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Digital Transformation and business growth of small and medium enterprises in Lagos State, Nigeria

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Abstract

The research examined the impact of digital transformation on business growth of small and medium enterprises in Lagos State, Nigeria. The information for the study was obtained from secondary sources of data including online journals and textbooks, and content analysis was used to analyze the data. The outcome of the research showed that digital transformation has an influence on the expansion of small and medium enterprises in Lagos State, Nigeria. Apart from this, a large number of SMEs in Lagos State have resorted to using social media sites such as Facebook and Instagram for advertising their products, on the other hand, only a few businesses are using modern technology such as cloud computing, data analysis, and ERP systems due to their high costs and lack of technical knowledge. The research revealed that digital transformation is now a significant factor in the advancement and sustainability of the progress of small and medium enterprises (SMEs) in Lagos State, Nigeria. In this regard, through the application and implementation of digital innovations such as e-commerce, digital payment systems, cloud computing, and social media marketing, SMEs can improve and advance their operations and customer service delivery. Digital transformation can directly contribute to the advancement and progress of small business. The study therefore recommends some measures for the realization of this potential. For one thing, SME owners should be given incentives to put their money into digital technologies like e-commerce platforms, digital payment systems, and cloud-based solutions, since tools that have been shown to help businesses operate more efficiently and access a broader market.

Keywords: Digital transformation; Business growth; Small business; Lagos State

1. Introduction

Small businesses are a vital factor for the economic development and stability of several developing countries. Especially in Nigeria, they significantly contribute in providing employment opportunities, lowering poverty, and boosting the economy. Small businesses in different economic areas such as retail manufacturing economic services, and tech play a leading role in the economy of Nigeria's commercial center of Lagos State. Moreover, the lack of access to finance continues to be a major problem for small businesses despite their importance. Inadequate man power and lack of government support. Recently, digital transformation has emerged as an important technique that can help businesses overcome some of these problems and enhance their growth and effectiveness.

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Digital transformation refers to the introduction of information technology into business, processes, and models in order to enhance its effectiveness, productivity, and customer engagement. Information Technologies such as e-commerce websites, digital payment platforms, cloud computing, social media advertising, and data analytics have greatly changed the way businesses operate in the world. For small business, digital transformation creates opportunities to expand market reach towards customers, streamline operations, reduce running costs, and improve decision-making processes (Vial, 2019). In the context of developing countries, the adoption of information technologies is increasingly seen as an enabler for business innovation and sustainable development.

In Developing nation like Nigeria, the fast growth of internet and mobile technology has given rise to new opportunities for small business to leverage digital platforms for business growth. Government pursuance of laws and private sector creation of things have together enlarged the digital ecosystem. Take, for instance, the financial technology bodies lead the way in digital payment solutions which now empowers local businesses or small and medium enterprises to carry out their financial transactions in a more efficient and secure manner. One of the ways digital transformation can help Small and Medium Scale Businesses, is through improving their access to new markets and enabling more flexible business models that would allow even small businesses to compete with the giant ones (Nambisan et al. 2019). This change is especially important for Lagos, since it is not only the commercial but also the technology hub of Nigeria. Apart from the economic benefits, other small businesses in Lagos State are also facing challenges in embracing the concept of digital transformation totally. Issues such as lack of skill, high cost, security, and lack of efficient technology infrastructure are some of the most important factors that affect the successful implementation of digital strategy. There are many reasons why the implementation of digital strategies is not always successful in practice. Some of the reasons include not being skilled in the use of digital technology, being unable to afford the investment cost, electronic security issues, and not having a good digital infrastructure. Besides that, a few small business owners are still not seeing the potential of digital tools to help in raising productivity and enhancing financial performance. So, the extent to which small businesses have digitally transformed their operations is very diverse. Some businesses have completely gone digital while others still function mostly according to their traditional and local ways of doing business.

During the COVID 19 pandemic, the importance of adopting digital transformation became a lot clearer as it disrupted the traditional ways of carrying out business. A lot of SMEs that have already embraced digital platforms still managed to operate by doing online sales, digital marketing and remote customer engagement. The experience illuminated the fact that digital technologies could be instrumental in helping companies not only withstand a crisis but also to adapt (Kraus et al. 2021). That is why nowadays, a large proportion of people agree that digital transformation is the main driver of a company's sustainability and a wellspring for perpetual growth.

With the increasing importance of digital technologies in business today, it is natural to wonder whether digital transformation can really be a driver of growth for small and medium enterprises (SMEs) in Lagos State. Understanding the link between digital adoption and business growth will help the government, business owners, and others to develop actions that promote the growth of small and medium, sized enterprises (SMEs) and lead to economic progress. In this regard, the study will concentrate on the impact of digital transformation on the business performance of SMEs in Lagos State, Nigeria.

1.1. Statement of the problem

In Lagos State, small and medium enterprises (SMEs) play big roles in the economic growth, employment and generating income for the whole country of Nigeria. Despite this, a large number of such businesses have very slow growth and they hardly compete as they have operational inefficiencies and at the same time, very limited access to wider markets. Digital transformation, on the other hand, opens up new avenues for businesses to enhance their productivity, customer base, and general performance. Most SMEs in Lagos State have not extensively embraced digital technology due to the reasons such as lack of digital skills, expensive adoption and poor infrastructure. This phenomenon results in a lack of knowledge about the effect of digital transformation on the growth of SMEs, which is why an empirical study of its influence on business development is imperative.

1.2. Significance of the study

This research on digital transformation and the business growth of small business in Lagos is of importance to several economic stakeholders. This work will be especially valuable to policy makers in that it will offer fresh perspectives and vital data on which to base the formulation of policies and programs that would motivate SMEs to go digital so that the economy in terms of productivity and innovation can be improved. The study could be a source of inspiration to traders and SME owners as it will demonstrate the impact of digital tools on improving business efficiency, opening up new market segments, and increasing the bottom line. This study as an educational material would help enlighten the students about entrepreneurship and digital business practices. Besides, research would be able to show in what way

digitalization can enable small business to create jobs, promote economic development, and increase the quality of life of the people.

2. Literature review

2.1. Theoretical framework

2.1.1. *Diffusion of Innovations Theory of 1962*

This Theory was introduced by Everett Rogers in 1962. It is his belief that new ideas, technologies, and innovations are spread in a society or among the members of a social system gradually by the passing of time. The theory portrays the stages involved when an innovation is communicated through certain channels between members of a social system resulting in the ultimate acceptance or rejection of that innovation. Rogers (2003) named five essential traits of a new idea that affect its acceptance: relative advantage compatibility complexity, trialability, and observability. He proposed that people or businesses adapt to innovations at different paces and they can be divided into different adopter categories as innovators, early adopters, early majority, late majority, and laggards (Rogers, 2003). The theory highlights the fact that communication channels, time, and social systems play a major role in the speed at which an innovation gets diffused.

The Diffusion of Innovations Theory has become a popular approach in the areas of technology adoption marketing communication studies, and business management as it provides insights into how organizations and individuals come to accept and make use of new technologies. The theory states that companies tend to implement digital technologies more often if they clearly identify the benefits such as higher efficiency, wider market, and better customer service. Enterprises that discover such benefits sooner normally become the early adopters of the digital innovations and enjoy the competition advantages in the market. application of this theory is particularly fitting for investigating digital transformation and business growth of small and medium enterprises in Lagos State, Nigeria. Besides explaining, it illustrates how SME owners might adopt digital changes like e, commerce platforms, social media marketing, and digital payment systems that would lead to business growth and digital transformation. Firstly, it is innovators and early adopters in the Small and Medium Enterprises (SMEs) sector that are most likely to be exposed to digital tools in their business operations. Such tools can make their work more efficient, provide them with access to a larger market, and generally make their business more successful. The Theory is hence an important theory to the study because it help explain not only the rate and manner of digital technology used by SMEs but also the benefits of such usage on the business growth of Lagos State.

2.2. Conceptual review

2.2.1. *Digital Transformation*

The digital transformation has turned out to be one of the main engines of business growth in Nigeria as more and more organizations are implementing digital technologies to raise their productivity, come up with new ideas, and connect with their clients. The rapid expansion of internet accessibility, mobile technology, and digital payment methods has been a huge motivation for firms to incorporate e, commerce platforms, cloud computing, and social media marketing into their business activities. These techs allow companies to extend their market reach, cut down on operating costs, and enhance customer service. According to Afolayan and Olanrewaju (2021), companies in Nigeria can gain a really competitive edge and improve their productivity through digital transformation as it allows fast communication and data, driven decision making. Besides that, digital mediums have opened windows for small and medium enterprises to get away from their traditional markets and compete on equal terms with players in the global economy (Vial, 2019).

2.2.2. *Business Growth of Small and Medium Enterprises*

The expansion of small and medium enterprises (SMEs) is a major measure of economic progress, especially in developing countries such as Nigeria. SME are an important source of job creation, generating income and introducing new ideas in the different areas of the economy. Business expansion of SMEs is usually gauged through a variety of indicators such as rising sales, market expansion, profit generation, and employee growth. The Organization for Economic Co, operation and Development (2021) has reported that SMEs which implement good management strategies, get financing, and are willing to adopt technological changes are the ones that will most likely undergo growth and be competitive in the long term. In addition, the research shows that government supportive policies and a favorable business environment also contribute significantly to the performance of SMEs and their developing further (Storey, 2016). In short, developing SMEs is crucial for the promotion of economic stability and development of entrepreneurship.

3. Methodology

This research used qualitative analysis as the main method. The writers reviewed different sources of literature among which were newspapers textbooks academic journals, and other relevant materials that dealt with Digital Transformation and Business Growth of Small and Medium Enterprises in Lagos State, Nigeria. The study mainly depends on the secondary data in order to investigate and discuss the topic under consideration.

4. Data presentation and analysis

4.1. Research question i: What is the impact of digital transformation on the growth among small businesses in Lagos?

Using digital technologies such as e-commerce platforms, digital payment solutions, social media advert, cloud computing, and data analytics help SMEs in increasing their operations, cost reduction, and market increase beyond their location. Digital transformation also results in innovation as SMEs can create new business models, customize products based on customer requirements and be responsive to the changes in the market. Vial (2019) states that digital transformation is a process of incorporating technology into every functioning of a business for better productivity, making decisions and value creation. Besides this Nambisan Wright, and Feldman (2019) press upon the fact that it is primarily the digital technologies that have helped small businesses to play on the same competitive field as large companies till now.

The digital revolution has especially equipped small businesses with the ability to understand market trends, predict customer behavior, and optimize supply chain activities. Small and medium enterprises in Lagos State that have successfully integrated digital tools into their working processes are experiencing a major upturn in their business growth figures such as sales, market share, and profit margins. Besides, digital transformation is a potent tool to boost the level of customer interaction. The main changes include simplification of the communication process, and provision of a customized marketing strategy to better meet the needs of individual customers. The end results are increased customer loyalty and retention. The COVID 19 pandemic also made the world realize the value of digital tools. For instance, companies with well, developed digital systems were still able to operate and make profits even when restrictions on physical trade were in place. As such, small business aiming to grow sustainably and stay competitive over the long term in the state is expected to follow digital transformation. Therefore, the adoption of digital transformation would be a smart business move for both owners of businesses as well as policymakers who want to develop the SME sector and also increase the Nigerian economy.

4.2. Research question ii: What is the level of adoption of digital technologies among small business in Lagos State?

Different small and medium, sized enterprises (SMEs) in Lagos State Nigeria have, to a considerable extent, adopted digital technologies. Variations in among the SMEs in Lagos State, Nigeria with regard to adoption of digital technologies can be explained by the differences in factors like business size sector availability of funds, and proficiency in management, etc. However, many SMEs have started to embrace digital tools like marketing through social networks, use of online payment systems, and establishing e, commerce platforms. These tools have assisted them in improving their visibility, communicating with clients more efficiently and simplifying their transaction processes.

According to Afolayan and Olanrewaju's report (2021), so many small and medium, sized enterprises in Lagos State use social media platforms such as Facebook and Instagram mostly for marketing and customer engagement. Yet, only a few firms can afford the use of more sophisticated technologies such as cloud computing, data analytics, and enterprise resource planning. It is mainly due to the high costs associated with these technologies and the lack of technical expertise in the firms. In general, while SMEs in Lagos State are getting digitally equipped day by day, a lot more can be done especially in those aspects that drive operational efficiency, innovation, and competitiveness. These points to the requirement for focused support and capacity, building interventions.

5. Discussion of findings

i) The findings of the study are in line with the study done by Fadeyi et al. (2025) which have demonstrated that digital technologies such as e-commerce, and usage of social media have a positive impact on the performance of business. In this regard, in greater detail, the study by Fadeyi et al. (2025) on SMEs in Lagos found that through technology, the digitalization process has contributed to the growth of the efficiency of their operations, their competitive position, and their access to important services However, the main challenge that can be identified from the situation is the lack of

good internet connections and the need to ensure that cybersecurity is achieved (Fadeyi et al. 2025). In addition, some in-depth studies concerning the digital transformation of Nigeria have indicated that some businesses, especially the small and medium ones, that have managed to incorporate digital technology into their businesses at a very high level have seen an improvement in some aspects of the business, such as revenue and the efficiency of the operations.

Those that have simply taken, on digital technology in a very limited way are at a lower level (International Journal of Current Science, 2025). An empirical study from Lagos reveals that digital entrepreneurship makes a significant contribution to the sustainability of the business model through the integration of value creation factors in digital ways (Omoyele et al. 2022). In summary, the above findings confirm the notion that the digital transformation has a strong and positive effect on the development of SMEs in Lagos State and therefore call for more research in this area. ii) This is in line with the empirical evidence on the level of adoption of digital technologies by Small and Medium Enterprises (SMEs) in Lagos State, Nigeria, which has presented mixed findings with the common denominator being the identified gaps and increased rates. A study on the awareness of digital marketing strategies, in particular, showed that while many Lagos SMEs are aware of various digital tools such as social media and email advert, the adoption level of these tools remains low, implying that awareness does not necessarily translate to the widespread adoption of digital technology (Ezurike, 2024). On the contrary, yet another empirical study established a high adoption level for digital marketing practices with social media platforms and mobile marketing being at the forefront in a reflection of the fact that some digital technology is now widely used by SMEs in reaching out to customers and in marketing their businesses (Adeniyi et al., 2024). Further research carried out on textile SMEs in Lagos revealed that the adoption level of digital technologies such as e-commerce and ERP is relatively low, with only about 46.5% of the enterprises adopting these technologies (Aduaye-Odieta, 2025). From the study, it is shown that there is still a decrease in the various sectors and technologies and the need for support in order for the maximum initiation of digital transformation to take place in spite of the increase in use of digital technology in SMEs in the study area.

6. Conclusion

On all fronts, it is safe to assert that SMEs that have successfully integrated these technologies are witnessing their revenues, productivity, and competitiveness improve with each passing day, whereas those that have failed to adopt these technologies or have adopted them to a little extent are still suffering from operational and market constraints. In light of the situation, the adoption of digital technologies does not reach the same level across sectors. For various reasons, such as the high cost of implementation, the lack of digital skills, and the infrastructural limitations it gets delayed or completely halted. Still, the increase of affordable digital solutions and government support initiatives are gradually improving adoption rates. Generally, digital transformation is more than just a strategy to increase business performance, it is also a catalyst for sustainable growth, innovation and the continual competitiveness of SMEs in Lagos State, which points out its significance to entrepreneurs, policymakers and indeed the larger Nigerian economy.

Recommendation

Several steps can be taken to increase the effect of digital transformation on the expansion of small and medium enterprises (SMEs) in Lagos State, Nigeria. To begin with, SME owners should be motivated to invest in digital technologies, for example, e-commerce platforms, digital payment systems, and cloud-based solutions. These tools have been demonstrated to enhance operational efficiency and widen the market reach. Secondly, entrepreneurs and their employees should be given training in digital literacy and capacity building to prepare them with the right skills needed to employ and run these technologies effectively. Third, government agencies and financial institutions ought to provide a range of incentives like grants, subsidies or low-interest loans, etc. to lessen the financial burden resulting from the implementation of digital solutions. Besides, it is necessary to build a strong digital infrastructure comprising dependable internet access, cybersecurity measures, etc. to facilitate the continued use of digital technologies. After that, through working together, small or medium-sized enterprises, technology suppliers, and industrial associations can share their know-how and invent; in such a way, the businesses will make the most out of the digital transformation for their sustainable growth, competitiveness, and long-term economic development in Lagos State.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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