OPEN ACCESS

International Journal of Management & Entrepreneurship Research

P-ISSN: 2664-3588, E-ISSN: 2664-3596

Volume 3, Issue 11, P.No. 359-366, December 2021

DOI: 10.51594/ijmer.v3i11.273

Fair East Publishers

Journal Homepage: www.fepbl.com/index.php/ijmer

SUSTAINABILITY OF THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMEs), A DYNAMIC CAPABILITY APPROACH

Okeke Patrick Anene¹, Nwosu Kanayo Chike² and Ezeanolue Uju Scholastica³

^{1&3}Department of Business Administration, Nnamdi Azikiwe University,
Awka, Anambra State, Nigeria

²Department of Marketing, Nnamdi Azikiwe University,
Awka, Anambra State, Nigeria

Corresponding Author: Okeke Patrick Anene

Corresponding Author Email: okekepatricka2017@gmail.com

Article Received:25-11-21

Accepted: 07-12-21

Published:13-12-21

Licensing Details: Author retains the right of this article. The article is distributed under the terms of the Creative Commons Attribution-NonCommercial 4.0 License (<http://www.creativecommons.org/licences/by-nc/4.0/>), which permits non-commercial use, reproduction and distribution of the work without further permission provided the original work is attributed as specified on the Journal open access page.

ABSTRACT

Small and Medium Scale Enterprises (SMEs) in the southeast of Nigeria face great sustainability challenges, making most of them die within the first-fifth year of establishment. Therefore, this study examined how dynamic capability can help them sustain their performance. Specifically, the study looked at the nexus between sensing capability and performance sustainability of SMEs in Southeast Nigeria. The study employed the use of survey research design with a population of 200 owners of SMEs. Primary source (questionnaire) of data collection was used, which was subjected to both validity and reliability test. The data were analyzed through the use of Pearson Product Moment Correlation Coefficient and hypothesis tested at a 5% level of significance. The result indicated that Sensing Capability has a statistically significant relationship with the Performance Sustainability of small businesses in Southeast Nigeria ($r = .909$; $p\text{-value} < 0.05$). The study, therefore, concluded that the more firms are alert to the changes in their environment, the more they can sustain their performance and last longer in the environment.

Among others, the study recommended that SMEs need to give equal attention to what is happening in their environment as they give to what is happening within their firms, as this will enable them to react swiftly to changes in the environment.

Keywords: Dynamic Capability, Sustainability, Performance, Sensing Capability, SMEs and South-East Nigeria.

INTRODUCTION

Most developed countries depend on the exploits of their Small and Medium Scale Enterprises (SMEs) to thrive; they help in job creation and ultimately create wealth for the people. On this premise, Hallam, Dosamantes and Zanella (2017) opine that many nations of the world rely significantly on the performance of SMEs to boost the economic wellbeing of their populace. Similarly, Orisa, Suwit and Wisanupong (2020) aver that, in the majority of developed and developing countries, SMEs are vital mechanisms through which their economies can take and sustain the path of growth. SMEs play this developmental role by being catalysts to employment creation for millions of people, absorbed in the formal and informal sectors (Fitriati, Purwana, & Buchdadi, 2019). However, this role is most times threatened by discontinuities and changes in the business environment where the SMEs operate.

The changes in the business environment cut short the life span of most businesses, especially SMEs who struggle to survive for long periods. Most of the SMEs die off within the first 5 years of existence, this could be attributed to a lot of things, chief among them being their seeming inability to be dynamic and respond rapidly to the changing business environment, thereby making them unable to compete favourably with the already established and thriving big businesses. Therefore, the ability to respond swiftly to the changes in the environment could be one of the surest ways to sustain SMEs for a long time. This brings to the fore the importance of the concept of dynamic capability.

Dynamic capability (DC) has been garnering momentum from all angles, be it researchers, managers, industry experts and consultants. Harleen and Deepti (2017) state that practitioners and researchers are taking a keen interest in this regard to explore the practicalities of DC in various sectors. DC is the ability of a firm to sense, analyze and seize the opportunity to perpetuate their existence. Harleen and Deepti (2017) posit that it is the ability to respond creditably and timely to extraneous factors. When companies use specific resources to match existing market changes with the aim of adjusting to changes in the market, they are deploying the principles of DC (Fitriati, Purwana & Buchdadi, 2019). Therefore, it helps organizations to adjust to the environment which could be turbulent and unpredictable most times.

Small businesses in Nigeria and indeed the southeast face a lot of challenges, ranging from poor infrastructure to a harsh business environment, these challenges, in turn, seem to threaten their corporate existence. Keskin (2006) avers that Nigerian SMEs continue to face monumental challenges such as weak strategic orientations, poor utility services, poor capabilities, poor managerial and technical skills development and lack of export market knowledge/ experience. Hence, businesses that want to sustain their existence, can do this by being alert to the business environment. Therefore, making a case for this study to examine

the role DC plays in sustaining the performance and survival of SMEs in Southeast Nigeria. Specifically, this study seeks to examine the nexus between sensing capability and performance sustainability of SMEs in Southeast Nigeria.

REVIEW OF RELATED LITERATURE

Dynamic Capabilities (DCs)

The whole thrust of dynamic capability (DC) lies in its ability to make firms respond rapidly to the changes in the business environment. Teece, Pisano, and Shuen (1997) posit that it is seen as the "firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments" (p.516). Basically, what DC does to firms is that it allow them to adapt to swift-dynamic environments by coordinating and reconfiguring existing resources and capabilities to better sense and seize market opportunities (Teece, 2018). These changes in the environment that DC aid firms in responding to, include changes in operations, management, practices, technologies and policies of the government (Deng, Gallagher & Wu, 2018). It is about how firms renew their competence to respond to rapid shifts in the industry's environment (Tope & Mahmood, 2014). On their part, Eisenhardt and Martin (2000) posit that the capacity to renew competencies to achieve resemblance with a changing business environment depicts dynamism.

Zollo and Winter (2002) state that DC is a learned and stable pattern of collective activity through which firms can systematically generate and modify their operating routines to guarantee success. In doing so, they create value, derived from the capacity of a management team to identify opportunities and threats and reconfigure a firm's repertoire of resources and operations to address them (Teece, 2007). Eisenhardt and Martin (2000) point out that DC contain specific, strategic and organizational processes like product development and strategic decision making that create value for firms within dynamic markets by manipulating resources into new value-creating strategies.

From the perspective of SMEs, definitions coined by Eisenhardt and Martin (2000) reflect DC as particular and classifiable practices that principally encompass the improvement of products, strategic decision-making and management of relationships. Hence, the different dimensions of DC include sensing, seizing and reconfiguring. Sensing has to do with scanning the environment and identifying new opportunities. Seizing on the other hand deals with mobilizing and developing resources to respond to identified opportunities while reconfiguring focuses on reorganizing existing resources and routines (Helfat and Peteraf, 2015; Helfat and Winter, 2011; Protogerou, Caloghirou, and Lioukas, 2012; Teece, 2007, 2012; Teece, Pisano, and Shuen, 1997; Zollo and Winter, 2002). However, the main focus of this study is on sensing capability.

Sensing Capability

Sensing capability means observing and taking a keen interest in what happens or is happening in the business environment, so as not to be taken unawares. This is the ability to be observant and learn about the strategies being applied by rival firms so as to stay ahead of the competition. It is the ability of the firm to learn promptly about competitors, customers and the business environments ahead of rivals (Lindblom, Olkkonen, Mitronen & Kajalo, 2008). Because changes in the market are frequent and unpredictable, sensing capability afford firms the swiftness to respond to these changes, because they always keep a tab on what is happening in the environment. Lindblom et al., (2008) aver that fundamentally,

sensing capability deals with the ability of an organization to deploy market intelligence and to take cognizant of the market changes to predict more accurately customers' responses to change. Therefore, firms who want to sustain their corporate existence need to take the sensing capability dimension of DC serious.

Sustainability of Performance

Small firms struggle with the issues of sustainability as a result of poor performance. An organization that performs poorly based on its key performance indicator (KPI) is likely not to survive for a long period as it will be outcompeted and will find it difficult to keep customers. One of the surest ways to ensure the sustainability of performance is through DC, as it allows firms to change with the environment and with customers changing tastes and demand. Teece (2018) point out that the strength of a company's DC is key in its ability to sustain long-term performance.

SMEs should be able to reformulate capabilities to become more sustainable (Dias, et al., 2020). Implementation of DC is critical for firm survival in a competitive environment (Kim, 2019). Hence, it assists to extend, modify, change, create, and recreate ordinary capabilities in response to environmental dynamism and thus, play a basic role in changing routines and in ensuring that the firm can change on the whole operation and have a new set of decision alternatives (Eisendhardt & Martin 2000; Winter, 2003).

Performance is a construct that is very important to firms as their survival always hinges on it, because it shows the extent an organization have discharged its core mandate. In line with this, Helfert (2000) reveals that performance is something that illustrates the extent to which a firm or a group has carried out their activities to achieve the vision and mission of organizations. Similarly, Stuart-Kotze (2006) saw it as achieving goals by implementing capabilities to get results while Singer and Edmondson (2006) saw it as simply the ability to achieve organizational goals. To achieve this, different things need to be put in place along with the implementation of different strategies, one of which is the strategy of DC.

Camison and Fores (2010) and Leal and Roldan (2013) describe DC as the combination of organizational potentials that support firms to assess and influence performance and sustainability firms. The literature shows that DC can serve as a connection between resources and firm performance (Hashim, Raza, & Minai, 2018). Firms use DC to recognize and act in response to opportunities and threats by extending, modifying, varying and creating a firm's ordinary capabilities to realize first-order transformation and sustainability (Winter, 2003).

Empirical Review

Naguib, Elsaid, and Elsaid (2017) examined the nexus between DC and competitive advantage sustainability in the Egyptian pharmaceutical sector. The data was collected using primary and secondary data sources. The methodology used in the study was non-probability sampling (judgmental sampling), Cronbach Alpha reliability coefficient and Chi-square tests. The results supported the notion that there is a significant relationship between four of the six dynamic capabilities (experience, skills, firm characteristics and knowledge) and the competitive advantage sustainability for pharmaceutical firms in Egypt.

Fitriati, Purwana, and Buchdadi (2019) analyzed the linkage between DC and SME performance in Indonesia. Primary data through questionnaires and secondary data published by the Government of Indonesia were deployed for the study. The research sample was 350 SMEs in Indonesia. The method used was the causality method and data analysis was done

using Structural Equation Modeling (SEM). The results revealed that there is a positive relationship between DC and SMEs performance, between DC and innovation, between innovation and SMEs performance and between DC and SMEs performance through innovation as mediation.

Okocha and Amah (2018) examined the relationship between DC and entrepreneurial growth in SMEs in Port Harcourt, Nigeria. The study adopted a cross-sectional survey research design. A convenient sampling technique was utilized in determining the accessible population of 350 respondents from chosen eight (8) SMEs. The data were analyzed through the use of Spearman's Rank Order Correlation Coefficient statistic. The findings showed a positive and significant relationship between DC and entrepreneurial growth in SMEs in Port Harcourt.

Sachitra and Chong (2019) determined the relationship between institutional capital (IC), DC and CAd of agribusiness firms, more specifically the minor export crop farms, at the same time contending that the relationship between IC and CAd is mediated by the specific capabilities. The scope of the study comprised entities that have experience in the commercial cultivation of minor export crops. 456 farm owners were selected from the highest growing districts of the selected crops (cinnamon, clove and pepper) using a proportionate stratified random sampling technique. A self-administrated structured questionnaire was used to collect data. The regression-based path analysis was used to measure the direct and mediation relationship amongst the latent variables. The results of the study suggested that IC has a significant influence on both the quality management capability and marketing capabilities of the firms studied.

METHODS

This study employed the use of survey research design. The area of the study is Southeast Nigeria, one of the six geopolitical zones in Nigeria. The zone has 5 states, but the study used 2 states (Anambra and Abia) because of the huge number of SMEs in these areas. The population of the study include 200 owners of SMEs, 100 each from the two states. Complete enumeration was used, so as to capture all the opinions of the business owners. The primary source of data was deployed and the instrument (questionnaire) was subjected to both validity and reliability test, which all came out good. The services of 3 research assistants were sought, to hasten the research process. In the end, 185 copies of the questionnaire were returned, out of the 200 distributed. Five of the return copies were not used for the analysis, therefore, only 180 copies, representing 90% of the distributed copies were analyzed using Pearson's Product Moment Correlation Coefficient. The hypothesis was tested at a 5% level of significance.

DATA ANALYSIS

Table 1
Correlation

		SNSCAP	PERSUS
SNSCAP	Pearson Correlation	1	.909**
	Sig. (2-tailed)		.000
	N	180	180
PERSUS	Pearson Correlation	.909**	1
	Sig. (2-tailed)	.000	
	N	180	180

** . Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey, 2021

Keys: SNSCAP: Sensing Capability, PERSUS: Performance Sustainability

Results

The result from the correlation analysis above shows that there is a statistically significant positive relationship between Sensing Capability and Performance Sustainability. This is because the correlation coefficient is .909 and the probability value as represented by sig is .000 which is lesser than the level of significance used (0.05). Going by this, therefore, the alternative hypothesis is accepted. This result implies that, once there is an increase in the sensing capability of firms, their performance sustainability also goes up. This is because they will be more alive and alert to what is happening within and outside their environment which will enable them to adapt to situations and not be taken by surprise and taken out of the market.

CONCLUSIONS

Dynamic capability is a veritable tool used by big and multinational companies to navigate through changing business environment. It can also be deployed by small businesses to sustain their survival, as they will be able to predict changes and be prepared for them. The study concludes that the more firms are alert to the changes in their environment, the more they can sustain their performance and last longer in the environment.

Recommendations

The following recommendations are made;

- a) SMEs need to give equal attention to what is happening in their environment as they give to what is happening within their firms. This will enable them to react swiftly to changes in the environment.
- b) Management and owners of small businesses need the services of experts that will help them keep track of changes in the environment as they may not be able to do it effectively on their own, this can be achieved by forming clusters to get hints and informed about impending policy and programme changes of government, so as not to be taken aback.

References

- Camison, C., & Beatriz F. (2010). Knowledge absorptive capacity: New insights for its conceptualization and measurement. *Journal of Business Research*, 63(7), 707-715.
- Deng, P., Liu, Y., Gallagher, V.C., & Wu, X. (2018). International strategies of emerging market multinationals: A dynamic capabilities perspective. *Journal of Management and Organization*, 1–18. <https://doi.org/10.1017/jmo.2017.76>
- Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal*, 21(10–11), 1105–1121.
- Fitriati, T. K., Purwana, D., & Buchdadi, A. D. (2019). Dynamic Capabilities and SMEs Performance: The Mediating Effect of Innovation (Study of SMEs in Indonesia). *Advances in Health Sciences Research*, 27, 457-464.
- Hallam, C., Dosamantes, C. A. D., & Zanella, G. (2017). Culture and social capital network effects on the survival and performance of high-tech micro and small firms. *Journal of Small Business and Enterprise Development*.

- Harleen & Deepti, A. (2017). Evaluating the Influence of Dynamic Capabilities on Firms' Performance: Role of Innovative Sustainability and Adaptation to Change. *Amity Journal of Management Research* 2(2), 1-12.
- Hashim, N. A. B., Raza, S., & Minai, M. S. (2018). Relationship between entrepreneurial competencies and small firm performance: are dynamic capabilities the missing link. *Academy of Strategic Management Journal*. 17(2).
- Helfat, C. E., Peteraf, M. A. (2015). Managerial cognitive capabilities and the microfoundations of dynamic capabilities. *Strategic Management Journal* 36(6), 831–850.
- Helfat, C. E., & Winter, S. G. (2011). Untangling dynamic and operational capabilities: strategy for the (n) ever-changing world. *Strategic Management Journal* 32(11), 1243-1250.
- Helfert, E. A. (2000). *Financial Analysis Tools and Techniques*.
- Keskin, H. (2006). Market orientation, learning orientation, and innovation capabilities in SMEs An extended model. *European Journal of Innovation Management*, 396-417. <https://doi.org/10.1108/14601060610707849>
- Kim, H. J. (2019). Reconciling Entrepreneurial Orientation and Dynamic Capabilities: A Strategic Entrepreneurship Perspective. *The Journal of Entrepreneurship*, 27(2) 180–208.
- Leal., A. L., & Roldan, J. L. (2013). Revista Europea de Direccion y Economía de la Empresa. *Revista Europea de Dirección y Economía de la Empresa*, 22, 218-224.
- Lindblom, A. T., Olkkonen, R. M., Mitronen, L., & Kajalo, S. (2008). Market-Sensing Capability and Business Performance of Retail Entrepreneurs. *Contemporary Management Research*, 4(3), 219-236.
- Naguib, A. N., & Elsaid, E. (2017). The Impact of Dynamic Capabilities on Sustainable Competitive Advantage in the Pharmaceutical Sector in Egypt. *Business and Management Research*, 6(2), 1-16.
- Naguib, A. N., Elsaid, E., & Elsaid, A. M. (2017). The Impact of Dynamic Capabilities on Sustainable Competitive Advantage in the Pharmaceutical Sector in Egypt. *Business and Management Research*, 6(2), 1-16.
- Okocha, B. F., & Amah, E. (2018). Dynamic Capability and Entrepreneurial Growth in Small. *International Journal of Business, Economics and Entrepreneurship Development in Africa*, 10(6), 1-19.
- Orisa, C., Suwit, S., & Wisanupong, P. (2020) The Resource-Based View, Dynamic Capabilities and SME Performance for SMEs to Become Smart Enterprises. *ABAC ODI Journal Vision. Action. Outcome*, 7(2), 129-146.
- Protogerou, A., Caloghirou, Y., Lioukas, S. (2012). Dynamic capabilities and their indirect impact on firm performance. *Industrial and Corporate Change* 21(3), 615–647.
- Sachitra, V., & Chong, S. (2019). Relationships between Institutional Capital, Dynamic Capabilities and Competitive Advantage: Empirical Examination of the Agribusiness Sector. *International Review of Management and Marketing*, 7(1), 389-397.
- Stuart-Kotze, R. (2006). *Performance: The secrets of successful behavior*. Pearson Education.
- Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal* 18(7), 509–533.

- Teece, D. J. (2007). Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal* 28(13), 1319-1350.
- Teece, D. J. (2012). Dynamic Capabilities: Routines versus Entrepreneurial Action. *Journal of Management Studies* 49(8), 1395–1401.
- Teece, D. J. (2018). Dynamic capabilities as(workable) management systems theory. *Journal of Management and Organization*, 24(3),359-368.
- Tope, S. A., & Mahmood, M. (2014). Integration of entrepreneurial orientation and dynamic capabilities in dynamic environment of small and medium enterprises: A case of Nigerian export firms. *International Journal of Economics, Commerce and Management*, 2(10), 1-11.
- Winter, S. G. (2003). Understanding dynamic capabilities. *Strategic Management Journal* 24(10), 991–995.
- Zollo, M., & Winter, S. G. (2002). Deliberate learning and the evolution of dynamic capabilities. *Organization Science* 13(3), 339–351.