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MACROECONOMIC ENVIRONMENT AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

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Abstract: **The study sought to examine the effect of economic environment factors on the performance of Nairobi County's small and medium enterprises in Kenya. Open system theory and balanced scorecard theory served as the study's foundations. Descriptive design was used. Targeted population constituted five hundred and thirty-two (532) of these businesses in Nairobi County, Kenya. A sample size of one hundred and fifty (150) firms was chosen utilizing stratified simple random sampling techniques, with the owners or managers acting as the participants in the survey. Information from primary and secondary sources was used. Structured, closed-ended surveys were the main tool used to gather data; a document review guide was utilized to get secondary information from these businesses' financial records between 2018 and 2023. The study instrument's validity and dependability was examined. To examine the data, both descriptive and inferential statistics was utilized. The researcher utilized a panel regression analysis. Autocorrelation, heteroscedasticity, multicollinearity and normality assessment were performed as tests for diagnostic. All ethical considerations were duly followed. Finding demonstrated that taxation possess an inverse and insignificant effect on the enterprises financial performance; inflation revealed a significantly positive effect on the enterprises financial performance; government laws and policy demonstrated also significant positive effect on the enterprises financial performance; Furthermore, government activity disclosed an insignificant but positive effect on the financial performance of these enterprises.**

Keywords: **Macroeconomic Environment, Financial Performance, Small and Medium Enterprises.**

1. STUDY BACKGROUND

Any nation's revenue growth is dependent on four nationwide economy sectors: transportation, amenities, farming, as well as manufacturing (Dobes, Virglerova & Kramolis, 2019). Organizations of various dimensions as well as beliefs exist in all areas of the economy as a whole and make contributions to generally economic expansion (Dvorsky, Belas, Novotna, Fero & Petrakova, 2020). The economy of any country stands to benefit greatly from Small and medium-sized enterprises (smes), especially when it comes to employment; emergence, inventiveness, productivity, along with expansion of the economy (Cepel, 2019). The emergence and expansion of businesses of all sizes are dependent on an ideal business atmosphere (Meyer & Meyer, 2016). The enterprise setting, encompassing the framework according to which organizations work as well as their strategic plan, is extremely dependent on company operations (Rozsa, Formanek & Manak, 2019). The organization setting has an important effect on advancement, productivity, and possibilities for company expansion (Kolkova, 2020).

In Europe, they are categorized as business with 250 employees then a optimum number of 500 employees in the United States (Larios-Francia & Ferasso, 2023). SMEs comprise 65% of the US GDP, 67% of the private sector labor force, and a sizable portion of 99.7% of US employment categories. SMEs make up 99% of businesses in China, and they provide 60% of the country's economic growth. SMEs in China are financed by a variety of sources, including personal savings, bank loans, and family funds (Dini, Stumpo & Eueopea, 2020). In Japan, SMEs account for 60% of GDP, 70% of employment, and greatly contribute to the country's economy. Nevertheless, they only provide 50% of the nation's value, despite their success in the economy (Khan, 2019). The Czech Republic and Slovakia render substantial attempts to encourage enterprises of all sizes (via financing, modifications to legislation, and so on) (Belas, Smrcka, Gavurova & Dvorsky, 2018).

Remarkably similar are the industry-specific traits of SMEs in Central European nations. SMEs primarily function in commerce, manufacturing, as well as various other industries that do not fall into a single of the tracked groupings. The Slovak Business Agency (2018) study establishes the key components of an excellent company atmosphere by comparing the business circumstances for SMEs in Central European nations. All of these variables are classified into four categories: institutionalized as well as regulatory structures, accessibility to markets, availability of resources, as well as a culture of entrepreneurship. The regulation constitutes one of the most important domains can significantly impact the firm's setting both now and in the future (Lyakina, Heaphy, Konecny & Kliestik, 2019).

In Africa, Gross Domestic Product (GDP) and employment production contributions of SMEs are similar. In Sub-Saharan Africa, almost 95% of businesses are owned by SMEs. 70% of manufacturing jobs in Ghana are held by SMEs, which generate over 50% of the GDP of the nation (Kaberia & Muathe, 2021). Unfortunately, as a result of challenges such industry competitiveness, government laws, and a lack of managerial expertise, the efficacy of SMEs has decreased over time in South Africa and other African countries (Sobende, Herbst, Twum-Darko, & Noruwana, 2021). The effectiveness of SMEs in Ghana has been found to be threatened by problems like the use of outdated materials and improper human resource technology (Donkor, Donkor, Kankam-Kwarteng & Aidoo, 2018). SME's are Nigeria's engine and the foundation of the nation's economic structure. In Nigeria, the number of entrepreneurs has increased, employment have been generated, poverty has decreased, and SMEs have been successful in connecting growth for big industries and they make up 50% of the GDP and 97% of all enterprises (Tahir, Habaebi, Dabbagh, Mughees, Ahad & Ahmed, 2021).

In Kenya, SMEs have proven to be relevant to the economy through the opportunities it provides for employment to a noteworthy percentage of the nation's populace, more so than any other industry. Comparatively speaking, in the official sector in 2015, there were 120,000 new employments (14%) but in the unregulated SME sector, 720,000 new jobs (86%) were created (Kenya National Bureau of Statistics, 2020). According to Krishnan et al. (2019), they employ over above 76% of the workforce with the number standing at around 14.9 million people and with 7.4 million SMEs, accounting for almost 80% of all businesses in Kenya, and generate just under a quarter of the nation's GDP. However, over the course of the preceding five years, 2.2 million SMEs in Kenya were shut down; on average, businesses closed after 3.8 years. Notwithstanding their importance, SMEs face a myriad of challenges that have an impact on their performance (Shumba, 2021). For example, SMEs have been having trouble satisfying client demands as a result of delayed product delivery. Customer discontent and poor business performance follow as a result (Mutunga & Makhamara, 2020).

Kenya's marketplaces effectiveness is heavily reliant on the character of the economic factors, as it constitutes one of Africa's newly industrialized nations. According to Kirui, Wawire and Onono (2016) these parameters have been suggested to be contributing factors to current business fluctuation as well as could result in a sales problem. Based to the International Finance Corporation (IFC), all developing-country sectors are classified as developing. The Kenyan business therefore constitutes one among the worldwide markets in development. Low product quality, a low rate of turnover, not many progressing businesses, and inadequate dissemination of knowledge constitute the industry. Kenyan policy on SMEs clearly indicates that the industry is not merely a provider of products and amenities, but additionally an engine of teamwork, creativity, and fostering an entrepreneurial culture, all of which are critical for entrepreneurial growth and industrial development. This industry should primarily address the issues of beginning beneficial and practical job prospects, encouraging growth in the economy, and eradicating impoverishment in the entire nation (Mohammed, 2019).

1.1 Statement of the Problem

Given that other areas of revenue generation have surpassed SMEs' contributions to GDP, concerns have been raised about both the efficacy and financial benefits of SMEs. Most SMEs in Kenya have not performed at their best financially. According to the KNBS (2021) study, SMEs' sales turnover has been steadily declining. 2.2 million SMEs have wind up in Kenya in the last five years, despite their significance (KNBS, 2020). This analysis indicates that the majority of shuttered enterprises were largely in the wholesale and retail sectors trade, which made up 73% of the shutdown overall. 46.3% of SMEs shut down before their first year of business concluded (2020 Economic Survey Report). Three out of every five small and medium enterprises tend to collapse shortly after their establishment, highlighting ongoing concerns about their financial performance, as many of these businesses struggle to achieve consistent improvement (Mwende, Muturi & Njeru, 2019).

400,000 MSEs die annually, based on a survey done by the Kenya National Bureau of Statistics (KNBS, 2020). In the preceding five years, 2.2 million small businesses have closed. According to Chege and Wang (2020), the majority of Nairobi County SMEs usually close due to a lack of innovation, growing operating costs, declining revenue, and losses to the company. Macroeconomic environment factors are critical among the key factors in the company's success, deserving constant attention. In business today, which is fraught with frequent changes, understanding what elements would result in improved performance and the methods by which it can be determined is critical to the sustainability of all organizations, regardless of size (Okeke, *etal*., 2023). The investigation evaluated the effect of macroeconomic environment on Kenya's SMEs in the County of Nairobi's financial performance.

Studies have been carried out on economic environment factors and performance. Ojimba, Okafor, Okeke and Mbah (2023) investigated the economic setting and performance of organizations in Anambra State pharmaceutical businesses. Xu, Li, Liang, and Rahman (2019) conducted research to assess the probability distribution of the cost of taxes for micro and small-sized businesses in Taizhou. (China). Atugeba (2021) examines how the rate of inflation affects the profitability of chosen (SMEs) in Ghana's Upper East region. These studies were carried out outside Kenya, as economic environment differs from that of Kenya, thereby providing a contextual gap. Ogbonna, Onuoha, Chukwu and Ojeaburu (2020) investigated the connection among taxation and the financial outcomes of listed SMEs using secondary data collection.

Musabayana, Mutambra and Ngwenya (2022) determined the magnitude whereby government policies influenced the success of SMEs using mixed method technique. Mwangemi, Wilson, and Mung'atu (2017) investigated the impact of finance access and policies from the government on the success of Kenyan SMEs using Chi-square to analyze data, these studies provided methodological gaps. In evaluating government involvement effect on the level of innovation in small manufacturing businesses in Tigray, Ethiopia, Hayleslasie (2023) primarily examined government activities without considering other elements of the economic environment, creating a conceptual gap. Therefore, to bridge this gap, the Study considered economic environment factors effect on financial performance of SMEs in Kenya.

1.2 Study Objectives

1.2.1 General Objective

The investigation assessed macroeconomic environment influence on financial performance of Nairobi City County's SMEs in Kenya.

1.2.2 Specific Objectives

i. To assess taxation effect on SMEs in Nairobi City County's financial performance of SMEs in Kenya

ii. To establish the effect of inflation on Nairobi City County's SMEs financial performance in Kenya

iii. To examine government laws and policies effect on SMEs in the City of Nairobi County's financial performance in Kenya.

iv. To determine government activity influence on the SMEs financial performance in Kenya's Nairobi City County.

1.3 Research Hypotheses

H_{01} Taxation has non-significant influence on the SMEs in Nairobi City County's financial performance in Kenya.

H_{02} Inflation has insignificant effect on the Nairobi City County's SMEs financial performance in Kenya.

H_{03} Government laws and policies have no significant effect on the financial performance of SMEs in Nairobi City County, Kenya.

H_{04} Government activity has no significant effect on the financial performance of SMEs in Nairobi City County, Kenya.

2. LITERATURE REVIEW

Theoretical review and empirical review are discussed in this section which are guided by the variables of the study.

2.1 Theoretical Review

Open system theory was introduced by Bertanlanffy (1956). According to Bertanlanffy (1956), businesses and societies influence and transform their surroundings, which in turn has an impact on their operations. The theory recognizes the difficulties encountered by each organization. The concept basically indicates a line of thinking which believes that the success of a business is heavily contingent on the circumstances in which it functions (Shala, Prebreza, & Ramosaj, 2021). The global business climate is turbulent, and companies find one another putting in a variety of requirements that are economic, partisan, authorized, technical, or societal in the environment. This environment provides companies with the capacity to acquire the needed assets and plans to ensure that they survive while enhancing their efficiency, leading to transformation.

Balanced Score Card Theory was developed by Kaplan and Norton (1991). According to the notion, the Balanced Scorecard should be used to transmit the company's strategy and assist in coordinating internal departmental, organizational, and individual actions toward achieving shared objectives rather than being a control tool for assessing previous performance. Furthermore, according to Kaplan and Norton (1996), the Balanced Scorecard should be utilized as a tool for information sharing, learning, and communication rather than as a means of control. The theory evaluates a company’s effectiveness, productivity, and sustainability, which can be determined using a variety of indicators. Because intangible resources were essential to developing revenue for the companies examined, the framework was based on them (Nolan Norton Institute, 1991). These scholars believed that the company was required to advance the handling of their immaterial resources; they required integrating the practice of immaterial asset evaluation through their organizational mechanisms. The concept of a balanced scorecard readily recognizes the practical factors that contribute to the accomplishments of a company. Customer satisfaction along with retention rates, internally business components, acquiring knowledge, and creativity, for instance, all of which are encompassed in the system’s suggested performance evaluation.

2.2 Empirical Review

2.2.1 Taxation and Financial Performance

Wadesango, Muzenda, Satande and Malatji (2021) examined the obstacles encountered by SMEs when newly enacted taxation regulations were implemented, as well as the economic success of SMEs. The link among the point of transaction transactions tax, wireless payment duties, as well as profitability was studied using a model involving multiple regression. To evaluate the research information and determine the descriptive features of the dependent as well as independent parameters, as well as the findings from the tests, SPSS and EXCEL were utilized. The outcomes designated that SMEs' profitability is significantly impacted by intermediate cash tax transmission. The analysis also showed that bank transfer taxes and wireless cash taxes have a negative impact on SMEs' ability to obtain financing. Furthermore, given that all SMEs in the distribution network agree that wireless digital tax transfer raises transaction costs and lowers the volume of transactions, it was found that there is a negative association between them. The investigation mainly centered on taxation regulations, this inquiry focused on economic environment factors where taxation, government activity, government laws and inflation are parameters of the study.

From 2013 to 2017, Ogbonna, Onuoha, Chukwu and Ojeaburu (2020) investigated the connection that exists amongst taxation along with the fiscal performance of Nigerian listed SMEs. Investment return, ROA, and current ratio were examples of financial performance proxies, whereas company taxation of earnings and training tax were examples of replacement taxes. The investigators employed an ex post facto investigative design. The study utilized secondary data obtainable from the websites of the ten listed SMEs whose shares are traded on the alternatives security market (ASeM) of the Nigerian Stock Exchange. Deploying multiple regression, correlation, and basic description, the outputs displayed that, during the course of the study, there was little to no association between business income tax and education taxes and return on investment, return on assets, and present ratios pertaining to SMEs in Nigeria. Consequently, it was unveiled that during the study period, taxes in Nigeria had no meaningful relationship to the financial success of SMEs. The inquiry used secondary data; this study sued primary data collection procedure.

Xu, Li, Liang, and Rahman (2019) conducted research to assess the probability distribution of the cost of taxes for micro and small-sized businesses in Taizhou. (China). The investigation determined the tax risk distribution of 3552 micro- and small-scale businesses in the loan insurance financed from January 2016 to August 2018 employing an intermittently adaptable non parameterized comparisons as well as route approach. The study was carried out using an eliminating approach with a nonparametric. The study discovered that, since compared with the standard framework employed to represent governmental taxes as well as lending policies, the effects of small and micro businesses’ benefits for the economy offers an analysis of situations that improves the unusual viewpoint of taxes. The investigation was carried out with a nonparametric technique; this inquiry used parametric approach.

2.2.2 Inflation and Financial Performance

Ojimba, Okafor, Okeke and Mbah (2023) investigated the economic setting and performance of organizations in Anambra State pharmaceutical businesses. The survey's layout was used in this research, enabling for gathering, analyzing, and interpreting of initial responses from the participants. There were 2495 participants in the study, or 2,495 people in all. The Borg and Gall formula was used to get the collection size of 479. A questionnaire served as the major method of data collection, with supplementary ways being used to address the research's questions. The surveys have been validated by sending forty copies to a pharmaceutical company in Enugu. Output of regression analysis approaches concluded that the rate of inflation has a negative and significant effect on pharmaceutical companies' organizational effectiveness. The Nigerian state of Anambra hosted the investigation. The study was performed in Kenya's Nairobi County.

Atugeba (2021) examines how the rate of inflation affects the profitability of selected Upper East region SMEs in Ghana. ROA was utilized as a financial performance measure. The 36 SMEs on the customer record supplied were included in the investigation. Data spanning from 2013 to 2017 were included in the evaluation. A regression approach known as ordinary least squares (OLS) was exploited to determine the determinants that affect business success. According to the findings, the inflation rate is a not significant predictor of SMEs' success. Data was collected using secondary data instruments for collection; primary information was utilized.

Okeke, Anetoh, Obiezekwem, Anetoh, Okafor, Monday and Kobimdi (2020) studied how small and medium-sized enterprises' earnings were affected by inflation. The inquiry employed a cross-sectional approach. 1560 people were included in the study, and 296 people made up the sample. Applying multiple regression analysis, findings disclosed that South-East Nigerian SMEs' performance is significantly harmed by inflation. The study concludes that in order to promote economic growth, effective inflation rate management is required. The study used cross-sectional research layout; this investigation applied descriptive design.

2.2.3 Government Laws and Policies and Financial Performance

Musabayana, Mutambra and Ngwenya (2022) assessed the extent to which government policies affected Zimbabwe's small and medium-sized enterprise (SME) success. The successive exploratory technique was employed in the study's mixed-methods technique. According to the outcomes of this research, the governing body was able to educate the influential category, its representatives who have experience in SME regulations, and the goals of the government were clearly conveyed to all professionals in the SME industry, but the details did not filter through to the SME executors. The results would help authorities reconsider and create an updated plan of action that would include all SME sector stakeholders. The results indicated that the government's inability to communicate its goals to those who carried them out is mostly to blame for the poor Zimbabwean SMEs performance, which had a negative effect on the country's economy overall. A mixed method technique was applied, this study used stratified technique.

Nwalusiuka (2021) looked into how government regulations affected startup concerns. Over the period of three (3) years, the inquiry utilized questionnaires to gather thoughts of Anambra State new firms. 400 new firms in Anambra State were chosen at random by the study using a snowball method. At a significance level of 5%, the different hypotheses were tested utilizing the Chi-square test of independence. The study region encompassed the adjacent areas of Onitsha, Awka, and Nnewi. The results demonstrate that government regulations significantly affect new enterprises' ability to obtain financing. Furthermore, the findings indicate an important connection among government policies and the long-term viability of start-ups. Findings showed the occurrence of a substantial connection among government policies on enterprise encouragement and growth; the ongoing existence of new businesses in the inquiry location. As a result, the investigation ends that favorable policies of government play a significant role towards solving business startup problems within the study area. Chi-square analyzed the study objective. This investigation utilized regression technique of analysis.

Mwangemi, Wilson, and Mung'atu (2017) investigated the impact of finance access and policies from the government on the success of Kenyan SMEs. The survey focused on Nairobi City's SMEs that operate in four economic sectors: logistics and storage, housing and offerings, communication and data processing, monetary and coverage operations, and competent to scientific, and technical pursuits. A total of 395 SMEs were collected employing a stratified technique, with an 88.1% response rate recorded. The investigator gathered primary data by means of structured conversations and surveys given to entrepreneurs and executives. At a significance level of 5%, the Chi-square test of association was utilized with the concluding that finance accessibility is a crucial factor in the establishment, growth, and eventual expansion of the SME sector. Kenya still has a lot of large corporations, despite having a more developed economy than others. Government policies were shown to have little effect on the expansion of businesses, even in spite of the emphasis placed on creating policies for SMEs. The study goal was to look into how government policies affect Kenyan SMEs' ability to succeed. This looked at how SMEs' success is influenced by elements in the economic environment.

2.2.4 Government Activity and Financial Performance

Hayleslasie (2023) evaluated the impact of government involvement on the level of creativity in Tigray, Ethiopia's small manufacturing businesses. For this objective, an investigation of 464 owners of small manufacturing businesses in the textile and apparel, metal and wood works, construction input, chemical products, jewelry, and agro-processing sectors was carried out. Logistic regression, propensity score matching, chi-square testing, and descriptive statistics were all presented using Stata version 12.The PSM estimate states that using technology advancements and transfer requires government action. Likewise, using a binary logistic regression, the research uncovered that program intervention positively affects the innovation process in terms of scale. This inquiry was performed in Kenya; the last investigation was done in Ethiopia.

Ye, Yi, Fangjang, and Yuzhu (2022) examined data from 2008 to 2018 on A-share listed companies in the stock exchanges of Shenzhen and Shanghai using the fixed-effect model. The outcomes showed that enterprise investment in resources for technological innovation is severely hindered by government involvement, whereas enterprise innovation investment can be enhanced by reduced government intervention. Internal control intervention exacerbates the detrimental effects of government interference on technological company advances, rather than offering institutional benefits. The study used fixed effect model; this study used multiple regression model.

Alkahtani, Nordin, and Khan (2020) investigated how government support via network structure affects long-term competitive performance in Pakistani SMEs. Small firms therefore contribute significantly to value creation, employment, and economic growth. Consequently, we created hypotheses on government financial support and network structure based on prior research, and we gathered information from SMEs' senior management using structured questionnaires. The results indicate that whereas centrality has no influence on SCP, density positively and considerably impact on long-term competitive performance. Furthermore, there is substantial financial support from the government for the interaction between SCP and networking structure in Pakistan. This investigation was done in Kenya; the previous survey was performed in Pakistan.

3. RESEARCH METHODOLOGY

3.1 Research Design

As per Kothari (2009), a design of investigation is a framework that facilitates the easy progression of diverse investigative procedures, with the aim of enhancing research precision. As defined by Bryman and Bell (2011), a research design is a framework for collecting and analyzing data aimed at answering the study's research questions. A descriptive research design looks at how study variables relate to one another without changing the research environment (Mugenda & Mugenda, 2003). The design for the research was descriptive. This particular study method was applied because it entails gathering information that describes occurrences, followed by organizing, tabulating, organizing, and interpreting the data.

3.2 Empirical Model

The model was provided by panel regression framework and direct effect model which matches the section-specific objectives and study hypotheses.

$FP = \beta_0+\beta_1TX+\beta_2IF+\beta_3GP+\beta_4GA+\varepsilon$

Where:

FP = Financial Performance

TX = Taxation

IF = Inflation

GP = Government Laws and Policies

GA = Government Activity

$\beta_1 - \beta_4$ = Coefficients

ε = Error term

3.3 Target Population

Target population includes people or organizations with attributes that correspond to the study targets (Mugenda & Mugenda, 2013). The SMEs in Nairobi City County was the investigation's target population. Firms in Kenya are classified primarily according to the number of workers they have. The report's intended audience was532 SMEs in Nairobi County from ICT, construction and engineering, health, manufacturing, retailing, hospitality and hotel, energy, financial, and automobile and logistics industries represented in Nairobi City County. Owners and managers of SMEs participated in the survey. The proprietors of the business that possess a strong and consistent understanding of SMEs operations were chosen for the inquiry.

3.4 Sampling Technique and Sample Size

According to Mugenda (2008), sampling design refers to the process used to determine survey sample sizes. As per Bolarinwa (2015), a sample is a crucial part of the target audience for the research endeavor. The sample design for this investigation was based on the stratified sampling technique. This inquiry employed a stratified random sample technique, which necessitates the researcher to pick participants based on preset criteria and is appropriate for target groups greater than thirty(Mugenda & Mugenda, 2003). Stratified sampling technique was employed by grouping the SMEs into stratas which comprised of ICT, construction and engineering, health, manufacturing, retailing, hospitality and hotel, energy, financial, and automobile and logistics industries. A sample of 30% is sufficient to portray a demographic, following Mugenda and Mugenda (2003). After that, a 30% of intended population was chosen by the research using a straightforward technique of sampling that is random to create a 150 SMEs size of sample, with the owners and managers acting as responders.

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

This section of the survey showcases the responses gathered from participants, emphasizing the number of individuals who completed the questionnaire and contributed their views on the research topic. These responses are contrasted with the questionnaires that were not retrieved by the researcher. The findings from this analysis are comprehensively detailed in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percent
Retrieved	118	78.7
Unretrieved	32	21.3
Total	150	100

Source: Field Data (2024)

Table 4.1 indicated a rate of response of 78.7% for the retrieved questionnaires, reflecting a strong level of engagement from participants in the survey. This high response rate suggests that the research topic resonated well with the target audience, leading to a substantial number of individuals willing to share their perspectives. In contrast, the 21.3% of unretrieved questionnaires may point to potential barriers such as lack of interest, accessibility issues, or time constraints faced by some individuals. The significant proportion of retrieved responses enhances the reliability of the findings, providing a solid foundation for analysis and interpretation while also highlighting areas for improvement in future data collection efforts to minimize non-responses.

4.2 Correlation Analysis

Correlational analysis performs a pivotal role in understanding the link among macroeconomic environment and the financial performance of SMEs. By examining variables such as taxation, inflation, government policies, and economic activities, the study identified how these macroeconomic factors influence the operational success and profitability of SMEs. The conclusions reached from the examination are documented in Table 4.2.

Table 4.2: Correlation Analysis Results

		Financial Performance	Taxation	Inflation	Government laws and policy	Government Activity
Financial Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Taxation	Pearson Correlation	.031	1			
	Sig. (2-tailed)	.735				
Inflation	Pearson Correlation	.764**	.135	1		
	Sig. (2-tailed)	.000	.144			
Government laws and policy	Pearson Correlation	.685**	.142	.756**	1	
	Sig. (2-tailed)	.000	.124	.000		
Government Activity	Pearson Correlation	.576**	.109	.718**	.632**	1
	Sig. (2-tailed)	.000	.242	.000	.000	

Source: Field Survey (2024)

Table 4.2 demonstrated the interplay between financial performance and various macroeconomic factors where it was revealed that the association among financial performance and inflation is notably strong at r=0.764, with a significance level of p<0.001, suggesting that inflation has a substantial positive connection with the financial performance of SMEs. This implies that as inflation rises, it may lead to increased prices for goods and services, potentially enhancing revenue for SMEs that can pass on these costs to consumers. The results are in line with those of Ojimba, Okafor, Okeke, and Mbah (2023) and Okeke *et al* (2020), who found that inflation rates significantly impact the organizational effectiveness of companies. In contrast, the correlation between financial performance and taxation is weak (r=0.031, p=0.735), indicating that taxation does not significantly affect the profitability of SMEs, possibly due to the relatively low tax burden on smaller enterprises or effective tax management strategies employed by them. The results align with those of Wadesango, Muzenda, Satande, and Malatji (2021) and Ogbonna, Onuoha, Chukwu, and Ojeaburu (2020) found that during their study period, taxes in Nigeria did not significantly correlate with the financial success of SMEs.

Furthermore, government laws and policies show a strong positive correlation with financial performance (r=0.685, p<0.001), highlighting the importance of a supportive regulatory environment for enhancing SME profitability. This relationship suggests that favorable government policies creates an enabling environment for SMEs to thrive, possibly through incentives or reduced compliance costs. The results align with those of Nwalusiuka (2021), who revealed that supportive government policies significantly contribute to addressing business startup challenges in the study area. Additionally, government activity, which includes interventions and support programs, also correlates positively with performance financially (r=0.576, p<0.001), reinforcing the idea that proactive government involvement can significantly enhance the operational success of SMEs by providing necessary resources and support. The results align with those of Alkahtani, Nordin, and Khan (2020) who highlighted significant financial support from the government for the interaction between supply chain performance (SCP) and networking structures in Pakistan.

4.3 Regression Results

Regression analysis served as a vital statistical instrument for exploring the effect of macroeconomic factors on the SMEs financial performance. By employing regression techniques, the study quantifies how variables such as taxation, inflation, and government policies affect the profitability and operational success of SMEs. The outputs are compiled and offered in Table 4.3.

Table 4.3: Results of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.308	.404		-.762	.448
	Taxation	-.079	.056	-.084	-1.428	.156
	Inflation	.718	.126	.573	5.684	.000
	Government Laws and Policy	.393	.139	.257	2.830	.006
	Government Activity	.016	.117	.012	.135	.893
	R	.786[a]				
	R Square	.618				
	F	45.709				
	Sig.	.000[b]				

Source: Field Survey (2024)

Table 4.3 uncovered that the constant term in the regression model is -0.308, which indicates the expected value of the dependent variable (financial performance of SMEs) when all independent variables are set to zero. A negative constant suggests that without the influence of taxation, inflation, government laws and policies, and government activity, the baseline financial performance may be below zero. The correlation coefficient R is 0.786, suggesting a robust positive association among the explanatory factors and the explained factor. This suggests that as macroeconomic factors change, there exist a substantial connection with changes in performance among SMEs financially. The R^2 value of 0.618 implies that 61.8% of the variation in financial performance is explained by the model's explanatory factors. This is a substantial proportion, indicating that the selected macroeconomic factors are relevant predictors of SME performance. The F-value is 45.709 with a significance level (Sig.) of 0.000 demonstrates that the model is significant statistically. This means that at least one of the independent variables has a non-zero coefficient, suggesting that these macroeconomic factors collectively have a considerable influence on SME financial performance.

Table 4.3 further noted that the coefficient for taxation is -0.079 with a significance level of 0.156. This designates a negative link between taxation and SME financial performance; however, it is not statistically significant at conventional levels ($p < 0.05$). The outcome suggests that an increase in the SMEs that performed financially by 0.079% is as a result of 1 percent reduction in taxation. The outcome implies that the null hypothesis is not rejection noting that taxation does not perform a decisive task in enhancing the SMEs financial performance. The findings could be accredited to the various factors, such as the possibility that SMEs have developed strategies to mitigate tax burdens or those other macroeconomic variables may exert a more dominant influence on their financial outcomes, thereby masking the true impact of taxation in this specific context. The outcomes are in conformity with Wadesango, Muzenda, Satande and Malatji (2021) that showed that bank transfer taxes and wireless cash taxes have a negative impact on SMEs' ability to obtain financing. Ogbonna, Onuoha, Chukwu and Ojeaburu (2020) found that during the study period, taxes in Nigeria had no meaningful relationship to the financial success of SMEs.

Inflation has a coefficient of 0.718 and is highly significant ($p = 0.000$). This positive relationship suggests that inflation positively impacts SME financial performance. The outcome implies that a surge in inflation by a proportion leads in enhancement of 0.718 percent in the SMEs financial performance. The outcome indicated that the p-value of less than 0.05 thus leading to the rejection of the null hypothesis thus concluding that inflation play a crucial role in proving the SMEs financial performance. The outcome could be attributed to the ability of SMEs to adjust their pricing strategies in response to rising costs, allowing them to maintain or even enhance their revenue streams during inflationary periods, thereby benefiting from increased consumer spending power and demand for goods and services. The findings are consistent with those of Ojimba, Okafor, Okeke and Mbah (2023) who uncovered that rate of inflation has a significant effect on pharmaceutical companies' organizational effectiveness. Okeke *et al* (2020) disclosed that South-East Nigerian SMEs' performance is significantly harmed by inflation. Conflictingly, Atugeba (2021) observed that the inflation rate is a not a significant predictor of SMEs’ success. The conflicting outcomes could be connected to the distinctiveness of the background frame which the studies were performed.

The coefficient for government laws and policy is 0.393 with a significance level of 0.006, demonstrating a positive and statistically significant relationship with SME performance. This suggests that favorable government regulations and policies contribute positively to the financial outcomes for SMEs, highlighting the importance of a supportive regulatory environment. This means that an improvement in government laws and policy by a percentage would amount in the enhancement of the SMEs financial performance by 0.393 percent. The result displayed a p-value that is less compared to the 0.05 level thus noting that changes in government laws and policy significantly influence the SMEs performance financially. This may be linked to the supportive regulatory frameworks and favorable policies enacted by the government that could have enhanced the operational environment for SMEs, facilitating access to resources, reducing bureaucratic hurdles, and ultimately contributing to improved financial performance. The outcomes corroborates with those from Nwalusiuka (2021) who unraveled that favorable government policies play a significant role towards solving business startup problems within the study area. However, the outcome is inconsistent with those from Mwangemi, Wilson, and Mung'atu (2017) who noted that government policies were shown to have little effect on the expansion of businesses, even in spite of the emphasis placed on creating policies for small and medium-sized businesses. Musabayana, Mutambra and Ngwenya (2022) who unfolded that indicate that the government's inability to communicate its goals to those who carried them out is mostly to blame for the poor SMEs performance, that had a negative influence on the country's economy overall. The inconsistency in the findings could be as a result of the methodological variation in the studies as well as the conceptualization of the studies.

The coefficient for government activity is 0.016 with a significance level of 0.893, indicating no significant connection concerning government activity and SME financial performance. This implies that variations in government activity do not have a measurable impact on the financial outcomes for SMEs in this context. The findings imply that improvement in government activity by a percentage would results to enhancement in the financial performance of SMEs by 0.016 percent. Due to this result which disclosed a significance value above the 0.05 level, the hypothesis of government activity not having significant effect on financial performance is upheld leading to the conclusion that alteration in government activity do not significant enhance the financial performance of these SMEs. This may suggest that the specific forms of government engagement or initiatives in place do not directly influence the financial outcomes of SMEs, possibly due to ineffective implementation, lack of alignment with SME needs, or the overshadowing impact of other more critical macroeconomic factors. The findings are consistent with the outcomes of Hayleslasie (2023) who discovered that program intervention positively affects the innovation process in terms of scale. The findings are at variance with those from Ye, Yi, Fangjang, and Yuzhu (2022) who showed that enterprise investment in resources for technological innovation is severely hindered by government involvement, whereas enterprise innovation investment can be enhanced by reduced government intervention. Alkahtani, Nordin, and Khan (2020) there is substantial and substantial financial support from the government for the interaction between SCP and networking structure in Pakistan. The disparity in the findings could be attributed to the study contexts which has unique government intervention programmes that cannot be generally applied to all environments.

5. CONCLUSIONS

The investigation sought to unravel the effect of taxation these small and medium-sized enterprises (SMEs) financial performance. The outcome unveiled that taxation has an inverse and insignificant effect on these SMEs financial performance. The study concludes that while higher tax burdens may be associated with reduced financial outcomes for these enterprises, the lack of statistical significance indicates that this relationship is not robust enough to draw definitive conclusions. This result implies that other factors may play a more critical role in influencing SME performance, and it highlights the need for a better understanding of how taxation interacts with various operational challenges faced by SMEs. Consequently, policymakers should consider exploring alternative strategies to support SMEs, such as simplifying tax regulations or providing targeted incentives, to foster a more conducive environment for their growth and sustainability.

Effect of inflation was evaluated on the financial performance of the SMEs with the resulting noting that inflation significantly in a positive way affects these SMEs performance financially. In view of this, the conclusion is that these enterprises are able to capitalize on inflationary conditions to enhance their profitability. This suggests that SMEs may successfully adjust their pricing strategies in response to rising costs, potentially benefiting from increased consumer demand as purchasing power shifts. The finding highlights the resilience and adaptability of SMEs in navigating economic fluctuations, emphasizing the importance of understanding inflation not merely as a challenge but also as an opportunity for growth within the sector.

The analysis of government laws and policy influence on SMEs performance was performed. Give this, the findings demonstrated that government laws and policy significantly and positively affect the SMEs performance financially. Considering this outcome, the investigation concludes by underscoring the critical role that effective regulatory frameworks and supportive policies play in fostering a conducive business environment. This result indicates that when the government implements favorable laws and policies, such as incentives, access to financing, and streamlined regulations, SMEs are better equipped to thrive, innovate, and enhance their financial outcomes. This underlines the necessity for continued government engagement and reform aimed at strengthening the operational landscape for SMEs, which are vital for economic growth and job creation in the region.

The investigation investigated government activity effect on the SMEs performance financially. The outcome linked to this noted that government activity disclosed that significantly affect the SMEs performance financially in a positive manner. Concerning this, the study concludes that while there may be a slight beneficial influence from government initiatives, this impact is not strong enough to be statistically meaningful. This indicates that the specific forms of government engagement or support may not effectively address the needs of SMEs or may lack sufficient implementation to drive significant improvements in their financial outcomes. As such, it highlights the necessity for a more targeted and impactful approach to government activity, ensuring that policies and initiatives are better aligned with the operational realities of SMEs to foster substantial growth and enhance their financial performance.

5.1 Recommendations

Having considered the outcomes of the investigation, the recommendations are put forward. The government should consider revising tax policies to create a more favorable environment for these enterprises. Specifically, the government should explore reducing tax rates and simplifying tax compliance processes to alleviate the financial burden on SMEs, enabling them to allocate more resources towards growth and innovation. Additionally, implementing targeted tax incentives and support programs could encourage formalization and compliance among SMEs, ultimately fostering a more robust business ecosystem that contributes to economic development and job creation in the region.

The government should leverage on the macroeconomic dynamic by developing strategies that support SMEs in capitalizing on inflationary trends. This could include providing training and resources to help SMEs effectively adjust their pricing strategies and manage costs in response to inflation, as well as facilitating access to financing that allows them to invest in growth opportunities during inflationary periods. Additionally, the government should consider implementing policies that stabilize the macroeconomic environment, ensuring that inflation remains at manageable levels while enabling SMEs to thrive. By fostering an environment where SMEs can adapt and benefit from inflation, the government can enhance their contributions to economic growth and employment generation in the region.

The government should continue to enhance and streamline regulatory frameworks that support SME growth. This could involve simplifying compliance processes, reducing bureaucratic hurdles, and implementing targeted incentives that empower SMEs to thrive. Additionally, fostering a collaborative dialogue between government officials and SME stakeholders can ensure that policies are responsive to the actual needs of businesses, thereby maximizing their effectiveness. By prioritizing supportive laws and policies, the government can create an enabling environment that not only boosts the financial performance of SMEs but also contributes to broader economic development in the region.

The government should reassess and enhance the effectiveness of government initiatives aimed at supporting these enterprises. This could involve conducting thorough evaluations of existing programs to identify gaps and areas for improvement, ensuring that government activities are better aligned with the specific needs and challenges faced by SMEs. Additionally, increasing engagement with SME stakeholders through consultations and feedback mechanisms can help tailor government support to be more impactful. By focusing on practical and relevant actions that directly address the operational realities of SMEs, the government can strengthen its role in fostering a more vibrant and financially successful SME sector.

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