

**AN ASSESSMENT OF BUSINESS ENVIRONMENTS AND THEIR EFFECTS ON  
SMALL AND MEDIUM ENTERPRISES IN KADUNA STATE-NIGERIA**

***Suwaiba Shehu IBRAHIM,***

*Department of Business Administration, Faculty of Management Sciences,  
Kaduna state University- Nigeria,*

***Bruce Frank AMBORE,***

*Department of Business Management, Federal University Dutsin-Ma,  
Katsina State-Nigeria*

***Musa Kallamu HASSAN,***

*Department of Business Administration, Abubakar Tatari Ali Polytechnic, Bauchi State-  
Nigeria*

**&**

***Hudu GAMBO,***

*Department of Business Administration, Faculty of Management Sciences,  
Kaduna state University- Nigeria*

***Abstract***

*This paper assessed the impact of some external business environment on Small and Medium Enterprises of Kaduna state of Nigeria. The study population embraced SMEs registered with Small and Medium Enterprise Development Agency of Nigeria in Kaduna State with the total of 904. Taro Yamane formula was used to obtain a sample size of 400. The study takes on survey design. Findings revealed that infrastructural facilities have a significant and positive effect on SME's service quality (0.142:  $p= 0.067 < 0.05$ ). The government taxation policy have a significant and positive effect on sales revenue (0.146:  $p= 0.314 < 0.05$ ). On the government/institutional support variable, result shows that it have a positive but no significant influence on job creation (0.544:  $p= 0.000 > 0.05$ ). The analysis of insecurity and market growth shows a negative and significant effect of insecurity on SMEs market growth potentials (0.038:  $p= 0.769 < 0.05$ ). At tail end, infrastructural facilities, taxation policy, and insecurity had a significant effect on service quality, sales revenue, and market growth respectively, government/institutional support have no significant effect on job creation. It was recommended that in order to supplement on the whole performance, SMEs should always*

*make sure adequate scan of the external business environment to identify possible threats and opportunities surrounded by their working environment, In addition the government should charge a lower tax to augment increase in revenue base of SMEs. Also, infrastructural facilities in Kaduna state, should be given appropriate concentration, in the same vein, there is a need for the government to endorse extra attempt in conditions of policy arrangement and accomplishment.*

**Keywords:** *Business Environment, External, Small and Medium Enterprises (SMEs).*

**DOI:** 10.58934/jgeb.v4i13.147

## **1. Introduction**

Small and medium enterprises (SMEs) and entrepreneurship development have turned out to be a progressively extra superior component of economic growth (Fitriasari, 2020). Both SMEs and entrepreneurship growth have been globally approved as gadgets for realizing economic growth and development as well as attractive about engagement chances (Benjamin & Rebecca, 2019). To support this, Putra and Santoso (2020) declared that the lack of lively small and medium enterprises in any economy in the world makes its progress nonrealistic. According to Tamara and Riste (2015), SMEs are one of the main essentials of economic growth. SMEs are recognised as the dynamic force of high speed of occupation, engagement enhanced standard of living, production of value-added product, services and largely the originator of strong economies (Naradda Gamage, et.al. 2021)

The business atmosphere is very essential to the accomplishment or breakdown of business. According to the work of Dionco-Adetayo and Adetayo (2018), a strong business cannot continue in an unbalanced environment. Oluremi and Gbenga (2019) suggest that business takes its inputs resources (ideas, information, finance, raw materials, and labour) from the business environment and sends its outputs to the environment. The business environment, thus, is the foundation of expressing company objectives, mission statement, policies, strategies, and tactics (Tijani, 2018). Ibidunni and Ogundele (2018) classified the personality of the business environment as constant, lively, and unbalanced and this usually assists a business enterprise in selecting right strategies. Adeoye (Fitriasari,2020). opines that for the business to deal with the business environment forceful nature and the fast fluctuating working environment there is a requirement to expand and put into preparation, proper strategies that would keep its operation and as well carryout the ideal result.

The business environment of an enterprise comprises of the internal and external environmental influences touching the performance of business enterprises. The environmental influences according to Alkali and Isa (2019) involve of all the influences or variables, both inside and outside the business. In order for small businesses to achieve their objectives and goals, they have to support both their internal and external environment. The external environment of an enterprise was first recognized by open systems theorists who detected that an organization operate not in self-controlled lonely units but in constant and unavoidable interaction with the large system within which they operate (Pearce & Robinson, 2021). It is this surrounding system that these theorists acknowledged as the external environment, captioning it as that which involves of such aspects that affect a business enterprise from outside as challenge, consumer behaviour, supplier behaviour, macroeconomics, government policy and global dynamics (Alkali and Isa, 2019; Pearce & Robinson, 2021). Grounded on the justification of this statement, Sedyastuti, Rahadi and Handayani (2021) stated that the external environment has an impact on the method in which business organisation accomplishes and that the nature of the impact is depending on how its influence is managed.

According to Adejumo (2019), the modern business enterprise manager functions in a forceful environment. The adjustment within a business operating environment has been unstable and speedy (Fatai, 2011). To this end, Bayode and Adebola (2012) suggested that consumers have been signifying different behaviours in both local and international markets. Competitive density as it is the most outstanding change has made competitors apply different strategies to adjust to the unstable nature of the business enterprise environment (Bayode & Adebola, 2012).

### **Statement of Research Problem**

Small and medium enterprises (SMEs) have played and continue to play significant roles in the growth, development and industrialization of many economies the world over. In the case of Nigeria, SMEs have performed below expectation due to a combination of problems which ranges from attitude and habits of SMEs themselves through environmental related factors, instability of governments and frequent government policy changes and somersaults. It has however been annoying that despite the incentives, policies, programmes and support aimed at revamping the SMEs, they have performed rather below expectations in Kaduna state-Nigeria. Different people, organisations, and operators have advanced various reasons as to why SMEs have been able to live up to their billing. While an average operator would always hinge his failure on lack of access to finance, some others think otherwise arguing that inappropriate

management skills, difficulty in accessing global market, lack of entrepreneurial skills and know how, poor infrastructure etc. are largely responsible. It is irritating that despite the incentives, favourable policies, regulations and preferential support by government aimed at improving SMEs, the sub-sector have performed below expectation in Nigeria (Abiodun, 2018).

Despite the large volume of studies on SMEs in developing countries, there is a dearth of literature on studies relating to business performance evaluation particularly in the North-western region of Nigeria. Most empirical studies conducted in developing countries particularly in Nigeria are mainly related to the problems of SMEs, but the question of the extent to which environmental factors affect the profit, sales and employment of SMEs and assessment of their performance in Kaduna state has not been thoroughly investigated.

Thus, this research is intended to critically evaluate the effects of external business environment and performance of Small and Medium Enterprises (SMEs) in Kaduna State Nigeria with a view to actually identifying why they (SMEs) are not playing the vibrant and vital roles in the Nigerian economy as they (SMEs) do in other developing economies which share some similarities with Nigeria in terms of population and other demographic variables. This is even more disturbing if one recalls that Nigeria remains the largest market in the African continent where investment opportunities are beckoning to be exploited.

### **Objectives of the Study**

The main objective of the study is to assess the external business environments on performance of SMEs in Kaduna State. The specific objectives are to:

- i. examine the effect of infrastructural facilities on Kaduna State SMEs' service quality;
- ii. evaluate the effect of government taxation policy on sales revenue of SMEs in Kaduna State;
- iii. determine the influence of government/institutional support on job creation in Kaduna State SMEs
- iv. assess the effect of insecurity on SMEs market growth in Kaduna State.

## **Research Questions**

The following questions were answered in this study;

- i. What are the effects of infrastructural facilities on Kaduna State SMEs' service quality?
- ii. How do government/institutional support influence job creation in Kaduna State SME sector?
- iii. What are the effects of insecurity on SMEs market growth in Kaduna State?

## **Hypotheses of the study**

The study will test the following hypothesis:-

**Ho1:** There is no significant effect of infrastructural facilities on Kaduna state SMEs' service quality.

**Ho2:** There is no significant effect of government taxation policies on sales revenue of SMEs in Kaduna State.

**Ho3:** There is no significant influence of government/institutional support on job creation in Kaduna State SME sector.

**Ho4:** There is no significant effect of insecurity on SMEs market growth in Kaduna State.

## **2. Literature Review**

### **Small and Medium Enterprises (SMEs)**

The term 'small and medium enterprises' describes group of business organizations that are especially heterogeneous as they embrace a broad varied forms ranging from hotels, manufacturing industries, agriculture, restaurants, computer software firms and small machine shops among many others. The survival of SMEs has been long recognized crucial to the growth of any economy in the world (Oba & Onuoha, 2019). Existing reports show that SMEs occupies 80% of the global economy (Nnanna, 2017). The categorization of business enterprises into large, medium or small scale has tagged along diverse decisive factor such as the total employment, revenue, assets or investment. According to existing studies, the characterization of SMEs varies in different economies although the core concept is similar.

Obafemi Awolowo University, Ile-Ife Centre for Industrial Research and Development (CIRD) classified small scale business as an enterprise which has a working capital base not below and not higher than #250,000 and employing not more than 50 workers on full-time basis. In 2005,

the credit guiding principle to the commercial banks by the Central Bank of Nigeria (CBN) classified small scale enterprises as business whose annual turnover is below and not higher than #500,000, while the Merchant banks were to considered businesses with capital investment less than #2,000,000 (the cost of land not included) or turnover up to but not higher than 5million Naira as small scale businesses (Solomon, 2019). The Federal Ministry of Commerce and Industries cited in Olabisi, Olagbemi, and Atere (2018) classified SMEs as a firm whose total investment (with the exclusion of the cost of land, however with capital included) is close to #750,000 and the maximum number of 50 persons as employees. According to National Council of Industries (2009), small and medium scale enterprises are business enterprises whose overall costs with land excluded is #200,000,000 or less. The National Council of Industry (2001) defined small and medium enterprises as businesses with between 11 and 100 employees or a total cost of N50 million or less, together with working capital and exclusive of the cost of land. While, medium Scale Enterprise is an enterprise with a labour size of between 101-300 personnel or a total cost of over N50 million but not higher than N200 million, together with working capital but without including the cost of land (Aremu, 2017). The Third National Development plan in Nigeria described SME as a business that employs not up to ten workers and the asset investment did not go beyond #600,000 (Ogechukwu, 2021).

### **Defining Entrepreneurship**

There is no agreement between writers as regards the definitions of Entrepreneurship. Many writers have defined it in diverse terms. Though, there are common elements among writers definition. According to Sorensen and Nanda (2020), entrepreneurship is the process of designing, introduction and running a new business which typically begins as a small business. Black, Burton, Wood, and Zimbelman (2018) sees entrepreneurship as the combination of ability and willingness to organize, develop and manage a business venture bearing alone its involving risks for the main purpose of making a profit. According to Hisrich (2015), entrepreneurship is the process of bringing to being a new thing with value by devoting all the needed and essential effort and time to the creation and introduction and also assuming all the accompanying social and financial risks and also receiving the resulting personal satisfaction and monetary rewards

## **The External Business Environment**

The external environment of a business consists of a set of conditions and influences outside the business but which shape the life and continued existence of the business. These conditions and influences are outside the firm as a business unit, but which effect changes in the organisation and the business entity cannot control it but only adjusts to them.

Factors like socio-economic, geographical location, legal regulation, demographic conditions and other factors create business environment (Litavniece & Znotiņa 2020). Sumathi, K. (2022), cited in (Litarniece and Zenotina, 2020) said business environment is objective and subjective. He argued that it is objective because the external business environment is claimed as a set of surrounding circumstances. It is subjective because external business environment forces are independent from the will of individuals. He therefore, defined the business environment as an arrangement of goal and subjective elements affecting the business circumstance within a predefined day and age, (Tende, 2014) as cited in Litarniece and Zenotina, 2020).

The business environment includes the operational and physical factors that have an effect on business enterprises' flow of activities (Onuoha, 2017). The factors are customers, industry trends, policies and regulations, competitors, customers, suppliers, distributors, substitutes, government activities, demographics, the economy, cultural and social factors, innovations and technological developments (Adeoye & Elegunde, 2019). Businesses operate in many different environment which include; the macro environment, which is regarded to as the whole world in today's global economy where events often in some way impact on businesses and also the micro-environment which encompasses local events and situations that interact with a business and has a direct effect on business (Tijani- Alawe, 2018). The business environment has been referred to as opportunities and challenges within an enterprise working environment which may have either an encouraging or off-putting impact on the enterprise's performance and operations (Oluremi & Agboola, 2019).

According to Grant (1999), as cited in Adeoye (2019), another business environment factor was identified from the external environment known as task environment which is found immediately outside the organization. Adeoye (2019) sees the operating environment as the most intimate environment of the organization since they comprise elements such as suppliers, customers, labour union, financial institutions, labour market, raw materials, and competitors

which have direct influence on the business enterprise unlike the other external environment factors that have an indirect influence on the business. However, Ibidunn and Ogundele (2018) classified the nature business environment into three which are; dynamic (continuous changes in the environment), stable (relative changes in the environment) and unstable (frequent changes in the environment).

### **The External Business Environment and Entrepreneurial Performance of SMEs**

Small and medium scale enterprises have been recognized as being important breeding and nurturing foundation for technical ability, technological modernization, domestic entrepreneurial facility, and managerial competencies for the development of a vibrant economy (SMEDAN, 2010). An energetic, effective, economical, and successful SME sub-sector generates quite a lot of consequential edges for shareholders, personnel, customers, owners, and the whole economy.

It is generally believed that entrepreneurship is advantageous for economic growth and development, evidently from studies of various countries that have remarkably achieved poverty reduction such as Asian, and China (Naude, 2019). The SMEs performance and growth serve a major drive for employment, equitable distribution of income, urbanization, modernization, per capital income, and the citizens' enjoyment of quality life. The reason for this is that SMEs contribute to employment growth more than larger firms (Aremu & Adeyemi, 2018). Economically, the SME sector controls the level of the country's achievement sustainable development, also the significance of the sector in their many performance contributions to the Nigerian economy structure such as the basis of technology novelty and the introduction of new inventions (Abiodun, 2018). Solanke, Isa, and Gado (2019) acknowledged SMEs as the mechanisms for economic intensification and national improvement in the developed as well as the developing countries.

SMEs in Nigeria are assumed to take part in the role of achieving economic improvement along with national growth (Ihua, 2019; Onugu, 2019). Furthermore, Ariyo (2017) averred that the Nigerian SMEs are not merely the catalyst for economic development and national growth, but are also recognized as the strong foundation for the nation's economy. The SME sector undeniably possesses a colossal ability to breed an original business enterprise ethnicity exceedingly when compared to every other tactic ((Naude, 2019). The federal office of statistics (2012) report confirmed the role of the SMEs entrepreneurial activities, as the report



shows that about 86% of the totalities of businesses in the country are SMEs and they engaged an average of the Nigerian working population, and they contribute to 54% to the country's industrial output. SME is the energetic force which establishes an essential basis of the nation's economic structure.

The SME sector is as well an imperative source of innovation, a key element for social consistency and regional development (Adeoye & Elegunde, 2019). The genuine indication of the contributions and the part entrepreneurship plays in socio-economic improvement is credited to certain factors within the entrepreneur external environment over which the entrepreneur has little or no control. According to Adeoye (2018), the business environmental indicating factors have been acknowledged to be capable of either limiting or facilitating entrepreneurial activities in any national economy.

The World Bank is of the opinion that improvements in the enabling environment lead to a greater level of investment by the entrepreneurs and private sectors, an increase in wealth creation, job creation, and ultimately more poverty reduction. The best way for the government to comprehend how to make better the entrepreneurial business environment is to involve the private sector through consultation and exchange of ideas (World Bank, 1990). Furthermore, DFID (2003) stated that the business environment consists of external elements that have an effect on the development and SMEs performance. White (2004) refers to the connection linking SMEs performance to their external environmental factors as the whole lot from outside the business enterprise that affects its' performance such as policies, laws, insecurity, corruption, infrastructure, financial support, and culture. This motion was also supported by Lixin (2010), he added that the concept of SMEs performance and external environment integrates macroeconomic aspects which were listed in his study as fiscal policy, exchange rate, monetary policy; governance: politics and institutions; and infrastructural facilities such as electricity, transportation, and communication.

### **Taxation Policy**

Taxation policy is one of the various factors that make up the small and medium scale enterprises' economic environment (Ojeka, 2017). According to Afuberoh and Okoye (2014), taxation is a requirement for a mandatory payment of money by the citizens of a country by the government for the government support and also for the support of the general public. According to the International Tax Dialogue (2007), taxation denotes the method by which the

government through its legislative body generates revenues which are then used to foot all governmental expenses (that is, taxation is a means by which the government increases its revenue in accordance with the authority of the law, and then use this revenue generated purposely to promote the welfare of its citizenry).

Tax is a compulsory removal of money from individuals or corporate bodies' income by a public authority for the purpose of governance by means of contributions from (Afuberoh & Okeye, 2014). Sanni (2012) sees tax as a statutory obligatory levy charged on property, individual income or an enterprise income, or transactions purposefully for funding the government. Ojeka (2017) noted that there are three basic structures of tax. Firstly, a proportional tax which is when an amount is levied indirectly on the taxpayer income. Secondly, a regressive tax which charges at a much higher rate to persons receiving lower income than those receiving a higher income. Lastly, progressive tax which levies at a higher rate to high income earners.

The tax administration in Nigeria is principally obligated by Acts of the National Assembly (Ojeka, 2017). According to the SMEDAN, eighty percent of the Nigerian SMEs die before the 5th year anniversary. Atawodi and Ojeka (2017) posited that among the external environment of an enterprise responsible for these failures are tax related issues. Additionally, Olotu (2018) sees taxation as an instrument that can be used to accomplish explicit economic objectives of nations. For example in Nigeria, governments sometimes initiate tax incentives and attractive tax exemptions for the purpose of attracting and retaining local and foreign investors. To the government, tax administration is a device to perk up gross domestic product, stimulate economic development, and bring about complimentary balance of payments with other countries.

### **Government/Institutional Support**

There is no general definition of the concept of an institution. Though, several definitions by different authors have been given but there exists no generally acceptable one within or across different social sciences (Ajayi, 2017). Argy (2022) and Hodgson (2022) regarded an institution as a pattern of thoughts or actions that is rooted in the practice of a group of people. It has also been defined as formal organisations with particular patterns of conduct, and unenthusiastic customs and constraints (Carlson, 2002). According to North (2005) institutions can be formal and informal in classification. A formal institution implies having written

policies, rules and regulations, laws, as well as political regulations, economic policy, and contracts. Informal institutions according to North (2005) can be defined as conventions, set of laws, behavioural pattern that are emanating from a society's culture.

The effort of the Nigerian federal government geared toward promoting the development and growth of SMEs sector over the years is for the most part regarding the areas such as developing fiscal, industrial measure, policies and monetary (Hodgson, 2022). The Nigerian government has initiated series of development support programmes ever since as early as 1970s to facilitate perking up the SMEs investors' performance through financing and to assist in diversifying from the country's dependence on the oil division economy (Abiodun, 2018). Towards achieving this, the Nigerian federal government is committed to policy intercessions for the purpose of financing SMEs in the direction of getting better the realization of the estimated role of SMEs towards growth and economic development. Numerous programmes designed to achieve entrepreneurship development in Nigeria had been initiated to improve the business environment and make it possible for entrepreneurs to be profitable (Sanusi, 2021).

### **Insecurity and Business Operations in Nigeria**

Security is the course of action allied with the eradication of any sort of threat to man and his values (Adegoke, 2014). The concept of security is embedded in the freedom from threat and the society's aptitude to retain an independent distinctiveness as well as their functional integrity coupled with forces of change (Ode, Wombo and Mile (2018).

The deficiency in adequate and proficient security brings about the notion of insecurity. Nwagbosa (2012) asserts that insecurity signifies different meanings such as: anxiety, fear, instability, uncertainty; danger; hazard; absence of safety; and lack of protection. According to Beland (2005), insecurity brings about panic or unease springing from an actual or assumed deficiency in the provision of adequate protection. Insecurity can be viewed from two perspectives. First and foremost, insecurity is the condition that constitutes the threat or intimidation of being prone to mischief or harm.

The Nigeria insecurity condition can, and in a lot of cases, in point of fact halted business operations at some point in the periods of violent behavior and in addition caused the outright shutting down of lots of business enterprises particularly in the areas where the occurrence of insecurity is rampant, in a bid to save from harm business property and their operators

(Nwagbosa, 2012). In addressing the security challenges in the Nigeria business environment, political violence is one of the security challenges in Nigeria.

Hired and Political Assassination is a further form of insecurity grappling Nigeria State. It is an additional dimension to the security crisis that is confronting the state of Nigeria security. Ode, Wombo and Mile (2018) in their study listed a vast number of politicians that has been murdered since the emergence of democracy in the Nation. Ayo Daramola and Engr. Funso Williams, aspirants of Ekiti State and Lagos state governorship position were assassinated. Also, Philip Olorunwipe, chairman of Kogi State Independent Electoral Commission was murdered in 2004 while Dikko, National Vice Chairman of Peoples Democratic Party was put to death while traveling in 2004. Ahmed Pategi, a past PDP chairman of Kwara State was executed in 2005 while Godwin Agboroko, This Day Newspaper former editor board chairman was also assassinated in December (Nwanegbo & Odigbo, 2017). Nwanegbo and Odigbo (2021) observed that the situation has not been critically addressed and the Nigerian police have not been able to unveil the perpetrators. Hence, assassination has created serious security challenge to Nigeria business environment as there are reports of increasing cases of killings for money and rituals purpose (Adegoke, 2014).

### **The Concept of Performance**

Performance has been defined as the resultant of efforts in form of activities of the business enterprise which includes its strategy and operational activities, management of all segments of business enterprise such as the human resources, finance, production, marketing (Leitner, 2000). Business performance is the effort expended by an enterprise so as to reach and achieve its stated objectives which could include: its employee's satisfaction, its customer's satisfaction, the societal satisfaction, its survival, sales growth, and return on investment, employment, and ultimately profitability. This means performance is actual output as against expected output (Mark & Nwaiwu, 2015). Furthermore, Mark and Nwaiwu (2021) added that business performance entails how well the business enterprise is managed in terms of the value perceived by customers in relation to the organization's delivery and other stakeholder should be acknowledge when defining performance.

According to Olarewaju (2019) business performance reflects the attainments of objectives set in a business enterprise that is reflected in the financial indicators. Oghojafor, Olamitunji and Sulaimon (2018) further explained performance based on financial indicators as an indicator

of financial performance such as earnings for each share, sales growth, profitability: return on equity, return on investment, and return on sale, and so on. Performance, according to Obitayo (2001) is an achievement of the target set by an enterprise, which must be communicated to all parties inside the business enterprise. He further added that the targets are related to vision assigned to an enterprise.

Kennerley and Nelly (2017) explained performance looking at the nonfinancial indicator that is the operational performance indicator. According to Banker, Potter, and Srinivasan (2020), financial statistics has been argued to be an insufficient measurement of performance. The nonfinancial performance indicator include: employee satisfaction, value of the company, market share, customers' satisfaction, new product introduction, market effectiveness, product quality, technology, manufacturing value-added, and so on. Performance was equated with organizational effectiveness. Henri (2014) considers performance as achieving the goals, and as the result of a comparison of result and objective. Oghojafor, Olamitunji and Sulaimon (2018) added that performance according to productivity and effectiveness can be explained as the state of competitiveness of an enterprise, which means the level of proficiency and efficiency reached by an enterprise that provides a sustainable market.

Business enterprise's performance according to Oghojafor, Olamitunji, and Sulaimon (2019) is how a manager effectively and efficiently utilizes the organization's resources so as to achieve the organisational goals and satisfy the stakeholders. According to Ogundele (2005) performance entails how an enterprise identifies with their customers' needs and expectations and it reflects in what way an enterprise makes use of its resources in order to ensure its objectives achievement and the attainment of its set goals. An enterprise is effective when it attains an assigned market share or sales growth goals in an efficient manner. According to Akinleye and Fasogbon (2010) sales growth or sales revenue aspect of enterprise performance measurement represents an increase in sales which has been considered as the lifeblood of a successful business enterprise. This has been further expressed in the sense that a boost in sales augments profit (Babafemi, 2018; Dauda, Akingbade & Akinlade, 2020). Based on the relevant literature that will be review in this study, four performance measurement dimensions will be adopt, which include: service quality, sales revenue, job creation, and market growth.

Service quality is the same as product quality is exceedingly complex to ascertain and evaluate for the reason that what customers professed as quality varies from a person to another (Oyeniya, 2009). Service quality denotes the discrepancy among customers' anticipations and opinions about quality of service provided (Neringa & Justina, 2014). Quality in service can as well be referred to as a means to bring about sustainable competitive advantage. Service quality is reached when customer expectations are contented, or surpassed (Wicks & Roethlein, 2019). Service quality is indisputably a momentous facet of service product design process, this is because it influences the level of demand for a given service product, along with customer side view of this service product (Sumathi, 2012).

According to Hand (2015) from the financial viewpoint, market share, financial expenses, price level, economic growth, and others are assumed to have an effect on sales revenue. While from non-financial outlook, Hand (2015) regards to policies and patents as major role players in determining the extent of an organization's sales revenue. Job creation in the Nigeria SMEs as noted by Adesanya (2014) means how the growth potential exhibited by the SMEs contributed substantially to job creation, thereby improving the economic status of the country. The contribution of SMEs to job creation is part of an overall rapid rate of reallocation of productive resources across firms in the Nigeria economy. Most of the SMEs in Nigeria appear to play a significant part in innovative activity which also facilitates productivity growth (as well as within-firm productivity growth). SMEs are developing world's most influential economic forces. It encompasses the lion's share of Gross Domestic Product and employment. SMEs create a considerable income opportunities for their employees and generate new tax revenues for the government services and thus actively contributing to economic development of a nation (Aremu, 2018). SMEs create job opportunities by enhancing their productivity and sales and delivering progressively more valuable goods and services. SMEs are part of dynamic and increasing value chains that increase job opportunities elevate incomes, amplify living standards, and improve lives.

Market growth, according to Pearce and Robinson (2021), is an enterprise performance indicator which requires the owners/managers to perform an analysis of the market in order to identify its customers and as well as their needs and wants. Market growth refers to the rise in sales among an enterprise's customer base over a particular period of time.

## **The Stakeholder and Competitive Value Approaches**

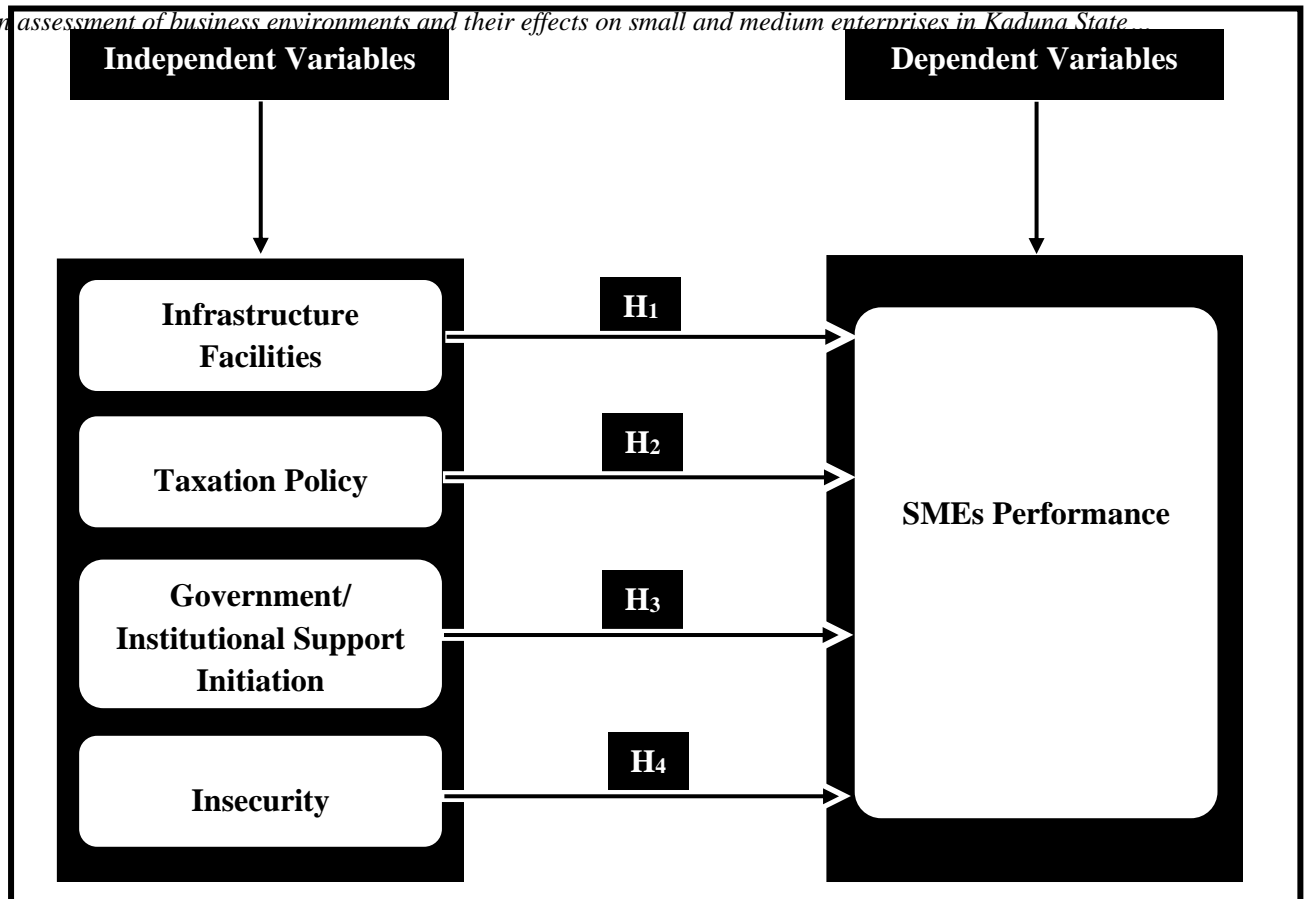
The father of the stakeholder theory is Freeman Edward. The origin for performance under these approaches is the ability of the organization to meet the needs and expectations of the external stakeholders (individual or group who can affect or is affected by the firm's achievement of its' objectives) such as competitors, financiers, employees, government bodies, owners, the community, customers, trade unions and suppliers (Phillips, 2017).

An application of this framework to SMEs performance is a good example of private sector performance measurement. Because, the SMEs sector has a large figure of service providers and stakeholders who are usually subject to extreme criticism for apparent failures in the SMEs performance. In fact, reports of failure in the SMEs sector are so persistent in Nigeria, and it is easy to believe that SMEs failure is persistent and the owners/managers are either forced to close down their businesses or reposition due to one external environmental factor effect or the other. Therefore, in order to measure SMEs performance in terms of job creation and service quality, the stakeholder approach to performance measurement was adopted, while measuring the market growth and sales revenue performance indicators was employ the competitive value approach.

The stakeholder theory in actuality reports of failure in the SMEs sector are so recurrent in Nigeria, and it is easy to believe that SMEs failure is persistent and the owners/managers are either forced to close down their businesses or relocate due to one external environmental factor effect or the other. Therefore, in order to measure SMEs performance in terms of job creation and service quality, the stakeholder approach to performance measurement was adopted, while measuring the market growth and sales revenue performance indicators was employ the competitive value approach.

### **3. Conceptual Framework**

For the purpose of this study four variables will be use which includes, SMEs Performance, taxation policy, government/institution initiation support and insecurity respectively.



*Figure 1: Research framework model*

### **Government Taxation Policies and SMEs in Kaduna State.**

Taxation policy is one of the various factors that made up the small and medium scale enterprises' economic environment (Ojeka, 2017). According to Afuberoh and Okoye (2017), taxation is a requirement for a mandatory payment of money by the citizens of a country by the government for the government support and also for the support of the general public. According to the International Tax Dialogue (2007), taxation denotes the method by which the government through its legislative body generates revenues which are then used to foot all governmental expenses (that is, taxation is a means by which the government increases its revenue in accordance with the authority of the law, and then use this revenue generated purposely to promote the welfare of its citizenry. Tax is a compulsory removal of money from individuals or corporate bodies' income by a public authority for the purpose of governance by means of contributions from (Afuberoh & Okeye, 2014). Ojeka, (2017) sees tax as a statutory obligatory levy charged on property, individual income or an enterprise income, or transactions purposefully for funding the government. Ojeka (2012) noted that there are three basic



structures of tax. Firstly, a proportional tax which is when an amount is levied indirectly on the taxpayer income. Secondly, a regressive tax which charges at a much higher rate to persons receiving lower income than those receiving a higher income. Lastly, progressive tax which levies at a higher rate to high income earners.

### **Government/institutional support on job creation in Kaduna State SME Sector.**

Hodgson (2022) regarded an institution as a pattern of thoughts or actions that is rooted in the practice of a group of people. It has also been defined as formal organisations with particular patterns of conduct, and indifferent customs and constraints (Pearce & Robinson, 2021). According to North (2005) institutions can be formal and informal in classification. A formal institution implies having written policies, rules and regulations, laws, as well as political regulations, economic policy, and contracts. Informal institutions according to North (2005) can be defined as conventions, set of laws, behavioural pattern that are emanating from a society's culture. The institutional framework is a set of governmental and other institutions in charge of designing and implementing SMEs' policies (Organization for Economic Cooperation and Development, 2013). Institution support framework may include; legal framework, policy framework, coordination among various programmes (Okwu, 2017). The Institutional support system is required to make available all help needed by the SMEs. These institutions consist of government-owned agencies, autonomous organisations, and statutory corporations.

The institutional support system according to Ode, Wombo and Mile (2014) is essential at three stages of an enterprise development which include; firstly, the setting up or promotion of a business or industrial entity stage, secondly, the day to day administration or routine management stage and lastly the expansion and diversification stage. The SMEs' performance is closely connected with how the private and government institutions support the growth of SMEs (Yamoah, Arthur & Issaka, 2014).

### **Effect of insecurity on SMEs Performance in Kaduna State.**

Security is the course of action allied with the eradication of any sort of threat to man and his values (Adegoke, 2018). The concept of security is embedded in the freedom from threat and the society's aptitude to retain an independent distinctiveness as well as their functional integrity coupled with forces of change (Afolabi, 2014; Odekunle, 2015). The deficiency in adequate and proficient security brings about the notion of insecurity. Nwagbosa (2022) asserts

that insecurity signifies different meanings such as: anxiety, fear, instability, uncertainty; danger; hazard; absence of safety; and lack of protection. According to Pearce and Robinson (2021), insecurity brings about panic or unease springing from an actual or assumed deficiency in the provision of adequate protection. Insecurity can be viewed from different perspectives; insecurity is the condition that constitutes the threat or intimidation of being prone to mischief or harm.

The Kaduna state insecurity condition can and in a lot of cases in point of fact halted business operations at some point in the periods of violent behaviour and in addition caused the outright shutting down of lots of business enterprises particularly in the localities where the occurrence of insecurity is rampant, in a bid to save from harm business property and their operators (Nwagbosa, 2019). In addressing the security challenges in the Nigeria business environment, political violence is one of the security challenges in Nigeria. According to Ikyase and Egberi (2018), political violence is the threat of physical act carried out by individual contained by a political system in opposition to another person or groups and possessions, with the intention to inflict injury or death to person, damage or ruin to property.

### **SMEs Performance**

SMEs Performance has been defined as the resultant of efforts in form of activities of the business enterprise which includes its strategy and operational activities, management of all segments of business enterprise such as the human resources, finance, production, marketing (Leitner, 2000). Business performance is the effort expended by an enterprise so as to reach and achieve its stated objectives which could include: its employee's satisfaction, its customer's satisfaction, the societal satisfaction, its survival, sales growth, and return on investment, employment, and ultimately profitability.

This means SMEs performance is actual output as against expected output (Mark & Nwaiwu, 2015). Furthermore, (Bello, 2020) added that business performance entails how well the business enterprise is managed in terms of the value perceived by customers in relation to the organization's delivery and other stakeholder should be acknowledge when defining performance.

#### 4. Methodology

##### Population and Sample size

The population for the study consists of the small and mediums enterprises (SMEs) that operate their businesses in Kaduna State and also registered with Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). The entirety figures of SMEs listed with (SMEDAN) as at May, 2021 is 2004 (SMEDAN, 2021). Therefore, the sample size of the study will be 400 respondents which will be drawn from the small and medium enterprises (SMEs) operating in Kaduna state, Nigeria, which represent the entire target population.

##### Data Analysis Technique

Structural Equation Modeling (SEM) was used in this study due to its sufficient and universal acceptance amongst researchers in International Standard (IS), behavioural and social science (Blunch, 2008; Janssens *et al.*, 2008; Gefen *et al.*, 2000), the structural equation modeling (SEM), also recognized as path analysis, covariance structure analysis, simultaneous equation models, is used to test and observe the hypothesized dealings among variables within the projected conceptual model.

**Table 1. Summary Result of Reliability Cronbach’s Alpha’s for all variables**

S/N	Variables	No of Items	Cronbach’s Alpha
1	Infrastructural Facilities	7	0.683
2	Taxation Policy	7	0.729
3	Government/Institutional Support	7	0.694
4	Insecurity	7	0.807
5	SMEs Performance	8	0.775

**Source: Extracted from the SPSS output 2019**

### **Exploratory Factor Analysis**

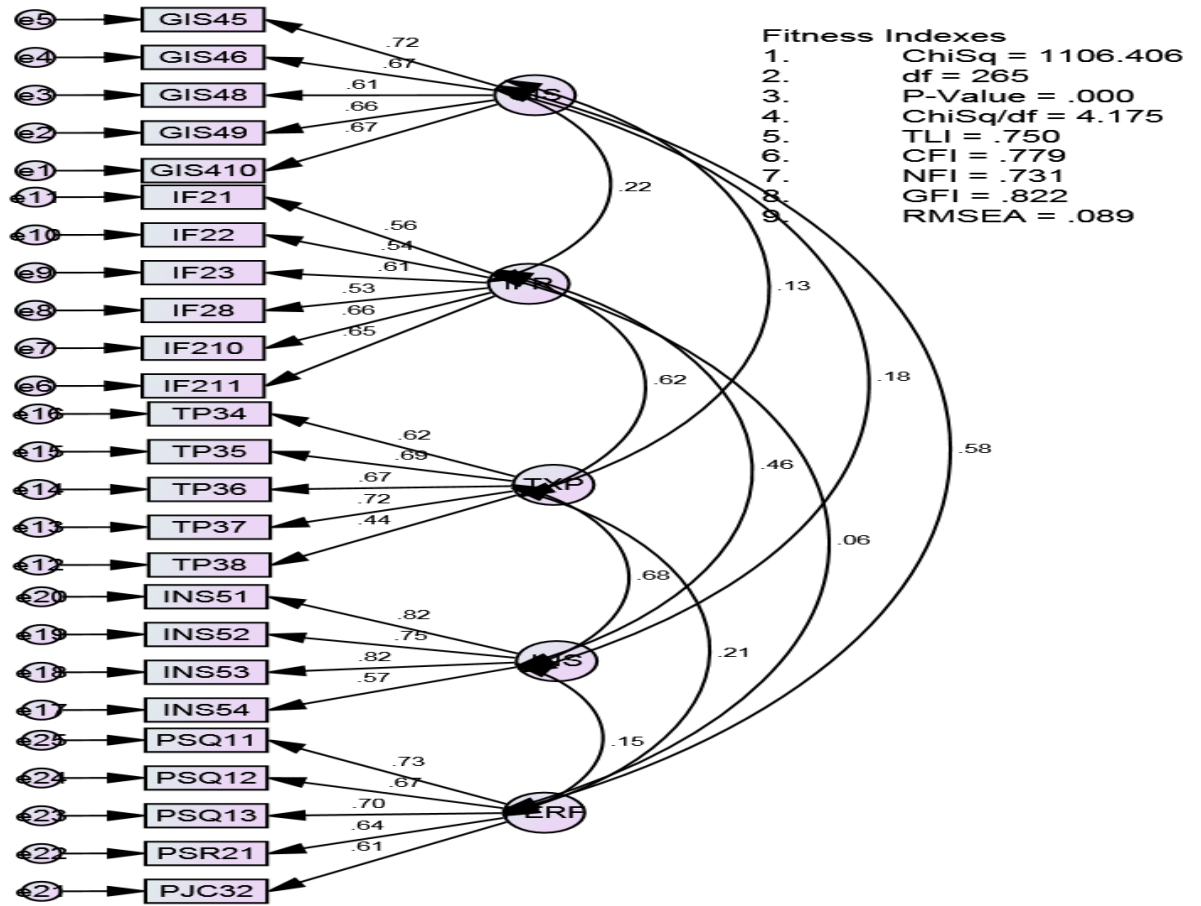
Exploratory factor analysis (EFA) is proposed to explore the data if the relations among the observed and latent variables are unidentified or unsure (Byrne 2010; hair et al. 2010). The degree of relationships among all calculated variables to every factor is represented by factor loadings. A set of extremely inter-correlated measured variables will be grouped into a distinct factor. EFA provides the researcher with information about the statistics of factors that best represent the data. This means that in EFA, statistical outcome, not theory, derive the factors (Hair et al, 2010). The rotated component matrix in the initial process showed that three items were cross-loading. Costello and Osborne (2005) recommended that cross-loading variables with 0.50 or higher loading for each factor should be dropped from the analysis. The second round of EFA was carried out after removing below variable which possessed the highest cross-loading (0.56 and below)

### **Confirmatory Factors Analysis and Structural Equation Modeling**

EFA, which was carried out as explained above, generated five factors of external business environment/SMEs performance with some experimental variable load on each factor (construct). These experiential variables or indicators symbolize the operationalization of the dormant construct that was not calculated directly (Hair et al. 2010). In order to decide whether the theoretical requirement of these constructs matches by the sample data used in this study, CFA was then conducted. CFA is an element of structural equation modeling (SEM), which consists of two steps, the measurement model and the structural model (Byrne 2010; Hair et al. 2010).

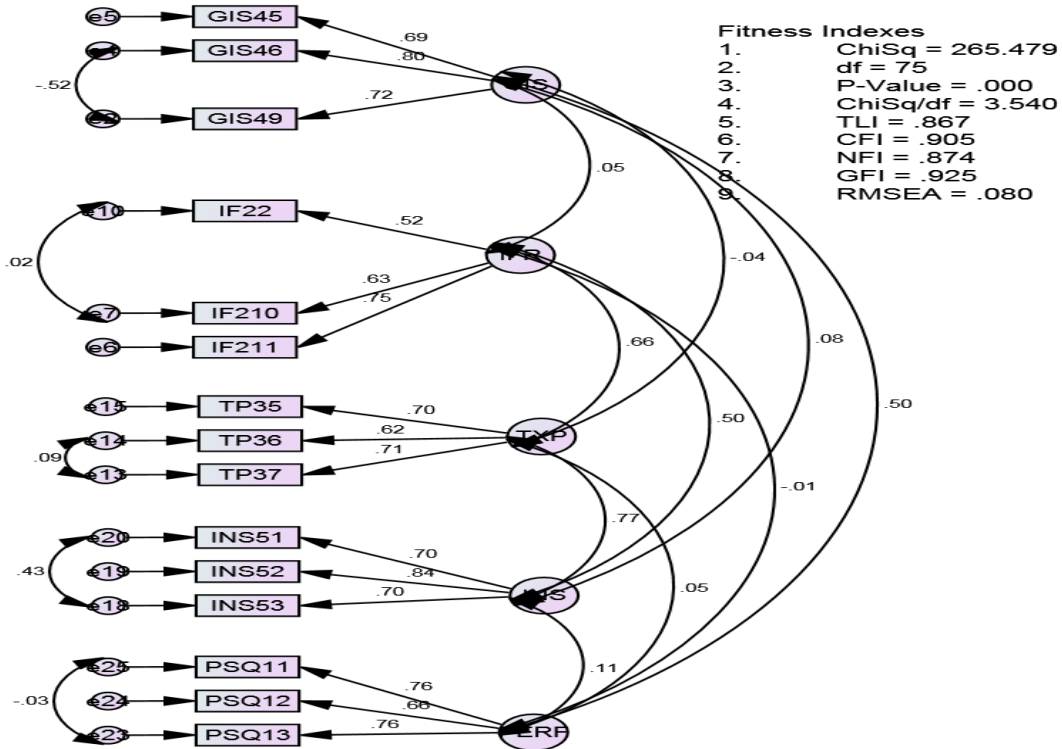
In this study, the measurement model (CFA) was conducted first to provide a confirmatory test for each of the five constructs that represent the external business environment/SMEs performance dimensions and one constructs for SMEs performance. After each of these constructs was validated, the relationship between the external business environment and SMEs performance was investigated. The path diagram of external business environment and SMEs performance relationship is presented below

**Path Diagram of external business environment and SMEs performance relationship**



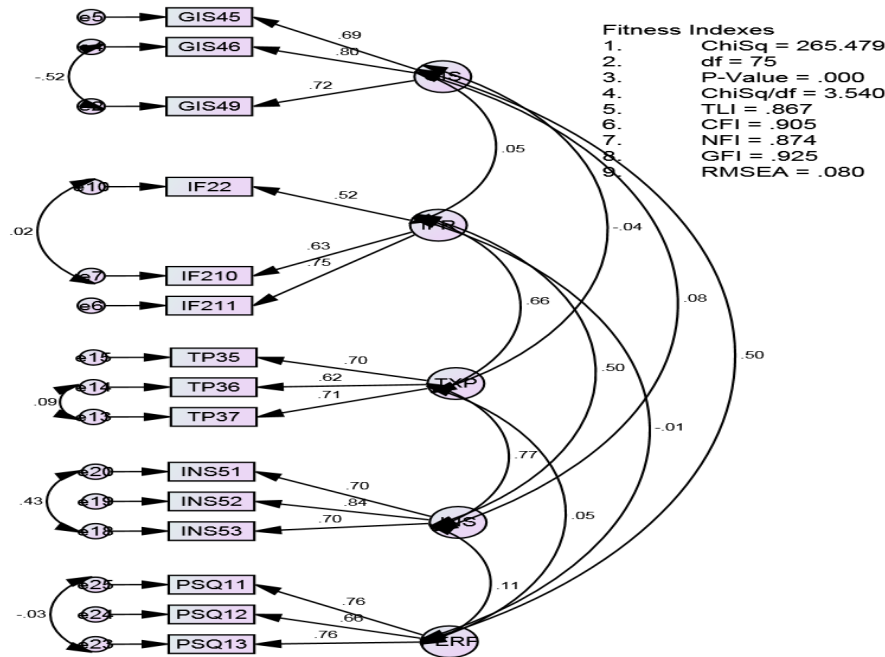
The fit properties of the external business environment and SMEs performance measurement model were then validated. However, the initial results suggested unacceptable fit for this external business environment and SMEs performance measurement model. This model was then respecified by examining the diagnostic indicators

### Final external business environment and SMEs performance Measurement Model



### Structural Model of External Business Environment and SMEs Performance

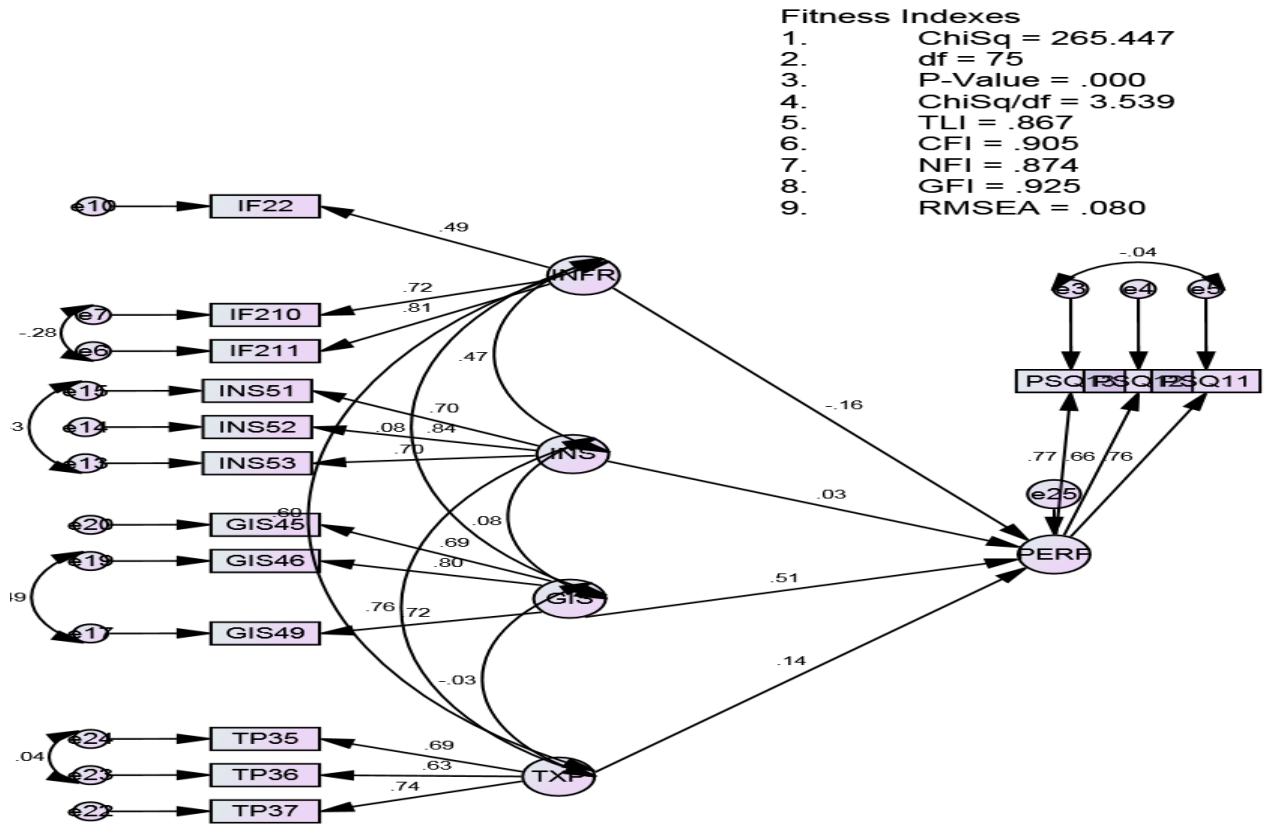
The next step is SEM, i.e., the structural model was carried out after the external business environment and SMEs performance measurement model was conveniently validated. In this structural model, the relationship between external business environment and SMEs performance was estimated



### Structural Model of External Business Environment and SMEs Performance

The next step is SEM, i.e., the structural model was carried out after the external business environment and SMEs performance measurement model was conveniently validated. In this structural model, the relationship between external business environment and SMEs performance was estimated below

### Standardized Estimates of the external business environment and SMEs performance Structural Model



The table below shows that from five external business environment and SMEs performance dimensions, Government/Institutional Support was the only dimension that significantly (at p-value <0.05 and CR >1.96) and positively (with standardized regression weight of 0.23) related to SMEs performance. The other three dimensions (Infrastructures Facilities, Taxation Policy and Insecurity) were related non-significantly (at p-value >0.05 and CR <1.96) to SMEs performance. This means that for the sample of SMEs in this study, only the Government/Institutional Support dimension contributed to SMEs performance.



### 5. Hypothesis Testing Results

Construct	Estimate	SE	CR	P	Label
PERF <--- GIS	.544	.092	5.929	***	Supported
PERF <--- IFR	-.142	.078	-1.833	.067	Not supported
PERF <--- TXP	.146	.146	1.006	.314	Not supported
PERF <--- INS	.038	.130	.293	.769	Not supported

**(H01):** There is no significant influence of government/institutional support on job creation in Kaduna State SMEs. Hypothesis one was tested using the structural equation modeling (SEM). The data for government/institutional support and job creation were formed by aggregate responses of all objects for each of the variable. Findings of the study also showed that government procedures in promoting SSBs have extraordinary and optimistic impact on small businesses. Similarly, Cancino, Bonilla and Vegara (2014) in an evaluation of the impact of the government support programmes on business enlargement originate that support program with an intention to improve business enterprises growth have a optimistic impact on sales and employment.

**(H02):** There is no significant effect of government taxation policies on sales revenue of SMEs in Kaduna State. Hypothesis two was also tested using the structural equation modeling (SEM). The data for government taxation policy and sales revenue of SMEs were created by summing responses of all items for each of the variable. The results of the hypothesis are presented in the table above. The examination on government taxation policy and sales revenue shows that there is a significant effect of government taxation policy on SMEs sales revenue.

**(H03):** There is no significant effect of infrastructural facilities on SMEs’ service quality, Kaduna State. As of the analysis obtainable on the table above, it was discovered that infrastructural facilities comprise a significant result on service quality; this result is constant

with the probability formed on the hypothesis that was raised in this study. This showed that infrastructural facilities surrounded by an enterprise business environment are extremely essential and should not be treated with discount. The infrastructural facilities obtainable surrounded by an enterprise working environment allows for quality in the service granted by SMEs as indicated by the outcome obtained from the investigation.

**(H04): There is no significant effect of insecurity on SMEs market growth in Kaduna State**

Hypothesis four was tested using the structural equation modeling (SEM). The data for insecurity and SMEs market growth were created by summing responses of all items for each of the variable. The results of the hypothesis analysis are presented in table above. The study of the effect of insecurity on market growth prospective of SMEs shows to facilitate there is a significant relationship among insecurity and market growth. The result is reliable with the researcher's a priori hope that was formed concerning the hypothesis that was raised by this study. It shows that the point of insecurity that is in place surrounded by an enterprise working environment diminishes its growth possible and thus harmfully impedes market growth in the state.

**6. Conclusion and Recommendations**

Based on the objectives of this study the model is designed as SMEs performance development framework for developing entrepreneurial skills in Kaduna state and originally intended for application in real world contexts. Research questions two and three involved empirical assessment of external business environment and SMEs performance measures for Taxation police and Government/Institutional support initiative using data acquired by way of a survey instrument to which a sample of 360 SMEs respondents participated. Hypotheses were developed for testing based on four external business environment clusters which emerged as relevant from the external business environment and SMEs performance model. The results provided responses to the research questions and led to the development of a conceptual model, the external business environment and entrepreneurial performance on SMEs in the state.

**Recommendations**

Emanating as of the result, conclusions and contributions of the research, the below recommendations are equipped:

1. The situation of infrastructure facilities in Kaduna State, Nigeria supposed to be given proffer reflection in order to bring about development in the performance of SMEs in stipulations of service quality.
2. To enhance in general performance, SMEs ought to constantly guarantee adequate scan of the external business environment to recognize possible intimidation and prospect surrounded by their working environment.
3. The government supposed to charge minor sum of tax payable. The decrease in tax charge would allow them to have the needed finances for other activities that will pilot to growth in their business and yield prosperity.
4. The government/institution support, the majority particularly in expression of financial support provides the desirable financial lubricants that smooth the progress of the SMEs growth in the country.
5. There is an increasing requirement for extra security dealings in the country. The government, industry, and entity are to ensure that they contribute to the enhancement and betterment of the security state of the nation

## **REFERENCES**

- Abiodun, E. A. (2014). The role of SME firm performance in Nigeria. *Arabian Journal of Business and Management Review (OMAN Chapter)*, 3(12), 33-47.
- Adejumo, G. (2019). Indigenous entrepreneurship development in Nigeria: Characteristics, problem and prospect. *Journal of Department of Business administration, University of Ilorin*, 2(1), 112-122.
- Adeoye, A. O., & Elegunde, A. F. (2019). Impacts of external business environment on organizational performance in the food and beverage industry in Nigeria, *British Journal of Arts and Social Sciences* 6(2), 2-13.
- Afubero, D., Okoye, E. (2017). The impact of taxation policy on revenue generation in Nigeria: A study of Federal Capital Territory and selected states. *International Journal of Public Administration and Management Research*, 2(2), 22-47.

- Alkali, M., & Isa, A. H. (2019). Assessing the influence of external environmental factors on the performance of small business manufacturing enterprises in Bauchi State, Nigeria. *Interdisciplinary Journal of Contemporary research in Business*, 4(7), 621-628.
- Ajayi, G. O. (2017). *Entrepreneurship Development in Nigeria*. Abeokuta, Nigeria; Ajayi Publishing.
- Argy, F. (2022). Economic governance and national institutional dynamics market. In Bell, S. (Ed.), *Economic governance and institutional dynamic*, Oxford University Press: Melbourn.
- Aremu, M. A. (2017). *Small and Medium Scale Enterprises as a means of employment generation and capacity building in Nigeria*, A Paper Presented at the International Conference on Management and Enterprise Development on “Intellectuals and New Strategies for Sustainability Development of the Third World” Held at Conference Center, University of Ibadan, Ibadan, Nigeria, October 5th - 8th.
- Ariyo, D. (2017). *Small Firm are the Backbone of Nigeria Economy*. Africa Economic Analysis, Africa Enterprises Information Service, Bridge-north United Kingdom.
- Bello, S. K. (2020). Political and electoral violence in Nigeria: Mapping evolution and patterns. Retrieved November 2016, from: <http://www.ifra-nigeria.org/IMG/pdf/political-electoral-violence-nigeria.pdf>
- Benjamin, J. I., & Rebecca, E. O. (2019). Entrepreneurial competencies: The missing links to successful entrepreneurship in Nigeria. *International Business Research*, 2(2), 62-71.
- Dionco-Adetayo, E. O., & Adetayo, J. O. (2018). Business environment analysis globalization era imperative for small scale industries. *Journal of Social Science*, 7(5), 283-292.
- Fitriasari, F. (2020). How do Small and Medium Enterprise (SME) survive the COVID-19 outbreak?. *Jurnal Inovasi Ekonomi*, 5(02).
- Gado, N. D. (2019). The impact of the Nigerian business environment on company performance: A case of 20 most capitalized companies in Nigeria. *International Journal of Business and Management Review*, 3(4), 36- 48.

- Hand, J. R. M. (2015). What drives the top line? Nonfinancial determinants of sales revenue in private venture-backed firms. *Journal of Business & Economic Studies*, 2(3), 42-57.
- Hisrich, R. D. (2015). *Entrepreneurship: New Venture creation*. 5th edition .Tata McGraw Hill, New Delhi.
- Hodgson, G. M. (2022). What are institutions? *Journal of Economic Issues*, 40(1), 18-32.
- Ibidunni, O. S., & Ogundele, J. K. (2018). Competition in marketing, survival yardstick for small and medium enterprises in Nigeria, *Mediterranean Journal of Social Sciences*, 4 (1), 231– 240.
- Ihua, U. B. (2019) SMEs Key Failure-Factors: a comparison between the United Kingdom and Nigeria. *Journal of Social Sciences*, 18 (3), 199-207.
- Kennerley, M., & Nelly, A. (2017). Measuring performance in a changing business environment. *International Journal of Operations and Production*, 23(2), 213-229.
- Litavniece, L. and Znotiņa, D., (2020). External Business Environment Problems and Opportunities in Rezekne City. *Latgale National economy research*, 1(7), pp.107-119.
- Naude, M. (2019) Entrepreneurship and Economic Development: Theory, Evidence and Policy Retrieved November 2016: from: <http://ftp.iza.org/dp7507.pdf>
- Naradda Gamage, S. K., Ekanayake, E. M. S., Abeyrathne, G. A. K. N. J., Prasanna, R. P. I. R., Jayasundara, J. M. S. B., & Rajapakshe, P. S. K. (2020). A review of global challenges and survival strategies of small and medium enterprises (SMEs). *Economies*, 8(4), 79.
- Nnanna, (2017): The importance of small and medium scale industries in economic development. Bing a Paper Presented at a Workshop on Small and Medium Scale Industries, Equity Investment Scheme, Abuja, Nigeria.
- Oba, U. O., & Onuoha, B. C. (2019). The role of small and medium scale enterprises in poverty reduction in Nigeria: 2001- 2011. *African research review, an international multidisciplinary journal*, Ethiopia 7(4), 1-25.

- Ode, E., Wombo, D. N., Ede, E.T., & Mile, N. B. (2018). Institutional support for small and medium enterprises in Nigeria: An Empirical Investigation. *International Journal of Economy, Management and Social Sciences*, 3(9), 481- 489.
- Oghojafor, B. E., Dakara, O., & Sulaimon, A. A. (2018). Assessing the small and medium enterprises environment in Nigeria. *International journal of African studies*, issue 4, 22- 27. Retrieved October 2016, from: [www.eurojournals.com/African.htm](http://www.eurojournals.com/African.htm).
- Ogechukwu, A. D. (2021). The role of small scale industry in national development in Nigeria. *Universal Journal of Management and Social Sciences*, 1, 23-41.
- Ojeka, S. A. (2017). Tax policy and the growth of SMEs implication for the Nigerian economy. *Research Journal of Finance and Accounting, United Kingdom*, 2(2), 16-26.
- Onugu, B. A. N. (2019). *Small and medium enterprises (SMEs) in Nigeria: Problems and prospects*. A PhD dissertation, St Clement University.
- Olabisi, S. Y., Olagbemi, A. A., & Atere, A. A. (2018). Factors affecting small-scale business performance in informal economy in Lagos State-Nigeria: A gender based analysis. Retrieved October 2016, from:
- Oluremi, H. A., & Agboola, G. M. (2019). Environment factors and entrepreneurship development in Nigeria. *Journal of Sustainable Development in Africa*, 13(4), 166-176.
- Pearce, A. J., & Robinson, B. R. (2021). *Strategic management formulation, implementation and control* (12th Ed). Boston: Irwin McGraw- Hill.
- Putra, P. O. H., & Santoso, H. B. (2020). Contextual factors and performance impact of e-business use in Indonesian small and medium enterprises (SMEs). *Heliyon*, 6(3), e03568.
- Pitta, D., Franzak, F., & Fowler, D. (2015). A strategic approach to building online customer loyalty: integrating customer profitability tiers. *Journal of Consumer Marketing*, 23(7), 421-429.
- Sedyastuti, K., Suwarni, E., Rahadi, D. R., & Handayani, M. A. (2021). Human Resources Competency at Micro, Small and Medium Enterprises in Palembang Songket Industry. In *2nd Annual Conference on Social Science and Humanities (ANCOSH 2020)* (pp. 248-251). Atlantis Press.

- Solomon, G. (2019). Building small and medium scale enterprises: A strategy for economic development in Nigeria. *Jos Journal of Economics*, 4(1), 130-152.
- Sorensen, J., & Nanda, R. (2020). Workplace peers and entrepreneurship. *Management science* 56(7), 1116- 1126.
- Sumathi, K. (2022). Service quality in health care centers: An empirical study. *International Journal of Business and Social Science*, 3(16), 141-150.
- Tamara, J. M., & Riste, T. (2015). Business environment factors and business performance: The case of Macedonia- A developing economy. *Socio economic geography; Teaching & Education in Geography*, 435-442.
- Tende, B. A. (2014). Government initiative toward entrepreneurship development in Nigeria. *Global Journal of Business Research*, 8(1), 109 -120.
- Tijani-Alawe, B. A. (2018). *Entrepreneurship processes and small business management*. Ogun State: Industrial Science Centre.