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The Effect of External Business Environment on Performance of Smes in Nigeria

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ABSTRACT: The research study examines the effect of external business environment on performance of SMEs in Nigeria. Business does not operate in a vacuum but in an environment, which is complex, multi-faceted and dynamic. Hence, every manger must understand the nature and trends of these environmental factors for prompt decision making. The study adopted a literature-based approach. Secondary sources of information were obtained from textbooks, journals, internets and other informed observations. The study was a generalized one on SMEs. Hence, there is no particular emphasis on any firm as study case. The study variables were all reviewed conceptually, empirically, and theoretically. These variables are external business environment as independent variable, SMEs performance as dependent variable while SMEs is the study sector. The study concludes that SMEs in Nigeria have really not done well in spite of various programs by government to enhance their performances. The study confirmed that there is relationship between external business environment and performance of SMEs. This finding suggests that if external business environmental factors are effectively monitored and adapted by enterprises with necessary infrastructural facilities and incentives support from government such will give room for enabling environment for business to thrive. Also, low credit facilities from financial institutions will enhance the expectation of SMEs of contributing to economic development, employment generation and poverty alleviation shall be achieved.

Keywords: External Business Environment, SMEs performance, Economic Environment, Political Environment, Technological Environment, Social and Cultural Environment

I. INTRODUCTION

The business environment globally is perceived to influence the performance of enterprises. The external business environment consists of extraneous factors that are beyond the control and cannot be manipulated by the business enterprise management. The business enterprise is obliged to be cognizant with its operating environment in order to heighten its performance. Furthermore, the environment and business enterprises are in a mutually interdependent interaction. This is because an enterprise exists in the world of threats, resources, limits, and opportunities. Small and medium enterprises in Nigeria are being affected by several factors influencing their performance and this tends to make their operating environment unsafe for investment (Adeoye, 2012). Thus, there is need for knowledge of these factors and how they influence an enterprise performance.

Small and medium enterprises (SMEs) and entrepreneurship development have become a progressively more imperative component of economic development (Karpak &Topcu, 2010). To buttress this, Karpak and Topcu (2010) asserted that the absence of vibrant small and medium enterprises in any economy in the world makes its development not achievable. According to Tamara and Riste (2015), SMEs are one of the major key elements of economic development. In order for SMEs to grow, there is a need for them to be able to adapt as external challenges arises (Lixin, 2010).

The capability of the enterprise itself is determined by factors which includes the method in which the management of the enterprise makes plan, implements the formulated plan and directs the business enterprises' activities and also how the management handles the impact of the external environment (Kwagala, 2011). Factors such as infrastructural inadequacy, unstable political climate, policy inconsistencies and others which are beyond the enterprise management control may affect business operation and performance (Anga, 2014).

The alteration within a business operating environment has been unpredictable and rapid (Fatai, 2011). To this end, Bayode and Adebola (2012) posited that consumers have been demonstrating multifarious behaviours in both local and international markets. Competitive pressure as it is the most striking change has made competitors apply different strategies to adjust to the unpredictable nature of the business enterprise environment (Bayode & Adebola, 2012).

The business environment is very crucial to the success or failure of business. According to the work of Dionco-Adetayo and Adetayo (2003), a healthy business cannot survive in an unstable environment. Oluremi & Gbenga (2011) posit 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, therefore, is the basis of formulating company objectives, mission statement, policies, strategies, and tactics (Tijani, 2004). Ibidunni and Ogundele (2013) classified the nature of the business environment as stable, dynamic, and unstable and this habitually assists a business enterprise in selecting suitable strategies. Adeoye (2012) opines that for the business to deal with the business environment dynamic nature and the fast-changing operating environment there is a necessity to develop and put into practice suitable strategies that would preserve its operation and as well bring about the preferred result. Hence, the business environment of an enterprise consists of the internal and external environmental factors affecting the performance of business enterprises.

The external environment of an enterprise was first acknowledged by open systems theorists who observed that an organization operate not in self – contained isolated units but in continuous and inevitable interaction with the large system within which they operate (Pearce & Robinson, 2011). It is this surrounding system that these theorists identified as the external environment, captioning it as that which consists of such factors that affect a business enterprise from outside as rivalry, consumer behaviour, supplier behaviour, macroeconomics, government policy and global dynamics (Alkali & Isa, 2012). Based on the rationale of this postulation, Bastedo (2004) asserted that the external environment has an influence on the manner in which business organization performs and that the nature of the influence is depending on how its impact is managed.

Internal environment refers to all the factors or forces that have a more direct impact on the daily activities of the company within the control of the organization. The main factors in the internal environment are: customers, suppliers, competitors, shareholders, financial institutions and employees (Adeoye, 2012). However, this paper will focus on external business environmental factors to include insecurity, infrastructural facilities and access to finance.

1.2 Statement of the Problem

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 (Taiwo & Falohun, 2016). Also, there is inadequacy in the performance of the SMEs role in influencing apprentice training so as to speed up employment creation as well as to alleviate poverty so as to promote Nigerian economic development and growth (Osotimehin, Jegede, Akinlabi & Olajide, 2012). Also, Muktar, Gambo, & Mukhtar (2015) posited that there is a high preference among consumers for imported goods and the country engages in more of importation than exportation. Okpara (2011) identified factors such as insufficient financial support, corruption, poor management, poor infrastructure, poor managerial skills, and low demand for products and services 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 Nigeria (Obiwuru, Oluwalaiye & Okwu, 2011; Oghojafo, Dakra &Sulamon, 2011; Olugbenga & Ifeanacho, 2011).

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 organisation's new perceptive 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 (Kurtulus, 2012).

The study of Anthony (2015) has provided a substantial evidence that organisations are witnessing major structural changes, such as technological evolution, globalization and increased regulation, which contributes to a considerable increase in competition among them and makes the need for understanding of the effect of external environment on business success needs to be explored to have a higher competitive position so as to give improved performance to the ailing organizations.

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, 2007).

It is observed that even though Nigeria has improved the situation of its telecommunication infrastructure other infrastructural deficiencies such as poor transportation networks (air, roads, rails, and ports), insufficient energy supply are some of the chief constraints to performance of SMEs and as a consequence, the problem of sub- standard quality of goods and services, increase in cost of production and prices of commodities and consequently, closure of the enterprise arises (Agenor & Neanielis, 2006).

Insecurity discourages business investment especially in the SME sector as it makes business investment uninviting to investors (Adegoke, 2013). Okonkwo and Obidike (2016) posited that the condition of insecurity in Nigeria accelerates the cost of operating a business incurred either in the course of taking defense against business uncertainty and risks or through loss of goods and properties. These challenges may have a detrimental impact on business development.

1.3 Objective of the Study

The main objective of the study is to examine the effect of the external business environment on the performance of SMEs in Nigeria. The specific objectives are to:

1) examine the effect of infrastructural facilities on SMEs' performance
2) determine the influence of government/finance institution support on performance of SMEs performance
4) assess the effect of insecurity on SMEs performance.

II. 2. LITERATURE REVIEW

2.1 CONCEPTUAL REVIEW

This section focused on the definitions and conceptual approach to identified variables that were used for the study.

2.1.1 Overview of Business Environment

According to Adeeko (2017) external business environment entails all forces that are outside the business enterprise which are beyond the control of the business enterprise, individual, and their management and also have a bearing on their functioning.

According to Essien, (2014), business environment implies those internal and external forces that aid or constrain small scale manufacturing operations. According to Obiwuru, Oluwalaiye, and Okwu (2011) business environment comprises the totality of the external and internal situations that affect the survival and growth of an enterprise. Blurtit, (2013) and Yusuf (2014) defined business environment as comprising such factors as economic, infrastructure, social, cultural, political, socio-cultural organisations, international organisations, and technological environments.

Fermando (2017) defined business environment is regarded as external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. According to (Basil 2018), business environment is the sum total of all external and internal factors that influence or affect a business together.

From the above reviewed literature on the definition of environment, it can be deduced that the definition of environment does not lend itself to a single universal accepted definition owing to various features put forward by researchers but it could be in the context of external business environment or internal business environment. External business environment therefore can be defined as combination of actors or forces which are uncontrollable affecting the performance of a business or organisation and must be carefully monitored to ensure the success of an organization. External business environment is the sum of all variables outside an organization relevant to its growth, survival and prosperity.

2.1.2 Characteristics of Business Environment

The characteristics of business environment include the followings:

1. The environment of business is not a 'one' thing; it is totality of forces or factors, some specific, some general, yet co-related.
2. The business environment is dynamic in nature, which means, it keeps on changing from time to time.
3. The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings such as the changes in economic and social environment.
4. Business environment differs from place to place, region to region and country to country. For instance: Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably. Thus, business environment is complex, dynamic, relative and multifaceted (Hans, 2018).
5. It has far-reaching impact on organisations in that the growth and profitability of an organisation depends critically on the environment in which it exists; may be an opportunity or a threat.

2.1.3 Advantages of Environment

Some of the advantages of business environment include:

1. Monitoring of the Environment helps in identifying the incidents and environmental issues that could affect an organisation in order to change the organisation strategies and thereafter contribute to the organisation's performance.
2. Environmental Factors help manager in determining the incidents and issues that are relevant and important to an organisation in order to explore the opportunities and avoid threats.
3. A source of information to manager for decision making in response or reaction to the environmental factors.
4. Environmental analysis makes managers aware of the linkage between an organization and its environment and keeps them alert and informed.
5. Technology environment increases the efficiency of a business process through introduction of modern equipment, online platforms for distribution and payment.
6. Environmental elements are a source of business resources (materials, men(labour), money(loan), management(employees), machine(equipment)) to a focal business organization.
7. Environment is the end point for organization output(product) which is exchanged for a value to the organization.

2.1.4 Disadvantage of Business Environment

1. It can terminate business if it is not well monitored or managed.
2. We are becoming more and more dependent on technology for almost every task. Hence, it is facing out jobs and creating another.
3. Lack of modern technology or modern equipment can force some companies out of production, when they cannot produce again to consumer's taste or specification.

2.1.5 External Business Environment

The external environment encompasses all incidents outside the organization that have the potential to influence or affect the organization. This environment is always changing according to the time cycles and situations. However, Ibidunn and Ogundele (2013) classified the nature of 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). Adeeko (2017) opined that in order for business to cope with the dynamic and rapidly changing business environment, there is a need to develop and implement appropriate strategies that would safeguard their operations and yield the desired results.

Fernando (2011) business environment is regarded as external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise.

The following are the components of the external business environment:

1. Political environment
2. Economic Environment
3. Social-Cultural Environment
4. Technological environment
5. Ecological/Natural environment. (Adeoye, 2012)
6. Legal Environment

1. **Political environment**: This is described as the extent and level of government direct and indirect intervention and influence on businesses in an economy. In particular, political factors include the following areas; tax policy, labour law, environmental law, trade restrictions, tariffs, incentives and political stability. It may also involve goods and services which the government provide or has intention to provide or not to provide (Obiwuru, Oluwalaiye, & Okwu, 2011). All the above-mentioned variables will have profound effects on micro, small and medium enterprises in either positive or negative direction. Political instability will create tension and unfavorable business climate. For example, the Boko Haram insurgence in the northeast geopolitical zone has led to unfavorable business climate in the region since the emergence of the group in 2002 as a result of incessant bombing and multiple attacks. Similarly, the numerous demonstrations of the recently proscribed Indigenous People of Biafra (IPOB) in southeast region in agitating for secession were evidence of political instability in Nigeria. In addition, the role of militants in Niger-Delta and the nefarious activities of Fulani herdsmen have created tension across the nation while resulting in unfavorable business climates. To this end, it is logical to postulate that building peaceful and enabling business environment is a strategic way forward to the survival of micro, small and medium enterprise in Nigeria.

2. **Economic Environment:** These are economic growth, interest rates, exchange rates and the inflation rate. These factors have influence on the operation and determination of businesses. For instance, interest rates affect the costs of exporting goods and the supply and price of imported goods in an economy (Obiwuru et al, 2011). This environment is divided into microeconomic and macroeconomic. The microeconomic affects business decision making - such as individual actions of firms and consumers, while the macroeconomic environment affects an entire economy and all its participants. Economic Factors are the factors that affect the economy and include interest rates, tax rates, law, policies, wages, and governmental activities (Hans, 2018). These factors are not in direct relation with the business, but it influences the investment value in the future.

3**. Social-cultural Environment:** These aspects include health consciousness, population growth rate age distribution, career attitudes and emphasis on safety nets. Trends in social factors affect the demand for a company's productions and how that company operates (Obiwuru et al, 2011). People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that explains their relationships with others. The following cultural characteristics can affect marketing decision making. Marketers must be aware of these cultural influences and how they might vary across societies within the markets served by the firm (Kotler, 2005).

4. **Technological environment**: This includes research and development activity, technological incentives and the rate of technological change. They can determine barrier to entry, minimum efficient production level and influence outsourcing decisions. Technological shifts can affect costs, quality and stimulate further invention, innovation and competition (Obiwuru et al, 2011). Technology includes inventions and innovations. Technical environment refers to all the technological surroundings that influence organization. Technology consists of skills, methods, systems, and equipment. Technological environment changes very fast and it affects the way the resources of the economy are converted into outputs. This results from pull of technology change, new innovations, research and development. It enhances business growth at a much faster rate than when technology was not available. From automated communication to automated marketing, boosting sales and generating more revenue.

Technological factors are variables that are being used for evaluating available alternatives with respect to technological capabilities. Technological factors are one of various external environment factors that affect businesses greatly and are also an integral component of the PESTLE analysis. (Adeoye, 2012)

5**. Legal Environment**: Included in this component are discriminatory law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products (Obiwuru et al, 2011). According to Adeoye, legal environment consists of the laws, regulations and procedures of a country which SMEs are anticipated to comply with in the course of their operations. These laws may facilitate successful business conduct as well as constitute handicaps to successful performance. Furthermore, in carrying out their business operations, agro business, enterprises are required by law to pay taxes, value added tax, capital gain tax, education tax, import duties, excise duties among others.

6. **Ecological/Natural environment**: These include environmental aspect such as weather, climate, and climate change, which may affect industries like tourism farming and insurance. Growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones (Obiwuru et al ,2011). Companies need to pay attention to physical environment in terms of obtaining needed resources and also of avoiding damage in the physical environment.

Other external factors considered in this study include the following: Access to Finance, Access to Infrastructure facilities, Insecurity.

7**. Access to Finance:** Access to finance is one of the major business concerns and youth-specific obstacles in Africa (GEM, 2014). Financial exclusion refers to a situation where the poor and other disadvantaged groups are unable to access formal financial services, owing to their perceived vulnerability (Mishra, Igwe and Lean, 2014). Financial issues top the list of disincentives (55%) for young Nigerians with desire to run their own businesses (GEM, 2013). The financial service landscape of Nigeria is one that shows a lack of access to a range of affordable, safe and reliable financial services (Igwe, Newbury and Icha-Ituma, 2018).. As a result, households have traditionally patronized informal credit lenders some of whom charge higher interest rates and give short-term small loans (Igwe, 2016; Igwe and Icha-Ituma, 2016).

8. **Access to Infrastructure:** Infrastructure development play a major role in increasing productivity, promoting economic growth and poverty reduction. Onyeiwu and Liu (2011) show that in Bangladesh, a 1% increase in households with access to electricity and paved roads in the villages led to 0.8% increase and 33% in total per capita income respectively. The Nigerian power sector's operational efficiency and cost recovery is among the worst in Africa, supplying about half of what is required, with subsequent social costs of about 3.7% of GDP (World Bank, 2011). In the transport sector, Nigeria's road networks are in poor condition from lack of maintenance, and the country has a poor record on air transport safety (World Bank, 2011). To improve the productivity, profitability and competitiveness of SMEs will require improvement and investment in public infrastructure such as roads, schools, hospitals, electricity, transportation and water (Igwe, 2016). The persistent poor infrastructural facilities, high cost of raw material, high cost of production, low capital utilization and inadequate foreign exchange to source needed raw materials abroad have resulted in absolute inefficiency and low survival rate of micro, small and medium enterprises across the nation (Ayedun & Awoyemi, 2014; Adeoye, 2013; Tajudeen & Francis, 2013; Adeoye & Elegunde, 2012)

9**. Insecurity:** Political instability will create tension and unfavourable business climate. For example, the Boko Haram insurgence in the northeast geopolitical zone has led to unfavourable business climate in the region since the emergence of the group in 2002 as a result of incessant bombing and multiple attacks (Uthman, Sule & Singh, 2015). Similar, the numerous demonstrations of the recently proscribed Indigenous People of Biafra (IPOB) in southeast region in agitating for secession was an evidence of political instability in Nigeria. In addition, the role of militants in Niger-Delta and the nefarious activities of Fulani herdsmen have created tension across the nation while resulting in unfavourable business climates. To this end, it is logical to postulate that building peaceful and enabling business environment is a strategic way forward to the survival of micro, small and medium enterprise in Nigeria. Also, the increasing and uncontrollable crime rate, religious and communal classes and high level of insecurity in Nigeria have resulted in the inability to carry out genuine business activities without fear while government policies and programmes to ameliorate the menace currently seem inadequate and counterproductive (Adeeko, 2017). Insecurity discourages business investment especially in the SME sector as it makes business investment uninviting to investors (Adegoke, 2013). Okonkwo and Obidike (2016) posted that the condition of insecurity in Nigeria accelerates the cost of operating a business incurred either in the course of taking defense against business uncertainty and risks or through loss of goods and properties. These expenses may have a detrimental impact on business development. Security is the course of action allied with the eradication of any

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sort of threat to man and his values (Adegoke, 2014).

2.1.7 Small and Medium Enterprises (SMEs)

The concept of SMEs varies according to nations and even industries in terms of size, capacity, number of employees, annual turnover among others. The importance of small and medium enterprises cannot be over emphasized for its contribution to the development of any nation. According to Akoja and Balcioglu (2010) there are some criteria used to define small enterprises which include: financial capacity, number of employees, sales volume, size, working capital, type of industry and ownership

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. 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, 2011).

The Federal Ministry of Commerce and Industries cited in Olabisi, Olagbemi, & Atere (2011) 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. The small and medium enterprise definitions are drawn from each country based on the policies, agencies, programs and institutions, and the role of SMEs in the economy (Etuk, Etuk & Baghebo, 2014).

2.1.8 SMEs Performance

Performance is a fairly broad concept, and its meaning changes in accordance with user's perspective and needs (Kabuoh, Ogbuanu & Chieze, 2016). Traditionally, firm performance has been viewed and measured in accounting terms. A business firm performance is seen to be effective if it attains its sales or market share goals which depends on efficiency, while an organizational performance is said to be effective if it makes use of its resources to attain high level of performance (Adeleke, Ogundele & Oyenuga, 2008). Stephen and Edith (2012) posit that the effectiveness of an organization in fulfilling its purpose is termed performance. They further assert that performance determines the existence of an organization in the economy but Suleiman (2011) views performance as the reflection of how the organization uses its resources in such a way that will ensure the achievement of its set objectives. Resources include human, material, financial and information resources. The other resources are coordinated by human resource that is the organizations employees. Kabuoh (2013) stated that performance level of any organization depends largely on the employees' productivity level and for any organization to excel and remain in business, it must be cautious of her work environment especially the internal environment by making provisions for all necessary facilities that will aid production. She added that the organization should bench mark her external environment and guard against possible changes that might impact on her performance. The economic growth and development of any nation is a product of effective and successful organizations in that nation (Kabuoh, 2013).

2.2 EMPIRICAL REVIEW

Several researchers have explored either directly or indirectly the influence of business environmental factors on the survival of small and medium enterprise in Nigeria and some of their findings are documented below.

Aikali and Isa (2012) evaluated the external business environmental factors influence on the performance of small business manufacturing enterprises based in Bauchi State, identified the factors influencing performance and found that access to government support and to financial capital were notably associated with small business manufacturing enterprise performance. Furthermore, the study also found entrepreneurial readiness, business plan, and technology usage to be insignificant to business performance.

Mahmood and Jabeen (2014) examined the effect of the external environment on entrepreneurial orientation and business performance relationship. The duo found that entrepreneurial orientation and external environment are positively related, also that this relationship significantly affects the business performance. The findings of the study also showed that external environment have a considerable moderating effect on the link between entrepreneurial orientation and business performance. The results of the study confirmed that entrepreneurial orientation is imperative for the firms' survival as well as in enhancing overall performance. Using the subjective performance measures, the study concluded that external factors are capable of determining the failure and success of the firm.

Also, Adeoye (2012), in a study on the Nigerian food and beverage industry, found that economic and political environment of the business have a positive and a major effect on the industry performance. The study result analysis revealed that the external environment factors including technological, social, political, and economic environment have a considerable effect on the industry performance. Shehu and Mahmood (2014) found a positive and significant link connecting the Nigerian business environment with SMEs performance.

However, some researchers have also established a negative relationship between the external business environment and performance.

Odumbakun et al. (2017) examines the role of political marketing environment on business survival and growth among manufacturing companies in Nigeria and found that constant and sincere payment of taxes along with total compliance with government regulatory framework by organizations is the only way to spur government to provide infrastructural facilities and other developmental programmes useful in creating enabling environment for businesses to survive

The study of Oginni and Adesanya (2013) centered on the inference of the business environmental factors on the manufacturing sector's growth and survival. The finding of the study revealed that there exist negative effects of environmental variables such as organisational policies, electricity, infrastructural facilities, financial credits, government policies, and fraudulent practices on the survival of businesses in the manufacturing. Also, factors including government policies, raw materials, inflation indicates an indirect significant in their effect on business survival.

Similarly, Okwu (2015) using descriptive statistics tools and empirical analysis to explore the effect of business environment on SMEs growth potentials, job creation, innovation, employment generation found a negative relationship between external variables such as business policy, legal framework, social, and cultural factors, and the growth potentials of SMEs. Corruption was found to a negative effect on innovation and growth potential. The study also revealed that competition drives innovation and growth but impedes job creation and employment.

Mark and Nwaiwu (2015) found the political environment which was portrayed by repeated alterations in government policies and programs to have a negative effect on corporate long-term planning. Based on the findings of the study, it was concluded that there is a negative relationship between the political environment and business performance is as a result of party politics with threats or war, growing height of criminal activities and terrorism, kidnapping, and bomb explosion all of which hinder business patronage and scares away investors. The finding of Ogunro (2014) revealed that the lack of infrastructure, insecurity, insufficient finance, multiple tax system, and corruption are the Nigerian business environmental factors that impede business survival. Obasan (2014) examined the impact of business environment on the survival of small-scale businesses in Nigeria and found a significant relationship between business environment and the survival of small-scale businesses. The study therefore concluded that inflationary trend, competition, inadequate infrastructural facilities and poor government policies, changing consumer behavior are the major bane of small-scale business survival in Nigeria.

Obiwuru et al. (2011) used narrative and theoretical methodology based on aggregative and specific SWOT and PESTEL analysis models adapted from related study to appraise the internal and external environment of businesses in Nigeria. The analysis of the study showed that the external environment bears more relevance to business strategic management, and that the government now plays more regulatory role in some key sectors of the economy. The study also found that external factors such as government policy, multiple taxation, infrastructural deficiency, dismay power supply volatile exchange rates among other factors escalate cost of doing business in Nigeria and therefore pose threat to firms and industries.

Essien (2014) study on Nigerian business environment and growth constraints of micro and small-scale manufacturing industries in Akwa Ibom State Nigeria considered infrastructural facilities, high interest rate on loan, absence of monetary units in bank along with absence of credit facilities as the bane of MSMEs but revealed further that infrastructural facilities is a dominant factor among equal that hinders the growth of MSMEs in Nigeria. This study was in tandem with Obasan (2014), Oginni and Adesanya (2013), Adeoye and Elegunde (2012).

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III. THEORETICAL FRAMEWORK

This section of the review provides the basic theoretical assumptions for this study. It focuses on relevant theory that can be applied to the business environment and its concepts in order to come up with a logical linkage between the variables.

Dynamic Capability Theory (DCT)

This theory was proposed by Eisenhardit & Martins (2000). Dynamic capability theory assumes capabilities are firm-specific process, activities or routines and put the limitability of the firm capability to build and reconfigure the resource base as the key to attaining competitive advantage. The theory is an evolutionary version of the resource-based view as it shares similar assumptions however it incorporates internal and external strategic factors such as the role of entrepreneurial orientations which is vital considering the dynamic and turbulent nature of the present-day business environment making it useful for this study.

The dynamic theory is the ability of a firm to speedily coordinate and reconfigure externally sourced competences in other to achieve short term competitive advantage (Lim, Stratopoulos & Wirjanto, 2012) and it was propounded by David Teece and Gary Pisani in 1994. Dynamic capacity theory is an outgrowth of resource-based view theory. While resource-based view, theory is all about how a firm can achieve competitive advantage, dynamic capability theory is more concerned about short term competitive advantage that can be used to build longer term competitive advantage (Lim et al., 2012). Dynamic capability theory focuses on the ability of a firm to quickly learn changes and innovations that are coming up in the business environment, build strategic asset that would enable them to complete and or transform asset that are existing within the firm to suits changes that are occurring within the business environment so as to increase business performance.

According to Barney (1991), dynamic capabilities follow the theory of RBV of the firm. As a matter of fact, DCT can be seen as complementary to RBV approach. According to Teece, Pisano & Shuen (1990) when referring to RBV in Ambrosini & Bowman (2009), "it is not only the bundle of resources that matter but the mechanism by which firms learn and accumulate new skills and capabilities and the forces that limit the rate and direction of this process". In this way, they propose an interesting definition of dynamic capabilities as follows: the firm ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments" (Ambrosini & Bowman, 2009).

Dynamic capabilities theory was expanded on two fundamental issues:

-- first view was that the firms have the ability to renew competences so as to adapt to changes in the business environment and the.

--second being the ability of strategic management to use these competences to match the requirements of the environment (Teece, Pisano & Shuen, 1997). According to Eisenhardt and Matin (2000), dynamic capabilities are a major source of sustained competitive and contributing factor in competitive advantage. The theory was a response to the question of how and why some firms seem to create and sustain competitive advantage as compared to others in dynamic markets. Dynamic capabilities suggest that intangible assets of the firm like knowledge, employees' skills can be reconfigured into routine to create responsive capabilities. In essence, the theory made use of competences that are unique to firms to gain competitive advantage by explaining how these competences are developed, deployed, and protected by the firm. The competitive advantage that is accompanied by these capabilities can be attributed to the fact that firm specific assets such as values, culture and organizational experience cannot be traded in the market (Treece et al., 1997). This implies that distinctive competences and capabilities must be built within the firm which cannot be replicated as they are unique.

Some scholar's views on dynamic capabilities have clearly indicated that resources and dynamic capabilities when manipulated or configured and utilized in appropriate ways as indicated by Barney, 1991; Eiesenhard & Martin, (2000); Makadok, (2001) they have the likelihood of conferring competitiveness. Thus, emphasis has shifted to the ability to change and quickly develop new organizational capabilities as a critical prerequisite for sustaining competitive advantages. Thus, emphasis is devoted to addressing the continuous renewal of organizational capabilities by accurately matching the demands to the rapidly changing environments.

The criticisms of dynamic capability theory are that the theory is incomplete in terms of specifics (Arend & Bromiley, 2011). Critics have outlined that the theory is not able to explain when there is need for a change and when not to change. Also, there were no specific details explaining organization pricing and opportunity costs of changes created within the organization and as such, there is a need to properly align the theory with a theory of the organization. Here, the dynamic capability theory mainly discusses changes so as to achieve organization survival but fails to examine the cost of changes and at what equilibrium cost can a change be affected so as not to affect business performance (Arend & Bromiley, 2011). Another criticism of the dynamic capability theory is that the theory lacks definitional bounds that appear to be inconclusive and elastic (Arend & Bromiley, 2011). Attempts were made to define this theory and clarify some of the concerns raised for the theory by Eisenhardt & Martin (2000). However, the theory still does not resolve the measurement challenges in terms of what constitute a dynamic capability, thus making dynamic capability to appear everywhere whether at the operational level or at the environmental level.

IV. METHODOLOGY

The study adopted a literature-based approach. Secondary sources of information were obtained from textbooks, journals, internets and other informed observations. The study was a generalized one on SMEs. Hence, there is no particular emphasis on any firm as study case. The study variables were all reviewed conceptually, empirically, and theoretically. These variables are external business environment as independent variable, SMEs Performance as dependent variable while SMEs is the study sector. Conclusion drawn based on the reviews while recommendations were made to enhance the effect of external business environment on the performance of SMEs in Nigeria.

V. CONCLUSION AND RECOMMENDATIONS

SMEs in Nigeria have really not done well in spite of various programs by government to enhance their performances. The study confirmed that there is relationship between external business environment and performance of SMEs. This finding suggests that if external business environmental factors are effectively monitored and adapted byenterprises, with necessary infrastructural facilities and incentives support from government such will give room for enabling environment for business to thrive. Also, low credit facilities from financial institutions will enhance the expectation of SMEs of contributing to economic development, employment generation and poverty alleviation shall be achieved.

Recommendations are made based on the study objectives and findings from the study.

1. External business environment should be properly adapted by small and medium enterprises in Nigeria in quest to achievingperformance as well as contributing to the Gross Domestic Product of the country.
2. SMEs should always ensure adequate scan of the external business environment to identify potential threats and opportunities within their operating environment for business sustainability.
3. Given that the SMEs in Nigeria are assumed to take part in the role of achieving economic improvement along with national growth there is a need for the government to improve the state of infrastructure so as to help in minimizing costs of production and prices of goods/service
4. In order to enhance increase in revenue base of SMEs, the government should charge lower amount of tax payable. The reduction in tax rate would enable them to have the necessary funds for other activities that will lead to growth in their business and yield profitability
4. The government/institution support, most especially in term of financial support needs to provide the needed financial lubricant that facilitates SMEs development in the country with emphasis on single digit interest rate by financial institutions
5. There is a rising need for more security measures in the country. The government, industry, and individual are to ensure that they contribute to the improvement and betterment of the security state of the nation. For where there is safety, there is progress and enormous benefits to all stakeholders (Adeeko, 2017)

In summary, the application of the above recommendations certainly shall enhance economic development and self-reliance.

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