

EFFECT OF ECONOMIC AND POLITICAL BUSINESS ENVIRONMENT ON SMALL AND MEDIUM ENTERPRISES PERFORMANCE IN LAGOS STATE NIGERIA

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ABSTRACT

Given the support by government and private sector to finance small and medium enterprise, SMEs in Nigeria particularly in Lagos State, have performed below expectation, as it is evident from the high rate of closure after a short period of operations. The study examines the effect of economic and political business environment on small and medium enterprises performance in Lagos State. The population of the study comprises 15, 467 SME employees in two local government areas; Lagos Mainland and Lagos Island. The population of Ikeja LGA was 9,800 employees and Lagos Island LGA was 5,667 employees. A sample of 380 employees was selected at using Taro Yammane formula, while Analysis of Moment Structures (AMOS)- Square Structural Equation Model (AMOS-SEM) was employed in the analysis. The analysis revealed that economic and political factors have a significant effect on SMEs performance in the selected LGA in Lagos State. The study recommended that Lagos State Government should review the multiple taxes levied on SMEs. This will enable businesses to survive and achieve the set objectives. Lagos State Government should also provide stable policies to support an enabling environment for SMEs.

Keynotes: Business Environment, Economic & Political Factors, SMEs Performance, Policies, Survival

INTRODUCTION

Business environment is characteristically volatile, particularly in emerging countries like Nigeria. Incessant regulatory changes by governments often create a highly turbulent environment, which poses difficulties for managers in forecasting demand or anticipating responses to marketing strategies (Akporviro & Owotutu, 2018). Major economic indices such as inflation, foreign exchange, access to raw materials, etc, hinder most businesses in Nigeria. Policy reforms since the 1980s, the Structural Adjustment Programme (SAP), Companies and Allied Matters Act (CAMA), and corporate governance, among others, have been instituted by the federal government of Nigeria. The Nigerian Code of Corporate Governance (2019) has provided the direction in corporate governance. In addition, the Central Bank of Nigeria, in January 2018, established the CBN-BOI Industrial Facility to address the financing needs of SMEs. The sum of ₦50 billion was approved to the Bank of Industry Limited (BOI) under the Scheme to stimulate SMEs.

Small and medium enterprises (SMEs) have contributed greatly to the economic growth and development in Africa. In many countries, particularly the emerging ones, there has been some considerable effort to support SMEs with low interest loan, appropriate tax policy and suitable training and development, so as to create the necessary employment opportunities, income and sustainability capacity (Seo et al, 2021).

Vital economic factors of relevance to SMEs growth include exchange rate, unemployment, demand and supply trend, economic growth, lending rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. The economic factors also involve gross domestic product (GDP), government fiscal and monetary policies, unemployment rate, exchange rate, inflation rate and capacity utilization. Lending rates affect a firm's cost of capital and therefore the extent to which a business grows and expands. Exchange rates affect the costs of exports and the supply and price of imports (Appiah et al, 2018).

The political fluctuations have the potential to promote or inhibit market competition, social risks often have political basis and responses and political mismanagement can turn natural or human-made events

into misfortunes. The implication of political factors to a business enterprise is that the risk emanating from it is a measure of the likelihood that political events may complicate the pursuit of earnings through direct impacts such as taxes or fees, or indirect impacts such as opportunity cost forgone (Mark & Nwaiwu, 2015).

The relationship between SMEs and business environment is that of mutuality; that is, the environment exerts pressure on the business while the business, in turn, influences some aspects of the environment (Ajayi, 2016). SMEs are expected to be conscious of their operating environment and the general trends in the economy in strategy formulation and decision-making. The external environment can provide both facilitating and inhibiting influences on organizational performance. SMEs performance denotes to the extent to which an organization meets its strategic objectives and other results as disaggregated in the organization result hierarchy including input, output, outcome and impact. It is actual result measured against intended goals and objectives.

Nigeria government had formulated several policies and programmes aimed at supporting Micro, Small, and Medium Enterprises (MSMEs). The National Enterprise Development Programme (NEDEP) was designed to provide financial support, training, and capacity-building for MSMEs in Nigeria. Also, Bank of Industry (BOI) MSME Fund offered financial assistance to MSMEs through various schemes and loan products, promoting entrepreneurship and economic development. Subsequently, Nigerian Association of Small & Medium Enterprises (NASME), Association of Small Business Owners of Nigeria (ASBON), Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), Association of Micro Entrepreneurs of Nigeria (AMEN), The Lagos Chamber of Commerce and Industry (LCCI), Manufacturer Association of Nigeria (MAN) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) also played a vital role in supporting SMEs through capacity building, access to finance, and business development services (Liman et al 2021). Despite the reforms and the huge resource commitment by government and private sector to support SMEs with the necessary funding and skills needed for SMEs sustainability, it has been observed that SMEs in Nigeria specifically in Lagos State, South West Nigeria, have performed below expectation, as it can be seen from the worried by the phenomenon complaints and closure of SMEs after a short period of operation. This study seeks to investigate the effect of economic and political business environment on performance of SMEs in Lagos State. The hypothesis are as follows;

H₀₁: Economic factors have no significant effect on small and medium enterprises (SMEs) performance in Lagos state.

H₀₂: Political factors have no significant effect on small and medium enterprises (SMEs) performance in Lagos state.

LITERATURE REVIEW

Economic Factors

Economic factors include the general economic climate, trade rates, inflation rate, labour unemployment rate, interest rates, the rate of economic development, per capita domestic product and trade deficit or surplus, Gamble, 2014 cited in (Litavniece & Znotiqa, 2015). Economic factors help SMEs to make strategic decision. It is important for entrepreneurs of Small and Medium Sized Enterprises in industries to comprehend monetary elements and indicators and to utilize the information to help marketing decision-making and planning process. For instance, if there is a variation in interest rates, then it is likely that SMEs may be involved in considering increases in cost (Akpoviroro & Owotutu, 2018).

Economic forces affect the general health and well-being of a country, this include interest rates, inflation, unemployment and economic growth. These factors create many opportunities and threats for entrepreneurs. High level of employment and falling interest rates mean more people having more money to spend. This makes the entrepreneur to sell more of his goods and services. On the contrary, deteriorating condition pose a threat as they limit the entrepreneur's ability to gain access to the resources

required for production. Furthermore, poor economic conditions make the environment more complex and the manager's work more difficult and demanding (Sharmilee & Muhammad, 2016).

Political Factors

Political factors are any national or international factors that can affect the performance of SMEs positively or negatively (Wanjiru et al., 2013). It includes government subventions for national carriers, security controls, boundaries on migration (Fred et al., 2018). Political imperatives are spot on SMEs through duty modified, the lowest pay permitted by law enactment, contamination approaches and different activities for securing workers, clients, the overall population and nature. Nevertheless, some political actions are planned to give benefits and protect SMEs. Such laws include patent laws, government subventions and product research incentives. In Nigeria, political forces such as legislation, increase in taxation, environmental protection, foreign trade agreement, stability of political system and others affect small enterprise.

Political environments in a company's home country and the countries in which it does business are important external influences on management. Political environments refer to public institutions (such as the government, government agencies, and government-owned businesses) and non-public institutions (such as environmental and other special interest groups that represent specific individuals or groups). Political risks can be divided into macro and micro political risks (Rochaa, 2014).

SMEs Performance

SMEs performance is a measure of SMEs success in achieving its goals. Performance of SMEs is defined as firm's capacity to make profit (Anggadwita & Mustafid, 2014). SMEs Performance is defined by Appiah et al (2018) as an action or achievement considered in relation to the successful operation of a firm. According to Ajayi (2016), performance of small and medium scale enterprises is viewed as their ability to contribute to job and wealth creation through enterprises start-up, survival and growth. The performance and growth of small and medium enterprises (SMEs) is a major driver and indices for the level of- industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry (Aremu & Adeyemi, 2011), because SMEs contribute to employment growth at a higher rate than larger firms (Farouk & Saleh, 2011).

SMEs performance serves as a financial instrument to determine whether the company has the ability to sustain the business with sales growth, as well as a basis for formulating operational planning for the company in the future and for the information of shareholders, stakeholders, customers, regarding the achievements and success of the company. Therefore, sales growth refers to the amount a company derives from sales compared to a previous corresponding period of time in which the later sales exceed the former.

Economic Factors and SMEs Performance

Ali et al (2020) investigated the factors affecting the performance of small-scale construction firms and the likely measures to improve performance. Focus group participation was used to identify 82 measures comprising of internal measures implemented by the firm and economic measures implemented by the government and other stakeholders. The findings revealed that the critical factors affecting performance are financial indiscipline by contractors, lack of experience, poor policy by commercial banks on SMEs, corruption, effects of globalization, multiple taxation, lack of entrepreneurship skills among others. The population of the study was small, therefore making it difficult for the researcher to know whether the population was adequate enough to generalize the result in the sector.

Appiah et al. (2018) examined the impact of economic business environment on SMEs willingness to invest in the Ghanaian Oil and Gas Sector. Using binomial logistic regression analysis the researchers analyzed primary data from 245 SMEs from Ghana during the periods between 2015 and 2016. The

study found that SMEs that had ready access to finance, reliable electrical supply, required technical qualification, no competition from foreign companies, well informed on Oil and Gas investment opportunity were more likely to invest in Ghanaian oil and gas sector. The study also found that corruption perception, political stability and training support in the capacity building had no significant influence on SMEs willingness to invest. The study was limited to the external environmental factors as it is in present study although it was conducted out in Ghana, with focus on only Oil and Gas sector. The current study however, covers SMEs across different sectors which fills the gap created.

Tambari et al. (2018) carried out a study on implications of economic factors on the productivity of selected small and medium scale enterprises in Port Harcourt, Rivers State, Nigeria. The study used a descriptive survey approach and relied on a five-point likert scale questionnaire as its major source of data collection. The study covered a population of 150 employees of three SMEs selected from the three senatorial zones of Rivers-state and a sample of 124 respondents was drawn using purposive sampling technique. The data gathered were analyzed using multiple regressions with the aid of the Statistical Package for Social Sciences (SPSS 20.0). Results obtained from the analysis showed that environmental factors affect the productivity of SMEs. The two studies are related though they differ in terms of scope. The study was carried out in Port Harcourt, Rivers State, Nigeria while the present study is carried out in Lagos State, Nigeria.

Adagba and Shakpande (2017) examined the effect of external and internal environments on business performance, with specific reference to the Nigerian business environment. The methodology adopted was basically theoretical and narrative based on aggregative and specific strength, weakness, opportunity and Treat (SWOT) Matrix and political, Ecological, social, Technology, legal and economic factors (PESTLE) Analysis models, respectively. A review of related literature and exploration of theoretical framework provided more insight into the various effects of the factors of the environments on business performance. The appraisal showed that both external and internal factors exert influence on and shape the life, growth and development of the business; external environment bears more relevance to strategic management, and businesses adjust to external environment. It further revealed that the government now plays more of regulatory role in the business environment in some sectors of the economy, and that, though certain measures had been put in place at various levels to engender conducive business environment for private sector participation, external factors such as multiple tax system, policy summersault, non-passage of the Freedom of Information (FOI) Bill into law, high cost of capital, high interest and inflation rates, terrorism, culture, religion, volatile exchange rates, susceptibility of the economy to external shocks, infrastructure decay, dismal power supply, etc., escalated cost of doing business in Nigeria and, thus, posed serious threats to firms performance.

Political Factors and SMEs Performance

Terhemen (2023) examined the effect of political factors on the performance of small and medium scale enterprises in Makurdi Metropolis Benue State, Nigeria. The study focused on SMEs in Makurdi metropolis since the town has the largest concentration of businesses where most registered SMEs operate. The study covers SMEs operating in different lines of businesses for a period of 10 years (2007-2017) in order to determine the sample size for the study, Taro-Yamane (1967) formula for calculating sample size for finite population was adopted which reports 303 as the sample size drawn from the total population of 1,250. The questionnaires is adopted as the instrument for data collection because, it allows for large number of information to be collected from large number of people in a short time period and the results of the questionnaires can be quickly and easily quantified by the researcher. Findings of the study showed that environmental factors significantly affect the performance of SMEs. The study also concluded that political factors such as government regulations and taxation affect the performance of SMEs in Makurdi Metropolis, Benue State, Nigeria.

Ogunmuyiwa (2022) investigated the influence of political business environment on the performance of ICT firms in Lagos State, Nigeria. Survey research design and purposive sampling technique were

employed to select a sample of 156 from a total population of 257 employees drawn from Zinox Technologies and Spectranet Nigeria Limited. Data was collected through a 5-point Likert rating questionnaire administered to the selected ICT firms. Empirical findings from the O.L.S regression technique revealed that all the explanatory variables (infrastructural environment, insecurity and political environment) are the critical variables determining fluctuations in ICT performance in Nigeria. Albeit, the coefficient of insecurity was not in conformity with the a-priori expectation, but it was significant at the 5 percent level. Hence, ICT and other allied firms should be cognizant of the business environmental variables particularly insecurity because of its stronger influence on the performance of ICT firms in Nigeria. and. However, the study was conducted on ICT firms in Lagos State which results might be different from studies in the all SMEs in Lagos state Nigeria.

Fred et al. (2018) conducted a study on political environment and financial performance of small and medium scale enterprises in Lagos State, Nigeria. The study explored the impact of financial assistance on the performance of SMEs across three states in Nigeria. Mixed methods approach was adopted using the survey and semi-structured interview methods. The study used stratified and simple random technique to select the respondents. A total of four hundred (400) copies of questionnaire were administered to owners/managers of SMEs, out of which only three hundred and sixty (360) were returned and adjudged usable for the analysis, while 20 semi-structured interviews were conducted on the owners/managers of SMEs. Descriptive statistics and multiple regression were used to facilitate the estimation process. In addition, thematic analysis was used to analyze the qualitative interviews. The study identified that while financial assistance has significant impact on the performance of SMEs, these supports are inadequate and characterized by stringent, unrealistic bureaucratic details. The study recommended that facilitating access to adequate funding are highly effective in enhancing performance. Marcus (2018) examined the effect of political environment on performance in selected deposit money banks in Enugu State, Nigeria. The study was aimed at determining the extent to which political instability affects goal attainment in selected deposit money banks in Enugu State, to determine the effect of political interference on employee performance and employee satisfaction in selected deposit money banks in Enugu state and to assess the impact of government policies and regulations on productivity in selected deposit money banks in Enugu state. The study had a population size of 1197, out of which a sample size of 300 was realized using Taro Yamane's formula at 5% error tolerance and 95% level of confidence. The instrument used for data collection was primarily questionnaire and interview. Out of the 300 copies of questionnaires that were distributed, 282 copies were correctly filled and returned while 18 copies were not returned. The descriptive survey research design was adopted for the study. The hypotheses were tested using simple linear regression statistical tools. The findings indicate that Political instability negatively affected goal attainment in selected deposit money banks in Enugu state. Political interference negatively affected employee performance and employee satisfaction in selected deposit money banks in Enugu state. Government policies and regulation had significant negative impact on productivity in selected deposit money banks in Enugu state. The study concluded that political environment had a significant negative effect on performance in selected deposit money banks in Enugu State, Nigeria. However, the study was conducted on banking sector in Enugu which results might be different from studies of SMEs in Lagos state.

Contingency Theory

Contingency theory was theory developed by Lawrence and Lorsch (1967). Contingency theory postulates that there is no single best way for business enterprises to perform. Situations will create different environmental requirement for owners/managers of an enterprise. The solution to a managerial situation is depending on the environmental factors that influence on the situation. Fiedler posited that if the level of performance is to be improved, we must cope not only with the environment but also with the situational factors which influence performance. Performance can be improved either by the environment's fit to the situation or the situation's fit to the environment. For example, the theory relates to the independent variables in the logic economic environmental factor, socio-cultural environmental factor and technology environmental factor which the management of any SMEs can adopt for the

business while the dependent variable relates to performance which is the result of the business environment adopted (Shala et al, 2021). The contingency theory underpins this study, which states that for an organization to survive, there is need to address the challenges of the environment it faces. The theory that underpins this study is the contingency theory, which states for an organization to survive, there is need to address the challenges of the environment it faces. Kotler et al. (2002) claimed that PESTEL analysis is a useful strategic tool for understanding market growth or market decline, business position, potential and direction for operations. The headings of PESTEL are a framework for reviewing a situation, and can in addition to SWOT and Porter's Five Forces model, be applied by companies to review strategic directions, including marketing propositions. PESTEL also ensures that the company's performance is aligned positively with the powerful forces of change that are affecting the business environment.

METHODOLOGY

Descriptive research design was adopted. The population of this study comprises of 15, 467 SMEs operators in two Lagos State local government areas in Lagos Mainland and Lagos Island, according to MSME survey report (2023) and the Lagos State Ministry for Commerce, Industry and Cooperatives. Ikeja LGA (9800 employee) and Lagos Island LGA (5667 employee).

Based on the above population, a sample size of 390 was determined using Taro Yamane formula (1973).

S/N	List of Local Government Area	Number of SMEs	Proportions of SMEs
1	Ikeja LGA	9,800	$\frac{9800}{15,467} \times 390 = 247$
4	Lagos Island LGA	5,667	$\frac{5667}{15,467} \times 390 = 143$

Source: Researcher's Computation, 2024

The purposive sampling technique allows the researcher to select respondents that suit the purpose of the study based on set criteria. This study therefore, will select 390 SMEs owners/mangers across the 2 local government areas in Lagos Island and mainland.

The study applied descriptive and inferential statistical tool. Simple percentage tables, the mean, and the standard deviation was used to analyze the survey's item responses. While Analysis of Moment Structures (AMOS) Square-Structural Equation Model (AMOS-SEM) was utilized to evaluate the hypotheses that were put forth at the 0.05 level of significance. When the measurement model assessment is satisfactory, the next step in evaluating AMOS-SEM results is assessing the structural model. Standard assessment criteria to be considered include the coefficient of determination (R^2), the blindfolding-based cross validated redundancy measure (Q^2), and the statistical significance and relevance of the path coefficients. In addition, this study assessed the model's out-of-sample predictive power by using the AMOS predict procedure (Shmueli et al., 2016). Structural model coefficients for the relationships between the constructs was derived from estimating a series of regression equations.

Measurement of Variables

Economic Factors

In measuring the economic factors, the current research adopted the key indicators of the economic factors such as the exchange rate, inflation, taxation, and interest rates. Thus, the responses of the owners/managers were sought after on these items. In all, 4-items were utilized in measuring this scale. Sample of the items were "We are constantly faced in increasing our prices because the cost of production is high" and "We are unable to gain access to loans because the interest rates are unfavourable". All items were rated on a five-point Likert-type response ranging from strongly disagree and strongly agree.

Political factors

In measuring the political factors, the current research adopted the key indicators of the political factors such as the change in administration, laws and policies, and security. Thus, the responses of the owners/managers were sought after on these items. In all, 3-items were utilized in measuring this scale. Sample of the items were “the policies of the government is favourable to my business” and “The new administration has benefitted my business operation”. All items were rated on a five-point Likert-type response ranging from strongly disagree and strongly agree.

SMEs Performance

In measuring the performance of small and medium enterprises, we adopted key indicator of the performance such as sales growth items of size like employees and expansion/diversification. Thus, the responses of the owners/managers were sought after on these items. In all, 4-items were utilized in measuring this scale. Sample of the items were “We have recorded increase in the size of our workforce” and “There have been remarkable increase on our investment”. All items were rated on a five-point Likert-type response ranging from strongly disagree and strongly agree.

Table 1: Validity and Reliability Check of the Measurement Scale

Confirmatory factor analysis			Convergent and Validity check			Discriminant	Reliability Test	
Variables	Indicators	Loadings	AVE	DV	MSV	MaxR(H)	CR	Cronbach alpha
Economic Factors	ECO1	0.80	0.644	0.802	0.175	0.879	0.879	0.803
	ECO2	0.80						
	ECO3	0.80						
	ECO4	0.82						
Political Factors	POL1	0.90	0.778	0.882	0.219	0.915	0.913	0.882
	POL2	0.89						
	POL3	0.86						
Performance	PERF1	0.89	0.771	0.878	0.291	0.932	0.931	0.878
	PERF2	0.88						
	PERF3	0.87						
	PERF4	0.86						

Note(s): AVE = Average variance extracted, DV = Discriminant Validity, CR = Composite Reliability, MSV = Maximum Shared Variance

Source: Researcher's Computation

Overall measurement model fit

The CFA of this research was performed using AMOS 24.0. This was utilized in testing the acceptability of the overall model fit. The measurement model consisted of the three latent variables representing the economic factors, political factors and business performance. The overall goodness-of-fit was adequate: $\chi^2 = 63.5$; $df = 41$; $\chi^2/df=1.54$; $GFI=0.962$, $CFI =0.990$; $AGFI=0.940$, $TLI=0.987$; $RMR=0.037$; $RMSEA=0.043$, reflecting an acceptable model fit (Hair et al., 2010).

Convergent validity and discriminant validity

We got significant factor loadings, all of which exceeded the acceptable value of ≥ 0.6 on their corresponding constructs. We were able to establish convergent validity (CV) and the average variance extracted (AVE) both of which were ≥ 0.50 . Also, we were able to establish discriminant validity (DV) because the square root of the AVE is greater than the correlation of the latent variables in the CFA (Fornell and Larcker, 1981), see Table 1.

Composite reliability and Cronbach's alpha reliability

Hair *et al.* (2010) averred that a scale is considered reliable if Cronbach's alpha and composite reliability are ≥ 0.70 and ≥ 0.60 , respectively, and if the factor loadings are ≥ 0.50 . Based on the outputs of the overall CFA analysis, this research met all these criteria, see Table 1.

RESULTS AND DISCUSSIONS

The sample size of the study is 380. However, out of the total number of questionnaires distributed, only two hundred and ninety-six (296) were properly filled and returned, giving a response rate of 78%. Therefore, all further analyses were conducted using the 296 valid responses received.

A total of 170 (57.4%) of these respondents are male owners/managers, whereas 126 (42.6%) are female owners/managers. 52 (17.6) of these respondents have only FLSC as their educational qualification; 64 (21.6%) have school certs as their educational qualification; 90 (30.4%) of the respondents have HND/B.Sc. as their highest educational qualification, while 90 (30.4%) of the respondents have higher degrees as their educational qualification. 113 (38.2%) of the respondents are between the ages of 22 to 26 years old; 82 (27.7%) of the respondents are between the ages of 31 to 35 years old, whereas 100 (33.8%) of the respondents are ages 32 and above.

Table 2: Mean, standard deviation and bivariate correlations among variables

Variables	Mean	SD	1	2	3	4	5	6
1. Gender	1.57	.495	1					
2. Educational Qualification	2.74	1.076	.304**	1				
3. Age	1.96	.857	-.005	-.007	1			
4. Economic Factors	16.46	3.210	.247**	.303**	-.013	1		
5. Political Factors	10.30	3.692	.328**	.291**	.046	.254**	1	
6. Performance	14.55	4.823	.319**	.351**	.303**	.380**	.434**	1

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

As shown in Table 2, the mean, standard deviation, and bivariate correlations among the variables shows that economic factors was correlated positively with business performance ($r = 0.380$, $p < .01$), and political factors ($r = 0.434$, $p < .01$). By implication, the prevalent business environment positively affects the performance of small and medium scale enterprises in Nigeria.

Test of Hypotheses

For the hypotheses, we tested all the direct relationships simultaneously using structural equation modelling (SEM- AMOS 24.0) and applying bias-corrected 2,000 resample bootstraps (at 95% confidence interval). Fig. 1 shows the parameter estimates for all direct relationships in the model. The model fit measures for the SEM-AMOS analysis (final model) indicated an excellent fit: $\chi^2 = 82.01$; $df = 55$; $\chi^2/df = 1.49$; CFI = 0.99; GFI = 1.00; TLI = 0.97; IFI = 0.96; SRMR = 0.03, RMSEA = 0.35, P Close = 1.00, indicating an excellent model fit (Hu & Bentler, 1999).

As shown in Fig. 1, economic factor associated positively with business performance ($\beta = 0.29$, $p < .001$), and political factors ($\beta = 0.36$, $p < .001$), respectively.

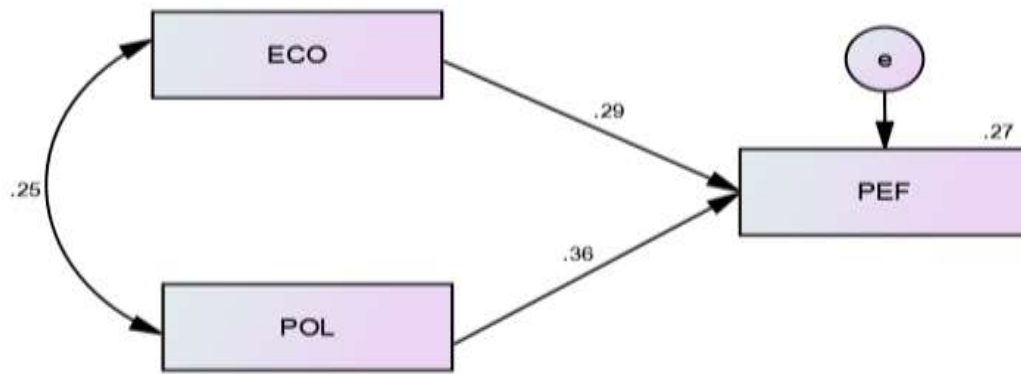


Figure 1: The results of the Structural Model

Source: AMOS 24.0

H₀₁: Economic factors have no significant effect on small and medium enterprises (SMEs) performance in Lagos state.

The result from table 2 shows that economic factors has a significant effect on small and medium enterprises (SMEs) performance in Lagos state, with $p = 0.000$. Thus, the first null hypothesis which states that economic factors has no significant effect on small and medium enterprises (SMEs) performance in Lagos state is rejected at 5% level of significance.

H₀₂: Political factors have no significant effect on small and medium enterprises (SMEs) performance in Lagos state.

The result from table 2 shows that political factors has a significant effect on small and medium enterprises (SMEs) performance in Lagos state, with $p = 0.001$. Thus, the second null hypothesis which states that political factors has no significant effect on small and medium enterprises (SMEs) performance in Lagos state is rejected at 5% level of significance.

Discussion of Findings

This study examined the effect of economic and political business environment on small and medium enterprises (SMEs) performance in Lagos state. The findings from the analysis above indicate that the model is adequately fit to measure the relationship between work life balance and employees' performance.

Based on the foregoing, the first finding revealed that economic factors have a positive and significant effect on small and medium enterprises (SMEs) performance in Lagos state. Going by the result, owners and manager of SMEs have positive perception toward the economic environment and that organization impinges upon the operations of a business other than the availability of capital and the ability of the managers or owner himself. This finding is consistent with that of Anekwe et al (2021), Ali et al (2020). Also, the second finding revealed that political factors have a positive and significant effect on small and medium enterprises (SMEs) performance in Lagos state. The regulatory changes have the potential to 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. This finding is consistent with that of Ogunmuyiwa (2022), Terhemen (2023)

CONCLUSION AND RECOMMEDATIONS

In line with the finding for economic and political environment has positive and significant effect on performance of small and medium enterprises in Lagos state with a large effect size, it is therefore

concluded that economic and political environment of a business plays a prominent role in determining its performance. In view of the findings, the following recommendation are offered:

- i. Lagos State Government should review the multiple taxes levied on SMEs. This will make the businesses to be able to perform efficiently and achieve its set objectives.
- ii. Lagos State Government at all levels should provide stable policies to guarantee enabling environment for managers of business enterprises, for survival and growth.

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