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The Moderating Effect of Government Support On Firm's Resources and Innovativeness of Small and Medium Enterprises (SMEs) in Nigeria: A Conceptual Review

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Abstract: *This study examines the moderating effect of government support on firm's resources and innovativeness of small and medium enterprises (SMEs) in Nigeria. The study employs a conceptual review to develop a proposal for the study. The specific objectives of this study are to examine the impact of human capital, financial resources, organisational capabilities on SME innovativeness and the effect of government support.*

Keywords: human capital, financial resources, organisational capabilities, SME innovativeness, government support.

INTRODUCTION

Small and Medium Enterprises (SMEs) serve as the economic backbone of most developing nations, including Nigeria. Their ability to innovate to develop new products, processes, and business models largely determines their survival, competitiveness, and contribution to national growth. In the dynamic and competitive environment where small and medium-sized enterprises (SMEs) operate, the effective mobilisation of internal resources is essential to achieve innovation-led growth. These resources tangible and intangible serve as critical inputs that determine the extent to which firms can develop new products, improve processes, and engage markets innovatively. For instance, human capital, financial depth, technological readiness, and organisational capabilities form the foundation for any firm's innovative aspirations. When strategically combined, these resources empower SMEs to be responsive to changing market demands and seize emerging opportunities.

Conceptually, the Resource-Based View (RBV) has long underscored the pivotal role of firm-specific resources in creating sustainable competitive advantage, especially when such resources are valuable, rare, inimitable, and non-substitutable (Barney et al., 2023). In alignment with this view, several studies (e.g., Klyver & Nielsen, 2022; Tung et al., 2023) highlight how the structure and quality of internal resources drive innovation intensity among SMEs globally. Human capital contributes not only technical expertise but also entrepreneurial orientation, which is vital in adapting to market uncertainties. Financial resources, meanwhile, enable firms to invest in R&D, absorb technological risks, and engage external knowledge networks. Without sufficient capital, SMEs often find themselves trapped in low-innovation cycles despite having capable teams (Tang et al., 2024).

Organisational resources, including managerial skills, governance structure, and internal communication systems, shape how efficiently firms can transform ideas into actionable innovations. These elements influence both product innovativeness (the ability to launch new or significantly improved offerings) and process innovativeness (the capacity to refine internal operations for better efficiency). According to Siren et al. (2024), SMEs that embed a culture of knowledge-sharing, experimentation, and adaptability outperform others in introducing new solutions to market challenges. However, resource availability alone does not guarantee innovative output. The broader institutional and policy environment plays a critical enabling or constraining role. Government support acts as a moderating force that either facilitates or limits how well internal firm resources can be transformed into innovative outcomes. This includes financial subsidies, tax incentives, infrastructure development, capacity-building programmes, and simplified regulatory frameworks. As Kaya & Akgemci (2023) explain, even resource-rich firms may fail to innovate in environments where regulatory bottlenecks, weak public institutions, or lack of access to government programmes prevail.

Moreover, Heinonen et al. (2022) emphasize that the interplay between internal resources and external government support is particularly critical in developing economies, where resource constraints are widespread. When SMEs receive targeted public support, their innovation levels especially in terms of radical innovation tend to increase significantly. In contrast, Alonso & González-Sánchez (2024) warn that poor alignment between policy intent and delivery mechanisms can result in inefficiencies, creating a gap between resource availability and performance outcomes. In the Nigerian context, these dynamics are deeply relevant. While many SMEs demonstrate entrepreneurial drive and capacity, structural issues such as limited access to affordable finance, inadequate infrastructure, and policy instability often inhibit their innovativeness. Understanding how firm resources relate to SME innovativeness and whether government support strengthens or weakens this relationship is thus an essential inquiry for driving inclusive economic growth, fostering resilience, and enabling SMEs to compete both locally and globally.

Small and Medium Enterprises (SMEs) are globally acknowledged as critical drivers of economic transformation due to their pivotal role in employment generation, poverty reduction, innovation, and inclusive growth. In Nigeria, SMEs been the largest employer of labour, account for nearly 90% of businesses and contribute over 48% to the GDP, thereby positioning them as essential players in the national development architecture (NBS-SMEDAN annual survey report, 2021). Their capacity for innovation reflected in the creation of new products, processes, and business models is vital to sustaining competitiveness and long-term economic diversification. However, despite all the aforementioned strategic importance of innovativeness as a dependent variable, Nigerian SMEs continue to exhibit low innovation output in both local and international markets.

One core reason for this is the persistent weakness in internal firm resources. Many SMEs face significant constraints in financial capital, human expertise, digital readiness, and managerial capacity factors that fundamentally undermine their ability to innovate (Tang et al., 2024; Siren et al., 2024). Even where entrepreneurial intent exists, the lack of resource orchestration limits SMEs' agility, product development capacity, and process adaptability. Recent studies in both emerging and developed markets suggest that unless SMEs possess well-structured internal capabilities, they struggle to adopt innovation as a strategic practice (Barney et al., 2023; Heinonen et al., 2022).

Moreover, the external environment, particularly the quality and availability of government support, plays a moderating role in determining how effectively SMEs convert firm-level resources into innovation. Unfortunately, in the Nigerian context, this support is often inconsistent or poorly targeted. Access to public funding, tax incentives, infrastructural aid, and capacity-building programmes remains limited, bureaucratic, or inaccessible to most SMEs (Ashraf, 2025; Ezenwakwelu & Onwuka, 2024). This scenario widens the innovation gap and stalls productivity.

Compounding this challenge is the absence of integrated frameworks that examine the interaction between internal firm resources and external government support as a determinant of SME innovativeness. Existing empirical work tends to isolate these variables rather than explore their interdependence. Furthermore, while some research has acknowledged government intervention as a policy tool, few have conceptualised it as a moderating variable that conditions the resource–innovation relationship. As such, there is a clear theoretical and empirical gap in understanding how resource availability, when mediated by institutional support, influences innovation outcomes among SMEs in developing economies. This study is therefore significant for both theory development and policy implementation. Theoretically, it will offer a nuanced model integrating Resource-Based View (RBV) and Institutional Theory to explain innovation behaviours in SMEs. Practically, it will inform government agencies, development partners, and SME practitioners on how to design targeted interventions that amplify the innovation potential of resource-constrained firms. The specific objectives of this study are to examine the impact of human capital, financial resources, organisational capabilities on SME innovativeness and the effect of government support.

LITERATURE REVIEW

Conceptual Review

Innovativeness of SMEs

Innovativeness refers to the ability of firms to create, adopt, or improve products, services, or internal processes in response to market needs or environmental shifts. In SMEs, innovativeness is often expressed through two primary dimensions: **product innovation** (new or significantly improved goods or services), and **process innovation** (enhancements in methods of production, operations, or delivery). These dimensions are critical to SME competitiveness, adaptability, and long-term survival, particularly in volatile economic environments. Despite their relatively smaller scale, SMEs that demonstrate strong innovativeness often experience higher market share, growth, and resilience.

In recent years, the drive for SMEs to be innovative has intensified due to globalisation, digital disruption, and evolving customer expectations. The capacity for innovation, however, is not evenly distributed and often hinges on the internal and external resources available to firms.

Firm Resources

Firm resources particularly human capital, financial resources, and organisational capabilities have consistently been acknowledged as fundamental drivers of SME innovativeness. These elements, grounded in the Resource-Based View (RBV) of the firm, are pivotal in determining how effectively a business can adapt, create, or refine its offerings (Barney, 1991; López-Gamero et al., 2023).

Human capital encompasses employees' knowledge, skills, and competencies, which are critical for recognising innovation opportunities and executing creative ideas. As noted by Ghasemi et al. (2025), SMEs with high-calibre human capital tend to develop innovative solutions more frequently due to the diversity of thought and depth of technical expertise. Financial resources, such as access to capital, credit, and cash flow, enable firms to fund research, acquire new technology, and commercialise new products. However, constrained access to finance remains one of the most significant barriers to SME innovation, especially in developing countries (Piterou et al., 2024; Muthuraman, 2024). Even where human capital is present, the lack of funding restricts the translation of innovative ideas into tangible outcomes. Organisational capabilities refer to the firm’s internal capacity to coordinate activities, manage knowledge, and exploit opportunities. These capabilities include leadership support for innovation, internal communication systems, and flexible structures that allow experimentation.

Studies by Errico (2025) and Hannevig (2025) affirm that SMEs with robust internal capabilities are better positioned to embed innovation into their culture and strategy. While the RBV has historically underscored the competitive value of internal resources, recent discourse has pointed out its limitations. For instance, the theory often overlooks the role of external institutional forces such as government policies, grants, or infrastructure in enabling or constraining the utility of firm resources (Mallik, 2024). Consequently, there is growing support for hybrid models that integrate both internal capabilities and external enablers. This is where government support plays a moderating role. As an external factor, it may either enhance or diminish the effectiveness of firm resources on innovativeness. For example, Muthuraman (2024) highlights that SMEs in supportive ecosystems (e.g., with access to training, tax breaks, or infrastructure) are more likely to convert firm-level inputs into innovation outcomes. This intersection justifies the inclusion of government support in the present study’s conceptual framework.

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Conceptual Framework

The relationship between firm resources and the innovativeness of SMEs is well-rooted in both theoretical discourse and contemporary research. Within this framework, firm resources such as human capital, financial resources, and organisational capabilities serve as the primary enablers of innovative capacity. However, the extent to which these resources translate into innovation outcomes is often mediated by contextual factors, notably government support as seen in figure 1.

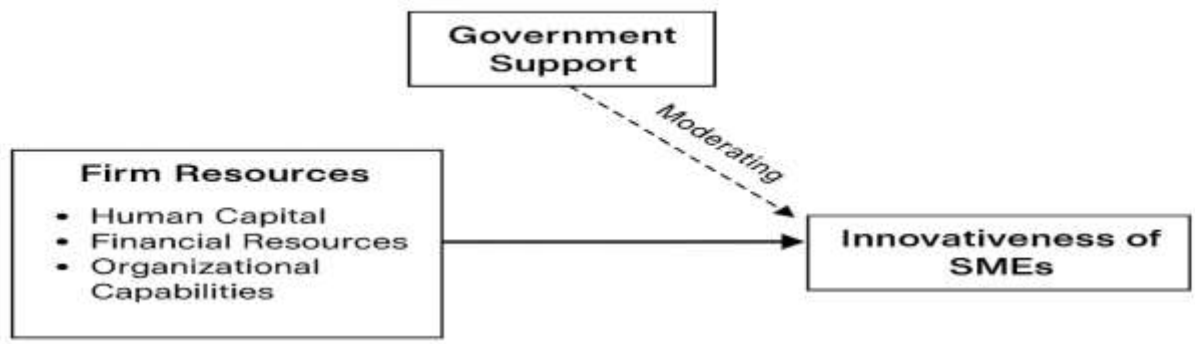

Figure 1: Conceptual Framework

Human capital provides the skillsets and knowledge required to initiate and execute innovative tasks. For instance, Errico (2025) found that firms with well-trained personnel were more adaptive in deploying new processes and responding to shifts in market demands. Similarly, Piterou et al. (2024) argue that innovation thrives in SMEs where staff possess not just technical expertise but also the autonomy to experiment with novel ideas.

Financial resources, meanwhile, are essential for the tangible execution of innovation strategies. According to Ghasemi et al. (2025), access to adequate capital often determines whether ideas are commercialised or remain undeveloped. The absence of sufficient funding is particularly detrimental for SMEs in developing economies, where venture capital and structured innovation funding are limited. Organisational capabilities add another critical layer, encompassing strategic flexibility, leadership orientation, and intra-firm coordination. Hannevig (2025) observes that SMEs that have agile internal structures and a clear innovation mandate tend to outperform competitors in introducing new services or enhancing production techniques. These capabilities provide the operational backbone for transforming human and financial inputs into market-ready innovations.

However, these internal resources do not operate in a vacuum. The moderating role of government support can enhance or inhibit their influence. For example, a firm with strong human capital may still struggle to innovate without access to external training programmes, technology incubation support, or streamlined regulatory procedures. Muthuraman (2024) highlighted that in Oman's SME sector, firms operating under government-sponsored entrepreneurship initiatives demonstrated higher rates of innovation adoption than those operating independently. Additionally, government interventions in infrastructure, market access, and digital policy reform have been shown to reduce the innovation gap between large firms and SMEs (Mallik, 2024). By serving as both a catalyst and a support mechanism, government policies can amplify the effects of firm-level resources, particularly in economies facing systemic barriers to innovation. In sum, the conceptual framework guiding this study posits that firm resources (IV) positively influence SME innovativeness (DV), and this relationship is moderated by the presence and quality of government support.

Theoretical Review

In understanding the relationship between firm resources and innovativeness of SMEs, supported by the moderating role of government intervention, several foundational theories offer valuable insight. Chief among them is the Resource-Based View, which posits that sustainable competitive advantage arises from the strategic use of internal firm resources that are valuable, rare, inimitable, and non-substitutable. This theory directly informs the role of human capital, financial strength, and organisational capacity in driving innovation (Barney, 1991). Complementing RBV is the Institutional Theory, which emphasises the role of external pressures such as government regulations, industry norms, and cultural expectations in shaping organisational behaviour. In the context of SMEs, institutional support mechanisms such as grants, policy incentives, and infrastructure contribute significantly to innovation adoption. The Dynamic Capabilities Theory adds a temporal and adaptive dimension to these views, asserting that it is not just resources that matter, but a firm's ability to renew and reconfigure them in rapidly changing environments. Meanwhile, Schumpeter's Innovation Theory and the Contingency Theory both highlight the non-linear and context-specific nature of innovation outcomes. These theories collectively shape the present study's framework, although RBV and Institutional Theory form the dominant theoretical anchors.

The theoretical foundation for this study integrates four interrelated theories to provide a comprehensive and multi-level understanding of how firm resources influence SME innovativeness, with government support serving as a moderating variable. The selected theories—Resource-Based View (RBV), Institutional Theory, Dynamic Capabilities Theory, and Schumpeter's Innovation Theory—capture both internal and external determinants of innovation performance. This integration ensures that the framework addresses the capabilities SMEs possess, the institutional contexts they operate within, and the entrepreneurial dynamics that drive innovation.

The Resource-Based View (RBV), developed by Barney (1991), argues that sustainable competitive advantage arises from the possession and strategic use of firm-specific resources that are valuable, rare, inimitable, and non-substitutable (VRIN). In this study, RBV directly underpins the independent variables—human capital, financial resources, and organisational capabilities—by explaining how these assets enhance a firm's ability to generate innovation outcomes. Human capital aligns with RBV as a knowledge-based asset that enables SMEs to recognise market opportunities and transform ideas into innovative products or processes. Financial resources allow for investments in research, technology adoption, and market expansion, all of which are critical to innovation performance. Organisational capabilities such as leadership effectiveness, internal communication, and strategic flexibility form the operational foundation for turning resources into sustained innovation. However, RBV's main limitation is its inward-looking perspective, which tends to underemphasise the influence of external factors such as policy frameworks, infrastructure support, and regulatory conditions. This limitation necessitates complementing RBV with theories that incorporate environmental and institutional contexts.

Institutional Theory, as presented by Scott (2001), focuses on how organisations are shaped by formal and informal rules, norms, and cultural-cognitive structures in their external environment. For this study, it is particularly relevant to the moderating variable—government support—since government actions represent institutional mechanisms that can enable or constrain SME innovativeness. Government support—through funding schemes, tax incentives, training programmes, or infrastructural investments—can amplify the effectiveness of internal resources by reducing operational constraints. Conversely, inconsistent or poorly designed policies can dampen the effect of otherwise strong firm resources. Institutional Theory helps explain why SMEs with similar internal capabilities might exhibit different innovation performances under varying policy conditions. While Institutional Theory highlights the powerful influence of external forces, it can portray firms as passive actors responding to institutional pressures. This study addresses that weakness by combining it with RBV and Dynamic Capabilities Theory, both of which emphasise managerial agency and strategic resource orchestration.

Dynamic Capabilities Theory, proposed by Teece, Pisano, and Shuen (1997), extends RBV by focusing on a firm's ability to adapt, reconfigure, and integrate resources in response to changing market and technological environments. Within this study, it directly links to human capital and organisational capabilities, showing how SMEs can use these assets not only for routine operations but also to sense opportunities, seize them, and transform internal processes for sustained innovation. For example, SMEs with skilled employees (human capital) and agile internal structures (organisational capabilities) can more quickly respond to market shifts, adopt emerging technologies, and enter new product markets. This adaptability is crucial in Nigeria's fast-evolving economic and policy landscape. However, Dynamic Capabilities Theory assumes a relatively high degree of strategic foresight and resource availability, which may be constrained in many SMEs, underscoring the potential importance of targeted government support.

Schumpeter's Innovation Theory (1934) positions innovation as the central driver of economic development, emphasising entrepreneurial initiative, creative recombination of resources, and technological disruption. His framework distinguishes between product innovation (introducing new or significantly improved goods/services) and process innovation (enhancing methods of production or delivery), which are the two dimensions of the dependent variable—SME innovativeness—in this study. By incorporating Schumpeter's perspective, this study acknowledges the role of entrepreneurs and managers as active agents in innovation. However, while the theory underscores the transformative power of innovation, it pays less attention to resource constraints and the enabling role of institutions—gaps addressed here by integrating RBV and Institutional Theory.

Taken together, these four theories provide a holistic explanation of the resource–innovation relationship under varying institutional conditions. RBV and Dynamic Capabilities Theory anchor the internal, capability-driven view, explaining how SMEs mobilise human capital, financial strength, and organisational capacity to innovate. Institutional Theory and Schumpeter's model contribute the external and entrepreneurial perspectives, showing how policy environments, cultural norms, and market disruptions influence innovation outcomes. In the integrated framework for this study, government support—as conceptualised through Institutional Theory—moderates the pathways identified by RBV and Dynamic Capabilities Theory, enhancing or constraining the transformation of firm resources into product and process innovations. Schumpeter's model ensures that both the economic significance and operational forms of innovation are embedded in the analysis. This combined theoretical approach not only aligns with the complexity of SME operations in developing economies like Nigeria but also ensures that both internal capabilities and external enablers are equally considered in modelling SME innovativeness. This dual focus is essential for generating findings that are both theoretically robust and practically relevant for policymakers, development partners, and SME practitioners.

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