

EFFECT OF POLITICAL AND INFRASTRUCTURAL ENVIRONMENTAL FACTORS ON SMALL BUSINESS FAILURE IN NORTH CENTRA NIGERIA

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Abstract

The study investigated the effect of business environmental factors on small business failure in North Central states, Nigeria. Specifically, it examined the effect of political factors as well as infrastructural inadequacy on small business failure. The study utilized the survey method. A sample size of 201 was obtained using Taro yamane's formula from a population of four hundred and four (404) registered SBEs in North Central Nigeria. Structured questionnaire was used to obtain data from 201 respondents. The analysis was based on 201 copies of returned questionnaire. Descriptive statistics, Correlation and PLS multiple regressions were used to analyze data. The Findings revealed that political factors have a significant and positive relationship with failure of SBEs in North Central Nigeria. Infrastructural inadequacy has significant and negative relationship with the failure of SBUs in North Central Nigeria. The study recommended that government and relevant stakeholders should create an enabling business environment by provision of power, portable water, and good roads to ease the operational problems experienced by SSEs in the zone. It is also recommended that government should look into political factors like poor regulatory framework, multiply taxation, political unrest, kidnapping, book haram activities etc that pose unnecessary constraints on businesses in Nigeria.

Keywords: Business Environment, Political Factors, Infrastructural Inadequacy, SBS Failure

INTRODUCTION

Small Businesses (SBs) were seen in both developed and the developing countries as the driving force for economic growth, job creation and poverty reduction (Agwu & Emeti 2020, Dotun, et al. 2023). They play a pivotal role as engine of growth in many economies, providing 80% of jobs in Africa and employing 44 million in sub-Saharan Africa. In Nigeria SBs make up of 96% of businesses, 84% of employment, and account for 48% of Nigeria National Gross Domestic Product.

Small businesses are businesses with total assets (excluding land and buildings) of more than ten million naira but less hundred million and a total workforce of more than ten but less than forty-nine employees. Medium enterprises are businesses with total assets (excluding land and buildings) of more than fifty million naira but less than one billion naira and a work force from fifty to one hundred and ninety- nine workers (SMEDAN, 2017).

Small business is a turbulent sector in both developed and developing countries. Even when economy is booming some firms fail and others succeed (Stokes & Wilson, 2016). A more recent account indicates that over eighty percent (80%) of small business enterprises in Nigeria die within their 1-5 years of existence due to harsh environmental factors (SMEDAN, 2023). The environmental factors that determine success or failure of small business enterprises are basically divided in two main categories, the internal factors and the external factors. The internal determinants are within the control of management systems and organizational culture (Inalegwu et al, 2022). Similarly, the external environmental factors or determinants include those which are beyond the control of management such as social, economic, cultural, technological, legal, infrastructure and demographic factors among others. However, a failed business is not necessarily a closed one. Failure occurs when a business losses revenue drastically, either because its sales is too low or dropped considerably or that the competitive environment is untenable, causing its cash flow to drawn or slide, making it unable to meet its financial obligations as they become due or payable. Small business failure is therefore a condition where a business find itself unable to pays its debts (insolvent) and generate enough revenue to keep it liquid and sustainable over the long term and is rendered inoperative thereby. That is, a business that consistently declared losses for a period at least 5 years of performance. The research on small business development

has also shown that the rate of failure in developing countries is higher than in the developed world (Salihu & Abubakar, 2019).

The researcher has observed that SSEs in North Central Nigeria are faced with a myriad of environmental challenges that have had a great toll on the performance of their business enterprises. Many of the SSEs in the area have been noted to perform poorly and some consequently fail and fold up. This situation is not an ideal one, so it calls for an assessment into the phenomenon of SBEs poor performance in the zone. The intent is that this is one way that will promote adoption of the necessary preventive measures and plan of action to avoid such failures.

The following hypotheses were tested in this study:

- i. Ho: Political factor has no significant effect on small business failure in North Central Nigeria
- ii. Ho: Infrastructural provision has no significant effect on small business failure in North Central Nigeria

LITERATURE REVIEW

This section of the study reviews the existing body of knowledge regarding the variables of the study in terms of concepts, theory and empirical reviews.

Small Business

The term small business has been used loosely and without a universal acceptance of what small is all about (Baumback cited in Suleiman, 2016). Attempts are being made to define a small business in terms of employment, asset value or monetary sales volume (Kibiya, 2019, Okwoli & Anyakwu, 2019, Olubumi & Kareem, 2018). All these modes of definitions are proving to be unsatisfactory in some aspects for a number of reasons. For instance, a firm in one industry may loom large relative to its competitors, yet be small in employment, assets or sales, relative to firms of the same classification in other industries, or the reverse may be the case. However, the National Council on Industries (NCI) cited in Muhammad (2023) and Ajiya (2016) defined SB as an industry with a labor size of 11-100 workers, or total cost of not more than ₦50 million, including working capital but excluding cost of land.

According to National Policy, Micro, Small and Medium Enterprises (MSMEs) can be categorized according to size, sector, organization, technology and location. In fact the definitions of SEs differ across countries, economies, agencies and sectors (Lucky & Olusegun cited in Andah & Onana, 2021). For instance, while Britain, the United States and some European countries define small scale enterprises in relation to sales and numbers of employees, SSEs in Nigeria are defined in relation to capital employed, turnover and number of employees. This study defines SSEs in line with SMEDAN classification as any business with total assets of more than ten million naira but less than one hundred million naira and total workforce of more ten but less than forty-nine employees (excluding land and buildings).

Environment of Small Business

The business environment varies from one country or state to another. Some may be favorable to business growth while others may be hostile. This presupposed that if the environment is conducive, it will engender a spate of economic activities and growth of the economy. And where it is hostile, it discourages investment and renders the economy stagnant. The interrelationship between the business and the community it operates is amount to business environment (Aruwa & Tende, 2017).

The adopted definition of business environment in this paper is that of Maza and Gay cited in Andah and Onana (2021) that the business environment is a set of forces and conditions outside the organization's boundaries that have the potential to affect the way the organization operates. The business environment presents opportunities which the organizations can take advantage and threats that the organization should avoid. The quality of managers understanding of organizational environmental forces and their ability to respond appropriately to those forces are critical factors affecting organizational performance.

Business Environmental Factors

There are several environmental factors that can impact success or failure of small businesses, these factors or forces can either be internal or external elements. In this study, only two business environmental factors (political factors and infrastructural inadequacy) were considered as a result of recent development bordering on them.

Political Factors: According to Linus (2019) the attitudes and actions of government and political leaders do affect the flow of social demands and ultimately enterprises. In business, government can promote or constrain business growth through her policies. Every organization operates within a political framework, political change, therefore, has the capacity of complicating the task of planning and predicting the future. Manager must, therefore, be aware if political change could have a significant impact on their organization, the extent of the consequences of a political change, the likelihood that a political change would take place and how organizations can cope with the effects of the change.

Adeyori and Agbadudu (2018) noted that political factor plays an important role in determining business survival in Nigeria and the variables include government policies, political stability, power change, security, taxation, privatization and deregulation. All the above mentioned variables will have profound effects small scale enterprises in either positive or negative direction. For instance, political stability will give room for peace and security of lives and property, reduce societal tension and as well helps to build a supportive and stable political institutions devoid of incessant agitation, war and conflict of interest. In contrary, political instability will create tension and unfavorable business climate. For example, 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 Indigenous People of Biafra (IPOB) in Southeast region in agitating for secession was evidence of political stability in Nigeria. In addition, the activities of Falani herdmens and Kidnappings 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 small scale enterprises in Nigeria.

According to Adagba and Shakpande (2017) Political factors entail the extent and process of government direct and indirect intervention and influence on businesses in an economy. Specifically, political factors include such as tax policy, labor law, environmental law, trade restrictions, tariffs, incentives, and other encouragement and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods).

Ajayi, (2016) submits that political environment poses direct risks to small scale enterprises. They posited that regulatory changes have the potential promote or inhibit market competition, social risks often have political bases and responses and political mismanagement can turn natural or human-made events into catastrophes. According to Babatunde (2021), the implication of political environment to a business enterprises is the risk emanating from, it is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts such as taxes or fee or indirect impacts (such as opportunity cost forgone).

Infrastructural Inadequacy: Infrastructure such as power, good road network, effective communication system and market are referred to as flavor on performance of SBs. The absent of the aforementioned facilities in the life of SBUs act as a catalyst for low performance which invariable can result to winding up if necessary step is not taken in time. The problem of erratic power supply alone has caused havoc in performance of SSEs such as reduction of quality of product, decline in production, inflation, low labor turnover, and unemployment to mention but few (Chuka, 2019). Inadequate infrastructure according to Salihu & Abubakar (2019) relates to indicators such as, poor access road, inadequate water supply, and power supply.

Efficient and adequate provisions of infrastructural facilities are necessary prerequisite for the overall development SBs (Agwu & Emeti, 2020). Unfortunately, Nigeria has been witnessing serious dwindling in the delivery these vital services; and this seems to be a major part of the causes of ineffectual performance of industries and businesses in the country. Nigeria forces significant infrastructure deficits, including insufficient power supply, inadequate transportation networks, and limited access to clean water and sanitation facilities. These deficiencies can impede the operations of small businesses, increase costs, and hinder their ability to deliver goods and services efficiently.

Overall, the effect of environmental factors on small businesses in Nigeria can be substantial. Small businesses need to navigate economic challenges, infrastructure deficits, regulatory complexities, security risks, cultural nuances, and environmental sustainability concerns to succeed in the Nigerian market. Adoptability, innovation, and strong business strategies are vital for small businesses to overcome these environmental challenges and thrive in Nigeria.

Environmental Factors and Small Business Failure

Oginni and Adesanya (2013), conducted a study to investigate business environmental factors and its implication on the survival of business organization mostly in the manufacturing company of Lagos metropolis among 550 respondents using random and purpose sampling and found that one of the greatest challenges of organizational survival most especially in the manufacturing industry is infrastructural facilities but identified electricity as the most important factor in the survival and growth of business organization from which its poor supply has constantly led to the relocation of manufacturing industries to neighboring countries. In general, the study found a significant relationship between business environmental factors and the survival and growth of business organizations. The major deficiency of the study is the inability to provide a strong justification for the combined use of random and purposeful sampling techniques because adoption of non-probability sampling approach in a descriptive survey has come under criticism in recent times.

Mark and Nwaiwu (2015) conducted a study on the impact of political factor or environment on small business performance and obtain data on twenty-seven multinational companies in Nigeria. The study found that there is significant relationship between country's political environment and performance due to political violence which has created a very volatile business atmosphere and makes the environment unbearable for businesses while it recommended government avoidance of frequent charges in policies and programmes that impinge on building a virile environment for business survival.

Humphrey (2020) conducted a study to assess the relationship between the political environment and the employee retention, the relationship between the political environment and the customer satisfaction, and the relationship between political environment and the effectiveness of small businesses. The study focused on a few selected SMEs in Delta state and a descriptive survey research was employed. The sample size of 356 people was chosen using a judge mental sampling approach. The research collected data from both primary and secondary sources. For data analysis, the correlation coefficient was used. The findings demonstrated that SMEs efficiency is reliant on and sensitive to the political climate. Again, a stable political climate impacts both consumer satisfaction and staff retention.

Adeyori and Agbadaud (2018) examined the influence of business environmental factors on small scale enterprises survival in Ondo City Metropolis, Nigeria. A descriptive survey was adopted as the foci of research design along with the use of simple random sampling. The population of the study comprises of all SSEs in Ondo City Metropolis, while a sample of four hundred was systemically selected from the study population. Therefore, a structured questionnaire was administered to elicit information from respondents. Out of 400 copies of questionnaire administered, 321 were duly returned and were used for statistical analysis. Multiple regression was employed in testing the hypotheses and findings indicated a significant relationship between business environmental factors and SSEs survival at $P < 0.05$. The study however recommended adequate provision of infrastructural facilities for SBEs survival in Nigeria as well as strengthening of regulatory framework. The study concluded that organizations who fail to

recognize and respond swiftly to the dictates of emerging trends and challenges in their environment are teetering on the brink of extinction.

Daniel et al. (2020) conducted a study to examine the prevalence causes of small business failure and learning outcomes result from the failure of experience entrepreneurs. The study utilized survey designed to study the failure factors of small businesses. Data was collected through questionnaire that were administered to senior managers and corporate policy makers and interviews with sample of 15 entrepreneurs who closed their businesses after operating at least for 4years. The findings pointed out that the main causes of small business failure were due to lack of good management, financial institutions support and insufficient government policies. This topic required further studies on the factors mentioned in this paper which can prove a better understanding of the success and failure factors affecting entrepreneurs when operating a business. More investigation on a sample of unsuccessful business owner manager is needed to better understand the phenomenon of business failure in this particular population.

Olubunmi and Kareem (2018) conducted a study to investigate the cause of failure among SMEs in Nigeria and to ascertain measures that can ameliorate the failure rate of these businesses. A quantitative method is adopted in this study through in-depth interview of owner-manager of fifty purposively selected for the study. The findings shows that most of the small-scale enterprises failure due to infrastructural facilities and entrepreneur skills, inadequate management skills, literacy, obsolete technology, insufficient finance, multiple taxation by different levels of government and natural disaster. In addition, the study also revealed socio-cultural factors impacting negatively on business failure such as attitude, norms, values, religions belief and ostentatious life style of citizens. The study focused more on infrastructural aspect as a cause of small business failure than the other aspects like the early age, also the domain of study is SMEs and not SBEs.

Lawrence and Geoff (2016) conducted a study to examine the effect of infrastructure deficiency on the performance of manufacturing small enterprises in Nigeria. A longitudinal approach was followed, where a survey was conducted among 500 SMEs in Nigeria. Interviews were also conducted. The results revealed that deficiency in infrastructure negatively impacts the profitability and performance of SMEs, due to the high cost incurred by SMEs in the self-provision of infrastructure and distribution of finished goods. The study uncovers the practical realities of the challenges faced by SMEs operating in an environment with insufficient infrastructure, which is typical of much of developing world.

Murat and Micheal (2000) conducted a study to examine the effect of infrastructure on the performance of small-scale enterprises in the federal capital territory (FCT), Abuja Nigeria. The study adopted survey research designed. The population 5690 SSEs in Abuja and the sample size is 374 SSEs in Abuja using simple random sampling method to select owners or owners' managers. The study used a questionnaire that was administered to the respondents. The statistical tool adopted was a regression. The findings revealed that there is a negative and significant effect of infrastructure on the performance of small-scale enterprises in Abuja, Nigeria. The study recommended that government should continue to build on good infrastructures such as road accessibility and connectivity, provide adequate power supply by eliminating irregular power supply in FCT.

METHODOLOGY

The study adopted a survey research design and a quantitative approach using a structured questionnaire as its tool for data collection as the adopted data type for the study was the primary data. The population of the study was all SBEs in North Central Nigeria. The total population of the SSEs in the region is 404 according to the ministries of commerce of four states in the North Central Zone (2023).

The sample size of 201 was ascertained using the Taro-Yamane formula for sample size determination as follow:

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

Where: n = the required sample size

N = total population

e = error margin

1 = constant

Therefore substituting the formula

$$n = \frac{404}{1 + 404 (0.05)^2}$$

$$n = \frac{404}{1 + 404 (0.0025)}$$

$$n = \frac{404}{1 + 1.01}$$

$$n = \frac{404}{2.01}$$

$$n = 201$$

Table 1: Population and Sample Distribution of the Study

State	Population	Percentage (%)	Sample Size
Benue	96		48
Niger	118		58
Nasarawa	81		40
Plateau	109		54
Total	404		201

Sources: Ministries of Commerce of four states in the North-Central Zone, 2025

Primary data was required for the study and sourced through the use of a structured questionnaire. The Likert five-point scales method was used in designing the questionnaire to measure the variables, which include Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree. The research instrument was tested for reliability. To test the reliability of the instrument, a pilot study was conducted on 19 respondents outside the study area. The instrument of the study was found to be reliable as well as the variables had alpha value above 0.7 as shown below:

Table 2: Reliability Test

Variable	Type	Cronbach Alpha
Failure	Dependent	0.801
Political Factor	Independent	0.801
Infrastructural Inadequacy	Independent	0.748
Overall Scale	Average	0.801

Source: Research Computation, 2025

As stated above the reliability test using the Cronbach's alpha for the study is presented in table 2. The result indicates that items for SBF gives a reliability value of 0.801, items of POF gives a value of 0.801 while items of IOF gives 0.748. On the whole the result shows that the reliability value were within the accepted limit. The value range from above of 0.700 to above of 0.800.

Model Specification

$$SBF = a + B_1P + B_2I + e$$

Where:

SBF = Small Business Failure (Dependent Variable)

$B_1P + e$ = Political Environmental Factor (Independent Variable)

$B_2I + e$ = Infrastructural Inadequacy (Independent Variable)

e = represent the error margin

i = indicator for cross sectional data type

Table 3: Measurement of Research Variables

Variables	No.of Items	Measurement
Failure	5	All variable measured using five-point Likert Scale questionnaire items ranging from 1 (strongly disagree) To 5 (Strongly Agree)
Political Factor	5	
Infrastructural	5	
Inadequacy	5	
Total	15	

RESULTS AND DISCUSSION

Descriptive Statistics Presentation

The analysis will be carried out here by computing the averages of means and standard deviations of the items. Thus, the importance of factors in influencing failure will be viewed at this stage in accordance with their mean values.

Table 4: Political Factors and Small Business Failure

S/N	Item	Code	Mean	Std.	Frequency on 5-point Likert scale and percentage											
					SA	%	A	%	U	%	D	%	SD	%		
1	Political unrest affect business Performance	POF1	3.82	0.80	31	20	74	46	05	03	40	25	09	06		
2	Political environment does effect Business performance	POF2	3.76	0.90	29	18	80	50	34	22	14	09	02	01		
3	Kidnapping activities in the state is affecting business performance	POF3	3.47	0.92	16	10	71	45	46	29	23	14	03	02		
4	The activities of Boko- Haram influence business performance	POE4	3.47	1.07	31	19	47	30	53	33	22	14	06	04		
5	Government is doing enough to Curb insecurity in the state	POE5	3.45	1.09	33	21	40	25	54	34	26	16	06	04		
6	Multiply taxation constitute barrier to SSEs survival	POE6	3.51	1.01	29	18	52	33	52	33	23	14	03	02		
Overall variable statistics			3.58	0.97												

Source: Research computation, 2025

The values for the 'POE' construct, suggest that incidence of SBF is considerably well affected by the political factors, because of the high value of the mean (3.58). Also, the relatively small value of the standard deviation indicates that opinions among the respondents closely approximates with each other on the extent of relationship between political factor and failure of the SBs.

Table 5: Infrastructural Inadequacy and Small Business Failure

S/N	Item	Code	Mean	Std.	Frequency on 5-point Likert scale and percentage											
					SA	%	A	%	U	%	D	%	SD	%		
1.	Effects of good access road on operations	IOF1	4.15	0.75	52	32	84	53	17	11	06	04	-	-		
2.	Effects of adequate water supply on operations	IOF2	3.95	0.74	31	19	98	62	21	13	09	06	-	-		
3.	Effects of erratic power supply on operations	IOF3	4.17	0.79	61	38	67	42	27	17	04	03	-	-		
4.	Effects of high cost of fuels on operations	IOF4	4.21	0.78	63	40	71	44	20	13	05	03	-	-		
5.	Effects of poor transport networks on operations	IOF5	4.20	0.79	64	40	68	43	22	14	05	03	-	-		
6.	Effects of poor infrastructure on operations	IOF6	4.09	0.78	50	31	79	50	24	15	06	04	-	-		
Overall variable statistics			4.05	0.79												

Source: Research computation, 2025

The value of IOF shown above reflect the manager-respondents opinion that small business failure is reasonably well affected by the level of inadequate infrastructures, because of the high value of the mean

(4.05). Again, the low measure of the standard deviation indicates a strong convergence of opinion among the respondent responses on the relationship between infrastructural inadequacy and failure of the SB.

The values of IO **Table 6: Features of Small Business Failure**

S/N	Item	Code	Mean	Std.	Frequency on 5-point Likert scale and percentage											
					SA	%	A	%	U	%	D	%	SD	%		
1.	Discontinuity of operations	SBF1	4.15	0.75	52	32	84	53	17	11	06	04	-	-		
2.	Reduction in demand	SBF2	3.95	0.74	31	19	98	62	21	13	09	06	-	-		
3	Reduction in targeted sales	SBF3	4.17	0.79	61	38	67	42	27	17	04	03	-	-		
4	Shrinkage in net annual	SBF4	4.21	0.78	63	40	71	44	20	13	05	03	-	-		
Working capital																
Overall variable statistics			3.46	1.10												

Source: Research computation, 2025

The value of SBF shown above reflect the manager-respondents opinion that the listed four features are generally affecting, and incidental to the phenomenon of SBF. This is because of relatively value of the mean. Again, the measure of the standard deviation, which is above 1 indicates a rather intermediate view of the respondents on how they feel an effect exist between what can be termed as SBF.

Discussion of Findings

This study reveals that there is a positive and significant relationship between political factor and failure of SBEs in Nigeria. This implies that, small businesses owners and operator have been confronted with adverse effect of perceived government poor regulatory framework, multiple taxation, political unrest, kidnapping, Boko Haram activities and other forms of crises have negatively affected the survival of SSEs in the zone. This study is in-line with studies of Adeyori and Agbadudu, 2018 and Odunbakin et al. 2017 which found positive relationship between political factors and failure of SSEs in Nigeria due to political instability and violence which has created a very volatile business atmosphere and makes the environment unbearable for business. Similarly, this study also shows a positive and insignificant relationship between infrastructures and failure of SBs in Nigeria. The implication of this is that inadequate infrastructures are indeed has minimal effect on SSEs survival in Nigeria. This is because most SBUs in North Central Zone least depend on electricity, portable water, good and motor able roads for their day-to-day activities because of alternative remedies like generators, Bohol, sachet water, etc for their survival and growth. Confirming these points are studies of Agwu and Emeti (2020); Obasan (2014).

CONCLUSION AND RECOMMENDATIONS

The study concludes that environmental factors contribute to the failure of SBUs in north central states. That political factor and inadequate infrastructure have significant relationship with SSEs failure. To this end, a very clear evidenced has been established through this study that business environmental factors have a significant effect on SBUs survival in North Central States. This study indicated that government policy and infrastructural facilities accessibility are still problems to small business managers. Hence, it is concluded that small business operators must learn how to adapt and cope with them in order to remain in business. In view of conclusion of this study, the following recommendations were stated:

That in order to reduce SSEs failure and achieve significant positive contribution of SBUs sector to the economy of North Central States and the Nigeria in general; government and relevant stakeholders should create an enabling business environment by provision of power, portable water, and good motor able roads which in return will ease the operational problems experienced by SSEs in the zone.

Government should look into political factors that impose unnecessary constraints on businesses in Nigeria. Specifically, poor regulatory framework, multiply taxation, political unrest, kidnapping, Boko-Haram activities should be attended to.

Since Government policy measures influence the environment under which these industries operate, deliberate policy is needed on the part of the government to create climate that is conducive and favorable to the growth and development of small industries.

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