, socio cultural) have no significant impact on profitability in the selected manufacturing SMEs.
- H02:** Environmental factors (economic, political, technological, socio cultural) have no significant effect on innovation in the selected manufacturing SMEs.
- H03:** Environmental factors (economic, political, technological, socio cultural) have no significant impact on sales revenue in the selected manufacturing SMEs.
- H04:** Environmental factors (economic, political, technological, socio cultural) have no significant influence on employee satisfaction in the selected manufacturing SMEs.

H05: Managerial skills have no significant impact on SMEs' performance in the selected manufacturing SMEs.

H06: Overall environmental factors (economic, political, technological, socio cultural) have no significant influence on SMEs' performance in the selected manufacturing SMEs.

1.6 Significance of the Study

This study will be valuable to the following stakeholders:

1. **Organizations:** The findings will benefit Small and Medium Enterprises (SMEs) owners and managers in Oyo State by providing insights on how to effectively assess the business environment, ensuring the achievement of their business objectives.
2. **Government Agencies:** Agencies such as the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN), Youth Enterprise with Innovation in Nigeria (YOUWIN), and the National Enterprise Development Program (NEDEP) can use the findings to train SME owners and managers in managerial skills, enabling them to navigate economic, socio-cultural, political, and technological factors more effectively.
3. **Policy Makers:** The study aims to help the government develop appropriate policies and an enabling environment that will foster the growth and stability of SMEs in Oyo State, while helping them protect their assets.
4. **Researchers:** This study will contribute to academic understanding by highlighting the impact of external business factors (economic, political, socio-cultural, and technological) on SME performance in Oyo State. It will add to existing knowledge, particularly by combining these environmental factors into a single model, an area with limited research.

5. **Employees:** The study will help SMEs' employees gain a better understanding of how external business factors affect the overall performance of their organizations, fostering greater awareness of their role in the business environment.
6. **Entrepreneurs:** The results will serve as a foundation for entrepreneurs running SMEs, providing them with the necessary insights to make informed adjustments to their businesses, promoting growth and ensuring sustainability.

1.7 Scope of the Study

Content Scope

The content scope of this research is focused on examining the environmental factors, managerial skills, and the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Oyo State, Nigeria. The study specifically considers economic, political, socio-cultural, and technological factors are the indicators of environmental factors which is the independent variable while profitability, innovation, sales revenue, are used as measures for performance of SMEs. These factors, along with managerial skills, were analyzed in relation to SME performance. The study was targeted owners and managers of registered manufacturing SMEs in Oyo State, chosen for its significant concentration of SMEs ranking third after Lagos and Kano, according to SMEDAN (2013).

Geographical Scope

The geographical scope of this study covers selected registered manufacturing Small and Medium Enterprises (SMEs) from three geopolitical zones: Oyo North, Oyo Central, and Oyo

South in Oyo State, Nigeria. The manufacturing sector was chosen because it seems to be one of the most impacted sectors by the business environment in the state.

1.8 Operational Definition of Terms

The following terms are operationally defined based on their usage in this study to ensure clarity, simplicity, and avoid ambiguity:

Business Environmental Factors: These are external elements that influence how businesses, including SMEs, operate, grow, and either thrive or struggle.

Controlling: This refers to the management function in SMEs that ensures planned outcomes are achieved through supervision and direction at all levels of the business.

Economic Factors: These include the overall economic conditions such as trade rates, inflation, unemployment, interest rates, economic development rate, per capita domestic product, and more.

Employee Satisfaction: This reflects the level of contentment employees feel about their jobs and the organization they work for within SMEs.

Innovation: The practical application of new ideas that lead to the introduction of new products or services, or the improvement of existing ones, by SMEs.

Managerial Skills: These are the knowledge and abilities of SME managers to perform specific management tasks or activities effectively.

Planning: This is the process of developing and executing plans in small and medium-scale enterprises (SMEs).

Political Factors: These include the government regulations that control SMEs, such as property inspections, application reviews, and data management.

Profitability: This is a measure of how effectively an SME converts its costs into profit for its owners.

Sales Revenue: This is the income earned by SMEs from selling goods or providing services.

Socio-cultural Factors: These are societal forces stemming from social structures or national cultures, including customs, traditions, beliefs, norms, and values upheld by the society.

SMEs Performance: This refers to how well an SME is performing in terms of loyalty, investment, profit, revenue, growth, expansion, and employee satisfaction.

Technological Factors: These refer to the pace of technological advancements and scientific developments that can significantly impact society and the operations of SMEs.

Endnotes

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Chapter Two

Literature Review

This chapter aims to review the existing literature related to the research topic. The previous chapter offered an overview of the research area and discussed the impact of environmental factors on company performance. The researcher expanded on this with relevant literature. To critically analyze the subject, this chapter is structured into sections covering the conceptual review, theoretical review, empirical review, research gaps, and the conceptual framework.

2.1 Conceptual Review

2.1.1 Performance

Performance refers to the extent to which an organization meets its strategic objectives¹. 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 for². Performance is seen as success³. Defining performance of small-scale enterprises as the ability to contribute to job and wealth creation through enterprises start-up, survival and growth⁴.

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. Performance is the result from a person's effort which is achieved by the presence of labour, ability and assignment perception, effort because of motivation, satisfaction, and organizational commitment that shows the amount of energy used by an

individual in initiating a task^{5, 6, 7, 8}. Performance is one of the elements that is assessable through the level of their productivity⁹. This includes the quality, quantity, knowledge or creativity of individual towards the accomplished works that are in accordance with the responsibility during a specified period. In other words, the assessment systems must have some standard strictures that can also be seen from output, product quality, productivity, cost management, safety and health, employees' relationship and development¹⁰. However, performance can be viewed on how an organization is faring in terms of level of loyalty, investment, profit, revenue, growth, expansion of the organization and satisfaction on the employees' etc¹¹. Organizational performance can be measured in terms of level of output¹². Consequently, performance is the product accomplishments, results and achievements in an organization¹³. Performance as employee's achievement level in his/her responsibility and duties assigned in the workplace¹². Understanding determinant factors of SMEs performance are viewed an important area of focus in Enterprises¹³.

Therefore, a good measurement of organizational performance must be able to consider the goal of the owner designed to promote the business such as SMEs in the areas of some specific results as output and profitability¹⁴. In the same view, organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality. Accordingly, it reflects output of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization¹⁵. Performance has been a central concern or issue of researchers and organizations. Thus, several organizations studied in the literature have focused on the reason why some firms perform better than the others. However, scholars in this field have proposed several definitions. This means that performance is not without meaning. Although, organization performance cannot be left in anticipation that will develop naturally, despite the employee's natural desire to perform and be rewarded for it¹⁶. This

desire needs to be accommodated, adapted, and nurtured. Meanwhile, researchers have different beliefs that most agreed that no single measure exists for organizational performance¹².

Organizational performance construct can be measured by effectiveness, efficiency, satisfaction and innovation of the product²⁶. Organizational assessments of performance in sales growth, customer satisfaction and profitability were measure in their businesses¹⁴. Meanwhile, influence on organizations performance can be obtained by giving a consideration and intellectual excitement for individual and charisma which will be able to make changes to better direction, for example by giving training, counselling, sustaining the frequency of interaction in order to achieve a certain goal ¹⁷. Therefore, to conceptualize organizational performance in this study based on the owner/manager's perceptions of the performance of the organization in terms of the extent to which its objectives have been achieved^{14, 12}.

2.1.2 Small and Medium Enterprises (SMEs)

Small businesses lack a universally accepted definition, both in Nigeria and globally. Variations in capital expenditure, workforce size, sales turnover, fixed capital investment, availability of plant and machinery, market share, and level of development contribute to these differences, which vary from country to country and are often debated among scholars, writers, and academic institutions¹⁸. SMEs are typically defined by the size of the enterprise, measured by the total number of employees or the value of its assets¹⁹. In Nigeria, the Central Bank of Nigeria (CBN) defines an SME as a business with assets not exceeding ₦200 million, excluding the value of land and working capital, and employing between 10 and 300 people²⁰.

In Nigeria, the Third National Development Plan defined a small-scale business as a manufacturing entity with fewer than ten employees, or one whose investment in machinery and

equipment does not exceed six hundred thousand naira²¹. Similarly, the Central Bank of Nigeria (CBN), in its credit guidelines, classified small-scale businesses as those with annual income or assets of less than five hundred thousand naira (N500,000)²¹. The Federal Government's Small Scale Industry Development Plan of 1980 defined small-scale businesses as any manufacturing or service industry with capital investment not exceeding N150,000 for manufacturing and equipment alone. The Small-Scale Industries Association of Nigeria (1973) defined small-scale businesses as those with investments (capital, land, buildings, and equipment) up to N60,000 and employing no more than fifty people. The Federal Ministry of Industries also defined small-scale enterprises as those that cost no more than N500,000, including working capital, to establish. Additionally, the Centre for Management Development (CMD) provided a definition of small-scale industries in a policy proposal submitted to the federal government in 1982 as "a manufacturing processing, or servicing industry involved in a factory of production type of operation, employing up to 50 full-time workers"²¹. In the United States, the Small Business Administration (SBA) defines a small business as one that is independently owned and operated and is not dominant in its field, and meets employment or sales standard develop by the agency²². Small and Medium Enterprises (SMEs) are widely acknowledged as the key engine of economic development (SMEDAN, 2013).

Table 2.1: Classification Adopted by SMEDAN for National Policy on MSMEs

S/N	Size Category	Employment Size	Turnover (Naira)
1	Homestead Entrepreneur	1-2 persons	Less than 3 Million
2	Micro enterprises	3-9 persons	3 < 25 Million
3	Small enterprises	10 – 49 persons	25 < 100 Million
4	Medium enterprises	50-199 persons	100 Million < I Billion

Source: Adopted from SMEDAN, (2021)

Small and medium enterprises (SMEs) are key economic actors and drivers of economic development the world over, and indexes of industrialization, modernization, urbanization, and gainful and meaningful employment for all those who are able and willing to work or establish a business^{23 -26}. Small businesses have ten (10) to forty-nine (49) employees, whereas medium-sized businesses have fifty (50) to one hundred and ninety-nine (199) employees²⁵. The SME sector may help transition to a market economy by creating jobs, producing money, advancing technology, and supporting social development²⁷. SMEs may boost social and economic growth, notably in Nigeria. They may also gain management and technical abilities. SMEs account for 96% of businesses and 84% of employment in Nigeria²⁸.

This sector plays a pivotal role to the economic growth and development of any nation. It has been studied that the small and medium enterprises are germane to growth and development of any economy. A central issue dominating policy debates around the world and Africa has been to induce economic growth through the growth of SMEs. SMEs contribution to the Nigerian economy is essential for the accomplishment of the broader development objectives such as poverty relief, spreading of employment opportunities and increasing indigenous ownership of resources in the economy²⁹. This has made the government to make efforts at encouraging the growth of small and medium scale enterprises in Nigeria. Various policies, programs and plans have been initiated for the benefits of the small and medium scale enterprises. Small and Medium Scale Enterprises (SMEs) contribute about half of Nigerian GDP and accounts for over 25 percent of employment in the country small and medium enterprises contributes about 48% to Nigeria Gross Domestic Product in nominal terms³⁰. This typifies the importance of small and medium scale enterprises to the economy of Nigeria. This sector is responsible for most of the

advances in new products and process and provides most of the employment opportunities, as a central indicator of the overall operation of an economic system³¹.

2.1.2.1 SMEs Performance

Despite the fact that SMEs exist, their performance has been a source of concern since the country's SMEs continue to deteriorate (not all SMEs are experiencing growth)³². According to studies, 90% of new businesses fail before their third anniversary due to a lack of suitable environmental conditions³³. Furthermore, some SMEs have made it to the point of survival despite low performance, which could be attributed to inadequate management³⁴. The poor performance of SMEs in Nigeria is due to a number of causes. Inadequate small business financing, a difficult economy, a lack of small business insurance, and so on. As a result, a company's market share, product volume, consumer demand, loyalty, and investment can all be measured using performance. Performance is the product success, results-oriented accomplishments, and organizational accomplishments as a result of this²⁶. If the business climate is favorable, a corporation will be able to realize its goals. Organizational performance is one of the characteristics that may be measured by the level of production²⁶. This relates to a person's ability to produce items that meet the standards over a set period of time in terms of quality, quantity, comprehension, or originality.

Performance is defined as the measuring of an organization's output, product quality, productivity, cost management, safety and health, employee relationships, and development³⁵. Understanding the elements that affect the performance of SMEs is a major priority for companies³⁶. Organizational performance measurement is defined as the product effectiveness,

efficiency, satisfaction, and innovation²⁶. Company's performance was measured in terms of sales growth, customer satisfaction, and profitability³⁷.

2.1.2.2 SMEs Performance Measures

The term performance refers to the act of performing, execution, accomplishment, fulfillment of a given task measured against preset standards of accuracy, completeness, cost, and speed³⁸. Performance indicates how the management of an enterprise has been accomplishing the goals, which they had set for the enterprise³⁹. Performance is a measure of the degree to which an organization fulfills its purpose and the purpose is to achieve its objectives²⁸.

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 results⁴⁰. Different scholars have different view of performance measurement of SMEs. Henezel, measuring performance, SMEs must establish some standards and then they must gauge and evaluate their strategies, values, practices by benchmarking with high performance⁴¹. Also, performance is measured for evaluating how well SMEs is performing cited in ^{42, 43}.

Performances are diversely measured and the perspectives are unified and are constantly monitored from the contextual view of the organization⁴⁴. Meanwhile, performance is likely to be conceptualized, measured and operationalized differently thus making comparison an enormous task^{45, 46}. Determinants of small business performance are subdivided into three categories namely: individual, firm, and environmental characteristics^{47, 40}. Under the individual characteristics of the firm, the studies focused on individual characteristics like education, experience, entrepreneurial competence, age leadership practices, race, MD personality, gender,

industry experience and how they affect performance. The second set of studies that focused on the firm characteristics examined top management team, family control, and operations management, stage of development, structure, strategy /planning, competitive orientation and how all of these characteristics affect performance. The last category of studies that focused on environmental characteristics examined stockholders, financial institutions, suppliers, customers, regulatory agencies, consultants and competitors.

Performance means different things to different organizations and should both be measured financially and non-financially. Before the 1980s, financial criteria (profit, ROI, sales and productivity) were used to measure performance but after 1980s till the present moment, nonfinancial criteria have received considerable attention from scholars, researchers and industrialists. These non-financial criteria include: communication, stakeholder satisfaction, competitive position, just-in-time delivery, total quality management and trust⁴⁸. Small business performance can be measured in terms of size, profitability, capital base, turnover and employment⁴⁵. These criteria are both financial and non-financial in nature.

One performance measure that is widely used among small businesses, as a subjective indicator of the overall business performance is the degree of owner/managers' satisfaction with the business performance. Few researchers have consulted owner/managers about their views on success of their business ventures⁴⁰. The success of small businesses as actual performance equal to or be adopted to define success can lead to a false judgment on the actual performance⁴⁹. For example, a small business with declining profits or market share could be failing when in fact its owners/managers are satisfied with the overall business performance. Adequate income, job satisfaction, a happy workforce, and a stable market position are all factors that lead to small business owners/managers' satisfaction.

In the literature, business performance has been widely measured basically in three parameters namely growth (turnover, number of workers and market share); survival and profitability (profit and return on investment)^{50 - 52}. Some scholars have argued that growth is the best criterion for measuring performance and is an important precursor to achieving other financial goals^{50, 39}. Be it growth, profitability or survival, the criteria for performance measurements are expected to be holistic in nature i.e. both financial and non-financial. Hence, this study adopts both financial and nonfinancial measurement of performance.

Financial performance indicators

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, because 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 capital⁵³.

Sales revenue: Sales revenue is income that comes specifically from sales. This can be sale of a service (such as mowing a lawn, creating meal plans, or doing the taxes for someone) or it can be sale of products (such as a potted plant, loaves of bread, or tax prep software). It can also be a combination of products and services. It includes the total income from all sales in the business. Sales revenue represents the profits from what a company sells, while total revenue includes both this figure and other income streams.

ROA: Return on Assets (ROA) is one of profitability ratios. In the analysis of financial statements, this ratio is most often highlighted, because it is able to indicate company success to create profits. ROA is able to measure the company ability to generate profits in the past to then be projected in the future. Assets in question are overall company properties, obtained from the capital itself or from foreign capital that has been converted into company assets used for corporate sustainability.

Non-financial performance indicators

Innovation: Innovation as originator, receipt and implementation of new ideas, processes, products or services⁵⁴. The practical evidence for association between innovation and performance seems to be mixed. Some publications have argued about positive relationship between innovation and performance whiles other empirical studies have contradicted this conclusion⁵⁵. Entrepreneur with competitive innovation skills has a deep understanding of the SMEs which catapults their performance on the large extent⁵⁶. SMEs characterize the root of their advancements level of innovation capacities to inside components, for example, self-inspiration, learning, knowledge, specialized capability and outer elements like client pre-requisites and interest, data gave by suppliers of gear and materials, market open doors and rivalry⁵⁷.

Market share: Market share has been seen as the most influential measure to evaluate the marketing performance⁵⁸. According to the research conducted by the Profit Impact of Market Strategies (PIMS) project and the Boston Consulting Group, companies which have focused on gaining market share can enjoy the economies of scale and long-term profitability⁵⁸. Therefore, market share seems to be the main emphasis for a lot companies and also generally seems to dominate market concentration measures in explaining companies' profitability⁵⁹. Since the

major goal for a company, regardless of which performance measures it uses, is to be profitable, previous research has indicated that companies with higher market shares are able to enjoy higher rates of return on invested capital⁶⁰. Therefore, this is the major reason why market share has received so much attention from businesses. However, academic journals have questioned the validity of the market share-profitability relationship^{59, 61}.

Employee satisfaction: Employee satisfaction is described as the state in which employee shows likeness and happiness with his job instantly⁶². It is further explained as an employee likeness of his job that positively motivates him to carry out the tasks to achieve organizational goals and objectives. Employee satisfaction is related to performance appraisal in a way that if employees' satisfaction from performance appraisal reflects in their performance⁶⁵. Scholars have documented direct linkage of organizational productivity and customer satisfaction with employee satisfaction because satisfied employees are more loyal and productive⁶⁶.

2.1.3 Business Environmental Factors and SMEs in Nigeria

2.1.3.1 Economic environment impact on SMEs in Nigeria

Small-scale businesses have long been recognized by all levels of government as key drivers of economic development in both advanced and developing economies worldwide. This recognition stems from the impact small-scale businesses have on the economy by bridging the gap between science, markets, and technology. The crucial role of small-scale businesses as a foundation for driving and sustaining economic growth became especially evident when Nigeria adopted its indigenization policy through its national development plan⁶⁷. This plan established a structural framework with blueprints for strategic positioning. The Nigerian economy holds the potential to enhance the performance of small-scale businesses⁶⁸. The 1970 development plan in Nigeria

clearly recognized the need for economic stability and self-reliance, emphasizing industrialization policies and entrepreneurship development⁶⁹. Recognizing this, the three levels of government, along with economic policy experts, identified small-scale businesses as a sector requiring governmental support to create a conducive environment for growth⁷⁰. This initiative arose from the government's commitment to economic stability and its dedication to the goals of the development plan and indigenization policy. Furthermore, the Nigerian government has established various institutions to support small-scale enterprises in the country⁷¹. These include the Bank of Industry (BOI), the Small and Medium Industries Development Agency of Nigeria (SMIDAN), the Nigerian Agricultural Cooperative and Development Bank (NACRDB), and Microfinance Banks. Additional programs like the Family Support Programme (FSP), Family Economic Advancement Programme (FEAP), and the National Poverty Eradication Programme introduced under Obasanjo's administration were also implemented⁷¹.

These initiatives aim to encourage the banking sector to assist in stimulating economic growth through fund mobilization and small business support. This approach aligns with Schumpeter's theory that economic recessions can be countered when governments provide a sustainable framework to support small and medium-sized enterprises. Small scale business performance thrives in a suitable economy⁷². Economic environment of small scale businesses to a large extent determines the success or failure of business enterprises in the country⁷⁰. Economy is considered stable when there is constant output, exchange rate, interest rate and low inflation⁷¹.

More so, for small scale enterprises to drive in a giving environment, the government at the center should make the environment conducive, by maintaining a fix inflation and exchange rate⁶⁷. Government should take proactive steps that would gradually bring about turn-around on the economy by stimulating, mobilizing and encouraging small scale businesses, through

provision of enabling environment that supports creative idea that culminates to production of goods and services⁶⁹. Unfavorable economic environments are in most cases orchestrated by the arbitrary increase or fluctuation of exchange rate, interest rate and inflation rate on Nigeria economy⁷². The proportionate increase on inflation rate from 1973 to 2019 as: 0.23% to 26%, respectively⁶⁹. Most small-scale enterprises face relatively high costs when procuring raw materials due to inflation. High inflation rates significantly impact the operations of these businesses, contributing to increased per-unit costs for producing domestic goods in Nigeria, which in turn raises the prices of their products. However, the exact extent to which inflation affects the performance of small-scale enterprises remains uncertain, thus prompting this study.

The exchange rate has also shown a proportionate increase from 0.56% in 1973 to 180.3% in 2019⁶⁹. Many small-scale businesses rely on imported raw materials, making them vulnerable to fluctuations in the exchange rate, though the extent of its impact on their performance, given the survival strategies they employ, is unclear and warrants investigation in this study. Furthermore, interest rates have risen significantly from 7% in 1973 to 14% in 2019⁶⁹. Despite government interventions, small-scale businesses continue to face challenges in obtaining loans due to persistently high interest rates.

2.1.3.2 Political Environment Impact on SMEs in Nigeria.

The high importance of small and medium-sized enterprises has made them an essential part of emerging and developing economies worldwide⁷³. Attracting investments for small and medium enterprises represent a vital role in line with market development, which is accomplished by influencing sustainable growth in trade, production, and services. SMEs face lower financial

constraints in countries with high per capita GDP, low corruption, developed stock markets compliant with rules³².

In recent decades, governments in developing countries, like Nigeria have adopted the broad and varied policies to increase the capacity and sustainability of SMEs due to the importance of the labor force employed in these countries. Some researchers believe that SMEs are more creative than big ones in the field of innovation, and the flexibility, innovation, and speed of reaction are their relative advantages. Further, SMEs develop the product innovation by departing from the traditional focus on the product and applying new technology. However, despite the institutional and political backing of these governments, there are still concerns about the survival of SMEs. In addition, the results of some studies indicated that SMEs influence the global economy through the channels of “entrepreneurship,” “technology innovation and change,” “industry dynamics,” and “creating job opportunities and increasing income”^{74, 235}. SME quickly adapt to the rapid environmental changes, especially in developing countries and their reactions to the economic and political factors is faster and suffer less risk compared to the big firms. In this regard, today's' economic reforms, such as the formation and launch of SMEs in many countries, especially developing countries, are considered as a strategic approach. Further, the need to change the role of government, empowers the private sector, and increases the competitiveness of the economy and interaction with the rules of globalization, etc., necessitates the policies based on the economic liberalization and strengthening of the private sector to develop economic activities⁷⁵.

Between 2016 to date, Nigeria has witnessed mass close of small and medium scale enterprises (SMEs) including large scale firms, which can be traced to harsh government regulations. The high cost of foreign exchange is an issue of concern to businesses. Why many companies shut

down operations completely, orders reduced production by close to 50 percent, declared some employees redundant and slashed the remuneration of the remaining employees⁶⁸. Banks are not left out as they struggled with declining operation profitability and poor liquidity. There have been increase in cases of merger and acquisition, a good example are cases that led to take over of Sky Bank by AMCON and renaming same to Polaris Bank, and the recent merger of Access Bank with Diamond Bank. The economic health of a nation is an important factor in the value of its currency⁷⁶. And exchange rate policies affect business operations in Nigeria.

The multinational business managers in Nigeria operates in a dynamic political environment characterized by risks of multiple taxation, currency devaluation, inflation, repatriation, expropriation, confiscation, campaigns against foreign goods, mandatory labour benefit legislation, kidnapping, terrorism, and civil wars⁷⁷. Actions taken by government such as regulatory, legal framework, and political changes may decrease business income and acts as barriers to foreign investment.

Although it has been established that the political environment has a link with business performance, there seems to be inadequate literature and empirical evidence in Nigeria that relate the political environment to the performance of multinational companies

Government through the apex bank reduced access to dollars in 2015 for organizations that import 43 items ranging from rice and soap to private jets and Indian incense in a bid to conserve foreign reserves⁷⁸. This move (currency restrictions) accelerated the country into recession and fuelled inflation. The federal government recently announced plans to double manufacturing output to 20% of GDP within six years. The contractionary monetary policy of the present government through the apex bank has led to acute liquidity squeeze in the economy. The Director – General, Lagos Chamber of Commerce and Industry (LCCI), expressed worry over

the apex bank silence on major foreign exchange related issues adversely impacting the economy and the issues which include acute liquidity problem in the foreign exchange market, impediments to autonomous inflows and regulations that restrict movement of funds from one domiciliary account to another, have led to liquidity challenges in the economy⁷⁹. There are other issues like adverse effects of the foreign exchange policy on non-oil exports, its disincentive to foreign direct investments, the negative impact of the policy on portfolio inflows, adverse effect on remittances by airlines, foreign investors' dividends and profits, adverse effect on Diaspora remittances and the effect on investors' confidence as well as the adverse effects on credit lines to Nigeria investors and the contentious issue of the 41 items excluded from access to the official foreign exchange window. Boosting private investment therefore becomes very vital⁷⁹.

2.1.3.3 Socio-Cultural Environment Impact on SMEs in Nigeria

The socio-cultural environment of Nigeria is characterized by diversity, heterogeneity, and complexity. The country is home to over 250 ethnic groups, each with its unique culture, language, and social practices. This diversity can pose several challenges to SMEs, especially those located in rural areas, where cultural practices and beliefs can limit access to resources and markets⁸⁰. Additionally, the institutional and regulatory framework of the Nigerian economy is often characterized by corruption, bureaucracy, and poor infrastructure, which hinders the growth and performance of SMEs⁸¹.

The social cultural environment in Nigeria plays a significant role in shaping the performance of small and medium-sized enterprises (SMEs). Nigeria is a culturally diverse country, with over 250 ethnic groups and multiple languages. The social cultural environment in Nigeria affects how SMEs operate and relate to their customers, suppliers, and employees⁸².

One of the cultural traits in Nigeria that affects SMEs is the importance of personal relationships and trust. In Nigeria, business deals are often based on trust and personal relationships rather than contractual agreements. Patricia I. SMEs in Nigeria, found that trust is important in building long-term relationships with customers and suppliers, and SMEs that foster trust among their stakeholders are more likely to succeed⁸³.

Also, the collectivist nature of Nigerian culture promotes family and community support, which can positively impact SMEs. SMEs in Nigeria often rely on family members and community members for funding and assistance in running their businesses. This familial and community support can reduce the financial burden on SMEs and help them navigate challenges they may encounter⁸⁴.

In addition, the social cultural environment in Nigeria shapes how women entrepreneurs are viewed and their access to resources. Nigeria is a patriarchal society, and women can face barriers to starting and running SMEs. Studies have shown that women face challenges gaining access to funding and networks compared to their male counterparts.

Studies have been conducted on the impact of the socio-cultural environment on the performance of SMEs in Nigeria. Cultural values such as trust, respect, and integrity positively affect the performance of SMEs in Nigeria⁸⁵. Socio-cultural factors such as ethnicity, religion, and language can limit access to resources and markets for SMEs⁸⁶. These studies suggest that the socio-cultural environment plays a vital role in determining the success or failure of SMEs in Nigeria.

Essentially, the socio-cultural environment is a critical factor that can influence the performance of SMEs in Nigeria. The diversity, institutional and regulatory framework, and cultural practices of the Nigerian economy can pose several challenges to the growth and survival of SMEs.

However, understanding and adapting to the socio-cultural environment can help SMEs to overcome these challenges and achieve sustainable growth and development. The social cultural environment in Nigeria shapes the performance of SMEs in significant ways. SMEs that can navigate cultural nuances, build trust among stakeholders, and leverage cultural support networks are likely to succeed in the Nigerian market.

The social cultural environment in Nigeria is characterized by diverse cultural practices, socio-economic disparities, and limited access to resources. These factors impact the performance of Small and Medium Enterprises (SMEs) in the country. The social cultural environment in Nigeria affects the entrepreneurial process, leading to low business survival rates and underperformance of SMEs⁸⁷. This is because entrepreneurs in Nigeria face challenges such as cultural expectations, lack of social capital, and limited access to resources.

Furthermore, the social cultural environment also affects the financial performance of SMEs. Social factors such as ethnicity, religion, and gender influence the access of SMEs to finance⁸⁸. Women and those from certain ethnic or religious backgrounds face discrimination in accessing finance, which affects the growth and performance of their businesses. The social cultural environment also affects the marketing strategies of SMEs. Social and cultural practices influence consumer behavior and purchasing decisions⁸⁹. SMEs therefore need to adapt their marketing strategies to accommodate the cultural practices of their target market.

2.1.3.4 Technological Environment Impact on SMEs in Nigeria.

In today's growing multifaceted world, small and mid-size enterprises (SMEs) are concentrating more on using technology to spur growth, client value and market differentiation as such, these businesses are embracing innovative technologies for breakthrough change and diversification

and this is eventually the case in a recovering global economy⁹⁰. Technological innovation is an important means to stimulate economic efficiency of SMEs and a source to attain a sustainable development⁹¹. Essentially, if the SMEs must adapt to the changing external environment and meet market needs, they must take technological innovation as the basic way⁹⁰. In fact, the progressive development and growth of most successful SMEs is relying on continued technological innovation⁹².

In advanced economy, SMEs played an essential role in driving economic growth through investment in fixed assets, generating exports and promoting technology integration. It is observed that in some newly industrialized countries like Taiwan, Malaysia, South Korea and Singapore, SMEs have powerfully dictated not only on industrial production strategies but also on the export earning⁹³. Notably, SMEs constitute the production wheels for the large scale enterprises of these countries and act as impetus of accelerated economic growth and development⁹⁴. However, the much anticipated accelerated pace of economic development through SME has not been reached in Nigeria⁹⁴.

The Federal Government of Nigeria in its effort to make SMEs more effectual in the economy and in lieu to ensure balance industrial development has decided to promote their development in domestic industrial activities. This is aimed at repositioning the sector for international competitiveness and also to make it source of export earnings in a global economy⁹⁵. To this end productivity of the SMEs can be further improved through technological innovation and engaging in research and development (R&D) related activities. Nevertheless, the innovative capacity of SMEs significantly varies depending on their sector, magnitude, target, resources, locations and the opportunities accrued to such business environment in which they operate¹. It is

in lieu of this that this study seeks to establish the magnitude and direction of relationship between firm's performance (profitability) and technological innovation in Nigeria.

Nigerian government has a vision of becoming among the top 20 economies by the year 2020 which is termed 'vision 20:2020' and manufacturing sector is being considered as a key sector in realising this vision. The Nigerian government has recently focused on the development of manufacturing sector so as to build indigenous capacities as well as preventing the country from 'Dutch disease' which arise as a result of over reliance on the petroleum industry. Despite the governmental efforts on this sector, the contribution of the sector to GDP is still relatively low (less than 5%) when compared to other Sub-Saharan African countries (average of 30%)⁹⁶. SMEs dominate the large proportions of firms in the manufacturing sector in Nigeria, and there is dearth of studies in the area of harnessing technological innovations to drive profitability of SMEs in the Nigerian manufacturing sector.

2.1.4 Business Environmental Factors

The concept of environmental factors of business in Nigeria can be defined as the total combination of internal and external factors that affect a firm's operating in a situated area. The organization's environment may include factors such as laws and government activities; clients and suppliers; markets, competition, and owners; improvements in technology; social and economic trends. Business environmental factors as the physical and operational factors, it is the combination of both internal and external factors that affect the free flow of business activities⁹⁷.

Those factors include the following: competitors, government activities, industry trends, suppliers, distributors, customers, demographics, substitutes, innovations and technological developments, regulations, the economy, social and cultural factors. A firm is affected by the environmental factors surrounding the operational ground in which it operates, and the growth of

any organization depends on the ability to adapt to its environment. The reality of this complexity for business owners to grow their business is compounded by so many facts which the business operates. There is a macro environment, which in today's global economy can be referred to as the entire world, where events often directly or indirectly affect the global businesses activities such as the COVID-19 pandemic. The circumstances surrounding, micro-environment, and local events have directly affected the interaction of business activities⁹⁸. The business environment factors have direct influences on the functioning of the business system. Consequently, an environmental factor of business can be described as all those forces and conditions that are mostly external to the firm that cannot be controlled by an individual business unit. Those external forces are government policy, competitors, customers, socio-cultural organizations, creditors, political parties' national and international organizations, etc. Most of those forces affect the firm directly whilst others affect the firm indirectly.

Business environment as the physical and operational factors, both internal and external, that affects the flow of activities in a business⁹⁹. These can both be from both internal and external settings and affect the smooth operation and function of an organization¹⁰⁰. Business environment is considered as the sum of all variables within and outside an organization relevant to its growth, survival and prosperity. That is, an aggregate of complex and interacting forces outside the confines of business organizations but relevant to its day-to-day operations^{101, 102}.s

2.1.5 Factors Affecting Business Environment

According to studies, there are factors that affect or influence business in an environment^{99, 100, 102}. Some of these factors as displayed in the figure 2.1 are Economic factor, political factor, socio-cultural factor, and technological factor.

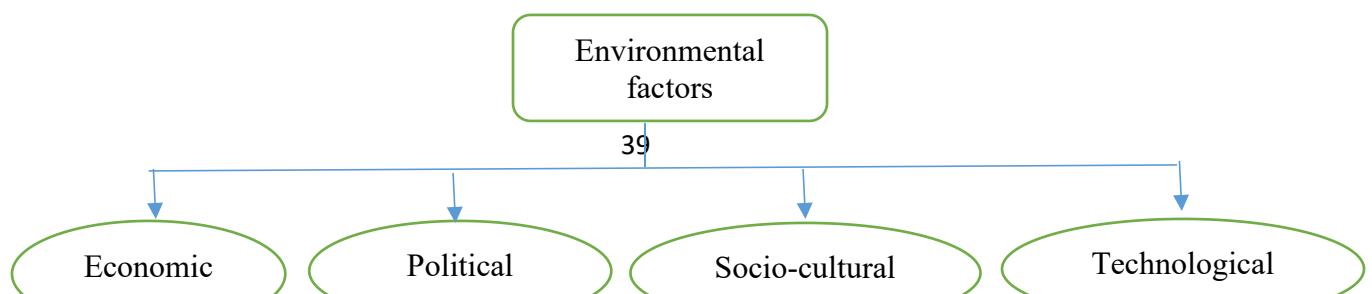


Figure 2.1: Business environmental factors (Author's construct, 2024)

Economic Factor:

Economic environment is part of the business environment and business environment has to do with a set of forces or factors inside and outside the organization's precincts which are capable of influencing the operations of the organization¹⁰³. These set of environmental forces changes from time to time and the changes can either brings an opportunity or a threat to the organization.

There are two primary types of business environments: the internal environment and the external environment. The internal environment consists of situational factors within the organization that management can control. These factors are primarily the result of management decisions and include aspects such as employees, processes, work environment, and strategy. Management can influence these internal factors to help achieve the organization's goals and objectives. In contrast, external environments encompass a set of forces or institutions that lie outside the organization's control but still affect its operations. These external factors include the economic, political, social, cultural, and technological environments. This paper, however, focuses specifically on the economic environment.

Perceive economic environment as those economic factors, such as inflation rate, interest rate, exchange rate, government tax revenue and unemployment which have considerable effect on the performance of small scale business¹⁰⁴. Economic environment of small scale businesses in Nigeria consists of those economic parameters that directly or indirectly influence the

performance of small scale businesses¹⁰⁵. Small scale enterprises do not only thrive in stable economy but achieve operational efficiency in terms of service delivery to the people¹.

Economic environment is referred to as those economic variables (interest rate, inflation rate, unemployment rate, exchange rate, government and tax revenue) that interact within the environment of small scale business operations⁶⁹. Issues relating to economic environmental problems affecting the operations of small scale enterprises have elicited several presuppositions especially in a developing country like Nigeria, where the economy is in recession, regarding how to stimulate the economy and selling of national assets⁶⁷. The resulting flux in the business environment continues to pressurize small scale enterprises towards superior performance, especially by being proactive rather than reactive in responding to the environment⁶⁹.

Economic environment refers to all those factors such as inflation rate, exchange rate, unemployment rate among others which have bearing on the performance of small scale business¹⁰⁶. He further observed that small scale business depends on the economic environment for all the needed inputs. Therefore, economic environment influences the operations of small scale businesses. In other words, economic environment consists of those economic factors that directly or indirectly affect the operations of small scale businesses in Nigeria; it includes inflation rate, exchange rate, interest rate, employment etc. Exchange rate is the rate at which the naira is converted to the US dollar. Therefore, it is expected to have positive or negative implication on economic stability in Nigeria depending on the nature or components of external borrowing. Exchange rate is of two dimensions, the domestic currency and foreign currency; it can also be quoted either directly or indirectly. When it is quoted directly, the price of a unit of foreign currency is expressed in terms of the domestic currency. On the other hand, the price of a unit of domestic currency is expressed in terms of the foreign currency¹⁰⁷.

Inflation rate is a sustained increase in the general price level of goods and services in an economy over a period¹⁰⁸. Consequently, inflation reflects a reduction in the purchasing power of individuals as well as small scale businesses per unit of money on the economy. Inflation rate is a tool for measuring the stability of the economy¹⁰⁹. A country with a consistently lower inflation presents a suitable economy that favours the activities of small scale businesses in the country.

Interest rate is the proportion of a loan that is charged as interest to the borrower¹¹⁰. However, it is expressed as an annual percentage of the loan outstanding. In addition, interest rate is also expressed as a percentage of principal, by a lender to a borrower for the use of assets.

Gross Domestic Product (GDP) refers to the market or money value of all goods and services produced in a country over a period. In other word, it is a general index of economic development. (GDP growth rate measures the economic activities in Nigeria¹¹¹. Therefore, it measures all the goods and services produced domestically.

Government Tax Revenue is a measure of total tax revenue which is the income that is gained by government through taxation. Government tax revenue is used to finance government expenditure and help to redistribute wealth which translates to financing of government development programmes¹¹².

A depressed economic condition is often linked to an increased likelihood of a firm failing to repay its debts¹¹³. During periods of economic expansion, even less stable firms can easily access debt capital. However, in times of recession or economic downturns, well-established firms with a history of success and strong performance tend to secure the majority of new debt. This indicates that small and medium enterprises (SMEs) may struggle to repay debts in a depressed economic climate. Banks are required to gather expensive information about borrowers before granting loans to new or existing customers. Uncertainty regarding economic conditions, along

with the risk of loan defaults, significantly impacts their lending strategies¹¹⁴. Increased uncertainty can impede managers' ability to accurately forecast returns on available lending opportunities. In a stable macroeconomic environment, bank managers can more easily predict returns from potential projects and direct funds toward those with higher expected returns.

However, when the economic environment is in turmoil, bank managers' ability to predict returns accurately will be hindered resulting in more conservative lending behaviour across all banks. Small business finance is highly and disproportionately affected by macroeconomic conditions¹¹⁵. Market forecasts, stock market health, overall economy health, and monetary policy all have effects on small business finance. Thus, this study defines economic environment as the totality of economic factors, such as unemployment, income, inflation, interest rates, productivity, gross domestic product (GDP), and exchange rate that influence the activities of small and medium enterprises.

Economic factors have the biggest effect on the development of any given organization¹¹⁶. The development and performance of organizations strongly depend on the growth of revenue¹¹⁷. A rise in wages enables people to spend more money¹¹⁸. This factor greatly affects institutions that collect revenue¹¹⁹.

National taxation, interest rate fluctuations, currency and raw material prices are forces that strongly impact on the global market¹²⁰. Other economic forces are business cycles, stock market values, GDP (gross domestic product per capita) figures and inflation¹²⁰. When considering any business in a country, the size of these forces is very important for instance, the GDP size.

The economic environment refers to the overall economic indicators of the country or region where a business operates. In today's global landscape, this economic dimension has become

increasingly complex, adding uncertainty and challenges for organizations and their managers¹²¹.

The economic environment significantly influences the opportunities available to an organization, as a growing economy creates the potential for existing businesses to thrive and for new ones to emerge¹²².

This environment encompasses factors such as fiscal and monetary policies, inflation rates, interest rates, unemployment levels, and foreign exchange rates, all of which can impact organizational performance¹²³. Businesses operate within an economic environment that both shapes and is shaped by their activities, characterized by dynamic, interactive, and uncertain variables, many of which are influenced by government economic policies. The government plays a crucial role in the macroeconomic landscape, significantly affecting income distribution, interest rates, and inflation rates, all of which can have positive or negative effects on organizational performance. However, this study will focus specifically on inflation rates and interest rates.

The inflation rate refers to a sustained upward movement in the general price level over a specific period, which also indicates a decline in the value of money. Essentially, it represents a decrease in the purchasing power of a nation's currency¹²⁴. In other words, inflation signifies a continuous rise in consumer prices, making goods and services more expensive. Inflation can occur due to rising production costs, primarily driven by increased wages and high energy costs. As a result, companies often pass these higher costs onto consumers in the form of increased prices. Another contributing factor to inflation can be excessive demand in the economy, which may arise from tax cuts, lower borrowing costs, or increased government spending. This heightened demand encourages businesses to capitalize on consumers' willingness to spend by raising their prices, which can lead to further inflation.

Interest as the cost of hiring money or credit, in other word, it is the dividends one gets for not hoarding money¹²⁵. Interest rate as the price one pays for using borrowed money¹²⁶. Interest rate is the fee charged by a lender to a borrower for the use of borrowed money, which is expressed as an annual percentage of the principal and it is dependent upon the time value of money, the credit risk of the borrower, inflation rate among others¹⁰⁷. Thus, interest rate has to do with the price lenders expect in exchange of current claims for greater future claims to anything especially money. Thus, it is a certain sum of money paid or received; debtor pays interest when he borrows while creditor receives interest when he lent money. Economic factors' analysis has shown that in the overall economic growth case, the performance of organizations attracts and increases good will from other sectors in a state¹²⁷.

The research on modeling financial product purchases that economic factors play a vital role along with individual precise characteristics in determining the customers' purchasing behaviors¹²⁸. They additionally suggest that if an economy is unfavorable, then the organizations' marketing departments will need to be selective in targeting their products as only certain specific groups will probably purchase there. On the overall Tang et al. believe that the interaction between economic variables and socio-demographic variables are most significant in improving the segmentation or targeting of customers by providing predictive purchase rankings and providing accurate predictions of future purchases. Therefore, economic environment influences the operations of small scale businesses.

Political Factor:

The political-legal environment includes such factors as political stability, strategic development objectives, small and medium business promoting, the government executed institutional promotion and regulatory policy, the government's support and the business of an institution's regulating legislation. Legal and bureaucratic restrictions are one of the main obstacles to the development of revenue collection business. Usually legal documents promote the revenue collection activity and therefore its performance; but there are cases when due to specific conditions, the activity may be legally restricted¹²⁹. The social cultural environment refers to the cultural and societal factors that shape the behavior, attitudes, and values of individuals and groups. It includes factors such as socioeconomic status, race and ethnicity, gender, religion, language, and education.

The political environment is viewed via the legal framework where the organization operates and this is done through the laws and regulations that guide the operations of the business in question¹³⁰. The political stability of the environment is also a necessity for effective and efficient operation of the business. The management of the organization must take cognizance of these constraints, actual and potential, and seek out the implications for the business organisation from legal advisers¹³¹. Political forces influencing performance in the business world include: wars and diplomatic relations, trade agreements, sanctions and embargoes, political trends and events, legislation protecting consumers and safety and health of the employees¹³².

Political inputs are most likely to happen in branches that affect certain political goals, such as native access to national resources, defense and employment¹³³. If the market's economy is a centrally planned socialist economy, political factors tend to have an impact on the entry mode and performance of the business¹³⁴. Government actions are together with suppliers and customers part of the business process¹³⁵. Some kind of legislation can also belong to either

political or legal forces depending on its nature and local circumstances. The legislation is used to restrict for example marketing activities, particularly in industrialized countries¹³⁶. Ideal conditions for the development of revenue collection institutions are political stability, security, well-defined and functioning legal system, public goods provided by the state – infrastructure, environment, information¹³⁷.

Legislation and political processes both have an influence on the environmental settings that an industry or firm must conform to¹³⁸. Moreover, they suggest that legislation formulated and passed by governments has a significant impact on the firms' governance. Political constraints may be put on companies through antitrust laws, fair trade regulations, minimum wage regulations, tax programs, pollution and pricing policies and this may be perceived as protecting employees, consumers, and the environment and would restrict the profitability and performance of an organization. Through patent laws, product research grants, government subsidiaries, legislation and political actions may, on the other hand, protect firms or even boost their profitability¹³⁹.

The implication of political environment to a business is that the risk emanating from it is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone)¹⁴⁰. As a result, political risk is similar to an expected value such that the likelihood of a political event occurring may reduce the desirability of that investment by reducing its anticipated returns.

Not only that the political environment poses direct risks to firms, but politics is also component of other external risks. Regulatory changes have the potential to promote or inhibit market competition, social risks often have political bases and responses, and political mismanagement can turn natural or human-made events into catastrophes¹²³. Moreover, the political environment

is often perceived to be outside of management's control, making it difficult to define, predict, and align with objectives.

The implication of political environment to a business is that the risk emanating from it is a measure of likelihood that the organizations profit may be affected directly or indirectly¹⁴⁰. Political tensions and heat is created in different ways and by different groups of persons. All these kind of risks can result to violence, directed towards firm's property and employees¹⁴¹. Environmental changes are continuously exerting new pressures on company performance and for them to adapt with these changes companies often formulate and implement strategies to recognize and reform the way products are assembled and channeled to final consumers.

Socio-Cultural Factors:

The socio-cultural environment consists of everything that is not contained within the economy or political system⁸⁶. Socio-cultural setting is made up of collection of activities, and the relationships people engage in their personal and private lives which include population features, age, ethnicity, religion, values, attitude, lifestyles and associates. Socio-cultural environment deals with the way of life of our people in terms of the norms, belief, custom, attitude and religion that are exhibited in the society¹⁴². These environmentally relevant patterns of behaviour lead to the creation of different cultural values in different societies, some of which influence the decision to create new businesses. Therefore, culture, as distinct from political, social, technology or economic contexts, has relevance for economic behaviour and business performance^{143, 144}.

Culture is “the software of the mind; a collective mental programming of the people”. It is the combination of material and spiritual wealth designed by man through process of social and historical growth¹⁴⁵. The total pattern of thinking, emotions and acting, that impact on the ordinary and menial things in life such as greeting, eating, decision in expressing or not expressing one’s emotion, interacting with people, or general body cleanliness¹⁴⁶. The means, by which one makes meaning in life through interacting with the environment is culture¹⁴⁷. The way of life of people, and the summed total of their behaviours, attitude and material things that controls their actions in a deep and persisting ways which is beyond their control¹⁴⁸. In similar vein, culture is the individual distinctive way of identifying with the man-made aspect of the environment, the perception of rules, norms, roles, and values which is affected by different levels of culture which include language, gender, race, religion, place of residence, and occupation which as a way of impacting on interpersonal behavior¹⁴⁹.

Socially built reality is when individuals create a social framework for themselves and consequently develop it into an effective reality that shapes and influences their behavioral pattern¹⁵⁰. Business environment has a significant degree of influence on the entrepreneurial intention of individuals. This makes the study of entrepreneurship vis a vis Business Environment necessary as it would lead to new discoveries¹⁵¹. Studying entrepreneurship predictors from the perspective of personality traits alone will not suffice and as such it becomes paramount to explore the Socio-cultural business environment dimension^{152, 153}.

Social system and culture of people are what mix-up to form the Socio-cultural Business Environment and consequently the entrepreneurs become moulded by it. All the man-made intangibles that directly or indirectly affect the people’s behavior and total way of life are referred to as Socio-cultural business environment¹⁵⁴. The Socio-cultural business environment

refers to the set of basic common values which contribute to shaping the behavior of people in a society¹⁴³. Business entrepreneurial intention is undoubtedly a response to cues from the Socio-cultural Business Environment.

These factors significantly influence the mindset of individuals, thereby fostering entrepreneurship. Entrepreneurs are shaped by the business environment, adopting and embodying its characteristics¹⁵². The socio-cultural business environment is crucial for the overall industrial and economic health of entrepreneurship and specifically for individual entrepreneurs. This suggests that new ventures emerge from the interaction between environmental conditions and the entrepreneurial inclinations of the population, a dynamic that is naturally driven by the socio-cultural business environment¹⁵⁵. People acquire their shared characteristics and pattern of behavior through socialization processes which involves factors like education, religion and family background. These dimensions happen to be the most prominent in describing the Socio-cultural business environment¹⁵⁵.

Beliefs, values, and lifestyles of a society are influenced by socio-cultural forces¹⁵⁶. They further expound that socio-cultural forces influence sales of services and products through the enhancement of sale of services and products of an industry while suppressing those of others. Consumer purchases are strongly influenced by cultural, social, personal and psychological characteristics; generally, marketers can't control these factors but instead take them into account⁷¹. There are internal and external factors that influence consumer behavior; external factors include economic, demographic, situational, social and technological factors while internal factors include attitudes and beliefs, learning needs and motives, perception and values, and personality¹⁵⁸.

The buying behavior and choices of persons are influenced by four major psychological factors: perception, motivation, beliefs and attitudes/learning¹⁵⁹. Attitudes describe a person's consistent feelings, evaluations, and inclinations towards an idea or object, thus they place people into a mind frame for disliking or liking things, for moving toward or away from them¹⁵⁹. The creation of target market strategies is, therefore, widely viewed as integral to formulating a business strategy that is effective bringing the market segmentation concept which is often cited as essential to establishing a target market strategy^{160 -162}. Socio-cultural environment refers to the man-made intangibles that directly or indirectly affect people's behavior and total way of life¹⁶³.

The following are some examples of social cultural environment with citations: "Socioeconomic status affects children's access to education, healthcare, and other important resources, which ultimately influence their development and life chances"¹⁶⁴, "Race and ethnicity influence the way people experience discrimination in society and can impact their mental and physical health outcomes"¹⁶⁵, "Gender roles and expectations vary across cultures and can impact the opportunities and experiences of men and women in their personal and professional lives"¹⁶⁶, "Religious beliefs and practices can influence individuals' values, attitudes, and behaviors, as well as their social and political engagement"¹⁶⁷ and "Language barriers can create social isolation and limit opportunities for individuals and groups, particularly in education, healthcare, and civic engagement"¹⁶⁸.

Technological Factor:

Technological factors are a crucial element influencing the survival of SMEs in Nigeria, as technology serves as a key driver of national development. Technological forces refer to the pace of scientific advancements and rapid technological growth, which can have broad and far-

reaching effects on society^{169, 170}. Small-scale entrepreneurs often face challenges in accessing new technologies, which in turn limits innovation and reduces the competitiveness of SMEs¹⁷¹.

In Nigeria, small-scale entrepreneurs face challenges in accessing new technologies, which hinders innovation and diminishes the competitiveness of SMEs. Technological factors have caused some SMEs to struggle in meeting customer demands. To gain a competitive advantage, entrepreneurs must recognize the importance of technological change and adapt accordingly. Decisions to adopt or improve technological processes are essential to fulfill customer needs. Information Technology (IT) is a critical factor in driving innovation and competitiveness for SMEs, but according to the European Union (EU), the full potential of IT can only be realized if the workforce is equipped with the right skills and access to advanced infrastructure. However, many Nigerian SMEs lack the necessary telecommunication infrastructure and high-speed internet to compete on a global scale¹⁷².

The technological environment encompasses research, knowledge, and technology¹⁷³. Technological factors enhance a country's competitiveness by providing timely and effective information, modernizing service systems, ensuring quality standards, and implementing innovations and adapted technologies¹⁷⁴. When utilizing modern technology and information systems, it is essential to ensure that institutional information is accessible to both local residents and individuals from other countries.

Technological forces include the growing use of computer programs, technological advancements, faster production speeds, smart systems, improvements in artificial intelligence, and diversification¹⁷⁵. Key infrastructure factors such as electricity, telecommunications, railroads, water supply, and natural gas are important in attracting potential investors to a region¹⁷⁶. High transportation costs can hinder competition from external parties, especially

when there is a significant distance between countries¹⁷⁷. In developed nations like the United States, Germany, and Sweden, infrastructure is generally superior compared to that in developing countries¹⁷⁸.

Technological factors have made some SMEs less competitive and unable to meet customer demands. However, entrepreneurs in small and medium-scale industries must recognize the need for technological change and adapt to stay competitive. Decisions to adopt or improve technological processes are essential to meet customer needs. Information Technology (IT) plays a crucial role in the innovation and competitiveness of SMEs, but according to the European Union (EU), IT's full potential can be realized only if the workforce is equipped with the right skills and access to advanced infrastructure. In Nigeria, however, some SMEs lack essential telecommunication infrastructure and high-speed internet, limiting their ability to compete globally¹⁷⁹.

Technology can be understood as the comprehensive array of knowledge, methods, materials, and tools used to achieve practical results, enabling enterprises to establish work methods, patterns, and information structures¹⁸⁰. While technology serves as the means to an end, it is not the primary objective itself. It has the potential to enhance speed, quality, and efficiency. In contemporary society, technology is often viewed as a solution to many business challenges and limitations, providing a pathway for companies to transition from traditional practices to more efficient and progressive approaches.

Many different technologies can benefit small and medium enterprises (SMEs). However, the challenge for SMEs in developing countries, including Nigeria, lies in transitioning from informal cottage industries to larger enterprises with advanced technological capabilities and improved performance. There has been limited funding directed toward identifying, documenting,

and supporting technological change and innovation within SMEs¹⁸¹. There are significant gaps in technology management, and no systems are in place to foster good innovations and facilitate information exchange among SMEs and other stakeholders in the sector. One potential solution for enhancing this situation is through inter-firm linkages.

While larger enterprise size may appear attractive, the global trend in industrial structure is shifting towards smaller enterprises. SMEs are focused on finding solutions to their daily business challenges that will enhance their success in their respective industries. The use of technology is widespread, but many businesses struggle to fully integrate the technology they possess or seek into their operations. They often approach technology adaptation in a tactical rather than strategic manner¹⁸². The competitive advantages offered by certain technologies are crucial, especially in highly competitive industries¹⁸³. Small businesses are constantly seeking new methods to gain a competitive edge, and leveraging these technologies can drive their growth. Several technological innovations have been introduced that can help small businesses reduce costs and improve efficiency.

Technology also plays a significant role in helping small businesses manage inventory and maintain accurate bookkeeping, which is often cited as a key factor in business success¹⁸⁴. Inventory control has long been a critical aspect in assessing the health of a business, as it enables companies to track incoming and outgoing stock for better planning. Today, businesses can monitor their inventory in real-time, allowing them to pinpoint areas that need improvement or adjustments to reduce time delays between processes or transactions¹⁸⁵. These businesses understand that adopting new technologies can further enhance their existing business models, especially since many operate in small communities where customers depend on them for reliable products and services. However, some small business owners or managers hesitate to

embrace technology due to concerns about security and privacy, making them wary of engaging in e-commerce, which they perceive as too risky for their operations.

The concept of internet-based business activities or electronic data is often viewed as something to be avoided rather than embraced. Another challenge is the shortage of IT professionals, as the technology industry can seem complex. Many businesses refrain from adopting new technologies due to a lack of expertise among their staff to manage potential issues that may arise. One of the technologies available to SMEs is Voice over Internet Protocol (VoIP), which allows phone calls to be made over a computer network, such as the Internet¹⁸⁶.

The main advantage of VoIP is that it turns what would typically be a long-distance call into a local call, potentially reducing cell phone bills significantly, which could offset the costs of implementing the technology. However, the technological environment, as defined in this study, refers to the rapid pace of change and growth in technology, which has broad effects on both the environment and society.

Institutional performance is closely linked to the adoption of new technologies, as well as organizational and structural innovations¹⁸⁷. It is essential to equip management and marketing professionals with the necessary knowledge, particularly for rural residents, and to develop relevant information for all stakeholders when reorganizing and enhancing an organization's information system and revenue collection processes^{188, 189}.

Technological advancements lead to the creation of new products and services, as well as improvements in the processes used to design, manufacture, and deliver products to consumers¹⁹⁰. Customers have varying expectations and needs when it comes to IT, and different customer segments may require different types of IT applications¹⁹¹. For a company to become

technologically advanced, it must have a strong scientific and technological foundation. New technologies must quickly make older ones obsolete, and new IT applications should either generate fresh demand or transform existing markets¹⁹². Research on the relationship between business performance, service practices, and IT sophistication has shown that IT sophistication moderates the impact of service practices on service performance^{193, 194}.

2.1.6 Managerial Skills

Entrepreneurs and managers of micro and small enterprises are expected to have a specific set of abilities known as managerial skills. These skills are designed to foster the healthy growth of a business, helping it avoid becoming one of the many businesses that fail¹⁹⁵. Managerial competencies encompass a range of knowledge, skills, and attitudes necessary for effective business management. When combined, these competencies enable management to overcome challenges, motivate the team, enhance organizational capabilities, and drive business success, whether they are core or supplementary management skills. Human Resources (HR) is a critical component in any organization, as it is essential for the business's operations¹⁹⁵.

An organization must have a clear goal that its members work towards achieving¹⁹⁶. Development involves a shift towards improvement, and such progress requires the mobilization of all human resources and efforts to reach the desired outcome¹⁹⁷. The development of human resources is a process that transforms the individuals within an organization, preparing them for

future responsibilities and enhancing their ability to contribute to the achievement of organizational goals¹⁹⁸.

Different schools of thought offer varying definitions of managerial skills, but generally, they are a set of actions that contribute to achieving effective job performance. They can also be seen as a manager's ability to apply information and knowledge to practical tasks. In this study, managerial skills are defined as the essential qualities gained through acquired knowledge that enable managers to perform tasks efficiently and create value within businesses. To positively impact their organizations, managers need conceptual, technical, analytical, interpersonal, and budgeting skills¹⁹⁹. Managerial skills can be viewed from a human perspective, focusing on the abilities managers' need, such as understanding behaviors that reflect their skill sets or leveraging their personal traits. These skills, shaped by personality and managerial attributes, help establish processes and goals that directly affect an organization's success²⁰⁰.

The managerial skills of the entrepreneur are one of the key factors that must be considered when determining the growth of small and medium-scale businesses. Different scholars have revealed in their studies that management capacities are the top management team to be considered as key factors for small business growth. Managerial capacities are sets of knowledge, skills, and competencies that can improve the efficiency of small and medium scale performance²⁰¹. Management capacities are an essential tool for Small and Medium-scale businesses to survive and achieve growth²⁰². Management capacities are vital factors for the growth of Small firm business and there is any atom of inefficiency in the management capacities it becomes a barrier to the growth and is one of the factors that can lead to failure^{203, 204}. The growth pattern of small business firms is strongly associated with their managerial capacities²⁰⁵. The main challenge

facing the small business firm is a shortage of core competence and skills in their top management team²⁰⁶.

An effective manager must be proficient in four key skills: technical, cognitive, human, and political skills²⁰⁶. Managers and leaders need to understand these skills to create the right context for their actions. In today's world, no manager can be successful without possessing foundational management skills²⁰⁷. In other words, managers must have a solid understanding of the dynamic nature of their work environment. The efficiency and effectiveness of a manager's performance depend on their management skills. Effective planning is essential for athletic directors to enhance communication and management skills within organizations²⁰⁸. Managers who focus on improving communication networks and human skills, including interpersonal and management abilities, can strengthen these relationships, ultimately leading to greater organizational effectiveness²⁰⁹.

The success or failure of any organization largely depends on its managers. The quality of management at all levels reflects the manager's influence and effectiveness. Both organizational management and human resources management skills determine the operational success of a company. These skills involve the application of a manager's technical knowledge and personal experience²¹⁰. Human skills refer to the special abilities and qualities needed to manage and lead individual's effectively²¹¹.

In the context of Small and Medium Enterprises (SMEs), managerial skills refer to the abilities of the business owners or operators to create effective business plans, maintain proper bookkeeping, conduct audits, introduce relevant technologies, empower employees, invest in skill-building training opportunities, and resolve business-related conflicts amicably. Successful

businesses are often led by managers who are passionate about their work, whereas unsuccessful businesses tend to be led by managers with little motivation or engagement²¹².

In the context of small and medium enterprises, management skills play a crucial role in determining the strategic direction of the business. The development of specific managerial competencies is essential for the success of SMEs²¹³. These skills stem from a combination of personality traits and managerial abilities, enabling managers to establish effective processes and set goals that directly impact the organization's success²¹⁴.

In the theoretical discussion on the impact of managerial skills on the performance of Small and Medium Enterprises (SMEs), managerial competencies, such as organizational abilities and the capacity to identify opportunities, directly influence strategic performance. Meanwhile, skills related to technical and industry knowledge affect business growth²¹⁴. One key aspect of assessing the role of managerial skills in SMEs is examining personality factors in the development of entrepreneurial activities. These factors are not seen as direct drivers of entrepreneurial actions but rather as capabilities that help create models for improving performance in SMEs and enabling adaptability²¹⁵.

General competencies are therefore seen as key predictors of success in SMEs, particularly when focusing on specific skills needed to manage business activities in dynamic environments²¹³. Another important factor defining SME performance is the manager's ability to influence employees, which enhances the likelihood of the company's success²¹⁶.

However, the development of these skills relies on the manager's training, experience, and capabilities. As a result, a strong foundation in general skills (such as leadership, teamwork, communication, and cooperation) enhances the development of more specialized management

skills (like market knowledge, organizational performance, and logistics), all of which are essential for success in SMEs²¹³.

Planning

Planning is a crucial skill for project managers, as it involves setting the goals of the organization. A manager should have a clear vision and a strategic plan for the future. Planning is considered a fundamental aspect of modern life and is one of the core management functions. It involves establishing goals and objectives within an organization and determining the steps necessary to achieve them²¹⁸.

Planning is an anticipatory decision-making process aimed at achieving effective performance²¹⁹. It holds a central role in management, and it is nearly impossible to discuss management without addressing planning. While a plan is typically concrete, rigid, and does not allow for deviations, strategic planning is more flexible and adaptable, capable of adjusting in response to real-time strategic challenges. These challenges often arise unexpectedly during the execution of strategic plans. The planning function includes developing a mission statement and objectives, as well as outlining the actions needed to achieve them²²⁰.

Controlling

Controlling is a crucial management skill that ensures an organization's performance aligns with its expected goals and standards. It involves regulating organizational activities to ensure conformity. While controlling may appear as a one-time action that addresses specific steps and influencing factors, it is actually an ongoing process that includes setting standards, measuring

performance, benchmarking, and taking corrective actions to maintain efficiency and effectiveness²²¹. Controlling completes the management cycle, serving as the guiding mechanism that connects all prior functions, such as organizing, staffing, and leading, to the planning goals. The planning process sets the goals and objectives that form the basis for controls²²².

Controlling is the process of monitoring, comparing, and correcting work performance²²³. All managers need to implement controls, even when their units are performing as expected, since they can only be sure of this through evaluation and comparing actual performance to the desired standard. Effective control ensures that activities are carried out in a way that contributes to achieving the organization's goals. The success of controls is measured by how well they assist both employees and managers in reaching their objectives. Control complements other management functions by ensuring everything aligns²²⁴. Planning sets the direction, organizing arranges resources and personnel, leading motivates individuals to do their best, and controlling ensures that tasks are done correctly, on time, and as planned. When things go wrong, controlling helps correct the course.

Controlling is a vital component of managerial tasks²²⁵. Its goal is to implement corrective measures to ensure that business objectives are reached as efficiently as possible²²⁶. Managers who do not use control lack a means of determining whether their goals and plans are being accomplished and are unsure of the necessary steps to take next²²⁷.

Decision making

A decision is the act of selecting between two or more options. Decision-making occurs as a response to either a problem or an opportunity²²⁸. A problem arises when there is a gap between the current situation and the desired state, prompting the need to consider alternative actions. An opportunity presents itself when something unexpected occurs, leading to the exploration of new

approaches. Decision-making takes place at all organizational levels²²⁹. For example, top managers decide on organizational goals, product or service offerings, financing methods, and the location of new research and development facilities.

The decision-making process involves identifying problems and opportunities and finding solutions²³⁰. It requires effort both before and after the actual decision. For instance, when deciding whether to hire a new junior auditor, the accounting manager must first assess the need for the position, identify potential candidates, interview them, make a selection, and integrate the new employee into the organization to ensure the decision's success. Decision-making is a deliberate process of choosing among alternatives with the goal of achieving a desired outcome²³¹. For example, decisions like applying new technology to website development require creative exploration of untested ideas.

2.2 Theoretical Review

The theories underpinning this study are Contingency Theory propounded²³² and Resource Based theory²³³.

2.2.1 Contingency Theory

The Contingency theory was propounded²³². This theory has two basic underlying assumptions: There is no one best way to organize and also, any way of organizing is not equally effective²³⁴. The theory is based on the idea that organizations will achieve the best adaptation when their internal characteristics align with the demands of their environment²³⁵. It asserts that the stronger the relationship between a firm and its environment, the greater the likelihood of success. A

firm's performance depends on how well its structure and design are aligned with the context in which it operates²³⁶.

Firm performance can be examined from various angles, either focusing on internal factors (within the firm) or external factors (the environment). Recently, the most widely used theoretical frameworks in research are strategic management and population ecology²³⁷. These approaches offer contrasting views: strategic management looks at firm performance from an internal perspective, while population ecology focuses on external factors. Later research has highlighted the advantages of combining these perspectives, resulting in an integrated or dialectical approach²³⁸. Thus, business performance is influenced by both internal factors within the firm and external environmental factors, and their alignment is crucial²³⁹.

For instance, the theory connects independent variables such as economic, socio-cultural, and technological environmental factors, which SMEs can integrate into their management practices. The dependent variable, in this case, is performance, which reflects the outcomes based on the business environment that has been adopted.

Contingency theory essentially posits that an organization's effectiveness depends on aligning its characteristics with the specific contingencies that reflect its situation²³⁴. Key contingencies, or contingency variables, often include strategy and culture²⁴⁰. From this viewpoint, organizations aim to enhance their performance by improving alignment with these variables, adapting to the shifting external environment²⁴¹. Some scholars view this alignment as a dynamic, ongoing process, particularly in rapidly changing business settings^{242, 242, 244}. Contingency theory is especially valuable when there is no established overarching theoretical framework, promoting context-specific approaches that prioritize contingency fit rather than advocating for a one-size-fits-all management approach^{245, 246}.

The economic, socio-cultural, and technological environments, which are the independent variables considered in this study, can be most effective depending on the specific environment and the situation the organization finds itself in. However, it is essential for the owner or manager to assess and understand the situation before selecting the appropriate business environment. The choice to adopt the economic, socio-cultural, and technological environments has the potential to either enhance or hinder the performance of SMEs, and the results will determine the level of business performance. Contingency theory is relevant to this study as it offers insights into an organization's ability to adapt to both internal and external environments. When the correct environmental factors are adopted, SME performance is likely to improve; otherwise, performance will decline.

2.2.2 Resource Based Theory

The Resource-Based Theory (RBT), introduced in "The Theory of the Growth of the Firm," is built on several assumptions, particularly focusing on the concepts of superior firm performance and competitiveness²⁴⁷. The theory assumes that businesses aim to maximize profits and that managers operate with bounded rationality²⁴⁸. It views organizations through two main lenses: resource diversity and resource immobility. Resource diversity refers to the availability of common resources or capabilities, while resource immobility emphasizes the unique, rare resources, skills, operational strategies, and capabilities that distinguish one business from another. According to the theory, when entrepreneurs possess these characteristics, they can allocate resources strategically in ways that meet environmental demands sustainably.

The theory also outlines principles for the growth of small businesses, emphasizing the importance of both internal and external resources. Penrose believed that small businesses can grow more quickly and gain a competitive edge by leveraging these resources effectively. The theory asserts that sustainable competitive advantage and long-term success are achievable only when businesses have the right resources and capabilities, which can be deployed over time. Without such resources, the success of entrepreneurs can be short-lived, as competitors can easily diminish their initial achievements. This highlights the need for small enterprises to remain proactive in the face of a constantly evolving business environment.

Most empirical research based on Resource-Based Theory in strategic management has focused on identifying resources that align with the attributes predicted by the theory to enhance firm performance, and then examining whether these predicted performance effects hold true. The impact of various types of firm resources on performance has been studied, such as a firm's history, employee expertise, integrative capabilities, innovativeness, organizational culture, network affiliations, and relative market position^{249, 250, 251, 252, 253, 254, 255}. A range of methods, including large and small sample surveys, case studies, and simulations, have been employed to assess the performance effects of these resources. Overall, the findings generally support the expectations of Resource-Based Theory.

However, some studies have produced results that contradict the expectations of Resource-Based Theory. For instance, an analysis of vertical integration aligns more closely with transaction cost economics than with Resource-Based Theory²⁵⁶. Additionally, it has been suggested that while compensation policies can influence cooperation among a firm's employees, environmental factors play a more significant role in determining this cooperation²⁵⁷. These findings highlight

the need for further development in Resource-Based Theory to better understand the conditions under which different resources are or are not valuable²⁵⁸.

This theory is particularly relevant to this study because it is based on Penrose's assertion that the size of a small business firm is not necessarily the most critical factor in its growth process. Rather, it is the effective utilization of innovative managerial resources within the firm that plays a central role in driving its expansion. According to Penrose, the availability of top-tier managerial and technical talent is a crucial engine that propels a firm's growth trajectory, as these talents can harness and allocate resources more efficiently, adapt to changes, and lead the organization through challenges.

Penrose's theory emphasizes that small and medium-sized enterprises (SMEs) aiming for survival and success in an increasingly dynamic and competitive business environment must focus on building and maintaining exceptional managerial skills and a robust resource base. These elements are not just about acquiring more resources but also about effectively leveraging existing ones to create value, adapt to new challenges, and sustain a competitive advantage.

In today's rapidly evolving market landscapes, SMEs must have a deep understanding of their economic environment, which includes staying attuned to shifts in market demand, technological advancements, and regulatory changes. This knowledge enables firms to make strategic decisions that foster growth, innovation, and resilience. However, neglecting these crucial aspects—such as failing to invest in top managerial talent or overlooking the importance of resource alignment—can lead to a loss of competitive advantage, making it harder for the business to sustain long-term success.

Penrose's recommendation underscores that small businesses need to continually innovate and adapt their business models, management strategies, and resource allocation processes to avoid

stagnation or failure. Ignoring these factors, she warns, can result in the firm losing its competitive edge, falling behind more adaptive competitors, and ultimately struggling to survive in a changing environment. Thus, a proactive approach in developing managerial capabilities and understanding the business environment is essential for sustaining growth and securing a competitive advantage over time.

2.3 Review of Empirical Studies

A large number of studies have been conducted on the overall performance of small and medium-sized enterprises (SMEs), focusing on various business environmental factors that shape the operational environment of these businesses^{259, 260, 261, 262}. One such empirical study examined the influence of internal and external environmental factors on the performance of micro and small enterprises (MSEs) in the East Gojam Zone of Ethiopia. The results from this study revealed that infrastructure, financial conditions, technological environment, and entrepreneurial commitment all had a significant relationship with the performance of MSEs²⁶³.

Moreover, based on the analysis of the slope coefficients, the researchers found that infrastructure and financial factors had a particularly strong impact on the performance of MSEs. On the other hand, the influence of other factors, such as entrepreneurial commitment, was found to be less significant.

The eight hypothesized factors—financial, management, marketing, entrepreneurial, technology, politico-legal, infrastructural, and working premises—were found to significantly impact the business performance of SMEs in the study area. Among these factors, financial elements emerged as the most influential predictor of overall SME performance, followed by

infrastructure and politico-legal factors²⁵³. Working premises ranked fourth in terms of its influence on business performance, followed by management and marketing factors.

The study on the impact of environmental factors on the performance of Micro and Small-Scale Enterprises (MSEs) in East Gojjam Zone, Ethiopia, collected primary data from owner/managers of MSEs in selected areas using structured questionnaires²⁶⁴. Multiple regression analysis was applied to the data. The descriptive statistics revealed that challenges such as insufficient power supply, inadequate water supply, lack of a dry waste and sewage system, absence of Business Development Services, lack of suitable marketplaces, collateral requirements for loans, working capital shortages, and the unavailability of dedicated working premises were significant issues contributing to the low performance of micro and small enterprises. The regression analysis showed that infrastructure, financial environment, technological factors, and entrepreneurial commitment were strongly linked to the performance of SMEs.

The study on the effects of environmental factors on business performance utilized a theoretical and narrative methodology, employing both the SWOT (Strengths, Weaknesses, Opportunities, and Threats) Matrix and PESTLE (Political, Ecological, Social, Technological, Legal, and Economic) Analysis models²⁶⁵. The findings indicate that both external and internal environmental factors significantly influence and shape the life cycle, growth, and development of a business.

The impact of environmental factors on the business performance of SMEs in Ilorin involved a study of 2,703 SMEs, from which a sample of 336 was selected using purposive sampling²⁶⁶. Data were analyzed through both descriptive and inferential statistics. The findings concluded that employee competencies, technological advancements, and economic factors are crucial determinants of SME performance.

In Rivers State, the implications of environmental factors on the productivity of selected SMEs were explored through a descriptive survey approach²⁶⁷. Data was collected using a five-point Likert scale questionnaire and analyzed with multiple regression using SPSS version 20.0. The study revealed that economic and political environmental factors have a more significant impact on SMEs than socio-cultural factors.

In Ondo City Metropolis, Nigeria, the influence of business environmental factors on the survival of MSMEs was examined using a descriptive survey and simple random sampling²⁶⁸. A sample of 400 MSMEs was systematically selected, and multiple regression analysis was used. The results indicated a significant relationship between business environmental factors and MSME survival ($P < 0.05$).

In Ondo State, Nigeria, the environmental factors affecting the performance of Micro and Small Scale Enterprises (MSEs) were studied using a structured questionnaire, with data analyzed through descriptive statistics and Spearman's rank correlation²⁶⁹. A purposive sampling method was used, surveying 204 MSE owners/managers. The study found a significant negative relationship between inadequate finance, infrastructure, and poor managerial skills with MSE performance in terms of profit, revenue, and employment. The study recommends that the government introduce more SME-friendly policies, such as easier loan access and zero-interest rates.

A study on the impact of business environmental factors on the survival of SMEs in Oyo State, Nigeria, highlighted three key environmental factors: business development support, infrastructure, and regulatory services²⁷⁰. The research concluded that these elements play a crucial role in the survival of SMEs in the region, with business development support and infrastructure being the most significant factors driving SME survival in Oyo State.

In a separate study examining the environmental challenges faced by small-scale businesses in Bauchi Central Market, both descriptive and regression analyses were used²⁷¹. The findings revealed that difficulties such as limited access to credit facilities, high tax burdens, poor market competitiveness, and low sales volumes significantly affect the performance of small-scale businesses in this market.

A survey research design conducted in Kogi State, Nigeria, covering 171 SMEs, found that business strategy has a significant but negative impact on the profitability of SMEs²⁷². A study on the impact of e-commerce on small and medium enterprises' performance revealed that competitive pressure and management support have a positive and significant relationship with e-commerce adoption²⁷³. In Anambra State, Nigeria, a sample of 304 SMEs was drawn from a population of 1,393 using a structured questionnaire²⁷⁴. The regression analysis indicated that economic, financial, technological, and political factors have a significant effect on the profitability of small and medium enterprise.

A study on the influence of environmental variables on productivity in oil service firms in Port-Harcourt, Rivers State, Nigeria, used a survey research design and sampled 330 employees from a population of 1,875 across 20 oil companies²⁷⁵. Regression analysis confirmed that technological, economic, and political environmental factors significantly impact the productivity of oil service firms in the region.

Another study focused on the performance of small-scale construction firms utilized focus group participation to identify 82 factors, categorized into internal and external measures²⁷⁶. The empirical findings highlighted key variables affecting performance, including lack of experience and track records, financial mismanagement by contractors, corruption, multiple taxation, lack of

entrepreneurship skills, delayed payments for completed work, and poor policies by commercial banks regarding SMEs.

A study analyzing the impact of external environmental factors on the performance of micro and small-scale enterprises (MSEs) with 395 MSE owners from the manufacturing, trade, and service sectors found a positive and significant relationship between external environmental factors and industry performance in the area²⁷⁷. The study identified infrastructure, marketing factors, work premises, trade fair factors, and financial factors as significant contributors to enterprise performance, while political and legal factors did not influence industry performance in the area.

Another study examined the influence of the business environment on the performance of ICT firms in Lagos State, Nigeria, using a survey research design and purposive sampling to select a sample of 156 employees from Zinox Technologies and SpectraNet Nigeria Limited²⁷⁸. Data were collected via a 5-point Likert scale questionnaire. The findings, derived from O.L.S regression analysis, revealed that infrastructural environment, insecurity, and the political environment are the critical factors determining fluctuations in ICT performance in Nigeria.

The environmental factors affecting entrepreneurial productivity in selected hospitality firms in Delta State, Nigeria, were also studied using a survey research design²⁷⁹. Data were obtained from 25 hospitality firms, and statistical tools such as descriptive analysis, group correlation methods, and multiple regression tests were used. The results indicated a significant positive relationship between environmental factors and entrepreneurial productivity²⁸⁰.

A study on the impact of the business environment on the survival of SMEs in Nigeria used a descriptive survey design, administering 120 questionnaires, and employed logistic regression for analysis²⁸¹. The findings by Agbolade revealed that external environmental factors such as

competition, inflation, technological changes, government policies, and the accessibility of infrastructure significantly affect the performance of SMEs.

Another study examined the impact of the political environment on the business performance of multinational companies in Nigeria, finding that the political environment has a significant influence on the performance of these companies²⁸².

Additionally, research on the external environmental factors affecting the performance of manufacturing industries in Indonesia highlighted the significant role these factors play in shaping the performance of businesses in the manufacturing sector²⁸³.

A study on the impact of business environmental factors on SMEs in Lagos metropolis, utilizing both secondary and primary data, found that environmental factors significantly affect the survival and growth of SMEs in the manufacturing sector²⁸⁴. Similarly, research conducted on whether the external business environment impacts the performance of SMEs in Osun State, using secondary data, concluded that various external environmental factors—such as economic, political, legal, socio-cultural, demographic, natural, technological, global, financial, social, and competitive factors—have a significant impact on the performance of small and medium-scale enterprises²⁸⁵.

The study titled *Environmental Factors: A Panacea for Survival and Growth of Small and Medium Scale Businesses in Nigeria* used a descriptive survey design, selecting 100 respondents from three SMEs, with 80 respondents determined using the Taro Yamane formula²⁸⁶. Data collected through questionnaires were analyzed using the chi-square test and percentages. The findings highlighted several challenges faced by SMEs, including difficulty in obtaining capital, lack of skilled personnel, and shortages of raw materials²⁸⁷. Additionally, the study revealed that

external environmental factors like infrastructure and institutions play a critical role in SME success, although these factors also act as constraints on performance. The study also found that marketing practices had a negative and insignificant relationship with SME profitability, emphasizing the need for policy interventions from both the government and the private sector to improve infrastructure and institutional efficiency.

In another study, *Business Environment and the Potentials of Small and Medium Enterprises in Nigeria*, a Multifactor Business Environment-Enterprise Questionnaire (MBEEQ) was used to gather cross-sectional survey responses. A simultaneous equations model (SSEM) was employed to assess the impact of environmental factors on SMEs. The results showed that legal-regulatory frameworks, policy stance, and socio-cultural factors tended to reduce SME potential, while competition fostered innovation and growth. Overall, the business environment was found to significantly enhance the potential of SMEs.

The study on the impact of environmental factors on the performance of micro and small-scale enterprises in Ethiopia utilized both descriptive and inferential statistics, drawing on primary and secondary data sources²⁸⁸. Multiple regression analysis revealed a significant relationship between external environmental factors and the performance of SMEs. Additionally, the study highlighted the substantial impact of the cultural environment on the performance of international businesses²⁸⁹.

The study on the impact of internal and external environmental factors on the performance of fast-growing small and medium scale businesses in Croatia highlighted the critical role of SMEs as economic drivers²⁹⁰. Using both primary data (via questionnaires) and secondary data from various Croatian institutions, the study employed analysis of variance (F-test) to analyze the data. It found that both internal and external environmental factors significantly affect the performance

of small businesses and recommended that SMEs in Croatia pay careful attention to these factors for informed decision-making.

In another study on the growth constraints of micro and small-scale manufacturing industries in Akwa Ibom State, Nigeria, a descriptive research design was used, with 234 small business operators surveyed²⁹¹. The analysis revealed that infrastructure issues (particularly power), difficulty accessing credit, high interest rates on loans, and multiple taxation were major constraints. The study recommended that the state government address these challenges, especially by improving electricity supply and lowering interest rates, to help small businesses grow.

A study conducted in Bucharest, Romania, found that the business environment was not conducive to small businesses, leading to difficulty attracting foreign investment²⁹². The study recommended that the government create a sustainable environment for small enterprises to thrive.

In Lagos, Nigeria, research on the survival of small scale businesses identified key environmental factors such as government policies, inflation, technology, political climate, and electricity supply as major influences on business operations²⁹³. It recommended that the government improve the business environment to support small businesses.

A study examining the impact of small and medium scale enterprises (SMEs) on Nigeria's economic growth between 1975 and 2012 found a positive relationship between SME performance and economic growth²⁹⁴. However, inflation and interest rates were found to negatively affect growth, with recommendations for government policies to reduce interest rates and encourage investment.

Research on the survival of small-scale businesses in Ogun State, Nigeria, found that inflation, lack of infrastructure, and government policies hindered business growth²⁹⁵. The study recommended that small business operators adopt better management strategies to enhance their understanding of the business environment.

Finally, a study on the impact of business environmental factors on SMEs in Nigeria found that corruption in government programs meant to promote SMEs was a major obstacle²⁹⁶. It recommended the establishment of a national coordinating body to oversee and monitor SME activities to improve performance.

A study on the effect of business environmental factors on small and medium-scale business performance in the Mekong Delta examined how various environmental factors impact SMEs²⁹⁶. The study, conducted between 2011 and 2012, surveyed 63 small and medium businesses and used fixed and random effect models to assess the relationship between these factors and business performance. The results indicated that environmental factors negatively influenced SME performance, recommending that businesses should better understand the interplay of these factors for informed decision-making.

Similarly, a study in India focused on the problems and prospects of small-scale industries, particularly examining how environmental factors affect their performance and potential for economic growth²⁹⁷. Using secondary data from small-scale industry reports between 1999 and 2004 and applying multiple regression analysis, the study found that economic factors like inflation, exchange rates, and interest rates negatively affected business performance. However, the study highlighted the importance of small-scale industries for job creation and technological development, recommending that the government create a favorable environment to support these businesses.

Finally, a study on the relationship between business environment and small-scale business performance in Nura, Algeria, aimed to understand how the business environment impacts performance²⁹⁸. The research surveyed 45 small-scale businesses using a random sampling technique, and data was analyzed using multiple regression. The results revealed a negative relationship between the business environment and small-scale business performance ($r = -0.24$). Based on these findings, the study recommended that the government create a more conducive environment to enhance the performance of small-scale businesses in the region.

A study on the factors influencing entrepreneurs' performance in Pakistan used correlation coefficients and SPSS for data analysis²⁹⁹. The findings revealed that access to finance, public-private partnerships, lack of training and education, stress, low motivation, and political instability are significantly related to the growth of small-scale enterprises.

In Nigeria, a study on the impact of the political environment on business performance employed a summary research design³⁰⁰. The political environment was measured by political instability and the absence of violence, while business performance was assessed by company profitability from 1999 to 2013. Data analysis was done using SPSS and regression methods, with results showing that the political environment significantly impacts business performance, highlighting a correlation between the political environment and organizational performance.

Another empirical study in Nigeria assessed the performance of SMEs as a tool for wealth and employment creation³⁰¹. It identified financing, anticipated political environment, and lack of management skills as factors influencing SME performance. Data collected through questionnaires were analyzed using regression analysis. The findings suggested a correlation between the political environment and SME performance and indicated that a lack of

management skills negatively affects the performance of small and medium enterprises in Nigeria.

A study in Thailand identified several factors influencing the success of SMEs, including management and expertise, business practices and cooperation, product and service quality, resources and finance, strategy, and the external environment³⁰². Data was collected through questionnaires, and ordinary least squares (OLS) analysis was used to test the hypothesis. The results indicated that macroeconomic factors are positively correlated with the success of SMEs in Thailand.

In South Africa, a study explored a conceptual model to assess the performance of SMEs in the tourism sector³⁰³. The factors considered in the study included entrepreneurial attitudes, firm characteristics, and the macro environment. Data analysis was done using Chi-square and SPSS, with findings revealing a significant relationship between these factors and SME performance.

In Nakuru Town, Kenya, a study on factors affecting the performance of entrepreneurs in the Jua Kali sector found that access to finance positively influenced SME performance³⁰⁴. Management skills and macroeconomic factors were also significant, while infrastructure did not have a significant impact on SME performance. The study collected and analyzed primary data descriptively and inferentially, presenting findings in figures, tables, and percentages.

Finally, a review of financial variables impacting business performance in Nigeria showed a positive relationship between entrepreneurial performance and selected financial factors³⁰⁵. The data was collected through surveys and used to analyze the relationship between financial variables and business execution.

An empirical study conducted in Lagos State, Nigeria, examined the effects of socio-cultural factors on SMEs by focusing on three variables: religion, attitudes, and values. The research

revealed that SMEs are closely tied to the owners' culture, traditions, and religion, influencing their orientations, values, and personality³⁰⁶.

In Tanzania, a descriptive study assessed the impact of socio-cultural factors on the performance of women SMEs in Dodoma Urban and Chamwino districts. The findings showed that limited mobility for women, insufficient support, and ethnic factors negatively affected the performance of women-owned SMEs. The study concluded that socio-cultural variables had a detrimental effect on the success of women entrepreneurs³⁰⁷.

Another study explored the relationship between socio-cultural factors and financial performance among women SMEs in Tanzania. It was found that socio-cultural factors were strongly linked to the financial outcomes of women-owned SMEs. The study highlighted that low literacy levels, inadequate training, lack of access to essential information, and insufficient support from spouses significantly impacted the capital growth and sales volume of these businesses³⁰⁸.

An exploratory study on the impact of socio-cultural business environments on entrepreneurial intentions in Kano State, Nigeria, observed that despite available investment opportunities, the region still ranks poorly on the global poverty index and youth employment due to limited entrepreneurial activities³⁰⁹. The research identified the socio-cultural environment as a key factor influencing entrepreneurial intentions, particularly in terms of education, religion, and family background.

A study in Kericho County, Kenya, examined the influence of socio-economic characteristics on the performance of women-owned SMEs by collecting data from 60 randomly selected women entrepreneurs³¹⁰. The results showed a positive and significant relationship between the socio-economic traits of these women and their businesses' performance. The study also highlighted literacy levels as a key factor affecting performance.

A theoretical and evaluative analysis of Nigerian society explored the impact of socio-cultural factors on entrepreneurial emergence, focusing on education, gender, poverty, and values³¹¹. The study found that socio-cultural variables significantly influence entrepreneurial emergence, either positively or negatively.

In Rivers State, Nigeria, a descriptive survey analyzed the effects of environmental factors on SME productivity³¹². The findings revealed that economic and political factors had a greater impact on SME productivity than socio-cultural factors. The study recommended that SME owners monitor the business environment and adapt their strategies accordingly, while urging the government to provide safety nets for investors.

A study on the effect of external variables on corporate governance structures in Sub-Saharan African Anglophone nations (SSAA) investigated the impact of external factors on corporate governance using a survey based on international corporate governance standards³¹³. Data was gathered from listed firms in Ghana, Nigeria, and South Africa. The study concluded that socio-cultural factors hinder corporate governance systems, macroeconomic policies obstruct sound corporate governance practices, the accounting systems in each country play a crucial role in promoting good corporate governance, and the ownership structure of firms in Ghana and Nigeria delays the development of effective corporate governance practices.

A study on the impact of external business environment factors on the performance of Small and Medium-Sized Enterprises (SMEs) in the pharmaceutical industry in Kumasi City aimed to explore how macroeconomic factors, industry forces, competitors, and market environment influence SME performance³¹⁴. The research combined both theoretical and empirical analysis, with data collected from 240 respondents, of which 220 responses were received, resulting in a 91.67% response rate. The data was analyzed using Statistical Package for Social Sciences

(SPSS), and the Cronbach Alpha was applied to measure data reliability. The findings indicated a positive relationship between macroeconomic factors (such as political, economic, technological, and legal elements) and SME performance. Additionally, industry forces (including entry barriers, buyer power, supplier power, threat of substitutes, and competitive rivalry) were found to positively impact performance. The results also suggested a moderate relationship between competitive and market environment factors (such as key partnerships, market segments, and key customers) and performance. The study recommended further research on the influence of internal business environments on the performance of pharmaceutical industries and similar studies on the external environment's impact on local pharmaceutical manufacturers in Ghana.

A study conducted in Osun State, Nigeria, examined the perceived impact of the business environment on the success of SMEs. The study adopted a descriptive research design and explored two main research questions and hypotheses³¹⁵. The target population included all registered SMEs in the state, with a sample of 255 SME owners and managers selected using proportional, stratified, and simple random sampling methods. Data was collected using the "Perceived Impact of Business Environment on the Success of SMEs" questionnaire (PIBESSMEQ).

A reliability coefficient of 0.70 was achieved using Cronbach's Alpha in a study that used mean and standard deviation to address the research questions. Hypotheses were tested using Analysis of Variance (ANOVA) at a 0.05 significance level. The findings revealed that the business environment had a significant impact on the success of SMEs. However, the study found no substantial difference in the impact of the business environment on SMEs' success based on their location. The study concluded that the success of SMEs could be better assured with adequate knowledge of the business environment.

A study on the effects of socio-cultural realities on Nigerian SMEs used a qualitative research approach involving 10 SMEs³¹⁶. The findings indicated that socio-cultural factors are crucial in influencing the performance of these businesses. Another study focusing on the socio-cultural determinants of entrepreneurial capabilities among Chagga and Sukuma SMEs in Tanzania, using surveys and case studies involving 254 owner-managers, found that values, social factors, beliefs, norms, and perceptions had positive effects, while attitudes had a negative effect on entrepreneurial capabilities³¹⁷. In a study on the impact of socio-cultural factors on the performance of Nigerian SMEs, involving both quantitative and qualitative approaches with 80 owner-managers, the results showed that attitudes, ethnicity, and immobility negatively affected SME performance, while family roles and education had a weak positive effect³¹⁸.

Several socio-cultural factors significantly impact the operations of multinational companies, including culture, language, religion, education level, customer preferences, and societal attitudes toward foreign products and services^{317, 319}. The influence of culture on multinational companies is profound and widespread, with these companies often being impacted by multiple cultural factors simultaneously. Through their subsidiaries in different countries, multinational companies are exposed to a variety of national cultures. These cultural differences can directly or indirectly affect the performance of multinational companies. Based on various surveys, it can be concluded that successful multinational companies learn to appreciate and understand cultural differences across countries, leveraging opportunities and addressing challenges that arise from these diverse cultural contexts.

2.4 Conceptual Framework

A conceptual framework is an organized structure that clearly shows how two concepts or variables are connected ³²⁰. The study intends to investigate the environmental factors, managerial skills and SMEs performance in the manufacturing sector in Ibadan metropolis, Oyo State. The conceptual framework (figure 2.2) presented below basically develops to describe the relationship between the independent variables (economic factor, political factors, technological factor and socio-cultural factors), moderating variable (Managerial skills) and the dependent variable (Manufacturing SMEs' performance). The SMEs performance is expected to vary along with any changes in the considered business environmental factors.

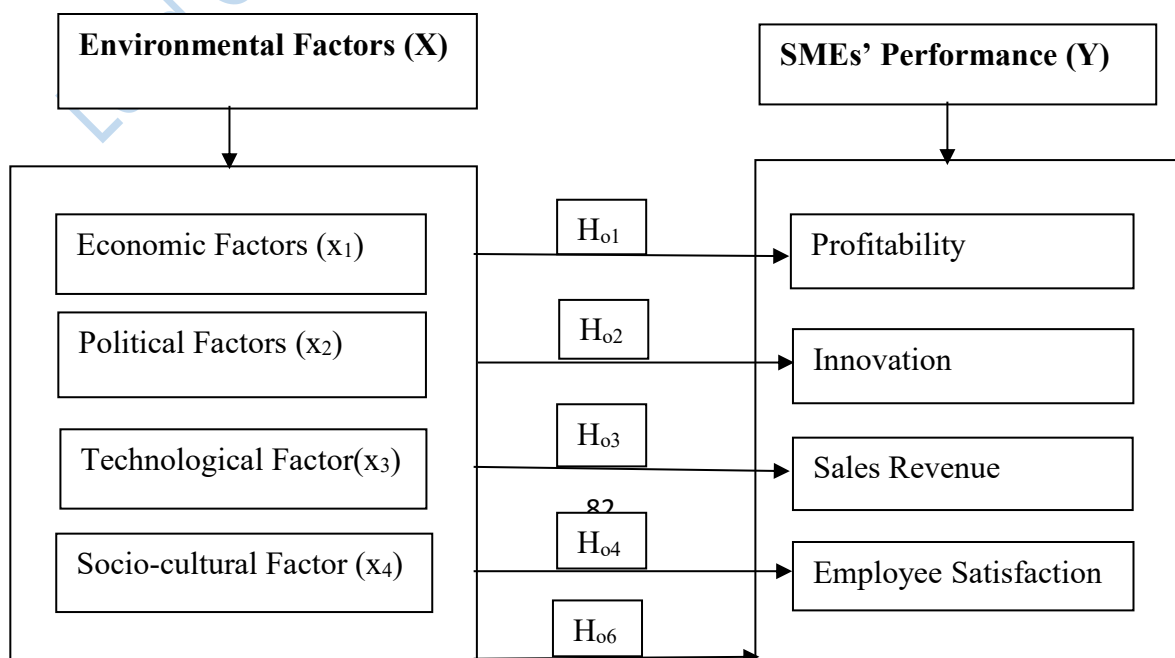




Figure 2.2: Conceptual model of the study (Researcher 2024)

2.5 Summary of Gaps in Literature

Having critically examined a number of studies been carried out to investigate the effect of environmental factor on SMEs performance^{273, 270, 269, 321}. It was observed that none of the studies have specifically investigated the relationship between environmental factors, managerial skills and Small and Medium Enterprises (SMEs) performance in Nigeria. As a matter of fact, the importance of business environment to the performance of SMEs in Nigeria cannot be overemphasized.

However, there are divergent views on which among the category of the factors influences performance of firm better. The opinion that economic factor are in better position to impact on performance of SMEs^{322 - 331}. Technological factors as more efficient in determining performance of SMEs^{325 - 327}. Finally, socio-cultural factor as most influential in determining SMEs performance was supported^{328, 329}. Consequently, this provides a basis of combining the three categories in this study.

Further, studies have been conducted linking external business environment and firm performance in Nigeria. However, it is observed that these studies concentrated on either economic environment or socio-cultural environment ^{330, 283, 328, 329}. Some dwell to technology environment ^{331 - 333}. However, a study in Ekiti, Ogun, Osun and Lagos state respectively, and reported that SMEs in the southwestern states of Nigeria, are mostly faced with the challenge of environmental factors which Oyo state is not an exception ^{334 - 337}. Also, a study in Oyo state but focus their attention on large enterprises; they also found that large business enterprises are faced with unconducive business environment ^{338, 332, 339}. Despite the contribution of the state government in assisting small and medium enterprises, by conducting trainings to all SMEs owners in the state, their performance continues to be a thing of concern as most SMEs in the state still underperform. These may be due to business environment factors ³³².

However, there still lacks in depth understanding of the significant effect of business environmental factors proxy; economic factor, political factors, technological factors and socio-economic factors on SMEs performance in Oyo State, Nigeria. It is against this background that the study seeks to fill the gap by investigating the managerial skills' moderating effect of environmental factors on the performance of Small and Medium Scale Enterprises (SMEs) in Ibadan metropolis, Oyo state.

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Chapter Three

Methodology

This chapter captures all of the research procedures that were deployed in this study, such as the study's research design, the study research approach, the study population, sample size, and sampling techniques. Also included are a description of the research instrument as well as its validity and reliability of the research instrument. The data collection and data analysis method with model specification for simple and multiple regression as well as ethical consideration were also included.

3.1 Research Design

A descriptive research design was used for this study to gather the opinions of owners and managers regarding the environmental factors, with managerial skills as a moderating variable, and how these factors affect the performance of small and medium enterprises. The decision to use a descriptive research design was influenced by the selection of a questionnaire as the primary data collection tool and the aim of understanding the relationship between environmental factors, managerial skills, and SME performance in selected manufacturing sectors across three districts in Oyo State. This approach allowed the researcher to explore respondents' perceptions using variables like demographics and a Likert scale format, employing a quantitative method through structured questionnaires.

A research design is a set of guidelines used to help the researcher decide which approach to use when collecting and analyzing data¹. The purpose of the study, its location, its motivations, and the necessary data all influence the research design choice². This study adopted a descriptive research design. As the name suggests, a descriptive research strategy employs the data collected to as accurately characterize actual conditions or occurrences as is practical³. Additionally, the time period for data collection, analysis, and reporting, as well as the accuracy required, were

taken into consideration when selecting a descriptive research design, which helps to reduce errors.

3.2 Population of the study

The entire number of SMEs in Oyo State that are registered makes up the study population. Oyo State was selected as the third-largest concentration of SMEs in Nigeria, behind Lagos and Kano, due to its high concentration of SMEs among the other states ⁷. The study utilized the SMEDAN survey report to identify the population of interest, which included 31,739 registered SMEs operating within Oyo State (SMEDAN, 2021). The target population consisted of a specific group of individuals or entities from whom the study findings could be generalized⁵. This population is finite, as each member can be identified and counted⁶. Owners and managers were selected as participants due to their extensive knowledge and familiarity with the operations of their businesses. The selection of this group was based on their registration with relevant authorities, ensuring that these SMEs are well-organized, with registered office addresses and full-time employees. The table below outlines the distribution of the population across the selected districts in Oyo State.

Table 3.1: The population within the selected district in Oyo State

Districts	No of L.G in each Districts	Proportion	Population Within the District
North Senatorial District	13	13/33 of 31,739	12,504
Central Senatorial District	11	11/33 of 31,739	10,579
South Senatorial District	9	9/33 of 31,739	8,656
Total	33		31,739

Field Survey, (2024)

3.3 Sample size and sampling Technique

3.3.1 Sample size

The sample size for this study was calculated using formula suggested by Taro Yamane⁹. The assumption is that the sample is representative of the population. A selected group taken from a certain population to be studied is referred to as a sample size⁶. Because it is impractical to conduct research on the entire population, using a sample is appropriate⁶. This study employed the stratified random sampling technique. Stratified random sampling ensures that every member of a subgroup has an equal chance of being included, resulting in a sample that is representative of the population⁸. This technique is excellent to use when the sample population is heterogeneous; strata or sub-groups are identified, and a simple random sample is selected from each stratum.

$$n = \frac{N}{1+N(e)^2}$$

Where: n = Sample size 31,739

N = population size = 31,739 (SMEDAN, 2021), e = sample error level of significance and 1 = constant. Therefore;

$$= \frac{31,739}{1+N(e)^2} = 395.02 \text{ (approx. 395)}$$

$$1 + 31,739 (0.05)^2$$

The minimum sample size for this study is three hundred and ninety-five (395). This implies that 395 questionnaires were administered across the states.

3.3.2 Sampling Technique

The study employed a cluster sampling technique to select a sample from the population. Cluster sampling is suitable when the population is homogeneous between clusters but heterogeneous within clusters⁶. In this case, the study used cluster sampling to select SMEs from the three senatorial zones in Oyo State—South, Central, and North. Within each cluster, simple random sampling was used to choose the participants. Simple random sampling is ideal for selecting a smaller sample from a larger population to make valid generalizations about the entire group. Questionnaires were distributed using this random sampling method to determine the sample size for each senatorial district in Oyo State. There are 13, 11 and 9 local government councils in the North, Central and South senatorial districts respectively¹⁰. Below is the table showing the total number of SMEs' owners/managers to be captured in each of the three senatorial districts of Oyo state based on the number of local governments in each senatorial district.

Table 3.2: Distribution of Questionnaires among 3 Senatorial Districts

Districts	No of L.G in each Districts	Proportion	Number of SMEs owners/managers to be captured
North Senatorial District	13	13/33 of 395	155
Central Senatorial District	11	11/33 of 395	132
South Senatorial District	9	9/33 of 395	108
Total	33		395

Field Survey, (2024)

The above table 3.2 shows the sample size to be captured in each senatorial district. The size to be captured in each senatorial district is calculated based on the number of local government councils in each senatorial district. The number of local governments in the senatorial district multiply by total sample size and divide by total number of local government in the state

3.4 Description of the Research Instrument(s)

Structured questionnaire was used as a research tool, and the scale was adopted from The World Bank Enterprise Survey of 2018, which was used to improve the discovery of statistically significant outcomes from data analysis procedure. It's important to have a comprehensive understanding of the various types of research methodologies in order to choose the one that best fits this dissertation. The developed questionnaire was separated into four portions, namely Section A, B, C and D respectively. The questionnaire format was designed to make use of questions based on the five-point Likert scale ranging from strongly agree to strongly disagree (strongly agree, agree, undecided, disagree, strongly disagree). The essence of adopting five-point Likert scale by the researcher in designing questionnaire is to reduce biases of forcing respondent to agree with a statement that is contrary to their beliefs. The research approaches can either be quantitative approach or qualitative approach. Quantitative approach is deductive^{3,4}. This methodology employs a variety of physical or statistical controls to enable the testing of hypotheses, generates and uses quantitative data to explain casual relationships through covering laws, and employs a highly structured approach to ensure reliability through surveys and laboratory experiments¹¹.

3.5 Validity of Research Instrument

A test must be valid in order for the results to be appropriately applied and interpreted. The amount and quality of the questions were assessed by specialists to ensure content validity.

Basically, the questionnaire was seen by the researcher's supervisor and the other two departmental instructors. Based on their comments, the necessary adjustments were made by the researcher as some ambiguities and contradictions in the questionnaire were removed. The degree to which a test accurately measures the intended variables is known as validity¹².

3.6 Reliability of Research Instrument

In this study, the reliability of the selected variables was assessed using the Statistical Package for the Social Sciences (SPSS) Version 28. The internal consistency of the test or scale was evaluated using Cronbach's alpha¹⁴. To determine the reliability of the questionnaire, a pilot test with a sample of 20 questionnaires was conducted. Reliability is a key criterion for evaluating the quality of a study design, and it is essential to confirm the consistency of the data. The reliability is considered more trustworthy when the alpha value is closer to 1¹⁵. An alpha value of 0.60 or less is regarded as poor, 0.70 to 0.80 is acceptable, and 0.80 or higher is considered excellent. Table 1 presents the results of the reliability test, showing the Cronbach's alpha values (α_1 to α_6).

Table 3.3: Scale Reliability Coefficients

S/N	Variables	Alpha Value	Number of Items	Comment
1	SMEs performance	$\alpha_1 = 0.81$	5	Reliable
2	Political environment	$\alpha_2 = 0.79$	5	Reliable
3	Economic environment	$\alpha_3 = 0.83$	5	Reliable
4	Socio-cultural environment	$\alpha_4 = 0.82$	5	Reliable
5	Technological environment	$\alpha_5 = 0.75$	5	Reliable
6	Managerial skills	$\alpha_6 = 0.89$	5	Reliable

Source: Field Survey; (2024)

From the table above, it is observed that all the Cronbach's Alpha reliability coefficient for each variable is greater than 0.7. This result proves the reliability of the selected variables and also shows that the data gathered through the structured questionnaire is more reliable.

3.7 Data Collection Instruments and Procedure.

The tools used for data collection in this study are referred to as data collection instruments. These instruments were distributed uniformly to all respondents, containing predetermined questions that are specialized in nature¹⁶. Structured questionnaires are particularly useful as they offer a variety of response options, making them easy to administer and clearly define the questions². To collect quantitative data, a 5-point Likert scale was used with the following ratings: Strongly Agree (SA), Agree (A), Undecided (U), Disagree (D), and Strongly Disagree (SD), corresponding to scores of 5, 4, 3, 2, and 1, respectively. The questionnaire was self-administered, with the researcher personally delivering the hard copies of the questionnaire to the respondents. A preamble was attached to the questionnaire to guide the respondents on how to answer the questions. In an environment like Nigeria, where the research culture is not fully developed, face-to-face delivery is recommended¹⁷. One of the key benefits of this approach is that it allows the researcher to collect all completed questionnaires within a short period.

3.8 Data Analysis Techniques

The data gathered in this study were analyzed by means of simple bar charts, simple percentage, Average mean score (AMS), standard deviation, Pearson product moment correlation (r) and multiple regression analysis using computer software (SPSS) version 28. Data analysis involves summing up of data for ease of interpretation. A researcher can draw findings from data analysis that will guide an outcome or decision¹⁸. In most types of research, the process of data analysis is

one of the most sensitive aspects as it requires using statistical tools to interpret data sets, data patterns and specific data trends¹⁹.

3.8.1 Model Specification for Simple and Multiple regression analysis

A regression model provides a function that describes and establishes causal the relationship between dependent and independent variables. In essence, the simple and multiple regression models will be employed in analyzing the effect of environmental factors and managerial skills on SMEs performance measured by: profitability, innovation, sales revenue and employee satisfaction. This approach is used as it helps to predict the effect of independent variables (political environment, economic environment, socio-cultural environment and technological environment) on the dependent (SMEs performance)²⁰. The model is described below:

Functional relationship: $Y = f(X)$

Functional relationship: $Y = f(M)$

Y - Dependent Variables (SMEs performance in Oyo State): $Y = [y_1, y_2, y_3, y_4]$

$Y = \text{SMEs performance in Oyo State (SMEsP)}$

$y_1 = \text{Profitability (Pr)}$

$y_2 = \text{Innovation (Iv)}$

$y_3 = \text{Sales revenue (Sr)}$

$y_4 = \text{Employee satisfaction (Es)}$

X - Independent Variables (Business environmental factors): $X = [x_1, x_2, x_3, x_4]$

$x_1 = \text{Political environmental factors (PEF)}$

$x_2 = \text{Economic environmental factors (EEF)}$

$x_3 = \text{Socio-cultural environmental factors (SEF)}$

x_4 = Technological environmental factors (TEF)

M – Independent Variable (Managerial skills): $M = [m]$

m , = managerial skills (MS)

$y_1 = f(\text{Pr})$Eq. (1)

$y_1 = a_0 + a_1(\text{Pr})$Model (1)

Where: a_0 =Constant, and a_1 =regression coefficient

$y_2 = f(\text{Iv})$eqt. (2)

$y_2 = b_0 + b_1(\text{Iv})$Model (2)

Where: b_0 =Constant, and b_1 =regression coefficient

$y_3 = f(\text{Sr})$Eq. (3)

$y_3 = c_0 + c_1(\text{Sr})$Model.(3)

Where: c_0 =Constant, and c_1 =regression coefficient

$y_4 = f(\text{Es})$Eq. (4)

$y_4 = d_0 + d_1(\text{Es})$Model.(4)

Where: d_0 =Constant, and d_1 =regression coefficient=

$Y = f(\text{MS})$Eq. (5)

$\text{SMESp} = \alpha_0 + \alpha_1(\text{MS}) + \mu$Model. (5)

Where: α_0 =Constant, α_1 =regression coefficient and μ = error term

$Y = f(\text{PEF}, \text{EEF}, \text{SEF}, \text{TEF})$Eq. (6)

$\text{SMESp} = \beta_0 + \beta_1(\text{PEF}) + \beta_2(\text{EEF}) + \beta_3(\text{SEF}) + \beta_4(\text{TEF}) + e$Model(6)

Where; β_0 = constant term, $\beta_1 - \beta_4$ = coefficients of the regression/independent variables and e = error term

3.9 Ethical Consideration

To reduce study risks, safeguard participants, and ensure that their involvement is both informed and voluntary, it is crucial to adhere to ethical standards. The researcher must carefully consider various ethical issues, including authorship, conflicts of interest, plagiarism, duplication of work, and participant engagement, among others²¹.

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Endnotes

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Chapter Four

Results and Discussion of Findings

This chapter gives a breakdown of the data retrieved. It presents the data analysis, results discussions, and findings of the study. This chapter starts with a general overview of the demographics and characteristics of the research participants. The simple percentage tables are the tools used for descriptive analysis of data from the selected SMEs' owners/managers in Oyo State, specifically, the three senatorial districts in Oyo State (North, Central and South senatorial districts). Out of the 395 questionnaires administered to participants, only 320 questionnaires were recovered fully filled, making the response rate to be 81%. Descriptive statistics were employed using Mean Score and Standard Deviation to understand the empirical influence of environmental factors and managerial skills on SMEs performance in the manufacturing sector in Ibadan metropolis, Oyo State. The findings of the study were also discussed.

4.1 Demographic Data of Respondents

Demographics consist of information that describes basic characteristics such as gender, age, years of work experience, and education level of the respondents.

Table 4.1: Gender of the respondents

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	155	48.7	48.7	48.7
	Female	163	51.3	51.3	100.0
	Total	318	100.0	100.0	

Source: Field Survey, (2024).

The above table shows that 155(48.7%) of the respondents were male while 163(51.3%) of the respondents were female. This result shows that majority of the respondents (the SMEs managers in Oyo State) were female.

Table 4.2: Marital Status

Marital Status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Married	194	61.0	61.0	61.0
	Single	70	22.0	22.0	83.0
	Divorced	52	16.4	16.4	99.4
	Separated	2	.6	.6	100.0
	Total	318	100.0	100.0	

Source: Field Survey, (2024)

The table reveals that 194 (61%) of the respondents are married, 70(22%) of the respondents are single, 52(16.4%) are divorced and 2(6%) of the respondents are separated. From this result, it is observed that majority of the SMEs managers in Oyo State are married.

Table 4.3: Age of the respondents

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30 years	33	10.4	10.4	10.4
	30-35 years	42	13.2	13.2	23.6
	36-41 years	62	19.5	19.5	43.1
	42-47 years	71	22.3	22.3	65.4
	48-53 years	74	23.3	23.3	88.7
	54 and above	36	11.3	11.3	100.0
	Total	318	100.0	100.0	

Source: Field Survey, (2024)

The above figure indicates that 33(10.4%) of the respondents are within the age bracket below 30 years, 43 (13.2%) were within the age bracket 30 - 35 years, 62(19.5%) were within the age bracket 36 – 41 years, 71(22.3%) were within the age range 42-47 years, 74(23.3%) were within the age bracket 48 – 53 years, and 36 (11.3%) of the respondents were of age 54 years and above. This result reveals that the majority of SMEs in Oyo State are owned and managed by people of age between 36 and 53 years. This result proves the authenticity of the data collected as the majority of the respondents are very mature.

Table 4.4: Educational Status of the Respondents

Educational Background					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SSCE/GCE	34	10.7	10.7	10.7
	OND/NCE	57	17.9	17.9	28.6
	HND/BSc	134	42.1	42.1	70.8
	MSc/MBA	65	20.4	20.4	91.2
	Phd	27	8.5	8.5	99.7
	6.00	1	.3	.3	100.0
	Total	318	100.0	100.0	

Source: Field Survey, (2024)

The figure indicates that 34(10.7%) of the respondents were SSCE/GCE certificate holders, 57(17.9%) of the respondents were OND/NCE holders, 134(42.1%) of the respondents were BSc/HND holders, 65(20.4%) of the respondents were MSc/MBA holders, and only 27(8.5%) respondent is holding PhD and other certificates. The result here reveals that most of the respondents were HND/BSc holders.

Figure 4.5: Years of Experience

Year of experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	54	17.0	17.0	17.0
	6-10 years	90	28.3	28.3	45.3
	11-15 years	110	34.6	34.6	79.9
	16-20 years	44	13.8	13.8	93.7
	Above 20 years	20	6.3	6.3	100.0
	Total	318	100.0	100.0	

Source: Field Survey, (2024)

The above figure shows that 54 (17%) of the respondents have been operating SMEs for about 1-5 years, 90 (28.3%) of the respondents have been operating SMEs for about 6 - 10 years, 110(34.6%) of the respondents have been operating SMEs for about 11-15 years, 44(13.8%) of the respondents have been managing SMEs for about 16-20 years while 20(6.3%) of the respondents

have been operating SMEs for more than 20 years. It is observed from the result that majority of the participants have been operating SMEs for about 11-15 years. This result proves the authenticity of the data collected as the majority of the respondents have been in the business for more than 10 years.

Figure 4.6: Working capital of the respondents

Working Capital					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below N100,000	93	29.2	29.2	29.2
	N100,000- N400,000	128	40.3	40.3	69.5
	Above 400,000	93	29.2	29.2	98.7
	4.00	3	.9	.9	99.7
	5.00	1	.3	.3	100.0

	Total	318	100.0	100.0	
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Source: Field Survey, (2024)

The above figure shows that 93(29.2%) of the respondents have been operating SMEs with amount below hundred thousand Naira (100,000), 128 (40.3%) of the respondents have been operating his/her SMEs business with amount ranges between 100,000 – 400,000 and, 93(24%) of the respondents have been operation the business for amount (capital) more than four hundred thousand Naira

4.2 Analysis of Data relating to the study's variables

Table 4.7: Perception of Respondents on the influence of economic factors on SMEs in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I consider interest rate as one of the major factors in my environment	318	4.50	0.982	3	Agreed
2	Operating cost is increasing constantly	318	4.58	0.785	2	Agreed
3	I am always aware of how the amount of demand for goods and services is affected by the exchange rate	318	4.36	0.668	4	Agreed
4	Raw material prices are always changing	318	4.22	0.643	5	Agreed
5	Based on exchange rates, I often adjust the price of my products	318	4.62	0.914	1	Agreed

Source: Field Survey, (2024)

From the table above, it is observed that the majority of the SMEs' owners in Oyo Sate considered interest rate as one of the major factors in their environment (mean = 4.50); affirmed that operating cost is increasing constantly (mean = 4.58); were of the opinion that demand for goods and services is affected by the exchange rate (mean = 4.36); agreed that raw material prices are always changing (mean = 4.22) and; agreed that the price of products is always adjusted based on exchange rates (mean = 4.62). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

Table 4.8: Perception of Respondents on the influence of political factors on SMEs in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I consider government policies to take better decisions for the firm's progress	318	4.48	0.576	3	Agreed
2	I try to constantly assess each of political issues closely to be able to smoothly run my business activities	318	4.84	0.473	1	Agreed
3	I always stay up-to-date to know the implication of taxes for some companies	318	4.32	0.577	4	Agreed
4	I am aware that political forces have the power to alter corporate operations	318	4.08	0.665	5	Agreed
5	I always try to deal with the local and international outcomes of politics	318	4.52	0.525	2	Agreed

Source: Field Survey, (2024)

From the table above, it is deduced that majority of SMEs owners and managers in Oyo State consider government policies to take better decisions for the firm's progress (mean = 4.48); try to constantly assess each of political issues closely to be able to smoothly run my business activities (mean = 4.84); always stay up-to-date to know the implication of taxes for some companies (mean = 4.32); and aware that political forces have the power to alter corporate operations (mean = 4.08); always try to deal with the local and international outcomes of politics (mean = 4.52). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

Table 4.9: Perception of Respondents on the influence of technological factors on SMEs in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I ensure the security and protection of its technological infrastructure and data	318	4.49	0.682	2	Agreed
2	I assess the return on investment for adopting new technology	318	4.38	0.575	3	Agreed
3	I strategize for integrating technology into its long-term business growth and sustainability.	318	4.50	0.614	1	Agreed
4	I update with the latest technological advancements and trends relevant to industry.	318	4.25	0.901	5	Agreed
5	I approach training and up skilling employees to adopt to new technology.	318	4.37	0.661	4	Agreed

Source: Field Survey, (2024)

From the table above, it is observed that majority of the participants ensure that security and protection of its technological infrastructure and data (mean = 4.49); assess the return on investment for adopting new technology (mean = 4.38); strategize for integrating technology into its long-term business growth and sustainability. (mean = 4.50); update with the latest technological advancements and trends relevant to industry (mean = 4.25) and; approach training and up skilling employees to adopt to new technology (mean = 4.37). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

Table 4.10: Perception of Respondents on the influence of socio-cultural factors on SMEs in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I allow employees time for religious activities	318	4.56	0.557	1	Agreed
2	I give priorities to employees during religious celebration.	318	4.42	0.624	3	Agreed
3	I make it mandatory for employees to come to work on public holidays.	318	4.46	0.553	2	Agreed
4	I encourage employees to improve their level of education	318	4.38	0.628	3	Agreed
5	I employ individuals with the same cultural background.	318	4.38	0.592	4	Agreed

Source: Field Survey, (2024)

From the table above, it is observed that majority of the SMEs owners/Managers in Oyo State allow employees time for religious activities (mean = 4.56); give priorities to employees during religious celebration. (mean = 4.42); I make it mandatory for employees to come to work on public holidays (mean = 4.46); encourage employees to improve their level of education (mean = 4.38) and; employ individuals with the sane cultural background (mean = 4.38). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

Table 4.11: Perception of Respondents on the influence of managerial skills on SMEs in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I can readily monitor every financial decision made to make sure that spending doesn't go above revenue.	318	4.26	0.814	5	Agreed
2	I am able to understand, lead, change and regulate the behavior of the individuals and business that I manage.	318	4.27	0.851	4	Agreed
3	I am able to motivate employees, revolve workplace issues, and collaborate with others	318	4.33	0.725	3	Agreed
4	The skills I possess can make me view and operate with the organization as a small manageable entity while effectively linking to its surrounding.	318	4.39	0.684	2	Agreed
5	I can be able to prepare and structure work effectively in the organization.	318	4.51	0.645	1	Agreed

Source: Field Survey, (2024)

From the table above, it is observed that large number of the owners and managers of SMEs in Oyo State: readily monitor every financial decision made to make sure that spending doesn't go above revenue. (mean = 4.26); understand, lead, change and regulate the behavior of the individuals and business that I manage (mean = 4.27); motivate employees, revolve workplace issues, and collaborate with others (mean = 4.33); possess the skills that can make me view and operate with the organization as a small manageable entity while effectively linking to its surrounding. (mean = 4.39) and; can be able to prepare and structure work effectively in the organization (mean = 4.51). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

Table 4.12: Perception of Respondents on the SMEs business performance in Oyo State.

S/N	Statements	N = (Σf)	Mean	Std	Rank	Decision
1.	I am able to make a normal profit in the end of the years	318	4.20	0.733	5	Agreed
2	I am able to achieve an expected level of sales revenue annually.	318	4.32	0.691	2	Agreed
3	I am experiencing a remarkable market growth for the business.	318	4.35	0.683	1	Agreed
4	My customers are happy with my long-term customer relationship strongly.	318	4.32	0.727	3	Agreed
5	My customers are happy with the superior value of my products/services relative to my competitors.	318	4.22	0.711	4	Agreed

Source: Field Survey, (2024)

From the table above, it is observed that large number of SMEs managers in Oyo State are: able to make a normal profit in the end of the years (mean = 4.20); able to achieve an expected level of sales revenue annually (mean = 4.32); experiencing a remarkable market growth for the business. (mean = 4.35); affirming that customers are happy with my long-term customer relationship strongly (mean = 4.32); affirming that customers are happy with the superior value of my products/services relative to my competitors (mean = 4.22). The decision is based on the fact that the obtained mean score in each statement is greater than cut off mean 3.0.

4.3 Test of Research Hypotheses

The study's research objective and corresponding research null hypothesis are tested and analysed using multiple regression analysis. Here, each of the performance indicators: profitability, innovation, sales revenue and employee satisfaction is regressed on environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF))

Hypothesis one

H0₁: Environmental factors have no significant impact on profitability in the SMEs manufacturing sector in Oyo State.

Table 4.13: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.846 ^a	0.720	0.709	0.69350
a. Predictors: (Constant), EF, PF, TF, SF.				

Table 4.13 above shows the coefficient of determination (R-Square =0.720). This value indicates that 72% variations in performance of SMEs profitability can be explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)). Hence, 28% of variation in the dependent variable (SMEs profitability) could be explained only by other factors that were not included in the study model and not investigated in this study.

Table 4.14: ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.425	4	5.106	10.617	0.000 ^b
	Residual	150.055	312	.481		
	Total	170.479	316			
a. Dependent Variable: Profitability						
b. Predictors: (Constant), EF, PF, TF, SF.						

In the table 4.14, the F-statistic (10.61) at P-value of 0.00 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (economic

factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)) are good predictors of SMEs profitability in Oyo State. This implies that the SMEs profitability is strongly enhanced by the independent variables as p-value 0.00 is less than significant level 0.05.

Table 4.15: Regression Coefficient Table

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.442	.593		9.181	0.000
	Economic	-0.032	0.046	-0.043	-0.705	0.022
	Political	-0.122	0.078	-0.096	1.559	0.020
	Technology	0.340	0.061	0.316	-5.586	0.000
	Socio-cultural	0.025	0.075	0.019	0.340	0.034
a. Dependent Variable: Profitability						

In table 4.15 above, the constant value 5.442 indicates that the SMEs profitability is 5.442 holding all the independent variables (economic factors, political factors, technological factors and socio-cultural factors) involved constants. Essentially, the regression coefficient of economic factors (-0.032) indicates that a unit change in economic factor leads to 0.032 negative change in SMEs profitability and the political factors with coefficient (-0.122) shows that a unit change in political factor results in a negative change in SMEs profitability by 0.122. Similarly, the coefficient of technological factors (0.340) indicates that a unit change in technological factor will result 0.340 change in SMEs profitability, and the socio-cultural factors with coefficient (0.025) indicates that a unit change in socio-cultural factor will lead to a change in SMEs profitability by 0.419. Considering the results from tables 4.13, 4.14 and 4.15, it could be said that the environmental factors (economic factors, political factors, technological factors and

socio-cultural factors) have a significant impact on profitability in the SMEs manufacturing sector in Oyo State

Hypothesis two.

H0₂: Environmental factors have no significant impact on innovation in the SMEs manufacturing sector in Oyo State.

Table 4.16: Model Summary for Innovation

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.758 ^a	0.625	0.612	0.68742
a. Predictors: (Constant), EF, PF, TF, SF.				

Table 4.16 above shows the coefficient of determination (R-Square =0.625). This value indicates that 63% variations in performance of SMEs innovation can be explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)). Hence, 37% of variation in the dependent variable (SMEs Innovation) could be explained only by other factors that were not included in the study model and not investigated in this study.

Table 4.17: ANOVA for Innovation

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.757	4	0.939	1.988	0.006 ^b
	Residual	146.961	311	0.473		
	Total	150.718	315			

a. Dependent Variable: Innovation

b. Predictors: (Constant), EF, PF, TF, SF.

In the table 4.17, the F-statistic (1.988) at P-value of 0.06 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)) are good predictors of SMEs innovation in Oyo State. This implies that the SMEs innovation is strongly enhanced by the independent variables as p-value 0.006 is less than significant level 0.05.

Table 4.18: Regression Coefficient for Innovation

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.871	0.588		8.278	0.000
	Economic	0.073	0.046	0.104	1.607	0.009
	Political	-0.012	0.077	-0.010	-0.156	0.006
	Technological	0.049	0.060	0.048	0.806	0.021
	Socio-cultural	0.134	0.074	0.108	1.804	0.002
a. Dependent Variable: Innovation						

In the table 4.18 above, the constant value 4.871 indicates that the SMEs innovation is 4.871 holding all the independent variables (economic factors, political factors, technological factors and socio-cultural factors) involved constants. Basically, the regression coefficient of economic factors (0.073) indicates that a unit change in economic factor leads to 0.073 change in SMEs innovation, the political factors with coefficient (-0.012) shows that a unit change in political factor results to a negative change in SMEs innovation by 0.012. similarly, the coefficient of technological factors (0.049) indicates that a unit change in technological factor will result 0.049

change in SMEs innovation, and the socio-cultural factors with coefficient (0.134) indicates that a unit change in socio-cultural factor will result to a change in SMEs innovation by 0.134.

Having observed the results from the table 4.16, 4.17 and 4.18, it is observed that the environmental factors (economic factors, political factors, technological factors and socio-cultural factors) have a significant impact on innovation in the SMEs manufacturing sector in Oyo State.

Hypothesis Three.

H0₃: Environmental factors do not have a significant impact on sales revenue in the SMEs manufacturing sector in Oyo State.

Table 4.19: Model Summary for Sales revenue

Model Summary				
Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	0.955 ^a	0.824	0.812	0.68216
a. Predictors: (Constant), EF, PF, TF, SF.				

Table 4.19 above shows the coefficient of determination (R-Square = 0.824). This value indicates that 82% variations in sales revenue of SMEs can be explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)). Hence, 18% of variation in the dependent variable (SMEs sales revenue) could be explained only by other factors that were not included in the study model and not investigated in this study.

Table 4.20: ANOVA for Sales Revenue

ANOVA ^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.584	4	0.896	1.926	0.016 ^b
	Residual	144.719	311	0.465		
	Total	148.304	315			
a. Dependent Variable: Sales Revenue						
b. Predictors: (Constant), EF, PF, TF, SF.						

In the table 4.20, the F-statistic (1.926) at P-value of 0.016 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)) are good predictors of SMEs sales revenue in Oyo State. This implies that the SMEs sales revenue is strongly enhanced by the independent variables as p-value 0.016 is less than significant level 0.05.

Table 4.21: Regression coefficient for Sales revenue

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.138	0.584		7.087	0.000
	Economic	0.120	0.045	.0172	2.647	0.009
	Political	-0.051	0.077	-0.043	-0.658	0.011
	Technological	0.018	0.060	0.018	0.297	0.007
	Socio-cultural	0.004	0.073	0.003	0.051	0.059
a. Dependent Variable: Sales revenue						

In the table 4.21 above, the constant value 4.138 indicates that the SMEs sales revenue is 4.138 holding all the independent variables (economic factors, political factors, technological factors and socio-cultural factors) involved constants. Basically, the regression coefficient of economic

factors (0.120) indicates that a unit change in economic factor leads to 0.120 change in SMEs sales revenue, the political factors with coefficient (-0.051) shows that a unit change in political factor results to a negative change in SMEs sales revenue by 0.051. The coefficient of technological factors (0.018) indicates that a unit change in technological factor will result 0.018 change in SMEs sales revenue, and the socio-cultural factors with coefficient (0.004) indicates that a unit change in socio-cultural factor will result to a change in SMEs sales revenue by 0.004

From the results obtained in the tables 4.19, 4.20 and 4.21 above, it is concluded that the environmental factors (economic factors, political factors, technological factors and socio-cultural factors) have significantly impacted sales revenue in the SMEs manufacturing sector in Oyo State.

Hypothesis Four

H0₄: Environmental factors have no significant impact on employee satisfaction in the SMEs manufacturing sector in Oyo State.

Table 4.22: Model Summary for employee satisfaction

Model Summary				
Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	0.641 ^a	0.520	0.67	0.72559
a. Predictors: (Constant), EF, PF, TF, SF				

Table 4.22 above shows the coefficient of determination (R-Square =0.520). This value indicates that 52% variations in employee satisfaction of SMEs in Oyo State can be explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)). Hence, 48% of variation in the dependent variable (Employee satisfaction in SMEs) could be explained only by other factors that were not included in the study model and not investigated in this study.

Table 4.23: ANOVA for Employee satisfaction

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.339	4	0.835	1.585	0.008 ^b
	Residual	163.737	311	0.526		
	Total	167.076	315			
a. Dependent Variable: Employee satisfaction						
b. Predictors: (Constant), EF, PF, TF, SF						

In the table 4.23, the F-statistic (1.585) at P-value of 0.008 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (economic factors (EF), political factors (PF), technological factors (TF) and socio-cultural factors (SF)) are good predictors of employee satisfaction in SMEs in Oyo State. This implies that the SMEs employee satisfaction is influenced by the independent variables as p-value 0.008 is less than significant level 0.05.

Table 4.24: Regression Coefficient for Employee satisfaction

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.484	0.621		7.219	0.000
	Economic	0.068	0.048	0.091	1.400	0.013
	Political	0.042	0.082	0.034	0.518	0.005
	Technological	0.064	0.064	0.060	1.010	0.013
	Socio-cultural	-0.080	0.078	-0.061	-1.025	0.006
a. Dependent Variable: Employee satisfaction						

In the table 4.24 above, the constant value 4.484 indicates that the SMEs employee satisfaction is 4.484 holding all the independent variables (economic factors, political factors, technological

factors and socio-cultural factors) involved constants. Basically, the regression coefficient of economic factors (0.068) indicates that a unit change in economic factor leads to 0.068 change in employee satisfaction in SMEs, the political factors with coefficient (0.42) shows that a unit change in political factor results to a change in employee satisfaction in SMEs manufacturing sector by 0.42. The coefficient of technological factors (0.064) indicates that a unit change in technological factor will result 0.064 change in customer satisfaction in SMEs manufacturing sector, and the socio-cultural factors with coefficient (-0.080) indicates that a unit change in socio-cultural factor will result to a negative change in employee satisfaction in SMEs manufacturing sector by 0.080.

From the results obtained in the tables 4.22, 4.23 and 4.24 above, it is concluded that the environmental factors (economic factors, political factors, technological factors and socio-cultural factors) have significantly impacted employee satisfaction in the SMEs manufacturing sector in Oyo State.

Hypothesis five

H05: Managerial skills have not moderately impacted SMEs performance in the manufacturing sectors in Oyo State.

Table 4.25: Model Summary for Managerial skills

Model Summary				
Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	.870 ^a	.782	-.765	.73489
a. Predictors: (Constant), Planning, Organizing, Leading and Controlling				

Table 4.25 above shows the coefficient of determination (R-Square =0.78). This value indicates that 78% variations in SMEs performance in Oyo State can be explained by managerial skills (Planning, Organizing, Leading and Controlling). Hence, 22% of variation in the SMEs performance could be explained only by other factors that were not included in the study model and not investigated in this study.

Table 4.26: ANOVA for Managerial skills

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.376	4	.344	0.637	0.036 ^b
	Residual	168.498	312	0.540		
	Total	169.874	316			
a. Dependent Variable: SMEs performance						
b. Predictors: (Constant), Planning, Organizing, Leading and Controlling						

In the table 4.26, the F-statistic (0.637) at P-value of 0.036 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (Planning, Organizing, Leading and controlling) are good predictors of SMEs performance in Oyo State. This implies that the SMEs performance is influenced by the independent variables as p-value 0.036 is less than significant level 0.05.

Table 4.27: Regression Coefficient for Managerial Skills

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.	Beta		

			Error			
1	(Constant)	4.119	0.366		11.263	0.000
	Planning	0.019	0.052	0.021	0.359	0.019
	Organizing	0.112	0.087	0.130	1.283	0.000
	Leading	0.155	0.109	0.154	1.427	0.055
	Controlling	0.044	0.071	0.041	0.617	0.037
a. Dependent Variable: SMEs performance						

The table 4.27 above shows the constant value 4.119 which indicates that the SMEs performance is 4.119 holding all the independent variables (Planning, Organizing, Leading and Controlling) involved constants. Basically, the regression coefficient of planning (0.019) indicates that a unit change in planning leads to 0.019 change in SMEs performance, the organizing with coefficient (0.112) shows that a unit change in organizing results to a change in SMEs performance by 0.112. The coefficient of leading (0.115) indicates that a unit change in leading will result 0.115 change in SMEs performance, and the controlling with coefficient (0.044) indicates that a unit change in controlling will result to a negative change in SMEs performance by 0.044.

Based on the results obtained in the tables 4.25, 4.26 and 4.27 above, it is deduced that the managerial skills (Planning, Organizing, Leading and Controlling) have significantly impacted SMEs performance in the manufacturing sector in Oyo State.

Hypothesis six

H0₆: Evaluate overall influence of environmental factors on SMEs performance in the manufacturing sector in Oyo State.

Considering the fact that environmental factors have significantly influenced the profitability, innovation, sales revenue and employee satisfaction which are measures of the SMEs

performance, it is therefore concluded that environmental factors have a significant influence on overall performance of the SMEs manufacturing in Oyo State.

4.4 Discussion of findings

Discussion of the First Hypothesis's results

The result of the first hypothesis reveals that environmental factors have significantly impacted profitability in the small and medium scale enterprises (SMEs) in Oyo State as table 4.13 shows the coefficient of determination ($R\text{-Square} = 0.720$) which implies that 72% variations in the profitability of SMEs in Oyo State resulted from the business environmental factors like economic, political, technological and socio-cultural factors. Table 4.14 with the F-statistic (10.61) also proves the collective significance of business environmental factors on the level of SMEs' profitability. The probability level of each coefficient of regression in table 4.15 which is less than significant level 5% indicates the significance of the environmental factors on SMEs profitability.

This result is concurred with the study whose result showed that there is a positive relationship between business environment and corporate profitability¹. The business and investment in any area requires the provision of an appropriate and secure institutional environment. One of the factors that helps to expand businesses and increase corporate profits is the right business environment such as stable economic environment, sustainable socio-cultural environment etc. The result of this study is also supported by a study which found that the magnitude of the impact of environmental factors on profitability depends on political stability and institutional quality². Business environment is formed not merely on some sense of objective reality, but on its own perception of reality in order to make the profit margin to be precise³. In consonance

with this theory, individuals attempt to determine the probability of a measure of expectancy of outcome.

Discussion of the Second Hypothesis's results

It is deduced from the result of the second hypothesis that the environmental factors have a significant impact on innovation in the SMEs manufacturing sector in Oyo State since the table 4.16 reveals the coefficient of determination ($R\text{-Square} = 0.625$), implying that 63% variations in the innovation of SMEs in Oyo State resulted from the business environmental factors like economic, political, technological and socio-cultural factors. Table 4.17 with the F-statistic (1.988) also confirms the collective significance of business environmental factors on the level of SMEs innovation. The probability level of each coefficient of regression in table 4.18 which is less than significant level 5% signifies the significance of the environmental factors on SMEs Innovation. The result from this study is corroborated by the study focused on the Republic of Kazakhstan's small and medium-sized enterprises' (SMEs) funding of innovation, and the study discovered that environmental elements such as economic, technological, political, and socio-cultural influences have a major impact on SMEs' innovation ⁴. Also, it is affirmed that the state of the business environment influences how innovatively businesses operate ⁵. The ease of doing business is a key factor influencing a company's innovative output, often measured through patents. In the researcher's regression analysis, the cost of doing business has a significant negative effect on corporate innovation. This cost reflects how effectively a country's regulations promote a conducive business environment, which is crucial for fostering innovative activities within companies. Therefore, a business-friendly environment is vital for building national innovation capabilities, especially in transition economies. Other studies have concentrated on

how specific aspects of the business environment impact innovation. The impact that financial limitations have on indigenous businesses' creative endeavors in the Eastern European and Central Asian transition regions and discover a notable inverse correlation between the two ⁶. Another study revealed that feature of the corporate environment has a favorable impact on the innovation of organizations ⁷. Today, the availability of financing for innovation activities of SMEs through business lending continues to be among the factors that have a significant impact on the business climate and the development of entrepreneurship. A steady improvement in lending conditions with state involvement helps banks draw in more customers, increase their small- and medium-sized business segment, and maintain their competitiveness ⁸. It is necessary to finance SMEs' innovations through lending, but this financing is linked to changes in both price and non-price factors. This means that the current system is very sensitive to changes in any one of these factors, and as a result, it can be used to identify the direction of future development ⁹.

Small and medium-sized enterprises (SMEs) play a crucial role in boosting overall production and retail turnover, fostering market competition, and providing employment opportunities for a substantial portion of the population. While the importance of SMEs is evident, there are numerous significant challenges in financing innovation for these businesses in our country, which urgently need to be addressed.

Sharing risks with investors and the banking industry is made possible by diversifying SMEs' financing mechanisms and using alternative financing instruments. When combined with an appropriate legal framework, these measures can strengthen financial stability, safeguard investors' rights, and spur investment activity ¹⁰.

Discussion of the Third Hypothesis's results

The result of the third hypothesis shows that the environmental factors have significantly impacted sales revenue in the SMEs manufacturing sector in Oyo State as table 4.19 reveals the coefficient of determination ($R\text{-Square} = 0.824$) implying that 82% change in the sales revenue of SMEs in Oyo State resulted from business environmental factors including economic, political, technological and socio-cultural factors. Table 4.20 with the F-statistic (1.926) shows the collective significance of the business environmental factors on the sales revenue of SMEs. Similarly, the level of probability of each coefficient of regression in table 4.21 which is less the significant level 5% indicates the significance of the environmental factors on SMEs' sales revenue. The findings of this study is concurred with the study carried out on the impact of business information use on the sales performance of SMEs in Lagos State's information technology sector. The study revealed that business environmental elements, such as social, political, and economic aspects, had an impact on SMEs' sales performance ¹¹. High tax rates, many taxes, complex tax legislation, and inadequate knowledge of tax-related matters are obstacles faced by small and medium-sized enterprises ¹². SMEs that incur high tax expenditures will be compelled to shift the tax burden onto the consumer ¹³. The majority of the SMEs are concentrated in the service, manufacturing and commercial sectors. As a result, sales revenue is many businesses' lifeblood, and the only way they can keep sales high is by cutting back on their operating expenses ¹⁴. Also, the result of this study is supported by another study which discovered a strong correlation between Business environment and Sales revenue of small scale business in Nigeria ¹⁵. The only way to encourage the government to fund infrastructure projects and other developmental initiatives that help create an environment that supports an

organization's ability to sell is for businesses to pay taxes consistently and sincerely and to adhere to all government regulations ¹⁶.

Discussion of the Fourth Hypothesis's results

The result of the fourth hypothesis reveals that environmental factors have significantly influenced employee satisfaction in the SMEs manufacturing sector in Oyo State as table 4.22 reveals the coefficient of determination (R-Square = 0.520), indicating that 52% change in the level of satisfaction of employee in SMEs in Oyo State resulted from the business environmental factors like economic, political, technological and socio-cultural factors. Table 4.23 with the F-statistic (1.585) shows the collective significance of the business environmental factors on the level of employee satisfaction in SMEs. The level of probability of each coefficient of regression in table 4.24 which is less than significant level 5% implies the significance of the environmental factors on the level of satisfaction of employees in SMEs. The result of this study is corroborated with the study that investigated environmental factors' impact on worker satisfaction in the automotive manufacturing sector ¹⁷. The study found that environmental factors, especially the economic issues, surroundings, context dependence and the building's function, had a significant impact on job satisfaction. There are several previous researchers who examined the mediating effect of employee satisfaction in the influence of the business environmental factors on employee performance. It is established by a scholar that employee performance is favorably correlated with a supportive corporate environment, which includes a positive work culture, government policies, social forces, and fair company policies ¹⁸. Also, performance is directly impacted by employee satisfaction, although the relationship between environmental conditions and performance is not tested in terms of work satisfaction's mediating role ¹⁹. Furthermore,

other research conducted on relationship between a positive work environment and employee satisfaction, but it did not examine how the non-physical environment affected workers' performance directly ²⁰. Another study found that employee satisfaction mediates the relationship between employee performance and non-physical factors like government policies, interest rates, and societal issues ²¹.

Discussion of the Fifth Hypothesis's results

It is observed from the result of the fifth hypothesis that that the managerial skills have significantly impacted SMEs performance in the manufacturing sector in Oyo State given that table 4.25 shows the coefficient of determination ($R\text{-Square} = 0.78$) which implies that 78% change in the SMEs performance in Oyo State is influenced by the level of managerial skills of SMEs owners. Table 4.26 with the F-statistic (0.637) affirms the collective significance of the managerial skills of SMEs owners on the level of SMEs performance in Oyo State. In addition, the level of probability of each coefficient of regression in table 4.27 which is less the significant level 5% proves the significance of managerial skills of SMEs owners on the level of performance of SMEs in Oyo State. This study's finding is supported by a study that examined the relationship between environmental conditions, manager skills and competencies, and business performance ²². Another study investigated the effect of managerial skills on the growth and performance of small-scale enterprises in Nigeria, and it was revealed that managerial skills significantly impacted SSBs' performance ²³. The managerial abilities associated with SMEs include the ability to plan and budget, recognize changes, maintain positive client relations, and ensure accurate financial records ²³. A study examined relationship between the performance of advisory services mediated by owner/manager expertise,

competitive intensity, marketing complexity, technical skill, and business size²⁴. In the study, the regression result indicated significant relationship between owner/manager knowledge and performance.

Since money and equipment by themselves cannot sustain itself or generate profits without human labor, the importance of managerial competence in the survival of small and medium-sized businesses cannot be overstated ²⁵.

The foundation of the company's improved performance and competitive advantage is its managerial skills and abilities ²⁶. The theoretical perspective suggests that resources that are valuable, rare, inimitable, and non-substitutable (VRIN) provide firms with a competitive edge. Managerial skills can serve as one such resource to promote growth and sustainable development. However, SMEs often face challenges due to poor managerial skills within their management teams, which can hinder capital accumulation, lead to high employee turnover, and limit the ability to adapt to globalization and technological advancements²⁷. Consequently, SMEs experience minimal growth and development. This underscores the importance of managerial skills, as they could address the persistent issues of inadequate management that impact SME performance and success.

Discussion of the Sixth Hypothesis's results

The findings revealed that the environmental factors have significantly influenced SMEs performance in the manufacturing sector in Oyo State based on the results from the hypotheses one, two, three and four.

This result is in line with the study investigated the impact of political environment on business performance, and the study found that there is a significant relationship between the country's

political environment and business performance due to political instability and violence which has created a very volatile business atmosphere and makes the environment unbearable for businesses ²⁸. It is deduced from the finding that SME's business performance is determined by economic policies put in place by government and that macro-economic variable like inflation, interest rate and unemployment affects business performance. Another study examined the effect of economic factors such as government taxes, interest rates, currency rates, and inflation rates on the operations of small and medium-sized businesses ²⁹. Also, the result from this study is consistent with the study of authors whose findings revealed a significant relationship between socio-cultural environment and performance of Small and Medium Enterprises ³⁰.

Findings from another study revealed that technology environment has a significant effect on performance of Small and Medium Enterprises in Oyo state. This means that technology does play an important role in the performance of an organization. As such, a business will be able to perform excellently without technology in the environment. The finding from this study is also supported studies which revealed that technology environment and socio cultural environment have significantly impacted Small and Medium Enterprises performance ^{31, 32, 33}.

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Chapter Five

Conclusion

This chapter concludes the research study, and it consists of summary of findings, conclusion of the study, recommendations to the study, implications to the study, limitations to the study, and recommendations for further studies.

5.1 Summary of findings

The importance of business environment to the performance of Small and Medium enterprises (SMEs) in Nigeria cannot be overemphasized. On this basis, this study was carried out to investigate the effect of environmental factors and managerial skills on SMEs performance in the manufacturing sector in Oyo State. In this study, the SMEs performance is measured using indicators including profitability, innovation, sales revenue and employee satisfaction.

The result revealed that environmental factors have a significant impact on profitability in the SMEs manufacturing sector in Oyo State as the R-Square = 0.720, which indicates that 72% variations in performance of SMEs profitability can be explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-economic factors (SF)). The F-statistic (10.61) at P-value of 0.00 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (EF, PF, TF and SF)) are good predictors of SMEs profitability in Oyo State.

It is deduced from findings that environmental factors have a significant impact on innovation in the SMEs manufacturing sector in Oyo State based on the coefficient of determination (R-Square = 0.625) which indicates that 63% variations in performance of SMEs innovation can be

explained by environmental factors (economic factors (EF), political factors (PF), technological factors (TF) and socio-economic factors (SF)). Similarly, the F-statistic (1.988) at P-value of 0.06 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (economic factors, political factors, technological factors and socio-economic factors) are good predictors of SMEs innovation in Oyo State

From the findings, it is observed that environmental factors do have a significant influence on sales revenue in the SMEs manufacturing sector in Oyo State as the coefficient of determination (R-Square = 0.824) reveals that 82% variations in sales revenue of SMEs can be explained by environmental factors (economic factors, political factors, technological factors and socio-economic factors). The F-statistic (1.926) at P-value of 0.016 less than significant level 0.05 implies that the SMEs sales revenue is strongly enhanced by the independent variables (economic factors, political factors, technological factors and socio-economic factors).

The findings revealed that environmental factors have significantly impacted employee satisfaction in the SMEs manufacturing sector in Oyo State given the coefficient of determination (R-Square =0.520) indicating that 52% variations in employee satisfaction of SMEs in Oyo State can be explained by environmental factors (economic factors, political factors, technological factors and socio-economic factors). Also, the F-statistic (1.585) at P-value of 0.008 less than significant level 0.05 implies that the independent variables are good predictors of employee satisfaction in SMEs in Oyo State.

In this study, the managerial skills have been observed to moderately affect SMEs performance in the manufacturing sectors in Oyo State due to the coefficient of determination (R-Square =0.78). This value indicates that 78% variations in SMEs performance in Oyo State can be explained by managerial skills (Planning, Organizing, Leading and Controlling). Also, the F-

statistic (0.637) at P-value of 0.036 less than significant level 0.05 reveals that the overall model was statistically significant and the independent variables (Planning, Organizing, Leading and Controlling) are good predictors of SMEs performance in Oyo State.

5.2 Conclusion

The study investigated the effect of business environmental factors and managerial skills on performance of small and medium scale enterprises in Oyo State, Nigeria. Findings of the study showed that environmental factors have significantly impacted the performance of SMEs. The study revealed that environmental factors such as economic factor, political factor, technological factor and socio-economic factor have influenced profitability of SMEs in Oyo State. The findings also deduced that the innovation of SMEs in Oyo State is enhanced by environmental factors such as economic factor, political factor, technological factor and socio-economic factor. It is deduced that the sales revenue of the SMEs in Oyo State is impacted by economic factor, political factor, technological factor and socio-economic factor. It is also concluded that the environmental factors (economic factor, political factor, technological factor and socio-economic factor) have significantly affected employee satisfaction in SMEs in Oyo State. Also, the managerial skills have been concluded to significantly impact SMEs performance in Oyo State. The findings of this study is a clear evidence that business environmental factors and managerial skills are key factors in determining performance of small and medium scale in Nigeria. As a result, knowing the best environmental factor and managerial skills impacting the performance of SMEs in Oyo state, it is important for owners and managers of SMEs to be able to pay more attention on these environmental factors and improve their managerial skills in order to perform excellently and efficiently. On the basis of the findings, the study therefore concluded that

environmental factors and managerial skills have impact on performance of SMEs in Oyo state, Nigeria.

5.3 Recommendations

In line with the findings from this study, the following recommendations are suggested:

- i. Putting the impact of economic factors on performance of SMEs in Oyo State into consideration, SMEs owners in the state should try to periodically review pricing strategies and also focus on cost management to be able to stay competitive while covering costs, especially if inflation or material costs rise in the country.
- ii. The Oyo State government should implement economic laws that control SMEs competitiveness. The government should also investigate many taxes imposed on SMEs, as these always discourage many individuals from starting their own enterprises.
- iii. Based on the significant impact of political factors on performance of SMEs in Oyo State, the SMEs owners are advised to always stay informed on government regulations and also prepare for trade policy shifts that may result from frequent change in political system in the state and the country at large.
- iv. Considering the effect of technology on SMEs performance in Oyo State, owners of SMEs in the State should try to leverage digital marketing by ensuring online presence through social media, email marketing, and search engine optimization. Also, they should try expanding into E-commerce and mobile accessibility as this will enable them to reach broader customer base.

- v. SMEs owners and managers in Oyo State are advised to try to understand the customers demographic and also engage in Community-Building by collaborating with other SMEs, supporting community development events.
- vi. The government of Oyo State should control business operations in order to identify and eliminate any factors that hinder new ventures and hinder the ongoing establishment, survival, and expansion of small enterprises inside the state.
- vii. Managers of SMEs that are operating in Oyo State should try to stay up to date on how consumer behavior and income trends change will impact their operations.
- viii. SMEs' owners and managers in Oyo State are advised to develop their ability to adjust to and deal with technological advancements to stay in business,
- ix. SMEs' owners and managers should be skillful at coordinating their operational plans with the reality of the current market and the environment. This necessitates a frequent updating and modification of tactics.
- x. The owners and managers of SMEs should work to enhance their managerial skills, as this will have a direct impact on how well their small-and medium-sized businesses are managed.
- xi. Small and medium-sized business owners should recruit professionals in their industry so that their staff members can learn from them and develop more transferable managerial abilities, as this will enhance their output.

5.4 Contribution to Knowledge

- i Conceptually, this study expands in existence literature as it enhances knowledge of environmental factors and managerial skills with their respective indicators/variables such as economic, political, technological, socio cultural, planning, and controlling and decision making by linking them with performance of small and medium enterprises (SMEs).
- ii. Conceptual model developed for this study was adapted but modified by combining managerial skills factors with environmental factors by means to predict performance of small and medium enterprises in manufacturing sectors in Oyo State, Nigeria. This model being propounded by the researcher could be useful for further study by future researcher.
- iii. Empirically, the study contributed to the literature by expanding the understanding of how the dimension of environmental factors and managerial skills predicts the performance of small and medium enterprises (SMEs) in manufacturing sectors to achieve the profitability, innovation, and sales revenue of small and medium enterprises (SMEs) in order to be effective and efficient in their productions and activities.

5.5 Study's limitations and Areas for Furthers Research

- i This study was limited to Small and Medium Scale Enterprises in Oyo State, Nigeria. This could have effect on the results of the study in terms of representativeness of the numbers of entire Small and Medium Enterprises in Nigeria.
- ii The determination of sample size for this study was arrived at by using Taro Yemane formula. Then, adoption of other formula by future researcher could offer different sample size which can be useful for business enterprises.

- iii This study adopts descriptive research design and gathered relevant data through structural questionnaire. Therefore, future researcher could use other means to ratify the relationship that was identified in this study.
- iv The content scope was limited to investigate the environmental factors, managerial skills and performance of small and medium enterprises in the manufacturing sectors by providing moderating variable which is managerial skills and for other two variables which are Environmental factors (independent variable) and performance of SMEs (dependent variable). Future studies can consider other components and measures of mediating variable.
- v Structural questionnaire were used as quantitative instruments for data collection. Therefore, other instrument could be used by future researcher for further studies.
- vi The study could be replicated in other sectors of the economy other than the SMEs sector.
- vii Geographical scope of this study was restricted to three geopolitical zones in Oyo State which are Oyo North, Oyo Central and Oyo South in Oyo State, Nigeria. The study could be replicated in other geopolitical zones in Nigeria for further study by future researcher.
- viii The study focused on only four dimensions of external environmental factors (economic, political, socio-cultural and technological factors) and managerial skills (planning, organizing, leading and controlling) that affect performance of SMEs. Future researcher could focus on other dimensions of internal environmental factors and motivating skills for further study.

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Appendix
Questionnaire

Department of Management and Accounting,
Faculty of Management and Social Sciences,
Lead University, Ibadan, Oyo State,
Nigeria.

Dear Respondent,

I am Adesola Oladeji, a Postgraduate student of Lead City University; I am conducting a study title **“Environmental Factors, Managerial Skills and Performance of Small and Medium Enterprises (SMEs) in the selected LGA in Oyo State, Nigeria”**. I would like to request for your consent to complete this academic administer questionnaire.

Be assured that every information given will be treated with utmost confidentiality.

Thank you for your consent.

Yours faithfully,

Oladeji, Adesola Alaba
Researcher

INSTRUCTION: Please tick, in the appropriate space for your answer, Endeavour to give your view where needed.

SECTION A: Socio Demographic characteristics of Respondent

1. Gender: Male (), Female ()
2. Marital Status: Married (), Single () Divorced () Separated
3. Age: Below 30 years (), 30-35 (), 36-41 (), 42-47 (), 48-53 (), 54 and above ()
4. Educational background: SSCE/GCE (), OND/NCE (), HND/BSC (), MSc/MBA (), PhD ()
5. Year of Experience: 1-5 Years (), 6-10 years (), 11- 15 Years (), 19 – 20 Years (), and above 20 Years ().
6. Working Capital: Below ₦100, 000 (), ₦100, 000 - ₦400, 000 (), ₦1m - ₦5m ().

Data relating to Research questions and formulated Hypotheses

SECTION B: Business Environmental Factors

Please tick the option by indicating [✓] in line with your opinion: Strongly Agreed = SA, Agreed = A, Undecided = U, Disagreed = D and Strongly Disagreed = SD

Perception of respondents on the influence of economic factors on small and medium business enterprises in Oyo state

Items on economic factors	Responses (Options)				
	SA	A	U	D	SD

I consider interest rate as one of the major factors in my environment					
Operating cost is increasing constantly					
I am always aware of how the amount of demand for goods and services is affected by the exchange rate					
Raw material prices are always changing					
Based on exchange rates, I often adjust the price of my products					

Perception of respondents on the influence of political factors on small and medium business enterprises in Oyo state

Items on political factors	Responses (Options)				
	SA	A	U	D	SD
I always consider government policies to take better decisions for the firm's progress					
I try to constantly assess each of political issues closely to be able to smoothly run my business activities					
I always stay up-to-date to know the implication of taxes for some companies					
I am aware that political forces have the power to alter corporate operations					
I always try to deal with the local and international outcomes of politics					

Perception of respondents on the influence of technological factors on small and medium business enterprises in Oyo state

Items on technological factors	Responses (Options)				
	SA	A	U	D	SD
I ensure the security and protection of its technological infrastructure and data					
I assess the return on investment for adopting new technology					
I strategize for integrating technology into its long-term business growth and sustainability					

I update with the latest technological advancements and trends relevant to industry					
I approach training and up skilling employees to adopt to new technology					

Perception of respondents on the influence of socio-cultural factors on small and medium sbusiness enterprises in Oyo state

Items on socio-cultural factors	Responses (Options)				
	SA	A	U	D	SD
I allow employees time for religious activities					
I give priorities to employees during religious celebrations					
I make it mandatory for employees to come to work on public holidays					
I encourage employees to improve their level of education					
I employ individuals with the same cultural background					

SECTION C: SMEs Business Performance

Please tick the option by indicating [√]:in line with your opinion Strongly Agreed = SA, Agreed = A, Undecided = U, Disagreed = D and Strongly Disagreed = SD

Items on business performance	Responses (Options)				
	SA	A	U	D	SD
I am able to make a normal profit at the end of the year					
I am able to achieve an expected level of sales revenue annually					
I am experiencing a remarkable market growth for the business					

My customers are happy with my long term customer relationship strategy					
My customers are happy with the superior value of my products/services relative to my competitors					

SECTION D: Managerial Skills

Please tick the option by indicating [√]:in line with your opinion: Strongly Agreed = SA, Agreed = A, Undecided = U, Disagreed = D and Strongly Disagreed = SD

Items on managerial skills	Responses (Options)				
	SA	A	U	D	SD
I can readily monitor every financial decision made to make sure that spending doesn't go above revenue					
I am able to understand, lead, change and regulate the behavior of the individuals and business that I manage					
I am able to motivate employees, resolve workplace issues, and collaborate with others					
The skills I possess can make me view and operate with the organization as a small manageable entity while effectively linking to its surrounding					
I can be able to prepare and structure work effectively in the organization					

Lead City University
Student Biodata

A. Personal Data

1. Full Name: Oladeji Adesola Alaba
Address: Heritage Estate, Jagada, Ologuneru, Ibadan, Oyo State
E-mail Address: s4shola@yahoo.com
Phone Number: 08035713894
2. **Date of Birth:** 23, March 1981
Place of Birth: Ogbomoso
3. **Nationality:** Nigerian
4. **Name and Address of Next of Kin:**
5. Name: Oladeji Morianugba Veronica
Address: Heritage Estate, Jagada, Ologuneru, Ibadan, Oyo State

B. Education Institutions Attended with Date and Qualifications

- | | |
|--------------------------------------|-----------|
| (i) Bowen University Iwo, Osun State | 2004-2008 |
|--------------------------------------|-----------|

- (ii) Obafemi Awolowo University, Ile-Ife, Osun State. 2014-2017

C Working Experience with Dates

- (i) Federal Road Safety Corps, RS1.2 Kano Sector 2008-2009
- (ii) The Polytechnic, Ibadan 2010 – Date

D Membership of Academic Professional Body

- i. Member, Nigerian Institute of Management (Proficiency Certificate in Management) “061259” 2009
- ii. International Professional Managers Association (IPMA-UK) (Certified International Professional Manager) (AMPMA) (Associate Member). “10938” 2017
- iii. Institute of Business Diplomacy and Financial Management (IBDFM) (Associate Member) “Membership number: 2102236”. 2021

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Signature

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Date

The University Compliance Certification

This is to certify that this thesis by Oladeji Adesola Alaba with Matriculation Number LCU/PG/002599 in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University, Ibadan, is in Full Compliance with the approved university Format and Style.

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Signature

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Date

Lead City University Ibadan DO NOT COPY