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A Review of Dynamic Capabilities, Innovation Capabilities, Entrepreneurial Capabilities and Their Consequences

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Abstract

The paper proposes a conceptual model which provides direction for researchers to empirically establish the connections between dynamic capabilities, innovation capabilities, entrepreneurial capabilities and financial and strategic performance. The author uses systematic literature review process to select the articles used in this study. First, the present paper review and discuss some major contributions to the theories of dynamic capabilities, innovation capabilities, entrepreneurial capabilities and their consequences. The author seeks to highlight different understandings of the concepts to clarify the distinctions between them. Second, the conceptual model and propositions for future studies were developed. The proposed model highlights the different measures of dynamic capabilities, innovation capabilities, entrepreneurial capabilities and their consequences. The model with its associated propositions was developed base on limitations and gaps observed from past studies. It is focused on empirically testing the direct impact of dynamic capabilities, innovation capabilities, and entrepreneurial capabilities on the performance of SMEs in Vietnam. Nevertheless, the proposed model can be applied to similar situations in different contexts and countries. Further empirical testing of proposed model would contribute to enriching existing knowledge of dynamic capabilities, innovation capabilities and entrepreneurial capabilities within SMEs and how these capabilities foster superior performance.

Keywords: Dynamic Capabilities, Entrepreneurial Capabilities, Financial Performance, Innovation Capabilities, Strategic Performance

JEL Classification Code: M10, L25, L26

1. Introduction

There is a growing research interest on how firm capabilities promote competitiveness, business practice and performance. In the past scholars have focused on organisations' resources as a source of growth, competitive advantage and innovation (e.g., Penrose, 1959; Wernerfelt, 1984; Barney, 1991). Differences in firms' performance cannot be explained by the industry itself (Rumelt, 1991; McGahan & Porter, 1997) but by differences in strategic

capabilities (Eisenhardt & Martin, 2000; Winter, 2003), in terms of how firms deploy resources and competences (Johnson et al., 2014). The concept of capabilities and resources are not the same (Amit & Schoemaker, 1993). It is not enough for firms to control tangible or intangible resources to survive in the marketplace. To meet the demands from new markets, revolutionary changes in technology or new business models, firms need to renew themselves (Chakravarthy & Doz, 1992) and be innovative. The ability to configure and reconfigure resources is important. There are several types of capabilities in the literature.

The present paper focuses on dynamic capabilities, innovation capabilities and entrepreneurial capabilities. Amit and Schoemaker (1993) argue that capabilities can be functional and rooted in specific areas of the firm. Dynamic capabilities explain the firm's ability to develop competitive advantage in the time of uncertainty and change (Teece et al., 1997). Dynamic capabilities are useful in coping with dynamic environments. According to Teece's (2014) dynamic capabilities involves sensing opportunities

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