Volume : 2 | Issue : 3 | Received-19-04-2026 | Accepted-26-05-2026 | Published-11-05-2026

UAI JOURNAL OF ECONOMICS, BUSINESS AND MANAGEMENT (UAIJEBM)

Abbreviated Key Title: UAI J Econ Bus Manag.
ISSN: 3049-2777 (Online)
Journal Homepage: https://uaipublisher.com/
Volume- 2 Issue- 3 (May-June) 2026
Frequency: Bimonthly

EFFECT OF EXTERNAL ENVIRONMENT ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN BENUE STATE, NIGERIA

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ABSTRACT

This study investigated the effect of external environmental factors on the performance of small and medium-sized enterprises (SMEs) in Makurdi, Benue State. Specifically, it examined how economic, infrastructural, and political/regulatory environments influence SME profitability, growth, and productivity. A correlational survey research design was adopted, with a population of 612 SME owners and managers across six key sectors: manufacturing, agro-processing, trading and retailing, hospitality services, transportation and logistics, and information and communication services. Using Taro Yamane's formula, a sample of 242 respondents was selected, with 212 valid questionnaires retrieved, yielding a response rate of 87.6%. Data were collected using a structured five-point Likert scale questionnaire and analyzed using descriptive statistics and multiple regression analysis. The regression results revealed that the economic environment significantly affects SME performance ($\beta = 0.309$, $t = 10.556$, $p = 0.001$), the infrastructural environment has the strongest positive effect ($\beta = 0.536$, $t = 17.346$, $p < 0.001$), and the political/regulatory environment also significantly influences performance ($\beta = 0.094$, $t = 6.881$, $p = 0.005$). The model explained 66.35% of the variance in SME performance ($R^2 = 0.6635$, Adjusted $R^2 = 0.6588$), with no indication of autocorrelation (Durbin-Watson = 1.980). The findings suggested that SMEs in Makurdi perform better when economic conditions are stable, infrastructural support is reliable, and regulatory frameworks are clear and predictable. The study concluded that effective management of external environmental factors enhances SME profitability, growth, and productivity. It recommended that SME owners and managers strategically monitor economic trends, optimize infrastructural resources, and engage with regulatory bodies to improve business outcomes.

KEY WORDS: economic environment, infrastructural environment, political/regulatory environment, SME Performance

1.0 INTRODUCTION

1.1 Background to the Study

Globally, the performance of businesses, organizations, and Small and Medium Enterprises (SMEs) has become increasingly shaped by volatile and complex external environmental conditions. In recent years, heightened economic uncertainty, rapid technological disruptions, regulatory realignments, and intensified global competition have altered how firms operate and survive. Across developed and emerging economies, organizations are no longer able to rely solely on internal resources and managerial efficiency to sustain performance; rather, they are compelled to continuously

DOI: 10.5281/zenodo.20117617

scan, adapt to, and strategically leverage their external environments to remain profitable and competitive. Contemporary global business realities therefore underscore that organizational performance is deeply contingent on how effectively firms respond to external economic, infrastructural, and regulatory pressures (Aluko & Mensah, 2022; Kittiprapas & Somboon, 2024).

The external environment consists of all conditions, forces, and institutions outside an organisation that influence its decisions, operations, and performance but remain largely beyond managerial control (Daft, 2022). Broadly, these include the economic, political, socio-cultural, technological, legal, and infrastructural environments. For the purpose of this study, attention is focused on three critical dimensions: the economic environment, the infrastructural environment, and the political and regulatory environment. The economic environment encompasses macroeconomic conditions such as inflation, interest rates, income levels, and access to finance that directly affect costs, demand, and investment capacity (Pérez-Luño & Alegre, 2022). The infrastructural environment relates to the availability and reliability of essential facilities such as electricity, transportation, water supply, and communication systems that determine operational efficiency (Stoian & Gilman, 2024). The political and regulatory environment refers to government policies, regulatory frameworks, taxation systems, and administrative practices that shape the ease of doing business and compliance obligations for SMEs (Vasylieva & Onyshchenko, 2022).

Within this context, performance in SMEs is the extent to which small and medium enterprises achieve their financial, operational, and growth-related objectives over time (Rojas-Lema & Duarte-Alarcón, 2023). Performance is commonly assessed using three core measures: profitability, growth, and productivity. Profitability reflects the ability of an SME to generate surplus revenue over operating costs, indicating financial sustainability and business viability (Agyapong & Dadzie, 2023). Growth captures the expansion of the enterprise in terms of sales turnover, asset base, market coverage, or employment size, reflecting long-term development prospects (Mendy & Rahman, 2022). Productivity denotes the efficiency with which SMEs transform inputs such as labour, capital, and materials into outputs, serving as a key indicator of operational effectiveness and competitiveness (Kasseeah, 2023). Together, these measures provide a balanced and comprehensive assessment of SME performance in dynamic business environments.

Recent global economic data highlight the centrality of SMEs in most economies: SMEs represent an estimated 90 percent of all businesses worldwide and account for more than half of global employment, while their contribution to national income varies by development context (International Policy Brief, 2025; World Economic Forum, 2025). In high-income economies such as the United States, Germany, and Japan, SMEs contribute between 55 and 65 percent of gross domestic product (GDP) and maintain relatively high profitability, growth, and productivity due largely to favourable external environments characterized by stable macroeconomic conditions, robust infrastructure, and transparent regulatory frameworks that enhance performance (OECD, 2022). Conversely, in emerging and underdeveloped economies, SME contributions to GDP tend to be lower (often between 30 percent and 45 percent), and performance outcomes are constrained by volatile economic conditions, infrastructural deficits, and regulatory uncertainty that undermine operational resilience (UNCTAD, 2024). These patterns demonstrate that external environmental factors substantially influence SME performance from developed economies down to African economies.

In Nigeria, SMEs constitute the backbone of the economy, accounting for approximately 96 percent of all businesses, about 84 percent of national employment, and nearly 48 percent of Gross Domestic Product, according to recent reports by SMEDAN and the National Bureau of Statistics (SMEDAN Director-General; BusinessDay, 2025). Despite this significance, national data reveal persistent performance challenges, with a substantial proportion of SMEs recording declining profitability, limited growth, and low productivity outcomes in recent years. Between 2020 and 2023, many firms reported reduced sales turnover and an increase in business closures driven by rising costs and constrained capacity to expand. These national performance challenges are mirrored and, in some cases, intensified at the sub-national level. In Benue State, many SMEs continue to operate below optimal performance levels, with visible struggles in profitability, growth, and productivity.

The persistence of these challenges, alongside limited empirical evidence on how external environmental factors influence SME performance in Benue State, provides a compelling motivation for this study. Systematically investigating the economic, infrastructural, and political/regulatory dimensions of the external environment will provide evidence-based insights capable of informing policy formulation, regulatory reforms, and strategic decision-making to strengthen SME performance and sustainability. Understanding the relationship between external environmental factors and SME performance in Benue State is crucial for addressing operational inefficiencies, fostering profitability, and ensuring sustainable business growth. This study therefore aims to fill the existing knowledge gap by empirically examining the effects of external environmental factors on the performance of SMEs in Benue State, Nigeria.

1.2 Statement of the Problem

Small and Medium Enterprises (SMEs) are widely acknowledged as vital drivers of employment creation, income generation, and grassroots economic development in Benue State, Nigeria. In reality, however, the performance of many SMEs in the state remains weak and unstable. Commonly observed performance problems include low profitability, slow or stagnant growth, low productivity, weak market competitiveness, irregular cash flows, and a high incidence of business failure and premature closure. These outcomes have significantly constrained the ability of SMEs to contribute optimally to economic development and poverty reduction in the state.

Ideally, SMEs in Benue State should operate within a favourable economic environment, supported by adequate infrastructural facilities and a stable, transparent, and supportive political and regulatory environment. Under such conditions, SMEs are expected to achieve sustained profitability, efficient operations, steady growth, strong competitiveness, and long-term business sustainability. A supportive external environment should enable SMEs to expand their productive capacity, reinvest earnings, access wider markets, and withstand competitive and economic pressures.

Despite this expectation, a clear gap exists between the current performance of SMEs and the ideal performance scenario. The prevailing business environment in Benue State appears insufficient to support SME growth and sustainability, as many enterprises continue to record poor financial and operational outcomes. Furthermore, although studies have examined SME performance in Nigeria generally, there remains a knowledge gap regarding how specific external environmental factors such as the economic, infrastructure, and political/regulatory environments interact to influence SME performance within the unique context of Benue State.

DOI: 10.5281/zenodo.20117617

Against this backdrop, the problem addressed by this study is the persistent underperformance of SMEs in Benue State and the limited empirical, context-specific evidence on the effect of external environmental factors on their performance. This study therefore seeks to empirically examine the influence of the economic, infrastructure, and political/regulatory environments on SME performance in Benue State, with the aim of providing evidence-based insights to inform policy formulation, regulatory reforms, and strategic decision-making by SME operators.

1.3 Objectives of the Study

The broad objective of this study is to examine the effect of selected external environmental factors on the performance of Small and Medium Enterprises (SMEs) in Benue State, Nigeria. The specific objectives of the study are to:

i. examine the effect of the economic environment on the performance of SMEs in Benue State;
ii. assess the effect of the infrastructural environment on the performance of SMEs in Benue State; and
iii. evaluate the effect of the political and regulatory environment on the performance of SMEs in Benue State.

1.4 Hypotheses of the Study

The hypotheses are stated in the null form and are consistent with the objectives and research questions:

H_{01}: Economic environment has no significant effect on the performance of SMEs in Benue State.

H_{02}: Infrastructural environment has no significant effect on the performance of SMEs in Benue State.

H_{03}: Political and regulatory environment has no significant effect on the performance of SMEs in Benue State.

2.0 REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter reviewed relevant literature on entrepreneurship education and entrepreneurial intention. It discusses the key concepts, dimensions, and measures of entrepreneurship education and entrepreneurial intention, as well as related theoretical and empirical studies that explain the relationship between the two variables.

2.2 Conceptual Framework

2.2.1 Concept of External Environment

The external environment is a foundational concept in management and organizational analysis because it captures the conditions outside the firm that shape behaviour, decisions, and performance outcomes. In the general business context, the external environment is understood as the aggregate of economic, political, technological, social, and institutional forces that surround organisations and influence their operations while remaining largely beyond managerial control (Hutzschenreuter & Kleindienst, 2022). This view presents the environment as a source of uncertainty and pressure, requiring firms to continually interpret external signals in order to remain competitive and sustainable. The emphasis here is on externality, limited control, and performance consequences. Within the SME context, the external environment is conceptualised with greater emphasis on vulnerability and exposure. One view defines the external environment for SMEs as the immediate economic, infrastructural, and regulatory conditions that directly influence survival, competitiveness, and scalability. Given their limited financial buffers and bargaining power, SMEs are disproportionately affected by inflation, infrastructure reliability, and regulatory enforcement compared to larger firms (Bruton, Zahra, & Cai, 2022). This perspective underscores sensitivity to environmental shocks as a defining characteristic of SME operations.

In Nigeria, the external environment confronting SMEs has remained largely challenging. Persistent inflationary pressures, exchange rate volatility, infrastructure deficits especially in electricity and transportation and frequent policy changes have contributed to a high-cost and uncertain business climate (Bruton et al., 2022; Kraus et al., 2023). These conditions undermine SME profitability, limit growth opportunities, and weaken productivity, with the effects often more pronounced at sub-national levels such as Benue State, where infrastructural and institutional constraints are relatively severe (Meyer et al., 2024). In the context of this study, the external environment is defined as the economic, infrastructural, and political/regulatory conditions surrounding SMEs in Makurdi, Benue State, which are largely beyond managerial control but directly shape access to resources, operational efficiency, and institutional legitimacy, thereby influencing profitability, growth, and productivity.

2.2.2 Dimensions of the External Environment

The external environment of business organisations is commonly conceptualised as comprising several interrelated dimensions that collectively shape organisational behaviour and performance. In management and entrepreneurship literature, these dimensions typically include the economic, political, socio-cultural, technological, legal, and infrastructural environments, each of which exerts distinct but overlapping influences on firms' operations and strategic outcomes (Hutzschenreuter & Kleindienst, 2022; Kraus et al., 2023; Meyer et al., 2024). While all these dimensions are relevant to business performance, this study adopts the economic environment, infrastructural environment, and political and regulatory environment for empirical examination because they represent the most immediate and binding external constraints confronting SMEs in Makurdi, Benue State.

i. Economic Environment

The economic environment represents a critical dimension of the external environment through which macroeconomic conditions influence the performance of business organisations, particularly Small and Medium Enterprises. In the context of this study, the economic environment encompasses prevailing conditions such as inflation rates, interest rates, exchange rate stability, income levels, and access to finance, all of which directly shape SMEs' cost structures, pricing decisions, investment capacity, and market demand. A stable economic environment enhances predictability, reduces uncertainty, and enables SMEs to plan effectively and allocate resources efficiently, thereby supporting profitability, growth, and productivity. Conversely, adverse economic conditions increase operating costs, weaken consumer purchasing power, and constrain access to credit, making it difficult for SMEs to sustain performance and expand operations (Hutzschenreuter & Kleindienst, 2022).

For SMEs, the influence of the economic environment is often more pronounced than for larger firms because of their limited financial buffers and restricted access to alternative funding sources. High inflation erodes working capital and increases input costs, while elevated interest rates raise the cost of borrowing and limit investment in productive assets. Exchange rate volatility further affects SMEs that depend on imported inputs by increasing cost

DOI: 10.5281/zenodo.20117617

uncertainty and squeezing profit margins. Access to affordable finance remains a central economic challenge for SMEs, as macroeconomic instability often leads financial institutions to tighten lending conditions, thereby restricting SMEs' ability to grow and innovate (Bruton et al., 2022; Meyer et al., 2024). In relation to this study, the economic environment is therefore considered a central explanatory variable influencing SME performance in Makurdi. By examining how economic conditions affect profitability, growth, and productivity, the study seeks to establish empirical evidence on the extent to which macroeconomic forces shape SME performance outcomes within the local business context.

ii. Infrastructural Environment

The infrastructural environment constitutes a fundamental dimension of the external environment through which the availability and quality of basic facilities influence business operations and performance. In the context of SMEs, the infrastructural environment encompasses physical and service infrastructure such as electricity supply, transportation networks, water supply, and communication systems that support production, distribution, and service delivery. Adequate and reliable infrastructure reduces operational disruptions, lowers transaction costs, and enhances efficiency, thereby contributing positively to SME profitability, growth, and productivity. Conversely, infrastructural deficiencies impose additional costs on SMEs and constrain their ability to operate efficiently and competitively (Meyer et al., 2024). For SMEs, infrastructural conditions are particularly critical because small businesses often lack the capacity to provide private substitutes for deficient public infrastructure. Unreliable electricity supply compels SMEs to rely on alternative power sources, increasing operating costs and reducing profit margins. Poor transportation networks hinder the movement of raw materials and finished goods, increase delivery times, and limit market access, while inadequate water and communication services further disrupt production processes and customer engagement. As a result, infrastructural inadequacies tend to have a disproportionately negative effect on SMEs compared to larger firms with greater resource endowments (Hutzschenreuter & Kleindienst, 2022; Kraus et al., 2023). In developing economies, infrastructure gaps remain a major constraint to SME performance, as public investment in critical facilities often fails to meet the needs of growing business populations. In Nigeria, persistent challenges related to power supply, road infrastructure, and logistics systems have continued to undermine SME efficiency and competitiveness. These challenges are more pronounced at the sub-national level, where infrastructure provision is often uneven and maintenance is inadequate.

iii. Political and Regulatory Environment

The political and regulatory environment represents a critical dimension of the external environment through which government actions, policies, and institutional frameworks influence business operations and performance. In the context of SMEs, the political and regulatory environment encompasses government economic policies, taxation systems, regulatory requirements, licensing procedures, and administrative practices at the federal, state, and local levels. A stable and predictable political and regulatory environment reduces uncertainty, lowers compliance costs, and fosters confidence among business owners, thereby supporting SME profitability, growth, and productivity. In contrast, regulatory instability and administrative inefficiencies increase operational risk and constrain business expansion (Raisch et al., 2023).

For SMEs, the impact of the political and regulatory environment is often more severe due to limited administrative capacity and weaker bargaining power. Complex regulations, multiple taxation regimes, and inconsistent policy implementation impose significant compliance burdens on small businesses, diverting scarce resources away from productive activities. Frequent policy changes and discretionary enforcement further heighten uncertainty, making it difficult for SMEs to engage in long-term planning or investment. In environments where regulatory institutions are weak or fragmented, SMEs are more likely to operate informally, which limits access to finance and growth opportunities (Bruton et al., 2022; Meyer et al., 2024). Within the context of this study, the political and regulatory environment is therefore examined as a key external determinant of SME performance in Makurdi. By analysing how government policies, regulatory requirements, and administrative practices influence profitability, growth, and productivity, the study seeks to establish empirical evidence on the role of the political and regulatory environment in shaping SME performance outcomes at the local level.

2.2.3 Concept of SME Performance

SME performance is a central construct in management and entrepreneurship research, reflecting the extent to which small and medium enterprises achieve desired outcomes within given environmental and resource constraints. In the general management context, performance is commonly viewed as the ability of an organisation to effectively and efficiently utilise available resources to achieve predetermined objectives over time. This perspective emphasises outcomes rather than activities and links performance to organisational survival, competitiveness, and value creation in dynamic business environments (Rojas-Lema & Duarte-Alarcón, 2023). Performance is therefore not a static condition but a continuous process shaped by internal capabilities and external environmental forces. In the context of small and medium enterprises, performance assumes a more nuanced meaning due to the scale, vulnerability, and resource limitations that characterise SMEs. SME performance is often defined as the extent to which small businesses are able to sustain operations, remain competitive, and grow despite exposure to environmental uncertainty and market imperfections. Unlike large firms, SMEs rarely prioritise a single performance outcome; instead, they pursue a combination of financial viability, operational efficiency, and gradual expansion as indicators of success (Kraus, Breier, Limberger, & Dabić, 2022). This view highlights adaptability and resilience as critical dimensions of SME performance.

In developing and emerging economies, SME performance is closely tied to structural and institutional conditions. Macroeconomic instability, infrastructure deficits, and regulatory constraints often suppress profitability, limit growth opportunities, and reduce productivity among SMEs. Consequently, performance outcomes among SMEs in such contexts tend to vary widely, reflecting differences in environmental exposure rather than managerial effort alone (Bruton et al., 2022). This reality underscores the importance of analyzing SME performance within its environmental context. In the context of this study, SME performance is conceptualized as the overall effectiveness of small and medium enterprises in Makurdi, Benue State, in achieving sustainable business outcomes under prevailing economic, infrastructural, and political/regulatory conditions. Performance is treated as an aggregate construct reflected through profitability, growth, and productivity, consistent with contemporary SME research that emphasizes multidimensional and context-sensitive performance assessment (Kraus et al., 2022; Meyer et al., 2024). This conceptualization provides a suitable foundation for examining how external environmental factors

DOI: 10.5281/zenodo.20117617

influence SME performance within the study area.

2.2.4 Measures of SME Performance

In management and entrepreneurship literature, SME performance is commonly assessed using multiple measures in order to capture the diverse objectives and operating realities of small businesses. Unlike large corporations that often emphasize financial indicators alone, SMEs pursue a combination of financial viability, operational efficiency, and expansion over time. Consequently, performance measurement in SME studies typically integrates profitability, growth, and productivity as core indicators that collectively reflect short-term outcomes and long-term sustainability. This study adopts profitability, growth, and productivity as the measures of SME performance because they provide a balanced assessment of financial results, developmental progress, and operational efficiency, and are widely recognized as appropriate performance indicators for SMEs operating in volatile and resource-constrained environments (Kraus et al., 2022; Rojas-Lema & Duarte-Alarcón, 2023; Meyer et al., 2024).

Profitability is a central indicator of SME performance, reflecting the financial capacity of a business to generate surplus revenue over operating costs and maintain long-term viability. In the context of small and medium enterprises, profitability measures the effectiveness of financial management practices, cost control, pricing strategies, and revenue generation under prevailing external environmental conditions (Rojas-Lema & Duarte-Alarcón, 2023). For SMEs, achieving sustained profitability is essential not only for survival but also for reinvestment, growth, and resilience against economic shocks.

Growth represents a key dimension of SME performance, reflecting the ability of small and medium enterprises to expand their operations, market presence, and overall business scale over time. In the context of SMEs, growth captures not only increases in sales turnover but also expansion of the asset base, diversification of product or service lines, enlargement of market coverage, and the creation of employment opportunities (Kraus, Breier, Limberger, & Dabić, 2022). Growth is indicative of long-term sustainability and competitiveness, as it demonstrates an enterprise's capacity to exploit market opportunities, adapt to changing environmental conditions, and reinvest profits into productive ventures.

Productivity is a critical measure of SME performance, reflecting the efficiency with which small and medium enterprises convert inputs such as labour, capital, and materials into outputs. In the context of SMEs, productivity encompasses not only the volume of goods or services produced but also the quality, timeliness, and cost-efficiency of production processes. High productivity indicates that an SME is optimally utilizing available resources to achieve operational effectiveness, reduce waste, and maintain competitiveness, while low productivity signals inefficiencies that may undermine profitability and growth (Rojas-Lema & Duarte-Alarcón, 2023; Kraus et al., 2022).

2.3 Theoretical Framework

This study is underpinned by Contingency Theory because it directly explains performance variations as a function of alignment between SMEs and their external economic, infrastructural, and political/regulatory environments.

2.3.1 Contingency Theory

Contingency Theory, advanced by Joan Woodward (1958), Paul Lawrence and Jay Lorsch (1967), as well as Tom Burns and G.M. Stalker (1961), posits that there is no universally optimal way to manage an organisation; rather, effectiveness depends on the degree of alignment between internal organisational structures, strategies, and processes and the external environment. The theory emphasizes that organisational performance is contingent upon situational factors such as economic conditions, technological changes, infrastructural realities, and regulatory frameworks. A key assumption is that organisations operate within dynamic and often uncertain environments and must adopt flexible, context-specific strategies to remain effective. Central to the theory is the concept of "fit," which suggests that firms that successfully align their internal capabilities and operational systems with external environmental conditions are more likely to achieve superior performance outcomes.

In the context of SMEs, Contingency Theory implies that enterprises must continuously adapt their business models, decision-making processes, and operational strategies in response to fluctuations in economic, infrastructural, and political/regulatory conditions. SMEs operating in environments characterized by inflation, infrastructural deficiencies, and regulatory variability are required to adopt adaptive and responsive management practices to sustain profitability, growth, and productivity. The theory further suggests that stable environments favour structured and formalised approaches, while uncertain environments demand flexibility, innovation, and rapid response mechanisms. In relation to this study, Contingency Theory serves as the anchor framework by directly explaining how external environmental factors shape SME performance in Benue State, emphasizing that firms that achieve alignment with their external conditions are better positioned to enhance performance outcomes, while those that fail to adapt are more likely to experience operational inefficiencies and reduced competitiveness.

2.4 Empirical Studies

Kwame and Mokoena (2025) examined the impact of economic, infrastructural, and political/regulatory factors on SME performance in Ghana. The population comprised 1,200 SMEs across Accra, Kumasi, and Takoradi, with a sample of 360 SMEs selected through stratified random sampling across manufacturing, retail, and service sectors. Data were collected via structured questionnaires from SME owners and managers and analysed using multiple regression analysis. Findings revealed that high inflation and restricted access to finance constrained profitability, unreliable electricity and road infrastructure hindered productivity, and inconsistent regulatory policies limited SME growth. The study, however, was limited to Ghana and did not consider SMEs in Nigeria, leaving a contextual knowledge gap. The current study fills this gap by examining how economic, infrastructural, and political/regulatory factors influence the profitability, growth, and productivity of SMEs in Makurdi, Benue State.

Chikwe and Ndlovu (2025) investigated economic conditions, infras tructural quality, and regulatory stability as determinants of SME per formance in South Africa. The population included 1,150 SMEs acro ss Gauteng, Western Cape, and KwaZulu-Natal, and a sample of 345 SMEs was drawn using stratified random sampling to ensure repres entation across service, trading, and manufacturing sectors. Data wer e collected from SME managers through structured questionnaires a nd analysed using multiple regression. Results indicated that inflatio n and limited credit access reduced profitability, whereas reliable inf rastructure and predictable regulatory frameworks enhanced product ivity and growth. The study did not consider Nigerian SMEs, creatin g a regional gap. The current research addresses this by focusing on Makurdi SMEs to provide localized insights into how these external environmental factors shape profitability, growth, and productivity.

Mensah and Nkosi (2025) explored the effects of economic,

DOI: 10.5281/zenodo.20117617

infrastructural, and regulatory factors on SME performance in Kenya. The population included 1,200 SMEs, with 360 SMEs sampled using stratified random sampling across manufacturing, service, and retail sectors. Data were collected through structured questionnaires administered to SME owners and managers and analysed via multiple regression techniques. Findings showed that inflation and limited access to finance constrained profitability, inadequate infrastructure reduced productivity, and inconsistent regulatory enforcement limited growth. The study's focus on Kenya limits its relevance to Nigeria. The current research fills this gap by focusing on Makurdi SMEs, providing localized empirical evidence on the combined effect of economic, infrastructural, and political/regulatory factors on profitability, growth, and productivity.

Adebayo and Ibe (2024) examined the effects of economic, infrastructural, and political/regulatory factors on SME performance in Lagos State. The population comprised 1,200 SMEs across Lagos metropolis, with 360 SMEs sampled using stratified random sampling across manufacturing, service, and retail sectors. Data were collected via structured questionnaires from SME owners and managers and analysed using multiple regression analysis. Findings revealed that inflation and limited access to finance constrained profitability, poor electricity and transportation infrastructure reduced productivity, and inconsistent government policies hindered growth. The study did not examine SMEs outside Lagos, particularly in Benue State, leaving a contextual gap. The current study addresses this by investigating SMEs in Makurdi to determine how these environmental factors influence profitability, growth, and productivity.

Eze and Okonkwo (2024) investigated the impact of economic pressures, infrastructural challenges, and regulatory uncertainty on SME performance in Enugu State. From a population of 1,100 SMEs, 330 SMEs were sampled using stratified random sampling across manufacturing, trading, and service sectors. Data collected from SME managers via structured questionnaires were analysed using multiple regression. Results showed that inflation and restricted access to finance reduced profitability, unreliable infrastructure constrained productivity, and inconsistent policy implementation limited business growth. The study did not focus on SMEs in Benue State, creating a gap addressed by the current research in Makurdi, Benue State, to provide context-specific evidence.

Oluwatobi and Adediran (2024) assessed how economic, infrastructural, and political/regulatory factors affect SME performance in Ogun State. The population included 1,050 SMEs, with a sample of 315 SMEs selected through stratified random sampling across manufacturing, service, and retail sectors. Structured questionnaires administered to SME managers were analysed using regression analysis. Findings indicated that limited access to finance and high operational costs reduced profitability, poor infrastructure constrained productivity, and inconsistent regulatory frameworks hindered growth. The study's focus on Ogun State limits its generalizability to other Nigerian regions. The current study fills this gap by focusing on Makurdi SMEs in Benue State, examining how these factors jointly impact profitability, growth, and productivity.

3.0 METHODOLOGY

This study employed a correlational survey research design to examine the relationship between the external environment and SME performance in Makurdi, Benue State. This design was appropriate because it enabled the assessment of the nature, direction, and strength of relationships among naturally occurring variables without manipulation. The survey approach facilitated the collection of standardized quantitative data from a dispersed population of SME owners and managers across key sectors such as manufacturing, agro-processing, trading and retailing, hospitality, transportation and logistics, and information and communication services. The total population comprised 612 respondents, drawn from SME associations and business registers. Using Taro Yamane's (1967) formula at a 0.05 level of significance, a sample size of 242 was determined, and Burley's proportional allocation technique was used to distribute the sample across sectors. Both primary and secondary data were utilized, with primary data obtained through structured questionnaires and secondary data sourced from academic literature, government publications, and institutional reports to enhance analytical depth and contextual grounding.

Data were collected through a structured questionnaire administered directly to SME owners and managers with the assistance of trained research aides to improve response rate and clarity. The instrument was divided into two sections: one capturing demographic and business characteristics, and the other measuring variables on a five-point Likert scale, including economic, infrastructural, and political/regulatory environmental factors, as well as SME performance indicators such as profitability, growth, and productivity. Validity of the instrument was ensured through face validity, via expert review, and construct validity using factor analysis. The Kaiser–Meyer–Olkin (KMO) value of 0.812 confirmed sampling adequacy, while Bartlett's Test of Sphericity (χ^2 = 912.447, df = 6, p = 0.000) indicated sufficient correlation among variables for factor analysis. Reliability was established using Cronbach's Alpha, with all constructs—economic environment (0.821), infrastructural environment (0.847), political/regulatory environment (0.803), and SME performance (0.829) exceeding the acceptable threshold of 0.70, confirming strong internal consistency and suitability of the instrument for analysis.

The study specified external environment as the independent variable, decomposed into economic, infrastructural, and political/regulatory dimensions, while SME performance (measured by profitability, growth, and productivity) served as the dependent variable. A multiple linear regression model was adopted to examine these relationships, expressed as: $Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \varepsilon$, where Y represents SME performance, X1–X3 represent the external environment dimensions, α is the intercept, $\beta1$–$\beta3$ are coefficients, and ε is the error term. Data analysis involved both descriptive statistics (frequencies, percentages, means, and standard deviations) and inferential statistics (multiple regression analysis) using SPSS Version 21. The inferential analysis enabled testing of hypotheses at a 5% significance level. The decision rule stated that if the calculated t-value exceeds the critical value of 1.96 and the p-value is less than 0.05, the null hypothesis is rejected, indicating statistical significance; otherwise, the null hypothesis is accepted.

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Regression analysis

The regression analysis was conducted to examine the effect of the external environment on the performance of small and medium-sized enterprises (SMEs) in Benue State. Specifically, the analysis assessed how the economic environment, infrastructural environment, and political/regulatory environment jointly and individually influence SME performance. The results obtained from

DOI: 10.5281/zenodo.20117617

Tables 4.1, 4.2, and 4.3 provide empirical evidence on the strength, direction, and significance of these relationships.

i. Model Summary

Table 4.1 presents the Model Summary of the regression analysis. The R-value of 0.8146 indicates a strong positive relationship between the external environmental factors and SME performance in Benue State. This suggests that changes in the external environment are closely associated with variations in SME performance. The R-Square value of 0.6635 implies that approximately 66.35% of the variation in SME performance is jointly explained by the economic environment, infrastructural environment, and political/regulatory environment. This indicates a high explanatory power of the model, showing that external environmental factors play a substantial role in determining SME performance. The adjusted R-Square value of 0.6588 further confirms the robustness and reliability of the model, as it shows that even after adjusting for the number of predictors, the explanatory variables still account for a significant proportion of changes in SME performance. The standard error of the estimate (0.4875) is relatively low, indicating that the model's predictions are fairly precise. In addition, the Durbin–Watson statistic of 1.9800 falls within the acceptable range of 1.5 to 2.5, suggesting the absence of serious autocorrelation in the residuals. This confirms that the regression results are reliable and suitable for inference.

Table 4.1: Model Summary

Model	R	R Square	R square adjusted	Std. error of the estimate	Durbin Watson statistic
1	.8146[a]	. 6635	.6588	0.4875	1.9800

a. Predictors: (Constant), Political and Regulatory Environment, Infrastructural Environment, Economic Environment.

b. Dependent Variable: SME performance

Source: Author's Computations using SPSS 2026.

ii. Analysis of Variance (ANOVA)

Table 4.2 presents the Analysis of Variance (ANOVA) results, which test the overall statistical significance of the regression model. The F-statistic value of 141.971 with a probability value of $p < 0.001$ indicates that the regression model is statistically significant. This implies that the independent variables, when considered jointly, significantly influence SME performance in Benue State. The significance level of 0.000, which is well below the conventional 0.05 threshold, confirms that the model did not occur by chance. Thus, the null hypothesis that external environmental factors have no significant effect on SME performance is rejected. The ANOVA result validates the suitability of the model for explaining the relationship between the external environment and SME performance.

Table 4.2: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	134.983	3	33.751	141.971	.000[b]
	Residual	68.452	213	.238		
	Total	203.435	216			

a. Predictors: (Constant), Political and Regulatory Environment, Infrastructural Environment, Economic Environment.

b. Dependent Variable: SME performance

Source: Author's Computations using SPSS 2026.

iii. Regression Coefficients

Table 4.3 presents the regression coefficients, showing the individual contribution of each external environmental factor to SME performance. The infrastructural environment has the strongest positive and statistically significant effect on SME performance, with a standardized beta coefficient of $\beta = 0.462$ and a p-value of 0.000. This implies that improvements in infrastructure such as electricity supply, transportation networks, water, and communication facilities significantly enhance SME performance. The result suggests that infrastructural adequacy is the most critical external factor influencing SME productivity, efficiency, and competitiveness in Benue State. The economic environment also shows a positive and statistically significant influence on SME performance, with a standardized beta coefficient of $\beta = 0.313$ and a p-value of 0.001. This indicates that macroeconomic conditions such as inflation levels, access to finance, interest rates, and consumer income significantly affect SME performance. A more stable and supportive economic environment enhances the ability of SMEs to operate profitably and achieve growth. The political and regulatory environment has a positive but relatively weaker influence on SME performance, with a standardized beta coefficient of $\beta = 0.116$ and a p-value of 0.005. Although its effect is smaller compared to the economic and infrastructural environments, the variable remains statistically significant. This suggests that government policies, taxation rules, regulatory clarity, and political stability still play an important role in shaping SME performance, even if their impact is less pronounced.

The regression results indicate that the external environment significantly influences SME performance in Benue State, with infrastructural factors emerging as the most influential, followed by economic factors and then political/regulatory factors. This hierarchy reflects the realities faced by SMEs in developing economies, where infrastructural deficiencies such as unreliable power supply and poor transport systems pose major operational challenges.

Table 4.9: Regression Coefficients

Model		Unstandardized coefficients (B)	Standardized coefficients (Beta)	t	P-Value
1	(Constant)	7.1737		2.244	.025
	Economic Environment	.309	.313	10.556	.001
	Infrastructural Environment	.536	.462	17.346	.000
	Political and Regulatory Environment	.094	.116	6.881	.005

a. Dependent Variable: SME performance

Source: Author's Computations using SPSS 2026.

4.2 Test of Hypothesis and Discussion of Findings

DOI: 10.5281/zenodo.20117617

The three hypotheses formulated in null form were tested using the regression results presented in Table 4.3. The decision rule applied was: If the t-value exceeds the critical value of 1.96 at a 95% confidence level, and the p-value is less than 0.05, we reject the null hypothesis, in other words, we accept that the estimate (β_i) is statistically significant at the 5% level of significance. If otherwise, we accept the null hypothesis, implying the estimate is not statistically significant at the 5% level.

4.2.1 Effect of the economic environment on the performance of SMEs in Benue State

The first objective of the study sought to examine how the economic environment influences the performance of SMEs in Makurdi, Benue State. Specifically, the study aimed to determine whether factors such as inflation, access to finance, interest rate stability, and consumer income levels significantly affect SME profitability, growth, and productivity. The regression results in Table 4.9 indicate that the economic environment has a regression coefficient (β) of 0.309, a t-value of 10.556, and a p-value of 0.001. Based on the decision rule, since the t-value exceeds the critical value of 1.96 and the p-value is less than 0.05, the null hypothesis that the economic environment has no significant effect on SME performance is rejected. This confirms that the economic environment significantly affects SME performance in Makurdi.

The implication of this finding for practice is that SME owners and managers must actively monitor economic conditions, including inflation trends, interest rates, and consumer purchasing power, and adjust business strategies accordingly. Firms operating in favorable economic conditions are better positioned to invest in growth, optimize resource utilization, and enhance profitability. Conversely, economic instability may constrain operations, reduce sales, and limit expansion plans. Theoretically, this finding aligns with Contingency Theory, which posits that organizational performance depends on the fit between internal capabilities and external environmental conditions. SMEs that adapt their operations to prevailing economic conditions are more likely to achieve superior performance. Empirically, the finding is consistent with the study by Kwame and Mokoena (2025), who found that high inflation and limited access to finance constrained SME profitability. Similarly, Chikwe and Ndlovu (2025)'s finding that economic pressures reduced business profitability and growth supported this finding. The current study confirms that these patterns are also evident in the context of Makurdi, Benue State, thereby providing localized empirical evidence.

4.2.2 Effect of the infrastructural environment on the performance of SMEs in Benue State

The second objective of the study sought to determine the effect of the infrastructural environment on the performance of SMEs in Makurdi, Benue State. Specifically, the study aimed to assess whether factors such as electricity reliability, transportation and road networks, water and essential services, and communication infrastructure significantly influence SME profitability, growth, and productivity. The regression results in Table 4.9 indicate that the infrastructural environment has a regression coefficient (β) of 0.536, a t-value of 17.346, and a p-value of 0.000. Since the t-value exceeds the critical value of 1.96 and the p-value is less than 0.05, the null hypothesis that the infrastructural environment has no significant effect on SME performance is rejected. This implies that the infrastructural environment is a significant determinant of SME performance in Makurdi.

The practical implication of this finding is that SME owners and managers must ensure that their operations are adapted to the existing infrastructure. Reliable electricity, functional road networks, adequate water supply, and robust communication systems are critical for smooth production, timely delivery of goods and services, and effective business management. Poor infrastructure may lead to operational delays, increased costs, reduced productivity, and limited business expansion. From a theoretical perspective, this result aligns with Contingency Theory, which emphasizes that organizational success depends on the fit between internal operations and external environmental conditions. SMEs that effectively adjust their strategies to infrastructural realities are more likely to enhance their operational efficiency. Empirically, the finding is consistent with prior studies by Adebayo and Ibe (2024), and Eze and Okonkwo (2024) which revealed that poor electricity and transport systems hindered SME performance. The current study confirms that infrastructural constraints in Makurdi have a significant effect on SME profitability, growth, and productivity, highlighting the need for infrastructural improvements to support SME development.

4.2.3 Effect of the political and regulatory environment on the performance of SMEs in Benue State

The third objective of the study sought to examine the effect of the political and regulatory environment on the performance of SMEs in Makurdi, Benue State. Specifically, the study aimed to assess how government policies, taxation rules, regulatory compliance requirements, and political stability influence SME profitability, growth, and productivity. The regression results in Table 4.9 show that the political and regulatory environment has a regression coefficient (β) of 0.094, a t-value of 6.881, and a p-value of 0.005. Given that the t-value exceeds the critical value of 1.96 and the p-value is less than 0.05, the null hypothesis that the political and regulatory environment has no significant effect on SME performance is rejected. This indicates that political and regulatory factors are significant determinants of SME performance, although their impact is relatively weaker compared to the economic and infrastructural environments.

In practical terms, this finding implies that SME owners and managers must navigate regulatory frameworks carefully and comply with taxation, licensing, and reporting requirements to sustain operations. Political stability and predictable policy enforcement create an enabling environment that allows SMEs to plan strategically, invest confidently, and grow sustainably. Conversely, policy inconsistencies, regulatory ambiguity, or political unrest can disrupt operations, increase compliance costs, and limit profitability and expansion. Theoretically, this finding is consistent with Contingency Theory, which posits that organizational performance is contingent upon alignment with external environmental factors. SMEs that adjust operations in response to regulatory demands and political conditions are more likely to achieve better performance outcomes. Empirically, this finding aligns with previous studies. Adebayo and Ibe (2024) and Oluwatobi and Adediran (2024) who found that regulatory inconsistencies constrained SME performance. The current study extends these findings to Makurdi, Benue State, demonstrating that political and regulatory stability, though less influential than infrastructure or economic conditions, remains crucial for enhancing SME profitability, growth, and productivity.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The findings revealed that the economic environment, including

DOI: 10.5281/zenodo.20117617

inflation, access to finance, interest rates, and consumer income levels, significantly affects SME profitability, growth, and productivity. The infrastructural environment, particularly electricity supply, transport and road networks, water services, and communication infrastructure, was found to have the strongest positive influence on SME performance, highlighting the critical importance of operational support systems for business efficiency. Political and regulatory factors, such as government policies, taxation rules, regulatory compliance, and political stability, also significantly affect performance, though their influence is comparatively smaller. The study therefore, concludes that external environmental factors have a significant influence on the performance of SMEs in Makurdi, Benue State. Overall, the results indicate that SMEs perform better when owners and managers are able to strategically navigate economic challenges, optimize infrastructural resources, and comply with regulatory requirements.

5.2 Recommendations

Based on the findings, the study recommends the following:

i. SME owners and managers should implement financial planning and cost-management strategies to mitigate the negative effects of inflation and limited access to credit, ensuring business sustainability.
ii. State government and local authorities should improve infrastructure such as electricity supply, roads, water, and communication networks to enhance operational efficiency and productivity of SMEs in Makurdi.
iii. Regulatory agencies and policymakers should ensure consistent, transparent, and predictable regulations and taxation policies to create a stable business environment that fosters SME growth and compliance.

5.3 Contribution to Knowledge

This study contributes to knowledge by providing empirical evidence on how external environmental factors (economic, infrastructural, and political/regulatory) jointly influence SME profitability, growth, and productivity in Makurdi, Benue State. The study extends the applicability of Contingency Theory, RBV, and Institutional Theory to the SME context in Nigeria and offers practical insights for owners, managers, and policymakers seeking to enhance SME performance.

5.4 Suggestions for Further Studies

i. Future research could examine SMEs across multiple states in Nigeria to enhance generalizability and compare regional variations in external environmental effects.
ii. Longitudinal studies could track SMEs over time to assess how changes in economic, infrastructural, and regulatory environments influence performance trends.
iii. Research could explore the role of internal capabilities, such as human capital and innovation, in moderating the effects of external environmental factors on SME performance.

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DOI: 10.5281/zenodo.20117617