

Capacity Building and Small and Medium Enterprises' Performance in South West, Nigeria

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Abstract

This study examined the impact of capacity building on the performance of Small and Medium Enterprises (SMEs) in South West, Nigeria. The study focused on two key capacity building indicators: technology adoption and innovation culture. The study adopted a survey research design. The population of the study consisted of owners/managers of SMEs and a 380-sample size was determined using the Taro Yamane formula. A Stratified sampling technique was employed to get the respondents. Data were collected with the aid of a structured questionnaire. The responses were analysed using linear regression analysis. The results showed a substantial and positive connection between SME performance and technology adoption, $R = 0.875$ and $R^2 = 0.766$, meaning that technology adoption accounts for 76.6% of the variance in performance. The model demonstrated high predictive accuracy ($\beta = 0.875$, $F = 1233.985$, $p = 0.000$). Also, innovation culture had a strong impact on performance, $R = 0.895$ and $R^2 = 0.800$, indicating that innovation practices in businesses account for 80% of performance variance. While the $\beta = 0.895$ confirmed a large impact, the ANOVA results ($F = 1513.558$, $p = 0.000$) further supported this relevance. The study concluded that capacity building, particularly technology adoption and innovation culture, significantly enhances SME performance. Specifically, SMEs that integrate technology and promote innovation outperform those that do not. The study's key recommendations include: investing in technology to enhance SME operations; promoting innovation and creativity among employees to drive competitiveness; and policymakers providing capacity building Support through training programmes, mentorship schemes, and innovation hubs.

Keywords: Capacity building, technology adoption, innovative culture, SMEs performance, entrepreneurial innovation, small and medium enterprises.

Introduction

The earliest forms of entrepreneurship were based on the exchange of goods and services, also known as bartering or trade by barter, before the advent of any form of money. Entrepreneurship started when people produced more products than they needed, as such they had to exchange surpluses. This led to the idea of specialization, and producers concentrated in their areas of production to produce more and then exchange with what they needed (Changalima, Ismail, & Amani, 2025; Valentina & Uchealo, 2023). Early entrepreneurship was characterised by production or manufacturing, where the entrepreneur typically starts with a small capital, often relying on personal savings.

The modern entrepreneurship in Nigeria emerged during the colonial period, when European powers introduced new trade practices. Locals became intermediaries, buying goods from colonial masters and reselling them to fellow Nigerians. The British colonial administration brought about a significant change by introducing a cash-based economy, replacing trade by barter systems and transforming the way Nigerians conducted economic transactions. This created opportunities for

many entrepreneurs to import goods and export commodities such as palm oil, groundnut, and cocoa among others. Entrepreneurship plays a vital role in the South West's economic growth, driven by numerous small and medium-sized indigenous businesses. These enterprises are instrumental in developing innovative products and services. The zone's economic activities are primarily anchored on agriculture, with farming being a dominant pursuit. The main crops cultivated include; cassava, yam, cocoa, and rubber among others (Changalima *et al.*, 2025). In addition to agriculture, which dominates the rural economy, the states are renowned for their thriving commerce and trade. The South West region is home to a plethora of micro, small, and medium enterprises (MSMEs) indigenous industries, specializing in manufacturing, fabrication, and agro-allied products (Eyanuku, 2022).

SMEs are crucial to the economic growth and development of the nation, but they often face significant challenges that hinder their performance and sustainability. One of the key challenges is the lack of capacity and resources to adopt best practices, innovate, and compete effectively in the market (Cheng, Wu, & Xiao, 2025; Mohammed, & Bardai, 2024). Capacity building can play a vital role in addressing these challenges and enhancing SMEs performance. However, the purpose of this study is to investigate the impact of capacity building (technology adoption and innovation culture) on SMEs' performance, including their effectiveness, efficiency, and sustainability. This study aims to explore the relationship between capacity building (technology adoption and innovative culture) and SMEs performance, with a focus on identifying the most effective capacity building strategies that can support, improved performance among SMEs.

Conceptual Clarification

Capacity Building

Capacity building is a crucial idea that is important in different areas. Its goal is to improve the skills, abilities, and resources of individuals and organizations so that they can effectively achieve organizational goals and objectives. It acts as a fundamental component in areas such as business, education, public administration, and community development (Wachira, 2024). This competence is essential for the organization to be more effective. The term "capacity building" is used to describe the process of enhancing the skills, knowledge, and capabilities of individuals, organizations, and communities in order to better achieve their goals and objectives (Harden-Davies, Osei & Odoom, 2022). As a result of its ability to empower individuals and communities to become self-sufficient and capable of facing future obstacles, it is an essential component of sustainable development. The process of capacity building is a crucial component of any program that is designed to be successful in terms of development efforts (Sakib, Septiana & Ashari, 2022). It encompasses a wide range of activities, including training, coaching, mentoring, technical support, and resource allocation, all of which are aimed at enhancing the capabilities and skills of communities and organizations to recognize and address their need (Eyanuku, 2022).

Capacity building encourages innovation and creativity since it enables individuals and organisations to come up with new ideas and methods for addressing issues (Ziervogel, Septiana, & Ashari, 2022). In addition, the development of capacities is necessary for the achievement of sustainable development and the establishment of communities that are prospering. It is necessary for stakeholders at all levels, whether they are individuals, organizations, or governments, to maintain their commitment and investment in the endeavour. According to Agyei (2021), capacity building is a process that continues throughout one's entire life and should be regarded as a continuing commitment to constructing a better future.

Community empowerment is another important aspect of capacity building. Scholars such as Chambers (2023) promote participatory approaches to capacity building, emphasizing the necessity of incorporating community members in the planning and implementation processes. Chambers (2023) contended that when communities actively participate in capacity-building projects, the results are more permanent and effective. This participatory method ensures that the solutions created are appropriate for the community's needs and context, generating a sense of ownership and commitment among community members (Kumar & Sharma, 2023).

Even the best-designed capacity-building initiatives may fail to meet their objectives in the absence of a supportive policy climate and solid institutional frameworks (Silva & Santos, 2022). When it comes to SMEs, capacity building entails developing managerial abilities, improving technical expertise, and cultivating an environment that is conducive to business. In order for SMEs to achieve sustainable development and improvement in their performance, capacity building is an essential component. It involves a variety of characteristics, such as the development of skills, the building of organizations, and the mobilization of resources, all of which are crucial for improving the operational efficiency of SMEs (Wachira, 2024). Capacity building encompasses various sub-variables, including: technology adoption and innovation culture. These sub-variables are essential for organisations to build their capacity, enhance performance and achieve their goals.

Technology Adoption

Technology adoption is the process of integrating new technologies into daily operations, driving business growth. It measures how well new tools and technologies are accepted and incorporated into business processes. To survive and grow a business in a competitive market, small and medium organizations need to pay attention to the use of new technology (Shahadat, Nekmahmud, Ebrahim, & Farkas, 2023). Technology adoption is a pivotal process that enables individuals, organizations, and societies to harness the potential of new technologies, integrating them into daily operations and organizational culture. This process commences when business owners and managers become aware of the benefits of a particular technology, fostering a favourable attitude towards its adoption. Technology adoption is a process that occurs in stages: the awareness and attitude formation stage, implementation and testing stage, evaluation and decision-making stage.

Digital technology, particularly information and communication technology (ICT) adoption, can increase SMEs' ability to flow information, reduce operational costs and improve quality to gain competitive advantages (Tarute & Gatautis, 2014; Zide & Jokonya, 2022). Bayo-Moriones, Billion, & Lera-Lopez, 2013) stated that investment in ICT enhances organizational capabilities and significantly impacts internal and external communication.

The digital environment in business is very important for economic growth (Xie & Redding, 2018). Business owners and managers become cognizant of the technology's benefits, adopt it, and assess its effectiveness in improving operations and performance. Embracing technology can make businesses optimize their operations, enhance productivity, and stay competitive in an increasingly technology-driven world. Technology innovation has significantly changed business performance, especially in SMEs (Shahadat et al, 2023).

Innovation Culture

Innovation culture refers to the organizational values, norms and practices that encourage and support the creation, experimentation, and implementation of new ideas, products, services or processes within SMEs (Sakib et al., 2022). This culture is characterized by: risk-taking; collaboration, fostering open communication, teamwork, and partnerships; creativity, embracing diversity, imagination, and innovative thinking; learning orientation, encouraging continuous

learning, feedback, and improvement; flexibility, adapting quickly to changing market conditions and customer needs; autonomy, empowering employees to make decisions and take ownership of projects; and reward and recognition, incentivizing innovation and celebrating successes. (Changalima et al, 2025).

The benefits of innovation culture in SMEs are numerous. SMEs can improve their competitiveness, and stay ahead of competitors through innovation. They can also increase revenue streams through innovative products or services. In addition, innovation culture enhances customer satisfaction, meeting evolving customer needs through innovative solutions. It also promotes better decision-making, and experimentation (Eyanuku, 2022). Further, an innovation culture attracts and retains top talent who value innovation and creativity. Fostering an innovation culture is crucial for SMEs to drive growth, competitiveness, and sustainability in today's fast-moving business environment. SMEs can stay ahead of the curve and achieve long-term success, by embracing innovation and creating a culture that supports it (Ehiaguina, Sijibomi, Yakubu, & Ediuku, 2025).

SMEs Performance

SMEs performance refers to the financial, operational, and strategic goals achievement of the enterprise. SMEs performance encompasses various aspects of the business; the cash flow, revenue growth, profitability, return on investment (ROI), efficiency, productivity, quality, customer satisfaction, innovation, competitive advantage among others (Cheng et al, 2025; Sakib et al, 2022). Mouzas and Bauer (2022) investigated performance from three distinct perspectives: market effectiveness, which refers to the capacity to achieve one's objectives; operational efficiency, which refers to the capacity to generate excellent output with less input; and financial resilience, which refers to the capacity to withstand debilitating circumstances. In this study, SMEs performance is being examined with capacity building; technology adoption and innovation culture.

Theoretical Framework

Innovation Theory and the Technology Acceptance Model (TAM), were the underpinning theories employed in this study. Innovation theory suggests that innovation is a key driver of organizational performance. Renowned scholars have contributed to the development of innovation theory significantly. Schumpeter (1911) highlighted the crucial role of innovation in driving economic growth. He emphasized the importance of entrepreneurs and innovators in creating new opportunities. Rogers (1983) introduced the concept of how new ideas and technologies spread through populations. Rogers' work provided insights into the adoption and diffusion of innovations, shedding light on the complex processes involved. Capacity building such as technology adoption and innovation culture can foster innovation leading to improved SMEs performance.

Davis (1986) introduced Technology Acceptance Model (TAM) which explains how users adopt and utilize technology. The model posits that two factors influence technology adoption: perceived usefulness and perceived ease of use. Perceived usefulness refers to the degree to which users believe the technology will improve their performance. Perceived ease of use refers to the degree to which users believe the technology is easy to use. Davis model helped in understanding technology adoption and utilization. Capacity building can influence SMEs' technology adoption and utilization, leading to improved performance.

Empirical Review

Umar, Goni, and Satomi, (2019) carried out a study on capacity building and operational capabilities of public sector organization. Secondary data were employed. The study revealed that the behaviour of employees within firms has important implications on organizational performance. The study recommended that the government should ensure effective enforcement of manpower policies and enhance the confidence of its workers through capacity building. Also, there should be a continuous increase in budgetary allocation to education and training for civil servants to enhance their skills and abilities, ensuring effective performance that meets international standards.

Abdullah and Akhbar (2020) investigated capacity building for SMEs, realizing the training gap amongst SMEs in Malaysia. The objectives of the study were to identify the types of training received by SMEs; investigate the training requirements in different fields of SMEs, realize the training gap among the SMEs. The survey was conducted using a structured questionnaire, to obtain data from 344 respondents. Data were analyzed using descriptive statistics and SPSS software. Findings revealed that more than half of the respondents did not have any prior business experience. Also, a significant training gap was revealed among the SMEs, in terms of what they have received and what they require currently and in future. Findings also revealed that the most demanded trainings were marketing and international business, operations management, ICT, and R&D. In conclusion, education was found to be an important factor in determining both the training received and training requirements of SMEs. The study recommended that there is a need to develop and provide more training programmes for SMEs by the government of Malaysia and other private agencies.

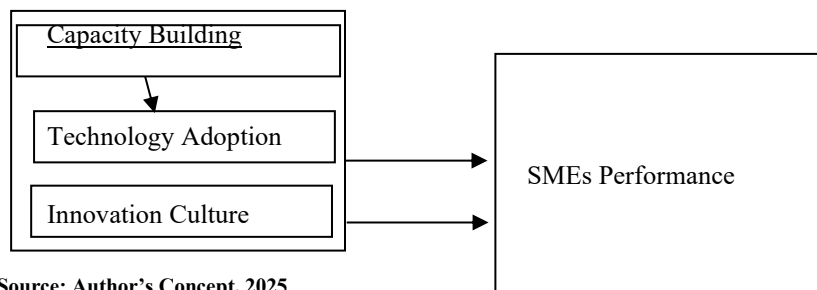
Ayoola, Dangoma, and Anakah (2021) investigated the relationship between capacity building challenges and employees' performance in universities of technology in South West, Nigeria, focusing on the impact of training and leadership style on job performance. The study employed a correlation design, collecting primary data via questionnaires from 300 respondents across four universities, selected through stratified random sampling. Data analysis combined descriptive and inferential statistical methods. Findings revealed that the selected institutions faced challenges in their attempt to facilitate and enhance employees' capacity building. The study also revealed that training and leadership style have a positive impact on employees' job performance in the institutions. In conclusion, poor decision-making by the management can undermine the effectiveness of capacity building programmes. The study recommended that capacity building must be conducted periodically to capture all areas requiring training. Additionally, institutions should establish staff-oriented organizational structures, policies and frameworks for interpersonal relationships within universities.

Sajuyigbe, Eniola, Adebajji, and Oladejo (2021) investigated the influence of capacity building on women-owned SMEs' execution. Specifically, on financial inclusion strategy, social inclusion strategy, entrepreneurial orientation strategy and networking skills strategy on women owned SMEs' performance. A survey research design was employed, with a structured questionnaire to gather data from 220 respondents, analysed through descriptive statistics, correlation and regression analysis. Findings revealed that capacity building components are major predictor of women-owned SMEs' performance. In conclusion, the study confirmed that the capacity building components have influence on women-owned SMEs' performance. Skills in financing, culture re-orientation, risk taking, and networking are strong predictors of women-owned SMEs' performance. The study recommended that a broad spectrum of programmes such as;

entrepreneurial training, financial literacy, networking training, should be introduced to empower women entrepreneurs in SMEs.

Changalima, Ismail and Amani (2025) in their study investigated the link between technological absorptive capacity, e-business innovation, and SME performance, focusing on the mediating effect of innovation. Data were obtained from 179 sunflower oil-processing SMEs in Tanzania and analysed using partial least squares structural equation modelling. Findings revealed that technological absorptive capacity enhances business performance, with e-business innovation playing a mediating role in this relationship. In conclusion, this study provides important empirical evidence of the role of technological absorptive capacity and e-business innovation in enhancing SME business performance. The study recommended that SME managers should be equipped with the necessary knowledge and skills to adopt technology-based tools and manage a smooth transition from traditional to digital business operations.

Conceptual Model



Source: Author's Concept, 2025

Methodology

This study employed a survey research design, to collect data from SME owners / managers, using questionnaire to gather data on technology adoption and innovation culture. The population consisted of 104,939 registered SMEs in Lagos State, Ogun State, and Oyo State in South West, Nigeria. The breakdown is as follows: Lagos State (42,067), Ogun State (31,133), and Oyo State (31,739), (MSME Survey, 2021). Yamane's formula was used to determine a sample size of 399. The study employed a stratified sampling approach to ensure representation from various subgroups among the respondents. However, after careful consideration of practical factors, the final sample size was adjusted to 380. The survey was conducted online using Google Forms, and there were natural limitations in reaching all 399 respondents effectively. Some individuals might have been unavailable or unwilling to participate, leading to a slightly reduced sample size. Nevertheless, the slight reduction did not compromise the validity of the research findings. Regression analysis was used to examine the relationship between capacity building and SMEs' performance.

Results of Findings

Table 1: Distribution of Responses based on Southwestern States in Nigeria

State	Number of Retrieved Response	Percent
Lagos	156	41.0
Ogun	131	34.5
Oyo	93	24.5
Total	380	100.0

The distribution of responses across the three Southwestern states of Nigeria Lagos, Ogun and Oyo is a reasonable geographic representation and an equally balanced sample in the dataset. From the 380 respondents, there were 156 from Lagos State, the highest, and this accounts for 41.0% of the total. This is unsurprising, considering Lagos's position as Nigeria's business centre, with a high level of Small and Medium Enterprises (SMEs) and even more formalized businesses. Ogun State came immediately behind with 131 returns (34.5%), as befits it being an industrial belt because it is that close to Lagos and contains many manufacturing clusters. Oyo State was also well represented, with 93 respondents (24.5%). These figures indicate a relatively high SME presence and engagement in the state.

Regression Analysis Interpretation

Table 2: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error Estimate
1	.875 ^a	.766	.765	.49556
a. Predictors: (Constant), Technology Adoption				
b. SMEs Performance				

Source: Researcher's Field Survey, (2025)

The Regression analysis in Table 2 confirms the significant relationship between Capacity building (technology adoption) and SME performance. The relationship is a strong one with an R-value of 0.875. Technology adoption accounts for almost 77% of SME performance variation, as indicated by the R Square value of 0.766. The massive explanatory power is confirmed by the adjusted R Square (0.765), after the control of other variables. With a standard error of 0.49556, the predictions by the model seem highly accurate. The findings as a whole suggest that SMEs can be precisely and positively predicted to be successful by embracing technology.

Interpretation of Each Predictor's Significance

Table 3: Regression showing the significance of each predictor to SME Performance

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	303.036	1	303.036	1233.985	.000 ^b
Residual	92.827	378	.246		
Total	395.864	379			

a. Predictors: (Constant), Technology Adoption

b. SMEs Performance

Source: Researcher's Field Survey, (2025)

Table 3 shows the ANOVA table which demonstrates the statistical significance of the regression model. The significant level (Sig.) is .000, drastically below the conventional threshold of 0.05, and the F-value is extremely large (1233.985). Thus, the model's findings are not the result of chance, and technology adoption has a significant effect on SME performance. Hence, the performance of SMEs can be significantly predicted by technology adoption.

Interpretation of Each Predictor's Contribution

Table 4 Contribution of each predictor to SME Performance

Model		Unstandardized Coefficient		Standardized Coefficient	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.279	.060		4.673	.000
	Technology Adoption	.840	.024	.875	35.128	.000

Source: Researcher's Field Survey, (2025)

Table 4 demonstrates that Capacity building (technology adoption) significantly and positively impacted the performance of SMEs. After controlling for other variables, the unstandardised coefficient (B) for technology adoption is 0.840, meaning that for every unit increase in technology adoption, SME performance rises by 0.84 units. The fact that technology adoption is a highly significant predictor is further supported by the standardized coefficient (Beta) of 0.875. The results are statistically significant, as indicated by the high and extremely significant p-values (Sig. =.000) for both the constant and technology adoption. Technology adoption is generally significant in the improvement in SME performance.

Regression Analysis Interpretation

Table 5: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error Estimate
1	.895 ^a	.800	.800	.45747
a. Predictors: (Constant), Innovation Culture				
b. SMEs Performance				

Source: Researcher's Field Survey, (2025)

The regression analysis in Table 5 shows a strong correlation between Capacity building (innovation culture) and SME performance. The R-value reveals a good correlation of $R = 0.895$. 80% of the variance in SME performance may be explained by innovation culture, according to the R Square value of 0.800. The Adjusted R Square of 0.800 and its confirmation, even when taking into account any additional factors, confirm a strong explanatory value. The model's predictions are comparatively accurate, as evidenced by the standard error of 0.45747. All things considered, the results point to Capacity building (innovation culture) as a strong and positive predictor of SME performance.

Interpretation of Each Predictor's Significance

Table 6: Regression showing the significance of each predictor to SME Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	316.756	1	316.756	1513.558	.000 ^b
	Residual	79.108	378	.209		
	Total	395.864	379			

a. Predictors: (Constant), Innovation Culture

b. SMEs Performance

Source: Researcher's Field Survey, (2025)

In Table 6, the ANOVA table demonstrates how highly significant the regression model is. The association between innovation culture and SME performance is statistically significant, as evidenced by the very high F-value of 1513.558 and the significance level (Sig.) of .000. It means that SME success is significantly predicted by innovation culture, and there is virtually no possibility that this outcome would have been the consequence of random fluctuation.

Interpretation of Each Predictor's Contribution

Table 7: Contribution of each predictor to SME Performance

Model		Unstandardized Coefficient		Standardized Coefficient	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.169	.057		2.982	.003
	Innovation Culture	.905	.023	.895	38.904	.000

Source: Researcher's Field Survey, (2025)

Table 7 demonstrates that Capacity building (innovation culture) significantly improves the performance of SMEs. With all other factors held constant, the unstandardized coefficient (β) value of 0.905 indicates that a one-unit increase in innovation culture will result in an approximate 0.91-unit improvement in SME performance. Innovation culture is a highly significant predictor, as evidenced by the standardized coefficient (Beta) value of 0.895. The dependability of these findings is confirmed by the statistical significance of the p-values for both the constant and innovation cultures (Sig. = .003 and .000, respectively). The creation of an innovative culture essentially boosts the performance of SMEs.

Discussion

Technology adoption has a strong positively significant effect on SME performance. This finding is consistent with the findings of scholars such as Shahadat *et al* (2023) whose research showed that technology innovation has significant positive impact on SMEs' firm performance. Similarly, Ziervogel *et al* (2022) emphasises how important technology is to making small businesses more effective and competitive. Process and product improvements, which are frequently made possible by technology, are crucial for SMEs' profitability and customer happiness (Shahadat *et al.*, 2023). According to Tarute and Gatautis (2014) however, technological adoption does not benefit all SMEs equally because they lack the necessary resources and expertise. Furthermore, Kumar and Sharma (2023) show that organizational culture rather than technology may be a more important component for the success of SMEs.

More so, innovation culture is a strong and positive predictor of SME performance. This same finding is also evident in the study of Ziervogel *et al* (2022), where it was observed that an innovative organizational culture greatly boosts the innovation capability of SME managers and hence business performance. According to Mouzas and Bauer (2022) research, a strong innovation culture is directly linked to better performance across a range of SME industry domains. Ehiaguina *et al* (2025) point out that although innovation culture is crucial, its effects may be diminished if sufficient process and product are not enhanced while utilizing marketing strategies. In contrast, Sakib *et al.*, (2020) found that innovation culture cannot make up for the market limitations and structural disadvantages that most SMEs in less developed economies suffer.

Conclusion

The study concluded that capacity building, specifically technology adoption and innovation culture, have a positive impact on SMEs performance. The findings revealed that SMEs that adopt technology and foster an innovation culture tend to perform better than those that do not. Technology adoption has a significant influence on SMEs' performance, enhancing efficiency, productivity, and competitiveness. Effective technology integration can drive business growth, improve customer satisfaction, and increase profitability, ultimately positioning SMEs for long-term success. Also, innovation culture has a positive impact on SMEs' performance, fostering creativity, adaptability, and resilience. By embracing innovation, SMEs can differentiate themselves, respond to market changes, and achieve sustainable growth and success.

Recommendations

Based on the findings, this study recommended the following;

- i. That SMEs should invest in technology and encourage innovation to improve their operations, efficiency, and productivity.
- ii. Entrepreneurs should invest in digital literacy training for employees and conduct regular technology audits to identify areas for improvement. Implement user-friendly technologies, and provide incentives for employees to adopt them. Also, collaborate with technology experts and vendors for successful technology integration.
- iii. SMEs should encourage innovation and creativity among employees to stay competitive and adapt to changing market conditions. This can be achieved by promoting experimentation, collaboration, and recognition, while providing resources and funding for innovative projects and ideas.
- iv. In addition, policymakers should provide support for capacity building; such as training programmes, mentorship schemes, and innovation hubs to help SMEs develop their capabilities.

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