

External Business Environment and Entrepreneurial Performance On Smes In South East, Nigeria

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Abstract

The study was carried out to examine the relationship between external business environment and entrepreneurial performance of SMEs in South East, Nigeria. The specific objectives were to: Examine the relationship between infrastructural facilities and service quality of SMEs in South East, Nigeria; Evaluate the relationship between government taxation policy and sales revenue of SMEs in South East, Nigeria and assess the relationship between new technologies and SMEs market growth of SMEs in South East, Nigeria. The descriptive survey research design was used to conduct the investigation. The area of the study was South East Nigeria. The study employed both primary and secondary data. The population of the study was 8,379,997. Freund and Williams formula was adopted in determining the sample size of 368. The data collected was analyzed using Mean and standard deviation while the hypotheses were tested using simple regression. The findings revealed that Infrastructural facilities have positive relationship with service quality of SMEs in South East, Nigeria ($r = .465$, $N = 360$, $P = .000$), Government taxation policy had positive relationship with sales revenue of SMEs in South East, Nigeria ($r = .539$, $N = 360$, $P = .000$) and new technologies have positive relationship with SMEs market growth of SMEs in South East, Nigeria ($r = .406$, $N = 360$, $P = .000$). In conclusion, this study demonstrates the significance of the external business environment in shaping the entrepreneurial performance of SMEs in South-East, Nigeria. The study recommended, among others, that Policymakers should prioritize the development of infrastructural facilities to support SME growth, also the government should review and reform taxation policies to create a favorable business environment for SMEs.

Keywords: External business environment, entrepreneurial performance, infrastructural facilities, government taxation policy, new technologies, service quality, sales revenue, SMEs market growth.

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1. Introduction

Small and Medium-sized Enterprises (SMEs) are widely recognized as a vital component of economic growth and development, particularly in developing countries like Nigeria. SMEs contribute significantly to employment creation, poverty reduction and innovation. However, their performance is heavily influenced by the external business

environment. Businesses' performance is said to be influenced by the global business climate. Businesses and organizations cannot control or influence the external business environment, which is made up of uncontrollable components. To increase its performance, the company must be aware of its working environment (Tanko, Mohammed & Nwoko, 2024). Additionally, there is a reciprocal relationship between corporate organizations and

the environment. This is due to the fact that businesses operate in a world of opportunities, constraints, resources and dangers. In Nigeria, a number of issues affect the success of small and medium-sized businesses and can create an unattractive and risky operating environment for investors. Therefore, it is necessary to understand these elements and how they affect an organization's performance.

The external environment, including: political, economic, sociocultural, technological and competitive factors play a crucial role in determining SME performance (Ozoh, Okeke & Jacobs, 2020). The intricate relationship between external determinants and SME performance underlines the pivotal role played by the former. This issue has become increasingly prominent as the complexity and instability of the external environment continue to affect organizational structures and decision-making processes (Andah & Onana, 2022). The unpredictability of these external factors has been a growing concern for SMEs over the years, exacerbating the need for effective environmental assessments. The responsibility for addressing these issues lies primarily with the business environment itself, influenced by government policies, economic conditions, technological advancements and sociocultural dynamics.

Small and medium businesses are combated with the challenges of high tax rates, multiple taxations, intricate tax regulations and deficiency in proper enlightenment about tax related issues (Ocheni & Gemade, 2015), the cumulating effect of this include the high rate of poverty and increase in the cost of production. Accordingly, if a large proportion of SME costs are devoted to paying tax, they will be forced to transfer the tax burden onto the consumer, and as a result, this will ultimately make their goods and services uncompetitive, which tends to have a negative impact on their performance and growth (Isaac, 2015). The majority of the SMEs are concentrated in the service, manufacturing and commercial sectors. Therefore, sales revenue is the lifeblood of such enterprises and they can only maintain sales at a high level by minimizing their operational costs (Fisman & Svensson, 2017). The South East region of Nigeria, comprising: Abia, Anambra, Ebonyi, Enugu, and Imo states, is known for its vibrant entrepreneurial culture and thriving SMEs sector. Despite this, SMEs in this region face numerous challenges emanating from the external business environment, including economic, political, social, technological, environmental, and legal factors.

Previous studies and research efforts have been undertaken to explore the relationship between the external environment and SME performance. For instance, Umar et

al. (2022) emphasize the importance of understanding these external factors and exploring business environment which is crucial for managers and entrepreneurs worldwide in enhancing their capacity to perform more effectively. This environment, when conducive, can enable SMEs to thrive and succeed.

An analysis into the performance effect of environmental elements is, therefore, imperative, particularly in the context of Nigeria, and more specifically, South East States, which has a very robust SME sector, comprising of businesses that are exposed to varying levels of uncertainties. A failure to address these issues will leave businesses in a situation where they would continue to grapple with the unpredictability of external factors, leading to suboptimal performance, reduced competitiveness and eventually, business failures. This can have broader economic implications, particularly in areas that are heavily dependent on SMEs for economic growth and employment such as the South East, Nigeria.

Through a comprehensive assessment of the effect of environmental factors on performance, which the study provides, managers and entrepreneurs can better understand the external factors and how they impact their businesses then try to develop strategies to mitigate these effects. Renewed and critical research is necessary to provide insights and recommendations for improving the performance of SMEs in such volatile environments.

The business environment is increasingly becoming complex and businesses must become accustomed to this change posed by the complexity of the environment which requires the organization's new perspective to be more competitive, but many organizations have not been able to complement their internal business environment with the external business environment thereby resulting in organizational deficit making them largely unproductive on the long run. The performance of Small and Medium-sized Enterprises (SMEs) in South East, Nigeria is confronted with numerous challenges emanating from the external business environment. Despite their potential to contribute to economic growth and development, SMEs in this region face significant obstacles, including economic uncertainty, political instability, social and cultural constraints, technological inadequacies, environmental degradation and legal complexities.

In Nigeria, SMEs have not performed commendably well as they have not adequately played the expected significant role in the economic growth of the nation. These external environmental factors not only hinder the growth and

survival of SMEs but also undermine their ability to innovate, create jobs and contribute to the regional economy. The inability of SMEs to effectively respond to these external environmental challenges has resulted in poor entrepreneurial performance, characterized by low productivity, limited competitiveness and inadequate contribution to economic development. Factors such as insufficient financial support, corruption, poor management, poor infrastructure, poor managerial skills and low demand for products and services have been observed as the factors which brings about low performance in the SME sector.

The entrepreneurial implication of the external business environmental factors as reflected in small and medium enterprises may be expressed by looking at the rate at which SMEs are folding up as a result of lack of appropriate capital, market research, over bearing regulatory environment, poor policy implementation, poor infrastructural facilities, insecurity, unstable interest rate and short tenure of loans. These factors put together, have led to increasing cost of production and undermine profit making potential of SMEs situated in South East region as well as Nigeria in general. However, far less research has been done on the association amid business operating environment and SME’s business growth generally in developing countries and particularly in Nigeria.

Research Questions

i. What is the relationship between infrastructural facilities and service quality of SMEs in South East, Nigeria?

ii. What is the relationship between government taxation policy and sales revenue of SMEs in South East, Nigeria?

iii. What is the relationship between new technologies and SMEs market growth of SMEs in South East, Nigeria?

Hypotheses

i. Infrastructural facilities have no positive relationship with service quality of SMEs in South East, Nigeria.

ii. Government taxation policy has no positive relationship with sales revenue of SMEs in South East, Nigeria.

iii. New technologies have no positive relationship with SMEs market growth of SMEs in South East, Nigeria.

Research Method

The descriptive survey research design was used to conduct the investigation. The research is descriptive in character since it depicts the current condition of affairs. The design was deemed acceptable since the major goal is to investigate the relationship between variables and describe the elements that support the topics under research. The researcher made use of primary and secondary sources of data. The research was carried out in South East Nigeria, with a focus on the between external business environment and entrepreneurial performance of SMEs in South East, Nigeria. The population of the study includes all the SMEs registered in the five States of the South East Nigeria.

Table 1: Population Distribution Table

States	Population of SMEs
Abia	1,415,082
Anambra	2,059,844
Ebonyi	1,112,791
Enugu	1,671,795
Imo	2,120,485

Total	8,379,997
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Source: Small and Medium Enterprise Development Agency of Nigeria and National Bureau of Statistics Collaborative Survey, 2024.

Freund and Williams (1986) statistical sampling formula was used to obtain a sample size from a finite population of SMEs in the study areas. The formula was given thus:

$$n = \frac{Z^2 Npq}{Ne^2 + Z^2 pq}$$

Where;

- n = Sample size
- N = Population of the study
- P = Probability of Success /Proportion
- q = Probability of Failure /Proportion
- Z = Standard error of the mean given under 95% reliability
- e = Limit of tolerable sampling error
- n = ?
- N = 8379997
- P = 0.6
- q = 1-p
- z = 1.96
- e = 5%
- n = $\frac{(1.96)^2 (8379997) (0.6) (0.4)}{8379997 (0.05)^2 + (1.96)^2 (0.6) (0.4)}$
- n = $\frac{3.8416 (8379997) (0.24)}{8379997 (0.0025) + (3.8416) (0.24)}$
- = $\frac{7726223.154048}{20949.9925+0.921984}$
- = $\frac{7726223.154048}{20950.914484}$
- = 368.7773706

$$= \cong 368$$

Therefore, the sample size for the study is 368

The study included a variety of sampling approaches. Random and Purposive or Systematic Sampling are two of these approaches. The researcher used Kumar's (1976) Formula to determine the proportional sample size, which gives the proportionate sample size.

$$nh = \frac{nNh}{N}$$

n = The total sample size

nh = Number of units allocated to each category

Nh = Number of strata in each group

N = The total population under study

Thus, the number of questionnaire questions allocated to each State were as follows;

Abia State:
$$nh = \frac{1415082 * 368}{8379997} = 62$$

Anambra State:
$$nh = \frac{2059844 * 368}{8379997} = 90$$

Ebonyi State:
$$nh = \frac{1112791 * 368}{8379997} = 49$$

Enugu State
$$nh = \frac{1671795 * 368}{8379997} = 74$$

Imo State
$$nh = \frac{2120485 * 368}{8379997} = 93$$

Total = 368

Questionnaires were utilized to gather information. Because the researcher was working with respondents who were dispersed over the South East Zone, the questionnaire was deemed the most acceptable measuring tool. The researcher created a total of three hundred and sixty eight (368) questionnaires and delivered them to the study's sample population. Validity refers to the degree to which an instrument accurately measures what it intends to measure

(Yueli, 2016) content validity will be used in this study to validate the questionnaire and interview schedule. Pilot study was used to test the reliability. Cronbach Alpha coefficient method was used to ascertain whether the items pertaining to each dimension are internally consistent and whether they can be used to measure the same construct or dimension of external environment and performance of SMEs. Because all of the questions on the questionnaire

were equally scaled, and in line with Nunnally and Bernstein (1994), Cronbach Alpha should be 0.700 or above to be considered positive. The reliability test result was 0.801, which revealed the real result that was utilized for judgment, based on the inter-item correlation on the questionnaire. This meant that the questionnaire's items were internally consistent and trustworthy.

Table 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on	
	Standardized Items	N of Items
.801	.819	30

Source: SPSS output version 27.0

Data collected for the study was presented with descriptive statistic using tables, frequencies and percentages, mean, and standard deviations while Pearson Correlation Coefficient Analysis was used to test the Hypotheses.

RESULTS

Table 3: Administration and Return of Questionnaire

	Frequency	Percentage
No. of distributed questionnaire	368	-
Returned and usable questionnaire	360	98
Questionnaire not returned and Invalid	8	2

Sources: Research Data, 2025

Table 3 shows that 360 copies of the 368-questionnaire issued throughout the data collecting process were returned, indicating a 98 percent instrument return rate.

Research Question One: What is the relationship between infrastructural facilities and service quality of SMEs in South East, Nigeria?

Table 4: Relationship between infrastructural facilities and service quality of SMEs in South East, Nigeria

S/N		N	Minimum	Maximum	Sum	Mean	Std. Deviation
1	Access to clean water and sanitation improves the general performance of SMEs	360	1.00	5.00	1333.00	3.7028	1.31543
2	Conditions of the roads and access to market affect the SMEs.	360	1.00	5.00	1219.00	3.3861	1.43312

3	This SME have been confronted with electricity supply problem in the production and other process.	360	1.00	5.00	1396.00	3.8778	1.08243
4	Inadequate infrastructure brings about an increase in operating costs	360	1.00	5.00	1358.00	3.7722	1.29421
	Valid N (listwise)	360					

Source: Field Survey 2025; SPSS 23.0 Output

From the table 4, the first item's replies indicated that respondents agreed that access to clean water and sanitation improves the general performance of SMEs, therefore empowering them economically. The high mean score of 3.7028, with a standard deviation of 1.31543, a minimum of 1.00, a maximum of 5.00, and a total of 1333.00, indicates that the respondents' replies are positive, implying that they agreed with the fact.

The findings of question number two, which indicated a mean score of 3.3861 and a standard deviation of 1.43312, with a minimum of 1.00 and a maximum of 5.00, indicate that Conditions of the roads and access to market affect the SMEs. The mean score for item number three was 3.8778, with a standard deviation of 1.08243, a minimum of 1.00, a maximum of 5.00, and a total of 1396.00, indicating that the respondents agreed that This SME have been confronted with electricity supply problem in the production and other process. The mean score for item number four is 3.7722, with a standard deviation of 0.965, a minimum of 1.00, a maximum of 5.00, and a total of 1358.00, indicating that Inadequate infrastructure brings about an increase in operating costs.

Research Question Two: What is the relationship between government taxation policy and sales revenue of SMEs in South East, Nigeria?

Table 5: The relationship between government taxation policy and sales revenue of SMEs in South East, Nigeria

S/N		N	Minimu m	Maxim um	Sum	Mean	Std. Deviation
1	The nature of taxes on SME reduces their revenue base.	360	1.00	5.00	1338.00	3.7167	1.37131
2	Taxation policy brings about an increase in selling price.	360	1.00	5.00	1337.00	3.7139	1.17011
3	Improper portfolio management leads to higher task of taxation.	360	1.00	5.00	1399.00	3.8861	1.04272
4	Government taxation policy on SME does not consider the scale of operation.	360	1.00	5.00	1415.00	3.9306	1.15059
	Valid N (listwise)	360					

Source: Field Survey 2025; SPSS 23.0 Output

From the table 5, the respondents believed that the nature of taxes on SME reduces their revenue base. The mean score is 3.7167, with a standard deviation of 1.37131, a minimum of 1.00, a maximum of 5.00, and a total of 1338.00, indicating that the respondents' comments are considerably more favorable. The results of item number two revealed that the mean score is 3.7139 and the standard deviation is 1.17011, with a minimum of 1.00, a maximum of 5.00, and a total of 1337.00, indicating that the respondents agreed that taxation policy brings about an increase in selling price. The respondents

affirmed that improper portfolio management leads to higher task of taxation, as evidenced by the mean score of 3.8861 and the standard deviation of 1.04272, minimum of 1.00, maximum of 5.00, and sum of 1399.00. The mean score for item number four was 3.9306, with a standard deviation of 1.15059, a minimum of 1.00, a maximum of 5.00, and a total of 1415.00, indicating that respondents agreed that Government taxation policy on SME does not consider the scale of operation.

Research Question Three: What is the relationship between new technologies and SMEs market growth of SMEs in South East, Nigeria?

Table 6: The relationship between new technologies and SMEs market growth of SMEs in South East, Nigeria

S/N		N	Minimum	Maximum	Sum	Mean	Std. Deviation
1	New digital technologies enable significant business improvements.	360	1.00	5.00	1399.00	3.8861	1.08975
2	Technology generates good customer relationships in SMEs	360	1.00	5.00	1405.00	3.9028	1.20306
3	This enterprise has been able to increase perceived value and improved product usefulness through technology	360	1.00	5.00	1367.00	3.7972	1.25585
4	My firm implementation of digital marketing and online selling have led to an increase in the demand/sales of our products or services.	360	1.00	5.00	1376.00	3.8222	1.18089
	Valid N (listwise)	360					

Source: Field Survey 2025; SPSS 23.0 Output

New digital technologies enable significant business improvements, according to item number one. The mean score is 3.8861, with a standard deviation of 1.08975, with a minimum of 1.00, a maximum of 5.00, and a sum of 1399.00, indicating that the respondents' replies are significantly more favorable. The mean score for item number two was 3.9028, with a standard deviation of 1.20306, a minimum of 1.00, a maximum of 5.00, and a total of 1405.00, indicating that the respondents agreed that Technology generates good customer relationships in SMEs. Respondents acknowledged that the enterprise have been able to increase perceived value and improved product usefulness through technology. The mean score is 3.7972, the standard deviation is 1.25585, the lowest is 1.00, the highest is 5.00, and the sum is 1367.00. The mean score for item number four was 3.8222, with a standard deviation of 1.18089, a minimum of 1.00, a maximum of 5.00, and a total of 1376.00, indicating that respondents agreed that firms' implementation of digital marketing and online selling have led to an increase in the demand/sales of our products or services

Hypothesis one

Infrastructural facilities have no positive relationship with service quality of SMEs in South East, Nigeria.

Table 7: Correlations result for Infrastructural facilities and service quality of SMEs in South East, Nigeria.

		Infrastructural facilities have no positive relationship with service quality of SMEs in South East, Nigeria	Service Quality
Infrastructural facilities have no positive relationship with service quality of SMEs in South East, Nigeria	Pearson Correlation	1	.465**
	Sig. (2-tailed)		.000
	N	360	360
Service Quality	Pearson Correlation	.465**	1
	Sig. (2-tailed)	.000	
	N	360	360

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey 2025; SPSS 23.0 Output

The correlation value of ($r = .465$, $N = 360$, $P = .000$) in correlation table 7 indicates a strong association. The variable's p-value is less than or equal to the threshold of significance of one percent ($1.00 > 0.01$). This demonstrates a positive and substantial relationship between Infrastructural facilities and service quality of SMEs in South East, Nigeria, which is also significant at the 0.01 level (2-tailed). As a result, we support the alternative theory. This suggests that infrastructural facilities have positive relationship with service quality of SMEs in South East, Nigeria. The researcher accepts the null hypothesis if the correlation coefficient significant is less than the significant value at 1% significant level of confidence. These values, which are the coefficients of these variables indicated, have shown a significant relationship at both levels of confidence and therefore we accept the alternate hypothesis and reject the null hypothesis. Thus, we conclude that infrastructural facilities have positive relationship with service quality of SMEs in South East, Nigeria.

Hypothesis Two

Government taxation policy has no positive relationship with sales revenue of SMEs in South East, Nigeria.

Table 8: Correlations result for Government taxation policy and sales revenue of SMEs in South East, Nigeria.

		Government taxation policy and sales revenue of SMEs in South East, Nigeria.	sales revenue
Government taxation policy and sales revenue of SMEs in South East, Nigeria.	Pearson Correlation	1	.539**
	Sig. (2-tailed)		.000
	N	360	360
Sales Revenue	Pearson Correlation	.539**	1
	Sig. (2-tailed)	.000	
	N	360	360

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey 2025; SPSS 23.0 Output

The correlation value of ($r = .539$, $N = 360$, $P = .000$) in correlation table 8 indicates a strong association. The variable's p-value is less than or equal to the threshold of significance of one percent ($1.00 > 0.01$). This demonstrates a positive and substantial relationship between Government taxation policy and sales revenue of SMEs in South East, Nigeria, which is significant at the 0.01 level (2-tailed). As a result, we support the alternative theory. This suggests that Government taxation policy have positive relationship with sales revenue of SMEs in South East, Nigeria. The researcher accepts the null hypothesis if the correlation coefficient significant is less than the significant value at 1% significant level of confidence. These values, which are the coefficients of these variables indicated, have shown a significant relationship at both levels of confidence and therefore we accept the alternate hypothesis and reject the null hypothesis. Thus, we conclude that government taxation policy had positive relationship with sales revenue of SMEs in South East, Nigeria.

Hypotheses Three

New technologies have no positive relationship with SMEs market growth of SMEs in South East, Nigeria.

Table 9: Correlations result for New technologies and SMEs market growth of SMEs in South East, Nigeria

		New technologies and SMEs market growth of SMEs in South East, Nigeria	Market Growth
New technologies and SMEs market growth of SMEs in South East, Nigeria	Pearson Correlation	1	.406**
	Sig. (2-tailed)		.000
	N	360	360
Market Growth	Pearson Correlation	.406**	1
	Sig. (2-tailed)	.000	
	N	360	360

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey 2025; SPSS 23.0 Output

The correlation value of ($r = .406$, $N = 360$, $P = .000$) in correlation table 9 indicates a strong association. The variable's p-value is less than or equal to the threshold of significance of one percent ($1.00 > 0.01$). This demonstrates a favorable and substantial link between New technologies and SMEs market growth of SMEs in South East, Nigeria, which is also significant at the 0.01 level (2-tailed). As a result, we support the alternative theory. This suggests that new technologies have positive relationship with SMEs market growth of SMEs in South East, Nigeria. The researcher accepts the null hypothesis if the correlation coefficient significant is less than the significant value at 1% significant level of confidence. These values, which are the coefficients of these variables indicated, have shown a significant relationship at both levels of confidence and

therefore we accept the alternate hypothesis and reject the null hypothesis. Thus, we conclude that new technologies have positive relationship with SMEs market growth of SMEs in South East, Nigeria.

Discussion of Results

The study's initial goal was to determine the relationship between infrastructural facilities and service quality of SMEs in South East, Nigeria. Infrastructural facilities have positive relationship with service quality of SMEs in South East, Nigeria, according to the correlation test ($r = .465$, $N = 360$, $P = .000$). This study agrees with Okoh, Okoye, Onyebuanyi, & Afrogha (2024) who also investigated how infrastructure in Southwestern Nigeria affects the

performance of Small and Medium Scale Enterprises. The findings showed a substantial positive correlation between the performance of SMEs and the availability of infrastructure (road network, internet connectivity, and electrical supply), suggesting that infrastructures are essential to SMEs' ability to operate successfully.

One of the study's goals was to determine the relationship between government taxation policy and sales revenue of SMEs in South East, Nigeria. The statistical significance of the Correlation test ($r = .539$, $N=360$, $P=.000$) revealed that government taxation policy had positive relationship with sales revenue of SMEs in South East, Nigeria. This conclusion, which accords with Ojochogwu & Ojeka, (2024) that in order to obtain a vibrant and flourishing SME sector, the tax policy needs to be appropriate such that it will not be an encumbrance to the growth of small and medium enterprises.

The third research, meantime, attempted to determine the relationship between new technologies and SMEs market growth of SMEs in South East, Nigeria. The statistical significance of the correlation test for hypothesis three ($r = .406$, $N=360$, $P = .000$) showed that new technologies have positive relationship with SMEs market growth of SMEs in South East, Nigeria. This conclusion is consistent with those of Madondo, Akindeji, & Ogunsola (2024) who identifies twelve key themes that underscore how innovative entrepreneurship can drive adaptability, improve operational efficiency, and facilitate market access. By fostering a supportive environment for innovative entrepreneurship, SMEs can leverage emerging technologies more effectively, ultimately driving economic growth and social development in the country.

Conclusion

This study examined the impact of the external business environment on the entrepreneurial performance of Small and Medium-sized Enterprises (SMEs) in South-East, Nigeria. The findings of this study reveal that infrastructural facilities, government taxation policies, and new technologies significantly influence the entrepreneurial performance of SMEs. The findings of this study have significant implications for policymakers, entrepreneurs, and small business owners. Policymakers should prioritize the development of infrastructural facilities, such as roads, electricity, and internet connectivity, to support SME growth. The government should also review and reform taxation policies to create a favorable business environment for SMEs. Entrepreneurs and small business owners should leverage new technologies to drive market growth and

improve their competitiveness. In conclusion, this study demonstrates the significance of the external business environment in shaping the entrepreneurial performance of SMEs in South-East, Nigeria. The findings of this study provide valuable insights for stakeholders to develop effective strategies that promote SME growth and development in Nigeria.

Recommendations

Based on the findings of the study, the researcher recommended the following:

- i. Policymakers should prioritize the development of infrastructural facilities to support SME growth.
- ii. The government should review and reform taxation policies to create a favorable business environment for SMEs.
- iii. Entrepreneurs and small business owners should leverage new technologies to drive market growth and improve their competitiveness.

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