

Turbulent environments- here we come: role played by dynamic capabilities in firm performance for Indian entrepreneurial SMEs

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Abstract

Dynamic capabilities and firm performance are well researched constructs in strategic management. Dynamic capabilities are strategic sensing, timely seizing and resource reconfiguring capacities of the firm. While much of the research is carried on the western as well as the few in emerging economy context, very little has been done on Indian SME firms. It is hypothesized that high levels of turbulence in firm environment (environmental dynamism) negatively affects firm performance and although the dynamic capabilities in the firm positively affects the firm performance the impact of dynamic capabilities gets amplified with high levels of environmental dynamism and its impact on firm performance as a moderator between environmental dynamism and firm performance is much higher than its individual impact. Thus dynamic capabilities in the firm reduces the negative effect of environmental dynamism on firm performance. The mechanism suggested is when the dynamism is high, the firm's capacity to deal with rapid change increases and the interplay between dynamic capabilities and firm performance manifests higher levels of performance.

The above is tested on a sample of 190 small and medium Indian businesses representing the entrepreneurial sector for an emerging economy.