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IMPACT OF BUSINESS INNOVATION ON SMES PERFORMANCE OF SELECTED REGISTERED SMES IN IBADAN, OYO STATE, NIGERIA

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Abstract

This study investigates the impact of innovation on the performance of Small and Medium Enterprises (SMEs) in Ibadan, Oyo State, Nigeria, focusing on product, process, organizational, and marketing innovations. The research aims to address the critical gap in literature regarding technology adoption and its influence on SME growth. Employing a quantitative approach, 150 SMEs were surveyed, with data collected via structured questionnaires and analyzed using regression modeling. Findings reveal that product and organizational innovation significantly enhances efficiency and adaptability ($p = 0.000$), while process and marketing innovations show no statistically significant effects on operational performance. The study concludes that innovation, particularly product innovation, is vital for SME competitiveness. It recommends that SMEs prioritize product innovation, overcome barriers such as high implementation costs, and seek support programs to enhance performance in dynamic markets.

Keywords: Product Innovation, Process Innovation, Organizational innovation, Marketing Innovation, SMEs Performance

Introduction

The significance of being innovative cannot be overemphasized. Innovation has become a mantra for survival and growth in today's dynamic business environment. A company that fails to innovate, risks being outdone by its competitors, as innovation drives corporate growth and sustains market relevance. This

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principle is particularly critical in the context of Small and Medium-sized Enterprises (SMEs), which play a pivotal role in economies worldwide. In Nigeria, SMEs account for approximately 48% of the Gross Domestic Product (GDP) and 84% of employment, yet they face persistent challenges that hinder their ability to achieve sustainable performance, including low productivity and limited market reach (SMEDAN, 2023).

Innovation, in the business context, refers to the introduction of novelty—new ways of doing things or old methods being executed in a new manner. This can manifest through the development of new products, processes, marketing strategies, or organizational structures. It is an application of technological, institutional, human resources, and organizational discoveries that enhance productive processes, resulting in new practices, products, markets, and institutions. For SMEs, innovation serves as a catalyst for increasing performance in terms of sales volume or overall business growth. Small and medium enterprises are considered key drivers of economic and social development, particularly in developing and emerging economies, where they foster job creation, poverty reduction, and regional growth (Organization for Economic Co-operation and Development, 2020).

Globally, SMEs are recognized as the backbone of economic systems. They play a significant role in providing employment opportunities, nurturing a culture of entrepreneurship, and opening up new business avenues. Their contribution to economic development is acknowledged worldwide as vital and significant contributors to the economic development process, enabling both national and international entrepreneurs and skilled workers for the industrialization process. However, the study reveals that despite this recognized potential, many SMEs struggle to achieve the desired level of innovation adoption, which is essential for enhancing their performance sustainably.

The COVID-19 pandemic (2020-2022) further exposed Small and Medium-sized Enterprises (SMEs) vulnerabilities, with many struggling to adjust to supply chain disruptions and shifts in consumer behavior (Cogent Business & Management, 2023). This period underscored the need for innovation as a survival strategy for SMEs. Innovation in SMEs involves the adoption of new products, processes, and marketing techniques to increase business performance in terms of sales volume. The role of SMEs in economic and social development is critical, especially in emerging economies where they foster job creation, poverty reduction, and regional growth.

Despite their recognized potential, SMEs face numerous challenges that impede their innovative capacity. These challenges include financial constraints, infrastructural deficits, low digital literacy, and policy inconsistencies, which hinder innovation adoption, particularly in rural areas and non-technology sectors. Existing studies are often limited by urban bias, technological focus, and a lack of longitudinal data, leaving gaps in understanding how innovation drives SME performance across diverse Ibadan contexts.

There are certain factors that could enhance the performance of SMEs globally, among them is innovation. Today, innovation in business serves as a catalyst that stimulates performance depending on how well it is being applied. Innovation simply means novelty, new ways of doing things, or old things being done in a new way. This concept of innovation is applied to the SMEs, and as a result, performance will be improved substantially. The sector is a nursery of entrepreneurship, opening up new ways to enhance performance in terms of new products, processes, marketing, and organization. Since firm survival and growth is a paramount objective for every firm, the adoption of innovation becomes a priority for all firms without exception.

These SMEs play critical roles in providing job opportunities, nurturing a culture of entrepreneurship, and opening up new business opportunities. They are recognized and acknowledged worldwide as vital and significant contributors to the economic development process, enabling both national and international entrepreneurs and skilled workers for the industrialization process.

Historically, this study shall fill the gap of why some SMEs adopt innovative strategies but failed to achieve significant performance improvements. Small and Medium-sized Enterprises face challenges by innovation such as limited access to funding, intense market competition, high cost of research and development, lack of technical expertise, and rapid technological disruptions, which threaten their survival and growth (World Bank, 2020). These challenges necessitate external support such as government subsidies or innovation ecosystem facilitation to accelerate innovation adoption (Cogent Business & Management, 2023).

Despite the recognized potential of business innovation to enhance Small and Medium-sized Enterprise (SME) performance, the specific impact of different types (product, process, market, organizational innovation) on financial, operational, and sustainability outcomes in Ibadan SMEs remains unclear. Contextual challenges, including financial constraints, infrastructure deficits, low digital literacy, and policy inconsistencies, hinder innovation adoption, particularly in rural areas and non-technology sectors. Existing studies are limited by urban bias, technological focus, and a lack of longitudinal data, leaving gaps in understanding how innovation drives SME performance across diverse Ibadan contexts.

The COVID-19 pandemic (2020-2022) further exposed Small and Medium-sized Enterprises (SMEs) vulnerabilities, with many struggling to adjust to supply chain disruptions and shifts in consumer behavior (Cogent Business & Management, 2023). Innovation in SMEs can be seen as the adoption of new products, processes, and marketing used in order to increase performance of business in terms of sales volume. The role of SMEs in the economic and social development is critical, especially in emerging economies where they foster job creation, poverty reduction, and regional growth.

In conclusion, the background to this study highlights the critical role of SMEs in Nigeria's economy, their vulnerability to external shocks, and the imperative for innovation to drive performance. While SMEs contribute significantly to GDP and employment, their ability to innovate is hampered by various contextual and internal challenges. This study seeks to address these gaps by exploring the relationship between innovation adoption and SME performance in Ibadan, providing insights that could inform policy and practice to enhance their resilience and competitiveness.

Statement of the Problem

Small and Medium-sized Enterprises face challenges to innovation such as limited access to funding, intense market competition, high cost of Research and Development, lack of technical expertise and rapid technological disruptions which threaten their survival and growth. (World Bank, 2020). These challenges necessitate external support such as government subsidies or innovation ecosystems to facilitate innovation adoption (Cogent Business & Management, 2023).

Despite the recognized potential of business innovation to enhance Small and Medium-sized Enterprise (SME) performance, the specific impact of different types (product, process, market, organizational innovation) on financial, operational and sustainability outcomes in Ibadan SMEs remain unclear.

Contextual challenges including financial constraints, infrastructure deficits, low digital literacy and policy inconsistencies, hinder innovation adoption particularly in rural areas and non-technology sectors.

Existing studies are limited by urban bias, technological focus and lack of longitudinal data, leaving gaps in understanding how innovation drives SME performance across diverse Ibadan contexts.

This research problem is critical as SMEs are centre to Nigeria economic growth, yet their performance is constrained by these unresolved issues. Addressing this problem will provide insights into how innovation can be leveraged to improve SME competitiveness, sustainability and resilience, informing policy and practice in Nigeria's developing economy.

Research Questions

The following research questions were formulated to guide this research work:

i) What is the impact of product innovation on market competitiveness of Small and Medium-sized Enterprises (SMEs) in Ibadan?

ii) How does process innovation affect the operational efficiency and sustainability outcomes of Small and Medium-sized Enterprises (SMEs) in Ibadan?

iii) To what extent does marketing innovation influence on the market reach and customer engagement of Small and Medium-sized Enterprises (SMEs) in Ibadan?

iv) What roles does organizational innovation play in improving the efficiency and adaptability of Small and Medium-sized Enterprises (SMEs) in Ibadan in resource-constrained environment?

Objectives of the Study

The broad objective of this study investigated the impact of business innovation on selected registered Small and Medium-sized Enterprises (SMEs)' performance in Ibadan, Oyo State. Specifically, this study:-

i. investigate the impact of product innovation on market competitiveness of Small and Medium-sized Enterprises (SMEs) in Ibadan.
ii. examine the impact of process innovation in enhancing operational efficiency and sustainability of Small and Medium-sized Enterprises (SMEs) in Ibadan.
iii. assess the impact of marketing innovation to market reach and customer engagement in Ibadan Small and Medium-sized Enterprises (SMEs)
iv. evaluate the effect of organizational innovation on Small and Medium-sized Enterprises (SMEs) efficiency and adaptability in resource-constrained contexts

Research Hypotheses

Based on the research questions and objectives, the following hypotheses were tested:

Ho_1: Product innovation does not have significant impact on market competitiveness of Small and Medium-sized Enterprises (SMEs) in Ibadan

Ho_2: Process innovation does not have significant impact on operational efficiency and sustainability outcome of Small and Medium-sized Enterprises (SMEs) in Ibadan

Ho_3: Market innovation does not have significant impact on market reach and customer engagement of Small and Medium-sized Enterprises (SMEs) in Ibadan

Ho_4: Organizational innovation does not have influence on the efficiency and adaptability of Small and Medium-sized Enterprises (SMEs) in Ibadan

Significance of the Study

This study provide insights that can be beneficial to various stakeholders, including business owners, policymakers, investors, and researchers. Innovation became paramount important in entrepreneurship development globally, due to importance attached to innovation both government and private enterprises are allocating resources to innovation and further growth of their organizations. Business innovation enables SMEs to develop new products, processes, marketing and organizational innovation leading to market share gain. Innovation enhances SMEs' competitive advantage,

allowing them to differentiate themselves in the market and expand their customer base. Also, it helps SMEs survive in dynamic and competitive industries by fostering adaptability and resilience.

To the business owners, this study allows business owners to explore new markets and expand, it will enhances customer experience through innovative products and services tailored to market needs and to strengthens brand reputation and customer loyalty, leading to long-term business sustainability.

To the policy makers, this study also guide policymakers in designing policies that support SMEs' innovation efforts, such as tax incentives, grants, and technology transfer programs. Also, it will strengthen the innovation ecosystem to boost employment opportunities and overall economic development. It as well supports national and global economic growth by fostering entrepreneurship and reducing market failures.

To the investors, it help with the strategies for implementing innovation in business operations, offers best practices to guide SMEs in making informed decisions, helps them overcome common barriers to innovation, such as lack of funding, skilled labor, and technological infrastructure.

To the researchers, it adds to existing knowledge on innovation and SME performance, and to provide a framework for future research on business innovation and entrepreneurship. Also, it help scholars to understand the role of different variables of innovation (product, process, marketing, and organizational) in SME success.

Also, this study's findings also add to the existing body of knowledge in the area of innovation and SMEs performance. Owing to the limited studies that relate innovation and SMEs performance, the study contributes to empirical knowledge and to the framework of research on innovation and SMEs performance. The study also attempt to validate existing theoretical knowledge in the area of innovation and SMEs performance. The study findings ignite further research in the area of innovation and SMEs performance to fill up any research gaps, or to widen the scope.

Finally, it provide practical, economic, technological, and academic benefits. By understanding how innovation influences SMEs, stakeholders can implement effective strategies that enhance business growth, economic progress, and overall competitiveness in the global market.

Scope of the Study

The scope of this study on the impact of business innovation on SMEs performance of selected registered SMEs outlined below based on the title, geographical, participant, and material scope.

Title Scope: This study focuses specifically on exploring the impact of business innovation on SMEs performance among employers/employees. Employers include the owners while the employees include marketing/sale manager, account officer. Innovation strategies

include product, process, organizational and marketing innovation. The study seeks to understand how business innovation has influenced the SMEs performance.

Geographical Scope: The research is confined to selected registered SMEs, located in city of Ibadan, Oyo State, Nigeria. The geographical scope is Ibadan, Oyo state, and this was the specific geographical area covered by the study. By focusing on this specific geographical location, the study captures the unique business innovation that may influence SMEs performance.

Participant Scope: The study targets owners/account clerk/market or sales clerk of selected registered SMEs to provide a comprehensive understanding of the impact of business innovation on SMEs performance.

Material Scope: The study will utilize quantitative data gathered through structured surveys or questionnaires distributed to employers/employees. These materials will be designed to assess levels of perceived innovation strategies. Analytical methods, such as regression analyses, will be used to interpret the data and evaluate the relationships between business innovation and SMEs performance.

Conceptual Review

According to Merriam-Webster English Dictionary, innovation is "the introduction of something new," such as a new idea, method, or device. In business, innovation is defined as "the process of translating an idea or invention into a good or service that creates value or for which customers will pay" (businessdictionary.com). Innovation is inherently tied to novelty, involving the adoption of new ideas, methods, or processes to create or enhance wealth (Abuselidze & Katamadze, 2024).

The Organization for Economic Co-operation and Development (OECD) classifies innovation into four types: product innovation, process innovation, marketing innovation, and organizational innovation. Product innovation involves introducing a good or service that is new or significantly improved in its characteristics or intended uses. Process innovation is the implementation of a new or significantly improved production or delivery method. Marketing innovation involves significant changes in product design, packaging, placement, promotion, or pricing. Organizational innovation entails new business practices, firm organization, or external relations. Innovation enables firms to differentiate products, improve efficiency, penetrate new markets, and increase market share, fostering competitive advantage (Adu & Osei-Bonsu, 2023). SMEs increasingly rely on innovation to sustain competitiveness despite limited resources

Innovation is a vital competence for strategic change and firm sustainability, Pressure to innovate continuously is intense, as it drives new product development and market positioning. Innovative SMEs can implement new products and processes to stay ahead of competitors (Abuselidze & Katamadze, 2024).

Despite extensive research, no universal definition of innovation exists, defines innovation as the generation and implementation of new or improved processes, products, or services to enhance competitiveness. The OECD Innovation Manual describes innovation as the implementation of new or significantly improved products, processes, marketing methods, or organizational practices, emphasizing newness and commercialization (OECD, 2020). SMEs often face challenges translating R&D into innovation, relying on external actors to reduce costs (Osei-Bonsu, 2023).

Product Innovation

Product innovation involves developing new or significantly improved goods or services to meet customer needs or create new markets (OECD, 2020). Recent studies emphasize its role in driving SME performance. Adu and Osei-Bonsu (2023) found that product innovation significantly enhances financial performance and market share in Ghanaian SMEs, as new products attract customers and increase sales. Similarly, Ogunyemi and Adeyemi (2023) demonstrated that product innovation in Nigerian manufacturing SMEs improves productivity and competitiveness, particularly through the introduction of novel designs or materials. However, barriers like limited R&D funding and digital literacy often hinder SMEs' ability to sustain product innovation (Ogunyemi & Adeyemi, 2023). Product innovation is most effective when aligned with customer preferences and market trends, creating value through differentiation (Abuselidze & Katamadze, 2024).

Process Innovation

Process innovation refers to the implementation of new or improved production or delivery methods, including changes in techniques, equipment, or software, to enhance efficiency and reduce costs. Gu and Wang (2023) found that process innovations, such as adopting digital technologies like mobile banking, significantly boost operational efficiency in Nigerian high-tech SMEs. In a broader context, Abuselidze and Katamadze (2024) noted that process innovation reduces unit costs and improves product quality, directly contributing to SME profitability. A study by Okoro & Nwankwo (2024) in North-Central Nigeria highlighted that process innovations, such as automation in manufacturing, enhance cost efficiency but are limited by access to technology in rural areas. Process innovation is critical for SMEs to achieve operational excellence, though its impact depends on resource availability and technological infrastructure.

Marketing Innovation

Marketing innovation entails new methods in product design, packaging, promotion, pricing, or placement to address customer needs and increase sales. Al-Mamary & Alwaheeb (2025) highlighted that digital marketing innovations, such as AI-driven personalized campaigns, significantly improve customer satisfaction and market

performance in emerging markets. In Nigeria, Okoro & Nwankwo (2024) found that marketing innovations, like social media promotions, enhance SME growth by expanding market access. Adu and Osei-Bonsu (2023) noted that marketing innovations in Ghanaian SMEs increase customer loyalty through targeted product placement. However, challenges like limited digital infrastructure and high implementation costs can impede marketing innovation in developing economies (Gu & Wang, 2023).

Organizational Innovation

Organizational innovation involves adopting new business practices, workplace structures, or external relations to improve firm performance. Lin et al. (2019) found that organizational innovations, such as lean management and quality systems, significantly increase SME sales by improving workplace efficiency and employee satisfaction. In Nigeria, Ibrahim & Musa (2025) showed that organizational innovations, like flexible work arrangements, enhance SME performance in Kaduna by reducing administrative costs and fostering collaboration with external partners. Organizational innovation is particularly vital for SMEs with limited resources, as it leverages internal restructuring to achieve competitive advantage (Abuselidze & Katamadze, 2024). However, its adoption is often constrained by resistance to change and lack of managerial expertise.

Small and Medium-sized Enterprises (SMEs) Performance

Small and Medium-sized Enterprises (SMEs) performance is a multi-dimensional construct encompassing both Financial and Non-financial performance includes Revenue Growth, Profitability and Returns on Investment (ROI) Innovation Output and Environmental Sustainability (Journal of Innovation & Knowledge, 2022).

Schumpeter's theory posits that innovation drives these outcomes by enabling Small and Medium-sized Enterprises (SMEs) to disrupt markets and create new value propositions. For example, product innovation can attract new customers, while process innovation reduces operational costs, both contributing to improved financial performance (European Journal of Management and Business Economics, 2022)

Non-financial metrics such as brand reputation and employee satisfaction are increasingly recognized as critical for long term Small and Medium-sized Enterprise (SME) success, particularly in the context of sustainable innovation (Journal of the Knowledge Economy, 2023).

The impact of business innovation on small and medium-sized enterprise (SME) performance is shaped by internal and external factors. Internal factors: Environmental Orientation (EO), defined by pro-activeness, risk-taking and innovative-ness, is a key driver of innovation in Small and Medium-sized Enterprises (SMEs). Firms with strong EO are

more likely to adopt Schumpeterian Innovations, leading to superior performance (Journal of Innovation & Knowledge, 2022).

External factors: Market structure, regulatory frameworks and institutional support significantly affect small and medium-size enterprises innovation capabilities. For instance, government policies, such as tax incentives or technology grants, enhance SMEs' ability to invest in innovation (Cogent Business & Management, 2023). Competitive market environment encourage SMEs to innovate to differentiate themselves, aligning with Schumpeter's Concept of Creative Destruction (European Journal of Management & Business Economics, 2022). Modern perspectives on performance include an integrative vision that encompasses financial, social, and environmental criteria. Performance is therefore measured not only in terms of financial outcomes but also based on how these outcomes are achieved and their overall impact on society and the environment. It refers to how effectively an organization meets its objectives and achieves its strategic goals.

Performance is either financial or non-financial. The financial performance are return on asset, return on investment, return on equity, return on capital employed, net profit margin, cross profit margin, profit after tax, profit before tax and market share.

Based on the recent literature, the following below diagram summarizes common metrics used to measure SME performance in innovation research. The common Metrics for SME Performance in Innovation Studies which emphasizes Financial & Market Metrics like profitability and customer satisfaction (Castilo-Vergar *et. al*., 2020).

Figure 1: ***Common metrics used to measure SME performance in innovation research (Castilo-Vergar** et. al**., 2020).***

Category	Metrics	Description
Financial performance	Return on Asset (ROA), Return on Equity (ROE), Profit Margin, Sales growth, Revenue growth, Market share	Measures economic health and growth, directly tied to business sustainability
Market performance	Customer satisfaction, Brand awareness, Customer loyalty, Market share	Assess competitive position and market acceptance, crucial for growth potential
Operational performance	Cost efficiency, productivity (output per employee), Quality of products/service	Reflects efficiency improvements often linked to process innovation
Innovation performance	Number of new products/services introduced, Share of sales from innovative products R & D expenditure, Patents	Measures innovation outputs, relevant for studies focusing on innovation outcomes

Source: Saunila (2017): Metrics for SME Performance in Innovation Studies

Market Performance

Market performance refers to a firm's ability to achieve its objectives in a competitive market, typically measured through metrics such as market share, profitability, sales growth, and customer retention (Castilo-Vergar *et. al*., 2020). It reflects the effectiveness of marketing strategies, operational efficiency, and customer-centric initiatives. Market performance reflects a firm's ability to achieve objectives through market share, profitability, and customer retention (Castilo-Vergar et al., 2020). Innovation enables SMEs to produce competitive products and efficient processes, enhancing market share (Adu & Osei-Bonsu, 2023).

Market Share Gain

Market share represents a firm's portion of total sales within an industry, reflecting competitive strength. Consistent brand messaging and high visibility (awareness) strengthen brand image, which directly correlates with consumer trust and loyalty. This trust translates into higher sales and market share, as customers prefer brands with strong, positive perceptions (Forbes, 2024). Behavioral loyalty directly contributes to market share by ensuring consistent revenue streams (Kim *et. al*., 2020). SMEs' flexibility makes them well-suited to innovate and gain market share (Abuselidze & Katamadze, 2024). However, external factors like economic downturns or disruptive competitors can erode market share, even for firms with strong customer metrics.

Customer Satisfaction

Molinillo *et. al,* (2022) further refine this, noting that satisfaction encompasses emotional responses to service encounters, particularly in digital retail contexts, where user experience with apps drives positive evaluations. Recent studies, such as Hunsaker (2025), highlight that hyper-personalized experiences—using AI to tailor offerings—amplify satisfaction by aligning services with individual preferences, making customers feel uniquely valued.

Customer satisfaction reflects a customer's overall contentment with a product, service, or brand, often measured by post-purchase evaluations. McKinsey. (2023). emphasize its role as a mediator in driving loyalty and market outcomes. He highlights that satisfied customers are less costly to retain, reducing acquisition costs and boosting profitability. McKinsey. (2023) found that customer satisfaction, driven by product quality and service excellence, increases repeat purchases by 30–40% in retail settings. Digital transformation has amplified satisfaction's impact, with personalized experiences via AI and data analytics enhancing customer perceptions (McKinsey, 2023). However, challenges include managing expectations in volatile markets, where economic or competitive shifts can lower satisfaction (Srinivasan *et. al*., 2020).

Brand Awareness

Brand awareness refers to the extent to which consumers can recognize or recall a brand as part of a specific product category. Närvänen *et. al.*, (2020) define it as a component of brand equity, encompassing brand recognition (identifying a brand from cues) and recall (retrieving a brand from memory). In the tourism sector, Afshardoost *et. al.,* (2024) emphasize that brand awareness involves consumer familiarity with a brand's attributes, often shaped by marketing communications and social media presence. The advent of hyper-personalization has expanded this definition, with Gulko *et. al.,* (2020) noting that AI-driven campaigns enhance brand awareness by delivering tailored content, increasing recall through repeated, context-specific interactions. A 2021 study in *IJRPR* found that high brand awareness correlates with increased customer satisfaction and loyalty, as familiar brands reduce perceived purchase risks.

Customer Loyalty

Customer loyalty is characterized as a customer's commitment to repeatedly engage with a brand through purchases, recommendations, or emotional attachment. Kuehnl *et. al.,* (2024) define loyalty as a behavioral and attitudinal outcome, where customers exhibit repeat buying behavior and positive word-of-mouth due to strong brand connections. Kim *et al.* (2025) add that loyalty is influenced by trust and satisfaction, particularly in banking, where digital quality fosters long-term commitment. Hunsaker (2025) stated that loyalty is strengthened when brands use real-time data to offer personalized rewards, such as Tesco's loyalty app promotions, fostering a sense of exclusivity and attachment. Kim *et. al.*, (2020) found that behavioral loyalty increases market share and profitability, while attitudinal loyalty drives word-of-mouth and premium pricing.

Organizational Efficiency

Organizational efficiency refers to the optimal utilization of resources—such as time, capital, and human capital—to achieve maximum output with minimal waste, encompassing dimensions like technical (maximum output from inputs), allocative (optimal resource allocation), productive (cost minimization), and dynamic (innovation-driven adaptation) efficiency (Smith et. al., 2019). This concept has gained prominence in the post-2019 era, amid disruptions like the COVID-19 pandemic, digital transformation, and sustainability pressures, enabling firms to enhance competitiveness, reduce costs, and foster long-term viability.

This will help organizations to improve on investments since the costs of production will be low leading to removal of barriers to investment, innovations and flexibility can be attained. In addition, the community will benefit because of favorable economic policies which lowers the cost of living hence improving the standard of living.

Profitability

Profitability is broadly defined as the ability of a firm to generate positive financial returns, reflecting its efficiency in utilizing resources to produce revenue exceeding expenses. Hada *et al* (2020) define profitability as a key indicator of financial health, measured through ratios such as return on assets (ROA), return on equity (ROE), and return on investment (ROI), which assess earnings relative to assets, equity, or invested capital. Dieste *et al* (2021) emphasize profitability as the outcome of operational efficiency, particularly in manufacturing, where metrics like net profit, profit margin, and return on sales (ROS) gauge the financial success of lean practices. In the banking sector, Adelopo *et al.* (2021) describe profitability as a function of balancing liquidity and risk, with ROA and ROE serving as primary measures to evaluate long-term viability.

Theoretically, profitability is grounded in financial management frameworks, such as the dividend discount model, which links current profitability to expected future returns. Recent studies, such as Yin *et al.* (2020), highlight dynamic profitability (DP), which captures trends in profitability over time, emphasizing persistence and growth as critical for assessing future stock returns.

Profitability is influenced by both internal and external factors. Máté *et al.* (2022) identify organizational characteristics, such as innovation, technology adoption, and corporate social responsibility (CSR), as significant drivers of profitability in the food industry, with ROA and ROI as key metrics. In contrast, Cerciello (2023) notes that sustainability practices, measured via Environmental, Social, and Governance (ESG) scores, can negatively impact profitability due to high implementation costs, particularly in European firms. In the media sector, Miranda *et. al* (2022) define profitability through ratios like profit margin and ROA, highlighting their role in benchmarking financial performance against competitors.

Schumpeterian Theory of Innovation and Entrepreneurship

Schumpeter's theory posits that entrepreneurs drive economic development by introducing innovation technologies or business model obsolete. His five types of innovation - product, process, market, supply and organizational form the basis for understanding how SMEs achieve competitive advantage in SMEs context. He highlights the role of entrepreneurial firms in creating new value propositions, challenging larger competitors and fostering economic renewal (Journal of the Knowledge Economic 2023) Application of Creative Destruction Schumpeter's concept of creative destruction remains a central framework for understanding innovation-driven economic change. The authors argue that this focus on probabilistic models of innovation outcomes renders the entrepreneur redundant, overlooking the role of genuine uncertainty in disruptive innovation. Entrepreneurship and Innovation Schumpeter's view of the entrepreneur as

the driver of innovation continues to influence research. A 2024 article by Henrekson *et al*. revisits Schumpeter's and Alfred Marshall's foundational work on innovation and entrepreneurship. The authors argue that modern innovation research often detaches from market-based analysis, losing sight of Schumpeter's insight that entrepreneurs turn inventions into marketable innovations. They advocate revisiting Schumpeter's entrepreneur-centric perspective to address societal transformation through technical innovations.

Innovation Cycles and Economic Development Schumpeter's theory of innovation cycles, linking innovation to economic booms and busts, is explored in several studies. A 2023 article by MPL Innovation consultancy emphasizes the cyclical nature of economic progress, applying Schumpeter's framework to contemporary disruptions like AI and automation. The authors argue that Schumpeter's theory remains a "guiding beacon" for understanding how new technologies reshape industries, with implications for policymakers and business leaders. A 2025 study by Roventini *et al*. extends Schumpeter's ideas through a Keynes+Schumpeter agent-based model to assess innovation policies. The research finds that entrepreneurial-state policies (e.g., public investment in R & D) outperform market-friendly interventions, aligning with Schumpeter's later recognition of the state's role in innovation. This suggests that Schumpeter's theories can inform modern policy debates on fostering economic growth through innovation..

Sector-Specific Applications Schumpeter's theories are increasingly applied to specific industries. A 2023 study on forestry innovation uses Schumpeterian theory to analyze entrepreneurship and innovation in the sector. The authors highlight the growing use of Schumpeter's framework to study alternative theoretical interpretations, such as sustainable innovation, but note issues like inconsistent definitions of innovation. They propose a Schumpeterian research agenda to address these gaps, emphasizing the theory's adaptability to niche sectors.

The Resource Based Theory

According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. Firm resources and processes are important to firms since they influence its behaviour and activities. A resource is an asset, competency, organizational processes, information, knowledge or capability and is considered to be unique if it is valuable, rare, difficult to imitate and has no close substitute. It is the distinctive resources that lead to sustained competitiveness and superior returns in firms. Organizational resources positively affect the innovation process by providing the inputs that are combined and transformed to produce innovations which lead to firm competitiveness. Innovation provides means to competitive advantage of the firm by providing outputs that are valuable, rare, and hard to imitate (OECD, 2020). Financial resources, human

capital, and knowledge drive innovation and competitiveness (Abuselidze & Katamadze, 2024).

The Dynamic Capability Theory

This theory explains how firms achieve and sustain competitiveness based on the processes that take place in a firm to match the dynamic, volatile environment. The emergency of the theory was necessitated by the shortcoming of the resource based and action based theories in addressing dynamic economies. The Dynamic capability paradigm embraces entrepreneurship, innovation, organizational learning, and knowledge and change management. The ability of a firm to adjust to changes in the market through innovation is crucial for the competitiveness of firms. It is argued that the fundamental impulse that drives the capitalism stems from the innovation of new products, new methods of production, new markets and new forms of industrial organization.

Dynamic capabilities refer to a "firm's capability that allows it to develop new products and processes in response to dynamic market situations". Dynamic capabilities include skills, procedures, organizational structures, and decision rules that can be employed by firms to create and capture value. The capabilities may stem from change routines, product development and innovative managerial capabilities. They enable the firm to align their distinctive resources/competences to the changing business environment.

Dynamic capabilities are critical to long-term profitability of firms Adu & Osei-Bonsu, 2023. Dynamic capabilities enable firms to profitably organize its resources, competences, and other assets if the firm is to sustain itself in changing environments and markets Adu & Osei-Bonsu, 2023. The capabilities are crucial in a dynamic environment of rapid change, prevailing in a growing of industries Adu & Osei-Bonsu, 2023).

Innovation capability allows firm's to use current resources to create new resources, products, process and systems as well as devise new ways of using new resources to gain a competitive advantage. Innovation capability can be enhanced through learning and training, R&D, processes, firm organization and associations with other players that include customers, suppliers, public and research institutes and industry associations. Dynamic capabilities enable firms to adapt to changing environments through innovation and resource reconfiguration, they are critical for SMEs' survival in volatile markets (Adu & Osei-Bonsu, 2023).

Open Innovation Theory

Open innovation encourages firms to use internal and external ideas to enhance technology and competitiveness. SMEs leverage external resources to overcome innovation barriers (Gu & Wang, 2023). The theory implies that firms should not be limited to internal ideas and market pathways, but consider external ones that could be equally

crucial. To adopt innovation, SMEs face a number of barriers including absence of innovation resources, methods and managerial capabilities. Yet, these types of enterprises demonstrate strong abilities to improve their innovation constantly. Above all, open innovation offers an opportunity to SMEs, that they can extensively exploit external innovation resources as well as scientific innovation ideas and managerial means..

Diffusion of Innovation Theory

This theory explains how, why and at what rate new ideas and technology spread. He argues that diffusion is the process by which an innovation is communicated over time among the participants in a social system. The origins of the diffusion of innovation theory are varied and span multiple disciplines. Rogers proposes that four main elements influence the spread of a new idea: the innovation itself, communication channels, time and a social system. This process relies heavily on human capital. The innovation must be widely adopted in order to self-sustain. Within the rate of adoption, there is a point at which an innovation reaches critical mass.

Rogers refers to the diffusion as "a process in which innovation is thoroughly communicated between members of the social system through certain channels over time". Innovation, communication channels, time and social structure are the four basic elements of diffusion of innovation (Chege *et. al*., 2020).

Empirical Review

Ibrahim and Musa (2025) showed that product, process, and market innovations significantly enhance SME performance in Kaduna State, improving revenue, market share, and customer satisfaction, though the cross-sectional design limits causal inference. Al-Mamary and Alwaheeb (2025) highlighted digital transformation's role in improving marketing performance and customer satisfaction in emerging markets.

Anonymous (2025) carried out a study on the impact of digital transformation on performance of small and medium-sized enterprise in Nigeria. They concluded that digital transformation enhances operational efficiency, market research, customer satisfaction and competitiveness on SMEs in Lagos and Abuja. Mobile payment system reduce transaction costs and AI-driven tools improve customer engagement. This study is limited to urban area (Lagos, Abuja) potentially overlooking rural SMEs challenges.

Anonymous (2024) carried out a study on the impact of digital transformation on Nigeria small and medium-sized enterprises (SMEs) in the Global Business Environment Journal. They concluded that digital transformation amplifies operational efficiency, market access, innovation, customer satisfaction and cost savings. The criticism of the study is broad industry focus lacks sector specific insight.

Okoro and Nwankwo (2024) found that entrepreneurial innovations (e.g., new product development, digital tools) drive SME growth in North-Central Nigeria, though their qualitative approach lacked quantitative metrics like ROI.

Ogunyemi T.A. (2023) in his study on role of technological innovation in enhancing SME competitiveness in Nigeria manufacturing sector found that technology innovation improve productivity and cost efficiency in manufacturing SME particularly in Lagos. The study is limited to manufacturing SMEs, does not address barrier like digital literacy.

Ibrahim A.M. (2025) carried out a study on the impact of innovation strategies on SME performance in Kaduna State. The study found that innovation strategies (product, process, market) significantly enhance SME performance in Kaduna. Improving revenue, market share and customer satisfaction. Criticism is cross-sectional design limits causal influence.

Okro J.E. (2024) carried out a study on the effect of entrepreneurial innovation on SME growth in North-Central Nigeria. The study finding that entrepreneurial innovations (e.g. new product development, digital tools) drive SME growth in North-Central Nigeria, enhancing employment and revenue. Criticism is qualitative approach lacks quantitative performance metrics (e.g ROI) focus on North-Centre Nigeria. Limited engagement with Schumpeterian innovation types.

Adu and Osei-Bonsu (2023) found that innovation strategies significantly improve financial and market performance in Ghanaian SMEs, supporting Schumpeterian theory.

Gu and Wang (2023) found that digital finance (e.g., mobile banking, fintech) reduces financing constraints, boosting technological innovation and SME performance in high-tech sectors, though applicability to low-tech sectors is limited.

Gu, *et. al*., (2023) carried out study on digital finance and innovation -driven SME performance in Nigeria. The findings confirm that digital inclusive finance (e.g. mobile banking, fintech) reduces financing constraints, boosting technological innovation and operational performance in SMEs particularly in high-tech sections. The study is limited to focus on high technology SMEs limit applicability to low-tech sectors. Relies on secondary data which may not capture recent trends. Limited focus on non-technical innovation.

Conceptual Framework

The conceptual framework shows how the dependent variable is related to the independent variable and the role of the moderating variables in the innovation on SMEs performance relationship. These relationships are depicted in Figure 2

INDEPENDENCE VARIABLE (X) **DEPENDENCE VARIABLE (Y)**

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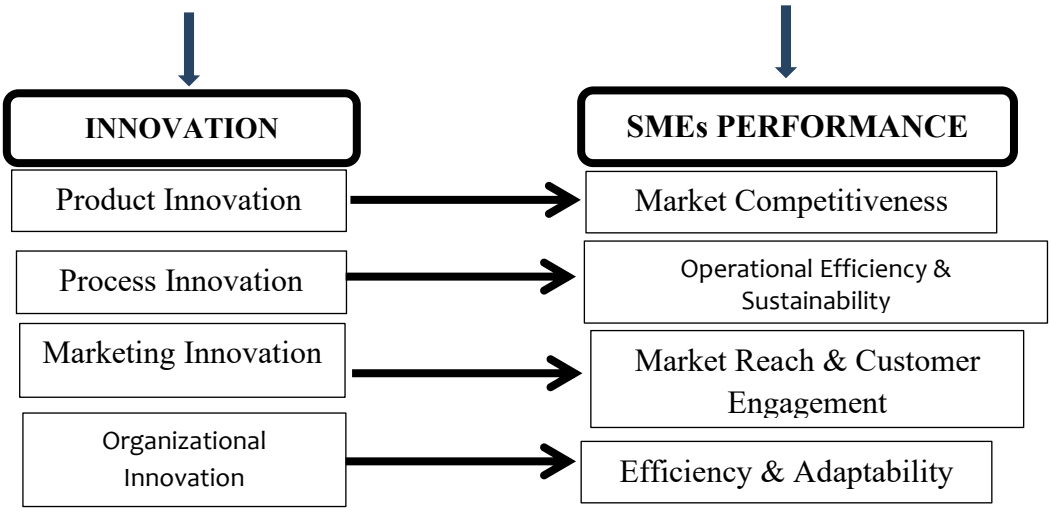


Figure 2: The Conceptual Framework

Source: Author's Conceptual framework (2025)

The Conceptual framework in Figure 2.1 consists of two sets of variables; the Independent variables: Innovation, comprising of Product Innovation, Process innovation, Marketing Innovation and organizational Innovation; the Dependent variable: SMEs Performance represented by market share gain. Innovation is in four dimensions; Product, Process, marketing and organizational innovation.

Based on the above conceptualized framework, it is hypothesized that Product, Process, Marketing, Organizational and combined innovation have positive effect on SMEs performance.

Gaps in Literature

Innovation is generally regarded as a means of firms obtaining and sustaining business, this relationship is not strongly supported empirically. The impact of innovation on SMEs performance remains of significant interest to researchers, economist and policy makers. Much of the earlier studies and empirical literature have examined the relationship between innovation and SMEs performance. Very few studies have examined the relationship between innovation and performance especially in developing economies.

Few of the empirical studies listed analyzed the effect of innovation on firm performance. Most of them focused on the impact of innovation on firm performance though most of them used the same indicators of performance as those proposed for firm effectiveness. The bulk of the empirical literature reviewed was from the developed countries that have a different context.

Recent studies (Gu & Wang, 2023; Ogunyemi & Adeyemi, 2023; Okoro & Nwankwo, 2024; Ibrahim & Musa, 2025) highlight innovation's role in Nigerian SMEs but are limited by

sector-specific focus, urban bias, or lack of quantitative metrics. This study addresses these gaps by examining innovation's impact on SME performance in Ibadan, Oyo State, Nigeria, contributing to the limited empirical evidence in developing economies.

Given the popularity of the concept 'innovation' and the abundance of the literature concerning its impact on SMEs performance, it is acceptable fact that a study like this need to still be carried out, where small and medium enterprises outnumber other enterprises. This study, therefore, aims to fill this gap and hence, examines the impact of innovation on SMEs in Ibadan, Oyo State, Nigeria.

Study Area

The study area for this research was impact of innovation on SMEs performance in selected registered SMEs in Ibadan, Oyo State, in Nigeria.SME was selected as the study area due to its significance in the Nigerian economy sector and the relevance of business innovation challenges in this context.

Research Design

The study adopted a quantitative and Qualitative approach. This design allows for the systematic collection and analysis of numerical data, enabling rigorous statistical analyses and hypothesis testing. This methodology provides a snapshot of innovation' perceptions and SMEs performance at a specific point in time, facilitating the investigation of the impact of business innovation on SMEs performance.

Table 1: Population of the Study

Variables	No. of Items
Sole Proprietor	200
Partnership	50
Limited Liability company	-
Total	**250**

Source: Survey, May, 2025

Table 2: ***Sampling Methods and Sample Size***

Variables	*No. of Items*
Sole Proprietor	100
Partnership	50
Limited Liability company	-
Total	**150**

Source: Survey, May, 2025

Sample Size: 150 SMEs selected using Yamane's formula for finite populations:

$$n = \frac{N}{}$$

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$$1 + N(e^2)$$

where N=250 N = 250 N=250, e=0.05 e = 0.05 e=0.05 (5% margin of error), yielding n≈150 n approx 150 n≈150.

Response Rate: 104 respondents (69% response rate).

Sources of Data

Primary data be collected through a structured questionnaires administered to the sampled selected registered SMEs in Ibadan Oyo State, Nigeria.

Data was sourced directly from the respondents which comprised both owners/manager, marketing/sales officer and account officer of the selected registered SMEs in Ibadan, Oyo State, Nigeria.

Methods of Data Collection

The primary data collection instrument for this study was a self-administered questionnaire, carefully designed to capture the variables of interest and ensure the validity and reliability of the measures employed.

Research Instruments

The questionnaire consisted of section A to section C. The section A was based on the demographic information of the respondents, section B was based on innovation (question were formulated on product innovation, process innovation, marketing innovation and organisational innovation) each dedicated to assessing specific constructs and variables, such as market competitiveness, operational efficiency/sustainability outcome, market reach/customer engagement and efficiency/adaptability. Lastly section C of the research instrument focused on the questions related to SMEs performance.

Validity & Reliability of the Instruments

Content validity was established through a systematic review of the questionnaire and scales from previous research, the research variables was agreed upon by the thesis supervisor and other experts in questionnaire construction. Additionally, appropriate scales were selected and adapted from relevant literature to measure potential moderating factors to quantify these variables, drawing from established and validated instruments in the literature.

Methods of Data Analysis

The data analysis involved both descriptive and inferential statistical techniques. Descriptive statistics, such as means, standard deviations, Standard Error of the Mean (SEM), t-value and frequencies, were used to summarize the sample characteristics and

provide an overview of the variables under study. Inferential statistics, was regression modelling, were employed to examined the relationships between variables and test the hypothesized associations. Moderation analyses were conducted to explore the potential moderating impacts of innovation strategies on SMEs performance.

Variable Identification and Measurement

The variables for this study are Business Innovation, SMEs performance. To test the hypotheses, Chi-Square tests was used to test the impacts. Thus some of the variables are independents while the other is dependent. The Business Innovation is the independent variable while SMEs performance is the dependent variable. SMEs performance the dependent variable is represented by (Y) while Innovation the independent variable (X) is represented by the four dimensions of innovation; product, process, marketing and organizational innovation.

Model Specification

The study employed regression analysis to examine the relationships between the variables of interest. Moderation analyses were conducted to investigate the potential moderating impact of business innovation on SMEs performance.

The functional relationships are as follows:

Y= *f*(X)

Where:

Y= Dependent Variable

X= Independent Variable

Y= SME Performance

X= Business Innovation

ETI = f(POS)

$Y = y_1, y_2, y_3,$ (dependent variable)

$X = x_1, x_2, x_3, x_4,$ (independent variables)

Where

x_1 = Product Innovation (PI)

x_2 = Process Innovation (PI)

x_3 = Market Innovation (MI)

x_4 = Organizational Innovation (OI)

Functional Relationship

SMEP = f (PI, PI, MI, OI) …….. F1

The models:

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$SMEP=\alpha_1+\beta_1 PI_i + \beta_2 PI_i + \beta_3 MI_i + \beta_4 OI_i + \mu_i$ ..... Model 1

where:

Y = SME Performance

α_o = constant or intercept

β = regression parameter that calculates the coefficient

μ_i= error term or stochastic variable.

X_1= Product Innovation

X_2 = Process Innovation

X_3 = Market Innovation

X_4 = Organizational Innovation

RESULTS AND DISCUSSION

Response Rates

Out of the sample size of this study which is 150, the response is 104 that is 69% of the sample size of 150 in population of 250 of selected registered SMEs.

Table 3: Validity & Reliability Tests

Cross Processing Summary

Population	Sample size	No. of Responses	Missing Responses	Response Rate	Valid Responses
250	150	104	12	69.33%	87

Source: Author's computation, (2025)

Table 4: Reliability Statistics

Cronbach's Alpha	No of Items	Population	Sample Size	Response Rate	No of Responses
0.85	30	250	150	69.33	104

Source: Author's computation, (2025)

A measuring instrument is said to be reliable if it provides consistent results. The researchers used Cronbach's Alpha coefficient which ranges between 0 and 1, to establish the reliability that is to assess the internal consistency of the instrument. The researcher used Cronbach's alpha because it requires only one testing session. Higher alpha coefficient values mean there is consistency among the items in measuring the concept of interest. As a rule of thumb, acceptable alpha should be at least 0.7 or above. The Cronbach's alpha typically ranges from 0 to 1. Internal-consistency reliability is usually considered to be acceptable when Cronbach's alpha ≥0.70. For this study, the Cronbach's

alpha value is 0.85 measured using 30 items which is greater than the bench mark of 0.70. Thus, the scale is reliable and consistent.

Descriptive Statistics

The bio data information of the respondents was presented in table 4.1 below.

Table 5: Descriptive Statistics of Demographics

	Status	Frequency	Percentage
Gender	Male	54	51.9
	Female	50	48.1
	Total	104	100.0
Age	20-29	14	13.5
	30-39	23	22.1
	40-49	37	35.6
	Above 50	29	27.9
	Missing	1	1.0
	Total	104	100.0
Year of Experience	1-10yrs	43	41.3
	11-20yrs	34	32.7
	21-30yrs	25	24.0
	Missing	2	2.0
	Total	104	100.0
Educational Qualification	OND/NCE	7	6.7
	HND/BSC	61	58.7
	MSC/MBA	27	26.0
	Others	8	7.8
	Missing	1	1.0
	Total	104	100.0
Marital Status	Single	20	19.4
	Married	80	77.7
	Widow	3	2.9
	Missing	1	1.0
	Total	104	100

Source: Field Survey, 2025

The demographic attributes of the respondents in the study. Of the respondents, 51.9% are male while 48.1% are female. This implies that there are more male respondents used for this study. Further result shows that 13.1% of the respondents are within the age of 20-

29 years, 22.1% of them are within the age range 30-39 years, 35.6% of them are within the age range 40-49 years, 27.9% of them are the respondents of 50 years above and 1.0% are missing from the response. This means that respondents used for this study are within the age range of labour force in Nigeria which means they are fit to work in an organization. The next item on the table shows the analysis of respondents based on the years of experience, 41.3% of the respondents have 1-10 year working experience, 32.7% of the respondents have 11-20 years working experience, and 24.0% of the respondents have 21-30 years working experience in SMEs business, which will make the respondents to have better knowledge of the business. Based on their educational qualification, the result shows that 6.7% of the respondents have OND/NCE degree, 58.7% of the respondents have HND/BSC degree while 26.0% of the respondents possessed MSC/MBA degree, 7.7% of the respondents possessed other degree and 1% do not respond to education qualification. Also, for the marital status, we have

Test of Hypotheses

Hypotheses 1

H_{01}: There is no significant relationship between Product innovation and market competitiveness of Small and Medium-sized Enterprises (SMEs) in Ibadan

Showing correlation between the product innovation and the increase in market share

Table 6: Chi-Square Tests

	Value	df.	Asymp. Sig. (2-sided)
Pearson Chi-Square	50.064[a]	16	.000
Likelihood Ratio	33.622	16	.006
Linear-by-Linear Association	23.375	1	.000
N of Valid Cases	103		

Source: Field Survey (2025)

The statistical analysis, as showed indicates a significant relationship between product innovation (specifically, the frequency of investment in product development) and an increase in market share, a key indicator of market competitiveness. The Pearson Chi-Square test yielded a value of 50.064 with 16 degrees of freedom and a p-value of 0.000, which is less than the 0.05 significance level. Additionally, the Likelihood Ratio (33.622, p = 0.006) and Linear-by-Linear Association (23.375, p = 0.000) further confirm the statistical significance of this relationship. These results lead to the rejection of the null hypothesis

(H_{01}), supporting the alternative hypothesis (H_1) that more frequent investment in product development is associated with greater increases in market share.

Hypotheses 2

Ho_2: There is no significant relationship between Process innovation and operational efficiency and sustainability outcome of Small and Medium-sized Enterprises (SMEs) in Ibadan

Showing correlation between the process innovation and operational efficiency and sustainability outcome

Table 7: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.027[a]	1	.869		
Continuity Correction[b]	.000	1	1.000		
Likelihood Ratio	.028	1	.866		
Fisher's Exact Test				1.000	.674
Linear-by-Linear Association	.027	1	.869		
N of Valid Cases	101				

Source: Field Survey (2025)

The results from Table show no statistically significant relationship between process innovation and operational efficiency or sustainability outcomes. The Pearson Chi-Square test resulted in a value of 0.027 with 1 degree of freedom and a p-value of 0.869, which is well above the 0.05 threshold for significance. Other statistical measures, including the Continuity Correction (0.000, p = 1.000), Likelihood Ratio (0.028, p = 0.866), and Fisher's Exact Test (p = 1.000 for two-sided, 0.674 for one-sided), consistently indicate a lack of significant association. As a result, the null hypothesis (H_{02}) is accepted, and the alternative hypothesis (H_1) is not supported by the data.

Hypotheses 3

Ho_3: Market innovation has no influence on market reach and customer engagement of Small and Medium-sized Enterprises (SMEs) in Ibadan

Showing correlation between the market innovation on market reach and customer engagement

Table: 8: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.881[a]	1	.348		
Continuity Correction[b]	.298	1	.585		
Likelihood Ratio	.916	1	.338		
Fisher's Exact Test				.450	.297
Linear-by-Linear Association	.872	1	.350		
N of Valid Cases	103				

Source: Field Survey (2025)

According to the above Table, the analysis of market innovation's influence on market reach and customer engagement shows no statistically significant relationship. The Pearson Chi-Square test produced a value of 0.881 with 1 degree of freedom and a p-value of 0.348, which exceeds the 0.05 significance level. Similarly, the Continuity Correction (0.298, p = 0.585) and Likelihood Ratio (0.916, p = 0.338) confirm the lack of significance. Therefore, the null hypothesis (H_{03}) is accepted, indicating that the data does not support the alternative hypothesis (H_1).

Hypotheses 4

Ho_4: Organizational innovation does not have influence on the efficiency and adaptability of Small and Medium-sized Enterprises (SMEs) in Ibadan
Showing correlation between the organizational innovation and its influence on efficiency and adaptability

Table: 9: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	44.345[a]	2	.000
Likelihood Ratio	30.805	2	.000
Linear-by-Linear Association	38.112	1	.000
N of Valid Cases	102		

Source: Field Survey (2025)

The results from the above Table demonstrate a statistically significant relationship between organizational innovation (specifically, agreement on innovative organizational processes and technologies) and improvements in efficiency and adaptability. The p-value of 0.000, which is less than 0.05, leads to the rejection of the null hypothesis (H_{04}). This supports the alternative hypothesis (H_1) that agreement on innovative organizational

processes is related to agreement on innovative technologies improving efficiency. However, the findings come with a caution about low expected counts and potential coding issues, which may affect the reliability of the results.

Hypothesis 1

The significant relationship suggests that SMEs in Ibadan that prioritize product innovation—through regular investment in developing new or improved products—are likely to experience enhanced market competitiveness. This could manifest as capturing a larger market share due to the ability to offer novel or superior products that meet customer needs more effectively than competitors. However, the analysis notes a cautionary point about low expected counts in the data, which may indicate that some categories had limited responses, potentially affecting the robustness of the findings. Despite this, the strong statistical significance across multiple tests underscores the importance of product innovation as a driver of competitiveness for SMEs. Practically, SMEs should consider allocating resources to research and development to create innovative products, which could differentiate them in the marketplace and attract a broader customer base.

Hypothesis 2

The findings suggest that, in the context of SMEs in Ibadan, process innovations—such as adopting new production techniques or improving workflows—do not have a statistically significant impact on operational efficiency (e.g., resource utilization) or sustainability outcomes. While process innovations are generally expected to streamline operations and reduce waste, the lack of a significant relationship may indicate that the specific innovations adopted by these SMEs are either not effectively implemented or do not align closely enough with efficiency and sustainability goals. This could also reflect contextual factors, such as limited access to advanced technologies or insufficient training for employees to leverage new processes effectively. SMEs should investigate the specific barriers preventing process innovations from translating into measurable outcomes and consider tailored strategies to enhance their impact.

Hypothesis 3

The results imply that market innovations, such as creative marketing campaigns or new distribution channels, do not significantly enhance market reach (e.g., attracting new customers) or customer engagement (e.g., fostering loyalty) for SMEs in Ibadan. While innovative marketing strategies are often perceived positively, their impact may be diluted by factors such as limited marketing budgets, lack of expertise in leveraging digital or innovative platforms, or a market environment where customers are less responsive to novel marketing approaches. This finding suggests that SMEs may need to reassess their

marketing strategies, potentially focusing on more targeted or cost-effective approaches to engage customers and expand their reach. Further research could explore whether specific types of market innovations are more effective in this context.

Hypothesis 4

The significant relationship suggests that SMEs in Ibadan that embrace organizational innovations—such as adopting new management practices or integrating innovative technologies—tend to experience improvements in efficiency and adaptability. This could include streamlined decision-making processes, better resource allocation, or enhanced flexibility in responding to market changes. The strong statistical significance highlights the potential of organizational innovation as a critical lever for enhancing SME performance. However, the caution about low expected counts and coding issues suggests that the data may have limitations, such as small sample sizes in certain categories or inconsistencies in how responses were recorded. SMEs should focus on fostering a culture of innovation within their organizational structures while ensuring robust data collection and implementation processes to maximize the benefits of such innovations.

Summary

The study examines the impact of business innovation on Small and Medium-sized Enterprises (SMEs) in Ibadan, Nigeria, focusing on product, process, marketing, and organizational innovations. Using a mixed-method approach, data from 150 registered SMEs (104 valid responses, 69.33% response rate) were collected via questionnaires and analyzed with cross-tabulations and chi-square tests, achieving a reliable Cronbach's Alpha of 0.85. The study evaluates performance metrics like market competitiveness, operational efficiency, sustainability, market reach, customer engagement, and efficiency/adaptability, addressing gaps in understanding innovation's role in Nigeria's SME sector, which contributes 48% to GDP and 84% to employment despite challenges like funding and infrastructure deficits.

Findings show that product innovation significantly boosts market competitiveness (H_{01} rejected, $p = 0.000$), with 45.6% and 35% of SMEs investing occasionally and frequently in new products, respectively, increasing market share. Organizational innovation enhances efficiency and adaptability (H_{04} rejected, $p = 0.000$), with 87.3% of respondents noting benefits from innovative processes and technologies. However, process (H_{02} accepted, $p = 0.869$) and marketing innovations (H_{03} accepted, $p = 0.348$) showed no significant impact, likely due to barriers like high costs, limited expertise, and infrastructure issues. These results align with Schumpeter's and Dynamic Capability Theories but highlight contextual challenges in Ibadan.

The study emphasizes the importance of product and organizational innovations for SME performance, while the limited impact of process and marketing innovations suggests a need for targeted interventions. SME owners should prioritize product and organizational innovations, while policymakers can support through grants and digital infrastructure. Investors should back innovative SMEs, and researchers should explore longitudinal and rural studies. The study contributes to empirical knowledge, validating theoretical frameworks and calling for context-specific solutions to enhance SME competitiveness.

Conclusion

The study on the impact of business innovation on Small and Medium-sized Enterprises (SMEs) in Ibadan, Oyo State, Nigeria, provides critical insights into how different types of innovation—product, process, marketing, and organizational—affect SME performance. Conducted with a mixed quantitative and qualitative approach, the study targeted 150 registered SMEs, achieving a 69.33% response rate (104 valid responses). The findings, based on four research questions and hypotheses tested through cross-tabulations and chi-square tests, reveal varied impacts of innovation on performance metrics such as market competitiveness, operational efficiency, sustainability, market reach, customer engagement, and organizational efficiency/adaptability. The study's reliability is supported by a Cronbach's Alpha of 0.85.

Product innovation emerged as a significant driver of market competitiveness, with the null hypothesis (H_{01}) rejected (Pearson Chi-Square = 50.064, p = 0.000). A substantial proportion of SMEs (45.6% occasionally and 35% frequently) invest in developing new or improved products, leading to increased market share. This aligns with Schumpeter's theory, emphasizing the role of novel products in enhancing competitive advantage. SMEs in Ibadan can leverage product innovation to differentiate themselves, but further research is needed to explore specific innovation types (e.g., incremental vs. radical) and their effectiveness.

In contrast, process and marketing innovations showed no statistically significant impact on SME performance. The null hypothesis for process innovation (H_{02}) was accepted (Pearson Chi-Square = 0.027, p = 0.869), indicating no significant relationship with operational efficiency or sustainability outcomes, despite 87.1% of respondents reporting a positive impact. Similarly, the null hypothesis for marketing innovation (H_{03}) was accepted (Pearson Chi-Square = 0.881, p = 0.348), suggesting no significant influence on market reach or customer engagement, even though 93.2% strongly agreed that marketing campaigns enhanced loyalty. These findings likely reflect contextual barriers in Ibadan, such as limited access to advanced technologies, high implementation costs, or low digital literacy, which hinder the effectiveness of these innovations.

Organizational innovation, however, demonstrated a strong positive impact on efficiency and adaptability, with the null hypothesis (H_{04}) rejected (Pearson Chi-Square = 44.345, p = 0.000). Approximately 87.3% of respondents agreed that innovative organizational processes and technologies improved efficiency in resource-constrained environments. This supports the Dynamic Capability Theory, highlighting SMEs' ability to adapt through internal restructuring and technology adoption. The findings underscore the importance of organizational innovation for SMEs in Ibadan, where resource constraints are prevalent, but barriers like high adoption costs or lack of technical skills need further exploration.

Overall, the study highlights that product and organizational innovations significantly enhance SME performance in Ibadan, while process and marketing innovations face challenges in delivering measurable outcomes. These results reflect the unique economic context of Ibadan, marked by infrastructure deficits and competitive pressures. SME owners should prioritize product and organizational innovations, while policymakers can support through grants, training, and innovation ecosystems. Future research should address gaps, such as urban bias and limited longitudinal data, to provide a deeper understanding of innovation's role in SME success in developing economies.

Recommendations

- Based on the findings from the study on the impact of business innovation on Small and Medium-sized Enterprises (SMEs) in Ibadan, Nigeria, several actionable recommendations emerge to enhance SME performance through effective innovation strategies. The study highlights the significant impact of product and organizational innovations on market competitiveness and efficiency/adaptability, respectively, while noting the limited effectiveness of process and marketing innovations due to contextual barriers such as limited funding, infrastructure deficits, and low digital literacy. These recommendations target SME owners, policymakers, investors, and researchers to foster sustainable growth, resilience, and competitiveness in Ibadan's SME sector, addressing both the opportunities and challenges identified in the study.
- For SME owners, prioritizing product innovation is critical, given its significant correlation with market competitiveness (H_{01} rejected, p = 0.000). SMEs should invest in research and development (R&D) to create new or improved products tailored to customer needs, focusing on both incremental and radical innovations to capture market share. Additionally, organizational innovation, which significantly enhances efficiency and adaptability (H_{04} rejected, p = 0.000), should be pursued through adopting digital tools, lean management, or restructured workflows. To address the limited impact of process and marketing innovations

(H_{02} and H_{03} accepted), SMEs should adopt cost-effective solutions, such as cloud-based software for process improvements or targeted digital marketing campaigns (e.g., social media or local e-commerce platforms), and seek training to build technical and digital literacy skills. Collaborating with universities or industry networks can provide access to affordable R&D and expertise, mitigating financial and skill-based constraints.

- Policymakers should focus on creating a supportive innovation ecosystem to address the contextual barriers highlighted in the study, such as infrastructure deficits and limited funding. Establishing innovation hubs or incubators in Ibadan can provide SMEs with access to R&D facilities, mentorship, and technology transfer programs, particularly for product and organizational innovations. Targeted grants, tax incentives, or subsidies, as suggested by prior research (World Bank, 2020; Cogent Business & Management, 2023), can reduce the financial burden of adopting new technologies or processes. To support process and marketing innovations, policymakers should invest in digital infrastructure (e.g., reliable internet and electricity) and launch digital literacy programs to enhance SMEs' ability to leverage digital tools and platforms. Sector-specific policies for non-technological sectors (e.g., agriculture, retail) and rural SMEs can address the study's identified urban bias, ensuring broader applicability.
- Investors should prioritize funding SMEs with strong product and organizational innovation strategies, as these demonstrate significant potential for market share gains and operational efficiency. Providing venture capital or microfinance tailored for innovation activities, such as R&D or technology adoption, can help SMEs overcome financial constraints. Investors can also facilitate partnerships with innovation hubs or accelerators to connect SMEs with technical expertise and market opportunities, aligning with the Open Innovation Theory's emphasis on external resources. Additionally, investors should conduct due diligence to identify SMEs with scalable innovation strategies, ensuring sustainable returns in Ibadan's competitive market environment. Supporting digital transformation initiatives, such as mobile payment systems or AI-driven tools, can further enhance SMEs' competitiveness, as noted in related studies (Anonymous, 2025).
- For researchers, addressing the study's identified gaps—such as urban bias, limited longitudinal data, and lack of sector-specific insights—is essential. Future studies should employ longitudinal designs to assess the long-term impact of innovation on SME performance and include rural and non-technological SMEs to ensure comprehensive findings. Investigating specific barriers to process and marketing innovations, such as high costs or low market responsiveness, can provide actionable solutions. Researchers should enhance methodological rigor

by using larger, more diverse samples and mixed-method approaches to combine quantitative data with qualitative insights. Exploring the interplay between innovation types (e.g., how product and organizational innovations complement each other) and the role of external factors (e.g., government policies, market structures) can further align with the Resource-Based and Dynamic Capability Theories, enriching the understanding of innovation's role in SME success in developing economies like Nigeria.

Contributions to Knowledge

This study significantly contributes to the academic discourse on innovation and Small and Medium-sized Enterprises (SMEs) performance by providing empirical evidence from the context of Ibadan, Oyo State, Nigeria. By examining the impact of four distinct types of innovation—product, process, marketing, and organizational—on SME performance, the research addresses a critical gap in the literature, which has often been limited by urban bias, technological focus, and a lack of longitudinal data in developing economies. The findings highlight that product and organizational innovations have a statistically significant positive effect on market competitiveness and efficiency/adaptability, respectively, offering nuanced insights into how specific innovation strategies can drive SME success in resource-constrained environments. This contributes to the theoretical understanding of Schumpeterian innovation theory and the Resource-Based View by demonstrating their applicability in a developing economy context, where SMEs face unique challenges such as financial constraints, infrastructure deficits, and low digital literacy.

The study also advances the methodological framework for assessing innovation in SMEs by employing a mixed quantitative and qualitative approach, supported by robust statistical analyses such as regression modeling and Chi-Square tests. The use of Cronbach's Alpha (0.85) to establish the reliability of the research instrument provides a replicable model for future studies aiming to measure innovation constructs in similar contexts. By integrating non-financial performance metrics (e.g., market share, organizational efficiency), the research offers a comprehensive framework for evaluating SME performance, moving beyond traditional financial indicators to include sustainability and adaptability outcomes. This holistic approach enriches the literature by providing a multidimensional perspective on SME performance, which is particularly relevant for policymakers and practitioners seeking to foster sustainable economic development in Nigeria.

Furthermore, the study's focus on Ibadan SMEs contributes to the limited body of knowledge on innovation in non-urban and non-technology-focused sectors within Nigeria. The findings reveal that while product and organizational innovations

significantly enhance SME performance, process and marketing innovations showed no statistically significant impact, suggesting context-specific barriers such as high implementation costs or limited marketing expertise. This insight challenges existing assumptions about the universal applicability of innovation types and underscores the need for tailored strategies that account for local contextual factors. By identifying these gaps, the study lays the groundwork for future research to explore sector-specific innovation strategies and the role of external support systems, such as government subsidies or innovation ecosystems, in overcoming barriers to adoption.

Finally, the research contributes to practical knowledge by offering actionable recommendations for SME owners, policymakers, and investors. Similarly, the positive impact of organizational innovation highlights the importance of adopting innovative management practices and technologies to enhance efficiency in resource-constrained settings. By linking these findings to policy implications, such as the need for targeted support programs to address barriers like low digital literacy, the study provides a roadmap for stakeholders to enhance SME resilience and competitiveness, thereby contributing to Nigeria's broader economic development goals.

Limitations of Study

Significant limitation is the urban bias inherent in the study's geographical scope, which is confined to Ibadan The focus on urban SMEs overlooks rural SMEs, which may face distinct challenges such as limited access to digital infrastructure or markets, as highlighted in the problem statement This urban-centric approach restricts the applicability of findings to Nigeria's broader SME sector, where rural enterprises play a critical role in economic development. Additionally, the study's sample size of 150 SMEs, with a 69.33% response rate (104 valid responses), may not fully represent the diversity of Ibadan's SME sector, particularly across non-technological sectors like agriculture or retail, which are underrepresented in the analysis.

Suggestions for Further Research

The findings of this study on the impact of innovation on SME performance in Ibadan, Oyo State, Nigeria, open several avenues for further research, particularly in addressing the limitations and gaps identified. One key area for exploration is the investigation of why process and marketing innovations did not show a statistically significant impact on operational efficiency, sustainability outcomes, market reach, and customer engagement. Future studies could employ longitudinal designs to examine the long-term effects of these innovation types, as the cross-sectional approach used in this study may not capture delayed impacts.

Another promising direction is to explore the role of external support systems, such as government subsidies, innovation ecosystems, or collaborations with universities and research institutions, in facilitating SME innovation. The study highlighted the influence of external factors like market structure and regulatory frameworks, but further research could quantify their impact on innovation adoption and SME performance. For instance, studies could investigate how targeted policies, such as tax incentives or technology transfer programs, affect the ability of SMEs in non-urban and non-technology sectors to overcome resource constraints. Comparative analyses across different Nigerian regions or other developing economies could also reveal whether Ibadan's findings are unique or generalizable, contributing to a broader understanding of innovation dynamics in resource-constrained environments.

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