

## **DYNAMIC CAPABILITIES AND ORGANISATIONAL ENVIRONMENT: IMPLICATIONS FOR FIRM PERFORMANCE.**

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### **Abstract**

*This study examined dynamic capabilities and organisational environment and its implications for firm performance. The objective of the study is to investigate whether dynamic capabilities of firm can gain overall performance. Given the rapidly changes of the business environment, that ranges from technological advancement, competitive pressure, regulatory changes, and economic fluctuations that makes the environment unstable. The study significantly provides business operators with an insight on how to continuously monitor its environment, seize opportunities, and configuring their internal resources to gain competitive advantage. The study examined the concept of dynamic capabilities, its dimensions, organisational environment, and dynamic capabilities and the implications for firm performance. It also discussed some of the early approaches deployed by organizations in tackling the overwhelming challenges of the business environment such as the SWOT analysis, Porters five forces of firms competitiveness and Barney's resource-based view and discovered that these models in tackling the challenges may be old but not obsolete. The study concluded that dynamic capabilities of firm's influences performance and are the appropriate framework for addressing the dynamism in the organisational environment, hence, firms should learn how to develop their dynamic capabilities as well as their operational capabilities to gain competitive advantage in the future.*

**Keywords:** Dynamic capabilities, Organisational environment, Firm, Performance, Rapid changes.

## Introduction

Organisations exist to provide specific service(s) that will meet their goals and this further translates to profit for them. However, this process is constantly being confronted by numerous challenges that are occasioned by the rapid changes in the business environment. These changes have imposed serious threats to the survival of the organisation. Therefore, organisations are left with no option than to seek new ways of conducting business. In the last three decades, the strategic management domain has attracted several debates regarding the best approaches in combating the myriad of challenges emanating from the organisational environment (Teece, 2022). These approaches or models are strategically crafted or designed to tackle the overwhelming problems within and outside the organisation. The organisational environment is characterized by an increased level of turbulence, volatility, uncertainty which has posed a significant challenge for organisations (Sultana et al., 2022), making adaptation to dynamic capabilities vital for survival and performance.

Some of these conditions range from technological advancement (emergence of new ones due to the rapid pace of innovation, thereby causing old ones to become obsolete, digital transformation, which is a shift towards digital business processes), economic fluctuations (which is as a result of globalization which has brought about the increasing rate of interconnectedness of economies globally), regulatory changes (government policies and political instabilities), and competitive pressure (Samani & Alavi, 2020). These conditions have the potentials of impacting on the firm's decision making procedures and overall performance of the organisation.

The organisational environment is labeled with a high rate of dynamism, uncertainties and events that are unpredictable, as firms no longer know what to expect any more because of the deep uncertainties occasioned by the rapid changes in the environment. Wilden et al. (2020), described the organisational environment as the surrounding, complex, rapidly changing, and turbulent context that forces organisations to continuously adapt to their internal routines and resource configuration. No organisation is immune from these harsh conditions meted on them by the business environment, not even the firms that are grappling on to entrepreneurial orientations. These factors have remained in the environment for decades, the challenge is that they have and are becoming increasingly intensified by the period, thus making organisations to adopt various strategies to tackle them depending on the way they presented themselves. Akinlabi et al. (2021) postulated that the organisational environment is categorized into the internal and external environments, which according to them is the totality of tangible and intangible factors that controls employee motivation, performance, and productivity. The internal environment is the one that a firm can control, (Oliveira, 2022) described it as the

internal factors and conditions that shapes the activities or operations of a firm. While the external environment is described as the factors that disrupts decision-making and performance (Robbins & Coulter, 2020), adding that it is its role in presenting uncertainties and challenges.

To tackle these problems, authors from the field of strategic management have designed systematic frameworks or models in addressing the challenges emanating from the fast changing business environment. One of such authors is Porter (1980) who developed the five forces of firm's competitiveness, which was centered on industry attractiveness. According to Porter, the rationale behind these forces is to understand the external milieu of the firms, which the SWOT analysis failed to acknowledge as the model was too generic and deficient of a systematic approach in understanding the competitive environment (Dess et al., 2020) thus, the development of the porters five forces is to provide firms with more comprehensive analysis of an industry competitive force, which he believes that shapes firm's profitability and growth. Another author is Barney (1991) who developed the resource-based view to provide firms with competitive edge and superior performance by reason of possessing resources that are of value, rare, imperfectly imitable, and non-substitutable (VRIN criteria) that are not easily replicated by rivals. Both the Porters and Barneys models could not address the overwhelming problems domiciled in the business milieu, this paved way for the emergence of the firm dynamic capabilities by Teece. The dynamic capabilities approach is to address the dynamism of the environment, hence it is necessary for firms to possess the expertise to integrate, build and reconfigure both their internal and external competencies so as to transform their ordinary capabilities such that they tackle the rapidly evolving business environment (Teece, 2022). Dynamic capabilities are different from the ordinary or operational capabilities that pertains to those activities that enables current operations such as unique skills, processes, and routines employed for the purpose of carrying the daily operations in an effective and efficient way (Abualoush et al., 2020). Dynamic capabilities is firm's capability to adapt, integrate and reconfigure both the internal and external skills/talents, functions and resources of an organisation with the view of responding to the current challenges in the environment (Teece et al., 1997).

There has been a heated debate on the issue on how and whether dynamic capabilities of firms can secure competitive advantage and hence performance (Barreto, 2010) because of the turbulent nature experienced in the business environment. In the midst of the turbulence being experienced, firms must display some level of performance to secure set goals of the firm in the state of the constantly changing environment. Doval (2020) described firm's performance as the extent to which a firms accomplishes its goals and objectives, adding that knowledge development, analyzing of external cause, and transformation of existing knowledge are all responsible to enhance performance. It is also described as the positive outcome that is a product of an effective implementation of a strategic decision-making of a firm. Which involves strategic communication practices that directly connects performance to management process (Bonnyventures, 2022). Organisational performance is correlated with individual employee performance in the organisational level; this implies that for an organisation to experience high performance organisation on one hand create an enabling working

environment for employees, that will make them to be happy. On the other hand, (George, 2021) stated when employees are in the state of happiness are more cooperative, helpful, and likely to put more effort that will translate to higher performance. It is on this note the study seek to investigate dynamic capabilities and organisational environment and the implications for firm's performance.

The statement of the problem is that organisations today are always busy looking out for something new, that they do not have much opportunities to look out as they should and also they do not have enough people in the executives that are challenging each other from an outside perspective (Teece, 2022). For organisations to understand the issues surrounding uncertainties they should have a strong debate from an outsider's perspective, because most markets are characterized with deep uncertainties because no one really knows what to expect next. The objective of this study is to understand whether all dynamic capabilities of firms can translate to competitive advantage and hence superior performance, secondly to investigate whether all firms utilizes dynamic capabilities is securing competitive advantage. Thus, the outcome of the study will significantly benefit business operators, as they have been provided with the awareness to continuously monitor the business environment for opportunities and threats, seizing the opportunities, and to reconfigure their internal skills and competencies to align with the changing circumstances of the environment.

## Literature Review

The dynamic capabilities concept or discourse is a difficult systems of actions and resource that are channeled towards modifying, renewing, and updating current or ongoing competences of a firm, fundamentally in reaction to the rapid environmental changes which has become a norm (Teece, 2016). Dynamic capabilities are firm's capacity to adapt, integrate and reconfigure both the internal and external skills/talents, functions and resources of an organisation to affiliate with the current occurrences in the environment (Teece et al., 1997). It is described as those organisational processes that enable a firm to integrate, build, and reconfigure competence in order to respond to the rapid occurrences in the competitive business environment (Konlechner & Ambrosini, 2023). Dynamic capabilities are the specific organisational strategies and processes that enables a firm to sense, learn, integrate, coordinate, and reconfigure their assets and routines to align to the shifts experience in the environment. They are the set of knowledge- based activities that allows a firm to respond in an effective and efficient manner to new technological openings and competitive pressure by continuously innovating their processes, products, and business approaches (Tsekouras et al ., 2021). The concept of dynamic capabilities is viewed as those specific activities that allows firms to sense and exploit digital and algorithmic opportunities and the act of continuously reconfiguring firm's resources to maintain relevance in modern economies (Pangrazio & Godhe, 2024). It is according to ( Vogel & Von Krogh, 2021) firms capacity that is channeled towards managing the structure of resources base by solving problems that pertains to gaining, combining, and removing resources, adding that this involves a systematic approach. Dynamic capabilities is

described as the capacity of a firm to continuously integrate, reconfigure, renew and recreate its resources and capabilities, and to improve and to reconstruct its main capabilities to enable them adapt to the ever change business milieu, with the view of securing competitive edge. It enables a firm to utilize its resources and strategic exploitation to secure performance by ensuring that resources are valued, imperfectly maintained and modified in process of time (Furnivall et al., 2019). Dynamic capabilities are essential strategic steps for adjusting strategies taken by business organisations to maintain competitive edge in a changing environment (Khourohet et al., 2020). Dynamic capabilities are different from ordinary capabilities which are the daily routines, processes, and procedures that cannot create competitive advantage in an unstable market because they are easily imitated by rivals hence dynamic capabilities are required to build upon ordinary or operational capabilities and reconfiguring them to create unique and sustained competitive advantage (Khourohet et al., 2020).

For dynamic capabilities to be effectively implemented according to (Arokodale, 2000), it must exhibit three capabilities (dimensions), these capabilities are the capability to sense the environment for openings, by gathering and analyzing information, seizing of opportunities by way of developing the requisite competence or outsourcing and reconfiguring the resources of the organisation which pertains to reallocating, readjusting and restructuring. Therefore, these three capabilities are essential to firms if they want to meet the new challenges, thus firms and its entire workforce have to learn these capabilities quickly and develop strategic assets. The first dimension is sensing/ market sensitivity which is to sense, search and explore the environment to enable firm identify opportunities and threats, by scanning the external environment to detect market trends, technological advancements, customers' needs and competitive actions and also understanding the internal capabilities by accessing the organisational strengths, weaknesses and core competencies to determine its potentials to respond to its external changes. According to (Dias et al., 2021) is the firm's entrepreneurial capability to identify and shape openings across markets, this includes committing funds in research activities and the probing and reproofing of technological possibilities. Secondly, is seizing opportunities this entails that firms possess a higher level of seizing capabilities if only they can efficiently chose the value to change potentially valuable information into solid opportunities and models align with firms strength and weaknesses and to importantly make decisions appropriately (Kump et al., 2019). Thus organisations capitalize on opportunities, by way of making strategic decisions to pursue identified opportunities, such as launching new products, entering into new markets, or acquiring new businesses. Although, the size of an organisation is an important factor to consider when seizing or executing an opportunity. It is very easy for smaller organisation to swiftly seize an opportunity, all that is needed is to create a business model to implement and a business plan to address the situation. And with the right financial resources smaller organisation can glide easily to implement its plan. This takes a different turn when it comes to the bigger organisation, execution is often difficult because of the presence of bureaucratic bottlenecks which can slow down the process. Thirdly, systems reconfiguration, which involves the process of reorganizing the company's structure, role, and



responsibilities to align with the new strategic priorities and developing new capabilities by committing funds in training, developing and innovation to build skills and knowledge required for success. It entails redesigning of firms structure, processes, and governance structure (Wilden et al., 2020), they further asserted that it is an operationalization of the strategic shift that allows the internal system to support the new competencies and knowledge needed or long-term performance.

Authors from the strategic management field have conducted various empirical studies on dynamic capabilities and organisational performance. Wilden et al (2020) conducted a study on dynamic capabilities and performance, strategy, structure and environment, a quantitative survey research, using Partial Least Square Structural Equation Modeling (PLS-SEM). The study concluded that there is a positive impact of dynamic capabilities on organisational performance. It was also found that performance effects of dynamic capabilities are contingent on the intensity of competition faced by the firm. Subsequently, Hoa et al. (2022) conducted a research on dynamic capabilities, innovation performance, and sustainable competitive advantage, the study, a quantitative Survey Research, followed by a Structural Equation Modeling (SEM). The study concluded that dynamic capabilities are critical for contemporary performance as it relates to sustainability and innovation. This indicates that dynamic capabilities are the source of sustained competitive advantage and hence, superior financial performance in the long term. This is because dynamic capabilities enables a firm to secure business model fitness and adapts to the rapidly evolving business milieu (Teece, 2022). Subsequently, Rohaermel (2023) described this influence between dynamic capabilities and firm performance; emphasizing that dynamic capabilities are crucial for firm performance because they are the higher-order capabilities that enable a firm to create, deploy, and upscale its resources base, which are essential source of superior return. Thus, firm that are bankrupt of dynamic capability in rapidly evolving environment, the survival and superiority of the firm will remain ephemeral.

### **Suggestion for further Study**

Given the intense turbulence experienced in the organisational environment which is as result of the rapid changes experience in the environment. Scholars can further explore dynamic capabilities and the role of ordinary capabilities for firm performance.

### **Conclusion**

The business environment which is intensely becoming turbulent by reason of the rapid changes ranging from technological advancement, economic fluctuations, regulatory changes and competitive pressure etc. organisation has not relented in their efforts in adopting approaches or models in combating the myriad of challenges emanating from the business environment. Some of these models ranges from the SWOT analysis, Porters five forces of firm's competitiveness and the resource based view by Barney that has been used by firms to tackle the environmental challenges over time. The dynamic capabilities is a systematic

approach that is designed to simultaneously tackle both the internal and external competences, functions and resources, achieved through continuous environmental sensing capabilities. Although the development of dynamic capabilities does not always guarantee success but the circumstance at which such capabilities are deployed is what influences firms performance. The dynamic capabilities approach has the propensity to secure or sustain firm's performance in the long run, as organisation constantly search, integrate and develop competences to seize any opportunities.

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