DETERMINANTS OF SME'S PERFORMANCE: EVIDENCE FROM SUB-SAHARAN COUNTRIES

Ariyibi Mayowa, Ebenezer
Department of Banking and Finance
Olabisi Onabanjo University
ariyibimayowa@gmail.com

Asogba Israel, Oludare
Department of Accounting
Olabisi Onabanjo University
asogbaisrael@gmail.com

Belau Kazeem, Seun
Department of Banking and Finance
Olabisi Onabanjo University
seunbelau@gmail.com

Corresponding Author:ariyibimayowa@gmail.com
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Abstract
The performance of small and medium scale enterprises, which is a function of their size in various developing countries is affected by various macro-economic factors that aggregately enhance their contribution to the growth and development of the economy. It is expedient to identify the macro-economic factors that affect the institutional dexterity of this developmental hub in the sub-Saharan countries. This study examines the determinants of small and medium-sized enterprises (SMEs) performance across selected Sub-Saharan African countries, emphasizing the role of environmental and macroeconomic factors. Drawing from Institutional Theory, the research investigates how external institutional conditions or factors exposure and shape SME performance. Using secondary data from the World Development Indicators (2009-2023) for Nigeria, Ghana, South Africa, Gambia, Kenya, and Ivory Coast, the study employs the dynamic panel Generalized Method of Moments (GMM) technique. Gross Value Added (GVA) serves as a proxy for SME performance, while explanatory variables include political stability/terrorism, rule of law, gross domestic product, government expenditure, unemployment, and life expectancy. Findings reveal that political instability and terrorism negatively and significantly affect SME performance, while economic growth positively influences productivity. Unemployment also exerts a negative and significant effect, suggesting that high joblessness weakens consumer demand and firm output. The study concludes that performance of SMEs is significantly affected by socio-economic and security environment that they operate. Indicating the political instability and high unemployment rate negatively affect the productivity level of SMEs, thereby creating uncertainty and disrupting business operation at large.

Keywords: SMEs, performance, political stability, economic environment, unemployment, Sub-Saharan Africa, GMM.

1.0 Introduction

Small and medium scale enterprises are considered as the back bone of economic growth and development, due to their entrepreneurship attribute in injecting innovation, technological development and human capital development in all sectors of the economy (Al-hakimi and Mahmound, 2020; Ahmad; 2020). However, the SME's account 50 per cent of job created, 90 per cent of business start-ups, and 40 per cent of GDP in Europe and developing economies (She *et al* 2020; Ahmad 2020). Globally, SMEs account for 44 per cent and 48 per cent of annual GDP of the United States and United Kingdom, also in terms of total level of employment the growth-hub contributes 61 per cent to 62 per cent in United States and United Kingdom respectively (Department of Business Innovation and Skill UK, 2021; Rowinski, 2022). While in the Middle East countries like Singapore and Japan, SMEs contribute 50 per cent to their GDP and 70.2 per cent to employment level (Yusriza, 2021; Hironaka *et al* 2017).

In Sub-Saharan countries like Nigeria, SMEs contribute approximately 48% to the employment level in the country. In Ghana, SMEs contribute about 92% to the business employment level and Gross domestic product. In South Africa is declines massively with their 34% percent contribution to their Gross Domestic product. In Kenya, SMEs contribute just 40% to the Gross domestic product, despite a 80% contribution to their employment level making the hub the backbone of the developmental level of the country. Poorly, in Cote d'ivoire SME account for 20% - 30% of the GDP of the formal employment and Gross domestic product. Conclusively, in Gambia SMEs contributes only 20% to 30% of the Gross Domestic product of the country. Due to this above data it is imperative to identify the macro-institutional factors and environment that determines or affects SMEs' performance, so has to cultivate and enable such factors improve SMEs contribution to overall growth and development of the continent.

Despite the evident contribution of SME's to the developed, developing and emerging economies. SMEs failure rate are still alarming and discouraging making it a significant voyage to be attentive towards for stakeholders, entrepreneurs, policy makers and states. Research from UNCTAD (2019) revealed that one-third of SMEs seize to operate within their year one to two, which is quite discouraging that 70 per cent does not operate again within the first five years of operation. Moreover, failure rate could vary based on country, industry and region peculiarities. It is important to identify the factors that could reduce their challenges and improve their performance within the region either internal or external factors.

Studies like Sri Harini *et al.* (2023), Setiyono *et al.* (2022), Wall (2021), Nguyen Kim & Quoc Trung (2021), Pramono *et al.* (2021), and Buchdadi *et al.* (2020) have focused on behavioral components, organizational structure features, and entrepreneurial factors that could enhance SME performance. However, these studies largely overlook environmental and macroeconomic perspective factors such as political, economic, social, and demographic influences which could significantly spur SME performance in Sub-Saharan African countries. This gap aligns with the work of Claudio *et al.* (2019), who empirically investigated these macro-level components in relation to SME performance in European countries. Developing countries, particularly in Sub-Saharan Africa, are often characterized by stifling economic and social conditions. If the environmental factors that drive SME performance are empirically identified and addressed, development in these regions could become both rapid and concurrent, given the vital role SMEs play in promoting economic growth and entrepreneurship.

SME's are firms that are equipped with capabilities, attributes, technique, tangible/intangible assets that can be channeled towards sustaining competitive advantage and performance (Arsawa *et al* 2022; Mahdi *et al,* 2019). But due to the systematic environment that SME's operate their external environment like the economic, demographic, political and social factors could also affect their overall competitive edge and performance to the overall economic growth of the regions. Based on the premises above this study examined into the determinants of SME's performance in Sub-Saharan Countries.

2.0 Literature Review

Theoretical Framework

The Institutional Theory complements this by emphasizing the role of institutional contexts such as political stability, regulatory frameworks, governance quality, and social norms in shaping organizational behavior and outcomes (North, 1990; Scott, 2004). In sub-Saharan Africa, where political instability, terrorism, weak governance, and economic volatility often prevail, the institutional environment significantly affects SME operations. For instance, high political instability and insecurity can disrupt production, discourage investment, and reduce firms' market confidence, thereby limiting growth and performance. Conversely, stable and supportive institutions foster innovation, access to finance, and fair market competition, all of which promote SME success. The institutional theory captures the empirical model of this study in the following ways; Political stability and absence of terrorism address the formal institutional stability; the political instability raises the occurrence of business risk, changes supply chains and reduces investment which affects market confidence and put a direct strain on the SME output. The rule of law captures the contract enforcement quality, regulatory predictability and property right protection that helps the institutional environment to be able to access formal credit markets and visible long-term investment. The GDP growth rate helps to improve the market size and aggregate demand, establishing a macro-institutional environment that would spur SME performance. Government Expenditure reveals the fiscal policy understanding and crowding effect in low-income countries. Life expectancy measure of human capital prowess and demographic advantage, the labour market input the enhance the level of productivity in organization or firm in the country while the Unemployment rate illustrates the institutional failure of the labour markets that should generate sufficient productive employment, reducing household purchasing power and stifle SME demand and performance.

Based on the above theoretical justification the following hypothesis was developed;

H_{01}: Political instability/terrorism and Unemployment rate has negative significant effect on SME performance in Sub-Saharan Africa.

H_{02}: Rule of law, GDP growth rate, Government expenditure, Life expectancy has positive significant effect on SME performance in Sub-Saharan Africa.

Empirical Review

Yahaya & Nadarajah (2023) in their inquiry investigated into determining key factors that influences SMEs performance. The subject matter was to carry-out s systematic review on the factor's that can affect SMEs growth and sustainability focusing on the influence of strategic orientation on improving competitive advantage and performance and SMEs. The systematic review captures 123 Elsevier, 130 Emerald, 65 Taylor and Francis, MIS-Quately, 121 Springer

and 7 others. The findings indicate that thirteen factors significantly impact a firm's strategic orientation and performance.

Sri Harini, *et al.,* (2023) examines into the determinants of SMEs performance: Evidence from Indonesia. The subject matter entails examining into how entrepreneurial skills and mediation of e-commerce affect technology readiness, competitive pressure and SMEs performance. The qualitative research approach informed using questionnaire to source information from five hundred and twenty respondent. The PLS-SEM technique was employed which revealed that entrepreneurial skills and e-commerce has positive effect on SMEs performance.

Setiyono *et al* (2022) examines into the determinants of SMEs performance niching on the role of knowledge management, market orientation and product innovation which all firm specific attributes emerging countries. The qualitative approach was employed sourcing data from two hundred and eleven respondent to examine the three construct on SMEs performance. The findings from the linear regression depicts that knowledge management is not a predictor of SMEs performance but market orientation and product innovation has positive significant effect on SMEs performance.

Wall (2021) examines into the determinants of SMEs performance niching on the constructs of business strategy and innovation. The subject matter implies how business strategy affect process innovation, product innovation and organizational innovation which are all tenet in measuring SMEs performance. The qualitative research design was employed as sourcing data from three hundred and ninety two respondent. The study is anchored on the resources based view theory. The partial-least square and structural equation modelling reveals that business strategy, process, product and organizational innovation has positive impact on SMEs performance.

Nguyen Kim & Quoc Trung (2021) investigated into the determinants of small and medium-sized enterprises performance: evidence from Vietnam. The subject matter is to quantitatively examine how profitability lag, firm size and leverage ratio, revenue growth and gross domestic product growth and national quality of governance on performance of SMEs. The Generalized Method of Moments reveals that both macro-economic and firm specific variables have significant effect on performance.

Pramono, *et al.,* (2021) in their inquiry investigated into the determinants of SME's Progress. The subject matter was to examine specifically how demographic and personal attributes of entrepreneur influence the growth and development of SMEs in Indonesia. The variables include education, experience, size/source of capital, access to credit, ethical and cultural background, need for achievement. Locus of control attitude to risk, attitude to entrepreneurship. The qualitative research design was employed using questionnaire to source from twenty respondent. The step-wise regression was employed to determine the impact and relationship between the variables. The findings reveals that growth of small and medium scale enterprises is dependent on source of capital, education, need for achievement and locus of control.

Safari & Saleh (2020) examines into key determinants of SMEs export performance. The subject matter is to determine the internal and external determinants of export performance in some three industrial regions in Vietnam moderating the role of innovation strategy, export marketing

strategy and business strategy in testing the explanatory determinants of export performance of SME's in Vietnam. The study employed the confirmatory factor analysis and Structural Equation model to determine the direct and indirect effect of variables on the outcome variable. The study was anchored on resource based theory and contingency theory.

Buchdadi, *et al.*, (2020) examines into the effect of financial literacy, access to finance and financial risk attitude on the determination of SMEs performance. The qualitative technique is employed were the census sampling design was adopted were seventy-one respondent was used. The findings reveals that financial literacy, access of finance, financial risk attitude has positive significant effect on SMEs performance.

Falahat, *et al.*, (2020) investigated how SMEs internationalization could be attained via competitiveness advantage. The subject matter is to capture how organizational capabilities would improve the competitive advantage of SMEs, in-order to spur them in attaining international performance. The organizational capabilities includes market intelligence, product innovation, pricing and marketing communication. The sample size of one hundred and nineteen Malaysia exporters was employed along with using Partial least square regression revealed that market intelligence, capability, product innovation capability and pricing capability that can spur competitive advantage and International performance of SMEs.

Tiezhu *et al.*, (2022) investigated into how COVID-19 influences business norms and performance of SMEs in China. The subject matter is to focus on the innovative strategies and operational procedures that could be deployed is spurring SMEs performance and growth. The qualitative research approach was employed using the questionnaire in collecting information from three hundred and thirty respondents. The study employed the structural equation model which showed the COVID-19 has significant impact on stakeholder satisfaction, remote work, operational procedures and profitability.

Claudiu *et al.,* (2019) in their inquiry examines into the determinants of SME's performance in European countries. The subject matter was to consider the quantitative approach of determining the external factors that could either improve or mar SMEs performance in the region. Attention was given to external quantitative factors and environment factors that could enhance SMEs value addition. The study employed the cluster analysis and causality test on some selected countries with similar attributes and other determining the level of short and long-run relationship between the variables. Based on the causality results it revealed that corruption perception index, funds absorption rate, unemployment rate and gross domestic product has positive relationship with SMEs performance.

Ndiaye, *et al.*, (2018) examines into the decomposing SME's performance in emerging and developing economy. The subject matter is to examine empirically the internal and external drivers of SME's performance capturing performance from the perspective of capacity utilization annual employment growth, the percentage of firms buying fixed assets, annual labor productivity growth and annual sales growth. The uniqueness of this inquiry is capturing firm size of the SMEs from the stratum of small, medium-sized and large enterprises. The findings depicts technology has positive effect on annual employment growth of medium enterprises, but

otherwise for small enterprises financing by equity or shares has negative effect on small enterprises performance.

Ipinnaiye, *et al.,* (2017) examines into drivers of SMEs performance. The subject matter was to test how firm strategy, firm attributes (Internal factor) and macro-economic environment contribute towards SMEs growth not considering macro-economic environment has control variables like other previous. The SME's performance was captured from the growth level of the organization of the employee training, turnover and productivity. The study employed system Generalized method of moments method. The study revealed that macro-economic environment influences firm growth both directly and indirectly. The study is quite robust in investigating three fundamentals peculiarities that could affect SMEs performance growth.

Delener, *et al.,* (2017) captures investigating if innovation is a viable construct to influence SME's performance. The subject matter is to examine innovation in a local investment climate how it affect firm-level productivity. The data was sourced from enterprise survey from 2008 to 2009. The variables includes performance (sales growth employee efficiency/turnover), intensity investment, firm size, age, LLC Certificate, manufacture and privatize and country dummy. The findings reveals that innovation strategies has positive significant impact on the performance of SMEs while innovation and investment has a positive correlation with sales growth and sales per employee.

Aminu & Mohd Shariff (2015) investigated into examining the determinants of SMEs in Nigeria. The subject matter was to test various factors like entrepreneurial orientation, access to finance, business environment how the factors affects SMEs performance in Nigeria. The survey design method was employed using the questionnaire in sourcing for information from fifty-two SMEs owners to examine the relationship between the constructs in the research title. The findings from the pilot study shows that all variables are reliable to determine how the dependent and independent variable inter-relate.

Akinboade (2015) examines into the factors that influences SMEs growth and performance taking attention on the manufacturing and retail sectors. The subject matter is to investigate how socio-economic variables and regulatory factors affect growth and performance of SMEs in Cameroun. The qualitative research design was employed randomly selecting 700 respondent from the two sectors. The findings depicts that business location and levels of education has positive significant effect on growth of SME's while Age of enterprise and municipal regulation and compliance have negative effect on growth and turnover.

Tarutė & Gatautis (2014) captures into the systematic. Logic and comparative analysis of how information and communication technology influences SMEs performance. The subject matter is to explore ICT adoptions and implementation would cause productivity growth, organization expansion, efficiency, effectiveness and competitiveness. The findings depicts that ICT has impact on the improvement of external and internal communication towards performance.

Sidik (2012) illustrates into the conceptual framework of factors that affect SME development: Mediating the constructs of entrepreneurship traits. The five constructs that could influence entrepreneurial traits on SME's performance includes; entrepreneurial orientation, market

orientation, organization search, innovative capacity and innovative performance while performance of SMEs is captured with cash flow, profitability, customer satisfaction, sales growth and employee growth. The findings suggest that all the seven construct could be the SMEs framework that all seven construct could be the SME's framework to determine their growth and performance.

Consoli (2012) investigated into a literature review of the importance and relevance of ICT in spurring SMEs performance. The subject matter was to analyze and explore the determinant factors, organizational factors, technological factors, economic factors and environmental factor and those factors performance in different stratum like growth expansion and new products, when utilized accurately.

Appraisal of Literature

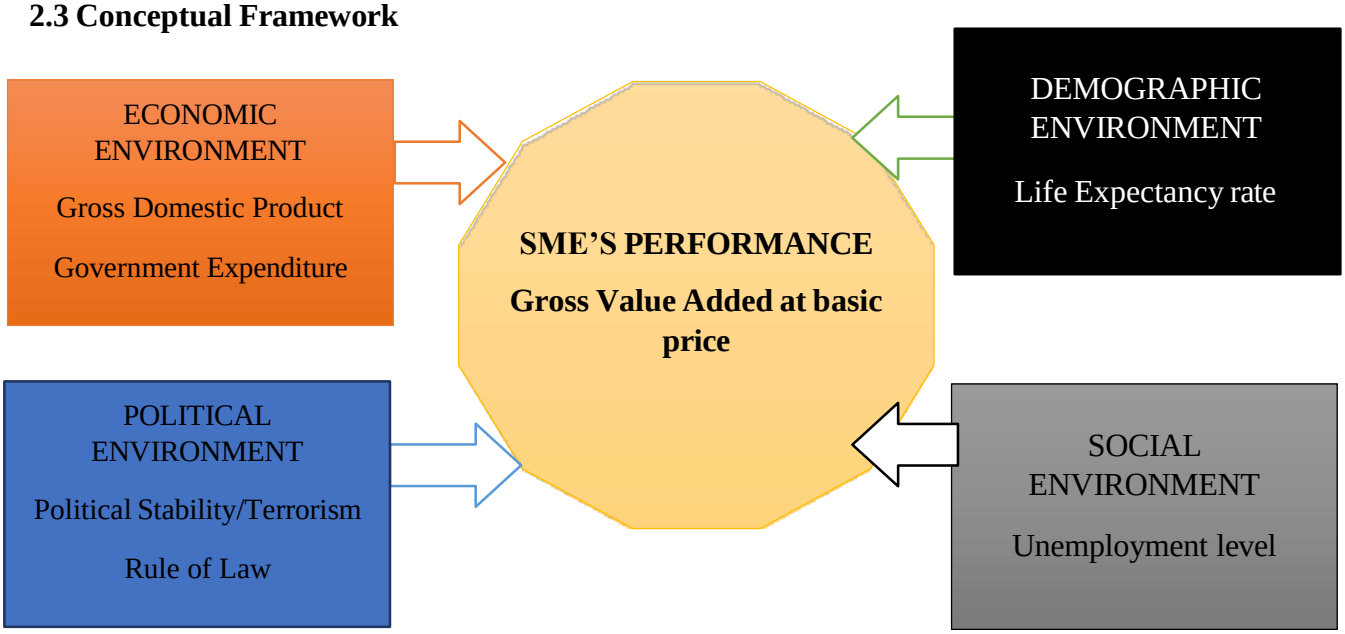
Studies like Yahaya and Nadarajah (2023), Sri Harini et al (2023), Setiyono et al (2022) and Wall (2021) all investigated into the relationship between firm-level and behavioral determinants of SME performance. Yahaya and Nadarajah (2023) in their studies where four hundred and fourty six articles where reviewed, captured thirteen different factors that could affect strategic orientation and SME performance in the country of the firms. Sri Harini et al (2023) examines the determinant of SME performance in Indonesia, using the PLS-SEM technique, the inquiry reveals that e-commerce and entrepreneurial skills has a positive effect on performance of small and medium scale enterprises, incorporating the technology-capability combination. Setiyono et al (2022) in their inquiry examined into how product upward innovation, market attributes and understanding and knowledge management enhance the level of SME performance in selected emerging countries. The findings shows that only product innovation and market understanding could contribute to the level of performance and not knowledge management as a predictor. Wall (2021) investigated the positive role of business innovation and strategy on the SME performance and productivity.

Inclusively, studies like Claudiu et al. (2019), Nguyen Kim & Quoc Trung (2021), Ipinnaiye et al. (2017) and Ndiaye et al. (2018) all investigated into the environmental and macro-institutional determinants of SME performance in developed and developing countries In European country empirical inquiry of Claudiu et al. (2019) investigated into how corruption perception, funds absorption rate and GDP rate improve SME performance through cluster analysis and causality rate validating the existence of macro-environmental factors. Nguyen Kim & Quoc Trung (2021) examines into firm-specific factors and macroeconomic factors enhance performance using GMM technique in Vietnamese, findings reveals that the factors improves performance with GDP growth been the most relevant key driver.

Ipinnaiye et al. (2017) investigated into how macro-environmental factors and firm strategy spurs SME performance in Irish country, using the GMM framework, with the findings showing that macro-economic environment improves firm growth directly and indirectly. Ndiaye et al. (2018) decomposed SME performance in respect to emerging and developing countries, with the variable of technology adoption revealing a positive effects employment growth in medium companies while equity financing has mixed effects on performance of smaller firms.

Empirically, capturing sub-saharan Africa-Specific evidence the studies of Akinbode (2015), Aminu & Mohd Shariff (2015), Kelikume (2021) and Tiezhu et al (2022) examined the determinants of SME performance within the above geographical settings. Akinbode (2015) examines into the growth of SMEs in Cameroon manufacturing sector and retail sector, with a qualitative measure of seven hundred respondent, the findings showed that educational level and business location positively affect SME growth and performance with the effect of municipal companies affecting level of turnover. Aminu & Mohd Shariff (2015) in their inquiry carried out within the Nigeria business environment that entrepreneurial orientation and access to finance are core constructs that affect SME performance in Nigeria. Kelikume (2021) investigated into the impact of digital financial inclusion on SMEs performance and poverty level in 30 African countries, supporting the role of macro-institutional conditions in determining the enterprise level of productivity, but Tiezhu et al (2022) reported that the systemic disturbance of COVID-19 affected the profitability and operational efficiency of SMEs in China, emphasizing the importance of systemic sensitivity.

2.3 Conceptual Framework



Source: Macroeconomic model of performance of influence factors adopted from Claudiu et al., (2019).

3.0 Methodology

To capture SME's performance among Sub-Saharan countries the Gross value added was employed due to the fact that GVA at basic prices captures actual contribution of SME's to the economy. This measures captures the value of goods and services produces excluding taxes and subsidies on the products. The study operates at the macro-panel level, examining six Sub-Saharan African countries (Nigeria, Ghana, South Africa, Gambia, Kenya, and Ivory Coast) over a 15-year period (2009–2023). At this level of analysis, firm-level survey data are unavailable in a consistent, comparable, and time-series format across all six countries through international databases such as the World Development Indicators (WDI). GVA at basic prices is the most comprehensive and internationally comparable aggregate measure of economic value generated within a sector, capturing the actual productive contribution of enterprises net of taxes and

subsidies. Prior macro-panel studies on SME performance in developing economies including Claudiu et al. (2019) for European countries, Nguyen Kim & Quoc Trung (2021) for Vietnam, and Ndiaye et al. (2018) for emerging economies have similarly relied on macro-level proxies when cross-country panel data constraints preclude the use of firm-level indicators. Crucially, GVA in the context of this study captures the value of goods and services produced by enterprises across the economy, net of input costs, thereby providing a measure of productive contribution that aligns with the macro-institutional and macroeconomic determinants examined. This is consistent with Ipinnaiye et al. (2017), who employed macro-level performance indicators in a comparable system GMM framework. This measure aid to give the true picture of the economic productivity, compare to just capturing the SME's sales and revenue. The study captures the determinants of SME's performance from the environment perspectives where this form of organization operate in the regions. The political environment measures with political stability/Terrorism and rule of law, due to the fact the accurate or in-accurate political preposition can improve or reduce the performance level of Small and medium scale enterprises. The economic environment consist of the monetary, fiscal and trade policy operations in the economy could affect the well-being of small and medium scale enterprises which is measure with the Gross domestic product and government expenditure. The social environment is measured with the unemployment rate which could affect the performance level of small and medium scale enterprises. Due to the importance and human capital in sectorial development in developing countries. The demographic environment is measured with the life expectancy at birth.

Table 1:
Description of Variables

Indicators	Measurement Unit	Codification	Source
	Dependent Variable		
Gross Value added at basic price	(Current US$)	GVA	World Development Indicators (2023)
	Independent Variable		
Political Stability/Terrorism	Estimate	PST	World Development Indicators (2023)
Rule of Law	Estimate	RUL	World Development Indicators (2023)
Gross Domestic Product	Current prices, P.P.S per capita	GDP	World Development Indicators (2023)
Government Expenditure	% of GDP	GEX	World Development Indicators (2023)
Life Expectancy at birth	Years	LIFE	World Development Indicators (2023)
Unemployment	% of active population	UN	World Development Indicators (2023)

Source: Author Compilation, 2026.

The study employs the Generalised Method of Moments (GMM) estimator (Arellano & Bond, 1991; Blundell & Bond, 1998). The dynamic nature of the panel helps to capture the lagged dependent variable over time and to address the changing nature of the enterprise growth. The GMM helps to address the endogeniety concerns, due the possible dual role the independent variable may have on the dependent variable. It is also expected that the GMM coefficient on the lagged dependent should fall between the Pooled OLS and the Fixed Effects estimator (it implies

over-estimates persistence due to positive correlation between lagged dependent variable and unobserved country impacts and the under-estimates persistence from the fixed effects estimator).

The dynamic panel regression was employed from the works Arellano and Bond (1991).

$$GVA_{it} = \left(\gamma_0 + \beta_1 GVA_{i(t-1)} + \beta_2 PST_{it} + \beta_3 RUL_{it} + \beta_4 GDP_{it} + \beta_5 GEX_{it} + \beta_6 LIFE_{it} + \beta_7 UN_{it} + \mu_i + \varepsilon_{it}\right)$$

i=N (Countries is 6), t is 2009……2023, i= number of individuals or cross section; t= number of periods; ε_t = white noise, γ_0 is the constant value, β_2 is the coefficient estimation of the explanatory variables, ε_{it} is error variance between the entities in the model, μ_i is the firm specific effect and $Y_{i(t-1)}$ is the lagged dependent variables indicating the persistent coefficient of the model.

4.0 Results and Discussions

Table 2:

Descriptive Statistics

Variable	*Mean*	*Std. Dev.*	*Maximum*	*Minimum*	*Observations*
GVA	10.49295	0.7139404	11.75375	9.054033	140
PST	-0.801107	0.768434	0.2480355	-2.729136	140
GDP	7.430110	1.438911	5.741011	-0.442044	140
RUL	-0.509488	0.3752671	0.2051505	-1.167671	140
GEX	7.181009	1.881010	8.131010	5.171782	140
LIFE	62.20546	3.748974	68.945	51.791	140
UN	8.30365	8.616525	40.303	1.223	140

Source: Authors Compilation, 2025 (STATA).

GVA (Gross value added) has a mean value of 10.49%, standard deviation of 0.71%, and a range value of 11.7 (maximum) to 9.05 (minimum). PST (Political stability/Terrorism) has a mean value of -0.80%, standard deviation of 0.76%, and a range value of 0.24 (maximum) to -2.72 (minimum). GDP (Gross Domestic product) has a mean value of 7.43%, standard deviation of 1.43%, and a range value of 5.74 (maximum) to -0.44 (minimum). RUL (Rule of law) has a mean value of -0.50%, standard deviation of 0.37%, and a range value of 0.20 (maximum) to -1.16 (minimum). GEX (Government expenditure) has a mean value of 7.18%, standard deviation of 1.88%, and a range value of 8.13 (maximum) to 5.17 (minimum). LIFE (Life expectancy) has a mean value of 62.20%, standard deviation of 3.74%, and a range value of 68.94 (maximum) to 51.791 (minimum). UN (Unemployment) has a mean value of 8.30%, standard deviation of 8.61%, and a range value of 40.3 (maximum) to 1.22 (minimum).

Table 3: Correlation Matrix

Variables	*GVA*	*PST*	*GDP*	*RUL*	*GEX*	*LIFE*	*UN*
GVA	1.0000						
PST	-0.405	1.0000					
GDP	0.6917	0.2091	1.0000				
RUL	-0.092	0.6046	0.0282	1.0000			
GEX	0.480	0.1292	0.6491	-0.3584	1.0000		
LIFE	-0.309	-0.6165	-0.4572	0.5896	0.0923	1.0000	
UN	0.286	0.3288	0.5004	0.2941	0.8293	0.1777	1.0000

Source: Authors Compilation, 2025 (STATA).

The correlation coefficients in table 2 shows that there is no likelihood of occurrence of multicollinearity among the variables used in this study as showed by the correlation coefficients.

Table 4:
Generalized Method of Moments

Gross Value added

	POLS	FIXED	DIFF(-1)	DIFF(-2)
$Variable$				
$GVA(-1)$	0.000 (0.9903)	0.000 (0.7885)	0.000 (0.8291)	0.000 (0.9012)
PST	0.418 (-0.0034)	0.029* (-0.0152)	0.046** (-0.0134)	0.252 (-0.0542)
RUL	0.088 *** (0.0172)	0.101 (0.0291)	0.103 (0.02430)	0.292 (0.2703)
GDP	0.471 (-4.8310)	0.000* (1.3810)	0.000* (1.3210)	0.827 (-2.7910)
GEX	0.206 (5.1110)	0.403 (-8.9310)	0.410 (-8.0313)	0.244 (8.6210)
$LIFE$	0.944 (-0.0000)	0.207 (0.0029)	0.407 (-0.0118)	0.604 (-0.0031)
UN	0.044** (-0.001)	0.132 (-0.0016)	0.079*** (-0.0017)	0.042** (-0.0055)
$\alpha_{i,t}$	0.082 (0.1382)	0.005 (1.9671)		
Observation	126	126	112	112
Number of Countries	6	6	6	6
Number of instruments			18	18
AR (1)			0.013	0.047
AR (2)			0.053	0.696
Sargan test Chi (2)			0.025	0.894

Source: Authors Compilation, 2025 (STATA).

The Pooled Ordinary Least Sqaure (POLS) and Fixed Effect Regression (FER) were estimated in order to ascertain the validity of the dynamic Difference GMM leaning on the empirical evidence of (Adekunle, 2020; Blundel et al., 2001) they asserted that another way of detecting the validity of dynamic difference GMM is by ensuring that the lagged value of the dependent variable in the GMM model falls between the coefficient estimates of POLS and FER. The lagged dependent variable of GVA (Gross value added) are all positively significant across the models, indicating that the gross value added has been consistence. However, our dynamic GMM (-1) results coefficient estimates in table 4 lies between the POLS and FER respectively (FER= 0.7885< GMM= 0.8291<POLS= 0.9903). The number of instruments in the GMM specification (18) does not go above the expected number of cross sectional units which is 6 countries, aligning with the Roodman (2009) rule of the thumb against instrument proliferation.

The one-step difference GMM shows that PST (Political stability/terrorism) are negatively significantly related to (GVA) Gross value added), thereby decreasing the performance of small

and medium scale enterprises in selected sub-Saharan countries. A 1% increase in the percentage of PST (Political stability/terrorism) decreases the (GVA) Gross value added), by -0.0134 in the sub-Saharan countries. The findings aligns with the disposition of institutional theory that presence of political instability and terrorism increase the occurrence of business risk, reverse in domestic and foreign investment, stillness in supply chain and shortage in accessing formal credit and markets.

GDP (Gross domestic product) are positively significantly related to (GVA) Gross value added), thereby increasing the performance of small and medium scale enterprises in selected sub-Saharan countries. A 1% increase in GDP (Gross domestic product) is associated with a 1.32% increase in GVA (Gross value added). The findings indicates an elastic and higher proportional response of SME output towards macroeconomic growth. Also, the presence of this elasticity validates the presence of demand-pull mechanism, increase in aggregate demand for SME products and services and generation of positive business climate for enterprise investment and expansion.

UN (Unemployment) are negatively significantly related to (GVA) Gross value added), thereby decreasing the performance of small and medium scale enterprises in selected sub-Saharan countries. A 1% increase in the percentage of UN (Unemployment) decreases the (GVA) Gross value added), by -0.0017 in the sub-Saharan countries. The individual coefficient is modest give the unemployment rates varying from 1.22% in Gambia to 40.30% in South Africa, shows the holistic economic impact on this economies. Knowing fully well from, the conceptual position of occurring demand suppression, that high un employment reduces the purchasing power of the householder, reduction in consumer spending which in the long-run reduces revenue generation of the firms and their productivity, based on the consumer attributes of developing countries. Rule of Law (RUL), Government Expenditure (GEX) and Life Expectancy (LIFE) all reveals an insignificant value on (GVA) Gross value added), which informs the non-rejection of the null hypothesis for all the GMM Specification above.

Rule of Law (RUL), the narrow governance variation within the six-country SSA sample where all countries consistently record negative WGI scores may reduce statistical power and limit the ability to detect marginal institutional effects. The within-country variation in rule of law over the 15-year panel may also be insufficient to generate detectable performance effects at the macro level. Government expenditure (GEX), the insignificance is consistent with the crowding-out hypothesis (IMF, 2022): in low-income Sub-Saharan African economies characterized by large public sectors relative to private enterprise, government expenditure may displace rather than complement private SME investment, resulting in a net neutral effect on GVA (Gross value added). LIFE (Life expectancy) the demographic channel may operate through longer-run human capital mechanisms not fully captured within the 15-year panel window, or its effect may be subsumed within the GDP variable given the high positive correlation between life expectancy and per capita income observed in cross-country data.

The reliability of the instrument used in the study are shown in AR (1), AR (2) and Sargan test. The serial correlation test $AR(1)$ indicate the existence of serial correlation at first order while the $AR(2)$ shows absence of serial correlation at second order in the three models which informs the acceptance of the null hypothesis of no serial correlation in the second order $AR(2)$. The Sargan

test revealed that all the instruments are exogenous which informs the acceptance of the null hypothesis which implies that the instruments used in the study are independent of one and others across the models.

The negative and significant relationship between political stability/terrorism and gross value added implies that occurrences of terrorism, insecurity, political unrest hinders that overall productivity of small and medium-size enterprises in the sub-Saharan countries. This findings aligns with the work of Claudiu et al (2019), that revealed similar institutional constraints on SME performance in European market, Ipinnaiye et al. (2017), also empirically revealed that macro-environmental conditions affect the growth of firms directly. In Sub-Saharan countries like Kenya faced with threats from the Al-Shabaab, Gambia faced with threats from post-coup political transition and Nigeria faced with continually threats from Boko Haram, the negative effect is both empirical adequate and theoretically expected.

The positive and significant relationship between gross domestic product and gross value added implies that an accurate and continuous improvement in national economic output and income would improve SME performance, due the creation of favorable business climate. The findings agree with the works of Nguyen Kim & Quoc Trung (2021), who revealed that GDP growth positively affect the SME productivity in Vietnam and Claudiu et al (2019) establishing that GDP (Gross domestic product) is a key macro environmental SME performance indicator in Europe.

The negative and significant relationship between unemployment and gross value added implies that high unemployment reduces the consumer purchasing power which leads to lower revenue and production level of small and medium sized enterprises in sub-Saharan countries. The findings agrees with the works of Keynesian demand theory and also the works of Ndiaye et al (2018) and Sidik (2012).

5.0 Conclusion and Recommendations

Based on the findings it is concluded that political instability and high unemployment significantly reduce the gross value added by SMEs in sub-Saharan Africa, while economic growth positively enhances their performance. However, that SMEs thrive in stable and growing economies but struggle under insecurity and joblessness. Strengthening political stability, promoting inclusive growth, and reducing unemployment are therefore essential to improve SME productivity and sustain long-term economic development across the region. Governments in sub-Saharan Africa should prioritize political stability by addressing insecurity and implementing peace building initiatives. Economic policies should promote inclusive growth through infrastructure investment, and support for SME innovation. Inclusively, reducing unemployment through vocational training and entrepreneurship programs will enhance labor productivity and purchasing power. Strengthening institutional frameworks and fostering a stable business environment will further boost SMEs' contributions to national economic growth.

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