

Dynamic Capabilities and Organisational Performance of Selected Micro, Small and Medium Enterprises (MSMEs) in Lagos State, Nigeria

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in driving economic growth, creating employment opportunities, and fostering innovation, particularly in developing economies such as Nigeria. In Lagos State, these enterprises form the backbone of local markets and support numerous livelihoods. Despite various initiatives aimed at enhancing the performance of MSMEs through training, financial access, and technology adoption, many businesses continue to struggle with declining profits, reduced productivity, and lower customer satisfaction. These challenges often arise from weak dynamic capabilities, which hinder their ability to adapt, innovate, and respond effectively to changing market conditions. This study investigated the effect of dynamic capabilities on organizational performance in Lagos State's Micro, Small and Medium Enterprises (MSMEs). The research utilized a survey design, targeting a population of 80,072 registered owner-managers of micro, small, and medium enterprises (MSMEs) in Lagos State, Nigeria. A sample size of 498 was calculated using the research advisor's sample size table. Data were gathered through a validated, structured questionnaire, with Cronbach's alpha reliability coefficients for the constructs ranging from 0.72 to 0.91. A response rate of 93.6% was achieved. The collected data were analyzed using descriptive and inferential statistics (multiple linear regression) with Statistical Package for Social Sciences (SPSS) version 27. The study found that dynamic capabilities have significant effect on organisational performance ($AdjR^2 = 0.540$; $F(4,462) = 136.945$, $p < 0.05$) of selected micro, small and medium enterprises (MSMEs) in Lagos State, Nigeria. The study concluded that dynamic capabilities significantly influenced organisational performance of selected micro, small, and medium enterprises (MSMEs) in Lagos State, Nigeria, providing compelling evidence of their critical role in driving performance. Therefore, the study recommended that owner-managers should prioritize the development of sensing, seizing, and reconfiguring capabilities, and strengthen their ability to manage market threats to identify and respond to emerging trends and customer needs promptly to enhance organisational performance.

Background to the Study

Micro, Small and Medium Enterprises (MSMEs) play a vital role in economic growth, job creation, and innovation, particularly in developing economies like Nigeria, where they serve as a backbone for local markets and livelihoods. Efforts to enhance the organizational performance of MSMEs have included initiatives such as training programs, access to finance, and technology adoption aimed at boosting efficiency and competitiveness. However, these efforts have often fallen short of expectations, as evidenced by declining profitability, reduced productivity, and lower customer satisfaction in many MSMEs. These challenges could be linked to poor dynamic capabilities namely, the ability of firms to adapt, innovate, and respond effectively to changing environments. In the context of Lagos State, Nigeria, where MSMEs face unique market dynamics and resource constraints, this suggests a critical need to investigate how dynamic capabilities influence organizational performance, potentially revealing gaps in adaptability and strategic management that hinder sustained success.

Globally, Micro, Small and Medium Enterprises (MSMEs) face persistent performance challenges that hinder their growth and sustainability, despite their critical role in global economies. MSMEs account for over 90% of businesses and more than 50% of employment globally, yet they grapple with issues like limited access to finance, inadequate infrastructure, and poor adaptability to market changes (World Bank, 2020). For instance, the International Finance Corporation estimates that 40% of formal MSMEs in developing countries face an unmet financing need of \$5.2 trillion annually, stifling their operational capacity and innovation potential. Additionally, a study of manufacturing MSMEs in Turkey revealed that economic and geopolitical risks rank highest among concerns, with environmental risks often overlooked, reflecting a broader trend of vulnerability to external shocks (Genc & Karpak, 2020). These challenges often result in declining productivity and profitability, as seen in many emerging markets where MSMEs contribute only up to 40% of GDP compared to higher shares in developed economies. The inability to leverage dynamic capabilities such as technological innovation or strategic flexibility further exacerbates these performance gaps, underscoring a need for targeted support to bolster MSME resilience and competitiveness.

In Europe and the United Kingdom, MSMEs face significant performance challenges that impact their growth, productivity, and overall contribution to the economy. In Europe, MSMEs constitute 99.8% of non-financial businesses, employing around two-thirds of the workforce and generating over half of the total value added, yet they struggle with persistent issues (European Commission, 2024). Access to finance remains a critical barrier, with the European Investment Bank (EIB) noting that MSMEs often lack the collateral or credit history to secure loans, a problem exacerbated by economic shocks like the COVID-19 pandemic and rising energy costs following geopolitical tensions (EIB, 2022). In the UK, MSMEs account for 99.9% of private sector businesses approximately 5.51 million in 2023 and contribute £2.4 trillion in turnover, yet they face similar hurdles, including regulatory burdens and limited R&D investment (Leyton, 2024). Productivity

lags behind larger firms, with a study highlighting that UK MSMEs' survival rates drop to 38.4% after five years, reflecting vulnerabilities to market competition and insufficient digital adoption (OECD, 2020). Moreover, a survey of manufacturing MSMEs in Turkey, which shares economic parallels with parts of Europe, identified economic and geopolitical risks as top concerns, suggesting that external uncertainties compound internal weaknesses like poor infrastructure and skill gaps (Genc & Karpak, 2020). These challenges have not been adequately addressed by policy interventions, as stagnation persists, evidenced by negative growth indicators in the EU SME Barometer and underscore the need for enhanced support in financing, digitalization, and resilience-building to bolster MSME performance across both regions (SMEunited, 2025).

Micro, Small and Medium Enterprises (MSMEs) in Asia are pivotal to the region's economic fabric, comprising over 96% of all businesses and providing two-thirds of private-sector jobs, yet they face widespread performance challenges that impede their growth and sustainability. Across Asia, MSMEs struggle with limited access to finance, inadequate infrastructure, low technological adoption, and vulnerability to economic shocks, which collectively hinder their productivity and profitability. For instance, the Asian Development Bank highlights that MSMEs face a financing gap of approximately \$2.5 trillion annually in the region, with banks often favoring larger firms due to perceived risks and higher transaction costs. In Indonesia, a key example, MSMEs account for 99.9% of businesses and contribute 60.5% to GDP, employing over 119 million people, but they grapple with significant issues that exemplify broader Asian trends. Indonesia's MSMEs face constrained access to credit, with only 20% securing formal loans due to stringent collateral requirements and poor financial literacy, alongside challenges in digitalization and market access amid a sprawling archipelago. These struggles have led to stagnant growth rate, with many MSMEs unable to scale or compete globally, reflecting a need for enhanced policy support in financing, technology adoption, and resilience-building to unlock their potential across Asia.

In Africa, MSMEs are essential drivers of economic development, accounting for about 90% of businesses and over 50% of employment across the continent (African Development Bank, 2022), yet they face significant performance issues exacerbated by insensitive market demand where customer preferences and purchasing power fail to align with MSME offerings. This misalignment often stems from limited market research, volatile economic conditions, and external shocks, undermining MSME profitability and growth. In Kenya, a prominent example, MSMEs constitute 98% of all businesses and contribute 33% to GDP, employing over 14.9 million people (Kenya National Bureau of Statistics, 2023), but they struggle with market demand challenges that reflect broader African trends. Kenyan MSMEs, particularly in agriculture and retail, face inconsistent demand due to fluctuating consumer incomes, poor infrastructure limiting market access, and competition from cheaper imports, which depress local sales (Omidyar Network, 2019). These issues are compounded by a lack of adaptive strategies, with many MSMEs unable to pivot offerings to meet shifting or unresponsive market needs, resulting in high failure rates up to 75% within three years (Prihatini et al., 2025). Across

Africa, the World Bank notes that MSMEs face a \$330 billion annual financing gap (World Bank, 2020), restricting their ability to invest in market-responsive innovations, further linking their struggles to insensitive demand. This underscores the urgent need for policies enhancing market intelligence, financial access, and resilience to bolster MSME performance continent-wide (International Finance Corporation, 2020).

Micro, Small and Medium Enterprises (MSMEs) in Nigeria are fundamental to the nation's economy, constituting over 96% of businesses and contributing approximately 48% to GDP while employing about 84% of the workforce (PwC, 2022). However, their performance is severely constrained by poor sensing and seizing of market demand and capabilities, limiting their ability to identify consumer needs and capitalize on market opportunities. This weakness is driven by inadequate market intelligence and resource limitations, with studies showing that many Nigerian MSMEs fail to adapt products to shifting demands, contributing to high closure rates (Osunde & Akpoyibo, 2022). For example, only 20% of SMEs effectively use digital tools to enhance market responsiveness, despite digitalization's potential to boost competitiveness (World Bank, 2023). Infrastructure challenges, such as unreliable electricity, further impair their agility, costing MSMEs significant revenue and hindering demand alignment (Adenikinju & Ogunleye, 2023). Access to finance remains a critical barrier, with a credit gap estimated at \$29.3 billion, restricting investments in market-sensing capabilities (IFC, 2024). Moreover, a 2025 report highlights that poor strategic adaptability leads to a 70% failure rate within five years, emphasizing the need for improved dynamic capabilities (African Development Bank, 2025). Addressing these issues demands policies enhancing market research, digital adoption, and financial support to strengthen MSMEs' economic role in Nigeria.

Literature Review

The literature review examined dynamic capabilities conceptually, empirically, and theoretically. This comprehensive approach provided a well-rounded understanding of how firms develop, deploy, and reconfigure capabilities in response to environmental changes.

Dynamic Capabilities

Dynamic capabilities have been defined in various ways within the literature, reflecting their multifaceted nature. Nwosu et al. (2021) describe dynamic capabilities as a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments, emphasizing their role in sustaining performance in Micro, Small and Medium Enterprises (MSMEs). Salisu and Bakar (2020) define dynamic capabilities as the processes that enable firms to innovate and adapt their relational capabilities, enhancing overall performance by leveraging innovation strategies in developing economies. Similarly, Oladapo et al. (2023) view dynamic capabilities as the capacity to adopt sustainable technologies, positioning them as a source of competitive advantage through adaptability and resource reconfiguration in specific contexts like pineapple production in Nigeria. These definitions collectively highlight the adaptive,

integrative, and innovative dimensions of dynamic capabilities in dynamic business settings.

For Micro, Small and Medium Enterprises (MSMEs), dynamic capabilities offer significant advantages, particularly in competitive and resource-constrained environments. Enimola, Nafiu, and Peter (2020) argue that dynamic capabilities enhance market share for SMEs by enabling them to respond effectively to market changes through resource flexibility and strategic adjustments, as observed in North-Central Nigeria. Onamusi et al., (2020) emphasize that innovation capability, a component of dynamic capabilities, boosts market share when moderated by strong marketing capabilities, allowing MSMEs to differentiate themselves in crowded markets. Shuaib, He, and Song (2021) note that dynamic capabilities mediate the relationship between organizational culture, quality management, and innovation, providing MSMEs with a pathway to improve product offerings and operational efficiency in manufacturing contexts. Likewise, Ogbodo et al. (2022) demonstrate that dynamic marketing capabilities sustain customer patronage by enabling SMEs, such as those in Nigeria's brewery sector, to adapt marketing strategies to shifting consumer preferences, thereby fostering long-term loyalty and profitability. These advantages underscore how dynamic capabilities empower MSMEs to thrive amid uncertainty and competition.

Sensing Capability

Sensing capabilities, as a critical component of dynamic capabilities, are defined in various ways across the literature, reflecting their role in perceiving and interpreting environmental changes. Salisu and Abu Bakar (2020) define sensing capabilities as a firm's ability to identify and assess opportunities and threats in the external environment through technological and relational learning, enabling proactive adaptation to market shifts. Gyemang and Emeagwali (2020) describe sensing capabilities as the capacity to leverage information technology to detect changes in customer preferences and industry trends, moderated by organizational culture, as observed in oil and gas marketing firms in Nigeria. Zayed et al. (2022) conceptualize sensing capabilities as the skill to anticipate and adjust human resource competencies in response to evolving service sector demands, particularly in post-COVID-19 work environments. These definitions collectively emphasize sensing as a perceptive, technology-enabled, and anticipatory process essential for strategic responsiveness.

The advantages of sensing capabilities for Micro, Small and Medium Enterprises (MSMEs) are substantial, enhancing their competitiveness and resilience. Ebegetale and Okon (2022) argue that sensing capabilities allow SMEs to detect industry-level changes early, enabling them to build competitive advantages by aligning resources with emerging opportunities in Nigeria. Morgan et al. (2021) highlight that sensing capabilities in family businesses facilitate survival and growth by identifying market signals that inform strategic pivots, acting as a catalyst in dynamic settings. Umoh et al. (2022) note that sensing capabilities contribute to organizational effectiveness in brewing firms by enabling them to spot shifts in consumer behavior and adjust operations accordingly,

ensuring sustained performance. Similarly, Owoseni and Twinomurinzi (2018) demonstrate that sensing capabilities, supported by mobile app usage, help SMEs in Lagos, Nigeria, to quickly recognize technological trends, improving decision-making and market responsiveness. Together, these advantages illustrate how sensing capabilities empower MSMEs to navigate uncertainty and capitalize on opportunities effectively.

Seizing Capability

Seizing capabilities, a key dimension of dynamic capabilities, are defined diversely in literature, reflecting their role in capitalizing on identified opportunities. Olutola et al. (2023) define seizing capabilities as the ability to mobilize resources and implement strategies that translate sensed opportunities into sustainable competitive advantages, particularly through social customer relationship management. Ashiru et al. (2022) conceptualize seizing capabilities as the capacity to leverage relational governance mechanisms, such as trust and collaboration, to enact swift strategic responses during crises like COVID-19 among Nigerian MSMEs. Ochie et al. (2022) describe seizing capabilities as the processes enabling firms, specifically emerging market multinationals in Nigeria, to exploit opportunities through ambidextrous strategies that balance exploration and exploitation in dynamic environments. These definitions collectively highlight seizing as a proactive, resource-orchestrating, and strategic execution process.

For Micro, Small and Medium Enterprises (MSMEs), seizing capabilities offer significant advantages, enhancing their adaptability and performance. Okeke et al. (2021) argue that seizing capabilities enable SMEs in South-East Nigeria to convert opportunities into sustainable outcomes by aligning resources with market demands, fostering long-term viability. Akpan et al. (2022) note that seizing capabilities bolster organizational resilience in Nigerian manufacturing MSMEs by facilitating rapid decision-making and resource deployment in turbulent conditions, ensuring operational continuity. Egwuonwu et al. (2024) demonstrate that seizing capabilities drive the adoption of big data analytics in Nigeria's manufacturing and service SMEs, improving management decision-making and enhancing both financial and nonfinancial performance. Finally, Aka-Wolugbom and Eketu (2021) suggest that seizing capabilities strengthen supply chain performance in Nigeria's oil and gas MSMEs by enabling effective change management, ensuring competitive positioning through timely action. These advantages underscore how seizing capabilities empower SMEs to act decisively and thrive in competitive landscapes.

Reconfiguring Capability

Reconfiguring capability, a core element of dynamic capabilities, is defined in various ways, reflecting its role in transforming organizational resources and processes. Onwu et al. (2023) define reconfiguring capability as the ability of young innovative African companies to realign entrepreneurial orientation and innovation resources to adapt to technological and market changes, fostering sustained competitiveness. Otache and Usang (2022) describe it as the capacity of SMEs to restructure internal processes and

resources during economic crises, leveraging government support to enhance performance and resilience. Zhou et al. (2021) conceptualize reconfiguring capability as the dynamic process through which food and beverage enterprises in Lagos, Nigeria, adjust operational and strategic assets to meet shifting market demands, thereby improving overall performance. These definitions collectively emphasize reconfiguring capability as a transformative, adaptive, and resource-alignment process critical for navigating dynamic environments.

For Micro, Small and Medium Enterprises (MSMEs), reconfiguring capability offers significant advantages, enabling them to thrive in competitive and uncertain contexts. Yunita et al. (2023) argue that reconfiguring capability enhances organizational ambidexterity in SMEs by allowing them to balance exploration and exploitation through technological capacity adjustments, improving responsiveness to environmental dynamism. Alsaad et al. (2022) highlight that reconfiguring capability facilitates the integration of business intelligence in MSMEs, boosting the performance of new service products by aligning resources with market needs. Alsawafi et al. (2021) note that reconfiguring capability strengthens internal quality management relations in MSMEs, contributing to triple bottom line outcomes economic, social, and environmental through efficient resource reconfiguration. Lastly, Čirjevskis (2022) suggests that reconfiguring capability supports digital servitization in grocery retail MSMEs by enabling the adaptation of digital dynamic capabilities, enhancing customer value and operational efficiency. These advantages illustrate how reconfiguring capability equips MSMEs to adapt strategically and maintain a competitive edge.

Managing Market Threat

Managing market threats, as conceptualized in various studies, encompasses strategic responses to external pressures that jeopardize organizational performance. Singh et al. (2022) define it implicitly through the lens of relational and dynamic capabilities, suggesting that firms manage threats by leveraging relationships to adapt to competitive intensity and environmental uncertainty. Similarly, Pukas (2023) frames managing market threats within the context of CRM dynamic capabilities, emphasizing the ability to dynamically adjust customer relationship strategies to mitigate risks posed by environmental dynamism. In contrast, Meier et al. (2023) approach it from a circular supply chain perspective, defining it as the integration of blockchain-enabled dynamic capabilities to proactively address disruptions and threats in logistics and resource flows. These definitions collectively highlight adaptability, resource reconfiguration, and proactive engagement with external challenges as core to managing market threats.

Effectively managing market threats yields significant advantages for Micro, Small and Medium Enterprises (MSMEs), particularly in enhancing resilience and competitiveness. Chu and Chan (2021) suggest that SMEs in Taiwan's fastener industry gain sustainable competitive advantages by developing dynamic service innovation capabilities, enabling them to counter market volatility and maintain market share. Likewise, Ilmudeen (2024) demonstrates that MSMEs in Sri Lanka benefit from IT-enabled dynamic capabilities,

which improve firm performance by mitigating threats through enhanced governance and adaptability. Additionally, Arun and Yildirim (2022) argue that SMEs employing dynamic capabilities in strategic management can capitalize on environmental munificence, turning potential threats into opportunities for growth and improved organizational performance. These benefits collectively enable MSMEs to navigate uncertainties, optimize resources, and achieve long-term viability in competitive markets.

Organisational Performance

Organizational performance is a multifaceted concept that has been defined in various ways across academic literature, reflecting its importance to Micro, Small and Medium Enterprises (MSMEs). According to Susanto (2023), organizational performance is the ability of an organization to achieve its goals and objectives through efficient resource utilization and effective management practices. This perspective emphasizes measurable outcomes such as profitability, productivity, and market share, which are critical for SMEs aiming to establish a competitive foothold. Harguem (2021) framed organisational performance as the outcome of dynamic capabilities, including adaptability and innovation, which enable firms to respond to environmental changes. This is particularly relevant for SMEs, as their smaller size often allows greater flexibility compared to larger corporations. A third definition focuses on the interplay of internal factors like leadership, culture, and employee behavior, suggesting that performance reflects how well these elements align to drive organizational success (Korma et al., 2022). For MSMEs, this highlights the role of human capital in achieving sustainable growth.

The benefits of robust organisational performance for MSMEs are extensive and widely recognized. To begin with, superior performance contributes to better financial results, including higher income and improved cost management, which are essential for MSMEs operating with constrained resources (Her et al., 2020). This financial stability enables reinvestment in innovation and expansion, as noted by Jordão et al. (2020), who link knowledge-based networks to improved performance in MSMEs. Secondly, high organizational performance fosters resilience, allowing SMEs to navigate economic uncertainties and competitive pressures more effectively (Bhatti et al., 2020). Studies like Olan et al. (2022) further suggest that leveraging tools such as artificial intelligence and knowledge sharing can amplify these benefits, enhancing decision-making and operational efficiency. Lastly, robust performance strengthens organizational reputation and stakeholder trust, which are crucial for MSMEs seeking to build long-term relationships with customers and partners (Katou et al., 2022). Collectively, these advantages underscore why understanding and optimizing organizational performance is a strategic priority for MSMEs.

Empirical Review

Empirical research provides substantial evidence that dynamic capabilities significantly enhance organizational performance across various contexts, particularly for Micro, Small and Medium Enterprises (MSMEs) in Nigeria and beyond. Ebegetale and Okon

(2022) established that industry-level dynamic capabilities, such as sensing market trends and adapting strategies, have a substantial impact on the competitive advantage of Nigerian MSMEs, enabling them to achieve superior performance outcomes. Similarly, Morgan et al. (2021) demonstrated that dynamic capabilities significantly enhance the survival and growth of family-run MSMEs in Nigeria by equipping them to respond effectively to economic volatility, thereby boosting overall performance. Umoh et al. (2022) further confirmed that dynamic capabilities markedly improve organizational effectiveness in brewing firms in South-East Nigeria, as they facilitate resource reconfiguration and innovation, leading to enhanced operational and financial performance. These studies collectively highlight that dynamic capabilities are a critical driver of organizational performance, empowering MSMEs to thrive in challenging environments.

Additional evidence reinforces the profound effect of dynamic capabilities on MSME performance, emphasizing their role in fostering adaptability, innovation, and market success. Owoseni and Twinomurinzi (2018), found that the adoption of mobile apps as a dynamic capability significantly elevates the performance of MSMEs in Lagos, Nigeria, by streamlining operations and enhancing customer engagement. Ashiru et al. (2022) showed that relational governance mechanisms, embedded within dynamic capabilities, had a significant positive effect on the performance of Nigerian SMEs during the COVID-19 crisis by enabling rapid resource coordination and resilience. Zhou et al. (2021) reported that dynamic capabilities significantly enhance the performance of food and beverage MSMEs in Lagos by supporting agile responses to market shifts, while Egwuonwu et al. (2024) highlighted that dynamic capabilities driving big data analytics adoption significantly improve both financial and nonfinancial performance in Nigerian manufacturing and service MSMEs. Collectively, these findings affirm that dynamic capabilities exert a substantial and positive influence on organizational performance, equipping MSMEs with the strategic agility needed to excel in competitive and turbulent markets.

Theoretical Framework

Dynamic Capabilities Theory serves as the underpinning theory for the study. This theory, originally developed by Teece, Pisano, and Shuen (1997), posits that firms must possess the ability to sense, seize, and reconfigure resources and competences to adapt to rapidly changing environments and sustain competitive advantage. (Karman & Savanevičienė, 2021). In the context of Lagos State MSMEs, this framework is highly relevant given the region's unpredictable economic conditions, including market volatility, regulatory changes, and competitive pressures. Dynamic capabilities enable these MSMEs to detect emerging opportunities (sensing), harness resources to exploit them (seizing), and adapt operations or strategies (reconfiguring) to improve performance outcomes such as profitability, market share, and growth (Valantiejiene et al., 2022). By grounding the study in this theory, researchers can investigate how these adaptive processes enhance performance in a bustling economic center like Lagos, where flexibility and innovation are essential for survival. Applying Dynamic Capabilities

Theory to MSMEs in Lagos State also offers a lens to explore how contextual challenges such as resource constraints, infrastructural limitations, and technological access interact with a firm's capacity to achieve superior performance. The theory underscores that organizational success hinges not just on static assets but on the ongoing renewal and alignment of capabilities in response to external shifts (Van-de-Wetering, 2022). For Lagos MSMEs, this might involve using local market knowledge to sense consumer trends, forming strategic alliances to seize opportunities, and reconfiguring business models or digital tools to stay competitive (Wang et al., 2024). By employing this theoretical foundation, the study can evaluate how these capabilities foster resilience and sustained success, providing actionable insights for MSME leaders and policymakers in Nigeria's commercial hub. This approach effectively links environmental dynamism with firm-level performance, illuminating the strategic mechanisms driving MSME achievements in Lagos State.

Methodology

The study adopted survey research design. The population of this study comprised 80,072 registered owner-managers of selected micro, small and medium enterprises MSMEs in Lagos State, Nigeria. A sample size of 498 was determined using the research advisor's sample size table. A structured and validated questionnaire was used for data collection. The Cronbach's alpha reliability coefficients of constructs ranged from 0.72 to 0.91. A response rate of 93.6% was recorded. Data were analyzed using descriptive and inferential (multiple linear regression) statistics with the aid of Statistical Package for Social Science (SPSS) version 27.

Functional Model

There are two main variables in this study, which are the independent variable and the dependent variable. The independent variable is dynamic capabilities, measured using sensing capability, seizing capability, reconfiguring, and managing threat. The dependent variable is organisational performance, evaluated as a single concept. The model for the variables is denoted in the equations below:

Operationalization of Variables

The variables of this study are operationalized as shown below:

X = Dynamic Capabilities (DC)

Y = Organisational Performance (OP)

$Y = f(X)$

Variables Identification

$X = (x_1, x_2, x_3, x_4)$

x_1 = Sensing Capability (SENCAP)

x_2 = Seizing Capability (SEIZCAP)

x_3 = Reconfiguring Capability (RECOFCAP)

x_4 = Managing Market Threat (MAMT)

Y = Organisational Performance (OP)

Hypothesis

$$Y = f(x_1, x_2, x_3, x_4)$$

$$OP = \alpha_0 + \beta_1 SENCAP + \beta_2 SEIZCAP + \beta_3 RECOFCAP + \beta_4 MAMT + \epsilon_i \dots\dots\dots \text{Eq (1)}$$

Where:

Beta (β) = the degree of change in the outcome variable for every 1-unit of change in the predictor variable. ϵ_i = error term.

Data Analysis, Results and Discussion

The researcher distributed 498 copies of questionnaire to participants, with 466 completed and returned correctly, yielding an approximate response rate of 93.6%. This rate is deemed excellent based on Johnson and Wislar (2012) and Mugenda and Mugenda (2012). Prior to conducting the multiple regression analysis, diagnostic tests including normality, linearity, and homoscedasticity were performed to confirm the data's suitability.

Restatement of Research Hypothesis

H₀: Dynamic capabilities have no significant effect on organisational performance of selected micro, small and medium enterprises (MSMEs) in Lagos State, Nigeria

Table 1: Multiple Regression Analysis on the Effect of Dynamic Capabilities on Organisational Performance of Selected Micro, Small and Medium Enterprises (MSMEs) in Lagos State, Nigeria

	Model	B	Std. Error	Beta	t	Sig.	ANOVA (Sig.)	R	Adjusted R ²	F (4,462)
466	(Constant)	5.255	0.853		6.158	0.000	0.000 ^b	0.737 ^a	0.540	136.945
	Sensing Capability	0.130	0.041	0.134	3.201	0.001				
	Seizing Capability	0.273	0.042	0.277	6.528	0.000				
	Reconfiguring Capability	0.230	0.031	0.300	7.382	0.000				
	Managing Market Threat	0.174	0.034	0.204	5.195	0.000				

a. Dependent Variable: Organisational Performance

Source: Field Survey Results, 2025

Interpretation

Table 1. presents the results of a multiple regression analysis examining the effect of dynamic capabilities on organisational performance of selected micro, small and medium enterprises (MSMEs) in Lagos State, Nigeria. The model includes four independent variables: sensing capability, seizing capability, reconfiguring capability, and managing market threat. The analysis shows that all four predictors have a positive and statistically

significant effect on organisational performance. Specifically, the findings revealed that sensing capability ($\beta = 0.134, t = 3.201, p < 0.05$), seizing capability ($\beta = 0.277, t = 6.528, p < 0.05$), reconfiguring capability ($\beta = 0.300, t = 7.382, p < 0.05$), and managing market threat ($\beta = 0.204, t = 5.195, p < 0.05$) all significantly enhance organisational performance. These results indicate that MSMEs in Lagos State that effectively develop and deploy these dynamic capabilities achieve superior performance outcomes. The model demonstrates a strong explanatory power, with an R value of 0.737 indicating a substantial relationship between dynamic capabilities and organisational performance. The *Adjusted R²* of 0.540 reveals that these dynamic capabilities collectively explain approximately 54.0% of the variance in organisational performance among the surveyed MSMEs. The highly significant ANOVA result ($F = 136.945, p < 0.05$) confirms the robustness of the overall regression model. The predictive and prescriptive multiple regression models are thus expressed:

$$OP = 5.255 + 0.0.130SENCAP + 0.273SEIZCAP + 0.230RECOFCAP + 0.174MAMT + \epsilon_i \dots$$

Eq (i) (Predictive Model)

$$OP = 5.255 + 0.0.130SENCAP + 0.273SEIZCAP + 0.230RECOFCAP + 0.174MAMT + \epsilon_i \dots$$

Eq (i) (Prescriptive Model)

Where;

SENCAP = Sensing Capability

SEIZCAP = Seizing Capability

RECOFCAP = Reconfiguring Capability

MAMT = Managing Market Threat

OP = Organisational Performance

The multiple regression analysis presented in Table 4.1 investigates the effect of dynamic capabilities on the organisational performance of selected micro, small, and medium enterprises (MSMEs) in Lagos State, Nigeria. The regression model indicates that, when all dynamic capability dimensions are held constant at zero, the organisational performance of the selected MSMEs is 5.255. This suggests a baseline positive performance level even in the absence of dynamic capabilities. The analysis reveals that all four dimensions of dynamic capabilities, sensing capability, seizing capability, reconfiguring capability, and managing market threat all have significant positive effects on organisational performance. Each dimension contributes uniquely to enhancing performance. Specifically, the results show that sensing capability has a significant positive effect on organisational performance, with a coefficient of 0.130, indicating that improvements in the ability to identify opportunities and threats in the environment lead to enhanced performance. Similarly, seizing capability significantly influences organisational performance, with a coefficient of 0.273, suggesting that the ability to capitalize on identified opportunities strongly drives performance improvements. Reconfiguring capability also exhibits a substantial positive effect, with a coefficient of 0.230, highlighting the importance of adapting and realigning resources and processes to

sustain performance. Lastly, managing market threat has a significant positive effect, with a coefficient of 0.174, underscoring the role of proactive threat mitigation in bolstering organisational performance. Based on these findings, dynamic capabilities are critical drivers of organisational performance among MSMEs in Lagos State, Nigeria. MSME owners and managers should prioritize developing and integrating sensing, seizing, reconfiguring, and market threat management capabilities into their operations to enhance performance outcomes. Consequently, the null hypothesis (H_0), which states that dynamic capabilities have no significant effect on the organisational performance of selected MSMEs in Lagos State, Nigeria, is rejected. The resultant model for study is given as:

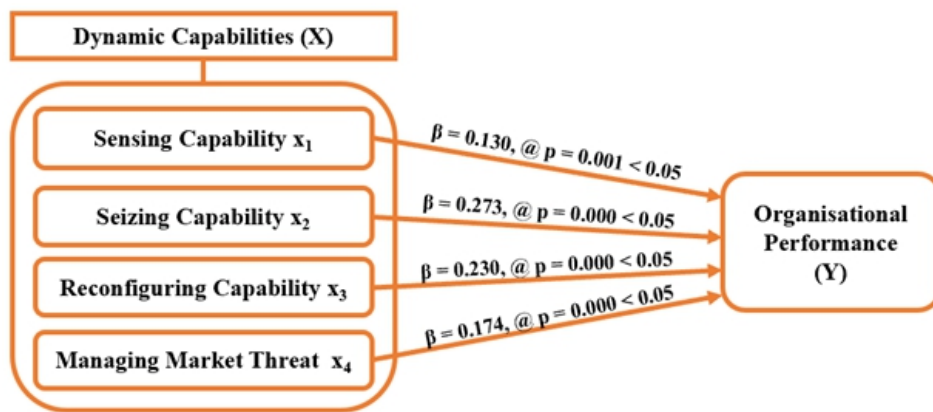


Fig. 1: Resultant Model for the Study
Source: Researchers' Conceptualisation (2025)

Discussion of Findings

The aggregated results of multiple regression analysis for the study showed that dynamic capabilities (sensing capability, seizing capability, reconfiguring capability, and managing market threat) have a positive and significant effect on the organisational performance of selected micro, small, and medium enterprises (MSMEs) in Lagos State, Nigeria ($Adj.R^2 = 0.540$; $F(4, 462) = 136.945, p < 0.05$). Thus, the combination of the independent sub-variables was significant in predicting the organisational performance of selected MSMEs in Lagos State, Nigeria.

The findings of the current study are strongly supported by empirical research demonstrating the significant influence of dynamic capabilities on organisational performance. Ebegetale and Okon (2022) established that industry-level dynamic capabilities, such as sensing market trends and adapting strategies, exert a significant positive effect on the competitive advantage and performance of Nigerian MSMEs. This aligns with the current study's finding that sensing capability significantly enhances organisational performance by enabling MSMEs to proactively identify market opportunities and threats. Similarly, Morgan et al. (2021) found that dynamic capabilities significantly influence the performance of family-run MSMEs in Nigeria by equipping

them to adapt to economic volatility, corroborating the current study's evidence that seizing and reconfiguring capabilities drive performance through effective opportunity exploitation and resource realignment. Additionally, Umoh et al. (2022) demonstrated that dynamic capabilities significantly enhance organisational performance in brewing firms in South-East Nigeria by fostering innovation and resource reconfiguration, which supports the current study's result that reconfiguring capability has a significant positive effect on performance. These studies collectively affirm that dynamic capabilities significantly influence organisational performance, enabling MSMEs to achieve sustained success in dynamic and competitive environments, consistent with the present findings.

Further empirical evidence reinforces the significant effect of dynamic capabilities on organisational performance, highlighting their critical role in fostering adaptability, resilience, and market success among MSMEs. Owoseni and Twinomurizi (2018) found that the adoption of mobile apps as a dynamic capability significantly improves the performance of MSMEs in Lagos, Nigeria, by enhancing operational efficiency and customer engagement, a finding that aligns with the current study's result that seizing capability significantly influences performance through opportunity capitalization. Likewise, Ashiru et al. (2022) showed that relational governance mechanisms embedded within dynamic capabilities significantly enhance the performance of Nigerian SMEs during the COVID-19 crisis by enabling rapid resource coordination, supporting the current study's evidence that managing market threat significantly affects performance by mitigating external challenges. Zhou et al. (2021) further reported that dynamic capabilities significantly influence the performance of food and beverage MSMEs in Lagos by enabling agile responses to market changes, which corroborates the current study's finding that reconfiguring capability plays a significant role in sustaining performance. Additionally, Egwuonwu et al. (2024) highlighted that dynamic capabilities driving big data analytics adoption significantly enhance both financial and non-financial performance in Nigerian MSMEs, aligning with the current study's results that sensing and seizing capabilities significantly contribute to performance by leveraging data-driven insights and market opportunities. Collectively, these studies confirm that dynamic capabilities have a significant positive influence on organisational performance, equipping MSMEs with the strategic agility and resilience needed to excel in turbulent and competitive markets, as evidenced by the findings of the present research.

The findings align with the underpinnings of the Dynamic Capabilities Theory as proposed by Teece, Pisano, and Shuen (1997). This theory emphasizes that firms must develop the ability to sense opportunities, seize them through resource mobilization, and reconfigure operations to maintain competitive advantage in volatile environments. In the context of Lagos State's unpredictable economic landscape, characterized by market volatility and competitive pressures, the study's results validate the theory's assertion that dynamic capabilities are critical for MSMEs to achieve superior performance outcomes, such as improved profitability and market share. Specifically, the significant positive effects of sensing capability reflect the theory's focus on detecting emerging

market trends; while seizing and reconfiguring capabilities align with the theory's emphasis on exploiting opportunities and adapting resources to meet market demands, as noted by Valantiejiene et al. (2022). Furthermore, the ability to manage market threats corresponds to the theory's call for ongoing renewal to address external challenges, reinforcing the relevance of dynamic capabilities in fostering resilience and sustained success for MSMEs in Lagos, as highlighted by Wang et al. (2024). Thus, the study's findings provide empirical support for the Dynamic Capabilities Theory, illustrating how these adaptive processes enable MSMEs to navigate contextual challenges and achieve enhanced performance in Nigeria's commercial hub.

Conclusion and Recommendation

The study concluded that dynamic capabilities significantly enhance the organisational performance of selected micro, small, and medium enterprises (MSMEs) in Lagos State, Nigeria, providing compelling evidence of their critical role in driving success. The findings demonstrated that sensing capability, seizing capability, reconfiguring capability, and managing market threat collectively exert a positive and significant influence on organisational performance, leading to the rejection of the null hypothesis. This confirms that dynamic capabilities are essential for MSMEs operating in Lagos State's volatile economic environment. Grounded in the Dynamic Capabilities Theory, the study highlights how MSMEs leverage these capabilities to detect opportunities, capitalize on them, adapt resources, and mitigate threats, thereby achieving improved profitability, market share, and operational efficiency. The results align with prior empirical research, reinforcing the importance of strategic agility and resilience for MSMEs in navigating competitive and unpredictable markets. Overall, this study underscores the pivotal role of dynamic capabilities in fostering sustained organisational performance, offering valuable insights into the mechanisms that enable MSMEs to thrive in Nigeria's commercial hub.

Given the study's findings, several practical recommendations are proposed for MSME owners, managers, and policymakers in Lagos State, Nigeria. First, MSME leaders should prioritize the development of sensing capabilities by investing in market research and environmental scanning tools to identify emerging trends and customer needs promptly. Also, to enhance seizing capabilities, MSMEs should focus on building strategic partnerships and accessing financial resources to capitalize on identified opportunities effectively. Similarly, fostering reconfiguring capabilities requires MSMEs to adopt flexible business models and embrace digital tools, such as mobile apps or data analytics, to adapt operations to changing market dynamics. Correspondingly, to strengthen their ability to manage market threats, MSMEs should implement risk management strategies and diversify their product or service offerings to mitigate external challenges. Additionally, policymakers should support MSMEs by providing training programs and subsidies to enhance their dynamic capabilities, particularly in areas like technology adoption and innovation. Creating an enabling environment through improved infrastructure and access to affordable financing will further empower MSMEs to leverage these capabilities for sustained performance. By embedding dynamic

capabilities into their operations, MSMEs can achieve greater resilience and competitiveness in Lagos State's bustling economy.

Suggestion for Further Study

The study offers valuable insights into the significant impact of dynamic capabilities on the organisational performance of MSMEs in Lagos State, Nigeria, yet it opens the door to several promising avenues for future research to deepen and broaden this understanding.

- i. Future studies could expand the scope to other regions in Nigeria or compare urban and rural MSMEs to examine how contextual factors, such as infrastructure availability or market access, influence the effectiveness of dynamic capabilities.
- ii. Longitudinal research could be conducted to assess the long-term impact of dynamic capabilities on organisational performance, providing deeper insights into their sustainability over time.
- iii. Also, exploring additional dimensions of dynamic capabilities, such as learning capability or innovation capability, could offer a more comprehensive understanding of their role in MSME success.
- iv. Furthermore, future research could investigate the moderating effects of variables like firm size, industry type, or technological access on the relationship between dynamic capabilities and performance, uncovering potential variations across MSME subsectors.
- v. Finally, qualitative studies employing interviews or case studies could complement the quantitative findings by exploring the practical challenges MSMEs face in developing and implementing dynamic capabilities, providing actionable insights for stakeholders. These research directions would further enrich the literature and support the growth of MSMEs in Nigeria and beyond.

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