

Chapter 5

Dynamic Capabilities to Drive Innovation and Competitiveness in a Changing Business World

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ABSTRACT

The chapter explores how small and medium-sized enterprises (SMEs) can enhance competitiveness and innovation in a constantly evolving business environment. SMEs face significant challenges to remain relevant amid rapid technological evolution, shifts in consumer preferences, and increasing global competition. To adapt, innovate, and thrive, SMEs must develop dynamic capabilities, comprising a set of skills, processes, and knowledge that enable them to integrate, build, and reconfigure their internal resources in response to environmental changes. To improve competitiveness and innovation, SMEs should foster a culture of innovation that values experimentation and creative thinking, promote collaboration through strategic alliances and agile methodologies, and manage organizational well-being by addressing mental health and stress management. These strategies collectively enhance resilience and adaptability, essential for navigating BANI environments.

INTRODUCTION

In today's business landscape, characterized by rapid technological evolution, shifting consumer preferences, and increasing global competition, small and medium-sized enterprises (SMEs) face significant challenges in remaining competitive in a business environment characterized by volatility, uncertainty,

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complexity, and ambiguity. To survive and thrive in this context, it is essential for SMEs to develop capabilities that enable them to quickly adapt to changing market conditions.

In this context, businesses need to develop tools that allow them to adapt swiftly to changes and effectively manage uncertainty. This is where dynamic capabilities come into play, enabling organizations to identify opportunities and reconfigure their strategic resources in response to the changing demands of the BANI environment. The following section explores the key characteristics of dynamic capabilities and their relevance to SMEs

The rise of dynamic capabilities is closely linked to the profound transformations the business world has experienced since the 1990s, with the advent of the Internet and globalization. The digital era has marked a paradigm shift in how companies operate, interact with customers, and compete in the marketplace (Teece, 2018). This shift has generated a business environment characterized by uncertainty, volatility, and complexity, where organizations must be agile and adaptable to survive and succeed.

In response to these profound transformations, businesses have increasingly relied on dynamic capabilities to navigate this new landscape. Dynamic capabilities refer to the ability of organizations to integrate, build, and reconfigure internal and external resources in response to changes in their environment (Teece et al., 2016). These capabilities are critical for innovation, adaptation, and maintaining a competitive edge in a constantly evolving business landscape.

The development of dynamic capabilities is not just an abstract concept but can be translated into practical strategies that drive competitiveness and innovation, particularly for SMEs. These strategies enable SMEs to leverage their resources and adapt to shifting market demands. The following section outlines key strategies that support the development of dynamic capabilities and promote competitiveness in SMEs.

Dynamic capabilities foster innovation within organizations by enabling the identification and understanding of emerging market opportunities, including new customer needs, technological advances, and industry trends (Eisenhardt & Martin, 2000). This capacity energizes organizations, allowing them to rapidly adjust their internal resources, promote learning from past experiences, and pave the way for new ideas and solutions (Teece, 2018). Consequently, an organizational culture that is sensitive to environmental changes, continuous learning, and adaptation is promoted, encouraging experimentation, creative thinking, and risk-taking necessary for successful innovation (Eisenhardt & Martin, 2000).

In this regard, dynamic capabilities serve as a significant driver of innovation and competitiveness in a changing business environment. These elements must be developed to facilitate adaptation and organizational learning, thus forming a fundamental basis for sustained competitiveness.

BACKGROUND

Small and Medium-Sized Enterprises-SMEs

Small and medium-sized enterprises (SMEs) are a vital component of the global economy. Representing most businesses, they are crucial to driving economic growth, job creation, and innovation. SMEs constitute approximately 90% of businesses worldwide and employ more than 50% of the global workforce (World Bank, 2020). In developed economies, they account for 60-70% of total employment and contribute around 55% of GDP. The importance of this sector underscores the need for public policies that promote their growth and sustainability, including access to finance and digitalization (IFAC,

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