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Dynamic Capability and Growth of SMEs in Port Harcourt

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Abstract: *The paper examined and discussed the relationship between dynamic capability and growth of Small and Medium Scale Enterprises (SMEs) in Port-Harcourt. This was informed by the SME challenges in the society and the poor performance of SMEs in employment generation as a result. The paper adopted a cross sectional research design as part of the quasi-experimental research design using 160 randomly selected registered operators of SMEs in Port-Harcourt out of which only 145 copies of the questionnaire were returned. Data collected were analyzed using regression analysis while formulated hypotheses were stated in a null form and was rejected, while the alternate accepted. We concluded that SMEs with dynamic capabilities as in innovation and knowledgeability has the capacity to drive increased growth by enhancing the development of completely new routines, usually with modifications to the normative beliefs and value systems. We recommended that: SMEs in Port Harcourt should through normative believe move with the trend and be innovative so it would avert the challenges faced by it. SMEs in Port Harcourt should enhance the value system that encourages increased knowledge of the organization which would enhance the overall growth of such SMEs.*

Keywords: *Dynamic Capability, Growth, and SMEs.*

INTRODUCTION

The Nigerian government like every other governments of the world cannot solve the problem of unemployment alone; hence private individuals are encouraged to venture into small and medium scale businesses to better their lot, and contribute to gross domestic product (GDP). When this happens, every facet of the economy experiences growth especially when these small and medium scale enterprises (SMEs) apply their dynamic capabilities.

It was however observed that most researches on dynamic capability and growth relationship focused on organization's profitability, market share, earnings per share, net asset, working capital, expansion, etc. when there is need to measure growth (Auer & Antoncic, 2009). Dynamic capability approach looks for optimally exploiting the internal resources to create significant assets for the organization and enhances organizational growth. It aims at developing the aptitudes of organizations, more and more changing in a turbulent environment (Dacri, 2005), by coordinating the progressive learning of corporate good practices by all the organizational entities. Assuming that coordinated SME practices acquisition induces a better performance, the dynamic capability approach implements an organizational diagnosis only based on how entities acquire what SMEs consider as relevant knowledge and how they share it at different levels. This knowledge based assessment allows anticipation in performance management: by evaluating the capabilities of resources, future performance they generate can be estimated, and identified weaknesses can be corrected. Nevertheless, it depends on how SMEs

defines and models the relevant knowledge: if the transferred practices are not enough accurate or adapted to the entities, the organizational diagnosis can be warped, and performance can be not improved even if the evaluation is good.

In this regard, capabilities are defined as a firm's capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end (Basil, 2005). Whereby dynamic capability is defined as a firm's ability to mobilize and deploy organizational resources in combination with other resources and capabilities (Basil, 2005). Dynamic capabilities and their underlying resources can be classified into innovation (e.g. creative abilities, and technology), and knowledgeability (e.g. skills, aptitude, and experiences). It is further argued that these capabilities mutually reinforce each other.

The scholarly works conducted on dynamic capability (e.g. Auer & Antoncic, 2009) has not really considered growth of SMEs in the Port Harcourt Metropolis; hence this study is geared toward filling this gap by investigating the relationship between dynamic capabilities and growth of SMEs in the Port Harcourt Metropolis.

Statement of the Problem

SMEs in Port Harcourt like every other city in Nigeria are faced with challenges that make them go into extinction. These challenges are as follows: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition (Basil, 2005), hence this study is geared toward understanding how dynamic capabilities enhances growth of SMEs in Port Harcourt.

Research Hypotheses

The following testable research hypotheses were stated to guide the study:

H_{01}: There is no significant relationship between innovation and growth of SMEs in Port Harcourt.

H_{02}: There is no significant relationship between knowledgeability and growth of SMEs in Port Harcourt.

LITERATURE REVIEW

Theoretical Framework

Dynamic capability research is grounded in the resource-based view, which argues that a firm's competitive advantage emerges from the application of unique combinations of resources that are heterogeneously distributed across firms, economically valuable, scarce, difficult to imitate and non-substitutable (Croteau & Bergeron, 2001). This is because the knowledge based theory verifies if the potential performance (given by the knowledge based assessment of dynamic capabilities) correspond to the expressed growth (it is to say the results of the activities, the improvement generated by the use of acquired dynamic capabilities).

The Concept of Dynamic Capability

Capabilities are a stock of intangible assets or knowledge -based factors associated with individuals who possess them or with the firm as an organization (Crowston & Myers, 2004). Entrepreneurial capabilities however, are viewed as a broader range of abilities needed to initiate appropriate action in specific organizational situations and reflect the capacity to initiate and sustain an entrepreneurial dynamism throughout the organization (Kim, Shin, Kim, & Lee, 2011). Kim, Shin, Kim, & Lee (2011) declared that human capital and social capital are among the most essential capabilities for SME growth; hence it gives rise to innovation and knowledeability. Thus; dynamic capabilities and their underlying resources can be classified into innovation and knowledgeability.

Innovation

Innovation refers to any idea, practice, or artifact perceived to be new by the relevant unit of adoption, or by the staff as the introduction of a new product or a qualitative change to an existing one, a new process in industry, the opening of a new market, and new sources of supply for raw materials or changes in SMEs. Lacity, Khan and Willcocks (2009) proposed two levels of innovation: organizational and individual. Therefore adopting unit could vary from a single individual to any SMEs. The terms innovation and change are at times used interchangeably throughout the literature (Lacity, Khan, & Willcocks, 2009), as they proposed routine versus radical innovation. The former is the process of introducing something that can be implemented with only minor adaptations of existing routines in the SMEs, fitting the existing norms and values. The latter refers to the process of introducing something that is completely new to the SMEs, requiring the development of completely new routines, usually with modifications to the normative beliefs and value systems. Powell and Dent-Micallef (1997) held that radical innovation creates dramatic change, transforms existing markets or industries, or creates new ones. Other researchers (Powell & Dent-Micallef, 1997) have used the terms routine, substitution, incremental or evolutionary versus radical to describe small changes or increments to existing products, services or processes as opposed to significant changes that transform practices.

Knowledgeability

Knowledgeability in terms of technology represents a necessary condition for identification and exploitation of opportunities and therefore plays an important role in sustaining entrepreneurial activities (Powell & Dent-Micallef, 1997). Similarly, other researchers in the literature of international entrepreneurship have asserted that knowledge-based and technological capabilities are important for successful international expansion (Lacity, Khan & Willcocks, 2009; Powell & Dent-Micallef, 1997). Entrepreneurs and employees are the people interacting (rejecting, negotiating, learning or adopting) within the university context. New technologies are constantly emerging, and they flow in new pedagogical perspectives and new SME strategies.

The Concept of Growth

Growth, within the context of SMEs represents increase in size as a result of a process of development either organically or through merger or acquisition, and size is a by-product of the process of growth as well-organized markets and macroeconomic stability are essential for economic growth. The growth of the SMEs as a whole depends on the framework of rules,

incentives, and institutional capacities that shape the quality and equity of innovative capability and knowlegeability; level and persistence of economic investment; pace and breadth of innovation; effectiveness and flexibility of employee protections; coverage and adequacy of social insurance systems; quality and breadth of access to infrastructure and basic amenities; integrity of the business and political process; and span and depth of dynamic capability building (Auer & Antoncic, 2009).

METHODOLOGY

Research Design

A research design is a set of methods and/or procedures that are adopted in collecting and analyzing measures of the variable specifically to proffer solution to a research problem (Bernard & Bernard, 2012). For this study, the quasi-experimental research design was espoused because it uses a broader array of data collection techniques and statistical analyses than true experimental research design (Bernard & Bernard, 2012), and the cross sectional analysis of the quasi-experimental research design was adopted because it is a type of observational study that analyzes data collected data collected from a population or a subset (Lee, 1994).

Population of the Study

A research population represents a large or well-defined collection of individuals or objects that have similar characteristics being main focus of a scientific inquiry (Lee, 1994). The accessible population which is a subset of the target population is Small and Medium Scale Enterprises (SMEs) in Port Harcourt. 160 randomly selected operators of SMEs in Port-Harcourt that are registered with the Port Harcourt Chamber of Commerce were studied.

Sample Size and Sampling Techniques

Simple random sampling technique was adopted in this study in other to ensure that each member of the subset has an equivalent probability of being selected. Census study was adopted for this study therefore; the overall population of 160 registered SMEs was adopted as the sample size for the study due to the fact that they are accessible and manageable.

Validity/Reliability of Instrument

From the result of the test of the validity of this work using face and content validity, and Crombach's alpha was also adopted in testing for our reliability; our reliability was established at 0.7 and above as steps were taken to make sure that the instrument covered all facets of the constructs under study to satisfy the content validity of the instrument (Nunnaly, 1978).

RESULTS AND DATA ANALYSIS

Table 1 Model Summary for Innovation and Growth

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	**.693[a]**	**.480**	**.476**	**.889**
a. Predictors: (Constant), Innovation				

Source: *SPSS Output*

The output of the model summary above reports a correlation coefficient value of .693[a] indicating the relationship existing between the variables (innovation and growth) also the adjusted R square of .476 (47.6%); (coefficient of determination) indicating the rate of change in growth as explained by innovation.

Table 2 Model Summary for Knowledgeability and Growth

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	**.843[a]**	**.711**	**.709**	**.662**
a. Predictors: (Constant), Knowledgeability				

Source: *SPSS Output*

The output of the model summary above reports a correlation coefficient value of .843[a] indicating the relationship existing between the variables (knowledgeability and growth) also the adjusted R square of .709 (70.9%); (coefficient of determination) indicating the rate of change in growth as accounted for by knowledgeability.

Test of Stated Null Hypotheses

Table 3 Regression Analysis of Innovation with Growth

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	.914	.713		1.282	.202
	Innovation	1.883	.173	**.693**	10.913	**.011**
a. Dependent Variable: Growth						

Source: *SPSS Output*

Decision Rule: Accept the null hypothesis (H0) if the tabulated value is greater than the critical value (P-value) at 0.05 which is the tolerable error of 5%; otherwise accept the alternate hypothesis (Gujarati, 2004).

$H0_1$: There is no significant relationship between innovation and Growth

The results from the regression analysis indicated that innovation exhibited a significant positive effect on growth (β = .693, 0.01) thus yielding a calculated value of .011 which is less than the P-value set at 0.05 (r = .011 < .05) resulting to non-acceptance of the stated null hypothesis **($H0_1$)** suggesting that there exists significant relationship between innovation and growth.

Table 4 Regression Analysis of Knowledgeability with Growth

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	2.119	.371		5.714	.000
	Knowledgeability	1.564	.088	**.843**	17.826	**.015**
a. Dependent Variable: Growth						

Source: SPSS Output Version 20

$H0_2$: There is no significant relationship between knowledgeability and growth

The results from the regression analysis indicated that knowledgeability exhibited a significant positive effect on growth (β = .843, 0.01) thus yielding a calculated value of .015 which is less than the P-value set at 0.05 (r = .015 < .05) resulting to non-acceptance of the stated null hypothesis **($H0_2$)** suggesting that there exists significant relationship between knowledgeability and growth.

DISCUSSION OF FINDINGS

The study investigated the relationship between dynamic capability and growth of SMEs in Port Harcourt. Two hypotheses were formulated based on the research questions and objectives raised earlier. In the work of (Auer & Antoncic, 2009) dynamic capability helps SMEs to remain in business over the long period of time, as it creates a fair climate for all SMEs. Hypotheses one and two tested the impact innovation and knowlegeability has on growth of SMEs. Based on the analyses, the null hypotheses were rejected, signifying that, innovation and knowlegeability plays an important role in the growth of SMEs in Port Harcourt.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, SMEs with dynamic capabilities as in innovation and knowledgeability has the capacity to drive increased growth this will enhance the development of completely new routines, usually with modifications to the normative beliefs and value systems. This informs the recommendation that:

i) SMEs in Port Harcourt should through normative believe move with the trend and be innovative so it would avert the challenges faced by it.

ii) SMEs in Port Harcourt should enhance the value system that encourages increased knowledge of the organization which would enhance the overall growth of such SMEs.

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