Effect of Dynamic Capabilities on Business Performance in Macro, Small and Medium Enterprises in Nigeria

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Abstract
The aim of this study is to investigate the effect of dynamic capabilities on business performance in Micro, small and medium enterprises (MSMEs) in Nigeria. This was achieved by examining and assessing the effect of adaptability and leadership on the business performance of MSMEs in Nigeria. The study was conducted in metropolitan towns of Abuja, Bauchi, Kaduna, Lagos, Enugu, and Pot-Hacourt representing all the geographical regions of Nigeria. A survey design method was used. A total of 422 questionnaires were sent out and administered to the respondents; 395 of the questionnaires were returned and considered useable representing a 93.6% response rate. Data was analyzed using both descriptive and inferential Statistics to establish findings. The finding showed that adaptability does not have a statistically significant effect on business performance of MSMEs in Nigeria. On the other hand, leadership was found to have a highly significant effect on MSMEs business performance in Nigeria. The study concluded that adaptability did not contribute significantly to business performance of MSMEs in Nigeria. The study also concluded that leadership emerged as a significant factor in driving MSMEs business performance in Nigeria. The study recommended that policy makers of MSMEs should focus on providing practical support in areas that directly have effect in business operations. MSMEs owners should be encouraged to take leadership courses that focus on decision-making, team management and strategic plannings.

Keywords: Adaptability, Business performance, Growth, Leadership and MSMEs

Introduction

Micro, Small and Medium Enterprises (MSMEs) are globally known for the strategic and impactful contributions, they make as a stimulus for the industrialisation of national economies. They play a pivotal role through several pathways that go beyond job creation. They are growth supporting sectors that not only contribute significantly to improve living standards, but also bring substantial local capital formation and are responsible for driving innovation and competition in developing economies. Governments at all levels have undertaken initiatives to promote the growth and development of MSMEs. The general perspective is that MSMEs are seen as accelerating the attainment of broad socio-economic objectives, including poverty reduction, employment generation and wealth creation, among others (NBS/SMEDAN Report, 2021).

Micro, Small and Medium Enterprises (MSMEs) are the backbone of Nigeria's economy, contributing significantly to job creation, innovation and economic growth. In fact, MSMEs account for over 80% of employment in Nigeria, making them critical to the country's development. Nigeria's population is estimated at about 200 million, with a total MSMEs of 39.6 million, and MSMEs responsible for 16,042,067 (61.9%) of informal employments in agricultural sector, 7.489,586 (21.6%) in the manufacturing sector, MSMEs' contribution to GDP equals 46.31%, and their contribution to export equals 6.2 1% (Thomas, 2023). Business adaptability is a critical dynamic capability that enables organisations to respond effectively to changing environments, thereby enhancing business performance. For instance, Ngatao and Dewi (2019) found that adaptive capability positively influences firm performance, although this effect may diminish as firms grow larger and older. Similarly, Badawi et al. (2019) demonstrated that organisational culture adaptability, particularly in creating change and focusing on customers, significantly impacts innovation and subsequently business performance in small and medium-sized enterprises (SMEs). Moreover,

Martins (2023) highlighted that dynamic capabilities including adaptability positively affect SMEs' performance, particularly when complemented by digitalization strategies.

Leadership approach and behaviors adopted by entrepreneurs in guiding and influencing their teams towards achieving organisational goals is a process by which leaders motivate employees in the organisation. Effective leadership is critical for fostering innovation, motivating employees, and driving business growth. By examining these independent variables (adaptability and leadership) in the context of dynamic capabilities, and MSMEs business performance, the study aims to investigate effect of dynamic capabilities on business performance of MSMEs in Nigeria.

Specific Objectives of Study

1. To examine the effect of adaptability on the performance of micro, small and medium enterprises in Nigeria.
2. To assess the effect of leadership on the performance of micro, small and medium enterprises in Nigeria.

Research Hypotheses

1. Ho: There is no significant effect of adaptability on the performance of micro, small and medíum enterprises in Nigeria.
2. Ho: There is no significant effect of leadership on the performance of micro, small and medium enterprises in Nigeria.

Literature Review Adaptability

Adaptability, defined as the capacity to adjust effectively to changing environments, is increasingly recognised as a critical competency in business management, especially in volatile, uncertain, complex and ambiguous (VUCA) contexts (Pulakos et al., 2000). In organisational settings, adaptability enables firms to respond to market dynamics, technological disruptions and global crises, fostering resilience and sustained performance (Alles et al., 2013). Scholars argue that adaptive individuals and organisations exhibit greater innovation, creativity and problem-solving abilities, which contribute to organisational agility and competitive advantage (Shoss et al., 2012). Furthermore, leadership that cultivates adaptability promotes a culture of learning and flexibility. aligning workforce capabilities with strategic goals (Yukl & Mahsud, 2010). In business management, adaptability is therefore not just a personal trait but a strategic asset that influences decision-making, resource allocation and long term survival (Judge & Bono, 2001). As organisations increasingly operate in dynamic environments, embedding adaptability into management practices becomes essential for achieving operational excellence and growth (Gabem & Birkinshaw, 2004).

Leadership

Leadership is defined as the ability to lead others (Al-Marshoudi et al., 2023). Attempting to define the term "leadership" has proven to be a difficult task for both academics and practitioners. Leadership has been a subject of scholarly debate for over a century, and numerous definitions have emerged continually (Dewi & Subiyantoro, 2021). According to Andrej et al. (2022), leadership is organizing and influencing a group of individuals to attain a common purpose. When a person mobilizes institutional, political, psychological, and other resource to inspire, engage and satisfy the objects of followers, this is called leadership. Leadership is "a combination of unique qualities or characteristics that an individual possess" meaning "Leadership is a blend of unique features or characteristics that an individual possesses (Al-Marshoudi et al., 2023). However, the leader's leadership styles are determined by the followers' acknowledgement of their leaders, their willingness and the mission complexity. As a result, leaders must possess a unique capacity to assess organisational settings, carefully identify unanticipated elements and make sound judgement to guide organisations to success (Syakur et al., 2022).

Performance of Micro, Small and Medium Enterprises

Kim and Patel (2017) describe performance as an action or achievement considered in relation to how successful it is. Looking from Kim and Patel (2017) definition, it can be reasonably concluded that performance is synonymous to success. According to Chepngetich (2016), performance of small enterprises is viewed as its ability to contribute to job and wealth creation through enterprise start-up, survival and growth. According to Ikupolati et al. (2024), individuals are evaluated on their ability to work under pressure, adaptation to working style, skill acquisition and motivation to perform for the organisation. Team leaders, supervisors or managers perform analysis of employees working under them depending on several factors such as daily activities, roles, targets, plan and overall value to the organization so that they can consider a pay rise or position hike for them.

Resource-Based Theory

The Resource-Based View (RBV) theory. propounded by Birger Wernerfelt (1984), emphasizes the importance of a firm's internal resources as the primary source of its competitive advantage. Unlike traditional theories that focus on the external environment, RBV posits that the unique resources and capabilities of a firm possesses such as patents, proprietary technologies, skilled human resources and strong brand reputation are critical for achieving and sustaining competitive edge (Wernerfelt, 1984) According to RBV, a firm's resources must be valuable, rare, inimitable and non-substitutable (VRIN) to provide a sustained competitive advantage. This theory suggests that these strategic assets should be nurtured and protected as they are the main drivers of a firm performance and market success The emphasis on internal strength allows firms to develop strategies that capitalise on their unique resources, rather than solely responding to external market conditions (Barney. 1991).

Research Framework

The primary variable of interest of the study is the dependent variable of the performance of MSMEs in Nigeria. The independent variable that may affect the dependent variable are adaptability and leadership. The dependent variable is measured by profitability, customer satisfaction and employee satisfaction The relationship between the dependent and independent variables are shown in figure 1.

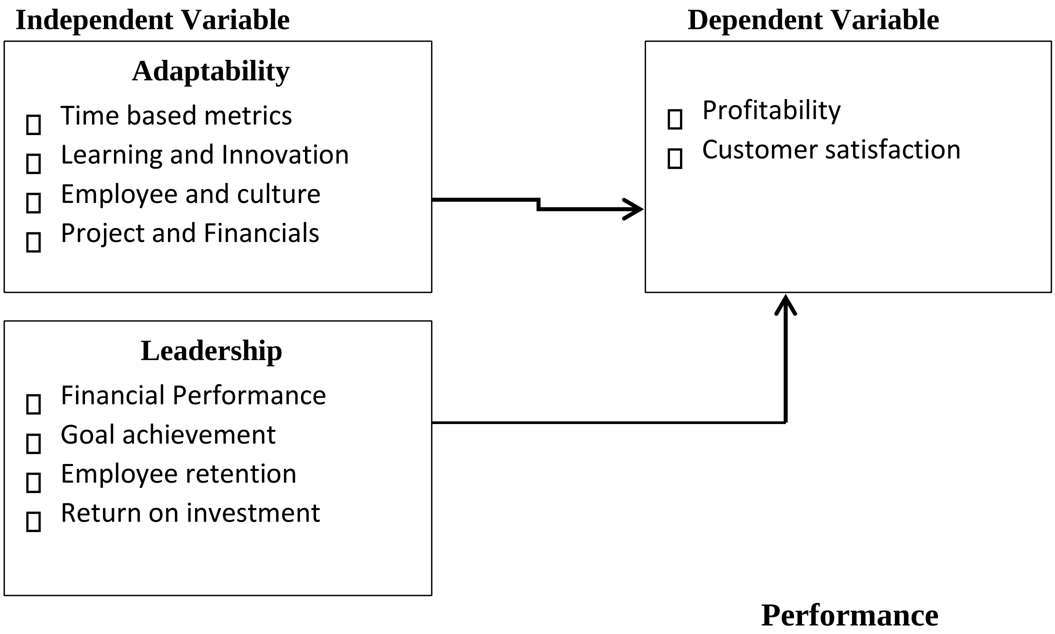

Figure 1: Conceptual Framework
Source: Author's Conception, 2025

Methodology

For the purpose of data collection, a survey questionnaire was conducted among owners of MSMEs registered with Corporate Affairs Commission directory of 2015. The research questionnaire was divided into three sections which evaluated the respondent's background, background of the employees and the performance factors of the customers. The main research instrument used in this study was the open-ended format of questionnaire. To test the content validity, the questionnaires were initially distributed to expert panels of three MSME owners, a statistician and an academician. This was followed by a pilot survey to obtain initial feedback on the content of the questionnaires. During the pilot survey, 15 respondents from registered MSMEs with corporate affairs commission were collected and the questionnaire was then amended according to the comments of customers before the actual feedback began. In the main survey, a total number of 433 questionnaires were distributed to MSMEs across Abuja, Lagos, Port Harcourt, Enugu Kaduna and Bauchi towns to ensure regional representation of the six geopolitical regions of Nigeria. After a two month period, 395 (91.2%) response rates of questionnaire were returned and deemed useable. The data was analyzed using regression and Anova analysis used to establish the findings. However in the content of the study, business performance is defined in terms of customer satisfaction and profitability of the MSMEs. In business world, these two indicators are highly used by researchers to measure business performance due to their variety in definition in terms of the size of the firms and to the accessibility by researchers.

Data Analysis Descriptive Statistics

The descriptive statistics in table 1 provides an overview of the distribution of responses for each variable. Business performance has a mean of 3.6435 with a standard deviation of 0.91281 indicating that respondents generally rated business performance moderately with some variability. Adaptability has a mean of 3.6035 and a standard deviation of 0.94327, suggesting a slightly higher but similar trend in adaptability ratings. Leadership has a mean of 3.6035 and a standard deviation of 1.001l6, indicating moderate ratings of leadership effectiveness with a reasonable spread of responses. The two variables have a range from 1 to 5 with no missing data in the 395 responses.

Data Analysis Table 1: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Dev.
Business Performance	395	1.000	5.000	3.6435	.91281
Adaptability	395	1.000	5.000	3.7995	.90599
Leadership	395	1.000	5.000	3.6035	1.00116

Source: SPSS Version 26

Test of Hypotheses

This section provides avenue for hypothesis testing. The regression is used to determine the cause and effect of dependent variable on the independent variables.

The model summary table 2 shows that the regression model explains 27.5% of the variance in MSME performance ($R^2 = 0.275$), with a moderate correlation between the predictors (Adaptability and Leadership), and business performance ($R = 0.524$) suggesting that these factors collectively have a moderate impact, while other unexplained factors may also influence performance; the adjusted R^2 of 0.265 reflects slight adjustment for model complexity and this standard error of the estimate (0.78231) indicated a reasonable level of prediction accuracy with same variability.

Table 2: Model Summary

Model	R	R2	Adjusted R^2	Std. Error of Est.
1	.524	.275	.265	0.78231

a. Predictors: Adaptability and Leadership

The Anova table 3 indicates that the regression model is statistically significant, with an F statistics of 29,483 and a P-value of 0.000, meaning the independent variables (Adaptability and Leadership) collectively explain a significant portion of the variation in the dependent variable, business performance in MSMEs in Nigeria. This suggests that at least one of the predictors has a significant effect on MSMEs performance, and the model provides a good fit to the data, highlighting the importance of these factors in influencing business outcomes. Based on the regression analysis results we can test each hypothesis using the provided significance values.

Table 3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	90.218	2	18.044	29.483	.000
Residual	238.073	393	.612		
Total	328.291	395			

a. Dependent variable: Business performance

b. Predictors: (constant) Adaptability and Leadership

Table 4: Regression Coefficients

Model	Unstandardized Coefficient (β)	Standard Error	Standardized Coefficient	F	Sig.
Constant	1.303	0.252		5.160	.000
Adaptability	0.14	0.42	0.15	0.341	.0733
Leadership	0.337	0.46	0.370	7.288	.000

a. Dependent Variable: Business performance

Test of Hypothesis

Ho1: There is no significant effect of adaptability on the business performance of MSMEs in Nigeria.

This posits that there is no significant effect of adaptability on the performance of MSMEs in Nigeria. The significance value for adaptability is 0.733, Which is greater than the standard threshold of 0.05. Therefore, the null hypotheses is not rejected meaning that adaptability does not have a statistically significant effect on the performance of MSMEs in Nigeria. Ho2: There is no significant effect of Leadership on the business performance of MSMEs in Nigeria.

The hypothesis investigates whether leadership affects MSMEs Performance in Nigeria. The significance value for leadership is 0.000 which is well below 0.05. Consequently, the null hypothesis is rejected, meaning that leadership has a significant effect on MSMEs business performance in Nigeria. This highlights the critical role of strong leadership in driving the success and performance of MSMEs, particularly in evaluating set goal achievement.

Discussion of Results and Findings

The analysis indicates that adaptability does not have a statistically significant effect on the business performance of MSMEs in Nigeria. The significance value for adaptability which is greater than the conventional threshold of 0.05. This means that, based on the data, the level of adaptability within MSMEs does not appear to directly influence business performance in Nigeria. Consequently, we fail to reject the Null hypotheses, suggesting that adaptability may not be a primary drives of business success for MSMEs in Nigeria.

On the other hand, leadership was found to have a highly significant effect on MSMEs business performance. The significance value for leadership is 0.000, well below the 0.05 significant level, leading to the rejection of the null hypothesis, This indicates that strong leadership, characterized by clear vision, effective decision-making, and motivational abilities, play a role in the business performance of MSMEs in Nigeria. Leaders who are able to guide their businesses through challenges and opportunities are more likely to experience improved business performance, underlining the importance of effective leadership in driving organizational success.

Conclusion

The study concludes that adaptability did not have a statistically significant effect on the business performance of MSMEs in Nigeria. This indicates that, despite its potential to enhance business growth, adaptability does not directly contribute to improved business performance in this context. Although adaptability is generally considered important for business success, it may not be a primary driver for MSMEs in Nigeria, particularly given the constraints they face.

The study also concluded that leadership emerged as a highly significant factor in driving MSMEs business performance. This emphasizes that strong leadership is essential for the growth and success of MSME businesses in Nigeria. Effective leadership, characterized by vision, decision-making ability, and the ability to motivate and inspire teams, can significantly improve business performance in MSMEs in Nigeria.

Recommendations

Based on the findings, the following recommendations are made:

1. Policy makers of MSMEs should focus on providing practical support in areas that directly affect business operations. Especially in marketing, customer service, and product development. These areas can directly enhance the business performance of MSMEs in Nigeria.
2. The significant role of leadership in MSMEs' business performance underscores the need for leadership development programs. MSME owners should be encouraged to take leadership courses that focus on decision-making, team management, and strategic planning. Support institutions should also foster a leadership culture where MSME owners are empowered to lead with confidence and vision in their businesses.

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