
Entrepreneurial Innovation and Profitability of Selected Small and Medium Enterprises in Lagos State, Nigeria

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ABSTRACT: *Small and Medium Enterprises (SMEs) in Nigeria encounter challenges including a decline in competitive advantage, diminished profitability, decreased productivity, and a contraction in market share, all of which contribute to their underperformance, potentially stemming from an absence of innovation. A prevailing aversion to innovation, coupled with limited understanding of key stakeholders shaping innovative processes, collectively undermine SME performance. Consequently, SMEs experience outcomes such as lower-than-projected profitability, erosion of competitive edge, reduced market presence, diminished productivity, and difficulties in cost management. Hence, the study examined the effect of entrepreneurial innovation dimensions on the profitability of selected SMEs in Lagos State, Nigeria. The study adopted cross-sectional survey research design. The population comprised of 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 adopted for data collection. The reliability test yielded Cronbach's alpha for the constructs ranging from 0.716 to 0.879. The response rate was 82.3%. The hypothesis was tested using multiple linear regression statistics at 5% level of significance. The findings revealed that entrepreneurial innovation had significant effects on competitive advantage ($Adj.R^2 = 0.64$, $F(4, 398) = 182.06$, $p < 0.05$). The study concluded that entrepreneurial innovation dimensions had significant effect on profitability of selected SMEs in Lagos State, Nigeria. It was recommended that Small and medium-sized enterprises should cultivate a culture of innovation within their organizations. This involves fostering an environment where creativity and new ideas are valued, and employees are empowered to propose and implement innovative solutions to business challenges.*

KEYWORDS: entrepreneurial innovation, process innovation, product innovation, profitability, management innovation, marketing innovation,

INTRODUCTION

Globally, SMEs are recognised as a catalyst of socio-economic development accounting for most businesses in the world economies (Montanari & Kocollari, 2020). According to World Bank (2020), over 600 million jobs will be needed by the year 2030 to absorb the growing global workforce, this makes SMEs development a high priority for many governments around the world. According to recent statistics, SMEs account for 90% of firms and employ roughly 60-70 % of the global workforce (Mabenge et al., 2020; World Bank 2020). SMEs are the most dynamic enterprises in the globalized trade and they make significant contributions and have been playing a vital role in fostering economic growth in not only developed but also developing economies (Gamage et al., 2020; OECD, 2018; Wellalage & Locke, 2020).

According to Oladele et al. (2019), 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, a negative attitude towards innovation, and limited knowledge of the SMEs owners/managers that influence innovation all contribute 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; Ojide 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; Franco et al., 2020).

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 (Lin et al., 2017; Yunis 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).

The prevailing challenge within the context of Small and Medium-sized Enterprises (SMEs) revolves around their ability to effectively embrace entrepreneurial innovation across various domains, including product development, process improvement, marketing strategies, and management practices (Koliby et al., 2022). A significant obstacle in this regard is the limited availability of resources and expertise that SMEs often encounter, which hampers their capacity to initiate and sustain innovative initiatives (Sari et al., 2023). This challenge vividly highlights that a substantial portion of SMEs are lagging in adopting

innovative practices. For instance, recent surveys have revealed that only 35% of SMEs have successfully introduced significant product innovations, and a mere 20% have implemented substantial process innovations (Sukaatmadja et al., 2021). These statistics underscore the prevalent gap in the adoption of innovation among SMEs. This study therefore examined the effect of entrepreneurial innovation dimensions on the profitability of selected SMEs in Lagos State, Nigeria.

LITERATURE REVIEW

Conceptual Review

Profitability

Profitability refers to the financial metric used to assess the ability of a business or investment to generate profits and earn a positive return on investment (Almashhadani & Almashhadani, 2022). According to Almashhadani 2021, profitability in accounting is measured by the net profit margin, which is the ratio of net income to total income, indicating the percentage of revenue converted into profit. Profitability is defined as the proficiency of an organisation to generate earnings on sales, accomplishing desired return on investment and human resources employed in running the business operations (Adeoye & Abu, 2015). Harward (2016) viewed firm profitability as the ability of a given investment to earn a return from its use. Likewise, Muya and Gathogo (2016) considered firm profitability as the ability to generate sustainable financial rewards or earnings through efficient utilization of firm resources using a well-coordinated management process and effective decision-making process over a given period.

Haralayya and Aithal (2021) equally viewed profitability as the firm's ability to be able to generate revenue and profits that are related to investment and sales. According to Nishanthini and Nimalathan, (2013), profitability is the ability of an organisation to earn a return from the use of its investment. It can also be the total revenue fewer operating expenses, interest paid, depreciation and taxes. Profitability is therefore the capacity to make profit. Additionally, Falope and Ajilore (2009) see profitability as a given investment to earn a return from its use, or the ability to make profit from all the business activities of an organization, company or an enterprise. Ahmed et al. (2020) corroborated this view by defining profitability as the long-term ability of a business or industry to achieve sustained profits, often considering factors such as competition, market conditions, and cost efficiency.

Entrepreneurial Innovation

Schumpeter (1934) defined innovation as "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 & 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. (2022), 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.

Product Innovation

According to Cooper and Edgett (2010), product innovation is characterized by having a new product process that works: a template or tactical road map to drive a new product project to market quickly. Also, there must be a right resources and sufficient resources devoted to product innovation and a new product and technology strategy must be on ground for the business. In product there must be technological newness in the products and services and these must be clearly differentiated from others. Some of the major benefits of product innovation is from competitive perspective, product innovation can be seen as a tool for achieving a competitive advantage, alongside with other tools such as price reduction on the existing products, the development of new customer services and new communication and distribution programs (Camison & Villa-Lopez, 2010). Also, product innovation helps to increase market share by manifesting itself in the speed and magnitude of market acceptance. Additionally, product innovation can lead to improved revenue growth, share performance, market capitalization and profitability (Njagi, 2016). Furthermore, product innovation shields a firm from threats and competitors, create opportunity for the innovating firm to enjoy the “first mover” advantage (Hult et al., 2004). Despite these benefits, product innovation is capital intensive as the company will have to incur high expenses during the production process (McGlaphren, 2013). This may include expenses on Research and Development (R&D), purchase of new machineries and equipment to boost production. In addition, product innovation may have involved a significant risk of market failure.

Process Innovation

Process innovation can be seen as the introduction of new elements such as new methods of production, approaches of management, and new technologies into organization (Nguyen & Pham, 2009; Bigliardi & Domiv, 2009; Lendel et al., 2005 Milewski et al., 2015).

The characteristics of process innovation is that it involves the application of new technology. It may also involve the purchase of new machineries and equipment to boost the production process innovation. It is Research and Development (R&D) oriented. That is it involve spending on research and development.

In terms of advantages, process innovation is very essential in the manufacturing process of a firm as it gives a firm competitive advantage over its competitors. Additionally, it also helps firms to improve the efficiency of production and reduce costs (Kahn, 2018; Vivero, 2002). It also makes possible multiplicity of product varieties. Implementation of process innovation could increase firm’s operational output,

customers' satisfaction and even firm's financial performance (Cherrafi et al., 2018; Mohd & Syamsuriana, 2013). Process innovation improves upon profits improve performance by eliminating wastes and reduce processing time (Asakawa, 2015). Furthermore, process innovation enhance productivity because it has a direct and immediate impact on productivity.

Marketing Innovation

Marketing innovation has the characteristics of the four Ps of marketing: product or service properties, pricing strategies, product placement and promotion activities (Kotler et al., (2016). Marketing innovation is also characterized by marketing selection, the ability to select and find appropriate market for the product and service. As for the merits of marketing innovation, it helps organisations to respond to opportunities and needs (Rodriguez et al., (2014). Also, marketing innovation helps to increase sales growth thereby increasing the market share of an organisation (Sandvik's, 2003). According to Johnne and Davies, (2000), marketing innovation produces profit to innovative organisations through growth in sales. Furthermore, there is an opportunity for the creation of entire new market and an enlargement on the existing market. Additionally, it also gives room for improvement in market performance (Askoy, 2017). However, a possible demerit of marketing innovation is that it may involves marketing research which is capital intensive, time consuming and capital intensive.

Management Innovation

According to Gault (2018), management innovation is the execution of a new or considerably improved organisational process in the business practice, workplace organisation or external affairs of a firm. This comprises of a significant change in structure of the organisation, workplace environment and new form of management (Kahn, 2018). The change according to Hargrave and Van de Ven (2006) can be in form of quality, or state over time of the management activities in an organisation, where the change is a novel or unprecedented departure from the past. Birkinshaw et al. (2008) distinguished the idea of novelty as either new to the state of the art or new to the organisation. They considered the former as having no precedents and analyzed at a management level; while the latter is commonly discussed at the organisational level. Management innovation is defined by Birkinshaw et al. (2008) as the invention and implementation of a management practice, process, structure, or technique that is new to the state of the art and is intended to further organisational goals. Hamel (2006) stated that through management innovation organisations can produce a seismic shift in industry leadership; harness employee intellect and consequently reduce employee turnover. Also, management innovation helps to reduce administrative or transaction cost thereby increasing profitability (OECD/ Eurostat, 2005). Additionally, according to Birkinshaw and Moi (2006) organisations that adopt management innovation are most likely to gain competitive advantage and improve overall performance.

Empirical Review

The study of Akinwale et al. (2017) on the impact of technology innovation on Small and Medium Enterprises (SMEs) profitability in Nigeria investigated the effect of Research and Development (R&D) expenditure, product and process innovation on SMEs performance in Nigeria. The results of the study

with least squares method revealed that R&D expenses by the organisations as well as adoption of product and process innovation has significant and positive impact on organisational profitability. Also, in a study done by Eggert et al. (2014), the results of the findings showed that product innovation has a positive significant impact on revenue growth and profitability of firms. Correspondingly, Ntiamoah et al. (2019) in their study of effect of innovative practices on agribusiness performance in Ghana found that innovative practices have positive and significant relationship on financial performance such as profitability and sales volume. This is in line with the study of Akinwale et al. (2017) and Ntiamoah (2019) that also find that adoption of product and process innovation increase profitability.

Nwankwo and Ezeibe (2021) in their investigation of the influence of innovation on financial performance of small and medium scale enterprises in Nigeria. The study evaluated the effects of various innovation dimensions in the performance of SMEs using survey research design and employed structured questionnaire as the instrument of data collection. The data generated were analyzed using descriptive statistics and correlation analysis. The results of the findings emphasized that product innovation, process innovation, marketing innovation and administrative innovation have significant and positive effect on profitability.

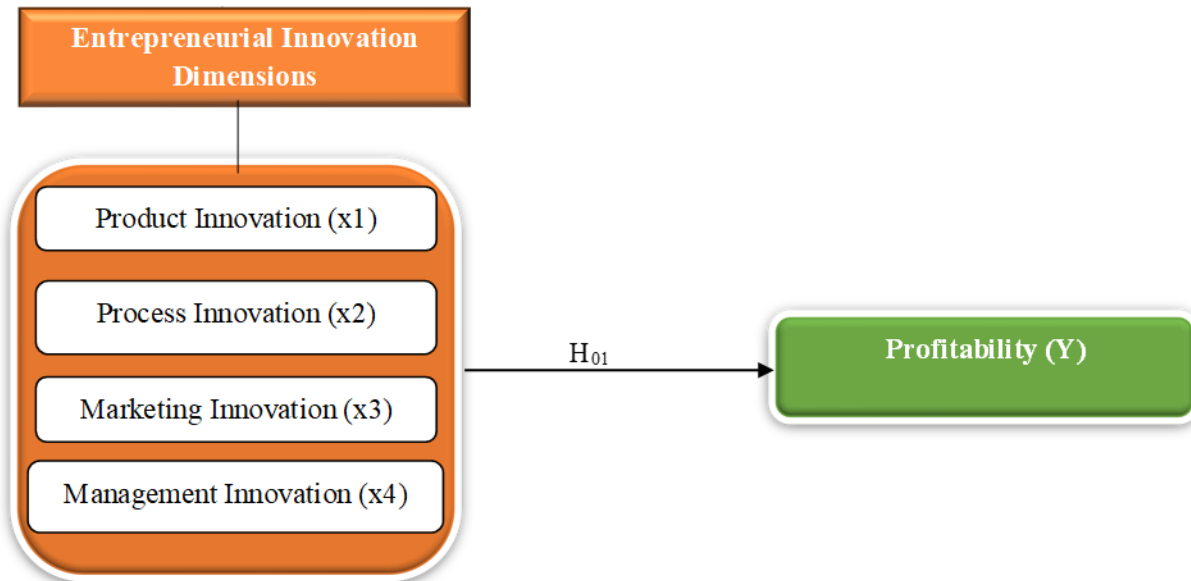
Further study by Camison and Villar-Lopez (2014) on organisational innovation as an enabler of technological innovation capabilities and firm performance. Their findings revealed that organisational innovation has direct effect on firm financial performance using objective and subjective indicators such as return on investment and return on assets as objective indicators while using financial profitability and sales profitability as subjective indicators. This finding is consistent with the findings of Nwankwo and Ezeibe (2021) and Ntiamoah et al. (2019) who revealed that innovation has positive and significant relationship with profitability.

The study of Ejemeyovwi et al. (2021) studied technology adoption, innovation and financial development in a digital world: empirical analysis from Africa with longitudinal research design using Bayesian Vector Auto-regression analysis and found that innovation dimensions (product innovation, process innovation and organisational innovation) have a positive and significant effect of financial performance: return on shareholder's fund, return on assets and return on capital employed meaning that innovation has a positive impact on profitability. SMEs profitability is driven by access to finance in terms of loans from the banks, however, difficulties in getting collateral and other documents to fulfill the requirements to obtain loans limits the growth of their profitability (Prijadi & Desiana, 2017).

Based on the foregoing, the study thus hypothesized that:

H₀₁: Entrepreneurial innovation dimensions have no significant effect on the profitability of selected SMEs in Lagos State, Nigeria.

Research Conceptual Model



The figure above presented the conceptual model based upon the review of literature and it showed the effect of entrepreneurial innovation dimensions (product innovation, process innovation, marketing innovation and management innovation) on profitability

Figure 1: Conceptual Model (entrepreneurial innovation dimensions and profitability)

Source: Author's Research Model (2023)

Theoretical Review (Dynamic Capacity Theory)

The theory was propounded by Teece, Pisano and Shuen in 1997. The theory observed the way firms achieve sustained competitiveness or higher performance in the changing and volatile environment and this theory emerged due to the limitation of Resource-Based View (RBV) theory. This theory takes up entrepreneurship, innovation, organisational learning, knowledge and change management (Teece, 2010). Dynamic capability simply refers to the capability of firms which enables it to come up with innovative products and processes that meet changing market conditions (Teece & Pisano, 1997). There are various examples of dynamic capabilities that can be used to promote value within a firm. These are skills, procedures, and organisational structures. These capabilities can come from the changing routines, product development which aid the firm to position its resources and competencies in the dynamic business environment (Teece, 2007).

Supporters of dynamic capabilities theory (DC) like Foss and Saebi (2017) investigated the relationship between dynamic capabilities and innovation. Supporting this theory in their study, they argued that dynamic capabilities enable organisations to recognize and exploit new opportunities, adapt to changing business environments, and create more values by innovation. They emphasized the need for organisations to align their resources, procedures and structures together so as to foster dynamic capabilities for successful innovation. Furthermore, Eisenhardt and Martin (2000) emphasize that dynamic capabilities are essential for firms to thrive in turbulent markets, allowing them to sense opportunities, seize them, and maintain their competitive position. Additionally, Winter (2003) in his study on the connection between dynamic capabilities and firm evolution, supported this theory by highlighting that dynamic capabilities enable organisations to identify, learn, adapt and change over time, which is significant for their survival and performance. The study provided insights into the evolutionary nature of dynamic capabilities and their roles in organisational performance.

Critiques of dynamic theory claim that its approach lacks a clear theoretical foundation (Arend & Bromiley, 2009) and clarity regarding its most essential aspects, including their definitions (Di Stefano et al., 2010) and various assumptions adopted by theorists (Arend & Bromiley, 2009). According to Arend and Bromiley (2009) the inconsistencies regarding its foundations can limit fruitful conversation, hamper progress, lead to illogical conclusion and prevent empirical research. According to Zahra et al. (2006), the most significant source of confusion comes from the disagreement about whether a dynamic capability theory refers to substantive capabilities in volatile environments or to the organisation's ability to alter existing substantive capabilities, regardless of the volatility. In respect to the fact that dynamic capability theory lacks a clear theoretical foundation, a valid point was made that organisational change theories should also explain when organisations do not change (Arend & Bromiley, 2009). Additionally, some scholars argue that dynamic capabilities theory overly focuses on the internal processes of firms, neglecting the external environmental factors that significantly influence their capabilities (Helfat & Peteraf, 2015).

In spite of the critique, dynamic capabilities theory is highly relevant in enhancing the performance of SMEs due to its focus on flexibility, adaptability, and learning capabilities (Fitriat *et al.*, 2020). The SMEs operating in today's fast-growing technology changes, competition and ever-changing customers' demand and preference, the ability to respond quickly to market dynamics, technological advancements, and shifting customer demands is critical for superior performance (Teece, 2018). Dynamic capabilities are form of knowledge that are able to create value for companies both with the results of innovation and transformation of inputs into outputs in order to obtain sustainable competition (Eisenhardt & Martin, 2000). Small and medium enterprise (SMEs) really need a comprehensive and integrated approach in an effort to improve business development and maintain customer loyalty so as to improve organisational performance (Fitriat *et al.*, 2020). Dynamic capabilities are the capabilities of enterprises so as to add rapidly and configure internal and external competencies as to address rapidly changing environments. According to Zahra *et al.* (2006), dynamic capability's theoretical and practical

importance in explaining competitive advantage in different market environments has led to broad interest in the approach. Moreover, the variation in dynamic capability's research has led it to be a very vibrant field with an enormous scope (Di Stefano *et al.*, 2010).

METHODOLOGY

The study adopted cross-sectional survey research design. The population comprised of 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 adopted for data collection. A structured and validated questionnaire was used for data collection. 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 multiple linear regression statistics at 5% level of significance. 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).

Table 1: Reliability Results

S/N	Variables		Cronbach's Alpha	Composite Reliability
1	Product innovation	5	0.838	0.816
2	Process innovation	5	0.847	0.791
3	Marketing innovation	5	0.758	0.889
4	Management innovation	5	0.724	0.804
5	Profitability	5	0.843	0.913

Source: Researcher's Field Survey (2023)

Model Specification

$$Y = f(X)$$

X = Entrepreneurial Innovation (EI)

Y = Profitability (PFT)

X = (X₁, X₂, X₃, X₄)

Where:

X₁ = Product Innovation (PRI)

X₂ = Process Innovation (PSI)

X₃ = Marketing Innovation (MKI)

X₄ = Management Innovation (MGI)

Hypothesis

PFT= f (PRI, PSI, MKI, MGT)

Hypothesis One

$PFT = \beta_0 + \beta_1PRI + \beta_2PSI + \beta_3MKI + \beta_4MGI + \mu_i \dots \dots \dots \text{Eqn}$

A prior expectation

In establishing the formulated hypotheses, the expectation is that entrepreneurial innovation dimensions will have a positive effect on SMEs competitive advantage using the basic statistical denotation, the a-priori expectation for the stated models is given as follows:

A priori Expectations and Decision rule

H ₀	Models	A priori expectations IF:
H ₀	$y_1 = \alpha + \beta_3X_3 + \mu \dots \dots \dots \text{eq}$	Reject if $\beta_3 \neq 0$: $p \leq 0.05$, H ₀ otherwise, do not reject.

Source: Author’s Computation (2023)

DATA ANALYSIS AND RESULTS

H₀: Entrepreneurial innovation dimensions have no significant effect on profitability.

Table 2 Summary of Multiple Regression Analysis of the Effect of Entrepreneurial Innovation on Profitability

N	Model	B	Sig.	T	ANOVA (Sig.)	R	Adjusted R ²	F (4,398)
403.	(Constant)	3.385	.001	3.299	0.000 ^b	0.718 ^a	0.511	105.789
	Product Innovation	.009	.870	.164				
	Process Innovation	.474	.000	8.362				
	Market Innovation	.244	.000	3.906				
	Management Innovation	.064	.155	1.423				
a. Dependent Variable: Profitability								
b. Predictors: (Constant), Management Innovation, Product Innovation, Process Innovation, Market Innovation								

Source: Researcher’s Field Results, 2024

Table 2 presents the findings derived from a multiple regression analysis aimed at scrutinizing the influence of entrepreneurial innovation dimensions on the profitability of Small and Medium-sized Enterprises (SMEs). In this analysis, the null hypothesis is assessed, which suggests that entrepreneurial innovation dimensions have no significant effect on profitability. The outcomes of the analysis reveal that among the entrepreneurial innovation dimensions considered, only Process Innovation and Market Innovation exhibit statistically significant positive effects on profitability. Specifically, Process Innovation is found to have a substantial impact on profitability, indicated by its high coefficient ($\beta = 0.474$) and significant t-value ($t = 8.362, p < 0.05$). Similarly, Market Innovation demonstrates a significant positive effect on profitability with a coefficient of $\beta = 0.244$ and a significant t-value ($t = 3.906, p < 0.05$).

Conversely, the analysis indicates that Product Innovation and Management Innovation do not display statistically significant effects on profitability, as evidenced by their non-significant p-values ($p > 0.05$). Despite their positive coefficients, the lack of statistical significance suggests that the impact of Product Innovation ($\beta = 0.009$) and Management Innovation ($\beta = 0.064$) on profitability is not statistically discernible within the scope of this analysis. Furthermore, the overall significance of the model is supported by the ANOVA test result ($F = 105.789, p < 0.05$), underscoring the collective influence of the entrepreneurial innovation dimensions on profitability.

Additionally, the coefficient of determination (R) is calculated to be 0.718, indicating that approximately 71.8% of the variability in profitability can be elucidated by the independent variables considered in the model. The adjusted R-squared (Adjusted R^2) value of 0.511 further refines this interpretation, suggesting that around 51.1% of the variability in profitability is explicated by the entrepreneurial innovation dimensions after adjusting for the number of predictors.

The predictive and prescriptive models derived from the regression analysis elucidate the anticipated impact of each entrepreneurial innovation dimension on profitability:

Predictive Model:

$$\text{Profitability} = 3.385 + 0.009 \times \text{Product Innovation} + 0.474 \times \text{Process Innovation} + 0.244 \times \text{Market Innovation} + 0.064 \times \text{Management Innovation} + U_i$$

Prescriptive Model:

Profitability

$$3.385 + 0.009 \times \text{Product Innovation} + 0.474 \times \text{Process Innovation} + 0.244 \times \text{Market Innovation} + 0.064 \times \text{Management Innovation} + U_i$$

These models indicate that for every one-unit increase in Process Innovation and Market Innovation, profitability is anticipated to increase by 0.474 and 0.244 units, respectively. The findings indicate that Small and Medium-sized Enterprises (SMEs) should prioritize the development of the many elements

of entrepreneurial innovation, as highlighted in this study, to enhance their competitive edge. Thus, the null hypothesis H02, stating that entrepreneurial innovation has no significant effect on the profitability of selected SMEs in Lagos State, Nigeria, was rejected.

DISCUSSION OF FINDINGS

The hypothesis was tested and it was discovered that entrepreneurial innovation has a significant effect on the profitability of selected SMEs in Lagos State, Nigeria. Previous research offers strong evidence in favour of the concept that entrepreneurial innovation has a favourable impact on the profitability of Small and Medium-sized Enterprises (SMEs). A study conducted by Akinwale et al. (2017) found that investing in Research and Development (R&D) and implementing product and process innovation had a substantial positive impact on the profitability of organisations. Similarly, Eggert et al. (2014) discovered a direct relationship between product innovation and sales growth, highlighting the advantageous effect on profitability. In addition, Ntiamoah et al. (2019) emphasised the direct correlation between creative practices and financial success, specifically in terms of profitability and sales volume. These data together support the idea that entrepreneurial innovation leads to increased profitability in Small and Medium-sized Enterprises (SMEs). In addition, Nwankwo and Ezeibe (2021) emphasised the substantial and favourable impacts of several aspects of innovation, including product, process, marketing, and administrative innovation, on the profitability of Small and Medium-sized Enterprises (SMEs). The consistent findings from several research strengthen the reliability of the connection between entrepreneurial innovation and profitability.

Nevertheless, the literature contains subtle distinctions and variations that should be taken into account. Although most research affirms the favourable influence of business innovation on profitability, several studies provide valuable insights into possible constraints or dependencies. Ejemeyovwi et al. (2021) conducted a study to investigate the correlation between the adoption of technology, innovation, and financial development. Their findings revealed a favourable impact on financial performance. Nevertheless, they emphasised the significance of financial accessibility, suggesting that the capacity to get loans may be limited by the obstacles of fulfilling collateral requirements, thereby affecting profitability. The difference between entrepreneurial innovation and profitability highlights the complex nature of their interaction. It suggests that contextual circumstances, including access to money, may influence the degree of effect.

CONCLUSION AND RECOMMENDATION

This study concludes that entrepreneurial innovation has been found to significantly affect profitability of selected SMEs in Lagos State, Nigeria. This implies that by embracing innovative practices, these SMEs demonstrate their ability to adapt to dynamic market conditions, identify new opportunities, and effectively respond to customer needs. The significant impact of entrepreneurial innovation on profitability highlights its potential as a key driver of sustainable business growth and competitiveness. Therefore, the study recommends that:

- i. Owners/managers of small and medium-sized enterprises should cultivate a culture of innovation within their organizations. This involves fostering an environment where creativity and new ideas are valued, and employees are empowered to propose and implement innovative solutions to business challenges.
- ii. Owners/managers of small and medium-sized enterprises should allocate resources towards Research and Development (R&D) activities aimed at generating new products, services, or processes that can enhance competitiveness and profitability. SMEs should prioritize investment in R&D efforts tailored to their specific industry and market needs.

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