

INNOVATIVE CAPACITY AND BUSINESS OUTCOMES OF SMALL AND MEDIUM ENTERPRISES IN PORT HARCOURT

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Abstract

This study examined the relationship between innovative capacity and business outcomes of Small and Medium Enterprises (SMEs) in Port Harcourt, Rivers State. Specifically, the study investigated the influence of innovativeness on financial performance and customer satisfaction. A quantitative research design employing a descriptive survey approach was adopted. Data were collected from 200 SME owners and managers using a structured questionnaire measured on a 5-point Likert scale. Descriptive statistics and Pearson Product Moment Correlation were used to analyze the data at a 5% level of significance. The findings revealed a significant positive relationship between innovative capacity and financial performance ($r = 0.512$, $p < 0.05$) as well as between innovative capacity and customer satisfaction ($r = 0.637$, $p < 0.05$). The results further indicated that innovative capacity explains 26.2% of the variance in financial performance and 40.6% of the variance in customer satisfaction. The study concludes that innovativeness is a critical strategic capability for SMEs operating in volatile environments and recommends that SME owners prioritize innovation-driven strategies to enhance competitiveness, profitability, and customer loyalty.

Keywords: Customer Satisfaction; Entrepreneurship; Financial Performance; Innovativeness

Introduction

Small and Medium Enterprises (SMEs) remain the backbone of most developing economies, contributing significantly to employment generation, poverty reduction, and economic diversification. In Sub-Saharan Africa, SMEs account for a substantial proportion of business activities and are widely recognized as engines of sustainable development (Endris & Kassegn, 2022). In Nigeria, SMEs represent over 90% of registered businesses and contribute meaningfully to national output and job creation, reinforcing their strategic importance to economic stability and inclusive growth (Ariyo, 2005; National Bureau of Statistics, 2022).

Within the dynamic commercial landscape of Port Harcourt, SMEs operate in a highly competitive and volatile environment characterized by infrastructural constraints, fluctuating exchange rates, policy uncertainties, and shifting consumer preferences (Agwu, 2013; Yepwi et al., 2025). These environmental pressures compel firms to develop internal capabilities that enable them not only to survive but also to achieve superior performance outcomes. Among such capabilities, innovative capacity, particularly innovativeness, has emerged as a central entrepreneurial trait that shapes firm competitiveness and long-term viability.

Innovativeness refers to a firm's propensity to support creativity, experimentation, novelty, and the introduction of new products, services, or processes. It embodies an organization's willingness to depart from established practices and embrace new ideas that create value. Empirical studies suggest

that entrepreneurial innovativeness significantly influences SME profitability and market performance in Nigeria (Uchenna & Okoye, 2020). Similarly, Andjarwati et al. (2021) found that innovation enhances marketing performance, while other studies (Agyapong et al., 2021; Khan et al., 2021) demonstrated that entrepreneurial orientation dimensions, including innovativeness, positively affect enterprise performance in developing economies.

Financial performance remains a primary indicator of business success. For SMEs, it reflects profitability, revenue growth, cost efficiency, and overall financial sustainability (Abiodun & Amos, 2022). In highly competitive markets such as Port Harcourt, financial performance is often influenced by a firm's ability to differentiate its offerings, respond swiftly to environmental changes, and deploy creative strategies. Innovativeness enables SMEs to introduce improved products, streamline operations, and exploit emerging market opportunities, thereby enhancing financial returns.

Beyond financial metrics, customer satisfaction represents another critical dimension of business outcomes. Customer satisfaction reflects the degree to which products or services meet or exceed customer expectations and is closely linked to customer loyalty, repeat patronage, and positive word-of-mouth (Adebiyi & Bello, 2010). In service-intensive and retail-oriented SME sectors, the ability to innovate, whether through product customization, improved service delivery, digital engagement, or responsive feedback systems, directly influences customer perceptions and satisfaction levels.

Despite the acknowledged importance of innovation in SME development, existing studies often examine innovation as one component within broader entrepreneurial orientation constructs or focus on national-level analyses without isolating specific entrepreneurial traits at the city level. For example, Uchenna and Okoye (2020) assessed entrepreneurial innovativeness and profitability in Nigeria broadly, while Nwekeala (2023) explored entrepreneurial marketing and SME development in Port Harcourt. However, limited empirical research appears to have isolated innovative capacity as a singular entrepreneurial variable and examined its dual impact on both financial performance and customer satisfaction among SMEs in Port Harcourt.

This gap is significant because SMEs in Port Harcourt face unique contextual realities, including infrastructural limitations, oil-dependent economic fluctuations, and intense local competition. Understanding how innovativeness independently drives financial and non-financial outcomes within this environment is crucial for both managerial decision-making and policy formulation. Failure to cultivate innovativeness may result in stagnation, declining profitability, and customer attrition, particularly in volatile markets where adaptability determines survival. Conversely, SMEs that embed creativity, novelty, and adaptability into their strategic orientation are more likely to achieve sustainable profitability and enhanced customer satisfaction. Thus, the present study isolates innovative capacity, operationalized as innovativeness, as a crucial entrepreneurial trait and examines its influence on business outcomes of SMEs in Port Harcourt. Specifically, the study seeks to:

- i. Determine the relationship between innovativeness and financial performance of SMEs in Port Harcourt.
- ii. Examine the relationship between innovativeness and customer satisfaction of SMEs in Port Harcourt.

In line with these objectives, the study is guided by the following null hypotheses:

H₀₁: There is no significant relationship between innovativeness and financial performance of SMEs in Port Harcourt.

H02: There is no significant relationship between innovativeness and customer satisfaction of SMEs in Port Harcourt.

Literature Review

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are widely recognized as pivotal drivers of economic growth, employment generation, and innovation across both developed and developing economies. Globally, SMEs are typically defined using quantitative criteria such as number of employees, annual turnover, and asset base (Beck & Demirguc-Kunt, 2006). While definitions vary across countries, the core distinguishing feature of SMEs remains their relatively small scale of operations compared to large corporations.

In Nigeria, SMEs are classified based on employee size and asset thresholds as outlined by the National Bureau of Statistics (2022). Generally, micro enterprises employ fewer than 10 persons, small enterprises engage 10–49 employees, while medium enterprises employ 50–199 workers, with corresponding asset limits. These firms account for a substantial proportion of businesses in Nigeria and contribute significantly to employment and non-oil GDP (Ariyo, 2005). SMEs function as engines of growth by fostering entrepreneurship, stimulating local production, and enhancing income distribution. However, in developing economies, they often face structural weaknesses including limited access to finance, inadequate infrastructure, weak managerial capacity, and technology gaps (Okpara, 2011).

In the context of Port Harcourt, SMEs operate within a volatile oil-dependent economy characterized by infrastructural constraints and intense competition (Agwu, 2013). These conditions heighten the need for internal capabilities that can help firms adapt and remain competitive, particularly innovative capacity. Despite their limitations, SMEs are often more flexible and responsive than large firms, making them fertile grounds for innovation. However, innovation challenges in Nigerian SMEs include inadequate research and development investment, limited digital adoption, and risk aversion. These realities underscore the importance of examining innovative capacity as a strategic lever for SME performance within the Port Harcourt context.

Innovative Capacity

Innovative capacity represents the core independent variable in this study. It reflects a firm's ability to generate, adopt, and implement new ideas, products, services, or processes that create value and enhance competitiveness. Innovation refers to the actual introduction of new or significantly improved products, services, or processes, whereas innovativeness describes a firm's cultural orientation and willingness to embrace novelty and experimentation (Lumpkin & Dess, 1996; Wang, 2008). Thus, innovativeness is attitudinal and strategic, while innovation is behavioral and outcome-oriented.

Innovative capacity goes beyond isolated innovation events. It is a firm-level capability embedded in structures, processes, leadership mindset, and organizational culture. From the Resource-Based View (RBV), firms achieve sustained competitive advantage when they possess valuable, rare, inimitable, and non-substitutable resources (Barney, 1991; Wernerfelt, 1984). Innovative capacity qualifies as such a strategic resource because it enables continuous renewal and adaptation.

From a strategic capability perspective, innovative capacity allows SMEs to sense market opportunities, experiment with creative solutions, and reconfigure resources to maintain relevance in turbulent environments. Empirical evidence in Nigeria indicates that innovativeness significantly predicts SME

performance (Akinwale et al., 2018; Uchenna & Okoye, 2020). More recent studies also link innovativeness to dynamic capabilities among Nigerian SMEs (Tamunosiki-Amadi & Mahlon, 2024).

Innovative capacity manifests in multiple dimensions:

(a) Product Innovation

This involves introducing new or significantly improved goods or services. Market-oriented firms that continuously refine product offerings tend to outperform competitors (Atuahene-Gima & Ko, 2001).

(b) Process Innovation

Refers to improvements in production methods, operational workflows, or service delivery systems aimed at enhancing efficiency and reducing costs.

(c) Market Innovation

Involves adopting new marketing strategies, distribution channels, branding approaches, or pricing models to reach and retain customers.

(d) Organizational Innovation

Entails restructuring internal processes, management practices, or corporate culture to enhance flexibility and responsiveness.

These dimensions collectively strengthen a firm's competitive position and contribute to superior business outcomes.

Innovative Capacity in SMEs

SMEs innovate differently from large firms due to resource constraints, lean structures, and proximity to customers. While large corporations rely heavily on formal R&D systems, SMEs often depend on creativity, improvisation, and entrepreneurial intuition. Resource limitations may constrain innovation, yet they can also stimulate frugal creativity and agility. Entrepreneurial orientation research consistently finds that innovativeness is positively associated with SME performance (Rauch et al., 2009; Wiklund & Shepherd, 2005).

Studies (Andjarwati et al., 2021; Agyapong et al., 2021) in developing economies further show that innovative SMEs achieve superior marketing and financial outcomes. In Nigeria, empirical evidence confirms that innovative behavior significantly enhances SME profitability and competitiveness (Akinwale et al., 2018; Uchenna & Okoye, 2020). Given the competitive pressures in Port Harcourt, innovative capacity becomes not merely optional but essential for survival and growth.

Business Outcomes

Business outcomes represent the dependent variable of this study and refer to measurable indicators of firm success. Business performance can be conceptualized using both financial and non-financial indicators (Richard et al., 2009; Venkatraman & Ramanujam, 1986). Financial measures capture profitability and growth, while non-financial measures assess customer satisfaction, loyalty, and market positioning.

The Balanced Scorecard framework developed by Kaplan and Norton (1992) emphasizes that sustainable performance requires balancing financial results with customer perspectives and internal process efficiency. Thus, this study conceptualizes business outcomes as comprising both financial

performance and customer satisfaction. Performance measures may be objective (e.g., audited financial statements) or subjective (e.g., managerial perception of growth). SMEs often rely on subjective assessments due to limited disclosure practices, yet such measures have been shown to correlate strongly with objective indicators (Venkatraman & Ramanujam, 1986).

Financial Performance

Financial performance reflects a firm's ability to generate profits and sustain economic viability. It is commonly measured through profitability, revenue growth, return on investment (ROI), and market share (Brigham & Ehrhardt, 2014; Ross et al., 2011). Profitability indicates the firm's capacity to generate income relative to costs. Revenue growth signals expansion and market acceptance. ROI measures efficiency in utilizing invested capital, while market share reflects competitive positioning. Financial statement analysis provides insights into overall business health (Penman, 2007).

For SMEs, strong financial performance ensures sustainability, reinvestment capacity, and resilience against environmental shocks. The conceptual linkage between innovative capacity and financial performance is grounded in the RBV and entrepreneurial orientation literature. Innovation fosters differentiation, enhances value creation, and strengthens competitive advantage (Barney, 1991; Hughes & Morgan, 2007).

Innovative firms introduce superior products, reduce operational costs through process improvements, and capture new market segments. These advantages translate into higher profitability and growth (Rauch et al., 2009; Saeed et al., 2014). In Nigeria, innovativeness has been empirically linked to improved SME profitability (Uchenna & Okoye, 2020).

Thus, innovative capacity → competitive advantage → improved financial performance.

Customer Satisfaction

Customer satisfaction refers to the consumer's evaluative judgment that a product or service meets or exceeds expectations. According to Oliver's (1980, 1997) Expectation-Disconfirmation Theory, satisfaction arises when perceived performance exceeds prior expectations. The SERVQUAL model developed by Parasuraman et al. (1988) identifies reliability, responsiveness, assurance, empathy, and tangibles as key service quality dimensions influencing satisfaction. Satisfaction has been linked to loyalty, repeat purchase behavior, and profitability (Anderson et al., 1994; Fornell et al., 1996).

Customer experience research further highlights that satisfaction is shaped across the entire customer journey (Lemon & Verhoef, 2016). In SMEs, maintaining high satisfaction levels is critical for survival in competitive markets (Ogunnaike & Kehinde, 2013). Innovative capacity enhances customer satisfaction through multiple pathways. Product innovation improves quality and relevance to customer needs. Process innovation enhances service speed and reliability. Market innovation improves engagement and personalization. Organizational innovation strengthens service culture.

Market-oriented innovation ensures alignment with evolving customer preferences (Atuahene-Gima & Ko, 2001). Firms that integrate innovation into customer relationship management systems enhance loyalty and satisfaction (Payne & Frow, 2005). Thus, innovation improves product quality, service delivery, and customer experience, leading to higher satisfaction levels.

Innovative Capacity and Business Outcomes: Conceptual Linkage

This study adopts a direct effects model in which innovative capacity directly influences financial performance and customer satisfaction. From the Resource-Based View (Barney, 1991; Wernerfelt, 1984), innovative capacity constitutes a strategic intangible resource that enhances competitive advantage. Entrepreneurial orientation research consistently confirms a positive innovation–performance relationship (Rauch et al., 2009; Wang, 2008; Wiklund & Shepherd, 2005). Globally and in Nigeria, empirical evidence supports the proposition that innovativeness improves both financial and non-financial performance outcomes (Akinwale et al., 2018; Andjarwati et al., 2021; Uchenna & Okoye, 2020).

In the specific context of Port Harcourt, where SMEs operate in a volatile economic environment, innovative capacity becomes a critical survival mechanism. Firms that embrace creativity, novelty, and adaptability are better positioned to achieve sustained profitability and superior customer satisfaction. Therefore, this study conceptualizes innovative capacity as a strategic driver of business outcomes, providing empirical insight into how innovativeness shapes SME success within Port Harcourt’s dynamic business ecosystem.

Conceptual Framework of the Study

The conceptual framework of this study is anchored on the proposition, widely supported in entrepreneurship and strategic management literature, that innovative capacity constitutes a strategic resource capable of driving superior business outcomes. Prior empirical and theoretical studies suggest a significant nexus between innovativeness and firm performance, indicating that SMEs that embrace creativity, novelty, and adaptability are more likely to achieve improved financial performance and higher levels of customer satisfaction

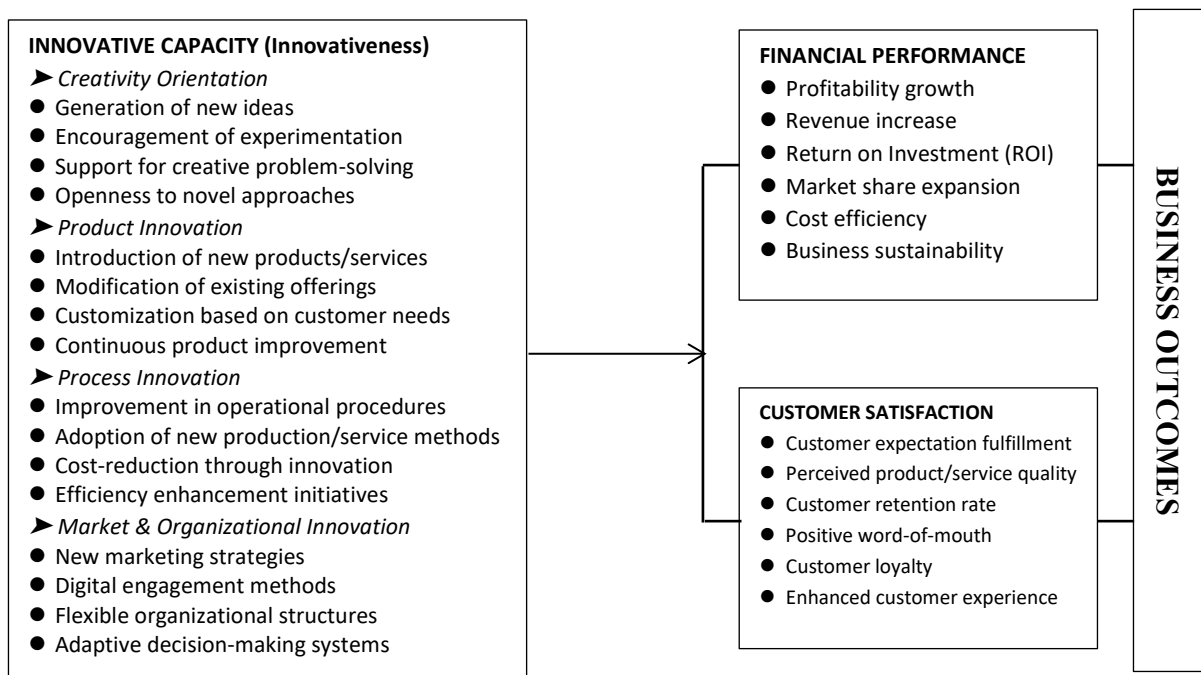


Figure 1: Conceptual Framework of Study Variable

Methodology

This study adopted a quantitative research design using a descriptive survey approach to examine the relationship between innovative capacity (innovativeness) and business outcomes (financial performance and customer satisfaction) of Small and Medium Enterprises (SMEs) in Port Harcourt, Rivers State. The descriptive survey design was considered appropriate because it enabled the collection of quantifiable data from SME owners and managers and facilitated statistical analysis of relationships between the independent and dependent variables. The design also allowed for generalization of findings within the study context.

The population of the study comprised registered SMEs operating within the Port Harcourt metropolis as recognized by the National Bureau of Statistics (2022). These SMEs cut across sectors such as retail, services, light manufacturing, hospitality, and agro-processing. For the purpose of this study, emphasis was placed on SMEs that had operated for at least three years to ensure that respondents possessed sufficient business experience to evaluate innovativeness and performance outcomes.

A sample size of 200 SME owners/managers was determined using Yamane's (1967) formula for sample size determination. A stratified random sampling technique was employed to ensure proportional representation across major business sectors within Port Harcourt. Within each stratum, simple random sampling was used to select respondents. Owners and senior managers were targeted because they are directly involved in strategic decision-making and are well-positioned to assess their firms' innovative activities and performance outcomes.

Data were collected using a structured questionnaire divided into four sections. Section A captured demographic and firm characteristics (such as years of operation, size, and sector). Section B measured innovative capacity (innovativeness), Section C measured financial performance, and Section D measured customer satisfaction. The instrument was adapted from established scales in prior entrepreneurship and performance studies (Akinwale et al., 2018; Fornell et al., 1996; Wang, 2008) and modified to suit the SME context in Port Harcourt. Responses were measured using a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

To ensure validity, the questionnaire was subjected to face and content validation by experts in entrepreneurship and business management. Their feedback guided revisions to enhance clarity and contextual relevance. Reliability was assessed using Cronbach's alpha coefficient, with all constructs exceeding the acceptable threshold of 0.70: innovativeness ($\alpha = 0.86$), financial performance ($\alpha = 0.82$), and customer satisfaction ($\alpha = 0.88$), indicating satisfactory internal consistency.

Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) version 26. Descriptive statistics such as means, standard deviations, and frequency distributions were used to summarize respondents' characteristics and variable patterns. Pearson Product Moment Correlation was employed to examine the relationships between innovativeness and financial performance, as well as innovativeness and customer satisfaction. Hypotheses were tested at a 5% level of significance ($p < 0.05$).

Ethical standards were strictly observed throughout the study. Participants were informed about the purpose of the research and provided informed consent prior to participation. Confidentiality and anonymity were assured, and respondents were informed of their right to withdraw at any stage without penalty. Data collected were used strictly for academic purposes.

Results

Demographic Profile of Respondents

The demographic analysis of the 200 SME owners and managers surveyed across Port Harcourt revealed a diverse representation of business operators. Approximately 61% of the respondents were male, while 39% were female, reflecting the gender distribution common among SME ownership structures in the region. In terms of age distribution, 48% of the respondents were between 31–40 years, 27% fell within 21–30 years, 18% were between 41–50 years, and 7% were above 50 years. Regarding educational qualification, 52% possessed a bachelor’s degree or its equivalent, 28% held Higher National Diplomas (HND) or diplomas, 14% had postgraduate qualifications, while 6% had secondary education. In terms of business experience, 46% of the SMEs had operated between 3–6 years, 34% had existed for over 7 years, and 20% had been in operation for less than 3 years. This profile indicates a relatively educated and moderately experienced entrepreneurial base capable of assessing innovativeness and business performance within their firms.

Descriptive Statistics of Study Variables

Descriptive statistics were employed to assess respondents’ perceptions of the core constructs: innovative capacity (innovativeness), financial performance, and customer satisfaction. All items were measured on a 5-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). The results revealed generally positive perceptions across all variables. Innovative capacity recorded a mean score of 4.08 (SD = 0.79), indicating that most SMEs reported actively encouraging creativity, experimentation, and new product/service development. Financial performance had a mean of 3.94 (SD = 0.83), suggesting moderate to strong perceived profitability and revenue growth among the sampled firms. Customer satisfaction recorded a mean of 4.15 (SD = 0.76), reflecting a high level of perceived customer approval, loyalty, and repeat patronage. Overall, the descriptive statistics suggest that SMEs in Port Harcourt exhibit a relatively strong innovative orientation alongside favorable business outcomes.

Inferential Statistics: Hypotheses Testing

To test the hypothesized relationships between innovative capacity and business outcomes, Pearson Product Moment Correlation analysis was conducted. The results are presented in Table 1.

Table 1: Summary of Correlation Analysis (N = 200)

Hypothesis	Predictor Variable	Criterion Variable 2	r	r ²	p-value	Decision
H ₀₁	Innovative Capacity	Financial Performance	0.512	0.262	0.000**	Rejected
H ₀₂	Innovative Capacity	Customer Satisfaction	0.637	0.406	0.000**	Rejected

Significance level: $p < 0.05$

Source: IBM SPSS version 26.0 Output, 2026.

The results indicate a significant positive relationship between innovative capacity and financial performance ($r = 0.512$, $p < 0.05$). The coefficient of determination ($r^2 = 0.262$) implies that approximately 26.2% of the variance in financial performance among SMEs in Port Harcourt is explained by innovative capacity. This suggests that while innovativeness plays a substantial role in

driving profitability and growth, other factors such as access to finance, managerial competence, and market conditions may also contribute to financial outcomes.

Similarly, innovative capacity showed a stronger positive relationship with customer satisfaction ($r = 0.637$, $p < 0.05$). The r^2 value of 0.406 indicates that 40.6% of the variance in customer satisfaction is explained by innovative capacity. This relatively higher explanatory power suggests that innovativeness has a more pronounced influence on non-financial performance, particularly in shaping customer perceptions, loyalty, and overall satisfaction.

Since both p-values are less than 0.05, the null hypotheses (H01 and H02) are rejected. These findings confirm that innovative capacity is significantly associated with both financial and non-financial performance outcomes among SMEs in Port Harcourt, with a particularly strong impact on customer satisfaction.

Discussion of Findings

The findings of this study reveal that innovative capacity has a statistically significant and positive relationship with both financial performance and customer satisfaction among SMEs in Port Harcourt. Specifically, innovativeness demonstrated a moderate positive correlation with financial performance and a stronger positive correlation with customer satisfaction. These results indicate that SMEs that actively promote creativity, experimentation, and the introduction of new products or processes tend to achieve better profitability outcomes and higher levels of customer approval and loyalty.

The findings align with prior empirical studies in entrepreneurship literature. For instance, Akinwale et al. (2018) found that innovativeness significantly enhances SME performance in Nigeria. Similarly, Uchenna and Okoye (2020) reported a positive relationship between entrepreneurial innovativeness and profitability among Nigerian SMEs. At the international level, Agyapong et al. (2021) established a consistent positive association between entrepreneurial orientation, particularly innovativeness and firm performance. The present study extends these findings by demonstrating that innovative capacity not only improves financial outcomes but also significantly enhances customer satisfaction within the specific context of Port Harcourt.

Furthermore, the stronger correlation observed between innovativeness and customer satisfaction supports the argument of Atuahene-Gima and Ko (2001) that market-oriented innovation improves customer value creation. It also reinforces the position of Anderson et al. (1994) that customer satisfaction is closely linked to firm competitiveness and long-term profitability. Thus, the results of this study are consistent with both Nigerian and global empirical evidence while providing localized validation within a volatile urban SME environment.

Implications of The Study

The findings of this study carry important theoretical, managerial, and policy implications. The study contributes to entrepreneurship literature by demonstrating that innovativeness independently predicts both financial and non-financial outcomes. For SME owners and managers, the results highlight innovativeness as a strategic priority rather than an optional activity. Firms that deliberately encourage idea generation, product modification, process improvement, and adaptive marketing strategies are more likely to experience improved profitability and stronger customer loyalty. The relatively higher explanatory power of innovativeness on customer satisfaction suggests that innovation should be embedded into customer experience strategies.

For policymakers and development agencies, the findings emphasize the need to create innovation-supportive ecosystems for SMEs. Government intervention in the form of innovation grants, digital infrastructure support, training programs, and reduced regulatory bottlenecks can strengthen SME innovative capacity and, by extension, enhance economic growth and employment generation in Port Harcourt and beyond.

Conclusion

This study examined the relationship between innovative capacity and business outcomes of SMEs in Port Harcourt, focusing specifically on financial performance and customer satisfaction. The findings reveal that innovative capacity has a significant and positive relationship with both dimensions of performance. SMEs that exhibit higher levels of creativity, experimentation, and adaptability tend to achieve stronger profitability outcomes and higher customer satisfaction levels. The study concludes that innovativeness is a critical strategic capability for SMEs operating in volatile business environments. Beyond enhancing financial returns, innovative capacity strengthens customer relationships and market competitiveness. Therefore, SMEs seeking sustainable growth must prioritize innovation as a core element of their strategic orientation.

Recommendations

Based on the findings, SME owners should strategically institutionalize innovation by creating structured mechanisms for idea generation, experimentation, and continuous improvement while ensuring that innovative efforts remain customer-focused through regular feedback systems and personalized service strategies. Policymakers and business development agencies should complement these efforts by providing innovation-driven training programs and improving access to targeted funding schemes that reduce financial barriers to experimentation and technology adoption. Additionally, SMEs should actively integrate modern digital tools to enhance operational efficiency, competitiveness, and overall customer experience.

Suggestions for Future Studies

Future studies should expand the model by incorporating additional entrepreneurial orientation dimensions such as proactiveness and risk-taking, and by examining potential mediating or moderating variables like access to finance or technological readiness. Longitudinal designs and comparative studies across different regions or sectors in Nigeria would also enhance causal understanding and generalizability, while sector-specific investigations could provide deeper insights into how innovation-performance relationships vary across industries.

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