

Effect of Political Environment on the Performance of Small and Medium Scale Enterprises in FCT

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Abstract

This study investigates the effect of the political environment on the performance of Small and Medium Scale Enterprises (SMEs) in FCT. The study adopted a survey design method. Primary sources of data were mainly used. The total population of the study is limited to 1109 selected Small and Medium Scale Enterprises (SMEs) operating within FCT. A sample size of 294 respondents was determined using the Taro Yamane formula (1967), as modified by smith (2008). The ordinary least square method of regression analysis was employed. From the analysis tested, the study found that government intervention programmes have a significant effect on the financial performance of Small and Medium Scale Enterprises (SMEs), government policies have a significant effect on the profitability of Small and Medium Scale Enterprises (SMEs), trade restriction has a significant effect on the income level of Small and Medium Scale Enterprises (SMEs, and that political stability has a significant effect on the level of output of Small and Medium Scale Enterprises (SMEs). The study concluded that the political environment has a significant effect on the performance of Small and Medium Scale Enterprises (SMEs) in FCT. The study recommends that the government should create an enabling environment that would be conducive for business organizations to thrive, policies should be properly defined, the government should offer tax holidays to SMEs and empower them to access and get credits from the commercial banks and the benefits and need for the sound political environment through education, training, innovations or inter-firm linkages should be emphasized.

Key Words: Business performance, Political environment, Small and Medium Scale Enterprises.

Background to the study

Most small and medium scale enterprises in the world today operate in an increasingly complex, dynamic, multiphase, and unstable environment which has a far-reaching effect on their profitability, the political environment of small and medium scale enterprises in Nigeria is faced with risks of multiple taxations, currency devaluation, inflation, repatriation, expropriation, confiscation, campaigns against foreign goods, mandatory labour benefit legislation, kidnapping, terrorism, and civil wars which appears to be responsible the dwindling level of profitability within the business. Several studies like Richard, Devinney, George, and Johnson, (2009), and Ibetu, (2011), have shown that the trouble expended by multinational business managers in achieving their goals in Nigeria has not been very successful. Richards et al. (2009), maintains that the successful profitability of SMEs depends to a great extent on the political environment of the host country.

Besides the complication of planning activities of business organizations by political risk, decisions and risks that are associated with politics are also factors that will jeopardize business strategy or severally damage the firms (Demaki, 1999). Risk and instability in politics have created fear and panic in the heart of entrepreneurs over the ages while making investments within and outside the country (Adeusi & Aluko, 2014). Mawoh and Aliyu (2010), are of the opinion that a lack of continuity exists with regard to economic policies, thus long-run planning becomes difficult to try and do. Hence, the management of the organization is advised to take note of these challenges and risks to the business organization and consult a legal adviser on this issue, Ogundele (2005).

Capital availability is not always a problem for so many entrepreneurs but an inability to adapt to the business environment and as a result, this ever-changing variable is a challenge to the success of indigenous business operations. The majority of them are not even informed of the political situation that has hindered business over the years. They are unable to predict the political situation of the immediate environment in which their businesses exist. Some researchers recommend experts be involved in studying the political environment and also help in forecasting likely political situations. The external business environment of Nigeria's organization impinges upon the operation of a business other than the availability of capital and the ability of the manager or business owners. All things being equal, controlling the external business environment can be done to some extent and entails constant monitoring and conducting environmental scanning always (Adeoye & Elegunde, 2012).

The political environment enhances growth and development and also encourages both foreign and local investors. Any organization that hopes to succeed in any business environment must as a matter of necessity pay attention to the political environment. So many businesses all over the world, especially SMEs have fallen apart in terms of financial performance, profitability, income level, and efficiency despite their good intention and objective. Most of them gave a higher percentage of their time and money to rewards and motivation of employees to guarantee business continuity and success but failed to understand the political terrain in terms of government intervention, various government policies, trade restrictions, and political stability which as a far-reaching impact on their performance.

Statement of the problem

Small and medium enterprise managers and business owners in Nigeria operate in an environment that is dynamic and the political environment is characterized by a lot of complexities ranging from risks of trade restrictions, the issue of multiple taxations, Nigeria currency devaluation, inflation, repatriation, expropriation, confiscation, as well as campaigns against foreign goods and services, mandatory legislation relation to labour benefit, the problem of kidnapping and terrorism which have a tendency of springing up a civil war. Policies and actions taken by the government such as regulatory, legal framework, and political changes may decrease business income, profitability, efficiency, and financial performance and acts as barriers to foreign investment.

According to Adeoye (2015), about 20% of SMEs in the state collapse, despite the contribution of the political environment. This study, therefore, considers four variables of the political business environment (government intervention programs, government policies, trade restrictions, and political stability) as the independent variable measuring the political business environment on the performance of small and medium enterprises in FCT to fill the obvious gap of the study.

Research questions

For the purpose of this research the under listed questions were formulated for the study:

- i. To what extent does government intervention programmes impact the financial performance of small and medium scale enterprise?
- ii. To what degree does various policies of government impact the profitability of small and medium scale enterprise?

- iii. To what extent do trade restrictions impact the income level of small and medium scale enterprises?
- iv. To what degree does political stability impact the efficiency of small and medium scale enterprises?

Objectives of the study

The objective of the study is to evaluate the impact of the political environment on the performance of small and medium-scale enterprises. To address the main objectives, the following are the specific objectives:

- i To determine the extent to which government intervention programmes impacted the financial performance of small and medium scale enterprises.
- ii To identify the various policies that impact the profitability of small and medium scale enterprise
- iii To examine the extent to which trade restrictions impacted the income level of small and medium scale enterprise
- iv To determine the degree to which political instability impacted the efficiency of small and medium scale enterprises.

Research hypotheses

Based on the research topic stated and the research questions raised, the following hypotheses were drawn in null form for testing:

H₀₁: Government intervention programmes do not impact the financial performance of small and medium scale enterprises.

H₀₂: Government policies have no effect on the profitability of small and medium scale enterprise

H₀₃: Trade restrictions do not impact the income level of small and medium scale enterprise

H₀₄: Political instability has no effect on the efficiency of small and medium scale enterprises.

Significance of the study

The findings will be useful to national policymakers, government parastatals, managers, and employees of small and medium scale enterprises. There are quite a good number of environmental factors that inhibit the growth and development of small-scale businesses which include: government and politics which are external and other internal factors like the management. However, the most visible of all these are government, policies, and management. Hence, we shall dwell on these thoroughly.

Scope and limitation of the study

The scope of this study covers the impact of the political environment taking into consideration, government intervention, various government policies, trade restrictions, and political stability and their impact on the performance of small and medium scale enterprises with proxies of financial performance, profitability, income level, efficiency. Registered SMEs in FCT, Abuja. FCT was chosen because of its large concentration of SMEs among the various states in Nigeria. The study was limited to the owners/managers of some selected registered SMEs in FCT, Abuja. It involved a cross-section of businesses in different industries such as manufacturing, wholesale and retail trade, accommodation and restaurant services, mining and quarrying, agriculture, transport and storage, and information and communication. These sectors were chosen because they are mostly affected by the business environment in the FCT, Abuja.

Conceptual Issues

Concept of the external business environment

According to Iwuozor and Onibon (2021), an organization does not exist in a vacuum, it exists as an open system and interacts with external environmental variables such as political variables. The inability of entrepreneurs to predict the political terrain is a contending issue that they face within their daily operations. Aldrich, (1979) believes that business environmental factors changes are associated with factors of production and that these environmental influences may be stable over a period of time.

Iwuozor (2017), explains the external environment and an environment that exists outside the business which consists of variables in the workplace that are complex, dynamic, multifaceted, and possesses a far-reaching effect on the organization. It is often abbreviated with PEST (Political, Economic, Socio-cultural, and Technology). A component of the microenvironment consists of customers, competitors, suppliers (collaborators), and lenders (creditors). This study defines the external business environment as the environment that exists outside the enterprise, they are complex, dynamic, and multifaceted and have a far-reaching impact on small and medium businesses. Therefore, the study looks at political environmental factors as the external environmental factors which are the independent variables for the study.

Political environment

No organization wants to set up business in another country where the trade relationships are not relatively defined and stable, there is a need for the business managers to analysis the political environment before setting up their businesses.

For Small and Medium Enterprises, political risk emanating from the political environment refers to the danger that a rustic makes on political decisions which will influence and have adverse effects on the enterprise's profits and/or goals (Griffen, 2005). No matter the kind of political risk that small and medium enterprises face, Enterprises usually will be losing lots of cash if they are unprepared for these adverse situations. as an example, after Fidel Castro's government took control of Cuba in 1959, many ample dollars 'worth of American-owned assets and enterprises were expropriated (Andoh, 2007). There are some political risks induced by the government through legislation and foreign relationships like expropriation, confiscation, and domestication (Auster & Choo, 1993).

On a similar note, Limna (2012), added that expropriation is an involuntary transfer of property, with compensation, from a privately owned firm to a number country government. Expropriation may generate some funds for the owners. However, procedures to induce payment from the government are sometimes protracted, and also the final amount remains low which can result in an interstate conflict between the host and expropriate business.

Confiscation is an involuntary transfer of property, with no compensation, from a privately owned firm to a number country government (Limna, 2012). In confiscation, firms don't receive any funds from the government and thus, it represents a riskier situation for foreign firms. Some industries are more susceptible to confiscation than others thanks to their importance to the host countries and their lack of ability to shift operations. Sectors like mining, energy, public utilities, and banking are targets of such government actions and if foreign Enterprises are forced to rent nationals as managers, poor cooperation and communication may exist. The government may implement an impression system. Such control comes from a sensitive political situation as an example, social pressure may end in a very form of price standardization for particular sectors like food, transportation, fuel, and healthcare.

Business profitability is the effort expended by a business firm in achieving its objectives of ultimate profitability. It is a very significant indicator for measuring the performance of SMEs. It is an important factor for an enterprise to survive in a competitive environment. Profitability is a definitive goal for any business association and is the ability to make-benefit. Revenue and costs are used to calculate profitability. Income increase capital is the gross profit generated during the accounting period because of the normal activities carried out by the enterprise. Expenses are outflows incurred through the normal activities carried

out in an organization, resulting in reducing both fixed and current assets or increasing liabilities and reducing capital (Shosha, 2014).

Profit and measure of profit

Despite the heterogeneity of the nature of profit, all are in the market primarily to make a profit. Profit is measured by deducting the cost from revenue. In the context of micro and small enterprises, the major components of cost are raw materials, wage bills, electricity, and communication cost while revenue is the level of income that is accrued to a firm based on its operations (Daniels, 2001). Profitability increases the comparative advantage of the firm. A profitable firm has the means to finance expansion, aspire to grow, employ more people, and survive longer than the unprofitable ones. Profit leads to business growth. Growth is better explained in terms of profits (McPherson, 1996), hence a profitable and growing firm performs better than the rest of the group.

Efficiency

It is important for an enterprise owner or manager to know how efficiently the business is moving, Walker and Ruckert (1987), efficiency is treated as an index and it is highly associated with achieving profitability. Small and Medium Scale Enterprises are said to be efficient if they are achieving the right result that the business set out to achieve.

Theoretical framework

The theory underpinning this study is the Structure-Conduct-Performance (SCP) model and also the Firm Effect model because Contemporary bodies of works of literature explain firm performance in terms of profitability either by the Structure-Conduct-Performance (SCP) model or the Firm Effect model and they are explained as follows:

The SCP model, propounded the major determinant of market or firm's activities as it relates to the strategic differentiation of their products and service which they render to reflect their pricing system Industry structure and firm conduct combine to work out firm performance. Under this model, firms are considered more or less identical, also the difference in performance is due to the market structure. This is often to say firms enjoy profitability a really) tight Oligopoly reasonably market structure than an awfully competitive market structure. In short, the SCP model assumes that there are relationships between the structure of markets, the conduct of firms, and also the performance of firms (Carlton & Perloff, 2000).

On the opposite hand, the Firm-effect model captures the influence of the unique firm-specific characteristics like heterogeneity in resources and competencies and also the differences in corporate and competitive strategies on performance. These make up the tangible and intangible competencies of the firm or small and medium enterprises resources that are valuable, rare, inimitable, and non-substitutable are able to do sustainable competitive advantage by implementing fresh value-creating strategies that are difficult for competitors to duplicate (Barney, 2002). These could include belongings, process know-how, customer relationships, and also the knowledge possessed by groups of especially skilled employees. In a firm-specific school of thought, the cardinal assumption is that variation in profitability is basically because of persistent differences across firms (Stierwald, 2010).

These studies are from the Nigerian economies on established business enterprises using official financial reports. Only a limited number of researches are conducted in developing countries like Nigeria, where financial reports don't seem to be easily accessible, on the performance of Small and Medium Scale Enterprises (SMEs). This study seeks to seem at the role of firm-specific factors in the profitability of Small and Medium Scale Enterprises (SMEs) by employing quantitative methods from qualitative responses collected on the performance of enterprises.

The paper adds to the literature in the following 3 ways. Firstly, it adds to the continued exercise of researching what determines the profitability of a firm. Secondly, it's an educational exercise in linking theory with realities. The study also contributes to the literature given the very fact that there is only limited research done on the profitability of Small and Medium Scale Enterprises (SMEs) in Nigerian economies.

Empirical review

Eniola & Entebang (2015), on government policy and performance of small and medium business management. It was established in the study that there is a relationship between government policy and the performance of small and medium enterprises in Nigeria. The study also offered some relevant recommendations to policymakers, entrepreneurs, and SME managers to confirm the suitable scheme to boost the SME sector in Nigeria.

Simiyu, Namusonge & Sakwa (2016), determine the effect of state policy and regulations on the expansion of girls-owned micro and tiny enterprises in Trans Nzoia County, Kenya. The study revealed that the policy of the Government, as

well as their regulations, had a statistically insignificant relationship with the growth of ladies' MSEs when tested at a 0.05 level of significance.

Sahrom, Tan & Yahya (2016), examined the link between regulation, incentives, and government policy to R&D (Research and Development) engineers' innovative behaviour in Malaysian biotechnology SMEs. Incentives were insignificant to innovative behaviour.

Research methodology

Research design

This study adopted a survey approach in its design. The reason for using the survey approach is that the survey method allows the collection of a significant amount of data in an economical and efficient manner.

The population of the study

The total number of small businesses in Nigeria is 71,228 while medium enterprises comprise just 1,793 enterprises in the country (NBA report, 2019), but for the purpose of this seminar paper, the total population of the study is limited to 1109 estimated small and medium enterprises operating within FCT, Abuja.

Sampling techniques

The method adopted in this study is the stratified random sampling technique and simple proportion. These techniques were applied because they gave all members of the population an equal chance of being selected for the sample, the sample is representative of the population and the researcher arrived at the result of data analyzed from the sample to generalize the entire population.

Sample size

From the population of 1109, a sample of 294 was determined using the Yamane formula (1967), and specified below:

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

Where; N= Population size

n= Sample size

e= Error of Margin (0.05)

$$n = \frac{1109}{1 + 1109(0.05)^2} = 294$$

Source of data collection

The study used only primary data. The primary source of data was source through a well-structured questionnaire that was administered to the respondents

Method of data collection

The study employs the use of questionnaire which was developed in line with the objectives of the study. The questionnaire consists of two sections (A&B); Section A comprises the main demographic characteristics of the respondents while Section B deals with responses in line with the objectives and hypotheses of the study dealing mainly with major components of the political environment (PE) and their impact on the profitability of Small and Medium Enterprises in FCT, Abuja. The structured questions were designed using a 5-point Likert Scale ranging from Strongly Agreed (5), Agreed (4), Undecided (3), Disagree (2), and Strongly Disagree (1).

Method of data analysis

A number of statistics such as frequency count and percentages were put to use in the analysis of research questions while research hypotheses were tested using ordinary least square regression tool of analysis and simple regression analysis which 0.05 level was the significant level for testing the hypothesis and the analysis was carried out with the aid of Statistical Package for Social Sciences (SPSS).

Model specification

In order to assess the impact of political environment on performance of small and medium enterprises, a simple linear model was build:

$$\begin{aligned}
 FP &= \alpha + \beta_1 GIP + \epsilon \dots\dots\dots i \\
 P &= \alpha + \beta_1 GP + \epsilon \dots\dots\dots ii \\
 IL &= \alpha + \beta_1 TR + \epsilon \dots\dots\dots iii \\
 E &= \alpha + \beta_1 PS + \epsilon \dots\dots\dots iv
 \end{aligned}$$

Where

GIP = Government Intervention Programme

GP = Government Policy

TR = Trade Restriction

PS= Political Stability

α = Intercept, β_1 = Independent variable, ϵ = Error term

FP= Financial performance, P= Profitability, IL= Income Level and E= efficiency

Which is the independent variable

Results

Hypotheses testing and regression result

Hypothesis one

The hypothesis formulated in chapter one of this study is verified in order to find out the validity or otherwise of such a proposition. The research hypothesis is based on relevant statistics from the regression result which is tested on the basis of quantitative statistical analysis in this study.

Ho: Government intervention programme does not significantly impact the financial performance of small and medium scale enterprises.

Looking at the regression result as calculated in table 2, it is clear that the value of the economic environment is 7.761 and its probability is 0.000, and it indicates that government intervention is positively significant. Furthermore, since its probability (0.000) is less than the 0.05% level of significance, we reject the null hypothesis (H₀) and accept the alternative hypothesis (H₁) which says that government intervention programme has a significant impact on the financial performance of small and medium scale enterprise.

Hypothesis two

H₀: Government policy has no significant effect on the profitability of small and medium-scale firms.

Inferencing table 2 analyzed, it was discovered that government policy computed has a value of 6.112 against the probability of 0.00 revealing that the government policy is positively significant at a 5% level of significance. Based on this analysis we accept (H_i) and reject (H_o), which implies that government policy has a significant impact on the profitability of small and medium-scale firms.

Hypothesis three

H₀: Trade restriction does not have a significant effect on the income level of small and medium scale enterprise

From table 2 above, we find out that the computed value for trade restriction is 2.836 while its probability is 0.000 this shows that trade restriction is statistically significant at a 5% level of significance. Based on this analysis we accept (H_i) and reject (H_o), which implies that trade restriction has a significant impact on the income of small and medium scale enterprise

Hypothesis four

H₀: Political stability does not significantly affect the efficiency of small and medium scale enterprises.

The regression computation results in table 2 as calculated, indicates that the value of the political environment is 3.267 and that of its probability is 0.007, which implies that political instability is positively significant. Furthermore, since its probability (0.077) is greater than the 0.05% level of significance, we reject the alternative hypothesis (H1) and accept the null hypothesis (H0) which says that political instability has a significant impact on the efficiency of small and medium scale enterprise.

Discussion of the findings

The study analyzed the political environment and profitability of Small and Medium Scale enterprises. The findings revealed that there is a significant relationship between government intervention programs and the financial performance of small and medium scale enterprises. It was noted earlier in this work that the Lack of a productive intervention program will give rise to a poor level of profitability for small and medium enterprises, as the political environment is a crucial factor in profitability. A productive government intervention program through the Bank of Africa gives rise to the level of revenue, financial security, and above all increase in sales volume thus giving rise to enhanced profitability. These findings are in line with the work of Simiyu and Sakwa (2012), who found that there is a significant positive relationship between government intervention and the financial performance of small and medium scale enterprises.

Secondly, the study found out that there is a significant relationship between government policy and profitability in the Small and Medium-scale Enterprise. Data analyzed in the light of this showed that a good political environment is the introduction of various skill acquisition programs, registration periods, and procedures. These political environments also provide avenues for managers to take on new opportunities (Ghosh, Lafontaine, & Lo, 2012). The finding is contrary to the findings of Simiyu & Sakwa (2012), who found that there is no effect between government policies and small and medium scale enterprise profitability.

Thirdly the study found that there is a significant relationship between trade restrictions and income level in the small and medium scale enterprises. Trade restriction has been found to lead to reduced performance and increased levels of subjective strain” (Paridon & Kaufmann, 2010), this finding is in line with other scholars’ work that provides new knowledge and important insights for government agencies, such as SME Corp to look further at the programs and

guidelines and enforce new policies toward improving the income level of SMEs in Malaysia.

Fourthly, the study found out there is no significant relationship between political stability and efficiency in small and medium scale enterprises. Political stability is important at every level of the organization including top management, supervisors, and lower-level employees (Kotlar, 2018). The organization's political environmental stability usually includes the internal and external working procedures that bind all tiers of the organization for improving profitability. Hence, it is also in the best interest of the organization to encourage and enlighten employees on adequate political environment stability procedures for increased productivity (Kotlar, 2018). Proper political stable environmental dictates involve establishing clear goals on a daily basis. Good political environmental dictates should be written and recorded for subsequent analysis. The finding is in line with the study of Arnold & Pulich (2004), who found that there is a significant positive relationship between political stability and small and medium scale enterprise.

Conclusion and Recommendations

In line with the findings of the study the following recommendations were made:

- i. That the government of the day should endeavour to create an enabling political environment that would be truly conducive for business organisations to thrive without engaging in any act of fraudulent practices.
- ii. Policies should be properly defined, and there should be the establishment of an indigenous mini bank for small-scale industries in states to enable them to access loans at a low-interest rate.
- iii. Government should offer tax holidays to SMEs and empower them to access and get credits from the commercial banks through formal and informal entrepreneurship education for the development of their managerial capabilities and be more creditworthy. Certificates of attendance obtained from such training should be made a prerequisite for obtaining loans.
- iv. That the benefits and need for a sound political environment through education, training, innovations, or inter-firm linkages should be emphasized in the light of dimensions of global competition and its negative fallouts as well as positive opportunities for small and medium scale industries entrepreneurs through seminars and workshop at the local level.

The study focused on the effect of the political environment on the performance of small and medium scale enterprises in FCT, Abuja, Nigeria. It adopted descriptive survey research with the use of the ordinary least square statistical tool. The study data was regressed based on the political environment and

performance of small and medium enterprises in FCT. The regression result reveals that about 89. % of the variation in the dependent variable is fully explained by the formulated independent variables.

The F-statistic is significant at the 5% level showing that there is a linear relationship between the political environment and the four independent variables. The researcher selected different enterprises in FCT with the analysis done using the SPSS package. The SPSS package was considered owing to the fact that it is a handy tool for social and management science research and it gives a fast and more reliable result. The study concluded that the political environment has a positive significant effect on the performance of Small and Medium-scale Enterprises in Nigeria.

Contribution to Knowledge

To the best of the researchers' knowledge, few studies have been conducted using government intervention, various policies, trade restrictions, and political instability as political business environmental factors on the profitability of SMEs in FCT. Therefore, this study contributes to the existing literature by empirically examining the effects of the political business environment (interventions, policies, and programs as well as political stability) on the performance of small and medium enterprises (SMEs) in Nigeria with reference to FCT, Abuja.

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Table 1 ANOVA of the impact of the political environment on the performance of small and medium enterprises

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	25.149	3	6.287	40.530	.000b
Residual	51.656	290	.155		
Total	76.805	293			

Dependent Variable: P

Predictors: (Constant), GIP, GP, TR, PS)

Table 2 Regression of the impact of political environment on the performance of small and medium enterprises

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Beta	Lower Bound
1 (Constant)	1.551	.153		10.111	.000	1.249	1.853
GIP	.279	.036	.364	7.761	.000	.350	-.208
GP	.190	.031	.296	6.112	.000	.129	.251
TR	.058	.021	.145	2.836	.005	.099	-.018
PS	.030	.024	.063	3.267	.006	.077	.017

a. Dependent Variable: P

Table 3 Model Summary of the impact of the political environment on the performance of small and medium enterprises

Model	R	R Square	Std. Error of the Estimate	Change Statistics					Durbin - Watson
				R Square Change	F Change	df1	df2	Sig. F Change	
1	.572a	.627	.39386	.327	40.530	3	290	.000	.000

Predictors: (Constant), GIP, GP, TR, PS Dependent Variable:

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