International Journal of Research

p-ISSN: 2348-6848
e-ISSN: 2348-795X
Volume 08 Issue 02
February 2021

Impact Of Dynamic Capabilities On Small And Medium Enterprises Performance In A Volatile Environment As Moderated By Organizational Inertia

Jeyaranjan Prasheenaa
Temporary Assistant Lecturer, Department of Management, Eastern University Sri Lanka.
prashcrc@gmail.com

Mrs. D. Thavakumar
Senior Lecturer, Department of Management, Eastern University Sri Lanka.
Dila1981@gmail.com

ABSTRACT

In Sri Lanka especially in Batticaloa, the studies related to dynamic capabilities, organizational inertia and organizational performance are rare and there is need to fill this empirical gap by investigating the influence of the dynamic capabilities of small and medium enterprises (SMEs) on organizational performance, and the interaction between dynamic capabilities and organizational inertia in a volatile environment. Therefore, this study has been undertaken to examine the relationship among these three variables and to assess the moderating role of organizational inertia in relationship between dynamic capabilities and organizational performance. The findings indicated that the variables have significant relationships among them and further findings of this study revealed that organizational inertia negatively moderates the relationship between dynamic capabilities and organizational performance of SMEs in Manmunai North Divisional Secretariat in Batticaloa District.

By addressing the findings of this study SME owners could try to reduce the inertia in their business by which the relationship between dynamic capabilities and performance can be induced and this lead the businesses in achieving competitive advantages.

Keywords: Small and Medium Enterprises, Dynamic Capabilities, Organizational Performance, Organizational Inertia .

1. Introduction

In today's markets, there are so many environmental turbulences which the marketers are facing that arises from technological advances, changes in consumer demand, and new regulations (Helfat& Winter, 2011). These developments can impact on organizational performance and also cause a decline in the competitive advantages of the firms or to even become redundant. According to Zott (2003), some firms have the ability to deal better with environmental turbulence than others and that it is of interest to identify the factors that cause performance differentials when responding to environmental turbulence. In general, performance differentials have either been attributed to the industry or to the organization itself (Schmalensee, 1985). Dynamic capabilities are expected to be valuable for organizations when dealing with environmental turbulence (Teece, Pisano &Shuen, 1997). Researches have shown that dynamic capabilities have both direct and indirect effects on organizational performance: directly via dynamic capability costs and indirectly via the organizational resource base (Wilden, Gudergan, Nielsen & Lings, 2013). Productive process is affected by dynamic capabilities indirectly by integrating, reconfiguring, gaining, and releasing resources to respond to environmental turbulence or to create internal and external change (Eisenhardt & Martin, 2000).

Dynamic capabilities make organizations capable of innovativeness by planning out suitable measures and finding out their impacts on the accomplishment of organizational goals (Teece, Peteraf&Leih 2016). Studies have reflected that innovativeness possess the capability to change the strategies of small and medium enterprises in their invention, development, introduction and commercialization of innovative products. The main challenge for many organizations is the dynamic environmental context in which organization exists. Therefore,

the organizational dynamism and uncertainty remain the major concern for organizational theorists for over the past three decades (Gerloff, Muir &Bodensteiner 1991).Demand for dynamic capabilities depend on the organizational inertia (Schreyögg&Eberl, 2007). Traditionally, inertia is defined as the inability to enact change in the face of significant external change. Therefore, organizations have limited options to stay with inertia before deciding for the environmental changes (Miller & Friesen, 1980). So, to break the grip of inertia; continuous changes are essential.

From the previous researches it is revealed that long-term performance can be significantly improved as the result of constant change, even in settings that begin as inert organizations (Hakonsson, Klaas& Carroll, 2009). Nowadays in the global competitive market, organizations are faced with a dilemma: on one hand, there is pressure to develop reliable patterns of selecting and linking resources in order to attain superior performance and competitive advantage, and on the other hand, this very endeavor risks – at least in volatile markets – restricting the organization to these capabilities (Schreyogg&Eberl, 2007). Considering this scenario this study mainly concentrates on the relationship between dynamic capabilities and organizational performance for which organizational inertia will be the major constraint to organizational performance.

1.1 Research Gap

SMEs play an important role in each country, SMEs face a variety of challenges due to the rapidly changing business environment (Khalique, Isa, Shaari& Abdul, 2011). But still there are only few studies which have addressed the issues and challenges faced by such SMEs in Sri Lanka. Many researchers have identified that dynamic capabilities approach is one of the key answers how organizations can avoid being locked in such challenges and core rigidities

in fast changing environment (Saeedi, 2014). Teece et al., (1997) work has noticed that the ability to achieve new forms of competitive advantage as dynamic capability and has brought intensive debates in strategic management research agendas and further characterized dynamic capabilities as unique and distinctive process which can be a source of sustainable competitive advantage. Many scholars during their research have identified that there is a positive relationship exist between dynamic capabilities and organizational performance (Nyachanchu, Chepkwony&Bonuke, 2017).

Although some may expect, on average, companies with more dynamic capabilities represent those companies with a higher performance, there is no guarantee for that companies actually recognize the potential of dynamic capabilities and achieve the expected results. These agree with Lampel, Shamsie and Shapira (2009) who found support for the claim that the developing more dynamic capabilities does not necessarily increase performance rather, it is the context in which such capabilities are used that leads to better or worse outcomes.

In addition, Barreto (2010) concluded that research in this field should focus on the internal and external factors that may enable or inhibit firms to realize the potential represented by their dynamic capabilities. Some scholars have found that organizational inertia being functioning as a factor that inhibits the organizational performance (Aryasa, 2017). But sill there is dearth of researches to identify the impact of organizational inertia on the interaction between the dynamic capabilities and organizational performance (Nedzinskas, Pundzienė, Buožiūtė, &Pilkienė, 2013).

Therefore, the current study mainly focuses to bridge the empirical gap and tries to find out whether dynamic capabilities impact on organizational performance of Small and Medium

Enterprises moderated by organizational inertia in Manmunai North Divisional Secretariat Batticaloa District.

1.2 Research Objectives

- To assess the relationships among the dynamic capabilities, organizational inertia and organizational performance in Small and Medium Enterprises in Manmunai North Divisional Secretariat in Batticaloa District
- To examine the moderating role of organizational inertia in the relationship between the dynamic capabilities and organizational performance of the Small and Medium Enterprises in Manmunai North Divisional Secretariat in Batticaloa District.

1.3 Significance of the Study

This study argues that dynamic capabilities is an emerging paradigm and still require deep and broad research and grown on strong believe that possession of any type of organizational resources or capabilities per se doesn't ensure successful performance. From this research the SMEs will be able to identify the dynamic capabilities that exist in their firms and through that they will get a chance to improve the existing capabilities and also able to identify the lacking part which need to be considered for future development and growth.

Also, the firms will be able to make the decisions regarding their investments on the dynamic capabilities wisely which will lead the firms to achieve competitive advantage and success over their competitors. This study will also help the firms to acquire enough knowledge on how the organizational inertia that prevails in their firms would impact on their overall performance and also will able to identify the importance of organizational inertia and will try

to keep them on right percentage within the firms and this prevents the firms from locking into the inertia which will be the restrictions on the growth of the company.

2. Literature Review

2.1 The relationship between Dynamic Capabilities and Organizational Performance

There is an accord with respect to the dynamic capabilities and their relationship with organizational performance. An increasing number of researches affirm that the connection between dynamic abilities and organizational performance in indirect. Dynamic capabilities empower an organization to achieve competitive advantage through creation, arrangement, and assurance of tangible and intangible resources which bolster predominant organizational performance (Teece, 2007). In order to reap the benefits of inter-organizational innovation and organizational performance, all parties involved must be in collaborative relationships. Collaboration and dynamic capabilities between partners enable superior innovation performance and greater competitive advantage for any business (Cheng, Chen & Huang, 2014). The explorative study by Zott (2003) analyzes how dynamic skills are related to different factors of organizational performance and suggests three performance-related attributes of dynamic capabilities-timing, costs and learning. The study shows that the point in time at which an organization changes or resource positions are reoriented is significant. The difference in organizational performance also depends on the costs associated with providing resources through imitation and experimentation. The ability to learn or to learn the speed of how to change is associated with superior performance.

The study by Pavlou and El Sawy (2011) reveals congruent facts with other scholars who are developing dynamic capabilities are positively related to operational skills and independent in terms of organizational performance. Pavlou and El Sawy (2011) measured the performance

of new products in terms of product effectiveness (product quality and innovation) and process efficiency (time-to-market at low cost).

Drnevich and Kriauciunas (2010) have examined positive and negative contributions from dynamic capabilities for relative organizational performance. The impact of dynamic capabilities was measured at two levels - process and organization level. The indicators in the process included productivity, business process performance and product quality and quality services affected by the use of IT and the associated organizational changes. The indicator at the organizational level was defined as profitability compared to the industry average. The analysis supports the suggestion that heterogeneity of dynamic skills makes a positive contribution to relative organization performance. It has been demonstrated that the heterogeneity of dynamic capabilities has a positive effect on the organization performance at the process level, but not at the organizational level. These results showed that the dynamic capabilities were influenced organize products, customers, and processes to deliver a positive contribution at the process level and negatively impact the organization's profitability.

Results from Zott (2003) and Drnevich and Kriauciunas (2011) support the prevailing dynamic capability perspective that dynamic capabilities are the levers for gaining competitive advantage and achieving superior organizational performance. Dynamic capabilities must be managed and deployed conscious to lead to superior organizational performance. Researches by Proeller, Kroll, Krause and Vogel (2014) have shown that strong dynamic skills have a mediating effect organizational performance - Strategic management has a positive impact on organizational performance if the organization has previously developed dynamic skills. The study by Pavlou and El Sawy (2011) reveals congruent facts

with other scholars who are developing dynamic capabilities are positively related to operational skills and independent in terms of organizational performance.

It is also essential to consider of one as part of dynamic capabilities construct - the significance of every constituent pointer of dynamic capabilities (sensing, seizing, and reconfiguring) might differ over time. The relationship of these indicators to organizational performance may also be different. Harris, Fletcher and Mahnke (2012) found that the sensing and seizing skills were most important during market entry, commercialization and the growth phase of the new venture and in the process of internationalization. However, the dynamic capability component indicators, although interdependent and non-discrete, may overlap and be combined in various stages of organizational development to improve organization performance. The use of dynamic capabilities to leverage their potential should be understood as a series of actions at various levels of governance.

According to the study of Nedzinskas (2013), highlight the positive relationship between dynamic capabilities and organizational performance. Since the dynamic capabilities concept has been evolving as a major sustainable competitive advantage generator, this study argues that dynamic capabilities have either a direct or indirect positive relationship to organizational performance. In addition, Nyachanchu's (2017) work proves that the three dimensions of dynamic capabilities, such as sensing, seizing and reconfiguring have a positive correlation with organizational performance. Scholars such as Banerjee (2018) and Gudergan, Nielsen and Lings (2013) have also found that dynamic capabilities have a positive impact on firm's performance. Considering the causal relationship between dynamic skills and organizational performance, the following hypotheses are formulated:

H_1: *Dynamic Capabilities have significant and positive relationship with Organizational Performance*

2.2 The Relationship between Organizational Inertia and Organizational Performance

Does organizational inertia help to improve the organizational performance or inhibit the performance? This seems to be the most important question in the field of strategic management and practice (George, 2005). Existing literature usually uses the resource-based view and the organizational inertia perspective to investigate the inertia- performance context. The resource-based view suggests that the inertia of the organization can be leveraged to support innovation, promote strategic behavior, and thus improve organizational performance (Cheng &Kesner, 1997). Some empirical researches have also supported this idea (Singh, 1986). Ma and Karri (2009) on his research about the behavior of banking organizations during the recession suggest a threshold of performance below which organizational inertia prevents a change in the organization because of heavy resources and pessimistic managerial perception. These empirical findings show that the performance effects on inertia are non-monotonic and curvilinear. Also, the relationship between these two variables is still need to be researched more. There are many combinations of researches which say the relationship can be either positive or negative. Resource based view will argue that the slack/ inertia will be positively enhances the innovation and performance (Cheng &Kesner, 1997). On the other hand, the inertia perspective argues that the slack will lead to inertia and reduces the performance (Barton, 1992). The empirical analysis therefore highlights important findings, that the dynamics of the organization and the external environment determine the result of the organization inertia (whether it creates or destroys survival) (Nedzinskas et al., 2013). The work of Greve (2011) suggests that the small business reduces the risk when its performance decreases, and this ensures that the firm

generates rigidities that lead to inertia. Mishina, Pollock and Porac (2004) and Tan & Peng (2003) also suggests that the inertia is a factor that reduces the desirable performance of the organization which supports the findings of Nedzinskas et al., (2013). Therefore, considering these empirical evidences regarding the causal relationship between organizational performance and organizational performance, the following hypotheses are formulated:

H_2: *Organizational Inertia has significant and negativerelationship with Organizational Performance*

2.3 The Relationship between Dynamic Capabilities and Organizational Inertia

Core capabilities can become core rigidities as the environment changes (Leonard-Barton, 1992). Miller (1992) warns of the tiny line between passionate commitment to superior performance and the extremes that lead to failure, and suggests some methods to avoid the capability trap. Teece et al., (1997) identify three categories - positions, processes, and path dependencies - that determine organization-specific competencies and dynamic capabilities. An organization that identifies each of these organizational inertia indicators and understands their relationship can assess the ways in which they can choose from different assumptions about changes in the external environment. As indicated by Teece (2007), successful organizations over time will develop hierarchies and rules and procedures that will inevitably restrict certain interactions and behaviors. It remains unclear how dynamic capabilities such as sensing, seizing and reconfiguring can interact (simultaneously or sequentially) with quite static elements as positions, processes and path dependencies.

An analysis of RBV and dynamic skills approaches demonstrates that success and excellence do not rely on the company's resources or the dynamic capabilities it employs. Penrose (1959) has stated that only the services and not the resources themselves are the inputs to the

production process. Prahalad and Hamel (1990), Barney (1991) and Teece (2007) have highlighted the importance of internal organizational action processes and internal interactions for a sustainable competitive advantage. Along with other scholars, Barreto (2010) calls for special attention to internal and external factors that are inhibitory or reinforcing organization potential enabled by its dynamic capabilities. From the above literatures it can be concluded that organizational inertia is one of the factors that inhibit dynamic capabilities potential for organization performance. Newey and Zahra (2009) have shown how companies by utilizing dynamic capabilities can handle the core rigidities under endogenous shock. The dialogue between dynamics and operation Skills (mutual interaction) are perceived as critical activity that changes the shape of organization and processing of experiences and path-dependent trajectories that limit endogenous entrepreneurship. In general, common sense and empirical evidence speak for experience leads to organizational and its' management inertia and consequently the inertia of the organization delays the organizational change (Hlavacek& Thompson, 1973; Miller & Chen, 1994; Christensen & Bower, 1996; Greve, 1996; Teece et al, 1997). Dynamic capabilities are identified as a condition for organizational adjustment and an instrument for overcoming organizational inertia. We agree with the conclusion of Eisenhardt and Martin (2000) that dynamic capabilities are required, but not the only instrument to improve existing resource reconfigurations. Proeller et al., (2011) suggest dynamic skills as a moderator between the strategic practices and organizational performance.

The case study by Tripsas and Gavetti (2000) of the Polaroid Corporation shows that this is the case despite the dynamic capabilities enabled the company to develop high-tech digital imaging products business could not adapt to radical environmental changesthis is mainly

attributed to the inertia effects of path dependency associated with learning processes. This empirical finding suggests how crucial for organizations facing a radical, discontinuous change is the ability to distinguish between the development of new technological and dynamic capabilities and organizational inertia. It also bolsters the significance of dynamic capabilities to clarify the inertia of the business.

Certain researches support the argument that success is not in dynamic abilities as such, but in their application and use (Eisenhardt & Martin, 2000; Zott, 2003; Wang & Ahmed, 2007). The strategic imperative is the ability of the organization to leverage (in order to use or overcome) the inertia of the organization at all stages of the evolutionary process - to capture, seize and reconfigure. According to Nedzinskas et al., (2013), organizational inertia has a negative impact on any dynamic capability indicator; a limited response of the sensing results in a proportionately limited response to the seizing and a comparatively lower response rate of the reconfiguration is caused by a limited sensing. He also believes that the interaction is not sequential and has simultaneous character. In addition, suggest that the use of dynamic capabilities and the ability of each indicator to with stand the inertial pressure of organization is a factor of competitive heterogeneity of organization. The researcher believes that dynamic capabilities are an appropriate management tool to break this closed ability and rigidity loop.

Empirical findings support the view that organizational inertia is one of the factors that inhibits the dynamic capabilities and organizational performance (Daniel et at., 2004; Barreto 2010). There exists an empirical gap in which only few researchers investigate that the organizational inertia is one of the factors that inhibits the positive impact of dynamic capabilities on organizational performance. Moreover, much work to be done regarding the

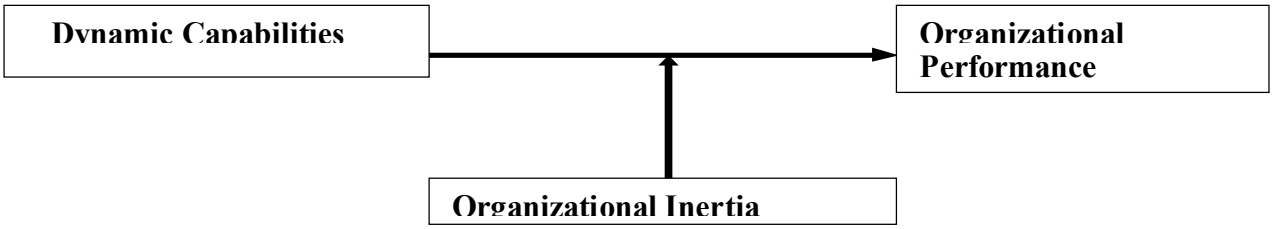
interaction between dynamic capabilities and organizational inertia in the SME sector in particular as well. Therefore, the following relationship between organizational inertia with dynamic capabilities is proposed:

H_3: *Organizational Inertia has a negatively moderating effect on the relationship between Dynamic Capabilities and Organizational Performance.*

3. Conceptualization

A conceptual framework represents the researcher's synthesis of literature on how to explain a phenomenon. The conceptual framework is the researcher's understanding of how the particular variables in the study connect with each other (Regoniel, 2015). This conceptual framework is used to indicate the relationship between the variables, which are involved in the study.

Figure: 3.1 Conceptual Framework



(Source: Nedzinskas, Pundzienė, Buožiūtė&Pilkienė, 2013).

3.1 Definition of Variables

This section consists the definitions of the following variables as Dynamic Capabilities, Organizational Performance and Organizational Inertia.

3.1.1 Dynamic Capabilities

Dynamic Capabilities are defined as managerial processes and systems through which the decision makers of an organization (or part of it) purposefully integrate, build, and reconfigure internal and external capabilities in order to seek strategic flexibility in changing

environments (Cinici, Dagnino, Giudici&Reinmeller, 2011). Dynamic capabilities are presently considered a business asset of the highest order. Dynamic capabilities are complex, higher order organizational processes which provide adequate conditions for the modification and renewal of the firm's stock of business assets (Vivas López, 2005).

3.1.2 Organizational Performance

Organizational Performance includes multiple activities that help in establishing the goals of the organization and monitor the progress towards the target. The performance of the organization's firms can be attributed to the firms' resources and capabilities (Barney, 1991).

3.1.3 Organizational Inertia

Inertia is defined as the relatively slow rate of organizational change in response to environmental change (van der Steen, 2009). Organizational inertia may also imply the reluctance to change the stories and language of the occupants, as a narrative approach an organizational change results in a conversational shift (Näslund&Pemer 2012). Teece et al., (1997) distinguish three classifications – positions, process and path dependencies as deciding factors of particular skills and dynamic capabilities of an organization. Organization which can recognize every one of these organizational inertia pointers and comprehend their relationship can assess the opportunities it can browse under various presumptions about changes in changing environment.

4. Research Methodology

This research included quantitative study. The aim of the quantitative study is to identify the relationship between dynamic capabilities, organizational inertia and organizational performance. The quantitative part of this research focuses on the use of formalized questions

in surveys, the quantitative methods focus on the objective measurement and the statistical, mathematical or numerical analysis of the data collected through structured questionnaires.

4.1 Sample and Data Collection

The target respondents of the study are SMEs selected from Manmunai North Divisional Secretariat in Batticaloa District. As a sample for the quantitative study, 160 SMEs are selected on the basis of the convenience sampling method.

4.2 Data Analysis

The primary data were collected through closed structure questionnaire. For the purpose of the quantitative analysis, self-fulfillment questionnaires with 31 questions were handed out to 160 SME owners at the Manmunai North Divisional secretariat in the Batticaloadistrict. Here the collected data from the questionnaires were analyzed and evaluated by using the Statistical Package for Social Science (SPSS 22.0 version).

5. Results and Findings

From the demographic profile of the respondents, the highest number of SMEs were aged between 1 to 5years, forming 59% of the respondents. This meant that most of the SMEs were relatively young. It was also observed that 95.6% of the SME's employed only 1-5 number of employees in their firms.

5.1 Reliability Test

Reliability test was carried out to ensure the study achieved accurate representation of the total population under study (Joppe, 2000; Golafshani, 2003). The Table shows Cronbach's alpha reliability coefficients for the variables. The Cronbach alpha coefficients were: - Sensing capabilities (0.743), Seizing capabilities (0.8) and Reconfiguration capabilities

(0.755). The Cronbach's alpha coefficient for organizational performance (dependent) variable was 0.681.The Cronbach's alpha coefficient for organizational inertia (moderating) variable was 0.858. Therefore, apart from Organizational Performance, the other variables had coefficients about or above 0.700. This was in harmony with Henson (2001) and Hair, Black, Babin, Anderson and Tatham (2006). The coefficient for Organizational Performance variable was also above the recommended 0.60 cutoff (Sekaran, 2003; Hair et al, 2006; Garson, 2012).

Table 1:Cronbach's Alpha Reliability Test

Construct	Dimension	Count of Measures	Cronbach's alpha Coeff.
Organizational Performance	Organizational Performance	7	0.681
Dynamic Capabilities	Sensing Capabilities	8	0.743
	Seizing Capabilities	9	0.8
	Reconfiguration Capabilities	2	0.755
Organizational Inertia	Organizational Inertia	7	0.858

(Source: Study data).

5.2 Correlation Analysis

5.2.1 Correlation between Dynamic Capabilities and Organizational Performance

A correlation test of variables revealed that there was positive correlation between organizational performance and the three dimensions of dynamic capabilities - sensing capabilities (0.644, $P<0.01$), seizing capabilities (0.738, $P<0.01$) and reconfiguration capabilities (0.413, $P<0.01$). Overall, the Dynamic Capabilities have a Strong and Significant Positive relationship with Organizational Performance.

Table 2: Correlations of Variables

Variable		Organizational Performance
Sensing	Person Correlation	0.644**
	Sig. (2- tailed)	0.000
Seizing	Person Correlation	0.738**
	Sig. (2- tailed)	0.000
Reconfiguring	Person Correlation	0.492**
	Sig. (2- tailed)	0.000
Dynamic Capabilities	Person Correlation	0.681**
	Sig. (2- tailed)	0.000

Pearson Correlation (2-tailed). Significance *P<0.05; **P<0.01.
(Source: Study data).

This study results coincide with the studies done by Wilden, Gudergan, Nielsen and Lings (2013), who identifies that dynamic capabilities positively influence firm performance and also improve inter-firm performance. In addition to this the work of Nyachanchu (2017) also proves that the three dimensions of dynamic capabilities such as sensing, seizing and reconfiguring has a positive relationship with the firm performance with the correlation coefficients of sensing capabilities 0.394**, seizing capabilities 0.360** and reconfiguration capabilities 0.413**. Banerjee (2018) in his work has mentioned that the dynamic capabilities are important to businesses to meet the challenging external environment businesses create for themselves, is a basis for organizational performance and has a substantial relation to it. But still some researchers found that the relationship between the dynamic capabilities and organizational performance is indirect and further researchers are needed on this field (Protogerou, Caloghirou&Lioukas 2011).

5.2.2 Correlation between Dynamic Capabilities and Organizational Inertia

A correlation test of variables revealed that there was negative correlation between organizational performance and the three dimensions of dynamic capabilities - sensing

capabilities (-0.697, P<0.01), seizing capabilities (-0.829, P<0.01) and reconfiguration capabilities (-0.768, P<0.01). Overall, the Dynamic Capabilities have a Strong and Significant Negative relationship with Organizational Inertia.

Table 3: Correlations of Variables

Variable		Organizational Inertia
Sensing	Person Correlation	-0.697**
	Sig. (2- tailed)	0.000
Seizing	Person Correlation	- 0.829**
	Sig. (2- tailed)	0.000
Reconfiguring	Person Correlation	-0.593**
	Sig. (2- tailed)	0.000
Dynamic Capabilities	Person Correlation	-0.768**
	Sig. (2- tailed)	0.000

Pearson Correlation (2-tailed). Significance *P<0.05; **P<0.01.
(Source: Study data).

Barreto (2010) in his studies revealed that the dynamic capabilities will be inhibited by the organizational inertia that prevails in the business. In addition, Tripsas and Gavetti (2000) also argue that the presence of inertia in a company would make it difficult to gain the benefits of capabilities. And the major pioneer work concerning this relationship was done by Teece et al., (1994) which shows that failures to adapt to radical technological discontinuities often stem from the relative rigidity of organizational routines. All these findings support the results of the current study.

5.2.3 Correlation between Organizational Inertia and Organizational Performance

The Organizational inertia have a Strong and Significant Negative relationship with Organizational Performance.

Table 4: Correlations of Variables

Variable		Organizational Performance
Organizational Inertia	Person Correlation	-0.865**
	Sig. (2- tailed)	0.000

Pearson Correlation (2-tailed). Significance *P<0.05; **P<0.01.
(Source: Study data).

Considering the Resource based view, it suggests that the result is positive and the inertia complements in achieving the organizational performance (Cyert, & March, 1963). In contradiction the work done by Greve (2011) suggests that the small business reduces the risk taking as their performance decreases and this ensures the firm will create rigidities that will leads to inertia. Therefore, in organization where the performance is low then the inertia will be high. This study coincides with the results of the current study.

5.3 Moderated Regression Analysis

The Coefficient of correlation was 0.8888 and this indicates that there is a strong positive relationshipamong dynamic capabilities, organizational inertia, interaction of dynamic capabilities and organizational inertia with organizational performance. The R square explains that 78.9% variation in organizational performance in explained by dynamic capabilities, organizational inertia and interaction of dynamic capabilities and organizational inertia at the 0.05 significance level. The p value of the interaction term was less than 0.05 and this indicates that Organizational inertia moderates the relationship between dynamic capabilities and organizational performance in a significant manner and further the coefficient value of interaction was -0.2619 and this shows that organizational inertia negatively moderates the relationship between dynamic capabilities and organizational performance. In-addition to this the zero value does not lies between the range of upper confidence level and lower confidence level and this proves that the model is significant. According to the study of Nedzinskas et al., (2013) which explains the similar findings that organizational inertia

negatively moderates on the relationship between dynamic capabilities and organizational performance.

Table 5:Regression results on Firm Performance

	Coefficients	Std. Error	t	Sig.Val	LLCI	ULCI
Constant	-0.1810	0.0495	-3.6591	0.0003	-.2786	-.0833
Z Mean DC	0.3447	0.0792	4.3499	0.0000	.1882	.5013
Z Mean OI	-0.7219	0.0567	-12.7347	0.0000	-.8338	-.6099
Int_1	-0.2619	0.0481	-5.4485	0.0000	-.3569	-.1670
R	0.8884					
R^2	0.7893					
MSE	0.2148					

Notes: Significance *P<0.05, **P<0.01, ***P<0.001. Dependent Variable: OrganizationalPerformance. DC: Dynamic Capabilities, OI: Organizational Inertia.

(Source: Study data).

6. Conclusion

The study overall reveals that there is a positive relationship exist among the dynamic capabilities and organizational performance and the moderating effect of organizational inertia negatively hinders this relationship and causes the negative impacts to businesses and imposes barriers in achieving their competitive advantages.

6.1 Recommendations of the study

From the above research results it can be found that the SMEs though they possess high level of dynamic capabilities which can induce the organizational performance but prevalence of inertia can inhibit this relationship and core capabilities can turn into core rigidities. So, the recommendations of this study states that dynamic capabilities of the organization have to be induced.

The dynamic capabilities can be increased by improving the organizational learning. The organizational learning can increase the intangible resources like human capital, structural capital and this will improve the dynamic capabilities and enhances the performance as well. The businesses can also attempt to build on and expand the dynamic capability of learning through experimenting by incremental steps based on the development of strong trusting relationships. Businesses can also be supportive to create a secure environment and encourage all individuals within the organization to take personal initiative in terms of continually developing new and innovative ways to deliver services.

Organizational leaders have to develop strategies that built on existing levels of trust within the organization, and then work to increase those levels over time. SME owners should look for people in the organization who believes that change is important, and trusted each other enough to at least try new ideas.

In addition to this the study recommends some ways through which the organizational inertia can be reduces. Some awareness and training programmes for SME owners need to be under taken to motivate them to improve their risk-taking abilities. On the organizational side, the transitional leadership style to be introduced into the firms so that the employees will be motivated and encouraged to adapt to changes. Also, systematic problem solving can also

induces the firms to take more informed decisions and prevents them from failings (Godkin&Allcorn, 2008). Also, in addition to this the concern has to move onto the customers stating that their knowledge base and technological knowledge and attitude to accept change should be developed. These methods to overcome inertia has also been supported by Godkin and Allcorn (2008) in their research as well.

6.2 Limitations and directions for future studies

However, the findings of this study will not represent the views of whole SMEs in Batticaloa District therefore it may not be appropriate to generalize the findings. This study surveyed only 160 respondents in from SMEs in Manmunai North Divisional Secretariat in Batticaloa District. Selected sample respondents have been relatively small if any study consist more than this sample size the findings would be further confirmed.

The researcher would like to provide some suggestions for other researchers who would like to conduct research on these related fields. Thus, the other researchers can fill up the gaps in the future. It would also be useful to test the impact of dynamic capabilities on the inertia of the organization through longitudinal studies to understand how the correlation between dynamic capabilities and the inertia of the organization evolves and differs over time. The study of longitudinal dynamic capabilities would allow us to understand which part of the dynamic capabilities indicator and why it is more or less important for the performance of a sustainable organization at various organizational development or maturity stages.

The existing empirical researchers done based on resource-based view and organizational inertia perspective found conflicting results regarding the relationship between inertia and performance. Though our current study supports the findings of organizational inertia perspective still there are future researched needed in this field.

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