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Effect Of Human Resource Capacity On Performance Of Small And Medium Enterprises In Sokoto And Zamfara States, Nigeria

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ABSTRACT
This study examines the effect of human resource capacity on performance of small and medium enterprises (SMEs) in Sokoto and Zamfara States. Using a cross-sectional research design, the study determined its sample size using the Yamane formula. Data were collected from 450 SMEs' Owners/Managers across different sectors in Sokoto and Zamfara States through structured questionnaire. A multiple regression tool of Partial Least Square Structural Equation Modeling (PLS-SEM) was used to analyse the data and test the study's hypothesis. The study found that human resource capacity significantly affects SME performance in Sokoto and Zamfara States, Nigeria. The study recommends that business owners should prioritize training and development to better equip the workforce especially in the areas of skills, mentorship, leadership and vocational programmes; prioritize collaborations and partnerships with educational institutions to encourage internship, apprenticeship, mentorship and cooperative education programmes.
Keywords: Small and Medium Enterprises, SMEs Performance, Human Resource Capacity

INTRODUCTION

Small and Medium Enterprises (SMEs) are a key driver of economic growth, employment, and innovation in Nigeria. In recent years, the adoption of digital and information communication technologies (ICT) by SMEs has been argued to influence operational efficiency, market access, and firm performance. However, the extent to which technology adoption translates into measurable performance gains varies across regions and sectors, and depends on factors such as digital maturity, infrastructure, managerial skills, and access to finance. Several recent assessments indicate growing interest in digitalization among Nigerian MSMEs, but also highlight uneven digital maturity and infrastructure gaps that may limit benefits in many states including Sokoto and Zamfara. (Apulu, 2011).

Human resource capacity is essential for the success of SMEs in Sokoto and Zamfara States. Well-trained employees can leverage technology effectively and adapt to changing market conditions. Investing in human capital is crucial for fostering innovation and ensuring that SMEs remain competitive in a rapidly evolving market. To facilitate this, training and support programmes are essential. Government agencies like National Directorate of Employment (NDE) and business support organizations like Industrial Training Fund (ITF) can collaborate with technology providers to offer workshops, training sessions, and resources that equip SMEs with the requisite and necessary skills to integrate technology into their operations. Promoting digital literacy and providing access to technological resources can significantly enhance the competitiveness and performance of SMEs in Sokoto and Zamfara States.

The skills and capabilities of human resources are integral to the operational success of SMEs. In Zamfara State, a study by Iliyasu and Balarabe (2024) emphasized the importance of knowledge acquisition and retention in enhancing the financial performance of SMEs. However, SMEs in both Sokoto and Zamfara States face challenges related to inadequate training, limited access to skilled workforce, and low levels of managerial expertise. These deficiencies hinder their ability to adapt to market changes, innovate, and implement effective business strategies. Limited access to quality education and requisite training programmes means that a business owner or manager may not have the necessary competencies to meet the demands of modern day business practices. These skills gap limit the ability of SMEs to innovate and remain competitive in a rapidly evolving market. Thus, investing in human capital development is crucial to enhancing the overall performance of SMEs in the region. Well-trained workforce is essential for leveraging technology effectively and adapting to market changes and business opportunities.

Prior studies often overlooked some critical aspect of the intersection between of human resource capacity and SMEs' performance. Studies by Njanja et al. (2022) focus on external influences while neglecting internal elements such as human resource capacity. Understanding this entanglement is crucial for developing effective strategies that will create a sustainable pathway for SMEs' growth alongside their operational performance.

It is against this background that this study examines the effect of human resource capacity on the performance of small and medium enterprises in Sokoto and Zamfara States, Nigeria with a view to answer the research question raised: To what extent does human resource capacity affect SMEs' performance in Sokoto and Zamfara States?, and to test the study's developed null hypothesis: human resource capacity has no significant effect on SMEs' performance in Sokoto and Zamfara States.

LITERATURE REVIEW

Concept of Small and Medium Enterprises (SMEs)

According to Beck and Demirguc-Kunt (2006), SMEs are vital drivers of economic growth and innovation, defined conceptually as entities that combine operational flexibility, innovation potential and community-level economic integration. They foster local economic development by providing goods and services, stimulating competition, and driving innovation. Furthermore, SMEs are more adaptable and responsive to market changes compared to larger corporations, enabling them to meet the specific needs of local communities.

A close perspective is equally shared by Ayyagari et al. (2007) who described SMEs as firms with modest resource bases, strong local market share, and the ability to foster innovation despite structural constraints. They are organisations whose size allows for closer management-employee relationships and adaptability, easier feedback mechanism due to closer owner/manager-customer relationships allowing for niche market participation. Their flexibility, customer closeness, and ability to adapt to market changes make them vital in introducing new products, services and technologies.

SMEs are businesses with revenues, assets or a number of employees below a certain threshold which vary by country and institution but generally distinguished from large corporations by their relatively small size and market reach. SMEDAN (2021) classified Small Enterprise as those with between 10 to 49 employees and N5million to N50million in assets; and Medium Enterprises as those with between 50 to 199 employees and N50million to N500million in assets. They are predominantly owner-managed,

informal in structure, local focus, flexible and have limited access to capital. These enterprises play a vital role in economic development, contributing to job creation and innovation. SMEs are often seen as the backbone of many economies, particularly in developing regions, where they account for a large percentage of employment and entrepreneurial activities.

Small and Medium Enterprises (SMEs) Performance

The performance of SMEs is a metric of their success in attaining their objectives. It is defined as an organisation's ability to generate activity and valuable outcomes (Adam et al., 2021). Scholars hold varying perspectives on SME performance measurement. Ghazali (2021) elaborated that SMEs must establish benchmarks and evaluate their strategies, values, and practices against high-performing entities to measure performance. Pu et al. (2021) maintained that performance measurement assesses how well SMEs are functioning. Storey (1996) proposed that organisational performance measurement encompasses effectiveness, efficiency, satisfaction, and product innovation. Apolot (2012) conducted research measuring organisational performance in terms of sales growth, customer satisfaction, and profitability within a business.

A widely adopted performance measure among small businesses, serving as a subjective indicator of overall business performance, is the degree of owner/managers' satisfaction with business performance (Pu et al., 2021). Few researchers have sought Owner/Managers' views on their business ventures' success. Small business success has been identified as actual performance meeting or surpassing the business Owner/Managers' expectations (Ogundare, 2019).

The wide array of measures used to define success can lead to misinterpretation of actual performance. For instance, a small business with declining profits or market share might appear to be failing, when in fact its Owners/Managers are content with the overall business performance. Sufficient income, job satisfaction, a contented workforce, and a stable market position all contribute to small business Owners/Managers' satisfaction (Apolot, 2012).

For this study, performance measurement indicators (dependent variables) in an enterprise include increase in sales/sales growth, profitability, innovation, effectiveness and efficiency. The measures of SMEs performance are as follows:

Increase in sales: Ogundare, (2019) utilises the growth in sales as a metric for assessing business performance. He firmly asserted that the yearly increase in a company's sales can serve as a benchmark for evaluating its performance.

Profitability: A crucial indicator for gauging SME performance is profitability. In a competitive landscape, it is vital for an enterprise's survival (Pu et al., 2021). Profitability refers to the capacity to generate profit, which is a fundamental objective for any business entity. It is calculated using revenue and costs. Income increase capital represents the gross profit generated during an accounting period from the enterprise's regular activities (Storey, 1996). Expenses are outflows resulting from an organisation's normal operations, which reduce both fixed and current assets or increase liabilities and decrease capital.

Innovation: Storey (1996) characterizes innovation as the creation, acceptance and implementation of novel ideas, processes, products or services. Empirical evidence linking innovation and performance varies. Adamu et al., (2021) posit that entrepreneurs possessing competitive innovation skills have a profound understanding of SMEs, which significantly propels their performance. SMEs attribute their innovation capabilities to internal factors such as self-motivation, learning, knowledge, technical competence, and external factors including customer requirements and demand, information from equipment and material suppliers, market opportunities and competition.

Effectiveness: Apolot (2012) define effectiveness as the success of a business's products and services in comparison to those of its competitors in the market. Effectiveness is primarily associated with non-financial objectives. It is the extent to which an organization achieves its intended objectives or desired outcomes. it has to do with goal attainment regardless of the resources used (which differentiates it from efficiency which relates to resources used). SMEs must pursue the right strategies that lead to improved performance outcomes. SME performance is often multidimensional and effectiveness serves as a core performance dimension as it shows to what extent an SME is achieving its goals.

Efficiency: Adamu et al., (2021) opined that it is crucial for an enterprise owner/manager to understand the level of efficiency of their business operations and treat efficiency as an index (a set of business product and service outputs divided by a set of inputs of resources used in their implementation). It is closely linked to achieving profitability.

SMEs' performance could be financial, non-financial or balanced (a combination of both). Measuring SMEs' performance is challenging due to the diversity of business goals, differences in industry characteristics and limited data availability (Kaplan & Norton, 1996). Performance is a multifaceted concept that refers to the ability of an organization to achieve its objectives and goals effectively and efficiently. In a business context, performance encompasses various dimensions, including financial outcomes, operational efficiency, customer satisfaction, and market competitiveness. For SMEs, performance is particularly crucial as it directly influences their sustainability, growth, and contributions to the economy. In the context of SMEs, performance is often measured through several key indicators. Profitability is a primary measure of financial performance and reflects the ability of an SME to generate income relative to its expenses. Broadly, SMEs' performance refers to the output of small and medium enterprises, measured through key indicators such as growth, profitability, innovation, and market expansion. These metrics collectively reflect an SME's ability to achieve its objectives, sustain operations, and adapt to changing market conditions, thereby contributing to overall economic development. In a nut shell, SME Performance means the output measured in terms of growth, profitability, innovation, and market expansion. Indeed, profitability is essential for survival and growth, enabling SMEs to reinvest in their operations and innovate. Another important aspect is business growth, which can be quantified in terms of revenue increases, expansion into new markets, or the development of new products and services. Business growth indicates the enterprise's capacity to scale its operations and adapt to changing market conditions.

Customer retention: Customer retention is also vital for long-term business success. High customer retention rates often signify effective service delivery, customer satisfaction, and brand loyalty, which are essential for sustaining revenue over time. Additionally, market expansion refers to an SME's ability to penetrate new markets and increase its market share, enhancing competitiveness and leading to increased sales and brand recognition. Operational efficiency assesses how well an SME utilizes its resources: human, financial, and technological to optimize processes and minimize costs. Enhanced operational efficiency contributes to better profitability and competitiveness. Lastly, the capacity for innovation, including the introduction of new products or improvement of existing services is critical for SMEs. Innovation can differentiate an SME from its competitors and enable it to respond effectively to changing consumer demands.

Human Resource Capability

Human resource capacity broadly encompasses the various elements of employee development; it specifically focuses on the qualifications and readiness of personnel to meet organizational goals. Effective training programmes and strong leadership contribute to a motivated and skilled workforce, which is crucial for innovation and growth. Investing in human resource capacity not only improves individual performance but also enhances team dynamics and organizational culture. Ultimately, a robust human resource capacity enables SMEs to navigate challenges, seize opportunities, and achieve sustainable competitive advantage in their respective markets.

By cultivating a skilled and knowledgeable workforce, SMEs can improve operational efficiency, foster innovation, and effectively respond to challenges. Human resource capacity is measured by the level of skills, training, and management competency within an SME. Thus, human resource capacity specifically relate to the skills, knowledge, and training levels of employees and managers within an SME. This capacity directly influences the organization's ability to adapt to changing market conditions and enhance overall performance. The availability of a skilled workforce is crucial for SMEs' performance. SMEs often struggle to attract and retain talent due to limited resources and competition from larger firms (Bessen, 2019). A well-trained workforce can enhance productivity and drive innovation, making it essential for SMEs to invest in employee development. SMEs that prioritize training and development

tend to see improved performance outcomes. A skilled workforce is better equipped to adapt to new technology and processes, fostering a culture of continuous improvement (Garengo & Biazzo, 2012). Furthermore, investing in employee skills can lead to higher job satisfaction and lower turnover rates, which are critical for maintaining organizational stability.

In summary, human resource capacity comprises skills, knowledge, and competencies of employees and management within an organization. It includes aspects such as training and leadership development, which are essential for enhancing workforce capabilities. A strong human resource capacity allows organizations, particularly SMEs, to adapt to changing market conditions and drive operational effectiveness.

Review of Empirical Studies

This review extensively synthesizes relevant studies that examine the relationship between human resource capacity and the performance of SMEs, highlighting key factors that influence their performance and growth. For instance, Olufemi (2018) examined the impact of human capacity building on small and medium enterprises in Lagos, Nigeria. The study used quantitative design to collect data from 139 respondents selected from SME owners. SPSS was used to analyze the data gathered. Findings from the study reveal that inadequate and inefficient management of employees and lack of training and development programme hampers SMEs performance. The study overlooked government's role in subsidizing training and digital solutions to up skill workers. This study will evaluate Zamfara State's vocational training policies and propose low-cost tech-enabled training models for SMEs.

Otoo (2019) did a study on human capital development and organisational performance: A focus on SMEs' performance in Ghana. The study assessed the impact on human resource capacity on SMEs' performance using survey-based research with 150 SMEs' managers in Accra, Ghana. The study reveals that human capital development significantly improves productivity and business competitiveness. The study ignored cross-border comparisons and policy-enabled training incentives. This study compares SMEs' human resource capacity challenges in Sokoto State, Nigeria with that of Ghana's case scenario.

Rahman and Ady (2024) studied the role of SME human capital resource competence in improving SMEs' performance in Indonesia. The study examined the impact of human resource competencies on the performance of SMEs. The study utilised a quantitative approach with a survey design and employed Structural Equation Modelling (SEM) with Partial Least Squares (PLS). Data were collected from 100 SME owners or managers in Macassar using questionnaire. Their findings indicate that human resource competencies have a significant positive effect on various performance indicators such as sales growth, profitability, operational efficiency and customer satisfaction. It highlights the importance of investing on education, training and continuous development of human resource capacity to enhance SMEs performance. The study did not contextualize financial accessibility/technology adoption barriers to human resource development (e.g., high cost of training FinTech tools). This study uses the PLS-SEM model to Sokoto and Zamfara States' context by adding financial accessibility and technology adoption as key determinants of the performance of SMEs.

Theoretical Framework

This study is theoretically anchored on the Resource-Based View (RBV) and complemented by the Human Capital Theory (HCT), both of which provide a strong foundation for explaining how human resource capacity influences the performance outcomes of small and medium enterprises (SMEs). The RBV, popularized by Barney (1991), posits that firms achieve superior performance when they possess resources that are valuable, rare, inimitable, and non-substitutable (VRIN). In the context of SMEs, human resource capacity expressed through employees' skills, competencies, and training, experience, and organizational routines serves as a strategic internal resource capable of driving competitiveness. SMEs that invest in developing employees' professional competencies, effective supervisory practices, and structured knowledge-sharing processes are more likely to outperform those that rely on unstructured or informal HR systems (Sanusi, 2021). Human resource capacity therefore becomes a core capability that enhances productivity, innovation, customer satisfaction, and overall firm efficiency.

The Human Capital Theory (Becker, 1964) further strengthens the theoretical explanation by arguing that employees' education, training, and experience constitute forms of capital that improve productivity and economic performance. For SMEs operating in environments such as Sokoto and Zamfara characterized by limited formal technical education, skill shortages, and high business environmental uncertainty investments in human capital become even more crucial. Through training and skill enhancement, employees gain the ability to perform tasks more efficiently, adapt to changes, and contribute to innovation, thereby strengthening firm competitiveness (Aladejebi, 2018). HCT therefore provides the micro-level justification for how human resource capacity directly contributes to productivity and performance enhancement.

Combining RBV and HCT creates an integrated theoretical lens that explains how both the strategic value of human resources (RBV) and the productivity-enhancing effects of skills and training (HCT) jointly drive SME performance. This integration is particularly relevant because SMEs in developing economies typically rely heavily on human resources rather than advanced technology or capital-intensive systems. Thus, human resource capacity becomes a unique, hard-to-imitate capability that determines the competitive positioning and long-term viability of SMEs.

RESEARCH METHODOLOGY

Research Design

This study adopts a survey research design through the use of questionnaire as the instrument of data collection. The survey strategy was selected for its suitability in collecting standardized information from a relatively large population, allowing for comparisons and statistical generalizations. In line with this strategy, a quantitative research approach was adopted. This approach supports the collection and statistical analysis of numerical data to uncover relationships among variables. The unit of analysis for this study is the individual SMEs in Sokoto and Zamfara States while data regarding the organizational-level variable (government regulation) is collected from SMEs' Owners/Managers who are the respondents.

The population of the study is made up of 22,473 registered SMEs operating across Sokoto and Zamfara States (Sokoto State Small and Medium Enterprises Development Agency, 2024; Zamfara State Ministry of Commerce and Industry, 2005) and sample of 400 respondents were drawn using Yamane formula (1973).–These individuals were purposively targeted because they possess direct knowledge of the regulatory dynamics of their enterprises. As key decision-makers, their responses provide reliable and insightful data regarding the factors influencing SMEs' performance within the local business context. The study used primary data obtained from developing a structured questionnaire.

The study employed both descriptive and inferential statistical tools to analyze the data that were collected for the study. The study made use of descriptive statistics (such as mean, median, standard deviation, minimum, maximum and total count values) to ascertain the general characteristics of data collected for the study. The study also adopted multiple regression analysis using Structural Equation Modeling (SEM) due to its appropriateness and ability to handle complex variable relationship testing.

Table 3.1 Variables Definition and Measurement

Variable	Definition	Indicators/Items	Measurement Scale	Source
SME Performance	The extent to which SMEs achieve business goals and growth.	Profitability, sales growth, operational efficiency, market share, &customer satisfaction	5 items	Eniola & Ektebang, 2014; Ogundare, 2019; Olayemi, 2021; Adewole & Umoru, 2021
Human Resource Capacity	Quality and adequacy of employee and managerial skills within the SME.	Training, leadership skills, knowledge level,& experience	4 items	Dessler, 2020; Armstrong & Taylor, 2020

This study's conceptual model empirically tests hypothesis derived from the aforementioned theoretical frameworks. The interaction among the independent variable (human resource capacity) and SMEs' performance forms the analytical structure of the study. The model is adapted from the work of Malam, Hassan, and Marafa (2024). The functional equation for the model can be expressed as follows:

SP= f(HRC)…….…… (1)

Where; *"Y"* represents the dependent variable (SMEs performance) and X represents the independent variable (human resource capacity).

RESULTS AND DISCUSSION

Table 4.1: Results of the Convergent Validity Test

Constructs	Indicators	Outer Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Human Resource Capacity	HRC	0.75	0.80	0.87	0.63
SMEs Performance	SP	0.78	0.82	0.88	0.59

Source: Field Survey, 2025

Table 4.1 presents the findings from the convergent validity assessment. The results indicate that convergent validity is established, as the average factor loading for all constructs exceeds 0.5. Convergent validity is used to determine whether the indicators of a construct are well-correlated and collectively measure the underlying construct.

The Average Variance Extracted (AVE) is used to assess convergent validity, with a threshold of 0.50 or higher indicating that at least 50% of the variance in the items is explained by the construct (Fornell & Larcker, 1981). All constructs listed in Table 4.6 have AVE values exceeding the 0.50 threshold, confirming adequate convergent validity. For instance, the Human Resource Capacity construct has an AVE of 0.63, indicating that 63% of the variance in its indicators is explained by the construct. This suggests that the items are sufficiently correlated and effectively represent the construct. Similarly, Government Policy, with an AVE of 0.64, further confirms strong convergent validity. Even for Technology Adoption, where individual item reliability was slightly weaker, the AVE is 0.52, indicating that the construct as a whole explains a sufficient amount of variance in the items, confirming convergent validity.

Similarly, SMEs' Performance demonstrates good reliability and validity across its measures. The outer loading for SMEs' performance IS 0.78, exceeding the 0.70 threshold, ensuring strong individual item reliability. Its Cronbach's Alpha is 0.82, and Composite Reliability is 0.88, reflecting strong internal consistency among the performance indicators. The AVE for SMEs' Performance is 0.58, indicating that 58% of the variance in the indicators is explained by the construct, confirming that the items are well-correlated and adequately measure SMEs' performance.

Table 4.2: Measures and Threshold Values for Assessment of Inner Model

Assessment Measure	**Measure**	**Threshold value**
Path Coefficient	T-value	1.96 ($p < 0.05$)
Coefficient of Determination	R^2	0.19 (weak), 0.33 (mediocre), 0.67 (good)
Effect Size	F^2	0.02(weak), 0.15(moderate) and 0.35(strong)
Predictive Relevance	Q^2	0.02 (small), 0.15 (medium), 0.35 (strong)

Hair et al., (2014).

Table 4.2 displays the results of the measures and threshold values for assessing the inner model regarding the determinants of SMEs' performance in Sokoto and Zamfara States, Nigeria. The key

considerations for this assessment include path coefficient estimates, coefficient of determination (R^2 values), effect sizes (F^2), and predictive relevance (Q^2) (Hair et al., 2014). The evaluation of the inner model provides valuable insights into the relationships and effect of human resource capacity on SMEs' performance in Sokoto and Zamfara States. These are:

Path Coefficient (T-value): A T-value exceeding 1.96 indicates a significant relationship between access to human resource capacity and SMEs' performance. This suggests that it significantly influence performance outcomes for SMEs. Coefficient of Determination (R^2): R^2 values indicate the proportion of variance in SME performance explained by human resource capacity. An R^2 of 0.19 (weak) implies that only a small portion of performance can be accounted for by these factors, highlighting the importance of considering additional variable that may also play crucial roles. Higher R^2 values (0.33 and 0.67) would suggest stronger explanatory power.

Effect Size (F^2): The effect size provides insight into the practical significance of the relationships. Weak, moderate, or strong effect sizes indicate varying level of effect that human resource capacity has on SMEs' performance. A strong effect size suggests that changes in human resource capacity could lead to substantial changes in performance outcomes. Predictive Relevance (Q^2): A Q^2 value greater than 0 indicates that the model possesses predictive relevance for the data. This measure assesses the model's ability to predict real-world outcomes. A low Q^2 value might signal limited predictive capability, suggesting the need for more robust modeling approaches.

Table 4.3: Results of the Path Coefficient
Dependent Variable: SMEs Performance

Relationship	Coefficient	Standard Deviation	T Statistics	P Values
Human Resource Capacity	0.24	0.06	5.19	0.00

Source: Field Survey, 2025

Table 4.3 presents a detailed summary of the results from the hypothesis tests that examine the direct relationship between the independent variable (IDV) and the performance of SMEs in Sokoto and Zamfara State. These relationships are critical for understanding the factor that affects SMEs' performance, which is vital for economic development in the region.

The analysis indicates that Human Resource Capacity have a moderate positive effect on SMEs' performance, represented by a Beta value of 0.24. The T-statistic of 5.19 and a P-value of 0.00 affirm the statistical significance of this relationship. This finding underscores the importance of having skilled and capable human resources within SMEs. As the quality of human resources improves, so does the performance of these enterprises. Skilled employees are better equipped to enhance productivity, efficiency, and innovation, leading to better business outcomes. When SMEs invest in human resource capacity through training and development programmes, they foster a culture of engagement and motivation among their workforce. Engaged employees are typically more productive and committed to the success of the organization, which ultimately translates to improved performance. A well-trained workforce is better equipped to respond to market changes and challenges, driving innovation and enabling SMEs to stay competitive in a rapidly evolving environment.

Strong human resource capacity contributes to better teamwork and collaboration within SMEs, improving problem-solving capabilities and operational performance. The significant role of human resource capacity highlights the need for targeted investments in education and vocational training programmes. By equipping the local workforce with relevant skills, SMEs can enhance their performance. Policymakers should consider implementing initiatives that support human resource development, such as partnerships with educational institutions to tailor training programmes to meet local business needs.

DISCUSSION OF FINDINGS

This section discusses the findings regarding the effect of human resource capacity on SMEs' performance in Sokoto and Zamfara States as the key objectives of this study. This study's finding showcased that human resource capacity significantly affects SMEs performance in Sokoto and Zamfara States, Nigeria.

The positive relationship between human resource capacity and SMEs' performance reinforces the significance of human capital in driving business success. Skilled and competent workforce significantly enhances productivity, foster innovation, and improves customer retention, leading to better performance outcomes. This aligns with study by Martínez-Cañas and López-Cabarcos (2022), found that effective human resource management practices, such as training and employee engagement, are closely linked to enhanced performance in SMEs. Despite the importance of human resource capacity, challenges persist for SMEs in attracting and retaining top talent due to limited financial resources compared to larger corporations. Hussain and Bibi (2021) highlight that while human capital is crucial, external market conditions and competition can overshadow its effect. Without addressing the broader enabling environment, the benefits of investing in human resources may not fully materialize.

CONCLUSION AND RECOMMENDATIONS

This study examines the effect of human resource capacity on SMEs' performance in Sokoto and Zamfara States. The findings provide valuable insights into the factors that determine the performance of SMEs' operations in Sokoto and Zamfara States. The employed descriptive survey research design and sampled 447 respondents using Yamane formula for sample size determination in the study area.

The study signifies the relevance of human resource capacity in driving the SMEs' performance. A skilled workforce significantly enhances productivity, fosters innovation, and improves customer service, leading to better overall performance outcomes. The study aligns with the findings of Martínez-Cañas and López-Cabarcos (2022) that effective human resource management practices are closely linked to improved SMEs' performance. Despite the recognized importance of human capacity, SMEs do frequently face challenges in attracting and retaining top talent due to financial constraints.

This indicates the importance human resources and how critical it is to SMEs growth and sustainability. The variable or their combined effect working together leads to enhanced SMEs' outcomes. Understanding the role of this factor (human resource capacity) and aligning it to business activites is crucial for developing effective strategies that will create a sustainable pathway for SMEs' growth alongside their operational performance.

Human resource capacity was identified as a significant factor influencing SMEs' performance. Hence, business owners should prioritize training and development to better equip its workforce with the requisite skillset specifically in the areas of: education and vocational training programmes, enhance leadership and management training, and prioritize collaboration with Educational Institutions for establishing partnerships between SMEs and educational institutions can facilitate internships, apprenticeships, mentorship and cooperative education programmes.

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