



# Effect of Business Environment on the Organisational Performance of Small And Medium Scale Enterprises in JOS North Local Government Area, Plateau State: The Mediating Role of Dynamic Capability.

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**Abstract--** The study examined the effect of the business environment on the organizational performance of Small and Medium Enterprises (SMEs) in Jos North Local Government Area of Plateau State, introducing dynamic capabilities as a mediating variable. A survey research design was employed, with a sample size of 367 respondents drawn from an unknown population. Of these, 318 completed questionnaires were returned, representing an 86% response rate. Data were analyzed using SPSS, with simple regression used to test the direct effects, while the Andrew Hayes PROCESS macro was employed to assess the mediating influence of dynamic capabilities. The findings revealed a positive and significant effect of the business environment on organizational performance, indicating that improvements in external environmental conditions contribute to enhanced SME performance outcomes. Dynamic capabilities also exhibited a significant effect on performance, serving as a mechanism that enables firms to adapt, reconfigure resources, and respond effectively to environmental turbulence. The mediation analysis further confirmed that dynamic capabilities significantly mediate the relationship between business environment and organizational performance. This study contributes to existing literature by empirically validating the mediating role of dynamic capabilities within the Nigerian SME context an area where empirical evidence remains limited. The use of the Andrew Hayes PROCESS macro strengthens the rigor of the mediation pathway, offering clearer insights into how business environmental conditions translate into performance outcomes through capability development. The study concludes that the business environment represents the aggregate of external forces that shape organizational efficiency, and that SMEs require strong dynamic capabilities to convert environmental conditions into strategic advantage. The study recommends that SME owners deepen their understanding of the external business environment and invest in developing dynamic capabilities that enhance adaptability, efficiency, and long-term survival.

**Keywords--** Business Environment, Organizational Performance, Dynamic Capability

Small and Medium Enterprises (SMEs) are widely recognized as critical drivers of economic growth, innovation, and employment globally. They account for the majority of enterprises worldwide and significantly contribute to national development through their performance and economic activities. Performance refers not only to past achievements but also to an organization's ability to achieve future goals sustainably (Ahmad, 2020). In Nigeria, economic challenges arising from overdependence on oil revenues, policy inconsistencies, and structural inefficiencies continue to influence how SMEs operate and perform (Oloyede, Otusanya & David, 2024). Globally, SMEs play a dominant role in economic systems. In the United States, SMEs account for 50% of employment and contribute substantially to national GDP (ILO, 2020). Within the European Union, they represent 99% of enterprises and generate over 60% of total employment and value added. African countries demonstrate similar trends: SMEs account for 52% of GDP and 61% of employment in South Africa, while in Ghana and Kenya they represent over 90% of firms and contribute up to 80% of GDP (Asad, Chethiyar & Ali, 2020). In Nigeria, SMEs have contributed approximately 50% to GDP, 60% to employment, 90% of total businesses, and about 90% of manufacturing activities in recent years (Ekeh, 2023).

SMEs are categorized by size, with micro businesses employing fewer than 10 people and maintaining working capital below ₦5 million (SMEDAN, 2020). Despite their contributions, Nigerian SMEs operate in an environment characterized by volatility, infrastructural deficits, regulatory burdens, and socio-economic instability. These external environmental factors—including governmental policies, competition, technological shifts, and socio-cultural dynamics—play a central role in shaping firm behavior and performance (Wilson, 2024; Efendi, 2021).

For this study, attention is focused exclusively on the external business environment. Prior studies have consistently demonstrated that the business environment significantly influences organizational performance (Dieffenbacher, 2023; Ahmad, 2023; Joseph et al., 2023; Akhorshaideh & Al-Lozi, 2021). Similar findings across diverse contexts confirm that firms operating in turbulent, competitive, or business-friendly environments can achieve superior performance when they effectively navigate external forces (Luu & Ngo, 2019; Morgan & Anokhin, 2020). However, while these studies show the direct effect of business environment on performance, few have examined the underlying mechanisms that explain how or why this relationship occurs, particularly in emerging economies experiencing persistent instability.

This study therefore contributes to theory by introducing dynamic capabilities as a mediating variable. Dynamic capabilities refer to a firm's ability to integrate, build, and reconfigure internal and external competencies in response to changing environments (Civelek, Krajčík & Ključníkov, 2023). These capabilities act as strategic assets that are valuable, rare, and difficult to imitate making them essential for sustaining competitive advantage. By integrating the Resource-Based View (RBV) with Dynamic Capability Theory (DCT), the study presents a stronger conceptual explanation of how SMEs can survive and thrive within turbulent environments such as Jos North, Plateau State.

Given the centrality of dynamic capabilities in navigating environmental pressures, and the limited empirical studies exploring this mediation pathway in Nigeria, this research investigates the effect of the business environment on the organizational performance of SMEs, with dynamic capabilities introduced as a mediator. This approach not only expands theoretical understanding but also offers practical guidance for SME managers striving to enhance resilience and long-term success.

## II. LITERATURE REVIEW

### 2.1 Dynamic Capabilities

The term refers to a set of capabilities directed toward strategic change. According to Schoemaker et al. (2018), dynamic capabilities as "the ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments". to overcome the potential rigidities of organisational capability building (Teece, 2017). Dynamic capabilities are seen as a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness.

Dynamic capabilities represent a company's ability to integrate, build, and reconfigure internal and external resources and competencies to respond to and shape rapidly shifting business environments (Teece, 2017). In contrast, dynamic capabilities change how an organization operates in response to its uncertain environment and are based on planned opportunities (Pavlou & El Sawy, 2010).

A major stream of literature distinguishes the business environment into internal and external components, both of which exert direct and indirect influence on SME performance. The internal environment refers to organizational factors within managerial control such as leadership style, organizational culture, employee skills, structure, and resource availability. According to Sahoo and Yadav (2017), internal environmental elements constitute the foundation on which operational effectiveness is built, particularly in small enterprises where managerial discretion is high.

The external environment comprises variables beyond the control of business owners, including economic fluctuations, regulatory policies, technological change, socio-cultural factors, infrastructure availability, and competitive dynamics (Olawale & Garwe, 2010). For SMEs in developing economies, external turbulence ranging from inflation to insecurity creates uncertainty that affects resource allocation, market access, and strategic decision-making. The dynamic interactions between internal and external factors often determine whether SMEs adapt successfully or experience performance decline. Studies (Adeosun & Adeosun, 2021; Abiodun, 2020) emphasize that SMEs with stronger internal capabilities particularly innovation culture and flexible leadership—are better equipped to buffer the effects of external shocks. This interdependence underscores the necessity of incorporating dynamic capabilities as a mechanism through which SMEs sense, interpret, and respond to environmental challenges.

### 2.2 Theoretical Review

#### 2.2.1 Configuration Theory

The configuration theory was proposed by some scholars in late 1970s and early 1980s as a way to address the limitations of traditional approaches to organizational research. The theory can be traced to the work of John child (1972), Robert E Miles and Charles (1978); Howard Aldrich (1979) and Charles (1987), configuration theory is based on the principle that the performance of an organization is determined by the configuration of all the factors that make up the organization.

The theory is a way of thinking about organizations that emphasizes the interconnectedness of different elements, such as structure, strategy and culture. It argues that performance of an organization is not determined by any single factor but by the configuration of all its elements.

In business management, this theory can be used to understand how different organizational structures, strategies and culture lead to different outcomes. A study found that a configuration of marketing organization structure, strategy and culture was characterized by high levels of integration, flexibility and customer focus was associated with superior marketing performance (Vorbes & Margan cited in Kwon, 2021). The configuration theory can be a useful tool to guide organizational change. By understanding the current configuration of organization, managers can identify the areas where change is needed and develop strategies for implementing those changes. The theory of Configuration is based on these concepts that are critical to the attainment of goals set by organizations.

The degree to which elements to configuration are compatible with each other. A well-fitting configuration is one which elements work together effectively to achieve the organization's goal. Second, the concept of causal complexity. This concept is critical and relates the idea that relationship between cause and effect is often complex and non-linear. In other words, the effect of a given factor on an outcome may depend on the presence or absence of other factors. Finally, the concept of configuration. This concept pivoted on the fact that a set of interrelated elements that together form a coherent whole must be put in place for the achievement of goals. In the context of organization, a configuration might include organization's structure, strategy, culture and environment. The configurationally theory is a model that can be applied in improving the performance of SMEs in business environment when key factors that are critical to organizational performance are identical, they can be configured as dynamic capability in achieving the success of the organization.

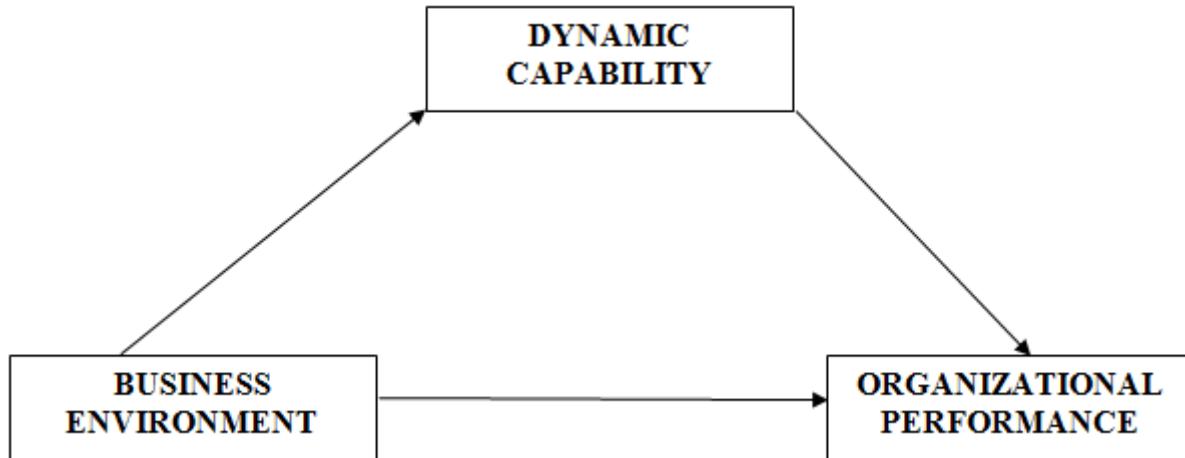
### 2.2.2 Contingency Theory

Contingency theory asserts that there is no single best way to structure or manage an organization; rather, organizational effectiveness depends on the fit between internal characteristics and external environmental conditions (Donaldson, 2001). Key proponents including Burns and Stalker (1961) and Lawrence and Lorsch (1967) maintain that turbulent, dynamic environments require flexible structures, while stable environments favour mechanistic forms. For SMEs, especially in contexts characterized by market volatility, infrastructural deficits, inflation, and regulatory inconsistencies—as seen in many parts of Nigeria—contingency theory provides a useful lens for understanding how environmental pressures shape performance outcomes. The theory suggests that SME performance is optimized when business owners are able to adjust strategies, processes, and resource configurations to match environmental requirements.

In relation to this study, contingency theory supports the argument that dynamic capabilities act as the mechanism through which SMEs achieve “fit” with their operational environment. SMEs must sense changes in the business environment, seize emerging opportunities, and reconfigure resources to remain competitive. In essence, dynamic capabilities operationalize the contingency theory by enabling SMEs to align internal processes with external conditions, thereby enhancing organizational performance.

### 2.2.3 Conceptual Framework

The variables used in the study involved independent variables business environment with mediating variable (dynamic capabilities) and dependent variables (organizational performance), the framework depicted direct relationship between independent variables (business environment) and dependent variables (organizational performance), and indirect relationship between independent variables (business environment) and mediating variables (dynamic capabilities) to dependent variables (organizational performance) and the mediating relationship of (dynamic capabilities) between business environment and organizational performance.



**Fig (1) Conceptual Framework**

### 2.3 Empirical Studies

Recent empirical studies reaffirm the critical role of dynamic capabilities in strengthening SMEs' ability to navigate hostile environments. For instance, Rahman and Azmi (2022) conducted a cross-country analysis involving Malaysian and Indonesian SMEs and found that sensing and learning capabilities significantly enhance resilience and profitability during periods of environmental uncertainty. Similarly, Dauda and Ismail (2023) observed that Nigerian SMEs with stronger adaptive capabilities were better able to manage the effects of fluctuating exchange rates and supply chain disruptions. Studies also highlight industry-specific variations. In the retail sector, Akingbade (2020) reported that technological turbulence moderates the relationship between environmental factors and performance, and that dynamic capabilities help retail SMEs adopt digital tools faster, leading to improved customer engagement. In the agro-processing sector, Osei and Frimpong (2022) found that dynamic capabilities improved product innovation, market expansion, and operational efficiency despite infrastructural limitations.

Awulu et al. (2021), investigated business environment and performance SMEs in Benue State. The environmental factors were economic, political and legal, socio-cultural and technological environment. They were found to have significant impact on the performance SMEs. Adeola (2016), investigated the impact of external business environment on organizational performance of small and medium scale enterprises in Osun State, Nigeria. The study reviewed literature on SMEs, business environment and organizational performance. The finding show that external business environment (economic, political, legal, socio-cultural environment, demographic, natural, technological, global and financial environment have influence on the operation of SMEs.

Adagba and Shakpande (2017). Examine the effect of environmental factor on the business performance in Nigeria. The correlation of the primary data using multiple regression revealed that contribution of environmental factors is significant on the performance of business enterprises. These findings collectively reinforce the mediating role of dynamic capabilities in transforming environmental challenges into strategic opportunities—aligning with the central premise of this study.

### 2.4 Research Gap

Despite extensive literature on SMEs, several relevant gaps remain unaddressed. First, most studies in Nigeria have examined the business environment in isolation, focusing on constraints such as taxation, infrastructure, insecurity, inflation, or regulatory challenges. Few studies have systematically examined how environmental factors interact with dynamic capabilities to influence organizational performance, especially within the SME sector. Second, although dynamic capability theory has gained attention globally, its application to SMEs particularly in developing economies remains limited. Most empirical work from Nigeria has concentrated on large manufacturing firms or telecommunication companies (Andrew & Chima, 2021; Nwankwere, 2017).

There is insufficient evidence on how micro and small enterprises in urban centres such as Jos North LGA develop and deploy dynamic capabilities in response to environmental turbulence. Third, regional variations within Nigeria remain largely unexplored. Studies from Lagos, Rivers, and Benue states cannot be generalized to Plateau State, where SMEs face unique socio-economic conditions, infrastructural challenges, market characteristics, and security realities.

This creates a knowledge gap on the dynamics of business environment–performance relationships in the Middle Belt region. Finally, the mediating influence of dynamic capabilities in the relationship between business environment and organizational performance remains under-researched. This study therefore fills an important gap by empirically examining how dynamic capabilities enable SMEs in Jos North to adapt to their environment and enhance performance.

### III. METHODOLOGY

#### 3.1 Research Design

Khan (2017) outlined three types of research design which include exploratory, descriptive, and explanatory studies. Exploratory research is undertaken when the researcher seeks new knowledge of a phenomenon where no information exists or when a similar study has never been conducted. Descriptive research design is used when the objective is to accurately analyse the characteristics of subjects, objects, phenomena, or events. This study adopts a descriptive research design because it aims to examine the current state of the business environment and its relationship with organizational performance of SMEs in Jos North, Plateau State.

The population of a study refers to the total group of individuals or entities to which the research findings will apply. It includes individuals, groups, organisations, or similar units, and must align with the research purpose (Hossan, Mansor & Nor, 2023). The study population comprises registered businesses in Jos North LGA, Plateau State, amounting to 4,500 registered small-scale enterprises, including informal SMEs, based on records obtained from PLASMEDA (2022). The Taro Yamane (1967) formula for finite populations was used to determine the sample size as shown below:

*Formula:*

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

Where:

n = desired sample size

N = population size (4,500)

e = margin of error (0.05)

Computation:

$$n = \frac{4500}{1 + 4500(0.05)^2} = 367$$

Therefore, the sample size for this study is 367 SMEs.

#### 3.1.1 Sampling Technique

A simple random sampling technique will be employed to select SMEs from the list obtained from PLASMEDA. This sampling method ensures that every enterprise has an equal chance of being selected, thereby reducing selection bias and improving the representativeness of the sample.

It is suitable for this study because SMEs within the study area share similar structural and operational characteristics.

#### 3.1.2 Instrument of Data Collection

Data will be collected using a structured questionnaire consisting of four sections:

*Section A:* Demographic characteristics of respondents

*Section B:* Business environment variables

*Section C:* Dynamic capability measures (sensing, seizing, reconfiguring)

*Section D:* Organizational performance indicators

All items were adapted from validated instruments used in previous empirical studies and measured on a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5).

#### 3.1.3 Validity and Reliability of the Instrument

Content and construct validity of the questionnaire were ensured through expert review by academics and practitioners in business management. To ensure reliability, a pilot test will be conducted and the internal consistency of each construct will be assessed using Cronbach's Alpha, with a threshold of 0.70 indicating acceptable reliability.

#### 3.1.4 Assumptions of Multiple Regression

Before conducting the regression analysis, the following statistical assumptions will be tested:

*Linearity:* Relationship between dependent and independent variables must be linear.

*Normality:* Residuals must be normally distributed.

*Homoscedasticity:* Constant variance of residuals across predicted values.

*Multicollinearity:* Tested using VIF and tolerance values;  $VIF < 10$  and  $\text{tolerance} > 0.1$  indicate no multicollinearity.

Meeting these assumptions ensures the validity of the regression results.

#### 3.2 Method of Data Analysis

A multiple regression analysis was used to determine the relationship between business environment and organizational performance. The analysis was conducted using Statistical Package for the Social Sciences (SPSS) v29. To assess the mediating effect of dynamic capability, the study will employ the PROCESS Macro by Andrew Hayes (Model 4). Bootstrapping (5,000 samples) with 95% confidence intervals will be used to determine the significance of indirect effects.

*Regression Model Specification:*

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where:

Y = Organizational Performance (dependent variable)

$\beta_0$  = Constant,  $\beta_1$ ,  $\beta_2$  = Regression coefficients

$X_1$  = Business Environment

$X_2$  = Dynamic Capability

$\varepsilon$  = Error term

*Decision Rule:*

Reject  $H_0$  if the p-value < 0.05; otherwise, fail to reject.

#### IV. RESULTS AND DISCUSSION

##### 4.1 Data presentation

A total of 367 questionnaires were administered to respondents. Out of these, 318 were properly completed and returned, representing an 86.6% retrieval rate. All retrieved questionnaires were coded and analysed using the Statistical Package for Social Sciences (SPSS) Version 29. Prior to analysis, the data were cleaned and checked for completeness and accuracy. Multiple linear regression was used to test the direct effects, while PROCESS Macro (Model 4) by Andrew Hayes (Version 4.3) was employed to test the mediating effect of dynamic capabilities on the relationship between business environment and organizational performance.

The demographic results show that 178 (56%) of the respondents were female, indicating a slightly higher female participation in SMEs within the study area. The majority (62.3%) were single. Most respondents possessed tertiary education (58.4%), suggesting that SME owners and managers in Jos North LGA are relatively well educated. In terms of business experience, most SMEs had operated for two years or less (62.6%), indicating a youthful and growing SME sector.

##### 4.1.1 Effect of Business Environment on Organizational Performance

The findings show that business environment has a statistically significant and positive effect on organizational performance. This suggests that supportive elements of the external environment such as access to resources, regulatory clarity, stable policies, market conditions, and technological opportunities enhance the performance of SMEs. This finding aligns with Aneke, Ndubisi-Okolo and Chuka (2019) and Emman and Faye (2020), who emphasized that the context in which SMEs operate strongly influences their ability to achieve key performance indicators. When SMEs operate in favourable environments, they are better able to innovate, compete, and achieve growth.

Thus, the study reinforces the argument that environmental factors are critical drivers of SME success.

##### 4.1.2 Mediating Role of Dynamic Capabilities

The mediation analysis reveals that dynamic capabilities significantly mediate the relationship between business environment and organizational performance. This means that SMEs that possess strong sensing, seizing, and reconfiguring capabilities are better able to translate environmental conditions—whether opportunities or threats into superior performance. This supports earlier studies such as Prabowo, Sriwidadi and Ikhsan (2021), Gyemang and Emeagwali (2020), and Mashingaidze et al. (2022), who found that dynamic capabilities help firms respond to environmental change, innovate, build resilience, and achieve sustainable competitive advantage. In the context of Jos North, it suggests that even when the business environment is challenging, SMEs that can adapt quickly, restructure resources, adopt new technologies, and exploit opportunities outperform those with weaker dynamic capabilities. This positions dynamic capability as a strategic asset that strengthens SME resilience in turbulent environments.

#### V. CONCLUSION AND RECOMMENDATIONS

##### 5.1 Conclusion

The study showed that business environment has significant effect on organizational performance of SMEs. Based on the study objectives, which sought to address business environment and dynamic capabilities on organizational performance among SMEs, the goal model is only appropriate when these conditions are met. According to the systems resource model, an organization's performance is determined by the ability to acquire and utilize scarce and valued resources, as well as its bargaining position. Business environment indicates the aggregate total of all people, organisations and other forces that are outside the power of industry but that may affect its production. Therefore, the financial, cultural, governmental, technological, and different forces which work outside an enterprise are part of its environment.

Based on business environment, which has significant effect on dynamic capabilities, this can be seen from the performance measure that is widely used among small businesses. As a subjective indicator of the overall business performance, the degree of owner/managers' satisfaction with the business performance identifies the success of small businesses as actual performance equal to or exceeding the business owner/managers' expectations.

The study concluded that opportunities and threats are associated with the external environment of business while weakness and strength are associated with internal environment of business. It therefore follows that when entrepreneurs carry out appraisal of favorable conditions that can promote or sustain the growth of their business, it is an examination of external environmental factors. The fact that a business enterprise operates in an environment makes it susceptible to the influence of the environment. It indicates that the level of insecurity within the business environment plays a significant role within an enterprise and influences the operating environment. The study concluded that growth is a potential approach when it comes to organization and dynamic capabilities are a key factor toward achieving organizational performance.

Furthermore, SMEs' adaptability to changes in the business environment plays a critical role in sustaining long-term performance. While dynamic capabilities allow firms to respond to immediate challenges, proactive environmental scanning and strategic resource allocation enhance resilience against market uncertainties. SMEs that integrate innovation into their operations, such as adopting new technologies and customer-centric practices, are better positioned to convert environmental opportunities into tangible performance gains. Human capital, particularly managerial skills and decision-making capacity, significantly moderates the relationship between business environment and organizational performance. Entrepreneurs who invest in capacity building, knowledge acquisition, and skill development are likely to improve both operational efficiency and strategic agility.

## 5.2 Recommendations

Based on the research findings the following recommendations are made:

1. Business owners should create enabling business environment in carrying out their businesses since it encourages organizational performance.
2. There is need for SMEs owners to outline modalities that will make their businesses adopt dynamic capabilities, since there is increasing effect on business environment and organizational performance.
3. SMEs should prioritise training and development for owners and employees to strengthen managerial competence and decision-making capabilities.
4. Firms should implement systematic mechanisms to monitor market trends, technological advancements, and regulatory changes to anticipate opportunities and mitigate threats.

5. SMEs should embrace technological innovations and digital solutions that improve operational efficiency and customer engagement, thereby enhancing overall performance.
6. Firms should focus on the effective acquisition, allocation, and utilization of key resources financial, human, and technological to improve dynamic capabilities and achieve sustainable growth.

## 5.3 Suggestions For Further Studies

Future empirical research studies could use moderation-mediation models to present a more complete representation of the effect of dynamic capabilities, business environment, and competitive advantage. Other dimensions of dynamic capabilities could be used in future studies to enable a nuanced understanding of the phenomenon of dynamic capabilities and competitive advantage. Future studies could also explore the moderating role of managerial competence and innovation adoption on the relationship between business environment, dynamic capabilities, and organizational performance. Additionally, comparative studies across different sectors could provide a more nuanced understanding of how contextual factors influence SMEs' responsiveness and competitiveness.

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