

## External Business Environment and Financial Performance of Small and Medium Enterprises in Arua Municipality, Uganda

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### Abstract

*The study investigated the relationship between the external business environment and the financial performance of Small and Medium Enterprises (SMEs) in the Arua Municipality. The main objective was to analyze the relationship between the external business environment and financial performance in general. The external business environment being a multidimensional construct, the study only considered, economic, legal/regulatory, technological, industrial dimensions. The specific objectives analyzed the relationship between the considered dimensions and financial performance. A sample of 103 respondents was selected from a study population of 140 SMEs in the Arua Municipality using a purposive sampling technique. Purely quantitative data was collected by the use of a closed-ended self-administered questionnaire. A cross-sectional and correlational survey was adopted. Pearson's correlations analysis was used to explore the relationship between the variables, and Multiple Regression Analysis (MRA) was applied in examining the variance in Financial Performance. The results revealed a statistically positive relationship ranging from moderate to strong based on Cohen (1988) among the various dimensions and dependent variable. Surprisingly, the results are in line with previous findings though from different socio-economic settings. MRA revealed a 61.5% variation in financial performance. The findings imply that economic, regulatory, technological, and industrial environment of SMEs is key business environments influence financial performance. Therefore, it's here recommended that the management of SMEs should understand the external SME environment for appropriate decision making. It is further recommended that; Ministry of Industry and Trade needs to regulate the environment to make it favorable for SMEs to enable them to thrive to boost the country's economy. This could be done by formulating favorable fiscal and monetary policies such as exchange rates, interest rates, favourable legal reforms that can facilitate SME financial performance. SMEs should embrace and adopt appropriate technologies to ease their operations. Conclusively, understanding the external business environment is essential for SMEs' financial performance. One key limitation of the study is that it was a cross-sectional survey with a limited geographical scope.*

**Keywords:** External Business Environment, Financial Performance, SMEs, Arua Municipal Council.

### Introduction

Financial performance is an important business management aspect as the success of a business is measured using the availability of finances and investments it makes. It is even a more important aspect to examine among Small and Medium Scale Enterprises (SMEs) since they form over 95% of enterprises; and account for 60 – 70% of employment (Organisation for Economic Corporation and Development (OECD), 2009). Although the concept of financial performance is very common in academic literature, there is no agreement on what it is actually. Arnold (2012) stated that financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. Similarly, Tumwine (2011) expanded the understanding of the term by stating that it's all about how organisational financial resources are controlled and utilized through budget management and accountability to achieve organizational goals and objectives. While regarding the external business environment, Ajayi (2016) clarified that it comprises all the factors that influence SME operations beyond the control of the management. In this study, an assessment was made to verify the validity of Ajayi's observations in the context of SMEs in the Arua Municipality.

For the operationalization of this study, the external business environment is considered as all events outside the company that has the potential to affect the company (Sofyan & Ina, 2015). These include competition, the behavior of its targeted customers and suppliers, macroeconomic dynamics, government policy i.e. the laws (Alkali, 2012; Pearce & Robinson, 2011; Mason, 2007; Yunggar, 2005). Dawson (2001) further listed external environmental factors as government laws and regulations, globalization of markets and the internationalization of business, major political and social events, technological advancements, customer expectations, supplier requirements, increasing competition, organizational growth, and fluctuations in business cycles. In this study, the external business

environment was limited to economic, regulatory, technological, and industrial environments while the financial performance of SMEs was measured in terms of profitability, sales revenue, and return on investment (ROI).

### Literature Reviews

There are numerous studies conducted to demonstrate the role of the external business environment on the performance of SMEs. For instance, Ylvije and Elez (2015), a study in Albania revealed that the external environment has a great impact on enterprises' success. In a study conducted in Croatia, Dasa (2014) observed that external factors like the general state of the economy, sector, and type of customers have a significant impact on the performance of SMEs. Pasanen (2003) focused on factors affecting SMEs in Finland, found that external environmental factors affected how the enterprises performed. Aminul, Ezaz, Muhammad, and Hasmat (2008) in their study of SMEs in Bangladesh similarly found that among others, the external environment is the most significant factor in determining business success. On the contrary, Li (2001) examined the mediating role of environmental hostility on the financial performance of small ventures in China and found that environmental hostility did not appear to affect the relationship.

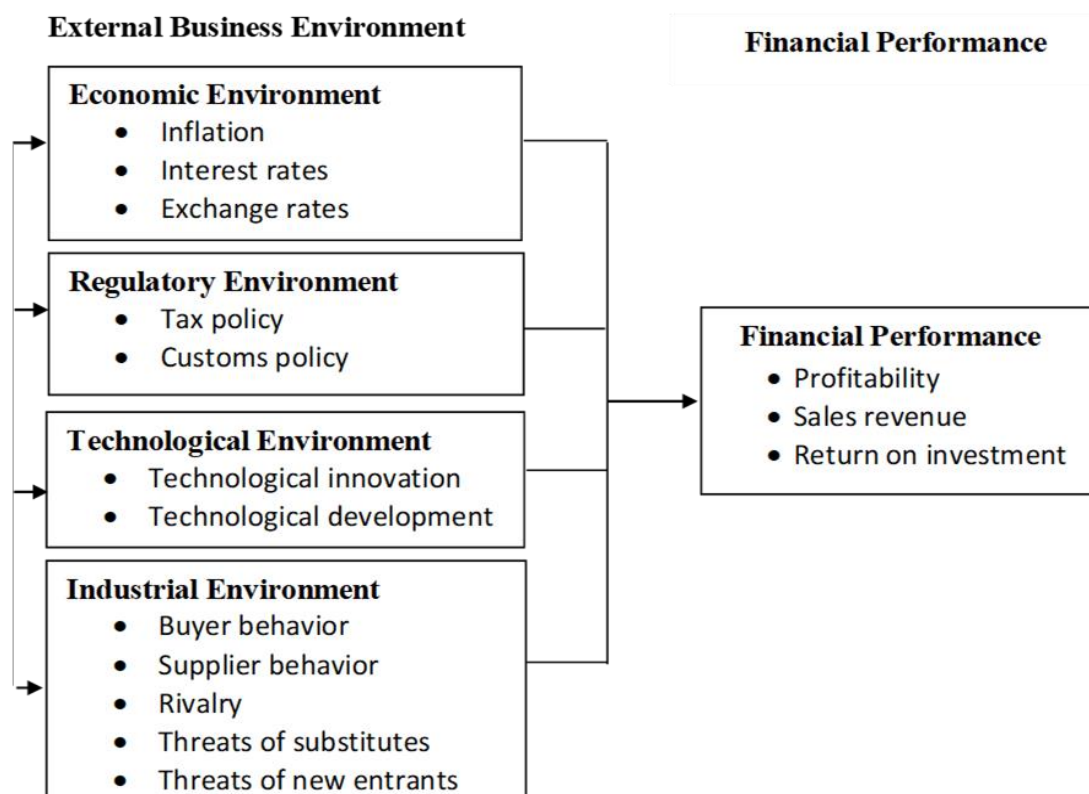
Furthermore, Bouazza *et al.* (2015) revealed that the growth of SMEs in Algeria is hampered by several interrelated factors including business external factors like the regulatory framework and accessing external financing. Similarly, a study conducted by Muzenda (2014) in South Africa, listed the external environment as one of the factors that affect SMEs performance. Similar findings indicating significant positive relations has been indicated in Ghana (Adu, 2016), Nigeria (Ajayi, 2016) among external business environment particularly aspects such as economic, political, legal, socio-cultural environment, demographic, natural, technological, global and financial environment in Micro, Small and Medium Scale Enterprises operators on business performance in general. However, on the contrary, Njanja *et al.*, (2012) observed that there was no significant effect of the external environmental factors on the business performance of SMEs in Kenya. Furthermore, Ishengoma and Kappel (2011) found such contradictory results in Uganda i.e. external environment relating negatively to business performance.

The foregoing literature demonstrates the existence of empirical studies conducted from different environmental settings across the globe linking external environmental aspects with business performance in general and financial performance in some cases in SMEs. However, it is also evident that the results of these studies are mixed. Whereas some of the studies report significant positive relationships (Ylvije & Elez, 2015; Dasa (2014); Pasanen (2003); Bouazza *et al.* (2015); Muzenda (2014); Adu (2016); Ajayi (2016); others to the contrary (Ishengoma and Kappel, 2011; Njanja *et al.*, 2012 ) found a negative correlation, yet to contradict the matter further, Li (2001) found no relationship at all.

The contradictions in the literature have presented an academic challenge. This is an indication of lack of agreement, divergence in the opinion which ultimately is misleading when it comes to practice. It is also further observed there is scanty literature covering this subject from the least developed economy perspective (Sum, Jukow & Chen, 2004). Thus, to attempt to verify and address the contradictions in the literature, this study was conceived to investigate the relationship between the external environment and specifically the financial performance aspect of business performance. To address the scanty literature appearing from a developing world perspective, it was considered that it is appropriate to run data from Uganda in a developing world setting. So, this study was conducted in Arua Municipality, Arua district, North West (West Nile) in Uganda.

The motivation to conduct this study, in this case, is continued weak financial performance of many SMEs in Arua Municipality despite several business support initiatives provided by the municipality like provision of fiscal and non-fiscal incentives, infrastructure as well as business development services to the SMEs (AMC Business Assessment Record, 2015/2016). The weak SME financial performance is evidenced in the closure of businesses within the year of their initiation; it is observed to be survival rather than growth; many of the SMEs barely meet their financial obligations with ease (AMC Production & Marketing Department Annual Performance Report, 2016). Given the recorded

importance of SMEs to the economies around the globe, it suffices to understand how good performance and growth of SMEs is guaranteed to sustainably bring about growth in the economy.



**Figure 1:** Conceptual Framework

**Source:** Developed by review of literature

The conceptual framework (Figure 1) presents the literature-based view of the relationship between the external business environment based on the considered dimensions and the financial performance of an SME. The external business environment is construed to comprise of economic environment measured using inflation, interest rates, and exchange rate; regulatory environment measure by policy and customs policy; technological environment indicated by technological innovations, technological development; and industrial environment which was measured in terms of buyer behavior, supplier behavior, rivalry, the threat of substitutes and threat to entry.

From the conceptual framework, it is hypothesized that the economic environment, regulatory environment, technological environment, and industrial environment have a direct relationship with financial performance in SMEs in Arua Municipality. The assumption is that if these elements of the external business environment are well regulated and businesses devise means of coping up with them, then their financial performance will likely improve. Otherwise, the inability of a business to control, predict, or adapt to the external factors that characterize its environment may lead to environmental uncertainties that will influence business performance negatively.

### **Economic environment and financial performance in SMEs**

The economic environment is an external business environment that is of vital concern to the survival and growth of a business and determines, defines the opportunities for an enterprise (Ogundele, 2007). Moreover, Adeoye and Elegunde (2012) observed that the survival and success of every business enterprise depend fully on its economic environment. Economic environmental factors include the general economic climate, trade rates, inflation rate, labour unemployment rate, interest rates, the rate of economic development, per capita domestic product and trade deficit or surplus (Litavniece & Znotiņa, 2015). According to Alkali (2012), the external environment of a firm is also characterized by the

nature of the prevailing economic system as defined by the operational state of the macroeconomic and international economic forces like foreign exchange rates, inflationary pressures, ongoing levels of global and domestic economic activity, and levels of taxation and purchasing power. Alkali (2012) further added that economic systems tend to go through periods of faster and slower economic activities, high and low monetary and banking transactions, and varying degrees of volatility concerning interest and exchange rates.

Businesses prosper when the economy is booming, when the monetary and fiscal system is favourable, when the purchasing power is high and when living standards are generally rising (Pogarska & Edilberto, 2013). An expansionary monetary policy accompanied by an increase in the money supply also facilitates business exchange because it signals positive business activity, especially in terms of earning, spending, saving, and borrowing (Anupam, Evangelos & Dhaneshwar, 2000). A smooth flow of money also lubricates the wheels of economic activity ranging from commerce through financial transactions, to all forms of exchanges between creditors, debtors, customers and suppliers (Kunal & te Velde, 2008). Key monetary influences on microfinance enterprises in an economy are commercial bank interest rates, taxation, and general inflationary rates (Karekaho, 2009). While high-interest rates increase business costs and act as a brake on spending in the economy, inflation erodes monetary value, leading to increases in commodity prices and therefore a decline in purchasing power (Chuku, 2009). The combination of all these effects impacts adversely on sustainable business performance, especially when an enterprise fails to adapt to these factors flexibly and strategically (Kwagala, 2015).

According to Kazimoto (nd), small businesses are strongly affected by this economic volatility. Rescissions and business low downs always cause a quantum leap in the rate of small business failure. When recessions occur during a particular time, many businesses are being affected and this could end up making some to be closed since they could not cope up with the situation. Because small businesses are more susceptible to swings in the economy, they are more likely to fail during rescissions (Susman, 2007). In a study conducted by Egbuna and Agali (2013), it was revealed that economic instability and access to sources of finance are the major challenges or obstacles facing SMEs in Nigeria. Moreover, it is important for entrepreneurs of Small & Medium-Sized Enterprises to comprehend monetary elements and indicators and to utilize the information to help the marketing decision-making and planning process. For instance, if there is a variation in interest rates, then it is likely that SMEs may be involved in considering increases in cost (Adu, 2016).

### **The Regulatory Environment and Financial Performance**

According to Adeoye and Elegunde (2012), the regulatory environment consists of the laws regulations and procedures of a country that SMEs are anticipated to comply with within the course of their operations. In carrying out their business operations, enterprises are required to pay taxes, value-added tax, capital gain tax, education tax, import duties, excise duties among others (Ajayi, 2016). Important regulations also include state actions relating to the following non-exhaustive list: contract enforcement, property rights, including intellectual property, corporate governance, taxation and financial reporting, employment and health and safety, trading standards and consumer rights, environmental protection, premises and planning rules, data protection, transport (Njanja *et al.*, 2012). According to Ajayi (2016), these regulations may facilitate successful business conduct as well as constitute handicaps to successful performance. Moreover, environmental regulations concerning the storage and use of the hazardous substance, for example, are likely to have a greater impact on certain sectors than others, for example, agriculture, manufacturing, and transport and communications businesses (Carter, Candida, Greene, Gatewood & Myra, 2003).

Critics of state regulation argue that it imposes costs on individuals and businesses that impede business start-up, investment, innovation, employment, business growth and, ultimately weaken national economic performance from which businesses, workers, and consumers all suffer (Njanja *et al.*, 2012). This, of course, will depend on pre-existing business practices at the time a regulatory change comes into effect as well as the regulatory requirements themselves (Njanja *et al.*, 2012). The results of the study of Zahra (2011) also indicated that the four main causes of business failure in the Iranian context are management deficiency, lack of financial support from banks and financial institutions, inadequate

economic spheres, and insufficient government policies.

Pearce and Robinson (2007) observed that the legal and political policies formulated by the Government affect the way business Enterprises are regulated and influenced in an economy. They revealed that business booms when Government policy is favorable and declines when the policy is harsh. Moreover, the business declines when its management fails to adapt to the harsh effects of Government policy. Besides, Jeng and Wells (2000) established that labour market rigidities, Government programs for entrepreneurship, and bankruptcy procedures explain variations in Business investments and their study concluded that a relationship existed between the legal/regulatory environment and performance of Business Enterprises. Meier and Pilgrim (2006) found out that in high transaction costs for registration and licensing are constrain small-scale enterprise operations and high transaction costs related to government procedures are seen to be particularly problematic.

A study conducted by Krasniqi (2007) showed that corruption is a major source of the rise in unfair competition. He further emphasized that the cost of complying with regulations and increased tax rates increases small firms' expenses while limiting their growth. Likewise, St-Jean *et al.* (2008) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles to small business growth. A study was done by International Finance Corporation (IFC, 2013), based on responses of more than 45,000 firms in developing countries, found that the top obstacles to their operations are a poor investment climate, especially red tape, high tax rates, and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply.

#### **Technological environment and financial performance**

Technological forces refer to the rate of scientific change and the fastest growth of technology that have potentially wide-ranging effects on society (Litavniece & Znotiņa, 2015). According to Drucker (1985), new technologies improve efficiency, enable greater production, and are a source of profit for SMEs. Also, Morse *et al.* (2007) also observed that technological capabilities benefit SMEs in several ways: they enhance SME efficiency, reduce costs, and broaden market share, both locally and globally. As noted by Lee, H. (2001), a small business that adopts greater levels of technological sophistication can be expected to grow more rapidly than a similar firm that does not.

Romijn (2001) and Yusuf *et al.* (2003) point out that low technological capabilities hinder and discourage SMEs from fully reaching their potential. As noted by Wendel (2012), countries with high levels of technological growth tend to have high levels of entrepreneurial growth. In a study conducted by Anga (2014) on the determinants of Small and Medium Size Enterprises (SMEs) in Nigeria, it was revealed that information communication technology (ICT) has a positive relationship with the performance of SMEs. Moreover, in the mainstream of modern culture, technology is considered to be one of the answers to most problems and/or restrictions in business. It is seen as the way that a business can emerge from the past and enter a brighter, more efficient future (Njanja *et al.*, 2012).

The use of technology in some form is widespread. The problem for most businesses is that they have not fully integrated the technology that they have or are trying to obtain with their business (McNamara, 2005). They "tend to be tactical, not strategic, in their technology adaptation" (Harney, 2005). The competitive advantages that certain technologies bring to existence are very important, especially where there is a highly aggressive industry. Small businesses look for new ways that will help them achieve these distinctions. Capitalizing on these technologies would help spur MSMEs forward (Njanja *et al.*, 2012). Several technologies have been introduced that will help bring about cost savings for small businesses. Another area that technology is useful for is helping small businesses in keeping track of inventory and the general bookkeeping (Njanja *et al.*, 2012). Inventory control has long been a defining factor in determining the wellness of a business. By being able to know exactly what is coming and going business is better able to plan for the future. Today, businesses can track exactly where their inventory is in real-time. That ability helps them to identify key areas that could be improved or changed to limit the time between processes or transactions (Berger, 2005).

Hurley and Knight (2013) conducted a study on the relationship between learning orientation, firm innovation, and firm performance in US firms. They found out that learning orientation is significant for innovation and performance. Ottenbacher (2005), considered innovation practices and its effects on the performance of SMEs in Australia with an investigation of 600 firms in the manufacturing sector, the study results showed that innovation strategy is a key driver to performance of SMEs, which do not appear to implement innovation culture in a strategic and structured manner, the study concluded that SMEs performance is likely to improve as they increase the degree to which they realized that innovation culture and strategy are closely aligned throughout the innovation process.

### **Industrial Environment and Financial Performance**

Industrial factors are general factors that can be found in the task environment which surround a business entity (Adu, 2016). The theory of economics characterizes an industry as a gathering of firms creating the same product or administrations. From a strategic management point of view, managers of SMEs must appreciate the five forces in the industry since the five or competitive forces will have an impact on the profitability of SMEs, (Johnson *et al.*, 2008). The competitive forces framework was designed by Professor Micheal E. Porter of Harvard Business School in the late 1970s, (Dalken 2014). It was built on the statement that the external environment is a significant influence in strategic development, (Mathooko & Ogutu, 2015). The five forces are; competitive rivalry, threats of substitutes product, the threat of new entrants, negotiating power of buyers, and negotiating power of suppliers.

Contention among contending firms is typically the most effective of the five competitive forces of the industrial environment (David, 2011). Competitive rivalry occurs when organizations with the same products and services aimed at the same customer target. According to Porter, rivalry arises when one or more business contenders are in a grasp or see an advantage to improve their position. The amount of competition can range from courteous to cruel. Low entry barriers to the business environment lead to competitive rivalry. According to (Johnson *et al.*, 2008) factors that lead to competitive rivalry include; competitor balance where competitors are equal size, high exist barrier, low differentiation, and high fixed cost. SMEs that succeed in competition rivalry increase market share. On one hand, SMEs that fail in competitive rivalry cannot make enough profit (Adu, 2016).

Bargaining Power of Buyers is another element of the industrial environment according to Porter (1970). According to Pearce & Robinson (2003), buyers can compel down prices, request high quality or more service, and influence competitors to fight against each other all at the expense of industry profit. Buyers are the organization's immediate customers not necessarily the ultimate consumer. If the bargaining power of buyers is high, it can affect the profitability of a sector and vice versa. Buyer's powers can be high if they can reasonably switch to challenging brands or substitutes, if they are principally significant to the seller, if buyers are concentrated or if they purchase in large volume or poses a threat of backward integration. When customers are many or buy in bulk, their negotiation power represents a major force affecting the power of competition in an industry (David, 2011).

Barriers to entry are components of the industrial environment that should be overcome by new entrants if they are to contend effectively, (Dzisi *et al.*, 2013). High barriers to entry are good for existing firms. If barriers to entry are high, then the sector is profitable. This is because competitors will find it difficult to enter the industry. However, if there is a low barrier to entry for new entrant then it can affect the profitability of a firm. In terms of numerous barriers to entry, new business entities sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources (David, 2011).

According to Pearce & Robinson (2003), powerful suppliers can crush gainfulness out of an industry. Suppliers supply the association with what is essential to produce the product or service. The supply control is likely to be high when there are few suppliers, high exchanging cost, one of a kind items, supplier rivalry danger, and others. The high negotiating powers of suppliers affect the profitability of the industry. On the other hand, low negotiating powers of suppliers improve the profitability of the industry. The negotiation powers of suppliers influence the power of rivalry in an industry, especially when there are concentrated suppliers, when there are only a few good substitute raw materials, or when

the cost of exchanging raw material is especially costly. Firms sometimes pursue a backward integration strategy to gain control or ownership of suppliers. However, in many industries, it is more economical to use outside suppliers or parts than to self-manufacture the items (David, 2011).

Threats of substitutes are another component of the industrial environment. Substitutes are products or services that offer similar benefits to an industry's product or services. Substitute products or services can affect the profitability of a firm (Adu, 2016). This is because, when customers are dissatisfied, they can switch to other substitute products. On the other hand, if there are no substitutes, products, or service customers will find it difficult to switch to other product and this will increase the profit of a firm (Johnson et al., 2008). Factors that can lead to threats of substitutes include a new product or service equivalent, a new product replacing an existing product, consumer substitution that is when the consumer is willing to search for substitute products and others (Adu, 2016).

### Research Methodology

In this study, a correlational analysis was adopted to operationalize the objectives of the study. This was selected because the researcher seeks to establish whether there is any statistically significant relationship between elements of the external business environment and financial performance. This is based on Oso and Onen (2008) who observed that a correlational design involves the determination of whether or not, and to what extent an association exists between two or more paired and quantifiable variables. Multiple regression was carried out to determine the variance in financial performance as explained by the external business environment. The study population managers or their representatives of the randomly selected SMEs. An SME for this case is a business that employs a minimum of five (5) people and a maximum of 100 people; and an annual sales/revenue turnover of at least Ugandan Shillings 360 million (UIA, 2016). A sample of 103 respondents was randomly selected from a total population of 138 businesses (Krejcie & Morgan 1970).

### Results and Discussions

Primary data was collected from the respondents through closed-ended self-administered questionnaires. The data collected was entered into the Statistical Package for the Social Scientists (SPSS) software to be analyzed. Pearson's correlation analysis was conducted and the results are shown in Table 1.

**Table 1: Correlation analysis results**

Variables	1	2	3	4	5
Economic Environ (1)	1	.			
Regulatory Environ (2)	.524**	1			
Technological Environ (3)	.298**	.360**	1		
Industrial Environment (4)	.382**	.445**	.147	1	.
Financial Performance of (5)	.690**	.582**	.501**	.406**	1

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

Source: Primary data 2018

### Relation Judgment Criteria:

0.01-0.29= Weak; 0.30-0.49 = Medium/Moderate; and 0.50-1.00 = Strong: *Cohen's (1988)*

That there was a strong and statistically significant positive relationship between economic environment and financial performance ( $r = 0.690$ ,  $p < 0.05$ ,  $N = 103$ ); there was a strong and statistically significant positive relationship between the regulatory environment and financial performance ( $r = 0.582$ ,  $p < 0.05$ ,  $N = 103$ ); there is a strong and statistically significant positive relationship between technological environment and financial performance ( $r = 0.501$ ,  $p < 0.05$ ,  $N = 103$ ); and there was a moderate but

statistically significant positive relationship between the industrial environment and financial performance ( $r = 0.406$ ,  $p < 0.05$ ,  $N = 103$ ).

### Multiple Regression Model

To examine the variance explained in the financial performance as explained by the external business environment based on the dimension, the model was specified as follows:

$$P1 = \beta_0 + \beta_1E + \beta_2R + \beta_3T + \beta_4I + e$$

Where: P1 represents financial performance,  $\beta_0$  = Constant Term,  $\beta_1 - 4$  represents Beta coefficients, E represents the economic environment, R represents the regulatory environment, T represents the technological environment, I represent the industrial environment and  $e$  represents the error term.

**Table 2: Multiple Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.784 <sup>a</sup>	.615	.599	.41802	.615	39.075	4	98	.000

a. Predictors: (Constant), Industrial Environment, Technological Environment, Economic Environment, Regulatory Environment

The model summary indicates that there is a strong relationship between the external business environment and financial performance. Furthermore, regarding the question of what variance of financial performance is explained by the external environment, it is found that the external environment explains quite a big variance in the dependent variable, i.e. about 60% (adjusted R-Square 0.599). If this is what external business environment can explain, it means business management has got to values factoring external environmental factors in their decision making.

### Conclusions

From the study results, it is clear that at least based on the dimensions of external business environment examined, there is a need to pay attention to the external business environment. As factors uncontrollable by the business, firm management needs to monitor the scene of the external business environment to consider how to adapt and adopt them in decision making. It is further emphasized that the external environment alone explains more than 50% of what influences financial performance in the business. This highlight does not call for second thought as to what implication the external business environment can be to a business.

### Recommendations

The study findings revealed that a favourable economic environment can lead to a significant improvement in the financial performance of SMEs in the Arua Municipality. Efforts should, therefore, be geared towards creating a favourable economic environment in Arua Municipality by among others formulating fiscal and monetary policies that can facilitate growth and development of SMEs like regulating the interest rates charged by financial institutions to increase demand for loans which is the major source of capital for many SMEs. Alternatively, the government can also provide simple and affordable credit facilities to SMEs through microfinance institutions and at the same time offer other incentives like tax holidays and free land. These would not only increase the number of SMEs but would also lead to the meaningful economic and social development of the country.

The study findings revealed that a favourable regulatory environment can lead to a significant improvement in the financial performance of SMEs in the Arua Municipality. Efforts should, therefore, be geared towards creating a favourable regulatory environment in Arua Municipality by among others simplifying the licensing procedures and registration of SMEs and reducing the number of rates and coverage. The local taxes and licenses should also be harmonized with central government tax bases, to avoid double taxation and conflicts with national development policies, such as job creation and private sector development. Additionally, all the regulatory procedures used by the municipal council ought to

be transparent, easy to comply, and accessible to all people regardless of their connections with the government.

The study findings revealed that a favourable technological environment can lead to a significant improvement in the financial performance of SMEs in the Arua Municipality. SME managers, therefore, ought to embrace the ever-changing technological environment by among others embracing the use of the internet including social media platforms and opening up company websites. Using these platforms, SMEs can collect and share information, identify target consumers, and better introduce products or services to meet consumers' needs. Using the platforms, SMEs can also collect information on new products desired by small segments of the market. By creating products that meet the needs of consumers in these niche markets, SMEs can command higher prices and gain a competitive advantage. Additionally, SMEs management should always allocate funds for research into the best methods of production since they reduce cost, and or allow for the creation of improved products or even completely new products.

The study findings revealed that a favourable industrial environment can lead to a significant improvement in the financial performance of SMEs in the Arua Municipality. Among others, SME managers need to respond to the ever-changing business environment by focusing on the provision of products and services that are responsive to the needs of their clients. These SMEs should also try to get customers to buy more frequently by adding value to products and services or get customers to spend more by offering premium products or services that better meet their needs and provide a better return. The SMEs should also consider offering incentives and price promotions on services that customers usually get from competitors. This way, they can keep low the severity of threats by new entrants. Arua Municipal authorities should also strengthen their fight against counterfeits products that are likely to bring about unhealthier competition among SMEs in this area.

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