

Effects of Dynamic Capability on SMEs Performance in Kano State

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ABSTRACT

Dynamic capabilities are primary drivers of a firm's performance and thus of key interest to managers. Yet the way in which dynamic capabilities secure the competitive advantage for SMEs has received little empirical attention. This study set out to uncover the influence of dynamic capabilities on the SMEs performance in Kano, Nigeria. One hundred and thirty two copies of questionnaire were distributed to various SMEs in Kano and only One hundred and twenty one questionnaires were fully retrieved. Participants filled out a questionnaire, which was then analyzed using multiple linear regressions. As a consequence of the study, SMEs performance was positively impacted by managing threat and reconfiguration capabilities while sensing and seizing capabilities does not significantly affects firm performance. This led to the conclusion that the SMEs in Kano have a defensive strategy to tackle most of the threats that may affects the smooth operations of their business and also the study recommended that SMEs should continue to cultivate these capabilities in other to improve on their operational performance.

Keywords. Dynamic Capability, SMEs Performance, Seizing Capability, Reconfiguration Capability, Sensing Capability

Introduction

SMEs are integral part of the private sector world-wide; hence their performance becomes attractive to academics and practitioners in the field of management. Sustainable development of developing countries like Nigeria depends largely on the performance of their indigenous micro, small and medium scale enterprises (Suleiman, Aliyu & Bello, 2021), they play a vital role by providing employment delivering, social service delivery and also helps in the development of country's economy through employments generation and boosting export (Hong & Lu, 2016).

Firm performance is the extent to which the firm attains financial efficiency in terms of future

expectations on return on production investment, return on marketing investment and increase in sales (Suleiman, Aliyu & Bello, 2021). It is also a factor that is used to measure how the strategy set by the firm as a product market achievement where each company has an interest in knowing the market performance of its products (Frisch & Schroeter, 2011). SMEs represent key economic ingredients for development of most developing countries, they are considered to be the engine determinant of economic, social and political development (Taouab 2019)

SMEs performance is basically the same as organizational performance because SMEs are a type of small and medium business, and hence the

development of SMEs and their performance reflects the firm growth and the capability which reflects the outcome over time and the development of capability from a complex blend of networks, knowledge and innovation (Ojotu et al., 2019), also the result made by management efforts continuously and the intended outcome is an important indication of firms commitment towards achieving business performance, because the reflection of companies commitment during a certain period of time especially base on operational activities in optimizing its resources is related to the ability to achieve a firm performance. Firm performance has become a relevant concept in strategic management research and is frequently used as a dependent variable According to (Karabag & Berggren, 2014), firm resources and strategy are the key determinants of firm performance, strategies such as differentiation, low-cost, or focus constitute factors that influencing firm performance.

Bourguignon (1997) argues that performance should be viewed as an activity with a certain "behavior" (under a dynamic perspective, meaning "to perform") rather than merely as a "result" (under a static perspective). Accordingly, the firm's primary focus was on how successfully businesses could utilize the resources at their disposal to accomplish goals that aligned with the company's stated objectives while also taking into account the relevance of those goals to their consumers (Peterson, Gijsbers, & Wilks, 2003).

However, dynamic capacity is intended for multiple purposes, such as resource integration,

reconfiguration, development of new resources, or resource shedding, according to Ambrosini and Bowman (2009). According to Susanti & Mba (2015), the goal of the dynamic capabilities approach is to help businesses understand how and why certain businesses develop a competitive advantage in quickly changing environments; it also shows how well a business can adapt to environmental changes. As a result, businesses need to be able to respond to changes that arise outside of their organizational boundaries (Susanti & Mba. 2015). For this reason, it's critical to repurpose current resources into new functional competencies that are more appropriate for the business environment.

SMEs are generally considered as the engine of economic growth as a result of their immense contribution towards employment generation, poverty reduction, export earnings and gross domestic product (Suleiman, Aliyu & Bello, 2021)). In Nigeria, it is quite obvious that micro, small, and medium-sized businesses might be a driving force behind the country's economic change, as a result of the sector's significant contributions to the GDP, creation of jobs, exports, growth in local value addition, and technical innovation. The dynamic character of the industry also leaves it susceptible to a high death rate brought on by abrupt changes in economic policy, worldwide trends, global shocks in international marketplaces, and several unanticipated circumstances. Other than that, they faced numerous problems. Low managerial, technical, and entrepreneurial capacities and

abilities, as well as unreliable infrastructure, a hostile business environment, poor service delivery, a heavy regulatory burden, the prevalence of the informal sector, and low international competitiveness, are all identified by (SMEDAN 2023) as factors impeding the growth of SMEs in Nigeria. Similarly, NBS and SMEDAN (2023) report that the number of micro, small, and medium-sized enterprises (MSMEs) in Nigeria fell to 39.6 million from 41.5 million in the year before 2019. This shows that throughout the period, MSMEs in Nigeria decreased by 4.6%. According to the research, around two million MSMEs shuttered their doors between 2019 and 2021. Therefore it is against this background that this study investigates the effects of dynamic capability on SMEs performance in Nigeria.

Research Objectives

The main objective of this study is to investigate the effects of Dynamic capability on SMEs performance in Kano, other specific objectives include.

- i) To examine the effects of sensing capability on SMEs performance in Kano
- ii) To determine the effects of seizing capability on SMEs performance in Kano
- iii) To identify the effects of Recon-figuration capability on SMEs Performance in Kano.

Research hypotheses

Hp 1 There is significant relationship between sensing capability and SMEs performance

Hp 2 There is significant relationship between seizing capability and SMEs performance

Hp3 There is significant relationship between reconfiguration capability and SMEs performance.

2.0 Literature Review

2.1 Concept of Firm Performance

Firm performance is a very used and dynamic concept which expresses the accomplishment of firm activities from a task associated with efficiency and effectiveness; Ali (2003) defined organizational performance as the actual output or results of an organization as measured against its proposed goals and aims. Carroll (2004) also view firm performance in terms of profitability market value, total return on shareholders, economic value added customer satisfaction, based on stakeholders expectations therefore measuring firm performance using financial analysis has been the traditional tool for investors, decision makers, creditors and other stakeholder as many scholars consider financial performance as same with firm performance (Delen, Kuzey and Uyar, 2013). But however, the concept of performance of a business firm is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Alchian & Demsetz, 1972, Mata 1995) hence business can measure its performance both with financial and non-financial measures

The more general notion of organizational effectiveness is not the same as the concept of company performance. The largest of the three overlapping concentric circles, which represents

organizational success, is part of the broader construct, according to Venkatraman, & Ramanujam, (1986). According to Cameron (1986a), organizational efficiency encompasses all facets of how an organization operates. Operating and financial results are covered by business performance, often known as firm performance, which is a subset of organizational effectiveness. It is possible to better understand operational performance as an antecedent to financial performance, mitigating the effect of resources, as stated by Venkatraman, & Ramanujam, (1986). Although it might be a precondition for financial success, isn't customer pleasure also a performance result in and of itself? This is dependent upon the definition of company performance used by the researcher in their research (Combs, J. G., et al., 2005). Distinguishing between antecedents and performance outcomes is made easier by characterizing performance as the satisfaction of stakeholders (Connolly et al., 1980; Keats 1988; Zammuto, 1984). From the standpoint of the customer, a stakeholder, customer pleasure is evidently an outcome in this instance and is thus integrated into business performance.

2.2.1 Dynamic capability

Many strategy scholars remain skeptical about the value of the concept of dynamic capabilities (Winter 2003), Dynamic capabilities typically involve long-term commitments to specialized resources, Cyert and March, (1963) view dynamic capability as absorptive capability, Cohen and Levinthal, (1989) as organizational

routine, the concept emerged as a complement to RBV which attempt to explain firms competitiveness and performance in a dynamic business environment (Albasri, 2020). Thus, the dynamic capabilities view is considered for some scholars as an extension of the RBV in order to understand strategic change (Teece et al., 1997) by looking at how capabilities are influenced by market dynamism (Eisenhardt and Martin, 2000) or increasingly demanding environments (Teece et al., 1997). (Nimfa et al., 2021) in their study asserted that dynamic capability explains the relationship of innovation competitive advantage's two components (customer preference and strategic business model) with product quality, while technology adoption is considered a core dynamic capability needed by SMEs to sustain growth in the competitive business environment.

In the same vein, dynamic capabilities are complex systems of actions and resources which are directed at renewing, updating, modifying, or replacing the existing rent-yielding resources and capabilities of the firm, typically in response to a changing environment, therefore because of these growing changes in business, SMEs need dynamic capabilities to enable them to sense and seize new opportunities and renew the existing market base they also have to adapt quickly to competition and new challenges through continuous renewal of their competence (Bii & Onyango, 2018). Also one of the most obvious sources of complexity in empirical articles on DCs is the conceptual breadth adopted, and the

methods of measuring them, Garrido et al., (2020) explore a measurement model for dynamic capability and its relationship with firm performance. The underlying foundation of the model is the relationship between DCs and OP. Many studies as, , Schilke (2014), Teece (2007), and Wang and Ahmed (2007), among others have proposed and confirmed this relationship. However, the model presented by Garrido et al., (2020) is different from previous empirical studies and is a positive evolution in relation to them because of two central elements. The first of these elements is the scale designed specifically to measure DCs, created using the basic framework defined by Teece (2007) and supplemented with aspects from other studies. The secondly the proposal acknowledges the full complexity of the concept of DCs and breaks down measurement of it into its distinct dimensions of “Sense”, “Seize”, and “Managing Threat and Recognition” (Teece, 2007). These dimensions are important, because each of these capabilities has different concepts and functions and even though they are all components of DCs, they may have different relationships with OP or have different roles to play in achieving it.

2.2.2 Sensing Capability

Sensing capability, which has to do with scanning, creating, learning, and understanding actions, is the firm's capacity to detect opportunities and risks. Organizations could sense the opportunities and challenges from both the inside and the outside by focusing on the increasingly complex internal and external

business environment through observation and information gathering. For businesses to learn, observe, filter, shape, and calibrate prospects, sensing capabilities are frequently analytical systems (Xiao, et al 2023). Considerable amount of research has been carried out on the relationship between sensing capability and SMEs performance, studies such as Lindblom, et al (2008) studied market-sensing capability and business Performance of retail entrepreneurs, the result of the study show that a weak positive relationship is found to exist between market-sensing capability and company growth. However, no positive relationship is found between market-sensing capability and profitability. Similarly, (Nedzinskas et al., 2013) also study the relationship between dynamic capability and SMEs performance of and sensing capability as one of the dimension of dynamic capability under study, the result shows a positive relationship with non-financial performance of an organization. Also (Ardyan, 2016) studied market sensing capability and SMEs performance: The mediating role of product innovativeness success, the result of this study shows that entrepreneurial orientation and product innovativeness have positive and significant effect on SMEs performance but market sensing capability and speed to market have no significant effect. Zhou et al., (2017) examine the relationship between dynamic capability and organizational performance with innovation as a mediator, sensing capability was also adopted as one of the measures of dynamic

capability in the study the result of the study shows a positive and significant relation between sensing capability and organizational performance.

2.2.3 Seizing Capability

The ability of an organization to take advantage of opportunities or counter dangers is known as its "seizing capability." Teece (2007) noted that firms have to adapt by launching new goods, procedures, or services in response to perceived threats or new opportunities. However, reaching an agreement, choosing wisely, and allocating organizational resources are also sensible ways to take advantage of possibilities. The business process patterns of the corporation could be completely planned through the use of this capability. Studies on seizing capability and firm performance has been giving attention in the literature, Min & Kim, (2021) studied the effect of opportunity seizing capability on new market development and small and medium-sized enterprise performance: role of environmental uncertainty in the IT industry, the result form the study indicate that indicate that new market development is an important link between a firm's opportunity seizing Capability and relative performance. Similarly Xiao, (2023) study the how digital transformation improve government performance: The mediating role of partnering agility, seizing capability was measured as one of the study variable, the result of the study indicates a positive and significant relationship between seizing capability and government performance. More so, Houessou et al., (2023) also investigate

market opportunities seizing capability and fish farming firm performance: A dynamic managerial capability perspective the results of from reveal that owner-managers' DMCs (dynamic Management capability) including business ties (BTs), political ties (PTs), and managerial cognition (MC) demonstrate a significant effect at improving performance.

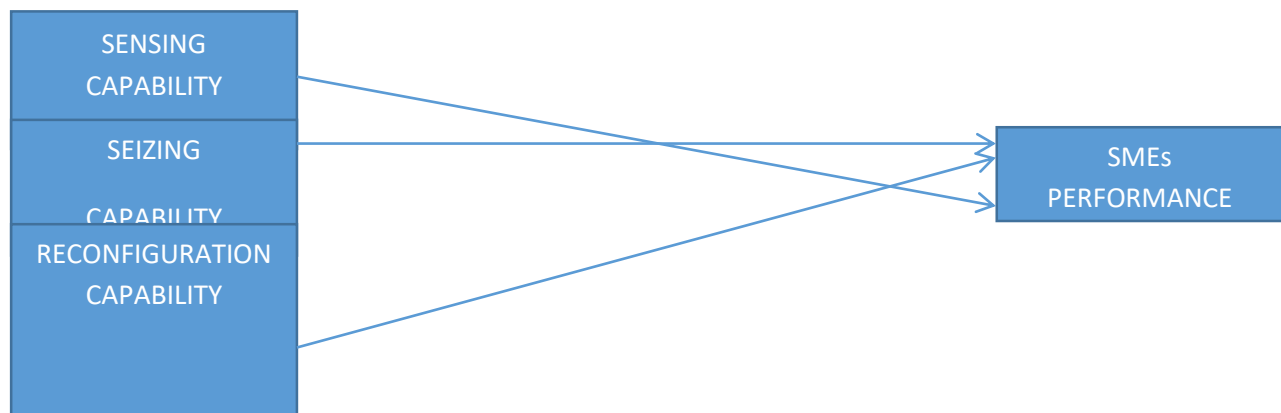
2.2.3 Reconfiguration Capability

Managing threat and reconfiguring capability is when opportunities are perceived and captured then the company reconfigures resources to adjust changes and opportunities in the corporate environment. According to Fitriati et al., (2020) firms ability to be able to survive and compete in markets that have rapid dynamic change, hence In order to sustain profitable growth, it is important for a company to recombine and to reconfigure assets and organizational structures when markets and technologies change. The relationship between managing threat and reconfiguration capability and SMEs performance has been giving attention in the literature; considerable amount of research has been carried out on the relationship between managing threat and reconfiguration capability. Nyachanchu, (2017) studied the role of dynamic capabilities in the performance of manufacturing firms in Nairobi county, Kenya, the study uses reconfiguration capability as one of the measure of dynamic capability, the result of the study indicate that all the three dimensions of the dynamic capability (sensing capability, seizing capability and reconfiguration capability have a

significant and positive effect on performance. Similarly, Xiao (2023) investigate how digital transformation improve government performance: with partnering agility as a mediator, the result of the study shows that transformation capability and partnering agility have significant positive effects on government performance. In the same vein Zhou et al (2017)

examine the dynamic capabilities and organizational performance: the mediating role of innovation in china, the result from the partial least square equation modeling reveals that the direct relationships between two dimensions (sensing and reconfiguration) and company performance were significant.

The Conceptual Model Dynamic Capability



Methodology

Cross-sectional survey design was used in this investigation, to achieve the research aims. A cross-sectional study collects data for a specific study at a single point in time (Cavanna et al., 2001). The most popular kind of survey is the cross-sectional survey, which takes a more quantitative rather than qualitative approach. It offers a methodical approach to data collection that enables the methodical comparison of variables with one another (Sullivan 2004). In order to get quantitative and quantifiable data in relation to one or more variables that will be examined. The population of the study comprises of all the SMEs within Kano state. As at the time

of collecting the data for this research, there is no actual figure of the total number of SMEs in Kano state, however, SMEDAN in collaboration with NBS report 2021 estimated the number to stand at approximately 1.6 million SMEs in Kano. Thus 384 SMEs were sampled base on Krejcie and Morgan (1970) sampling table, and a convenient sample technique was used, Out of the 384 copies of questionnaire that were distributed only one hundred and twenty one (121) were fully retrieved and were used for data analysis. Multiple linear regression was used to analyzed the data. The unit of analysis for this study is the

organization, and the owner/managers of SMEs in Kano State.

Result and Discussion

Data Cleaning

Before beginning any multivariate analysis, data must be cleaned. This is because data screening and editing determine both the analysis's quality and its meaningfulness (Pallant, 2011). Outliers and missing data were therefore carefully examined and handled.

Missing Values

The lack of appropriate values for one or more variables during data analysis is referred to as missing value (Hair, Black, Babin & Anderson, 2010). The researcher attempted to reduce or ensure that the data is free from any missing value right from the field in light of the detrimental effects of missing data in the analysis. The researcher and his assistance promptly reviewed all properly filled questionnaires to make sure all questions were answered correctly. Respondents are promptly reminded to politely and appropriately finish the inquiry if they are unable

to answer a particular question; therefore no missing value was detected at the time of the data analysis.

Outlier Detections

A total of 5 cases of multivariate outliers were recorded. In addition, Mahalanobis distance was examined to identify multivariate outliers. All cases with Mahalanobis distance exceeding 30 at a degree of freedom of 0.001 are removed. Because they exceeded the crucial value of 59.70, cases 113, 105, 114, 82, and 56 were eliminated. For further multivariate analysis, the 116 cases that remained were taken into account.

Assumptions of Multiple Regression Analysis

In accordance with the advice of Hair et al. (2010) and Palalllant (2001), the variables were examined for normality, linearity, multicollinearity, and homoscedasticity to ensure that they satisfied the fundamental and underlying assumptions of the multiple regression analysis. As a result, all of the multiple regression analysis's assumptions were satisfied

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	10.210	2.089		4.888	.000
	_RECONF	1.100	.088	.776	12.519	.000
	SEIZE	.078	.105	.060	.748	.456
	SENSE	.122	.157	.063	.776	.439
Change Statistics						
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1
.845 ^a	.715	.707	5.22675	.715	89.330	3
Dependent Variable: FIRM_PERF						

Multiple Regression Analysis

Multiple regression analysis was conducted in determining the relationship between (dynamic capability) sense, seize and managing threats and reconfiguration and firm performance. The results as indicated in table above table with predictors that were significant, $R = .842$, $R^2 = .715$, Adj. $R^2 = .707$, $F - \text{Change} = 89.330$. The multiple correlation coefficients between the predictors and the criterion variable was .845; the predictor accounted for 71.5% of the variance in the firm performance. Cohen (1988) classified R^2 into three as: a) 0.02 as weak; 2) 0.13 as moderate; 3) 0.26 as substantial. Based on the Cohen and Cohen (1983) and Cohen (1988) classifications the value of R^2 is ok. The generalizability of this model in the population was 715. The significant F-test shows that the relationship (89.330 , $p < 0.001$) signifies the overall significant prediction of independent variables to the dependent variable, but did not explain the relative contribution of each independent variable to the dependent variable (Green & Salkind, 2008).

However, hypothesis one which states that there is significant relationship between sensing capability and SMEs performance in Kano was tested with a ($\beta = .063$, $t = .776$, $p < .439$), this hypotheses is therefore rejected because the p value recorded a significant level of $p < .439$, hence this hypotheses was not supported base on the regression analysis and this shows that sensing capability is not related to performance of

SMEs in Kano. Secondly, hypothesis two also which states that there is significant relationship between seizing capability and SMEs performance in Kano was tested with ($\beta = .060$, $t = .748$, $p < .456$), this hypothesis is also not supported base on the regression analysis as the p value recorded a significant level of $p < .456$ this indicates that seizing capability is not significantly related to performance of SMEs in Kano, thus this hypothesis is also rejected. Lastly, hypothesis three which states that there is significant relationship between reconfiguration capability and SMEs performance in Kano state was tested using a regression analysis with a ($\beta = .776$, $t = 12.519$, $p < .000$). This indicates that, reconfiguration capability significantly influence SMEs performance in Kano state, as the p value recorded $p < .000$ which significantly shows strong relationship between the reconfiguration capability and SMEs performance in Kano. Thus one out of three independent variables impacted on the directional hypothesis. Therefore, hypothesis H1 and H2 are rejected, whereas H3 is supported.

Summary of Findings

This session summarizes the findings and interpretation of the empirical result for the study, conclusion and recommendation were drawn. Appropriate data collection process were followed for data collection, an acceptable response rate of 121 was obtained for data analysis. All the assumption of multiple regression analysis conducted was found to be

satisfactory and none of the condition was violated. Construct reliability was conducted for the variable and Cronbach alpha values were found to be good.

More importantly, multiple regression analysis of the construct was conducted, and it was found that sensing capability and seizing capability have no significant relationship with SMEs performance, but managing threat and reconfiguration capability has positive and significant effect on SMEs performance in Kano

Conclusion and Recommendations

This research is an attempt to investigate the relationship between dynamic capability on SMEs performance in Kano, the result from the multiple regression analysis reveals that only managing threat and reconfiguration among the dimensions of dynamic capability has significant and positive effects on SMEs performance in Kano. However sensing capability and seizing capability has no positive effects on SMEs performance in Kano. With regards to the managing threats and reconfiguration capabilities it is interesting to note that the SMEs in Kano

have a defensive strategy to tackle most of the threats that may affects the smooth operations of their business, hence it is therefore recommended that these firms should continue to cultivate these capability in other to improve on their operational performance.

However with regards to sensing capabilities, indicates that these firms under study lack much needed cordial relationship with their business stakeholders, as such it is therefore recommended that these firms should cultivate this relationship in order to develop better and more structured routines to scan the landscape and avoid falling behind. Also as regards to the seizing capabilities, the SMEs in Kano lack the capability to focus on management and on functional activities; invest in technology and design to reach a target market; therefore it is recommended that the SMEs should create, adapt, improve and, if necessary, substitute business models; acquire technologies externally and develop them internally and also perfect absorptive capacity through learning activities and accumulation of skills.

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