International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 9 Issue 1, Jan-Feb 2025 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Does Absorptive Capacity Matter in the Relationship between Entrepreneurial Innovation and Performance of Selected Small and Medium Enterprises in Lagos State, Nigeria

Oyelade, K. A.[1]; Olawore, O. P.[2]; Alasiri, W. A.[2]; Padonu, N. S.[3]; Oduwole, W. K.[4]

[1]Department of Business Administration and Marketing, Babcock University, Nigeria
[2]Department of Marketing, Lagos State University of Science & Technology, Ikorodu, Nigeria
[3]Department of Business Administration, Lagos State University of Science & Technology, Ikorodu, Nigeria
[4]Department of Marketing, Yaba College of Technology, Lagos, Nigeria

ABSTRACT

This study examines the moderating effect of absorptive on the relationship between entrepreneurial innovation and performance of selected SMEs in Lagos State, Nigeria. The study adopted cross-sectional survey research design. The population comprised 42,067 owners/managers of SMEs in Lagos State, Nigeria, and sample size of 495 was derived using Cochran's formula. Simple random sampling technique was employed to select the respondents. A structured and validated questionnaire was used for data collection and 458 copies were retrieved representing 92.5 % and later used for analysis. The reliability test yielded Cronbach's alpha for the constructs ranging from 0.716 to 0.879. The hypothesis was tested using the hierarchical regression analysis at 5% level of significance. The findings revealed that the effect of entrepreneurial innovation dimensions on performance of SMEs was not significantly moderated by absorptive capacity (β= -.004, t= -0.900, $\Delta R2$ = 0.001, ΔF= 0.81, p>0.05). The study concluded that absorptive capacity has a negative and statistically insignificant moderating effect on the relationship between entrepreneurial innovation and the performance of the selected SMEs in Lagos State, Nigeria. It was recommended that SMEs operating in Lagos State, should improve their absorptive capacity, through effective harness of internal and external knowledge resources to drive innovation, improve decision-making processes, and foster organisational resilience in the face of uncertainty and change.

KEYWORDS: *Absorptive Capacity, Entrepreneurial Innovation, SMEs, SMEs Performance*

How to cite this paper: Oyelade, K. A. | Olawore, O. P. | Alasiri, W. A. | Padonu, N. S. | Oduwole, W. K. "Does Absorptive Capacity Matter in the Relationship between Entrepreneurial Innovation and Performance of Selected Small and Medium Enterprises in Lagos State, Nigeria" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-9 | Issue-1, February 2025, pp.53-64, URL: www.ijtsrd.com/papers/ijtsrd73797.pdf

IJTSRD73797

1. INTRODUCTION

SMEs in Nigeria account for 48% of the country's GDP, 96% of the enterprises and 84% of employment (Akpan et al., 2020; Ekon & Isayas, 2022). They also contribute to industrialization, employment, income generation, and economic growth, and help to attain more equitable income distribution (Aderemi et al., 2021; Aina, 2024; Olowookere et al., 2021). Despite the economic importance of SMEs, their performances are below expectation due to the volatile environment in which they operate. Rapid development in terms of information communication and technologies, competition, constant political changes can make environment turbulent for business activities (Adebisi & Bakare, 2019). Review of extant literature indicate that majority of newly established SMEs in Nigeria fail to survive their first two years while existing ones either shutting or operating at sub-optimal level (Effiong & Edet, 2018).

Similarly, a survey report published on the website of Price Waterhouse & Cooper's (pwc.ng) indicates a dropped in SMEs performance in Nigeria from 2.2% in 2019 to -3.4% in 2020. To reaffirm this ugly situation, another study revealed that about 53.9% of SMEs in Nigeria performed poorly most especially during Covid-19 era (PwC's MSME Survey Report,

2024). One of the major problems of SMEs in Nigeria is their inability to come up with sustainable innovation programmes, as well as identifying those factors and barriers that hinder their performance in the immediate environment (Olawore et al., 2024). This invariably affects the appropriateness of their corporate strategies and has led to a reduction in their levels of competitiveness and have resulted to their poor performance (Nnorom et al., 2023).

According to Oladele et al. (2019), Olawore et al. (2016), SMEs in Nigeria face numerous challenges that hinder their performance potential. The environment in which the Nigerian SMEs exists is very competitive and the firms need to develop innovative strategies to enable them grow and hence give them competitive advantage. A lack of competitiveness, negative attitude towards innovation, and limited knowledge of the SMEs owners/managers that influence innovation all contributed to the low performance. This has resulted in lower-than-expected profitability, decline in productivity, reduced market share and difficulty in controlling costs (Anoke et al., 2022). Nearly four out of every five Nigeria SMEs do not survive beyond five years of inception because of inexperience and other wrong business practices all of which tend to increase operational costs, reduce profitability, productivity and resulted in poor performance (Babandi & Barjoyal, 2021).

Entrepreneurial innovation is a fundamental tool for organisations seeking to enhance productivity and adaptability in the face of change (Ali et al., 2020). Entrepreneurial innovation serves as a catalyst for creating opportunities for new businesses to thrive in the market, and its implementation has demonstrated a substantial impact on both Small and Medium-sized Enterprises (SMEs) and overall business expansion (Fiiwe et al., 2022). Entrepreneurship innovation stands as a strategic approach employed by companies to establish a competitive advantage. Entrepreneurial innovation is the heartbeat of every economic expansion and a key tool for firms to gain competitive advantage, improve market share, and performance (Yinus et al., 2018) This involves the production of unique products or services that surpass the capabilities of competitors, achieving superior performance, cost-efficiency, and speed (Nnorom et al., 2023). Moreover, a dearth of innovation has been associated with decreased profitability (Loroun et al., 2018).

Many scholars have investigated the effect of absorptive capacity on innovation dimensions and SMEs performance. Some of these studies examined the role of absorptive capacity as a moderating variable between innovation and SMEs performance (Al-Mamun et al., 2018). Furthermore, the study of Wang et al. (2020) found that absorptive capacity had a positive moderating influence on disruptive innovation and SMEs performance. Also, Sarsah et al. (2020) in their study in Ghana found that absorptive capacity significantly mediated the relationship between innovation dimensions and performance. Furthermore, research by Wu et al. (2019) on how IT capability affect open innovation performance, the mediating effect of absorptive capacity in China. The result of the findings was validated by the studies of Wang et al. (2020) and Sarsah et al. (2020), that absorptive capacity had a strong mediating effect on innovation dimensions and firm's performance. Similarly, Zhai et al. (2018) in their study of SMEs performance in China found that absorptive capacity significantly mediates the relationship between innovation dimensions and SMEs performance.

Conversely, research by Sonia et al. (2018) indicated a negative relationship between absorptive capacity, innovation, and SMEs performance. Likewise, Liu and Zhao (2018) found that absorptive capacity did not substantially moderate the relationship between innovation dimensions and organisational performance. The scholars clearly suggested for future studies to explore the results in other countries especially in developing countries such as Nigeria adopting similar framework for generalization of the results.

2. Review of Related Studies

This section focused on the concepts of entrepreneurial innovation, performance and absorptive capacity along theoretical, conceptual and empirical lines.

2.1. SMEs Performance

Performance is a wide-ranging measurement of how a firm is doing in terms of competitiveness, level of profit, market share, innovation and productivity in relation to other enterprises in the same industry (Olawore, 2022). It encompasses the successful execution of strategies, the efficient utilization of resources, and the attainment of positive financial results (Rojas-Lema et al., 2021). Some studies have used the term performance consistently, such as firm performance, SMEs performance, business performance and organisational performance, despite the assertion of researchers that there is no conceptual difference (Mgeni & Nayak, 2015). SMEs performance can be viewed as the extent to which the target task of the business will be accomplished in comparison to the final output at the end of the business period (Junaidi et al., 2023). SMEs performance can also be seen as the ability of the firm

to be resilient and sustain their operations successfully in the face of dynamic environment (Etuk et al., 2022: Subagyo & Ernestivita, 2020). According to Ibrahim et al. (2024), SMEs performance comprises the efficacy and efficient of the activities and operations of SMEs in fulfilling their organisational goals and objectives. Firms attain their objective, if they succeed in satisfying their stakeholders' needs more than their rivals. Firm performance can be measured either by looking at economic variables or non-economic variables. Simply put, it can be measured quantitatively or qualitatively (Lee et al., 2021).

Firm performance can be assessed by examining how successful an organisation is in achieving its goals (Gerba & Viswanadham, 2016). Koohang et al. (2017) defined organisational performance as a measure of an organisation progress, and show how well an organisation is successful in achieving its goals. Similarly, SMEs performance can also be viewed as how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry (Junaidi et al., 2023). Dim and Nzube (2020) collaborated this view by claiming that SMEs performance is a reflection of productivity of members of an enterprise measure in terms of revenue, profit, growth, development and expansion of the organisation. Furthermore, Tomal and Jones (2015) defined organisational performance as the organisation's true accomplishment or productivity vis-à-vis its envisioned outputs. Moreover, Ahmed (2018) viewed organisational performance as the output of an organisation with regards to its interaction with the external and internal environment.

Arnett et al. (2018) referred to organisational performance as the effectiveness of the organisation that denotes the organisation's results or emphasis on the objective achievement. Thus, organisational performance comprises three aspects: performance of individuals in their specialized organisational units, performance of organisational units within the comprehensive framework policies of the organisation and performance of an organisation within the framework of economic, cultural, and social environment. Even though organisational performance comprises three aspects, the performance of organisations is completely different from each individual aspect, if taken separately. It is different from individual performance and unit performance. Although, it is the result of these two factors, in addition to the effects of social, economic and cultural environments.

2.2. Entrepreneurial Innovation

Entrepreneurial innovation can be defined as the multistage process of an entrepreneur to translate an idea or invention into goods and services brought to the market for economic benefits (Urban & Verachia, 2019). Entrepreneurial innovation can also be defined as the ability of an entrepreneur to create business ideas which are unequal and translate it into goods and services so as to gain superior comparative advantage (Kiilu & Kithae, 2020). Innovation is multi-dimensional and of various types. Innovation at the level of the firm comprises activities and interactions of persons and many organisational factors (Urban & Verachia, 2019).

A number of definitions of innovation have been found in literature. It was firstly described by the German economist and political scientist, Schumpeter (1934), who defined innovation as "the driving force for development" In his definition, there are five manifestations of innovation that were proposed: Creating new products or improving and enhancing the current products, use of a new industrial processes, new market introductions development of new raw material sources or other new inputs and new forms of industrial organizations. The most important commonly used definition of innovation is the one provided by the OECD and Eurostat (2005) which defines innovation as the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations.

Agreeably, Haaker et al. (2021) also defined innovation as the implementation and development of a new or noticeably improved products, processes, or business models that lead to increased productivity, competitiveness, and market expansion. According to Shakeel et al. (2020), innovation refers to the ability to transform existing methods, technologies, or systems, leading to improvements and efficiencies. Similarly, Rousseau et al. (2016) also defined innovation as the production or adoption, assimilation and exploitation of a value-added novelty in economic and social spheres, renewal and enlargement of products, services and market; development of new methods of production; and establishment of new management system.

2.3. Absorptive capacity

The concept of absorptive capacity was first coined by Cohen and Levinthal (1990) and has been subject to significant development on its conceptualization and measurement since then (Lane et al., 2006). Cohen and Levinthal (1990) defined absorptive capacity as the ability of a firm to recognize the value

of new, external information, assimilate it, and apply it to commercial ends. Furthermore, they suggested that absorptive capacity involves the firm's ability to link and integrate this new external knowledge with its previous knowledge base. According to Zahra and George (2002) defined absorptive capacity as a set of dynamic organisational routines and processes by which firms acquire, assimilate, transform and exploit knowledge. Absorptive capacity is related to the fundamental learning process of a firm identifying, assimilating and exploiting knowledge from its environment (Darwish et al., 2020).

Also, absorptive capacity refers to the degree to which a corporation can identify, adapt and extend new external knowledge to achieve higher level of innovation performance as well as higher competitive advantage (Lichtenthaler, 2016). This has become an essential ability for firms to create competitive edges by developing new products/services or increase manufacturing flexibility (Patel et al., 2012). In addition, absorptive capacity can be viewed as the firm's ability to create and arrange the knowledge for developing operational capabilities to achieve a competitive advantage (Zahra & George, 2002) and it is embedded in the systems, processes and routines of a firm (Todorova & Durisin, 2007).

Absorptive capacity is characterized by four distinctive, but complementary organisational learning processes: acquisition, assimilation, transformation and exploitation (Zahra & George, 2002). Acquisition capacity refers to a firm ability to identify and acquire external knowledge that is useful to its business. Assimilation refers to routines and processes that firm uses to analyze, process, interpret, and understand the acquired information. Transformation is viewed as the firm's ability to build and purify the routines that combine existing knowledge with newly acquired expertise. Exploitation refers to a firm's ability to exploit existing and transform knowledge into its operations. Exploitation is focused on conversion of knowledge into new products or services. The former two capacities can be combined and termed as potential absorptive capacity, which enable firms to explore new sources of knowledge, while the latter two combine together are known as realized absorptive capacity, which ensures that the newly acquired knowledge can be used to commercial ends.

2.4. Empirical Review

Various studies have established mixed results of how absorptive capacity and technology adoption affect business performance of SMEs (Ejemeyovwi et al., 2021; Liu & Zhao, 2018; Madase & Barasa, 2019; Qosasi et al., 2019; Wu et al., 2019). Most of these past studies have not investigated the moderating effect of absorptive capacity on the relationship between innovation dimensions and SMEs performance in Nigeria. There is scanty or no study that employed absorptive capacity as a moderating variable on the relationship between innovations dimensions and SMEs performance in Lagos State, Nigeria.

The study of Wu et al. (2019) examined how technology capability affects innovation performance: the mediating role of absorptive capacity in China. The results found that IT capabilities (external and internal) have positive and significant impact on open innovation performance, additionally, absorptive capacity mediates positively in the relationship between IT capabilities and open innovation and performance of the SMEs. This is in line with the study of Liu & Zhao (2018) that also found that absorptive capabilities positively mediate the relationship between innovation and SMEs performance.

In a related study, Qosasi et al. (2019) examined the impact of Information and Communication Technology (ICT) on the innovative capability and competitive advantage of small business in Indonesia, and found that innovation dimensions have significant effect on competitive advantage, while ICT effectively moderates the relationship between innovation and competitive advantage. Furthermore, Wang et al. (2020) studied relational embeddedness and disruptive innovation: the mediating role of absorptive capacity. Structural Equation Modelling (SEM) was used to analysis the data and the findings revealed that firm's network has significant and positive relationship with disruptive innovation, while absorptive capacity mediates the relationship between firm's network and disruptive innovation. The findings from the studies above revealed that absorptive capacity positively mediates the relationship between innovation dimensions and SMEs performance respectively.

2.5. Theoretical Review

The Knowledge Based Theory

The knowledge-based theory was propounded by Penrose in 1959 and later expanded by Barney in 1991 and Conner in 1991. Some of the profounder of this theory include: Nonauka and Takeuchi (1995), and Kogut and Zander (1992). In this theory, knowledge is the most strategically significant and most important resource of an organisation, and it provides organisations with strategies for achieving competitive advantage. Organisations exists to create, transfer and transform knowledge into competitive advantage (Kogut & Zander, 1992).

One of the major assumptions of knowledge-based theory is that knowledgeable workers are the organisation's core functions. Therefore, in this era of globalization and rapid technological changes, organisations that want to gain higher competitive advantage must become a knowledge-based organisations. von Krogh (1998) assumed that knowledge cannot be completely controlled, but can be managed by creating enabling conditions and focuses on how knowledge resources can be utilized and coordinated. A superior knowledge can be associated to higher strategic flexibility and faster reaction to environmental changes (Grant, 1996). Many organisations have started to embrace external knowledge for their innovation process. This will allow them to gain and exploit external knowledge, while their resources focus on core activities (Chesbrough, 2003). It is also widely recognized that an organisation's ability to innovate is linked to the abundance of accessible knowledge within an organisation (Subramaniam & Youndt, 2005).

Some of the supporters of this theory, Nonaka and Tekeuchi (1995) introduced the concept of "tacit knowledge" and emphasizes the importance of knowledge creation and transfer within an organisation. In their book: 'The Knowledge-Creating Company'' they explore the role of knowledge in fostering innovation and competitive advantage. They argued that organisations should develop and identify specific areas of knowledge expertise to gain competitive advantage. In addition, Leonard and Swap (1999) in their contributions to Knowledge-based theory, focused on the concept of core competencies. They argued that firms should identify and develop specific areas of knowledge expertise for them to gain competitive advantage. Furthermore, Murmann (2003) delved into the effect of knowledge on organisational performance. The study examined how organisations are able to combine internal and external knowledge through different processes such as collaboration, acquisition Research and Development (R&D) for organisational performance.

Some of the critique of knowledge-based theory is that it is still emerging and is more a set of ideas about the existence and nature of the firm than a unified theory in a formal sense (Grant, 2002). In addition, Spender and Grant (1996) note that some characteristics of this theory may be unmeasurable. According to Grant (1996), the focus of the theory is highly demanding to observe reliably and even more so to measure and operationalize and acknowledge that hurdles usually emerge from the divergence of interest between employee's conditions and owner's expectations, which can hamper smooth coordination of specialized knowledge. Despite these criticisms, knowledge-based theory is relevant to this study because it allows for creation, adoption and implementation of specialized knowledge at various stages to be integrated into organisational innovative activities, so as to gain competitive advantage leading to better firm's performance.

3. Methodology

The study adopted cross-sectional survey research design. The population comprised 42,067 owners/managers of SMEs in Lagos State, Nigeria. A sample size of 495 was determined using Cochran's formula. Simple random sampling technique was employed to select the respondents. A structured and validated questionnaire was used for data collection and 458 copies were retrieved representing 92.5 % and later used for analysis. The reliability test yielded Cronbach's alpha for the constructs ranging from 0.716 to 0.879. The response rate was 92.5%. The hypothesis was tested using Hierarchical regression analysis. The reliability of the questionnaire was tested using the Cronbach's alpha correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) software version 23 and Cronbach coefficient of 0.7 and above was considered adequate (Ellis, 2021).

4. Data Analysis and Results

H_{01}: Absorptive capacity has no moderating effect on the relationship between entrepreneurial innovation and SMEs performance of selected SMEs in Lagos State, Nigeria

To test the hypothesis, the study employed the three-step hierarchical regression approach outlined by Whisman and McClelland (2005) for testing moderation. The steps were as follows: In step 1, a regression analysis was conducted with the composite index of entrepreneurial innovation as the independent variable and SMEs performance as the dependent variable. In step 2, another regression analysis was performed, where the joint entrepreneurial innovation variable and absorptive capacity (the moderating variable) were regressed on SMEs performance. In step 3, the interaction variable "entrepreneurial innovation *absorptive capacity " was introduced into the model as an independent variable, alongside entrepreneurial innovation and absorptive capacity. The goal was to examine, if there was a significant change in R-squared, indicating whether the interaction effect of entrepreneurial innovation and absorptive capacity influenced SMEs performance. The regression outputs were examined to identify any substantial alterations in R-squared, signifying the impact of the interaction between entrepreneurial innovation and absorptive capacity on SMEs performance.

Table 1a Regression of Entrepreneurial innovation on SME performance of selected SMEs with the inclusion of absorptive capacity

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.528	2.755		2.732	.007
	Entrepreneurial Innovation	0.898	0.029	0.836	30.560	.000
2	(Constant)	3.447	2.355		1.464	.144
	Entrepreneurial Innovation	0.601	0.034	0.560	17.572	.000
	Absorptive Capacity	1.391	0.110	0.402	12.628	.000
3	(Constant)	-3.831	8.426		-0.455	.650
	Entrepreneurial Innovation	.684	0.098	0.637	6.964	.000
	Absorptive Capacity	1.770	0.436	0.512	4.062	.000
	En_In_ACt	-0.004	0.005	-0.173	-0.900	.369
a. Dependent Variable: SMEs Performance						

Source: Researchers' Field Results, 2024

Table 1a presents the summary of hierarchical regression analysis, which was used to test how absorptive capacity moderates the effect of entrepreneurial innovation on the performance of selected SMEs in Lagos State, Nigeria. The predictors are entrepreneurial innovation (En_In) aggregated, adsorptive capacity (ACt) and interaction of aggregated entrepreneurial innovation (En_In) and absorptive capacity (En_In *ACt) while the dependent variable is Performance (PF) aggregated. The results in Table 1 showed that $R^2 = 0.700$ and adjusted $R^2 = 0.699$ for Model I. This indicated that entrepreneurial innovation explained 70% variation in the performance of selected SMEs in Lagos State, Nigeria.

With the inclusion of absorptive capacity in Model II as an independent variable, there was an increase (R^2 change) of 0.085 or 8.5% from 0.700 to 0.785. Hence, entrepreneurial innovation, and absorptive capacity explain 78.5% of the variation in performance of selected SMEs in Lagos State, Nigeria. In model III, when the interaction term/variable was introduced in the model, R^2 was 0.786, while adjusted R^2 was 0.784. From the results, introducing the interaction variable marginally increases the R^2 change to 0.001. This signifies a very small increase in the explanatory power of the model. That is, it has a very small additional contribution to the variation in the performance of SMEs in the model. The interaction of the moderator (absorptive capacity) and entrepreneurial innovation increased performance narrowly.

Table 1b ANOVA for Regression of Entrepreneurial innovation on SME performance of selected SMEs with the inclusion of Absorptive Capacity

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	61135.204	1	61135.204	933.915	.000[b]
	Residual	26249.932	401	65.461		
	Total	87385.136	402			
2	Regression	68617.591	2	34308.795	731.237	.000[c]
	Residual	18767.546	400	46.919		
	Total	87385.136	402			
3	Regression	68655.584	3	22885.195	487.529	.000[d]
	Residual	18729.553	399	46.941		
	Total	87385.136	402			
a. Dependent Variable: SMEs Performance						

Table 1b showed an F-statistic [$F(1,402)$] to be 933.915, and $p<0.05$ for Model 1, where entrepreneurial innovation aggregated was the independent variable. This implies that entrepreneurial innovation had a significant effect on the performance of selected SMEs in Nigeria. Model II which included absorptive capacity as a moderating variable showed an F statistic [F (2,402)] of 731.237 with $p < 0.05$. This implies that the fitted model of entrepreneurial innovation with the inclusion of absorptive capacity (moderating variable) as an additional variable had a significant effect on the performance of selected SMEs in Nigeria. Model III which introduced the interaction term with the independent variables showed an F statistic [F (3,402)] of 487.529, $p <$

0.05. This implies that the fitted model of entrepreneurial innovation and absorptive capacity with the interaction term (moderating variable) had a significant effect on the performance of selected SMEs in Nigeria.

Table 1a shows the regression coefficient results with the three models. In Model I, the dependent variable (performance of selected SMEs) was regressed on the independent variable (entrepreneurial innovation). The results of the regression analysis revealed that entrepreneurial innovation ($\beta = 0.898$, $t = 30.560$, $p < 0.05$) had a positive and significant effect on the performance of selected SMEs in Nigeria. This implies that a one-unit change in entrepreneurial innovation is associated with a 0.898 change in the performance of selected SMEs. The overall model confirmed that entrepreneurial innovation had a significant contribution to the performance of selected SMEs (F (1, 402) = 933.915, p < 0.05).

The results in model II revealed that entrepreneurial innovation ($\beta = 0.601$, t = 17.572, $p < 0.05$) and absorptive capacity ($\beta = 1.391$, t = 12.628, $p < 0.05$) have a positive significant effect on the performance of selected SMEs in Nigeria. This implies that one unit change in entrepreneurial innovation is associated with 1.391 changes in the performance of selected SMEs respectively. Likewise, one unit improvement in absorptive capacity will lead to an increase in the performance of selected SMEs in Nigeria. The regression coefficients for entrepreneurial innovation and absorptive capacity revealed that they improved SMEs in a positive direction. The overall model also confirmed that entrepreneurial innovation and performance had a significant contribution to the performance of selected SMEs (F (2, 402) = 731.237, $p < 0.05$).

In Model III, entrepreneurial innovation ($\beta = 0.684$, $p < 0.05$) and absorptive capacity ($\beta = 1.770$, $p < 0.05$) were statistically significant, while the interaction variable (β = -.004, t = -0.900, $p > 0.05$) was statistically insignificant. When the interaction variable was introduced into the model, the beta coefficient (β) was -0.004 meaning that for every unit change in the interaction variable, the performance of the selected SMEs decreased by -0.004, but this change was statistically insignificant. The results suggest that absorptive capacity has a negative and statistically insignificant moderating effect on the relationship between entrepreneurial innovation and the performance of the selected SMEs in Lagos State, Nigeria. The regression equation from the analysis is stated as follows:

PRF = -3.831+ 0.684EI + 1.773ACt - 0.004 (EI*ACt) ----------Eqn. 1

Where:
PRF = Performance
EI = Entrepreneurial Innovation
ACt = Absorptive Capacity
EI*ACt = Interaction Variable

The results in equation 1 indicated that absorptive capacity has a negative and statistically insignificant moderating effect on the relationship between entrepreneurial innovation and the performance of the selected SMEs in Nigeria. Based on these findings, the null hypothesis H_{01} which states that the effect of entrepreneurial innovation dimensions and performance are not significantly moderated by absorptive capacity cannot be rejected.

Discussion of Findings

The test of the study hypothesis reveals that the effect of entrepreneurial dimensions on the performance of SMEs in Lagos State, Nigeria is not significantly moderated by absorptive capacity. The results of the study on the moderating influence of absorptive capacity on the link between entrepreneurial qualities and the performance of Small and Medium-sized Enterprises (SMEs) in Lagos State, Nigeria, are in line with the findings of other previous research that have been published in academia.

A study conducted by Usai et al. (2021) found that technology adoption had insignificant moderating effect on the relationship between innovation dimensions and SMEs performance. Also, the investigation conducted by Muhammed et al. (2018) revealed that technology adoption partially mediates the relationship between innovation dimensions and SMEs performance.

However, a study conducted by Wu et al. (2019) showed that absorptive capacity has a positive role in mediating the connection between information technology abilities and the effectiveness of open innovation in China. Analogously, Wang et al. (2020) discovered that the absorptive capacity served as a mediator between the firm network and disruptive innovation. According to Liu and Zhao (2018), absorptive abilities have a significant role in modulating the link between innovation dimensions and the performance of Small and Medium-sized Enterprises (SMEs) in China. The findings of this research give evidence that absorptive aptitude is a

significant aspect in increasing the effect of entrepreneurial characteristics on the success of Small and Medium-sized Enterprises (SMEs). This is accomplished by assisting Small and Medium-sized Enterprises (SMEs) inefficiently incorporating and utilizing information and resources from the outside world.

Despite this, it is of the utmost importance to realize the inconsistency that exists in some studies about the role of absorptive capacity. There is a dearth of tangible evidence associating absorptive capacity as a moderating component between entrepreneurial innovation and the performance of Small and Medium-sized Enterprises (SMEs), even though the current study and earlier studies provide the impression of a positive moderating influence. The fact that this is the case, demonstrates that the current body of knowledge is lacking in information, and it highlights the need to do further empirical research to provide more conclusive evidence on the moderating impact of absorptive capacity in a variety of contexts and industries.

From a theoretical point of view, the findings of the research are consistent with the notions that are outlined in the Dynamic Capability (DC) theory. As a result of the concept of Dynamic Capability, the relevance of a company's ability to modify, generate, and re-organise its internal and external resources in response to changing market conditions is brought to light. The fundamental purpose of the research is to investigate the moderating impact of absorptive capacity. This is in line with the focus that DC theory places on the integration and reconfiguration of resources to achieve a competitive advantage and greater performance (Teece & Pisano, 1997).

Furthermore, the use of DC theory as the theoretical framework for the study is supported by the fact that it is relevant in illuminating how organisations could utilize their resources to achieve a competitive advantage in environments that are rapidly changing. The emphasis that the theory focuses on adaptation, flexibility, and learning skills is particularly pertinent for Small and Medium-sized Enterprises (SMEs) that are functioning in dynamic markets such as Lagos State, Nigeria. Small and Medium-sized Enterprises (SMEs) have the potential to improve their performance and sustainability by aligning their resources, processes, and structures to build dynamic capabilities. This will enable them to effectively adjust to changing customer demands, the dynamics of the market, and technological innovations.

Even though DC theory provides valuable insights into how entrepreneurial characteristics influence the performance of Small and Medium-sized Enterprises (SMEs), it is essential to acknowledge that it may not fully include the complexities of absorptive ability as a moderator. Researchers are unable to reach an agreement about the degree to which absorptive ability plays a mediating role in the relationship between the two variables. It is clear from this that there is a need for more theoretical development within the scope of DC theory. More research may investigate the interaction between dynamic capabilities and absorptive capacities in the process of determining the success of Small and Medium-sized Enterprises (SMEs). This research must take into account contextual factors including the dynamics of the industry, the culture of the organisation, and the institutional surroundings.

5. Conclusion and recommendations

The study concludes that for SMEs to improve and sustain their performance, it is required that they undertake further research to evaluate additional contextual factors, even though absorptive capacity did not have significant impact on the relationship between entrepreneurial innovation and the performance of small and medium-sized enterprises (SMEs) in Lagos State, Nigeria.

While the moderating effect of absorptive capacity may not be significant, SMEs are encouraged to prioritize the development of absorptive capacity to facilitate knowledge assimilation and utilization. This study, therefore, recommends that SMEs should invest in human capital development through employee training and up-skilling initiatives, fostering a collaborative culture that encourages knowledge sharing and cross-functional learning, and forging strategic partnerships with external stakeholders to leverage external expertise and insights. By enhancing their absorptive capacity, SMEs can effectively harness internal and external knowledge resources to drive innovation, improve decision-making processes, and foster organisational resilience in the face of uncertainty and change.

REFERENCES

[1] Adebisi, S. A., & Bakare, N. D. (2019). Survival strategies and sustainability of small and medium enterprises in a volatile environment. *Management Dynamics in the Knowledge Economy, 7*(4), 553-569. doi: 10. 25019/MDKE/7.407

[2] Aderemi, T. A., Oyegoke, A. A., Wahid, D. O., Olaoye O. P., Ayodeji, G. B., & Azuh, D. E. (2021). Human capital development, energy consumption, and crude oil exports in Nigeria: Implications for sustainable development. *International Journal of Energy Economics and Policy, 11*(4), 443-449.

[3] Ahmed, E. (2018). Organizational citizenship behaviours and its relation with organizational performance of administrative leaders in Arabs sports systems. *Journal of American Science, 14*(1), 502-512.

[4] Aina, D. (2024, October 3). BOI disburses N77.56bn loans to 1,000 MSMEs. *Punch.* https://punchng.com/boi-disburses-n77-56bn-loans-to-msmes/

[5] Akpan, I. J., Udoh, E. A. P., & Adebisi, B. (2020). Small business awareness and adoption of state-of-the-art technologies in emerging and developing markets, and lessons from COVID-19 pandemic. *Journal of Small Business and Entrepreneurship,* 1-18. https://doi.org/10.1080/08276331. 2020.1820185.

[6] Ali, H. I., Hao, Y., & Aijuan, C. (2020). Innovation capabilities and Small and Medium Enterprises' performance: An exploratory study. *The Journal of Asian Finance, Economics and Business, 7*(10), 959–968. https://doi.org/10.13106/jafeb.2020.vol7.no10.959

[7] Al-Mamun, A., Fazal, S. A., Mohiuddin, M., & Su, Z. (2018). Strategic orientation, the mediating effect of absorptive capacity: A study among Malaysian manufacturing SMEs: *International Journal of Innovation Management,* (2019), 1-25. https://doi.org/ 10.1142/s1363919619500166.

[8] Anoke, F., Ngozi, N. H., Uchechukwu, E. S., & Joyce, I. (2022). Entrepreneurial marketing and SMEs growth in post Covid-19 era in Awka, Anambra State, Nigeria. *International Journal of Financial Accounting and Management, 4*(2), 115-127. https://doi.org/10.35912//ijfam.

[9] Arif, A. (2018). Impact of technology adoption on the performance of small and medium enterprises in India. *The Journal of Social Science Research, 5,* 857-867. https: doi.org/.10.3286/jssr.spi.5.857. 867.

[10] Arnett, D. B., Sandvik, I. L., & Sandvik, K. (2018). Two paths to organizational effectiveness, product advantage and life-cycle flexibility. *Journal of Business Research, 84*, 285-292.

[11] Babandi, I. G., & Barjoyal, B. B. (2021). Barriers to accessing finance institutional funding for Nigeria SMEs. *International Journal of Business and Economic Research, 10*(6), 219-226. https://doi.org/10.11648/j.jiber2021100612.

[12] Cohen. M., & Levinthal, D. A. (1990). Absorptive capacity: A new perspective on learning on innovation. *Administrative Science Quarterly, 35*(1), 128-152. https://doi.org/10.2307/2393553.

[13] Chesbrough, H. (2003). The logic of open innovation: Managing intellectual property. *California Management Review, 45*(3), 33-58.

[14] Darwish, T. K., Zeng, J., Rezaei Zadeh, M., & Haak-Saheem, W. (2020). Organizational learning of absorptive capacity and innovation: Does leadership matter? *European Management Review, 17*(1), 83–100. https://doi.org/10.1111/emre.12320

[15] Dim, E., & Nzube, C. A. (2020). Effect leadership styles on organizational performance of selected foam manufacturing firms in Anambra State, Nigeria. *International Journal of Management and Entrepreneurship, 2*(1), 13-27.

[16] Effiong, L., & Edet, S. (2018). Success of SMEs in Nigeria: Do environmental factors matter? *Journal of Economics and Sustainable Development, 9*(4), 117-128.

[17] Ejemeyovwi, J. O., Osabuohien, E. S., & Bowale, E. I. K., (2021). ICT adoption, innovation and financial development in a digital world: Empirical analysis from Africa. *Transnational Corporation Review, 13*(1), 16-31. https://doi.org/10.108019186444.20202.1851124

[18] Ekon, B., & Isayas, B. (2022). Factors impacting strategic management practices among SMEs in Nigeria. *African Economic and Management Review, 2*(1), 40-49.

[19] Ekong, J. E., Mfon, A. A., & Ibok, N. I. (2023). Innovative marketing skills and business performance of Small and Medium Scale Enterprises (SMEs) in Akwa Ibom State, Nigeria. *International Journal of Business and Management Review, 11*(3), 48–64. https://doi.org/10.37745/ijbmr.2013/ vol11n34864

[20] Etuk, S., Anyadighibe, J. A., James, E. E., & Ulo, A. I. (2022). Marketing mix and subscribers' satisfaction in the telecommunication industry. *Journal of*

Advanced Research and Multidisciplinary Studies, 2(1), 29-41.

[21] Fiiwe J. L., Egele, A. E., Ozo., J. U., & Komene, G. L. (2022). Impact of innovativeness dimension of entrepreneurial marketing on the financial performance of Small and Medium Scale Enterprises in Nigeria. *Global Academic Journal of Economics and Business, 4*(6), 182–193. https://doi.org/10.36348/gajeb.2022.v04i06.003

[22] Gerba, Y. T., & Viswanadham, P. (2016). Performance measurement of small scale enterprises: Review of theoretical and empirical literature. *International Journal of Applied Research, 2*(3), 531-535.

[23] Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal, 17*(2), 109-122. https://doi.org/10.1002/smj.4250171110

[24] Grant, R. M. (2002). *Contemporary strategy analysis: Concepts, techniques, application*. UK Blackwell Publisher Inc.

[25] Haaker, T., Ly, P. T. M., Nguyen-Thanh, N., & Nguyen, H. T. H. (2021). Business model innovation through the application of the Internet-of-Things: A comparative analysis. *Journal of Business Research, 126,* 126-136.

[26] Ibrahim, K. M., Hassan, A., Carim, A. A., & Oni, M. T. (2024). Online technology and business performance of SMEs in Osun State. *UNIZIK Journal of Marketing (UJofM), 1*(1), 131-146.

[27] Junaidi, J., Lubis, Z., Effendi, I., Aulia, M. R., Utami, M. P., & Supriatna, D. (2023). Strategy enhancement performance MSMEs through PTPN III partnership program. *Devotion Journal of Community Service, 4*(2), 438-445.

[28] Kiilu, J. M., & Kithae, P. P. (2020). Entrepreneurial innovation processes and firm performance in Kenya: A case of SMEs in Nairobi County. *International Journal of Management and Leadership, 2*(1)*,* 48-58.

[29] Kogut, B., & Zander, U. (1992). Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science, 3*(3), 383-397.

[30] Koohang, A., Paliszkiewics, J., & Golucchowski, J. (2017). The impact of leadership on trust, knowledge management and organisation: A research model. *Industrial Management and Data Systems, 17*(3), 521-537.

[31] Lane, P. J., Koka, B. R., & Pathak, S. (2006). The reification of absorptive capacity: A critical review and rejuvenation of the construct. *Academy of Management Review, 31*(4), 833-863.

[32] Lee, K. L., Romzi, P. N., Hanaysha, J. R., Alzoubi, H. M., & Alshurideh, M. (2021). Investigating the impact of benefits and challenges of IOT adoption on supply chain performance and organizational performance: An empirical study in Malaysia. *Journal of Uncertain Supply Chain Management, 10*(2022), 537-550. https://doi.org/10.5267/juscm.2021.11.009

[33] Leonard, D., & Swap, W. (2009). Deep smarts: How to cultivate and transfer enduring business wisdom. *Harvard Business Review, 77*(2), 47-56.

[34] Lichtenthaler, U. (2016). Absorptive capacity and firm performance: An integrative of benefits and downsides. *Technology Analysis and Strategic Management. 28*(6), 664-676.

[35] Liu, X., & Zhao, H. (2018). Absorptive capacity and business performance. The mediating effects of innovation and mass customization. *Industrial Management & Data System, 118*(9), 1787-1803.

[36] Loroun, B. B., Ming, X., & Ali, S. A. (2018). Investigating SMEs features in both China and Iran. *International Journal of Business, Economics and Management, 5*(2), 68-83.

[37] Madese, K., & Barasa, I. (2019). Absorptive capacity, marketing capabilities and innovation commercialization in Nigeria. *European Journal of Innovation and Management, 22*(5), 790-820.

[38] Mgeni, T. O., & Nayak. P. (2015). Impacts of entrepreneurial leadership style on business performance of female owned SMEs in Dar-es-Salam, Tanzania, *Journal of Entrepreneurship and Management,4*(2), 1-11.

[39] Murmann, J. P. (2003). *Knowledge and competitive advantage: The coevolution of firms, technology, and national institutions*. Cambridge University Press.

[40] Nnorom, G., Ikponmwonba, P., & Enyinnaya, G. (2023). Innovation and competitiveness of selected Small and Medium-scale Enterprises (SMES) in Lagos State, Nigeria. *Zenodo*

(CERN European Organization for Nuclear Research). https://doi.org/10.5281/zenodo.7892373

[41] Nonauka, I., & Takeuchi, H. (1995). *The Knowledge-creating company*. Oxford University Press.

[42] OECD & EUROSTAT. (2005). Oslo Manual: Guidelines for collecting and interpreting innovation data. (3rd ed.). OECD Publishing, Paris.

[43] Oladele, T. O., Akeem, J. B., & Orji, M. G. (2019). Effect of strategy implementation practices and market turbulence on SMEs performance in Nigeria context. *Amity Journal of Entrepreneurship, 4*(2), 45-57.

[44] Olawore, O. P., Olayinka, K. A., & Akinkunmi, M. K. (2016). Small and medium enterprises' participation in government procurement contracts in Nigeria. *International Journal of Management Science & Humanities (IJMSH), 4*(1), 1-22.

[45] Olawore, O. P. (2022). *Supply chain management challenges and business performance of selected oil and gas companies in Lagos State, Nigeria* (Unpublished doctoral thesis), Babcock University, Ilisan-Remo, Ogun State, Nigeria.

[46] Olawore, O. P., Oyelade, K. A., Tairu, O. A., Oduwole, W. K., & Awofala, H. T. (2024). Entrepreneurial innovation and market share of small and medium enterprises in Lagos State, Nigeria. *International Research Journal of Economics and Management Studies, 3*(10), 65-75.

[47] Olowookere, J. K., Hassan, A. O., Adewole, A. O., & Aderemi, T. A. (2021). Small and medium scale enterprises (SMEs) financing and sustainable economic growth in Nigeria. *The Journal of Accounting and Management, 11*(1), 220-228.

[48] Patel, P. C., Terjensen, S., Li, D. (2012). Enhancing effects of manufacturing flexibility through operational absorptive capacity and operational ambidexterity. *Journal of Operations Management, 30*(3), 201-220.

[49] PwC's MSME Survey Report. (2024). Building resilience: Strategies for MSME success in a changing landscape. https://www.pwc.com/ng/en/publications/strategies-for-msme-success.html

[50] Rojas-Lema, X., Alfaro-Saiz, J. J., Rodriguez-Rodriguez, R., & Verdecho, M. J. (2021). Performance measurement in SMEs: Systematic literature review and research directions. *Total Quality Management & Business Excellence, 32*(15), 1803-1828.

[51] Rousseau, M. B., Mathias, B. D., Madden, L. T., & Crook, T. R. (2016). Innovation, firm performance, and appropriation: A meta-analysis. *International Journal of Innovation Management, 20*(3), 16-32. https//doi.org/10.1142/S136391961650033X

[52] Qosasi, A., Maulina, E., Purnomo, M., Muftiadi, A., Permana, E., & Febrian, F. (2019). The impact of information and communication technology capability on the competitive advantage of small businesses. *International Journal of Technology, 10*(1), 167-177.

[53] Sarsah, S. A., Tian, H., Bylon, A. B., Dogbe, C. S. F., & Pomegbe, W. W. K. (2020). Effect of entrepreneurial orientation on radical innovation performance among manufacturing SMEs. The mediating role of absorptive capacity. *Journal of Strategic Management, 13*(4), 551-570. https://doi.org/101.1108/jsma-03-2020.0063.

[54] Shakeel, J., Mardani, A., Chofreh, A. G., Goni, F. A., & Klemes, J. J. (2020). Anatomy of sustainable business model innovation. *Journal of Cleaner Production, 261*, 121201.

[55] Sonia, C., Diana, L. G., & Maria-Jose, M. (2018). Absorptive capacity and its impact on innovation and performance: Findings from SEM and fsQCA. *Review of Managerial Science*, *159(*2021), 235-249.

[56] Spender, J. C. (1996). Making knowledge the basis of a dynamic theory of the firm. *Strategic Management Journal, 17*, 45-62.

[57] Subagyo, K., & Ernestivita, G. (2020). Entrepreneurial parameters and performance of MSMEs in East Java province of Indonesia. *International Journal of Business Innovation and Research*, 23(2), 267-282. https://doi.org/10.1504/IJBIR.2020.110102

[58] Subramaniam, M., & Youndt, M. A. (2005). The influence of intellectual capital on the type of innovative capabilities. *Academy of Management Journal, 48*(3), 450-463. https: //doi.org/10.5465/amj. 2005.17407911.

[59] Todorova, G., & Durisin, B. (2007). Absorptive capacity: Valuing a reconceptualization.

Academy of Management Review, 32, 774-786. https://doi.org/10.5465/AMR.2007.25275513

[60] Tomal, D. R., & Jones K. J. (2015). A comparison of core competencies of women and men leadership in manufacturing industry. *The Coastal Business Journal, 14*(1), 13-25.

[61] Urban, B., & Verachia, A. (2019). Organizational antecedents and innovative firms: A focus on entrepreneurial orientation in South Africa. *International Journal of Business and Research, 18*(1), 128-144.

[62] von Krogh, G. (1998). Care in knowledge creation. *California Management Review, 40*(3), 133-153. https://doi.org/10.2307/41165947

[63] Wang, Z., Ling, J., & Chok, J. I. (2020). Relational embeddedness and disruptive innovation: The mediating role of absorptive capacity. *Journal of Engineering Technology Management, 57*(2020), 1-14.

[64] Wu, S., Ding, X., Liu, R., & Gao, H. (2019). How does IT capability affect open innovation performance? The mediating effect of absorptive capacity. *European Journal of Innovation Management,* 1-23, 1460-1060. doi: 10.1108/EJIM-02-2019-0043.

[65] Yinus, M. A., Tarhini, A., & Kassar, A. (2018). The role of ICT and innovation in enhancing organizational performance: The catalyzing effect of corporate entrepreneurship. *Journal of Business Research, 8*(8*),* 344-356.

[66] Zahra, S. A., & George, G. (2002). Absorptive capacity: A review, reconceptualization, and extension. *The Academy of Management Review, 27*(2), 185-203.

[67] Zahra, S. A., Sapienza, H. J., & Davidson, P. (2006). Entrepreneurship and dynamic capabilities: A review, model and research agenda. *Journal of Management Studies, 43*(4), 917-955. https:// doi.org/10.1111/j.1467-6486.2006.00616.x

[68] Zhai, Y., Sun, W., Tsai, Y., Wang, Z., Zhao, Y., & Chen, O. (2018). An empirical study on entrepreneurial orientation, absorptive capacity and SMEs innovation performance: A sustainable perspective. *Sustainability, 10*(2), 1-14. doi: 10.3390/su10020314.