

RELATIONSHIP BETWEEN ENTREPRENEURIAL COMPETENCIES AND SMALL FIRM PERFORMANCE: ARE DYNAMIC CAPABILITIES THE MISSING LINK?

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ABSTRACT

This paper elucidates the link of dynamic capabilities upon the relationship between entrepreneurial competencies and small firm performance. It is based on the pertinent literature as well as the theoretical foundations of the entrepreneurial competencies, dynamic capabilities and small firm performances. Underpinning by the Resource Based View and Dynamic Capabilities View, a framework is formed based on the economic environment in various countries where in spite of the gigantic economic contribution to the country's economy, the small firms are undergoing a low growth trap. For the better performance of small firms, entrepreneurial competencies and dynamic capabilities are perceived as the prospective solutions. Moreover, the economic fluctuations with the turbulent and unpredictable markets, the dynamic capabilities are considered as an imperative factor to influence the performance of small firms. This paper proposes a conceptual framework in scrutinizing the small firm's performance affected by the entrepreneurial competencies and mediated by the dynamic capabilities.

Keywords: Entrepreneurial Competencies, Dynamic Capabilities, Small Firm Performance.

INTRODUCTION

In SMEs, the small businesses are considered as the most dynamic business entities and viewed as the important promoters of worldwide economies (Roxas et al., 2017; Njoku et al., 2014). Internationally, small businesses are regarded as the platform for entrepreneurs, as they are the main pivotal force behind the economic growth and poverty reduction, through providing more job opportunities (Heinicke, 2018). According to Hallam et al. (2017), the majority of the countries in the world rely largely on the performance of the SMEs for the uplift and growth of their economy. Zafar & Mustafa (2017) added that on average, in the developed economies (high income countries), overall, the SMEs contributes 55% and 65% to Gross Domestic Product (GDP) and employment, respectively. In the developing countries (middle income countries), the SMEs on the average contribute 70% to GDP and 95% to total employment. Similarly, in low income economies, they contribute 60% to GDP and 70% to total employment. Thus, the importance of SMEs to economic growth and development of any nation cannot be denied.

Small and medium enterprises are like a shield to the economic shocks and fluctuations and consequently they are extremely crucial to the economic strength of any country (Hyder & Lussier, 2016). For instance, in Europe, at the time of economic slump (around year 2000) and the euro zone debt crisis, the SMEs have sustained their hold as the pillar of the European

economy crediting for more than 98 percent of all businesses, for 67 percent of total employment and 58 percent of gross value added (EU, 2012). Similarly, in the United States, small businesses constitute 99.7 percent as the employer firms, 48.5 percent of private-sector workforce, 63 percent of net new private sector occupations and 33 percent of exporting value (SBA, 2014).

Although, small businesses are important in overcoming the challenges of high unemployment, high poverty rates and income inequalities, but the small businesses have suffered from weak performance and high failure rates in different countries (Bamiatzi & Kirchmaier, 2014; Machirori & Fatoki, 2013). It is reported that in various countries up to 40% of entering firms fail within the first 2 years of life (Vivarelli, 2013). There are various factors and challenges which are associated with the low small firm performance in developing countries that include the unfavorable economic situation, lack of suitable government policies, poor Infrastructural facilities, higher operating costs, corruption (Abdullahi & Sulaiman, 2015; Hafeez et al., 2013), low level of capabilities, insufficient entrepreneurial competencies, difficulty in accessing technology and low productivity (Hussain et al., 2015) and mostly inappropriate and inefficient utilization of firm resources (Rauch & Hatak, 2016; Bloodgood, 2014). Furthermore, the lack of understanding of how small and medium firms can develop essential capabilities and secure their future performance (Greer et al., 2016; Parida et al., 2016; Azadegan et al., 2012). These all are the current prevailing issues related to the small firm performance. However, insights from the United States show a positive indicator where about 50% of all new establishments get through five years or more and about one-third still in business after 10 years (SBA, 2014).

Firm performance is a significant enterprise outcome that has become a concern amongst academicians as well as practitioners (Leonidou et al., 2017; Chinomona, 2013; Watson et al., 2011). From the entrepreneurial perspective, performance of SMEs is the ability to survive, grow and contribute to the creation of employment and alleviate poverty (Ahani et al., 2017; Ong & Ismail, 2012). It is revealed that the entrepreneurial activities are so important; as it can foster growth led firm performance (Sok et al., 2017). Overall, the performance of a small firm can be influenced by various strategic factors, but most importantly, the entrepreneurial competencies (Grimmer et al., 2017) and the dynamic capabilities, which are important to boost firm performance (Agyapong & Acquah, 2016; Wang et al, 2015). Similarly, Omar et al. (2016); Tehseen & Ramayah (2015) claim that the success of any business is dependent upon a few pivotal resources of which entrepreneurial competencies are the most crucial and intangible. They argue that entrepreneurial competencies are the strategically important resources of the firms and many potential benefits can be derived from such valuable competencies. It is important to realize that for entrepreneurs a through know how of the entrepreneurial competencies is very imperative to efficiently run a successful business (Ahmad et al., 2010a). This understanding can make them more apprehensive and alert of their own attitude towards the possible ups and downs in the business. There is a general agreement that individuals who initiate, evolve, advance and make progress are the ones making use of the knowledge of entrepreneurial competencies. (Ahmad et al., 2010a; Mitchelmore & Rowley, 2010).

Looking at the entrepreneurial competencies as the contributing factor to the firm performance, another important factor of dynamic capabilities is worth investigated as it is also essential in understanding the firm performance (Rice et al., 2015; Wang et al., 2015). For the inclusion of dynamic capabilities, it is suggested that dynamic capabilities are considered as the superior level capabilities (Dangol & Kos, 2014). As the dynamic capabilities are about reconfiguration, integrating, coordinating the existing resources and capabilities of the firms,

they constitute the base for the firm performance and gain sustainable competitive advantage (Chrysochoidis et al., 2016; Chinomona, 2013; Progoulaki & Theotokas, 2010).

Within the context of researches regarding entrepreneurship and the SMEs, the SMEs referred to in this study are those with the total number of employees of less than 250 employees, as defined by Hafeez (2014); Jabeen (2014) for the definition of SMEs used in developing countries. This study model developed keeping in view the developing countries small businesses. Their performance and issues are crucial and need to be addressed (Hyder & Lussier, 2016). For example, Wahga et al. (2015); Azadegan et al. (2012) said that there is an absence of understanding of how small and medium firms can develop such critical capabilities and secure their superior performance, which the entrepreneurs become the driving forces.

The performance of the SMEs ensures the economic soundness of the country and act like a protective shield to economic shocks, especially in the developing countries where the entrepreneurial research is limited (Coder et al., 2017; Hyder & Lussier, 2016). That is why there is a dire need to conduct a research in small firms and entrepreneurship domains. Thus, a study was conducted attempting to fill the possible knowledge gap by positioning the dynamic capabilities as a missing link on the relationship between entrepreneurial competencies and the small firm performance and this article presents and discusses the framework of the research.

CONCEPTUALIZATION OF THE RESEARCH FRAMEWORK

After reviewing the literature, the theoretical foundation of the study was established. In the literature, the association between entrepreneurial competencies and small firm performance has been identified and further highlighted the dynamic capabilities as a missing link among entrepreneurial competencies and small firm performance.

Relationship between Entrepreneurial Competencies and Small Firm Performance

Entrepreneurial competencies are considered as the core ingredients, namely specific skills, self-images, social roles, knowledge, motives and traits which outcome in stable birth, survival or growth (Mitchelmore & Rowley, 2013; Ahmad et al., 2010a). It is stated that individuals carried the entrepreneurial competencies and the entrepreneurs who start or transform firm and who added the value through their organizing of opportunities (Mitchelmore & Rowley, 2010). In addition, entrepreneurial competencies are integers for entrepreneurial activities and competencies are perceived as behavioral element.

Consistent with the above discussion, Mitchelmore & Rowley (2010); Man & Lau (2005) highlighted that various components joint together and comprise entrepreneurial competencies that are deep-rooted in the background of the individual (self-image, attitudes, social role, personality and traits). Entrepreneurial competencies have been recognized as a distinct group of competencies which are associated with the exercise of effective entrepreneurship. Such entrepreneurship is usually associated with the new, survival and development of small and medium enterprises (Carayannopoulos, 2017). Among the most important resources of the firms, entrepreneurial competencies are the most useful and intangible resources that are associated with the firm performance (Sozuer et al., 2017; Tehseen & Ramayah, 2015). Similarly, it is strongly argued by (Albiol-Sanchez, 2016; Minai et al., 2014) that the entrepreneurial firms have unique features and usually small businesses are informal and flexible in their structure. Further, they suggested that the small firm performance much depends upon the competencies of the entrepreneurs.

The relevant entrepreneurial competency literature review shows that the majority of empirical studies, which consider entrepreneurial competencies as a holistic approach, confirmed its significant influence on firm performance, such as Kabir et al. (2017); Mitchelmore & Rowley (2013); Sarwoko et al. (2013); Ahmad et al. (2010a). All these studies confirmed the significant link between entrepreneurial competencies and firm performance. Moreover, the theorists of Resource Based View (RBV) have observed that entrepreneur's competencies are crucial resources of the firms that are extremely useful as well. Based on the RBV, entrepreneurial competencies are considered as a valuable resource that enhances firm performance and obtains a sustainable competitive advantage (Tehseen & Ramayah, 2015; Sanchez, 2012).

In general, the conclusion of conceptual research on entrepreneurial competencies and firm performance literature indicates a significant positive relationship (Yusuff et al., 2016; Tehseen & Ramayah, 2015; Mitchelmore & Rowley, 2010; Ahmad et al., 2010b). However, some of the previous studies on the relationship between entrepreneurial competencies and firm performance have delivered mixed and weak findings (Narkhede et al., 2014; Man et al., 2008; Fenwick & Strombom, 1998; Chandler & Hanks, 1994; Reuber & Fisher, 1994; Cooper, 1993). Similarly, the study of (Lopa & Bose, 2014) indicated that the entrepreneurial competencies are not significantly associated with firm performance of SMEs. Therefore, it can be said that the relationship among entrepreneurial competencies and small firm performance is questionable because of the inconsistent findings of studies related to this relationship. Mitchelmore & Rowley (2013) said that 'there are grounds for further investigation regarding entrepreneurial competencies affecting the small firm performance. Moreover, there is a gap in the knowledge base relating to the entrepreneurial competencies of the entrepreneurs (Yusuff et al., 2016). Thus, there is a need for research to explore further on the relationship between entrepreneurial competencies and small firm performance.

There are a number of dimensions that are yet to be tested together as the dimensions of entrepreneurial competencies that affecting the small firm performance. This study that covers the additional dimensions is regarded as a holistic and comprehensive approach. It provides the needed tests on variables that are yet to be examined in this relationship and shall provide new insights into the uplift of small business performance.

Positioning Dynamic Capabilities as the Missing Link

Dynamic Capabilities (DC), conceptualized as 'the firm's potential to reconfigure, integrate and coordinate, the internal as well as external competencies to address rapid turbulence in the business environments (Teece, Pisano & Shuen, 1997). Organizational capabilities are called "zero-level" (or "zero-order") capabilities, as they refer to how an organization earns a living by continuing to sell the same product, on the same scale, to the same customers (Winter, 2003). Dynamic capabilities are called "first-order" capabilities because they refer to intentionally changing the product, the production process, the scale or the markets served by a firm (Winter, 2003). An organization has dynamic capabilities when it can integrate, build and reconfigure its internal and external firm-specific capabilities in response to its changing environment. For positioning the dynamic capabilities as a missing link, it is suggested that dynamic capabilities are considered as the superior order capabilities that deal with change (Protogerou et al., 2012). Consequently, dynamic capabilities are fundamental to firm performance (Wang et al., 2015; Borjesson & Lofsten, 2012). Moreover, the functions of entrepreneurial management are embedded in the dynamic capabilities. The enterprises with

strong dynamic capabilities are intensely entrepreneurial in characteristics (Teece, 2007). However, there is impact of dynamic capabilities in the entrepreneurial firms (Tutueanu & Serban, 2013).

In the next stream, entrepreneurial competencies should be modeled with the dynamic capabilities. Whilst firm valuable resources could be used as an antecedent of dynamic capabilities and this path relationship leads to the firm performance as well (Aminu & Mahmood, 2015; Hung et al., 2007; Griffith et al., 2006). Consistent with the above arguments, Wang et al. (2015); Eriksson (2014) suggested that individual competencies determine, lead toward and support the dynamic capabilities of the firm and further dynamic capabilities are fundamental to firms' performance.

Furthermore, there is a bulk of research works supporting the direct relationship between what the authors conceptualize as dynamic capabilities and firm performance (Lin & Wu, 2014; Monteiro et al., 2013; Carlos, 2011; Garcı a-Morales et al., 2007a; Garcı a-Morales et al., 2007b; Zhang, 2007; Wu, 2007; Kor & Mahoney, 2005; Teece et al., 1997).

According to Lin & Wu (2014), the dynamic capabilities can be regarded as a link between firm resources and performance. The link represents the mediating factor of the dynamic capabilities. Moreover, it is also illustrated that the association between capabilities, resources and performance is complex and capabilities can be used as a link in the relationship between firm resource and performance (Lu et al., 2010). Thus, this information serves as a platform for conducting a study to examine the dynamic capabilities as the missing link in the relationship between entrepreneurial competencies and small firm performance could bring to the other level of knowledge development.

Theoretically, according to Dynamic Capabilities View (DCV), it is assumed that dynamic capabilities are the integrative mechanism for the firms to integrate, build and reconfigure internal and external competencies (resources) to address rapidly changing environments in order to make a firm outperform compared to competitors. (Lagat & Frankwick, 2017; Wang et al., 2015; Teece, 2007; Teece et al., 1997). This puts the variables under study: the entrepreneurial competencies, dynamic capabilities and small firm performance under one research framework. Moreover, the literature indicates that dynamic capabilities can act as a link between firm resources and performance. Lin & Wu (2014) suggest that the dynamic capabilities should be considered as a converter for transforming resources into enhanced performance due to its valuable resource characteristics. The dynamic capabilities can effectively make use of the competitive combinations of firm resources to enhance firm performance (Jiang & Kortmann, 2014; Lu et al., 2010; Wu, 2007).

Within the context of entrepreneurial competencies and small firm performance, there is a potential to examine the link of dynamic capabilities to the relationship. These actually further triggers this research works. However, more research is needed to understand about the dynamic capabilities for the purpose of enhancing the body of existing knowledge (Parida et al., 2016).

The dimensions of dynamic capabilities that need to be tested are categorized as the (i) sensing capabilities, (ii) Coordinating capabilities, (iii) integrating capabilities, (iv) alliance management capabilities, (v) reconfiguration capabilities and (vi) learning capabilities. These dimensions are viewed as composite variables and are expected to provide a complete representation of the dynamic capabilities in order to meet the ever changing and turbulent business environment today.

The following research framework was used in the research work, developed based on the basis of the above mentioned literature review:

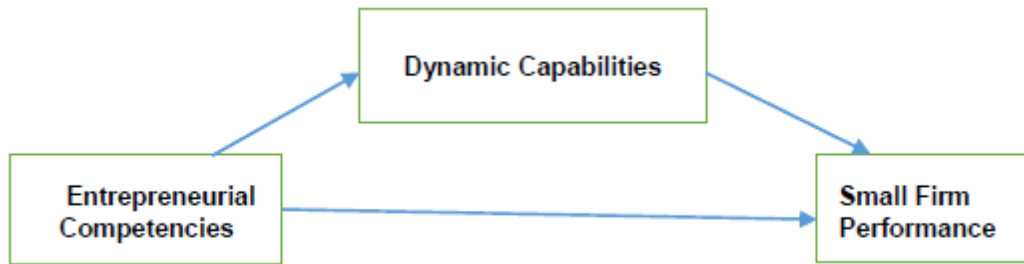


FIGURE 1
THE RESEARCH FRAMEWORK; DYNAMIC CAPABILITIES AS THE MISSING LINK

The above Figure 1 framework allows for the test of the theoretical relationship between entrepreneurial competencies and small firm performance and the tests for dynamic capabilities as the mediating factors to the mentioned relationship. The theoretical foundation of this paper is provided by the literature review and identified the link among entrepreneurial competencies and small firm performance and also highlighted the missing link of dynamic capabilities among above said relationship. The Research Propositions (RP) is proposed on the basis of the above research framework.

RP₁: Is there a significant relationship between entrepreneurial competencies and small firm performance?

RP₂: Do dynamic capabilities mediate the relationship between entrepreneurial competencies and small firm performance?

CONCLUSION AND IMPLICATIONS

It is the need of the hour that for a booming growth of an enterprise that the constantly evolving measures should be considered. Entrepreneurial competencies are one of those dynamic ingredients that can raise the bar of progress and allow firms to make a breakthrough and come out of the stagnant status and achieve massive success. The study conducted addresses the possible knowledge gap in the literature regarding the comprehensiveness of the entrepreneurial competencies impacting on small firm's performance and the role of dynamic capabilities. In total, twelve dimensions of entrepreneurial competencies are included and this is more than any research that covers the constructs of entrepreneurial competencies in determining the small firm performance. This paper presents the framework that used in the study to cover the relationship between entrepreneurial competencies and small firm performance, with the dynamic capabilities as the mediating construct that strengthening the relationship.

From the assessment, it is determined that small firms usually thrive in highly competitive, turbulent and unpredictable markets. In addition, as small firms do not have any influence or control over the markets and to tackle the economic shocks, it is essential that small firms adopt the approach of dynamic capability. The study proved the intervening part of dynamic capabilities in enhancing the firm performance. Thus, it proved the importance of dynamic capabilities to mediate the relationship between entrepreneurial competencies and small firm performance.

The research framework development is guided the Resource Based View and the Dynamic Capability View theories. This makes the framework highly reliable and the results tested in the research domain have been proven significant and such framework is proposed to be used in other industry sectors. Further studies in different sub-sector and different countries would ultimately uplift the economic development that largely relies on the performance of their small and medium enterprises. The results incorporated in different industries and countries can be used for generalizing the findings. The study of the empirical relationship between entrepreneurial competencies, dynamic capabilities and small firms' performance can be regarded as a stepping stone for the future researchers towards a new track in determining this vital linkage.

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