

The need for development of dynamic capabilities' perspectives as a panacea to poor performance of SMEs in less developed economy (Nigeria).

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Abstract

A firm's constant pursuit of the renewal, reconfiguration and recreation of resources, capabilities and core capabilities to address environmental change of capabilities that are conducive to long-term performance rather than simply a subset of the capabilities would enhance and sustain competitive advantage. The major pre-occupation of this paper was to consider the antecedents, roles and importance of SMEs in less developed economies (i.e. Nigeria) and employ dynamic capabilities' perspective as therapy to be used and overcome SMEs' poor performance.

Keywords: Dynamic Capabilities, Small and Medium Enterprises, Firm Performance, Reconfiguration, Transformation, Learning, Integration.

Introduction

Small and Medium Enterprises (SMEs) in every nation contribute meaningfully to economic development, output expansion, employment generation, income redistribution, promotion of indigenous entrepreneurship and production of primary goods to strengthen industrial linkages (Abiodun & Mahmood, 2015). In United States SMEs employ more than 50 percent of the nation's work workforce, In private sector, SMEs produce 48 percent of the country's cross domestic product, account for 53 percent of sales and grow between 800,000 and 900,000 new venture each year (Ogunsiji, 2010;Analoui & Karami, 2003)

In less developed economies, the sector is responsible for about 70 percent of the total industrial employment in and between 10-15 percent of the total manufacturing output. The agricultural sector which comprises mainly of SMEs have promoted indigenous technology and increased utilization of local raw materials. They are the strongest promise we have for industrial growth (Ayanda & Laraba, 2011; Razak, 2011)

Historically, the era of 1980s can be said to be golden years of SMEs in Nigeria. Those were the years of the Nigerian Industrial Development Bank Ltd (NIDB) and the Nigerian Bank for Commerce and Industry (NBCI). They were Federal Government Development Banks specifically dedicated to the development of SMEs in the country. During this period, capacity utilization reached 73.3 percent and the sector contributed immensely to the GDP. Foreign exchange was abundant because the exchange rate was 65 kobo to the dollar. Promoters and

banks were not discriminatory with regard to the types of project financed or promoted (Ogunsiji, 2010; Oyefuga, Siyanbola, Afolabi, & Dada 2008 ; Sanusi and Governor , 2011).

However, Nigerian government and private sector suddenly shifted to Oil sector of the economy (Chinedu & Wilson, 2010). The performance of oil sector has led to the neglect of non oil sector (SMEs) which contributed only 6.5 percent of GDP in 2010 (CBN, 2010). Oil exporting has contributed 90% percent of Nigerian income. The consequence of instability in oil revenue always slow down the growth's programs of different governments (Akeem, 2011). Followed by economic policy like Import Substitution which means that one could substitute importation with local production without taking due cognizance of the local availability of the raw materials. This culminated to abandonment of many projects that were over-dependent on foreign raw materials. Cosequently, SMEs was neglected (Ibeh & Young, 1999). This decline of SMES resulted to buying and selling as the mainstay of the economy, the country became a dumping ground for other economies, the real sector became inactive, unemployment escalated, excessive importation became the order of the day and capacity utilization plummeted.

Nevertheless, Nigerian government and private sectors made several developmental efforts and programs e to improve the effectiveness and efficiency of SMEs. According to (Anger (2010), Anthony (2010), Ogunsiji (2010) and Sanusi (2010) the policies and programs like indigenization national development plan, National Export and Import Bank (NEIB), Small and Medium Industry Equity Investment Scheme (SMIEIS), National Economic Reconstruction Fund (NERF), Community Bank (CB), Raw material and Research Development Council (RMRDC), Bank of Industry (BOI), Nigeria Bank for Commerce and Industry (NBCI), learning institution; government established university and polytechnics to provide training and manpower, Industrial Training Institute (ITTI) and technical and management institution are Schemes to encourage industrialization, entrepreneurial development, and employment generation . Moreover, World Bank group approved \$2.4billion in support of micro and small medium enterprise, most especially on the policy to promote economic development, employment and poverty mitigation. In addition Central Bank of Nigeria figures show that by July 31, 2007, Medium Industry Equity Investment Scheme (SMIEIS), had accumulated over N37.4 billion out of which only N18.9 billion or 49.5 percent had been invested. These investment outlay shows that either the SMEs are not aggressive enough in pursuing the fund or that the fund managers are too lethargic in their portfolio management.

Despite all these intervention strategies; incentives, facilities, subsidies and promotion to sustain and reduce the level of poverty and improve economic development (Oyefuga, Siyanbola, Afolabi, and Dada 2008 ; Sanusi & Governor 2011), the contribution index of

manufacturing sector to GDP was 7%. A study carried out by Manufacturing Association of Nigeria (MAN) showed that only 10 percent of firms run by its members are really in operation (Onugu, 2005). The vast majority of SMEs die before their first to five years of operation, while some disappeared within sixth and tenth year of existence and the small scale enterprises that continue to exist and grow to maturity are less than five to ten percent (Onugu, 2005).

Furthermore, Ayanda and Laraba (2011) revealed that more than 70% of the small and medium enterprises are terribly sick, to the extent that they are between operational or the verge of folding up, while the rest of SMEs, almost 30% of them operate on low level capacity and may fold up within the shortest time.

Interestingly, several scholars believed that dynamic capabilities are the key to competitive advantage (Helfat & Peteraf, 2009; Teece, 2007; Ambrosini & Bowman, 2009). Dynamic capabilities captured the need for renewal strategy (Eisenhardt & Martin 2000) and this has provided imperative inclination in empirical research (Helfat and winter 2011). Dynamic entrepreneurial capabilities could identify, amass, integrate and potentially reconfigure resources needed in the creation of new ventures (Abiodun and Mahmood, 2015; Abiodun and Mahmood, 2014; Corner & Wu 2011). Hence, the fundamental objective of this study is to critically employ dynamic capabilities as a resource to build, integrate and reconfigure both external and internal resources and routine to address rapidly changing environment of small and medium enterprises in Nigeria (Teece, et al., 1997; Zahra & George, 2002).

DYNAMIC CAPABILITIES

Dynamic capabilities View (DCs) was built on the groundwork of economic anticipated by Schumpeter (1994), Penrose (1959), Teece, Pisano and Shuen, (1997). This theory builds up a frame work to give details on whether distinguishing and hard to duplicate benefits can be built, improved and sustained (Chmielewski & Paladino, 2007; Teece, Pisano, & Shuen, 1997). DCs are about how organizations renew its competence in order to respond to rapid shifts in industry's environment. Ability to recreate competencies to obtain resemblance of what is changing in the business environment depicts dynamism (Winter, 2003).

Zollo and winter(2002) described DCs in expressions of routines and fundamental feature of evolutionary economics, while Nelson and Winter (1982) and Eisenhardt and Martin (2000) differentiated DCs in terms of development that is nature varies with the extent of market dynamism type of simple convention. DC's view was developed from the resources base view of the organization (Kogut & Zander, 1992). All the two theories postulated that firms are diverse

in the strategic resources they manage, however, they are different on how they approach the mobility of the resources (Teece *et al.*, 1997) .

Resource based view theory posited that resources are stable and static; while DCs theory stressed the need to renew, acquire, develop, and reconfigure their resources and this leads to resources mobility in the long run. Hence, RBV cannot explain firm behavior and performance over time in a dynamic environment (Teece *et al.*, 1997). DCs are about mechanism for bringing organizational change and are associated with the complex problem of change measurement that has constituted serious setback for organizational growth (Easterby-Smith, Lyles, & Peteraf, 2009). Since DCs are mechanism for change, it may give rise to innovation and management of knowledge (Fiol & Lyles, 1985a), which thereby associate and relate with knowledge management (Easterby-Smith & Prieto, 2008).

DYNAMIC CAPABILITIES AND FIRM PERFORMANCE

The reviews on literature have shown that Dynamic capabilities study only focused on established organizations, while disregarding new ventures and SMEs. Thus, SME needs unique and reconfiguring capabilities that would allow them to survive (Zahra *et al.*, 2006; Sapienza *et al.*, 2006). Several studies agreed that lack of technical competencies, lack of infrastructure, environmental turbulence and lack of necessary acumen required to function effectively are the major problems of SMEs in developing countries. Zahra *et al.* (2006) contended that these skills and competencies in these firms must be upgraded and new dynamic capabilities should be built to ensure successful adaptation for growth (Abiodun & Mahmood, 2015).

Dynamic capabilities are essential for the creation and evolution of new venture, and thus Dynamic capabilities are needed to improve the performance of firms and creation of more SMEs (Newbert, 2005). Dynamic capabilities encourage and facilitate internationalization (Griffith & Harvey). Successful entry and survival have been achieved in exporting as a result of dynamic capabilities (Sapienza *et al.*, 2006; Abiodun, Makama & Adebola, 2016).

Khavul, (2010) posited that DCs are learned behavior that can be turned around to change the resources of a firm by the means of different related processes. Firm capabilities might help the firm to manufacture some goods and services whereas; the major goal of DCs is the regeneration and progress of the capabilities in the organization (Khavul, 2010).

Ordinary capabilities are those DCs through which a firm makes its living in short term (Drnevich & Kriauciunas, 2011; Winter, 2003), for instance, managing DCs spend on everyday expenditure (Helfat & Peteraf, 2009). The use of DCs may increase revenue or reduce expenses (Helfat *et al.*, 2007). Some studies have argued that ordinary capabilities contribute to performance by increasing revenue (Peng & York, 2001), and more importantly reducing the

cost connected with providing services (Brush & Artz, 1999; Kaleka, 2002). All these action can positively affect firm performance (Brush & Artz, 1999; Kaleka, 2002).

Firm uses DCs to recognize and act in response to opportunities and threat by making larger adjustment and forming a firm's DCs to realize first-order transformation (winter, 2003; Drnevich & Kriaciunas 2011). This is in conformity with the view that DCs are tools a firm employs to influence existing resources configurations in order to generate, and configure new resource (Eisenhardt & Martin 2000). DCs' contributions to the performance of the firm may happen in many ways; DCs can significantly impact the performance of the firm by giving room to the firm to recognize and act in response to opportunities by means of creating new processes, product and service which have the potentials to increase revenue (Chmielewski & Paladino, 2007; Makadok, 2010), DCs can also advance the pace of effectiveness with which a firm operates and respond to changes in its environments (Hitt *et al.*, 2001), and DCs offer formerly not available alternatives for the firms and thus make available the potentials to contribute to performance, such as, increase in revenue or profits (Eisenhardt & Martin, 2000). Therefore, dynamic capabilities have the enablement to improve on ordinary capabilities' contribution through adjusting existing resources configuration in manner that the outcome is totally new (Drnevich & Kriaciunas 2011).

Furthermore, DCs triumph in the situation where there is environmental dynamism (Drnevich & Kriaciunas, 2011). Dynamic Environment shows the amounts and unpredictability of changes in customer taste, technologies, product and services and the nature of competitions in the main industries of the firm (Miller and Friesen, 1983). In environment that is dynamic DCs are more important than the environment that is stable. The reason is that DCs contribute to firm's changes (Chimielewski & Paladinos, 2007). Ordinary capability might not be effective in dynamic environment and firm performance would decline (Wang & Ang., 2004). When the dynamism in a firm environment increases there may be changes in suppliers, buyers, products, management, etc. This general and competitive environment change may increase challenges for the firm (Chimielewski & Paladino, 2007; Drnevich & Kriaciunas),

Conclusion

A more efficient and productive SME sector can still be achieved in less developing economies like Nigeria. This means more and better products and services , better and more skilled workforce for our nation, higher contribution to GDP and an improvement in SMES, reduction in unemployment and availability of products and services that will become more competitive and can easily be exported to other countries.

However, to attain this status SMEs must build and develop dynamic capabilities; there should be transformation and recombination of asset and scarce resources, there should be replication of a system that is operating in one area into another area or extending a resources by deploying it to new domain,

there should be learning as an outcome of experimentation to allow task to be performed more effectively and efficiently which also permit reflection on failure and success and ultimately, SMEs should integrate and coordinate its assets and resources resulting in emergency of new resources base.

As Nigerian business environment is not static, policy makers and owner-manager of SMEs should consider dynamic capabilities perspectives as a better option to be employed as a response to the need for change and transform firm's processes, allocation of resources and utilization of resources (human capital, technological capital, knowledge-based resources and tangible-asset based).

This study has contributed to entrepreneurship and development of SMEs, prior studies attentions have concentrated on how dynamic capabilities could be employed to address internal and external competencies of large organization when the environment is changing. This study concentrated on how dynamic capabilities can be employed to improve the performance of SMEs in emerging economies. Nonetheless, further studies could operationalize the concept 'dynamic capabilities' from the point of view of Ambrosini et al, (2009) as reconfiguring, leveraging, learning and integration process and study these key variables with specific sample in one of less developed economies.

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