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DYNAMIC CAPABILITY AND SUSTAINABILITY OF SMES IN SOUTH-EAST NIGERIA: THE NEXUS

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ABSTRACT

Dynamic capability (DC) is an ability that has helped big corporations navigate successfully through the ever-changing and competitive business environment. However, SMEs in the southeast of Nigeria seem not to have fully maximized the opportunities embedded in these practices, hence, the need to examine the dynamic capabilities SMEs in Southeast Nigeria need, to stay relevant and ahead of competitors. This study, therefore, looked at the concept of DC and those capabilities that could help SMEs stay afloat in the ever-changing business environment. The capabilities looked at include sensing, absorptive and adaptive capabilities. Others are innovative networking and integrative capabilities. The study further examined the micro-foundations of DC and the composition of SMEs in South East, Nigeria. To embellish the work, Dynamic Capability Theory (DCT) was used to anchor the work. Some studies were reviewed empirically. The study concluded that DC is one of the surest ways to ensure that SMEs compete favourably in the ever dynamic marketplace. Hence, it was recommended among other things that SMEs need not to be operating in isolation of what is happening in the global market, as what happens outside has an implication on what happens inside the organization, and as such, need to be alert through the application of DC principles.

Keywords: Dynamic Capability, Sustainability, SMEs, South-East, Absorptive, Adaptive and Innovative Capability.

INTRODUCTION

The economic growth in many nations is championed by the activities of Small and Medium Enterprises (SMEs), hence, their importance in boosting economic development cannot be ignored. Pointing out the significance of SMEs even in recession periods, Hashi and Krasniqi (2011) opine that when a country is plunged into recession, SMEs can help extricate the country from it. The roles of SMEs have not only prevailed among developing countries but also developed countries (Steenkamp & Kashyap, 2010; Pimenova & Vorst, 2004).

Small and Medium Enterprises (SMEs) are the main drivers of innovation; the principal source of competitive advantage, economic and sustainable development of most developing countries (Crossan & Apaydin, 2019). To be sustainable in what they do, SMEs need more than ordinary capabilities in the ever dynamic business environment, as a consequence, it is, therefore, essential for SMEs to develop dynamic capabilities (DCs) that support business strategies to achieve competitive advantage in fast-changing business terrains (Lindblom et al., 2018).

Several scholars have argued that DC alone cannot lead to competitive advantage or improve firm performance (Eisenhardt & Martin, 2016), while others disagreed (Teece, 2018; Zollo & Winter, 2012). This disagreement has impeded the progress of empirical studies of DCs (Easterby-Smith et al., 2019). Despite the growing interest in a DC perspective, its studies remain conceptual and theoretical (Ambrosini & Bowman, 2016). Research on DC has been on a piecemeal basis (Wang & Ahmed, 2017), and empirical studies of DCs are rare (Ambrosini & Bowman, 2016).

Dynamic capabilities according to Barney (2019) are processes embedded in a firm, assuming an organization and empirical lens, rather than an economic and formal modelling one. They are processes that are embedded in the company, meaning that these values are already in the company, in the form of internal competence (Khaliq & Saeed, 2015). Peteraf (2013) avers that to measure DC is to measure the capabilities that are influenced by dynamic market mechanisms and their evolution. They are thus, the organizational and strategic routines by which firms achieve new resource configuration as market emerges, collide, split, evolve and die (Alves, et al, 2017).

Small and medium enterprises (SMEs) form the economic backbone of many countries and this is especially true in the context of developing nations. SMEs contribute substantially to the development of Nigeria as they create jobs, trigger innovation and accelerate rural industrialization (Ayanda & Adeyemi, 2011; Kale, 2015). Despite the existence of more than 17,284,671 SMEs in Nigeria (Tom et al., 2018), unemployment, crime and poverty is still on the increase. With 111.1 million Nigerians legally employable, the increase in the unemployment rate from 6.7% in 2015 to 18.8% in 2017 (NBS, 2017) is a great cause for concern. As SMEs employ over 80% of the total workforce (Kale, 2015), the decrease in employment opportunities and the corresponding increase in poverty despite the creation of more SMEs, signify that SMEs are experiencing serious challenges. Some of the internal problems experienced by SMEs in Nigeria especially in the South East include inadequate funding, poor management skills, lack of an action plan to deal with eventualities, lack of research and limited technical expertise (Ada, Kazancoglu & Sagnak, 2017).

The DC theory argues that organizations can compete favourably, despite unpredictable environments, through continuous reconfiguration of resources (Helfat et al., 2007; Kuria &

Kitenga, 2014). Whereas the usefulness of DC frameworks in SMEs has been extensively researched, limited research has been done regarding the relevance of this framework in smaller organizations, like SMEs in the South East of Nigeria. Considering that SMEs in the South East of Nigeria constitute part of the foundation of the nation's economies. SMEs in the region have continued to experience low productive capacity, and most of them are failing to celebrate their first birth date due to a lack of competitiveness. This is indicated by their persistent failure to improve their service delivery, poor market timing, inability to imitate success, increase in operating costs and lack of flexibility (NBS/SMEDAN, 2017). They continue to experience stiff competition, especially from the giant firms as indicated by the persistently low growth and survival rates. What explains this phenomenon has not been adequately addressed; hence this study seeks to investigate the influence of dynamic capability on the sustainability of SMEs in the South East of Nigeria. Thus, the specific research objective is to identify those dynamic capabilities which are important for SMEs in the study region.

REVIEW OF RELATED LITERATURE

Dynamic Capabilities (DCs)

Dynamic capabilities (DCs) are processes embedded in a firm, assuming an organization and empirical lens, rather than an economic and formal modelling one (Barney, 2019). The DC framework presents an understanding of why different organizations, operating within the same economic conditions and with access to the same resources, often exhibit different business outcomes (Eze, Duan & Awa, 2013). Collis (2014) opines that DCs are organizational capabilities that make it possible to transform ordinary capabilities over time. He adds that DCs face three challenges; erosion, substitution and learning about higher-order capabilities over time. In the word of Teece, Pisano, and Shuen (2017), DCs connote the ability of a firm to integrate, develop, and reconfigure internal and external competencies to cope with fast-changing environments. According to Barreto (2016), they are the firm's potential to systematically solve problems by sensing opportunities and making timely market-oriented decisions. Eisenhardt and Martin (2010) submit that they comprise product development, strategic decision making and alliances. They assert that these capabilities are identifiable, and the basic processes and activities are similar across firms but they are not equal across industries.

The DC framework evolved from the Resource-Based View (RBV) concept in strategic business management which suggests that business organizations develop, and sustain competitive advantages through the uniqueness of their resources (Eisenhardt & Martin, 2010). These resources may be intangible (i.e. employee's skills and intellect) or tangible (i.e. machines, property and capital). The RBV directly associates organizational business outcomes with organizational resources. This direct association can be established in relatively stable and predictable environments. However, it has been argued that in dynamic and unpredictable economic environments, such competitiveness cannot be sustained (Alagheband & Rivard, 2010). The reason for this is that RBV does not consider other inherent factors that could affect the intended application of resources. The development, combination and application of resources, towards attaining the intended business outcome/s, thus signify the strength of the DC. DCs can enable an SME to quickly re-align its resources to create, or maintain, the competitive advantage in a dynamic business environment.

In light of Teece (2018), DCs seek to match business opportunities and user needs by learning processes that are hard to copy. For analytical purposes, Teece (2018) notes that DCs can be operationalized as the capacity:

1. to sense and shape opportunities and threats,
2. to seize opportunities, and
3. to sustain competitiveness by improving, combining, protecting, and, when necessary, reconfiguring the business enterprise's resources.

Dynamic Capabilities Important for SMEs

Many studies focused on the nature of dynamic capabilities, while others examined the effects and consequences of the DC on several firms' performances and competitive advantages (Easterby-Smith et al., 2019). The six major DC constructs important for SMEs include sensing, absorptive, adaptive, innovative, networking and integrative capabilities.

I. Sensing Capability

Sensing capability is the ability of the firm to learn promptly about competitors, customers and the business environments ahead of rivals (Lindblom et al., 2008; Morgan et al., 2009). Consequently, firms with sensing capability demonstrate anticipatory skills, making it possible to understand customers' demands ahead of competitors (Morgan et al., 2009). Sensing capability is fundamentally, the ability of the firm to use market intelligence and be cognizant or aware of the market change so as to predict more accurately customers' responses to change (Lindblom et al., 2008). In other words, sensing capability can enable SMEs to gather valuable market information and interpret the information to gain sustainability and superior performance.

II. Absorptive Capability

Ideally, after firms have acquired sensing capability, they move on to acquire absorptive capability. Absorptive capability is located within the fields of DC, organizational learning and knowledge management and, hence, the firm's ability or capacity to recognize (know the value), develop and utilize external knowledge to create valuable new knowledge (Lane et al., 2016; Zhou & Li, 2019). In addition, absorptive capability involves the application of environmental knowledge acquired through organizational learning processes to improve business strategies (Lane et al., 2016). Exploiting and retaining absorptive capability is essential for the long-term survival of SMEs. Sourcing both external and internal knowledge is crucial to developing absorptive capability. Significantly in dynamic environments, the absorptive capability is a source of competitive advantage as the new/acquired knowledge is transformed into usable knowledge. Thus, firms with high levels of absorptive capability are highly innovative, as the capability complements and reinforce the firm's resource base to accurately predict future technological developments. It can help SMEs to advance in technological fields and outperform competitors (Wetter & Delmar, 2017).

III. Adaptive Capability

After absorptive capability, firms need to possess adaptive capability. Zhou and Li (2019) viewed adaptive capability as a key element of DC. Adaptive capability is the firm's ability to quickly reconfigure and coordinate its resources in response to rapid environmental changes (Gibson & Birkinshaw, 2004; Sapienza et al., 2006; Zhou and Li, 2019). In other words, the adaptive capability is the ability of a firm to respond to external changes ahead of competitors through reconfiguration of its internal resources and processes. In DCs perspective,

competitive advantage is obtained through continuous development and reconfiguration of valuable assets.

IV. Innovative Capability

Adaptive capability should enhance the innovative capability of firms. Innovation is a significant source of competitive advantage in changing or dynamic business environments, and it is a new way of doing things: "a new good or a new quality of good; a new method of production; a new market; a new source of supply; or a new organizational structure" (Dess & Picken, 2000; Crossan & Apaydin, 2009). Firms' success and survival depend largely on their ability to create value; their ability to innovate (Wang & Ahmed, 2014). Firms with high innovative capability outperform competitors and have "demonstrated higher profitability, greater market value, superior credit ratings, and higher survival probabilities" because competitive advantage increases with innovation (Volberda et al., 2009). As a result, innovation capability determines a firm's performance in dynamic conditions. It is highly imperative for SMEs to advance in innovative ability by capitalizing on knowledge from external sources to build innovation capability (Borch & Madsen, 2007; Volberda et al., 2009). Innovation of new processes and products originates from a combination of newly acquired knowledge, renewal of organizational strategies and processes to obtain sustained competitive advantage (Augier & Teece, 2018). Competitive advantage depends on a firm's abilities to effectively develop internal knowledge and exploit external knowledge to improve the innovative capability of the firm (Fabrizio, 2009).

V. Networking Capability

Networking capability is the ability of the firm to create and utilize inter-organizational relationships to acquire various resources (Walter et al., 2016). It is the firm's ability to be strategically positioned in the network and thus establish beneficial relationships with chosen partners (Hagedoorn et al., 2016). SMEs must be able to use inter-organizational relationships to improve business performance and acquire a competitive advantage in fast-changing business environments (Walter et al., 2016). To achieve and sustain a competitive advantage, SMEs can collaborate with suppliers and certain competitors to build a powerful network. Therefore, inter-organization collaboration can assist SMEs to be highly innovative, as it exposes firms to new technologies and new business strategies (Sawers et al., 2018).

VI. Integrative Capability

Integrative capability is the firm's ability to combine all the resources and competencies acquired from sensing, adoptive, adaptive, networking and innovative capabilities, and harmonize them to generate sustained competitive advantage in fast-changing business conditions. Integrative capability enhances a firm's performance (Jusoh and Parnell, 2008), and it involves the alignment of external knowledge with internal knowledge to meet the goals and objectives of the firm. SMEs with integrative capability should be able to harmonize both internal resources and capabilities (internal integration) with external resources and capabilities (external integration), to create values in dynamic conditions. In addition, the integrative capability is the ability of a firm to effectively manage internal and external changes. SMEs with integrative capability can synchronize past experiences with capabilities (resources and competencies), and exploit them within a firm without causing any havoc to the firm. Firms with integrative capability are high-risk takers and thus, embrace new technologies.

Micro-Foundations of Dynamic Capability

At the foundation of DCs are cognitive abilities; the ability to *sense*, *shape* and *seize* opportunities or mitigate threats (Teece et al., 2017). SMEs thus, develop DCs when they practice the act of continuously sensing, shaping and seizing opportunities. This unveils the acquisition of DCs as a skill that is not instantaneously achieved, but rather developed and mastered over time (Haas, 2015; Wagner & Wagner, 2017). SMEs' sensing capabilities relate to their ability to *identify* prospects. The capability to shape opportunities helps an SME to interpret and decide whether or not a prospect should be explored. Opportunity seizing and/or risk mitigation capabilities, however, drive the execution of actions towards maximizing the benefits of a selected opportunity or prospect.

The repetition of these sequential actions can be termed *dynamic capability mastery* – the act of building DC expertise by continuously sensing, shaping and seizing opportunities or mitigating threats. SME may decide to explore DCs from an adaptive, absorptive or innovative perspective. Irrespective of this decision, the goal is to be sensitive to opportunities that exist within the business environment (Sharma & Shanks, 2011). Sensed opportunities are evaluated based on the available facts. Opportunities that have passed evaluation are considered *shaped* and are fit to be explored. Subsequently, shaped opportunities are acted upon. The seizing of opportunities primarily translates as the capacity of a business to quickly formulate actions and allocate resources towards attaining an identified business objective.

The impacts of seized opportunities are measured against the firm outcome in order to determine the amount of *shift*. The shift in business outlook and the desire to remain competitive, in turn, trigger the need to sense opportunities and thus the dynamic capability mastery loop continues. This process leads to business transformation (Niehaves et al., 2011; Teece et al., 2017).

SMEs in South East Nigeria

The Eastern Nigeria economy, once adjudged the fastest growing and industrializing in the world in the early 1960s, was anchored on the emerging SMEs in Aba (Abia State) and Onitsha (Anambra State) in the South-east zone and Port Harcourt (Rivers State) in South-south zone. Today, the story is different; the enterprises are grappling with too many disabling factors. It becomes a wise decision to use the Southeast zone – a major part of this region – as a focus for problems and solutions of SMEs in Nigeria.

Identifiable sectors of small and medium enterprises (SMEs) in Southeast Nigeria include:

1. Non-Metallic Minerals
2. Agriculture, Food, Beverages and Tobacco
3. Hospitality and Tourism
4. Chemicals and Pharmaceutical
5. Base Metals (including Iron and Steel)
6. Pulp, Paper and Paper Products, Printing and Publishing
7. Wood and Wood Products
8. Textile, Leather and Wearing Apparels
9. Electrical, Electronics and Information Technology (Hi-Tech)
10. Plastic and Rubber, and
11. Transportation

SMEs in Southeast Nigeria reveal that they employ the biggest labour, absorbing the school leavers and drop-outs. Besides, SMEs have the responsibility for developing indigenous technology and diversifying the economy. And, by providing economic sustenance for the rural areas, the SMEs check the problematic rural-urban drift. However, lack of government support and patronage, poor provision of infrastructures and incentives by the government, poor manpower development, poor personal traits, industry-unfriendly services from banks and other financial institutions, etc. give rise to inclement business environments, leading to the poor establishment, survival and growth rates of SMEs in South-east and other parts of Nigeria.

Theoretical Underpinnings

This work is anchored on the Dynamic Capability Theory (DCT). The theory according to Teece, Pisano and Shuen (2017) posits that since contemporary market places are dynamic, more than the simple heterogeneity in firm resource endowments, it is the capabilities by which resources of the firms are acquired and deployed in ways that match the firm's market environment that explains inter-firm performance variance. Firms rely on DCs to build competitive advantage in regimes of rapid change. Before the development of DCs perspective, Resource-Based View (RBV) was used to explain superior performance (Teece, Pisano & Shuen, 2017). However with globalization, rapid technological development and opening up of global trade, businesses have to confront an increasingly volatile environment and the propositions of the RBV were inadequate to explain competitive advantage in dynamic markets (Eisenhardt & Martin, 2010).

The basic assumption of the dynamic capabilities framework according to Teece et al., (2017), is that core competency should be used to modify short-term competitive positions that can be used to build longer-term competitive advantage. Hence, DCs became a very active research area with a multi-discipline approach to study the phenomenon of competitiveness, performance and sustainability (Barrales-Molina et al., 2013), thereby making suiting to this study.

Empirical Insights

Mona and Hamid (2020) reported a study on SMEs' dynamic capabilities and value creation: the mediating role of competitive strategy. The research explicated the role of DCs in the ability of SMEs to create value and also investigated the relationship between different DCs, competitive strategy and SMEs' value sources. Empirical evidence based on a survey conducted on a sample of 441 UK-based SMEs was used to test the research hypotheses. The findings illustrated that sensing, learning, integrating and coordinating capabilities play a significant role in SMEs' value creation, and competitive strategy mediates the impact of dynamic capabilities on value creation.

Mudalige, Ismail, and Malek (2016) carried out a study using the DC framework to analyze the antecedents of SME internationalization in Sri Lanka. The research used a quantitative research methodology based on a self-administered questionnaire survey method. A randomly selected sample of 197 export SMEs in Sri Lanka was analyzed. The results were analyzed using the Partial Least Squares Structured Equation Modelling (PLS-SEM) method. The study empirically established that organizational DCs positively influenced internationalization. It also established that perceptual environmental dynamism (market assets position) and reputational assets position positively influences organizational dynamic capabilities.

Nedzinska, Pundziene, Buoziute-Rafanaviciene and Pilkiene (2013) examined the influence of the DCs of small and medium enterprises (SMEs) on organizational performance, and the interaction between DCs and organizational inertia in a volatile environment. A quantitative survey was carried out in Lithuania's SME sector. To achieve the aim of the research, a sample of 360 SMEs were analyzed. The study offered a conceptual model for DCs and organizational inertia in a volatile environment. The findings suggested that DCs have positive effects on non-financial relative organizational performance, though no impact on financial relative organizational performance has been revealed.

Ogunkoya, Banjo, and Peter (2014) in the Nigerian banking sector examined the relationship between dynamic capabilities and competitive advantage. The population consisted of two hundred and fifty (250) staff of First Bank of Nigeria, while the sample size comprises of one hundred and thirty-seven (137) staff. The study utilized a descriptive research design. However, the study adopted questionnaire as are liable source of data collection, whereby primary data was used to elicit respondents' opinions on the research topic. It was revealed that DCs have little importance on the organization's competitive advantage. The finding also showed that for an organization to bring about new ideas (dynamic capabilities), it has to bring together many resources in form of collaborating with other organizations to achieve its goals and objectives and there is no significant relationship between dynamic capabilities and organizational performance.

Knowledge Gap

Discussion on dynamic capabilities is novel as it relates to SMEs in the southeast, Nigeria. From the empirical reviews carried out, it would be seen that none of the studies was carried out in the southeast of Nigeria, thereby, presenting a knowledge lacuna that craves for filling. This, therefore, gives credence for a study of this nature to examine those capabilities SMEs in the region could adopt to elongate their survival in the region, as they always battle with sustainability issues, more often than not.

CONCLUSIONS

The business environment is fraught with discontinuities, and any organization that wants to remain relevant in the environment needs to be ready to evolve as regular and as quickly as possible. Dynamic capabilities give firms the capacity to change, adopt and adapt to changing situations in the environment, thereby, making them to be sustainable. The study, therefore, concludes that DC is one of the surest ways to ensure that SMEs compete favorably in the ever dynamic marketplace and to remain relevant in the business environment when deployed and adopted properly.

Recommendations

The following recommendations are put forward:

- I. SMEs need not to be operating in isolation of what is happening in the global market, as what happens outside has implication on what happens inside the organization.
- II. SMEs in the region should find a way to inculcate the habit of sensing, absorbing, adapting and innovating, so as to stay ahead of the competition, as this is one of the surest ways to sustain their performance.

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