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Building Dynamic Capability – an Imperative for SME Competitive Advantage

Abstract

Irrespective of their size or sector, most small and medium sized enterprises (SMEs), thanks to technological innovation, affordability, and accessibility, find themselves competing in a competitive global environment. However, unlike many of the established multinational organizations also operating in the same sectors, SMEs are acutely impacted by a scarcity of resources, be they finance, skills, equipment, etc. What becomes a key factor not only for survival but also success is how organizations effectively identify the necessary resources, and then put them to work in building a successful, responsive, and competitive business.

KEYWORDS: dynamic capabilities, competitive advantage, IT, SME

Introduction

No successful organization sets out with the intention to only build a small workforce, or to own a moderate number of shops or retail outlets, or to operate in a limited number of countries; these are just resources. Organizations don't set targets for resource allocation or accumulation unless these targets are clearly aligned to key strategic objectives. How quickly an organization can identify which resources are required and how they can be applied to achieving strategic objectives will fundamentally underpin the organization's competitive position within its chosen market.

As resources are usually scarce within SMEs, developing an understanding of how the organization can build competitive advantage needs to be fostered amongst key decision makers within the organization. It is important that the SME management team understands how the resources need to be employed and also how the organization manages the resources in terms of developing specific capabilities. For those organizations that are truly fortunate, they will be able to develop certain capabilities that their competitors will find difficult to replicate. This, in turn, will help develop a sustainable competitive position. However, for most organizations the degree of replication by competitors will vary, and be difficult to control. This simply highlights the urgent requirement for organizations to understand the capabilities they need in order to differentiate themselves within their markets and to respond to the changing competitive internal and external environmental forces. The ability for the SME to sense and respond to market forces and apply its resources is in itself a form of capability, referred to, in this case, as a *Dynamic Capability*.

Dynamic Capabilities

There are many definitions of capability, but in terms of Dynamic Capability the commonly accepted definition is as follows: *'A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base'* (Helfat & Peteraf, 2009).

It is this innate ability within organizations that is crucial to ongoing survival and success. It is strongly believed that the competitive advantage, and indeed survival, of firms in today's global economy stems not from market position, but from the ownership and/or employment of difficult-to-replicate knowledge assets, and the manner in which they are deployed (Teece, 2013). This relates to the original point that having access to resources is simply no longer enough. Business success is more dependent on:

- Discovery and development of new opportunities.
- Effective combination of internally- and externally-generated inventions.
- Efficient and effective technology transfer inside the organization.
- Protection of intellectual property.
- Upgrading of 'best practice' business processes.
- Invention of new business.
- Effective and unbiased decision-making.

Technology's Impact on Competitiveness

Senior managers are becoming more aware of the fact that the challenges their organizations face cannot solely be addressed through technological innovation. Yes, technology driven innovation is important, but not sufficient for success. Sam Pamisano (ex-CEO of IBM) summed this up as follows:

"Innovation is about much more than new products. It is about reinventing business processes and building entirely new markets that meet untapped customer needs".

Although the CEO of one of the largest, and most successful, technology companies made this comment, it still resonates clearly with how SMEs need to engage with their respective markets if they are to become successful.

Understanding the Challenge

Taking a dynamic capability view (DCV) of an organization is not without its practical challenges. The rate of change being experienced by business is unprecedented as is its speed and potentially disruptive nature. The increasingly complex nature of a business can make it difficult to identify the core capabilities required to stay competitive, especially when the environment is continually changing. This can be problematic for key decision makers who are trying to manage the capabilities needed for *"now"*, whilst trying to identify the capabilities required for the *"future"*. Even when future capabilities have been identified, it can be difficult to refocus the organization on these capabilities in order to develop them. The DCV tries to help organizations manage this challenge by focusing on the following questions:

1. How can key decision makers influence the existing mental models and practices to build a responsive, flexible business model?
2. How can organizations ensure the right capabilities are being focused on, and developed to the appropriate maturity level?

Understanding the Capability Landscape

Understanding *what capabilities* an organization possesses is important, but is not a guarantee of business/organizational success. However, knowing *which capabilities* are important to the organization in terms of day-to-day survival, and, hopefully, in developing a sustainable competitive advantage is critical to the ongoing viability of the organization. This is where the development of a dynamic capability view (DCV) becomes important. This will help the organization continually evaluate, re-evaluate, and develop new and existing capabilities in line with the changing competitive environment. In order to develop this level of agility the organization must consider three key components of the DCV.

1. The ability to sense and assess potential opportunities/threats in the competitive environment (internal and external to the organization).
2. The ability to react to opportunities and threats in the competitive environment.
3. The ability to remain competitive through the purposeful creation, extension, or modification of the tangible and intangible resource base.

Certainly the application of the SME IT-CMF will help organizations in the attainment of the third key component. The SME IT-CMF will very quickly help organizations understand their current capability landscape, and the level of maturity those capabilities operate at. The framework will then provide the organization with the knowledge to build capability development roadmaps to help achieve the necessary level of maturity. However, the SME IT-CMF is not designed to tell the organization which capabilities are strategic now, and which capabilities will be strategic in the future. This is because the first two key components very much depend on the strategy and culture of the organization. These are abilities that need to be developed across the key decision makers.

Ability to do this will vary across organizations. However, there are some traits that will certainly help develop the ability to sense and react to changes in the dynamic marketplace. These traits focus on improving awareness and the ability to quickly pivot around concepts and ideas that are being driven and shaped by market forces. Some of these traits are:

- Actively seeking customer engagement at all stages of product/service development.
- Valuing a capability-centric view of the organization.
- Having a shared vision of what the organization is trying to achieve.
- Embracing and practicing a culture of change and agility.
- Demonstrating a clear link between the business strategy and the business model.

Certainly, by actively engaging with customers the organization can better understand the changing demand patterns within the market place, and reduce the risk of their product or service failing to gain market share on launch. Depending on the level of engagement, the organization can also build a relationship that will, in many cases, withstand short-term price fluctuations across the market, however, this will also be dependant on the nature of the product or service being provided.

Conclusion

For organizations to continue to survive and prosper within the global marketplace they must be able to flex and respond to changes within their respective competitive environments. However, in order to do this they must understand how best to align their business strategy and their business model to make the most of opportunities as they develop, and then to re-evaluate and where necessary modify, or create new capabilities to meet the new challenges. This will be helped by the management team developing a dynamic capability view of their organization.

References

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The Innovation Value Institute (IVI) is a multi-disciplinary research and education establishment co-founded by the National University of Ireland Maynooth and Intel Corporation. IVI develops frameworks to assist IT and business executives to manage IT for Business Value and to deliver IT-enabled business innovation. IVI is supported by a global consortium of like-minded peers drawn from a community of public and private sector organizations, academia, analysts, professional associations, independent software vendors, and professional services organizations.

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