

# External and Internal Environmental Factors as Predictors to Business Performance of Small and Medium Enterprises (SMEs) in Tagum City

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**ABSTRACT:** The main purpose of this study was to find out whether external and internal environmental factors significantly influence business performance of Small and Medium Enterprises (SMEs) in Tagum City. It was tested at 0.05 level of significance stating that there is no significant relationship between external and internal environmental factors on business performance and there is no domain in the external and internal environmental factors that significantly predict business performance. The respondents of this study were from SMEs that were registered for the first quarter of 2021 in Tagum City. This quantitative, non-experimental design research sought to determine if specific relationships exist between external and internal environmental factors on business performance. Statistical tools used to interpret the data gathered were Mean, Pearson r and Regression Analysis. The independent variables were external and internal environmental factors, while the dependent variable was business performance. Findings from the study revealed that the level of external and internal environmental factors on business performance of SMEs in Tagum City were very high and high, respectively. The results show that there is a significant relationship between external and internal environmental factors on business performance of SMEs in Tagum City. Furthermore, there was a domain found in the internal environmental factors but no domain found in the external environmental factors that predicted business performance.

**Keywords:** *small and medium enterprises (SMEs), external environmental factors, internal environmental factors, business performance, Philippines*

## I. INTRODUCTION

### Rationale

Many organizations still encounter problems with their businesses due to the factors that exist in the external and internal environment which affect the performance of their business (Munizu 2010, pp. 33-41). The development of every stage of the company's performance is the result of analyzing the impact of the two environments in which the company conducts its business (Dragnic 2014, p. 130). Success in improving performance depends on the ability to manage these factors through the analysis of the external and internal environmental factors as well as the establishment and implementation of business strategies. More importantly, to achieve superior performance, companies should analyze the rapidly changing external and internal environment and determine the proper competitive strategy (Longenecker et al 2003, pp. 50-51).

The success of SMEs has a direct impact on economic development in both developed and developing countries (Demirbag et al 2006, p. 830). They are pioneers in the world of innovation and have high flexibility that enables businesses to meet consumers' needs. Through both formal and informal processes, it helps them align their employees, resources, and systems to meet their strategic objectives.

## **II. Review of Related Literature**

This chapter discusses the theories, opinions, and concepts of various authors of this study to supply a strong frame of reference for the variables treated in this research. The first independent variable is external environmental factors with four identified indicators: political, economic, social, and technological factors (Bouazza, Ardjouman & Abada 2015, pp. 103-105). The second independent variable is internal environmental factors with five identified indicators: manpower, materials, machinery, minutes, and money (Omoregie, 2010). The dependent variable is the business performance with four identified indicators: the growth in sales, employment, income, and market share. (Hadjimanolis 2000, p. 240).

### **2.1 External Environmental Factors**

The environment is a critical factor in an organization's success (Namada 2018, p. 88). Organizations do not operate in isolation but rather with their surroundings. Any changes in the external environment will impact the organization's activities. Organizational development necessitates constant adaptation to internal and external environmental changes (Hayes 2014, p. 75). As a result, companies must examine external environmental weaknesses and threats and discover opportunities and strengths.

The external environment is a collection of factors known to the company and affects its performance. It includes government policies, socio-cultural factors, and economic factors (Munizu 2010, p. 34). The external environment creates limitations and opportunities that impact the organization's operation ability. The external environment includes all external events that can harm the company and are outside the company's control. All of the extrinsic forces are closely connected. External factors such as economic, political, technological, and social factors are resources for the business management that must be considered to develop an effective management model and meet the organization's strategic and tactical objectives (Dubitskaya & Tcukanova 2018, pp. 2-3).

### **2.2 Internal Environmental Factors**

SMEs face daily problems such as a lack of raw resources, a skilled labor force, and insufficient money. Due to these obstacles, SMEs are outperformed by large corporations in terms of cost, value, and market dynamics. For SMEs to survive in today's highly competitive business climate, they must have a positive mindset. Business owners need to be oriented with resource-leveraging to see how the resources could be used in an innovative style or to convince those who control a resource to let them do more work with less (Hoque et al. 2018, p. 85). A business owner can use all the resources to help their firm transition smoothly to a new owner.

To improve a firm's success, it is necessary to have a thorough grasp of the environment and conduct internal company assessments. The internal environment encompasses a company's different components. If the internal environment is examined, it can be used as a source of inspiration for developing a company strategy (Ontoraël, Suhadak & Mawardi 2017, p. 50).

### **2.3 Business Performance**

Small and medium enterprises encounter trials and challenges of social consideration challenges relating to their business operations and interactions with workers, consumers, investors, suppliers, etc. Further, they concentrate on a few goods and services, which enable them to establish a strong commitment with their customers, giving their businesses a competitive advantage (Tabet & Onyeukwu 2019, p. 66).

This is because businesses have become the economic system's backbone. It aims to close the gap between different income groups and business actors, alleviate poverty, and absorb labor. Moreover, the improvement of the business can increase economic development and provide a significant impact on improving economic resilience (Ontoraël, Suhadak & Mawardi 2017, p. 47). The changes that occur in the market must be taken action and should be addressed immediately by SMEs to maintain a business that will produce great results. The performance of SMEs is linked to their knowledge mastery. (Setyanti & Farida 2016, p. 209).

### **2.4 Correlation between Measures**

Numerous researches have been conducted and undertaken to examine the effects of environmental conditions on many aspects of business operations. The external environment where the businesses are located and operated is

constantly changing. The analysis, understanding, and interpretation of the external environment include considering the use of internal strengths and external opportunities and reducing internal weaknesses and external threats (Dragic 2014, p. 127). The organization's ability to handle these two aspects by studying environmental circumstances and adopting various business strategies is critical to its success (Ontorael, Suhadak & Mawardi 2017, p. 48).

Similarly, according to Bouazza, Ardjouman, and Abada (2015, p. 109), external environmental factors influence internal environmental factors, affecting SMEs' growth and performance. If both external and internal environmental elements are properly controlled and exploited, SMEs will have the potential to grow and strengthen their businesses, eventually improving the company's performance (Ontorael, Suhadak & Mawardi 2017, p. 48).

Internal environmental issues influence business performance significantly. The larger the impact on business performance, the better enterprise owners and managers execute managerial capability in product marketing, resource consumption, and technology use in enhancing production efficiency. (Ontorael, Suhadak & Mawardi 2017, p. 54). The findings of this study support prior research that found that internal environmental elements had a favorable impact on an organization's performance in business (Bouazza, Ardjouman & Abada 2015, p. 104).

Overall, the literature illustrates an association between external environmental factors, internal environmental factors, and business performance. It is supported by the research results conducted by Alkali and Isa (2012, p.626), which show that external environmental factors positively influence company performance. It is also in parallel with the previous research of Munizu (2010, p. 40), which found that a positive external environment can influence the internal environment and impact the business performance improvement.

## **2.5 Theoretical Framework**

This study is anchored by the proposition of Ontorael, Suhadak, and Mawardi (2017, p. 51). External and internal environmental factors directly impact a firm's performance in business and can have an indirect impact on the success of micro, small, and medium enterprises.

The first independent variable in the study is in line with Bouazza, Ardjouman, and Abada (2015, p. 102). They state that regulatory and legal restrictions, lack of external financing or financial support, low human resource capacity, lack of pieces of training and skills for management, and common technology adaptation are the primary external environmental factors, which include political, economic, social, and technological factors which can also be transcribed as pest analysis.

The second independent variable in the study is supported by Dragic (2014, p. 124), who claims that handling the internal environment is usually linked to a business entity's degree of achievement or level of performance attained. Internal environment analysis should encompass the strengths that laid the foundations for the strategy: the 5 M's of Marketing, which are manpower, materials, machinery, minutes or time, and money (Omoregie 2010).

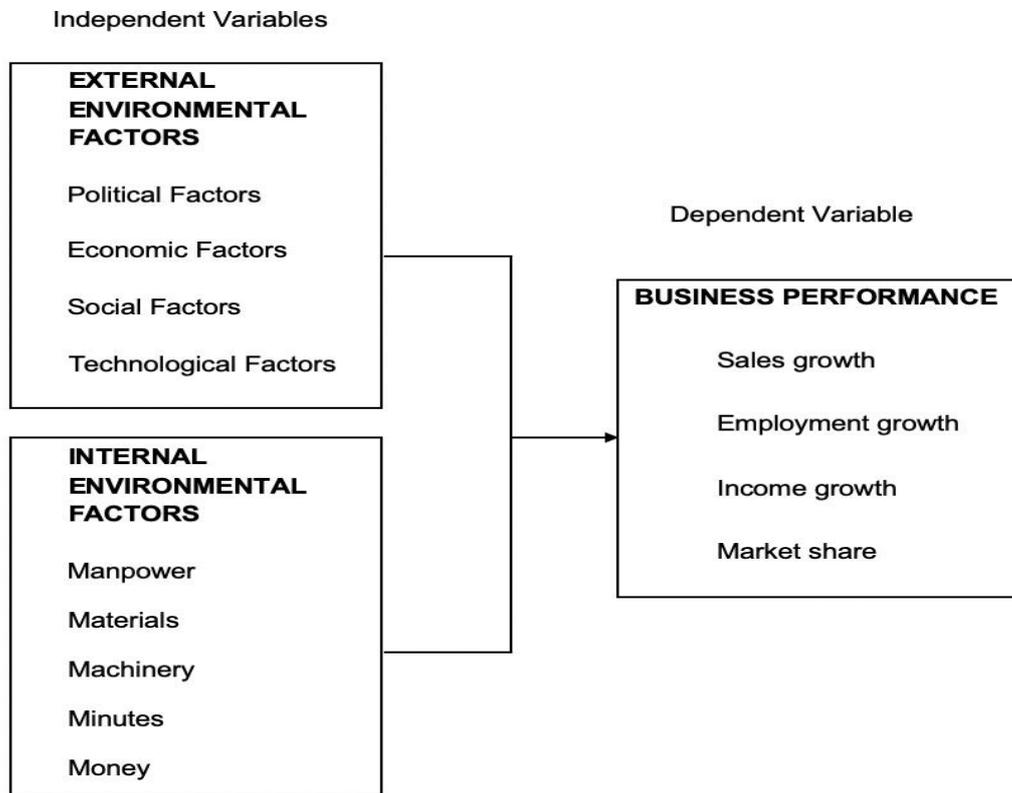
Accordingly, the dependent variable is supported by Hadjimanolis (2000, p. 240), who states that the sales, profit, payback return, many rates for turnover analysis, and expanded market share are all indicators of an organization's performance. This is in accordance with the theory of Freeman (2010, p. 52), which emphasizes creating value for customers, suppliers, employees, communities, and financiers. Thus, the researcher has identified the growth of sales, employment, income, and market shares as the most critical indicator of SMEs' performance.

## **2.6 Conceptual Framework**

As the framework is presented, the first independent variable of the study is the external environmental factors with indicators referred to as the PEST Analysis Model, which is composed of Political, Economic, Social, and Technological Factors (Bouazza, Ardjouman & Abada 2015, pp. 103-108). In this study, Political Factors refer to the political decisions that affect government policies directly affecting businesses. Economic Factors include commodities, services, and money, and they play a significant role in how a company makes decisions. Also, Social Factors refer to the effects of a changing society that can affect our attitudes, opinions, and interests. Lastly, Technological Factors relate to the adaptation, availability, and development of technology.

The second independent variable of the study is internal environmental factors with indicators of manpower, materials, machinery, minutes, and money (Omoregie 2010). Manpower refers to the commitment of employees to delivering the services required. Materials refer to the resources used in the production of the product. Machinery is the equipment necessary to complete the processes dedicated to delivering the product or services within the company. Minutes refer to the time it will take to provide and process the goods and services within the company to be completed. Money refers to the funds available to buy the machinery, pay the personnel, and purchase the necessary materials.

Lastly, the study's dependent variable is the business performance with indicators that focuses on the growth of sales, employment, income, and market share (Hadjimanolis 2000, p. 240). Sales Growth refers to the measure of sales performance over a pre-determined period. Employment Growth is an indicator of labor performance. Income Growth refers to the growth in value of the organization's net income from one reporting period to another. Market Share Growth indicates how a firm performs relative to its competitors.



*Figure 1. Conceptual Framework of the Study*

### 2.7 Significance of the Study

The results of this study are beneficial to specific groups of individuals. First, for owners and managers of SMEs, this research will help them provide ideas and relevant information that can measure the firm's ability to meet its financial obligations. Secondly, the study will be beneficial to the Local Government of Tagum. The result can have significance to them to anticipate any happenings that can be a factor in meeting the needs and wants of the people.

Lastly, to the students and researchers in the future. This will serve as a useful tool for students and researchers in the future when conducting a related study. The findings of this research will aid them in better understanding the nature of the organization. Furthermore, this study contains sufficient information to assist them in acquiring data for their future endeavors.

## III. METHODS

### 3.1 Research Design

The research is quantitative, non-experimental research utilizing correlational design with regression analysis. These particular methods were used to determine and identify the relationship between two or more variables. Variables

are learned as they are and are not modified in this non-experimental study. The researcher investigated possible alternative hypotheses to correlate and analyze various factors and give results and interpretations without making definitive causal claims (Belli 2008, p. 60).

### 3.2 Population and Sample

The respondents who participated in this study are all owners or managers of SMEs registered in the first quarter of 2021 in Tagum City. The sampling used to select and classify the study's respondents were random. There were six hundred forty-nine (649) population considered respondents in Tagum City, which was composed of 461 small enterprises and 188 medium enterprises.

The sample size ( $n$ ) can be obtained by using the Slovin's Formula  $n = N \div (1 + Ne^2)$  where ( $n$ ) is the sample size, ( $N$ ) is the given population size, and ( $e$ ) is the margin of error. Also, adding a twenty percent (20%) allowance of the total population for non-response, the total sample size used was three hundred seventy-seven (377) which can be proportioned into small (267) and medium (110) enterprises.

### 3.3 Research Instrument

The researcher used an adapted and modified questionnaire as a survey device to gain acceptance as a standard way of eliciting data to answer specific and identified problems in this research. The committee validated the questionnaire before the administration to the respondents and had undergone validation by external validators. The overall mean score of the external validators was 4.61, which can be described as very high.

The items in the questionnaire were subjected to pilot testing to assess their reliability and consistency of the items before conducting an actual data gathering using Cronbach's Alpha. The result of the reliability test for the external environmental factors was 0.942, which can be described as excellent. For the internal environmental factors, the result was 0.966, which can also be described as excellent. The same goes for the business performance, which got a 0.970 result, likewise described as excellent. The questions adapted were based on the title external and internal environmental factors as predictors to business performance among Small and Medium Enterprises (SMEs) in Tagum City.

### 3.4 Data Gathering Procedure

In gathering the data for the study, the researcher secured a letter from the school requesting permission and certification to conduct the research from the Dean of Graduate Studies that serves as proof that UM Tagum College officially recognizes the research. After which, the permission letter was given to the owners or managers for approval. Upon approval of the request, the researcher administered and personally distributed the 320 questionnaires to all respondents from December 29, 2021, to January 13, 2022, including the hired assistants, to help with the distribution in other areas of Tagum. The assistants were given a proper orientation before distributing the questionnaires.

Furthermore, the researcher gave the respondents instructions and orientation to guide them upon going along with the questionnaires. This was to ensure an accurate response in answering and retrieving questionnaires. The data gathered was tabulated, analyzed, and interpreted with the prescribed tools.

### 3.5 Statistical Treatment of Data

The following statistical tools were employed in the analysis and interpretation of the gathered data.

**Mean.** This was used to measure the level of external and internal environmental factors on business performance among SMEs in Tagum City.

**Pearson r.** This was used to define and determine the significant relationship between external and internal environmental factors on business performance among SMEs in Tagum City.

**Multiple Regression Analysis.** This was used to determine what particular domain of external environmental factors and internal environmental factors significantly influence business performance.

## IV. RESULTS

### 4.1 Level of External Environmental Factors among SMEs in Tagum City

## *External and Internal Environmental Factors as Predictors to Business Performance of Small and Medium...*

The outcome of mean scores for the external environmental factors are presented in table 2 resulted in an overall score of 4.20 described as very high with a standard deviation of 0.607. This indicates that the respondents were always affected by external environmental factors or conditions in running a business in the items of political, economic, social, and technological factors. The mean score resulted from the data gathered from highest to lowest indicators: 4.28 or very high for technological factors; 4.20 or very high for social factors; 4.18 or high for political factors; and 4.12 or high for economic factors.

Table 2. *Level of External Environmental Factors among SMEs in Tagum City*

<b>Indicator</b>	<b>Mean</b>	<b>SD</b>	<b>Descriptive Level</b>
Political factors	4.18	0.637	High
Economic factors	4.12	0.949	High
Social factors	4.20	0.659	Very High
Technological factors	4.28	0.699	Very High
<b>Overall</b>	<b>4.20</b>	<b>0.607</b>	<b>Very High</b>

### **4.2 Level of Internal Environmental Factors among SMEs in Tagum City**

The resulted mean scores for the internal environmental factors are presented in table 3, with an overall score of 4.11 described as high with a standard deviation of 0.626. This result indicates that the respondents were often affected by internal environmental factors or conditions in running a business, in the items of manpower, materials, machinery, minutes, and money. The result of the total mean score was the outcome from the highest to lowest indicators: 4.15 or high for materials; 4.12 or high for money; 4.11 or high for manpower; 4.09 or high for minutes; and 4.06 or high for machinery.

Table 3. *Level of Internal Environmental Factors among SMEs in Tagum City*

<b>Indicator</b>	<b>Mean</b>	<b>SD</b>	<b>Descriptive Level</b>
Manpower	4.11	0.704	High
Materials	4.15	0.735	High
Machinery	4.06	0.703	High
Minutes	4.09	0.713	High
Money	4.12	0.664	High
<b>Overall</b>	<b>4.11</b>	<b>0.626</b>	<b>High</b>

**4.3 Level of Business Performance among SMEs in Tagum City**

The overall mean score for the business performance is 4.19 presented in table 4 which can be described as high with a 0.581 standard deviation. This indicates that the business performance is very good in the items of the growth of sales, employment, income, and market share. The total mean score was derived from the highest to lowest indicators: 4.20 or very high for sales growth; 4.20 or very high for market share; 4.19 or high for income; and 4.17 or high for employment growth.

Table 4. *Level of Business Performance among SMEs in Tagum City*

Indicator	Mean	SD	Descriptive Level
Sales growth	4.20	0.617	Very High
Employment growth	4.17	0.651	High
Income growth	4.19	0.654	High
Market share growth	4.20	0.641	Very High
<b>Overall</b>	<b>4.19</b>	<b>0.581</b>	<b>High</b>

**4.4 Significance on the Relationship between Level of External Environmental Factors on Business Performance**

The computation results are provided in table 5. The results showed a p-value of .001, which is below than the 0.05 significance level, indicating that the null hypothesis was rejected. This suggests that there is a considerable correlation between external environmental conditions and business performance. The results also revealed that the r-value is 0.715, this also indicates that a positive correlation exists between external environmental factors and business performance, and the r-squared is 0.511 indicating a 51.1% of the business performance is explained by external environmental factors.

Table 5. *Significance on the Relationship between External Environmental Factors and Business Performance of SMEs in Tagum City*

Variables	Mean	SD	r-value	r-squared	p-value	Decision
External Environmental Factors	4.20	0.607	0.715	0.511	<.001	Ho is rejected.
Business Performance	4.19	0.581				

**4.5 Significance on the Relationship between Level of Internal Environmental Factors on Business Performance**

Provided in the table 6 the computation results. The results showed that the p-value was less than the significance level of 0.05, which resulted to the decision of rejecting the null hypothesis. This shows that a significant relationship exists between internal environmental factors on business performance. The results also revealed that the r-

*External and Internal Environmental Factors as Predictors to Business Performance of Small and Medium...*

value is 0.855, which indicates that a positive correlation exists between internal environmental factors and business performance, and the r-squared is 0.731 indicating a 73.1% of the business performance is explained by internal environmental factors.

Table 6. Significance on the Relationship between Internal Environmental Factors and Business Performance of SMEs in Tagum City

Variables	Mean	SD	r-value	r-squared	p-value	Decision
Internal Environmental Factors	4.11	0.626	0.855	0.731	<.001	Ho is rejected.
Business Performance	4.19	0.581				

**4.6 Regression Analysis on the Influence of the Domain in External and Internal Environmental Factors that Predicts to Business Performance among SMEs in Tagum City**

Presented in the table 7 is the computation results. The result showed a computed F-ratio of 359.832 and a p-value of 0.055 for the external environmental factors, which is higher than the 0.05 significance level, which arrived to the decision of not rejecting the null hypothesis that stated there is no domain in the external environmental factors that significantly predicts to business performance.

For the internal environmental factors, the result showed a p-value of <.001, which is lower than the significance level of 0.05, which resulted to the decision of rejecting the null hypothesis that stated there is no domain in the internal environmental factors that significantly predicts the performance of the business.

The r-value is 0.858, indicating that the external and internal environmental factors have a positive relationship to business performance. The overall r-squared is 0.735, indicating that 73.5% of the business performance is explained by external and internal environmental factors.

Table 7. Regression Analysis on the Influence of the Domain in External and Internal Environmental Factors that Predicts to Business Performance among SMEs in Tagum City

Independent Variables	Unstandardized coefficients		Standardized coefficients	t	p-value	Decision
	B	Std. Error	Beta			
(constant)	0.827	0.134				
External Environmental Factors	0.097	0.05	0.101	1.930	0.055	Ho is not rejected.
Internal Environmental Factors	0.720	0.049	0.775	14.829	<.001	Ho is rejected.
R = 0.858 F-ratio = 359.832				R <sup>2</sup> = 0.735 p-value = <.001		

## **V. DISCUSSION**

### **5.1 Level of External Environmental Factors among SMEs in Tagum City**

The outcome of the study resulted to a very high degree on external environmental factors among SMEs in Tagum City; this was because of the very high rating of understanding by the respondents in terms of political, economic, social, and technological factors, which means that the small and medium enterprises were always affected by external environmental factors or conditions in running a business among SMEs in Tagum City. Political factors where the constant adaptation of the changes in the business policies and laws whenever the government implements; economic factors where any movement or activity in the economy shows that it affects the strategies set by the company; social factors which the businesses embrace the differences in values and cultures of the people; and technological factors which somehow shows that the businesses function very well when relying on the technology.

Various authors supported the very high descriptive equivalent in the level of external environmental factors. This aligns with the study of Bouazza, Ardjouman, and Abada (2015, p. 101) that the growth and performance of a business is affected by external factors, including the factors that are beyond the control of SMEs. It is also in parallel to the previous study by Munizu (2010, p. 34), who stated that the external environment impacts the organization's performance. This was also in line with the study of Alkali and Isa (2012, p. 625), showing that external environmental factors and business performance were significantly associated together.

### **5.2 Level of Internal Environmental Factors among SMEs in Tagum City**

The outcome of the study resulted to a high degree on internal environmental factors among SMEs in Tagum City; this was because of the high rating of understanding by the respondents in terms of manpower, materials, machinery, minutes, and money, which means that the small and medium enterprises were often affected by internal environmental factors or conditions in running a business among SMEs in Tagum City. Manpower in which the business ability to identify capable employees and the standard of selecting and maintaining the employees; materials where the ability of the business to manage their resources; machinery in which the business relies on to get the work done; minutes in which the ability of the business to save time and in return would result to efficiency and money where the business cannot live without it.

Various authors supported the high descriptive equivalent of internal environmental factors. This is in accordance with the study of Omoregie (2010), which stated that making responsible use of man, materials, machines, minutes, and money means successful management. It is also supported by the previous study of Dragnic (2014, p. 151), which confirms that all internal environmental factors impact the performance and effectiveness of SMEs.

### **5.3 Level of Business Performance among SMEs in Tagum City**

The outcome of the study resulted to a high degree on business performance of SMEs in Tagum City; this was because of the high rating of understanding by the respondents in terms of the growth in sales, employment, income, and market share, which means that the small and medium enterprises were often affected by internal environmental factors or conditions in running a business of SMEs in Tagum City. Sales growth means the increase in sales; employment growth in which the business manages staff; income growth, which is the company's objective; and the market share growth when the businesses identify its target customers.

Various authors supported the high descriptive equivalent in the level of business performance. This was in parallel to the study of Hadjimanolis (2000, p. 240), stating that growth is a more appropriate indicator for business performance. Ontoraël, Suhadak, and Mawardi (2017, p.48) described that performance refers to the objectives of the company, which are to survive, gain profit and develop or grow.

### **5.4 Significance on the Relationship between Level of External Environmental Factors on Business Performance**

The study presents the significant relationship between external environmental factors on the business performance of SMEs in Tagum City. This connotes that external environmental factors play a significant role in the business performance of SMEs in Tagum City. The computed  $r$ -value of 0.715 with a  $p$ -value of  $<0.01$  that is less than the significance level indicated a positive relationship between variables. The positive  $r$ -value showed a direct correlation between the variables, suggesting that as the level of external environmental factors increases, the business performance goes high.

The outcome of the result is in parallel to the study of Ontorael, Suhadak, and Mawardi (2017, p. 54), who stated that external environmental factors affect the performance of the business of SMEs positively and significantly. That also indicates that if the external environment is good, the performance of the business is better.

### **5.5 Significance on the Relationship between Level of Internal Environmental Factors on Business Performance**

The study presents the significant relationship between internal environmental factors on the business performance of SMEs located in Tagum City. This signifies that internal environmental factors improve the business performance of SMEs located in Tagum City. The computed r-value of 0.855 with a p-value of <0.01 indicated a positive relationship between variables. The positive r-value showed a direct correlation between the variables, suggesting that as the factors of internal environment increases, the business performance goes high.

The study results are in accordance with Ontorael, Suhadak, and Mawardi (2017, p. 55), who stated that the internal environmental factors significantly and positively influence the performance of the business of SMEs. This leads to the company's gain while being competent in the business industry.

### **5.6 Regression Analysis on the Influence of the Domain in External and Internal Environmental Factors that Predicts to Business Performance among SMEs in Tagum City**

The study presents the influence of the domain on the external and internal environmental factors that predict significantly the business performance of SMEs located in Tagum City. The outcome of this study shows that external environmental factors do not have that much influence, while internal environmental factors positively influence the business performance of SMEs.

The results are supported by the previous study of Alkali and Isa (2012, p.626), who stated that some external environmental factors do not significantly influence the performance of the business. However, when taken as a whole, external and internal environmental factors significantly influence the business performance of SMEs (Ontorael, Suhadak, & Mawardi 2017, p. 47).

## **VI. CONCLUSION**

The outcome and findings of the study are concluded and presented in this section. The overall level of external environmental factors on SMEs in Tagum City was very high. This meant that SMEs in Tagum City were always affected by external environmental factors or conditions in running a business. The overall level of internal environmental factors among SMEs in Tagum City was high. The result meant that SMEs in Tagum City were often affected by internal environmental factors or conditions in running a business. The overall level of business performance on SMEs located in Tagum City was high. This result signifies that the business performance of SMEs located in Tagum City is very good. There relationship between external environmental factors, internal environmental factors and the business performance of SMEs in Tagum City is significant. Furthermore, only the domain of the internal environmental factors significantly predicts the business performance of SMEs in Tagum City. However, when taken as a whole, both external and internal environmental factors positively influence the performance of the business SMEs in Tagum City.

## **VII. RECOMMENDATION**

In the foregoing findings, conclusions and possible implications, the researcher came up with the following recommendations on how to elevate the level of business performance of SMEs located in Tagum City.

First, the researcher recommends to the that SME owners or managers that they may upgrade their facilities to be able to provide services that will help expand the business. They may invest in technology to adopt a modernized setup which may help the business improve and provide a more efficient process. In this way, the business can increase its competency and adjust to any changes in the economy. Moreover, they may attend training and seminars related to management and leadership to provide a just system and benefits to the company's employees. For the Local Government Unit, the future proposal of rules and regulations should be directed and made easy for the SMEs. This allows businesses to prepare for any changes made that can affect the business economic activities. This is consistent with the study of Ontorael, Suhadak, and Mawardi (2017, p. 55), which stated that external and internal environmental factors affect significantly the performance of the business.

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