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DYNAMIC CAPABILITIES AND ORGANIZATIONAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN LAMU COUNTY, KENYA

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ABSTRACT

The general objective of this study was to examine the influence of dynamic capabilities on organizational performance of small and medium enterprises in Lamu County, Kenya. The study's specific objectives were to determine the influence of sensing capability on organizational performance, to assess the influence of learning capability on organizational performance, to analyze the influence of reconfiguration capability on organizational performance, to establish the influence of relational capability on organizational performance and to examine the moderating influence of environmental dynamism on dynamic capabilities and organizational performance of small and medium enterprises in Lamu County, Kenya. The study's theoretical framework included review of dynamic capabilities theory, resource based theory, organizational learning theory, and relational view theory. This study adopted descriptive survey design since it aids in identifying characteristics in the target population. The study targeted 335 licensed and operational small and medium enterprises based in Lamu County as at 31st December 2023, from which a sample of 124 was derived. Proportionate stratified random sampling technique was used to select respondents and self-administered questionnaires based on a five-point Likert type scale were distributed through drop and pick-up method for collection of primary data. Pilot testing was carried out and the research instrument was found to have data that were normally distributed, Cronbach alpha scores were above the recommended value .70 hence all variables were reliable, and the validity scores indicated the data was sufficient and correlated to measure the individual variables. The study established that the influence of the chosen variables under dynamic capabilities namely sensing capability, learning capability, reconfiguration capability and relational capability had a significant influence on organizational performance of small and medium enterprises. The study recommended that small and medium enterprises must embrace dynamic capabilities for strong interaction response capacity to attract and maintain customers and also to have a well-established database to serve customers better.

KEY WORDS. Sensing Capability, Learning Capability, Reconfiguration Capability & Relational Capability.

1.0 Background of the Study

Global competition and the swift growth in the business world in highly unpredictable environment has encouraged most business enterprises to develop a paradigm in order to understand how to attain and sustain their competitiveness and achieve superior organizational performance (Alshebami, 2023). One of the most vibrant efforts to address the challenges is through the dynamic capabilities approach, which is a relatively novel concept that has sought to provide a foundation of how business enterprises can renew their internal and external competences to address environmental turbulence (Gemici & Zehir, 2023).

Dynamic capabilities have emerged from the resource-based view of the firm, which explicates that unique, inimitable and rare resources are a central source of superior performance and achievement of continued competitive advantage (Maziriri, 2022). Dynamic capabilities denote a firm's ability to integrate, build, and

reconfigure internal and external proficiencies to address the swiftly changing environments, and these capabilities play a significant role in matching a firm's external opportunities with internal strengths through integration, building and reconfiguring of internal resources, and also ensure the attainment of sustainable competitive advantages and sustenance of superior organizational performance (Kimiti & Kilika, 2022).

Therefore, in order to successfully sense and seize opportunities in the dynamic operating environment, business firms ought to have the resources and ability to reconfigure their current asset bases and processes (Bianchi, 2022). Dynamic capabilities reflect a firms' ability to achieve new and innovative methods of competitive advantage based on their path dependencies and market positions; and building of the dynamic capabilities occurs in the rapidly changing environments through the application of innovation strategies thus becoming a key component in instituting mainly the common point between organizational performance and dynamic capabilities' view of the firm with the moderating influence of environmental dynamism.

Sangwa and Muvunyi (2021) noted that dynamic capabilities through reconfiguration of operational capabilities could support the creation of sustainable competitive advantage and are capable of indirect rent generation, and that these capabilities are a part of the overall organizational resource base and these resources has to be valuable, rare, inimitable and non-substitutable. Basu, *et al.*, (2022) postulated that dynamic capabilities are necessary for business transformation and for identifying practices that develop those capabilities since they do not directly focus on the production of goods or the provision of marketable services hence do not directly affect a firm's output but the production process indirectly by integrating, reconfiguring, gaining, and releasing resources to respond to environmental turbulence and also to create internal and external change.

Ali and Wambua (2021) indicated that dynamic capabilities focused of strategic change and alignment of organizations with their environment, and it could be possible to disaggregate them conceptually into company capabilities that enable sensing and shaping of opportunities; seizing of opportunities, redeploying and reconfiguring in terms of creating, extending and modifying their resource base. The process of shaping and sensing opportunities as well as threats entail exploring and searching activities in the market and technology spaces, and as such it is important that firms maintain close contact with customers and other stakeholders and above all stick to the best practices of the industry.

Wamalwa (2023) indicated that dynamic capabilities enable firms to introduce new products profitably to new geographic markets, revitalize resource portfolios, streamline underperforming divisions, restructure industry relationships, and foster innovation. Kanji *et al.,* (2023) noted that leaders play a key role in the development of dynamic capabilities. Leaders shape the cognitive foundation on which the firm builds its identity, image, structure, culture, and strategic processes. Strategic leaders have the capacity to create a change-adept organization by creating well-defined organizational purposes, values, and principles that act as the guidance system that integrates and strengthens the micro-mechanisms for building dynamic capabilities, which can only be achieved by strong leaders who can withstand the centripetal force of the status quo.

1.1 Organizational Performance

Most researchers have not come to a consensus on how to define and measure organizational performance, although it is a ubiquitous term which is nevertheless loosely defined in management research. Putnam *et al.*, (2023) defined it as the ability of an organization to attain its goals and optimize results. In today's workplace, organizational performance can be defined as a company's ability to achieve goals in a state of constant change and is measured for diverse levels of hierarchy and can be assessed for individuals, groups, and the entire organization as a whole (Esposito *et al.*, 2021). Organizational performance comprises the actual output or results of a firm as measured against its intended outputs being goals and objectives.

When assessing the organization's performance as a whole, a cohort of measures need to be adopted so that all components can be monitored and evaluated comprehensively. In fact, there is a cognizant call to move towards a broader definition of organizational performance, one which recognizes and discourses sustainability of work processes and outcomes (Alam, 2022). Another significant variable in measuring organizational performance is integrating a formal assessment of strategic planning in its measurement; and when organizations evaluate their strategic planning using internal and external assessments with a cascading system of goals, strategies, and plans, the effectiveness of meeting these goals improves (Bertram & Mxenge, 2024).

Organizational performance constructs include variables such as competitive advantage, market share, profit, costs, sales revenue and customer satisfaction. The concept largely depends on the organization's focus of performance, be it efficiency, financial status or effectiveness, to ensure that the organization is working towards common goals

and objectives. The assessment process may be carried out at individual, departmental, divisional or organizational levels and if well done, performance measurements may provide competitive advantage and differentiation, therefore even small and medium enterprises may use financial and non-financial variables to measure their performance (Mabenge, *et al*., 2022).

2.0 Statement of the Problem

The value of dynamic capabilities for businesses lies in their capacity to modify the resource base by way of creating, integrating, recombining, and releasing resources (Litvinenko, 2021). In as much as the four dimensions may be present when a company alters its resource base in order to increase its competitive advantage and performance, it is instructive that each dimension is not equally valuable for improving firm performance, particularly in the context of SMEs which tend to be more resource starved. Therefore, dynamic capabilities are especially critical for SME competition and success because, unlike their larger peers, SMEs may find it challenging to regularly renew their resource base to respond to a changing environment.

SMEs in Kenya are instrumental in economic growth and development and research shows that they account for over 80% of firms in Kenya and contributing 12% of the GDP, through creating jobs, aiding industrial development, satisfying local demand for services, innovation and support for large firms with inputs and services. However, according to a survey released by the Kenya National Bureau of Statistics (KNBS) in 2022, approximately 300,000 small and medium enterprises did not get to celebrate their second anniversary in the previous five years, raising concern over sustainability of this critical sector. A tough economic environment coupled with secondary factors such as engaging in replicative businesses, lack of proper skills to run the businesses and getting into SME space for lack of meaningful employment ensured that SMEs did not last.

Previous studies have focused on dynamic capabilities and competitive advantage in commercial banks (Aduwo & Deya, 2022); dynamic capabilities, strategic orientation and competitive advantage of NSE listed companies (Chemutai, *et al*., 2022); other scholars have explored strategic capabilities and performance of selected media firms in Kenya (Mwangi, 2023); strategic capabilities and competitive advantage of microfinance institutions in Kenya (Menganyi, *et al*., (2023) and therefore these studies have focused predominantly on the large firms in developed parts of the country but not small and medium enterprises especially in Lamu County, and also use of thematic classification of the capabilities as sensing, learning, reconfiguration and relational, hence occasioning a knowledge gap that this study seeks to bridge.

3.0 Objectives of the Study

This study was guided by the following general and specific objectives:

3.1 General Objective

The general objective of the study was to examine the influence of dynamic capabilities on organizational performance of small and medium enterprises in Lamu County, Kenya.

3.2 Specific Objectives

The study was guided by the following specific objectives:

1. To assess the influence of sensing capability on organizational performance of small and medium enterprises in Lamu County, Kenya.
2. To establish the influence of learning capability on organizational performance of small and medium enterprises in Lamu County, Kenya.
3. To analyze the influence of reconfiguration capability on organizational performance of small and medium enterprises in Lamu County, Kenya.
4. To determine the influence of relational capability on organizational performance of small and medium enterprises in Lamu County, Kenya.

4.0 Research Hypotheses

The study was guided by the following null hypotheses:

$H_0$1: Sensing capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

$H_0$2: Learning capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

$H_0$3: Reconfiguration capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

$H_0$4: Relational capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

5.0 Theoretical Framework

A theoretical framework is a preliminary review of existing theories that serve as a framework for developing the postulations that are advanced in a study. Theories are put forth by researchers in order to elucidate phenomena, draw connections and make predictions. The theoretical framework expounds on the existing theories that support the subject research and are intended to depict the significance and how established the ideas of the research are likely to pun out. The theories under review include dynamic capabilities theory, resource based theory, organizational learning theory and relational view theory.

5.1 Dynamic Capabilities Theory

The dynamic capabilities theory sets out to explicate how competitive advantage is achieved and argue that successful companies in the global market place are those with the ability to demonstrate appropriate responsiveness to market dynamics and speedy product innovation (Teece, 1997) as cited by (Zia *et al.,* 2023). Additionally, successful companies are able to effectually coordinate and redeploy internal and external competence called dynamic capabilities in order to have the ability to achieve competitive advantage. The ability to renew the capacity and competences to achieve congruence with the changing business environment becomes relevant in situations where time to market is critical and the nature of competition is difficult to determine (Cennamo, 2022). Capabilities play a key role in strategic management by way of appropriately adapting, integrating and reconfiguring, internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment.

The dynamic capabilities theory views competition in Schumpeterian terms in which firms are continuously seeking to generate new combinations, and competitors in the marketplace are constantly attempting to improve their competences or to emulate the competence of their most qualified competitors (Talari *et al.,* 2023). Rivalry is consequently inevitable in Schumpeterian terms, implying that a firm's ability to develop and improve new types of competences is imperative in attaining long-term competitive advantage and organizational performance (Danilwan & Dirhamsyah, 2022). Dynamic capabilities framework includes the key variables and relationships that are necessary to create, protect, and leverage intangible assets so as to achieve superior performance. This is therefore the overriding theory of this study.

5.2 Resource Based Theory

Resource-Based Theory (RBT) was established by Penrose (2009) and suggested a model on effective management of resources of firms, diversification strategy and pursuit for better opportunities. The theory proffers a framework that seeks to position and forecast the salient essentials of organizational performance and competitive advantage. The prominence by RBT on organizational performance was grounded on standard views that came up as a result of prior executive interest in the structure of industry with major focus on wider perspectives (Paulino, 2022). RBT pursues delineating an internally-driven technique by engaging in internal organizational resources, as opposed to externally driven methods with a view to appreciating the achievement or failure of leveraging organizational activities (Fletcher & Schofield, 2021).

The theory aims at succinctly elaborating the imperfectly imitable firm resources that have the prospects of becoming the main source of sustained competitive advantage (Barney, 1991) as cited by Shah (2022). The main basis of RBT include the being of heterogeneous resources and abilities that are found in varied firms, and this occasions distinct prospects in competitive advantage of individual firms, furthermore, the workings of ancillary resources that are found in most firms create continuous variances in resource endowments and application (Shen *et al.,* 2022). RBT presumes that organizational traits may not necessarily change simply because firms have to position their orientation for purposes of seeking to achieve sustainable competitive advantage and better organizational performance (Hashim *et al.,* 2019).

5.3 Organizational Learning Theory

Organizational learning theory was advanced by Argyris and Schon (1995) and suggested that learning usually happens through the process of discerning and correcting errors. Organizations that facilitate continuous learning

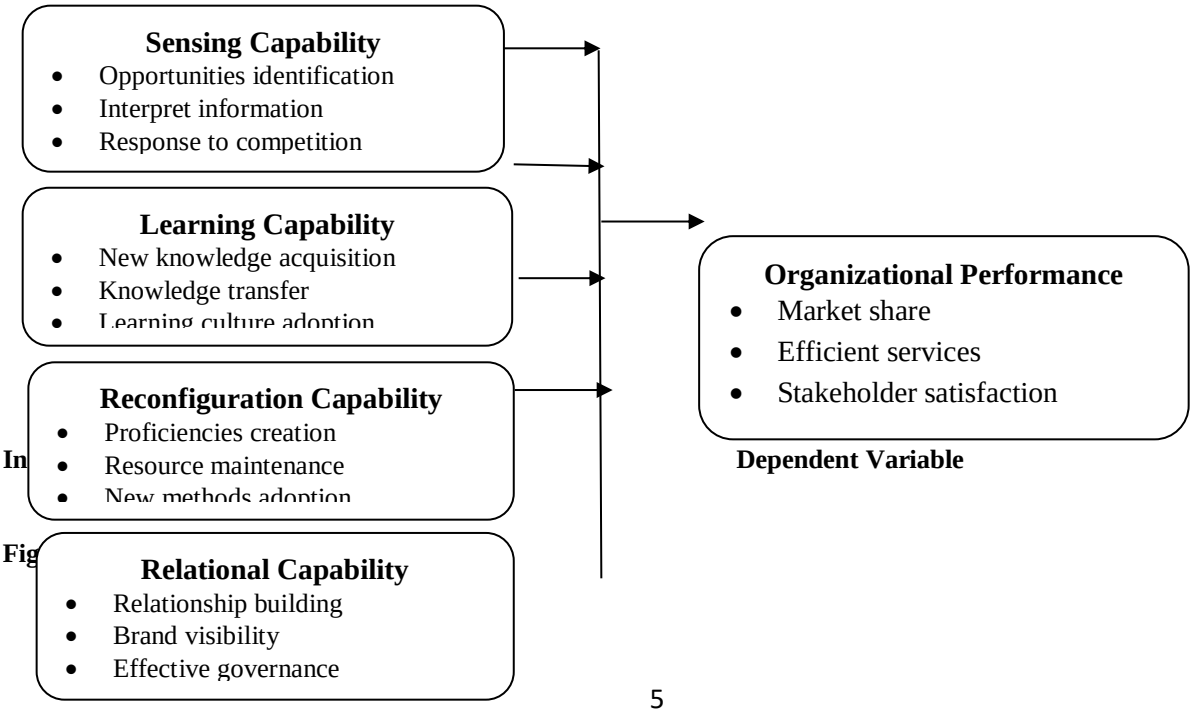
of their employees and changes constantly is called a learning company (Listiani *et al.*, 2022). The configuration of a learning company is hypothesized around the idea that its association ought to enable learning, knowledge-sharing, pursuing knowledge and generating opportunities with the aim of engendering new knowledge. The company must seek to enter into new and evolving markets and learn about them and not just be brand-based but also find resources for consideration (Borah *et al.*, 2023).Organizational learning theory posits that for organizations to have a competitive edge in the ever changing environment, they ought to vary their goals and objectives and their attendant actions in order to get to their desired results (Mishra & Alok, 2022). If learning is to occur, however, organizations must make deliberate decisions by changing their activities as they respond to changing dynamics and circumstances, and must intentionally link actions to results as they expect improved results (Kouzes & Posner, 2023). Organizational learning is similar in most aspects with cognitive research since the preliminary concepts that are learned take place at the individual level. Therefore, it does not morph into organizational learning until the information is shared and stored in organizational memory such that it may be accessed and communicated for purposes of being used for organizational goals (Burke, 2022).Organizational learning stimulates communication and collaboration among work groups and in return, there is accentuated advancement in the development of staff capacity through learning which leads to general improvement in the performance of participants (Shahzad *et al.*, 2020). In real terms, achieving enhanced communication skills by understanding different approaches is key for successful undertakings amongst stakeholders, and from the resource-based perspective, organizations learn to develop structures and systems that cause transformation to more adaptive and responsive variations and shocks in the external environment. This theory therefore explains learning capability and environmental dynamism as variables of this study.

5.4 Relational View Theory

The relational view does not offer support to formal contracting endeavours but rather proposes that informal contracts are more operative in generating relational rents through self-enforcing mechanisms (Keller *et al.*, 2021). Since most organizations are specialized in specific fields, they are unable to acquire all the necessary resources to operate successfully. In order to produce the desired products and output, organizations must exchange information or resources on the market, but the scarcity of resources limit organizations in their capability to produce all elements of their product individually, hence it creates organizational interdependence, with organizations seeking to reduce environmental uncertainty by engaging in exchange relationships that create a more predictable environment. The theory explains relational capability in this study.

6.0 Conceptual Framework

This study examined dynamic capabilities namely sensing capability, learning capability, reconfiguration capability and relational capability and moderated by environmental dynamism and their influence on organizational performance. The study's conceptual framework is hypothesized in Figure 6.1;



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6.1 Review of Literature on Study Variables

6.1.1 Sensing Capability

In today's dynamic and globally competitive environment, for the potential benefits of resources to be transmuted into realized outcomes, it is necessary to possess a distinctive sensing capability, which is the ability to spot, interpret, and pursue opportunities in the environment (Dias & Lages, 2021). This capability entails searching and exploring markets and technologies, both local and distant from the organization, and has a positive impact on achieving more innovative products, better methods and faster speeds to markets and also on improving the obtaining venture performance (Zhu & Gao, 2021).

For small and medium enterprises in particular, Yang *et al.,* (2022) noted that a firm's sensing capability usually has a positive correlation with their performance especially when the firms properly apply knowledge management. In line with the obtaining outlook and considering that SMEs are deemed to have a more personalized touch with their customers, it makes it relatively easier to access relevant information, suggesting that the sensing capability facilitates the ascertainment and detection of changing opportunities in the external environment thus offering SMEs with a way to enhancing their performance (Troise *et al.,* 2022).

Sensing capability comprises three basic processes namely generation of market information which identifies customer needs, responds to marketing trends and identifies market opportunities; secondly, interpretation of the gathered market information and thirdly, responses to market information (Rahman *et al.,* 2021). It is the first level of dynamic capabilities since it is the point where a possible need or opportunity to build, extend or modify existing capabilities are identified based on changes in the internal and external business environment and how these could affect the organization's business and the ability to identify the extent to which an organization responds with their current capability endowment (Varadarajan, 2020).

6.1.2 Learning Capability

Learning capability is the firm's ability to generate internal knowledge, acquire external knowledge and integrate the two through knowledge sharing; and the concept of learning is the ability to swiftly acquire or create specific knowledge that is necessary to seize the identified opportunities (Guenduez & Mergel, 2022). In order to seize opportunities, firms have to implement interrelated strategic choices and investment decisions in order to make significant decisions that address opportunities and threats, thus becoming necessary for firms to reach a new level of knowledge in order to understand the choices at hand and the interrelatedness of the dynamics involved (Dovbischuk, 2022).

Learning capability puts emphasis on the use of market information to generate new knowledge thus it restores operational capabilities with new knowledge and ensures that efficiency and effectiveness of the operational activities of acquiring, changing and reconfiguring resources in cope with environmental changes (Anshari & Hamdan, 2022. Learning capability is required to acquire and assimilate knowledge to facilitate the creation and modification of a firm's capabilities and resource base, and also enables new production prospects to be identified as well as tasks to be performed better, more speedily and more efficiently (Farzaneh *et al.,* 2022). Because learning is a strategic capability that is hard for competitors to imitate, a high absorptive or learning capability results in superior firm performance. More precisely, smaller firms such as small and medium enterprises with an established absorptive capacity are better placed in overcoming the competence traps that may lead to a firm's lack of responsiveness. Accordingly, a learning capability may be particularly valuable for higher flexibility to act and should enable SMEs to leverage on changes to their resource base and facilitate the reaping of resource-related benefits generated through such change (Zhang & Edgar, 2022).

6.1.3 Reconfiguration Capability

It is critical and necessary to support long-term competitive advantage for an organization in order to recombine assets and organizational structures to manage any changes in the markets and technologies (Verhoef *et al.,* 2021). Moreover, in order to sustain superior firm performance, enterprises have to develop a corporate culture, design reward systems and hold committed talent. Reconfiguration capability encompasses such activities as redeploying and recombining resources, therefore enhancing continuous development and also developing into a mechanism for enterprises to attain new resources and seize innovation benefits.

Reconfiguration capability is primarily made up of two basic processes including creating capabilities that can be built internally or can be developed from external sources (Bhardwaj *et al.,* 2022). Building capabilities internally

has to do with the transformation of existing capabilities by way of changing the form, shape or appearance of the existing capabilities within the firm; whereas acquiring capabilities denotes gaining capabilities from the outside sources like through licensing, purchasing contracts, alliancing, mergers and acquisitions of firms or even parts of firms and secondly, integration of capabilities involves engaging, connecting and linking of new capabilities into the organization with existing resources and capabilities (Hanelt *et al.,* 2021).

Reconfiguration capability allows firms to discard, modify, or rebuild organizational practices in order to make operations more efficient and effective and, in turn, improve the organizational effectiveness as it also depends on their ability to demonstrate effective leadership and implementation of appropriate governance for transformation (Sahoo *et al.,* 2023). Also, the plasticity of business models, reconfiguration of assets, routines and organizational structures ensures the achievement of superior performance and effectiveness. Based on the above contribution, the capability espouses the organizational skill required to rebuild assets and learning in order for creativity to take place with reconfiguration of current assets and capabilities through models of consolidation and includes the positioning of familiarized resources to create new worth, hence improving the mixtures inside and between firms (Khan & Lew, 2018).

6.1.4 Relational Capability

Small and medium enterprises generally encounter challenges in penetrating into new and uncharted waters of the marketing environment primarily because of constraints in resources and strategic capabilities (Kobrin, 2022). The vibrant operating environment requires that firms work with not only innovation partners, but also works together with all other strategic public and private organizations in order to draw external information and resources to improve their competitive position and performance. Consequently, through relational capability firms can develop collaborative relationships to efficiently acquire new techniques, knowledge and information (Valeri & Baggio, 2022).

This is specifically important for business firms that are domiciled in developing and emerging economies since they lag behind on the global competitive platform, and that possession of specific advantages in the local context may not be satisfactorily enough to help in penetrating the global markets. Small and medium enterprises must therefore tirelessly cultivate and leverage relational capability to engender and provide superior customer utilities. Kim *et al.,* (2022) indicated that relational capability is critical in the implementation process of strategy and programs with the aim of reducing customer complaints, creating genial relationships and enhancing satisfaction.

Relational capability creates effective collaboration which enhances organizational competitiveness and such collaboration with strategic partners has an effect on the resilience, agility and robustness of small and medium enterprises in which case there is improved service delivery (Islami, 2022). Dealing with appropriate partners in the process of new product development makes strategic sense, allowing the use of exceptional expertise and resource base that the firm would not otherwise independently provide and it becomes clear that it is not easy for firms to exploit such strategic benefits without relational capability.

6.1.5 Organizational Performance

Vallentin (2022) noted that organizational performance is a complex concept to describe in management but put simply, it is connected to an organization's ability to generate value in the future, and it evokes the ability to achieve previously set objectives that may be sufficed as reducing the differences between ends and means. On the other hand, defines organizational performance as measures directly related to the organizational structure and not to its possible social and economic consequences. The indicators become interesting in so far as they make it possible to discriminate organizational difficulties through their initial manifestations, before the effects induced by them are felt from an economic point of view (Galatti *et al.,* 2022)

Organizational performance has three dimensions including productivity, efficiency and profitability and these play a part to identify four sub-dimensions to define performance hence the accomplishment of the mission of the organization, acquisition and control of resources and skills, delivery of quality services and the development and maintenance of a common culture and values. Meece (2023) indicated that organizational performance is measured at diverse graded levels and can be evaluated for individuals, groups and the whole organization, bearing in mind that the measures for organizational performance are reliant on who requested for them and why there is necessity for adopting performance metrics. Samson and Bhanugopan (2022) noted that measuring and reporting organizational performance included justifying the valid use of investors' resources, guiding the managerial

process of decision making by singling out the pain-points within the organization, comparing individual performances of diverse functions within the organization and exercising requisite control.

7.0 Research Methodology

7.1 Research Design

Bryman and Bell (2022) defined research design as an overall approach for conducting a study for purposes of identifying precise testable research hypotheses, and it is the principal plan that specifies the attendant procedures for collecting and analyzing the necessary data. This study adopted descriptive survey research design because it is appropriate in ascertaining the universality of phenomena, situations, problems and also helps researchers to identify characteristics in their particular population (Creswell, 2022). Mairim (2022) used similar research design in a study titled effect of dynamic capabilities on financial performance of oil marketing firms in Kenya.

7.2 Target Population

Target population refers to the entire population or group that a researcher is interested in researching and analyzing, and to which results and findings can be generalized (Rahman *et al.*, 2022). According to Cervone and Pervin (2022), a target population provides a solid foundation and first step upon which to build the validity and reliability of the study. Braun and Clarke (2022) defined target population as that from which the study sample is to be drawn from and includes all individuals who possess the desired inclusion criteria to participate in the study. According to Kenya National Chamber of Commerce and Industry Annual Report 2023, there were three hundred and thirty-five (335) licensed and operational small and medium enterprises in Lamu County, Kenya as at 31st December 2023 and they were spread across various sectors as shown in Table 7.1;

Table 7.1 Target Population

Sector	Target Population	Percentage (%)
Information Technology	46	13.7
Transport and Logistics	55	16.4
Fishing	72	21.5
Entertainment and Sports	34	10.2
Tourism	67	20.0
Trade	61	18.2
Total	**335**	**100**

Source: Kenya National Chamber of Commerce and Industry, 2023

7.3 Sample size

The foundation for sampling is to take cognizance of the attributes of a study population predicated on the attributes of the sample. This study adopted proportionate stratified random sampling in which case study elements were selected from the subcategories thus obtaining a sample that is representative of the entire population.

Sample size was determined using Nasiurma (2000) model as shown;

$n = (Ncv^2) / (cv^2 + (N-1)\ e^2)$

Where;

n = sample size

N = population size

cv = Coefficient of variation (take 0.7)

e = tolerance at desired level of confidence (take 0.05 at 95% confidence level)

On substitution;

$n = 335*0.7^2 / (0.7^2 + (335-1)\ 0.05^2)$

n = 164.15 / 1.325

n = 124

Table 7.2 Sample Size

Sector	Target Population	Sample Size	Percentage (%)
Information Technology	46	17	13.7
Transport and Logistics	55	20	16.2
Fishing	72	26	20.9
Entertainment and Sports	34	13	10.5
Tourism	67	25	20.2
Trade	61	23	18.5
Total	**335**	**124**	**100**

7.4 Data Collection Methods

The study used questionnaires to obtain data for analysis and the evidence obtained from the qualitative and quantitative data analysis to be applied for rejecting or failing to reject the research hypotheses. Questionnaires are research instruments used for collecting data especially from large samples and the overriding objective would usually be to convert the research objectives into specific questions, with the answers for each question providing the foundational information for hypotheses testing. Questionnaires are popular for data collection because researchers can easily gather information in a fair way with responses being able to be coded readily. Questionnaires have many advantages including having the ability to collect data from large samples, minimizing chances for bias and the power to promote confidentiality.

This study had questionnaires divided into two sections where Part A was the identification section where respondents were asked introductory information including their ownership status, number of years the firm had existed and the size of their particular firm. Part B lay emphasis on the objectives of the research with the study adopting closed-ended questions with an aim of getting precise information on a subject which reduces chances of information prejudice and for simplified data analysis. This study used drop and pick method of data collection and adopted the Likert scale as it best measures the degrees of sentiments proffered by respondents and also because it is easy to interpret.

7.5 Data Collection Procedure

For purposes of having the study to conform to all the ethical requirements expected of research undertakings, an authorization was sought from the relevant faculty of Jomo Kenyatta University of Agriculture & Technology and a request letter was delivered to small and medium enterprises that took part in the research process. Additionally, a data collection letter was written by the researcher to augment the institution's request letter to participating firms. A comprehensive revelation of all details about the study was carried out to individual firms with the intention emphasized as being for academic purposes, and confidentiality was observed and the findings of the study were be given specifically to the University.

Study questionnaires were distributed to respondents who were requested to appropriately fill the same in due time for purposes of facilitating the smooth advancement of the research process. Requisite explanation and direction was granted to respondents on a case by case basis to ensure that correctness was achieved while giving answers to the study questions. In cases where it was absolutely necessary, the researcher did follow-ups with respondents through phone calls to ensure that questionnaires are filled appropriately and within time. The finished questionnaires were collected in person by the researcher in order to uphold the precept of confidentiality and completely do away with involving third parties and the study was fully funded by the researcher.

7.6 Data Processing and Analysis

The filled questionnaires were cleaned and checked whether they were fully filled and with correctness. Bryman and Bell (2022) noted that carrying out data analysis involved understanding the text and image of the data. It incorporated preparation of the data for analysis, dealing in deep sense to understanding the data, presenting it and interpreting it to get greater meaning out of it. Quantitative data analysis was done to test the theories postulated in the theoretical framework with the purpose of corroborating or disproving them. Descriptive data was presented in form of frequencies and central tendencies and were presented in the form of tables and pie charts.

Inferential analysis was done by evaluating the joint relationship between the dependent and independent variables

and thereafter, moderation analysis was carried out to determine the influence of environmental dynamism on dynamic capabilities and organizational performance of small and medium enterprises in Lamu County, Kenya, where a moderating variable occasions an interfacing effect in which case with the introduction of the variable, it alters the direction or magnitude of the relationship between two or more variables. The research data was collected and analyzed using Statistical Package for Social Sciences (SPSS) version 26 using descriptive statistics such as mean, median, standard deviation and proportions. F-tests were calculated for all the variable coefficients to determine their significance in the statistical model.

$Y= \beta 0 +\beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Where;

Y = Organizational performance

β_0 = Constant

βi = Coefficient for Xi (i=1, 2,3,4)

β_m = Coefficient of Moderator

X_1 = Sensing Capability

X_2 = Learning Capability

X_3 = Reconfiguration Capability

X_4 = Relational Capability

ε = Error term

8.0 Research Findings

8.1 Descriptive Statistics

Descriptive statistics summarize and put forth the main features of a dataset central tendency, variability and distribution. The objective of this study was to examine the influence of dynamic capabilities on performance of small and medium enterprises in Lamu County, Kenya. Descriptive statistics give a consecutive statistical analysis of the study variables which included sensing capability, learning capability, reconfiguration capability and relational capability, as moderated by environmental moderation. Questionnaire items were grounded on a five-point Likert scale which was coded appropriately to facilitate for rated responses and these were premised on assigned values where 1 signified strongly disagree, 2 signified disagree, 3 signified neither agree nor disagree, 4 signified agree then 5 signified strongly agree.

8.1.1 Sensing Capability and Organizational Performance of Small and Medium Enterprises

Respondents gave their feedback on statements about sensing capability and its influence on organizational performance of small and medium enterprises and returned the results shown in Table 8.1;

Table 8.1: Sensing Capability

	N	Mean	Std. Deviation

Our firm analyzes the environment to identify customer needs.	113	3.78	.842
Our firm always anticipates actions of competitors.	113	4.08	.734
Our firm usually embraces new ideas for continuous improvement.	113	3.89	.828
Our firm proactively remains aware of the changes in the environment.	113	3.83	.905
Our firm's operations involve predicting customers' demands.	113	4.06	.711
Our firm has a well-established database to serve our customers.	113	3.78	.942
Our firm has strong interaction response capacity.	113	3.78	.933
Valid N (listwise)	113		

The results indicate that all items recorded standard deviation values below two (<2) signifying that the views by respondents were not distinctly divergent. The strongest convergence in opinion was on the statement about firms' operations being involved in predicting customers' demands (M = 4.06, SD = .711). This study concurs with Wong and Ngai (2023) who reviewed the effects of analytics capability and sensing capability on operations performance with the moderating role of data-driven culture, and found that indeed sensing and analytics capabilities had a positive impact on operational performance.

8.1.2 Learning Capability and Organizational Performance of Small and Medium Enterprises

Respondents gave their views on items under learning capability and its influence on organizational performance of small and medium enterprises and the results are shown in Table 8.2;

Table 8.2: Learning Capability

	N	Mean	Std. Deviation
Our firm usually promotes acquisition of new knowledge.	113	3.96	.778
Transfer of knowledge within our firm is always facilitated.	113	3.92	.734
Our firm strives to motivate knowledgeable staff to promote knowledge retention.	113	3.69	.867
Intellectual property rights are pursued and sustained in our firm.	113	3.90	.801
Our firm encourages new ideas by staff to enhance innovation.	113	3.66	.951
In our firm, staff are challenged to embrace experimentation as a way of achieving working processes.	113	3.88	.709
Our firm always supports a learning culture.	113	3.91	.762
Valid N (listwise)	113		

Results in Table 8.2 show that all items had standard deviation values below two (<2) which indicated that there was convergence in opinion towards the mean regarding learning capability. Firms usually promoting acquisition of new knowledge recorded the highest mean (M = 3.96, SD = .778) pointing towards general agreement to

questionnaire items. The results are in agreement with Kareem and Alameer (2023) who reviewed the role of sensing capability, learning capability and coordinating capability on market performance with a perspective of small and medium enterprises and found that learning capability had a significant impact on market performance.

8.1.3 Reconfiguration Capability and Organizational Performance of Small and Medium Enterprises

Respondents provided their responses on statements relating to reconfiguration capability and the following results were obtained as shown in Table 8.3;

Table 8.3: Reconfiguration Capability

	N	Mean	Std. Deviation
Our firm always seeks to create proficiencies.	113	3.82	.710
In our firm, we regularly acquire and maintain new resources.	113	4.03	.738
Our firm continually integrates resources and proficiencies.	113	3.78	.998
In our firm, we always seek to create new ideas on how to navigate in the market.	113	3.89	.828
Our firm continuously releases redundant resources and proficiencies.	113	3.67	.891
Our firm embraces new operational methods in the market.	113	3.73	.791
Our firm looks out for opportunities to expand by acquiring small business enterprises.	113	3.92	.734
Valid N (listwise)	113		

Results in Table 8.3 show that all statements had low standard deviation values below two signifying that there was convergence in opinion by respondents and most opinions coalesced more on the statement about firms regularly acquiring and maintaining new resources (M = 4.03, SD = .738). These results are in correspondence with who reviewed organizational agility capabilities and sustainable competitive advantage in private multi-practice hospitals and found that reconfiguration capabilities had a significant positive effect on their sustained competitive advantage and are an avenue to effectively and efficiently respond to the complex and dynamic external environment.

8.1.4 Relational Capability and Organizational Performance of Small and Medium Enterprises

Respondents furnished their thoughts on the questionnaire statements concerning relational capability and the findings were presented in Table 8.4;

Table 8.4: Relational Capability

	N	Mean	Std. Deviation
Our firm develops strong relations with customers.	113	3.92	.734
In our firm, we cultivate strategic interactions for better partnerships.	113	3.99	.713
Our firm enhances internal coordination for better relationship ventures.	113	3.96	.795
My firm maintains external visibility for better liaisons with all stakeholders.	113	3.98	.790
Our firm always seeks to achieve and maintain functional infrastructure	113	3.88	.792
Effective governance and incentive alignment are elements strongly pursued by our firm.	113	3.59	.951
Our firm exploits competencies at disposal for transformation and sharing.	113	3.56	.944
Valid N (listwise)	113		

The results in Table 8.4 indicate that standard deviation values for the statements were below two (< 2) thus demonstrating a general convergence of opinion towards the mean. The item on firms cultivating strategic interactions for better partnerships returned the highest convergence in opinion (M = 3.99, SD = .713). The recorded results support those of Giraldi *et al.,* (2024) who reviewed how relational capability influenced the success of business partnerships and found evidence that poor relational capabilities lead to confusion, a sense of exclusion and a lack of collaboration amongst members, confirming that increased relational capabilities and aligning the allies' capabilities positively affect business performance. Giraldi, *et al*., (2024) study on the influence of relational capabilities on business successes. The method adopted allowed for a clear identification of the criticalities of the partnership. The authors found evidence that poor RCs lead to confusion, a sense of exclusion and a lack of collaboration amongst members. Results confirmed that increased RC and aligning the allies' capabilities positively affect the alliance's performance. The findings suggest that firms with strong relationships with their customers and strategic partners will have better access to knowledge resources, which positively influences their dynamic capability and organizational performance.

8.1.6 Organizational Performance of Small and Medium Enterprises

Respondents provided their feedback on the questionnaire statements concerning organizational performance and the findings are presented in Table 8.5;

Table 8.5: Organizational Performance of Small and Medium Enterprises

	N	Mean	Std. Deviation
Our firm endeavours to achieve customer satisfaction.	113	3.76	.848
Customer retention is always a priority by our firm.	113	4.05	.754
Our firm seeks to attain a good market share.	113	3.91	.840

Our firm works towards ensuring that all staff are effective in their roles.	113	3.84	.872
Our firm encourages staff to enhance productivity in their roles.	113	4.06	.723
Our firm endeavours to offer high quality goods and services.	113	3.88	.832
Growth in sales volumes is foremost in our firm's plans.	113	3.86	.833
Valid N (listwise)	113		

Standard deviation values for all the items were less than two (< 2) signifying a general convergence in opinion around the item on firms encouraging staff to enhance productivity in their roles (M = 4.06, SD = .723). The results are in agreement with Amin *et al.*, (2023) who examined whether organizational learning and innovation increased organizational performance of small and medium enterprises. The results are in agreement with Rumanti *et al.*, (2023) who explored the role of organizational creativity and open innovation in enhancing small and medium enterprises' performance. The study provided evidence that organizational creativity had the ability to directly improve small and medium enterprises' performance.

8.2 Inferential Statistics

8.2.1 Correlation Analysis of Study Variables

This study adopted Pearson's correlation coefficient which is used for linearly related variables and is denoted by the symbol (r) which is typically a value without units that falls between -1 and 1, and is the unit of measurement used to determine the strength of the linear relationship between the variables involved in a correlation analysis.

Table 8.6: Correlation Analysis

		Y	X_1	X_2	X_3	X_4
Y	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	113				
X_1	Pearson Correlation	.562**	1			
	Sig. (2-tailed)	.041				
	N	113	113			
X_2	Pearson Correlation	.621**	.024	1		
	Sig. (2-tailed)	.035	.798			
	N	113	113	113		
X_3	Pearson Correlation	.668**	.053	.006	1	
	Sig. (2-tailed)	.030	.582	.947		
	N	113	113	113	113	
X_4	Pearson Correlation	.752**	.152	.070	.063	1
	Sig. (2-tailed)	.000	.108	.464	.450	
	N	113	113	113	113	113

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Key: Y = Organizational Performance of SMEs; X_1 = Sensing Capability; X_2 = Learning Capability; X_3 = Reconfiguration Capability; X_4 = Relational Capability; M = Environmental Dynamism

8.2.2 Regression Analysis Results

The study computed multiple regression analysis to determine the joint influence of dynamic capabilities on organizational performance of small and medium enterprises in Lamu County, Kenya. The adopted multiple

regression model was $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$ where X_1 = Sensing Capability; X_2 = Learning Capability; X_3 = Reconfiguration Capability; X_4 = Relational Capability; Y = Organizational Performance of Small and Medium Enterprises, α is the Y intercept, β_{1-4} are coefficients of regression and ε is the error term of the model. The findings were as presented in Table 8.7;

Table 8.7: Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.751[a]	.564	.528	.47234

a. Predictors: (Constant), Relational Capability, Learning Capability, Sensing Capability, Reconfiguration Capability
b. Dependent Variable: Organizational Performance of SMEs

From Table 8.7, the correlation coefficient denoted as R-value was .751 indicating that the relationship between the independent variables and the dependent variable was a strong and positive association, the independent variables being sensing capability, learning capability, reconfiguration capability and relational capability, and the dependent variable being organizational performance of small and medium enterprises in Lamu County, Kenya. The joint independent variables under dynamic capabilities accounted for 56.4% of the variation in organizational performance of small and medium enterprises as supported by R square value of .564. With an adjusted R square of .528, it was determined that after controlling for the variables in the model, the joint variables accounted for 52.8% of the variation in organizational performance of small and medium enterprises, while other factors not included in the model explained 47.2% of the variation in organizational performance of small and medium enterprises in Lamu County, Kenya. The standard error of .47234 indicated the deviation from the line of best fit.

8.2.3 ANOVA

From the ANOVA Table 8.7, the model was significant since the p-value = 0.000 which was less than 0.05 thus the model was statistically significant in establishing the influence of the study's dynamic capabilities on organizational performance of small and medium enterprises in Lamu County, Kenya.

Table 8.7: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.046	4	3.511	35.110	.000[b]
	Residual	10.860	108	.100		
	Total	24.906	112			

a. Dependent Variable: Organizational Performance of SMEs
b. Predictors: (Constant), Relational Capability, Learning Capability, Sensing Capability, Reconfiguration Capability

The regression model of independent variables and the dependent variable was significant (F (4, 108) = 35.110, p-value = .000). The F-calculated value of 35.110 was greater than the F-critical (F (4, 108 = 2.455), thus indicating that the joint independent variables were effective predictors in the model thus the regression model perfectly fitted the data.

8.2.4 Regression Coefficients

Table 8.8: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.348	.717		4.671	.000
	Sensing Capability	.102	.041	.107	2.487	.014
	Learning Capability	.208	.077	.206	2.701	.000
	Reconfiguration Capability	.244	.080	.235	3.050	.002
	Relational Capability	.394	.109	.372	3.614	.000

a. Dependent Variable: Organizational Performance of SMEs

Results in Table 8.8 present the beta coefficients of the independent variables operationalizing dynamic capabilities and how they predicted the dependent variable being organizational performance of SMEs. The regression model equation is;

$$Y = 3.348 + .102X_1 + .208X_2 + .244X_3 + .394X_4 \quad (4.1)$$

8.2.5 Hypotheses Testing

The first null hypothesis was that sensing capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya (H_{01}: $\beta_1 = 0$). The subsequent results as presented in Table 8.8 point out that ($\beta_1 = .102$, t = 2.487, p –value = .014), hence the study rejected the null hypothesis and concluded that sensing capability had a significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

The second null hypothesis was that learning capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya (H_{02}: $\beta_2 = 0$). The succeeding results as shown in Table 8.8 indicated that ($\beta_2 = .208$, t = 2.701, p –value = .007), therefore the study rejected the null hypothesis and concluded that learning capability had a significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

The third null hypothesis was that reconfiguration capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya (H_{03}: $\beta_3 = 0$). The consequent results as presented in Table 8.8 showed that ($\beta_3 = .244$, t = 3.050, p –value = .002), and therefore the study rejected the null hypothesis and concluded that reconfiguration capability had a significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

The fourth null hypothesis was that relational capability has no significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya (H_{04}: $\beta_4 = 0$). The consequent results as indicated in Table 8.8 showed that ($\beta_4 = .394$, t = 3.614, p –value = .000), thus the study rejected the null hypothesis and concluded that relational capability had a significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya.

8.3 Discussion of Findings

From the findings in Table 8.8, there was a significant relationship between all independent variables and the dependent variable with p-values being less than 0.05 (p-value <.05). From the results, relational capability had the highest positive and significant correlation with organizational performance of SMEs (r = .752, p-value = .000), followed by reconfiguration capability which had a positive and significant correlation (r = .668, p = 0.000); learning capability had a positive and significant correlation with organizational performance of SMEs (r = 0.621, p = 0.000) and lastly, there was a positive and significant correlation sensing capability and organizational performance of SMEs (r = .562, p-value = 0.000. The results denoted that there was a notable correlation between subsets of dynamic capabilities and organizational performance of SMEs.

The findings concur with Drago *et al.,* (2022) who reviewed the relationship between organizational performance, dynamic capabilities and strategic behaviour and contributed to a greater understanding of the interface between dynamic capability, strategic behaviour and organizational performance in theoretical, methodological and empirical terms. The main findings of the research show that organizations can expand or modify their processes by building and using dynamic capabilities as institutional factors, shaping strategic behavior to advance better performance. Furthermore, the results indicate the relationship between the set of terms selected in each class,

highlighting the strong connection between dynamic capabilities and competitive intensity.

Results presented in Table 8.8 on the summary of the multiple regression model show that the joint independent variables could account for 56.4% of the variation in organizational performance of small and medium enterprises in Lamu County, Kenya, after accounting for all components in the model. This was indicated by the value of r square which was 0.564 and the remaining 43.6% represented additional variables that influenced organizational performance of small and medium enterprises and were not considered by the model. From the findings, there was a strong and positive relationship between the joint independent variables and the dependent variable as indicated by the correlation coefficient (r) of 0.751.

The results are in consonance with Dejardin *et al.*, (2023) who examined the impact of dynamic capabilities on SME performance during COVID-19. The study noted that the ways in which companies were able to maintain their levels of performance and innovation during a global crisis, specifically throughout the COVID-19 pandemic, was a question requiring the application of new concepts and structures that may differ from more traditional concepts. It was noted that while theoretical research on the impact of the dynamic capabilities of companies on performance and innovation provide alternative conceptual structures, empirical research returned only dispersed and frequently difficult to compare results.

From the ANOVA results in Table 8.8, the model was statistically significant in determining the influence of joint independent variables on organizational performance of small and medium enterprise in Lamu County, Kenya, with a p-value of 0.000 which was less than the designated significance level of 0.05, hence it was concluded that the proposed model was significant in forecasting the relationship between the joint independent variables and the dependent variable given that the F-calculated value of 35.110 was greater than the F-critical (F (4, 108 = 2.455), thus indicating that the joint independent variables were sufficient to be used to predict organizational performance of small and medium enterprises in Lamu County, Kenya.

The finding concur with Saddam *et al.*, (2023) who reviewed the effects of dynamic capabilities on firm's financial performance and the results obtained were consistent with theory, whereby changes in dynamic capabilities contributed to a positive return on the firm's performance. The study concluded that more priority to be given to the awareness of dynamic capabilities in the current competitive era and the results proved that investment in the dynamic capabilities improved the performance of markets. Additionally, the study concurred with Bett and Anene (2023) who studied dynamic capabilities and performance of small and medium agrifood enterprises in Nairobi County, and demonstrated that indeed dynamic capabilities had a positive impact on the performance of small and medium agrifood enterprises in Nairobi City County, Kenya.

The presented results in Table 8.8 show the regression coefficients that were adopted to form the model equation, and organizational performance of small and medium enterprises in Lamu County, Kenya and had a constant value of 3.348 if the joint independent variables namely sensing capability, learning capability, reconfiguration capability and relational capability were to be held to a constant of zero. From the results, the beta coefficients (β) of the independent variables were X_1 = .102, p-value .014; X_2 = .208, p-value .007; X_3 =.244, p-value .002 and X_4 = .394, p-value .000 demonstrating that the influence was significant and inferred that for every one unit improvement in the independent variables, the dependent variable would improve by .014, .208, .244 and .394 units respectively.

The results concur with Chemutai *et al.*, (2022) who reviewed dynamic capabilities, firm innovation and competitive advantage of companies listed at Nairobi Securities Exchange and found that dynamic capabilities had a significant and positive influence on competitive advantage of firms whereas firm innovation partially moderated dynamic capabilities and organizational performance of small and medium enterprises in Lamu County, Kenya.

9.0 Conclusion and Recommendations

9.1 Conclusions of the Study

The study aimed to examine the influence of dynamic capabilities on organizational performance of small and medium enterprises in Lamu County, Kenya. Based on extant literature and the study findings, it was concluded that sensing capability, learning capability, reconfiguration capability and relational capability influenced organizational performance of small and medium enterprises in Lamu County, Kenya. The results established that the conceptualized model was fit to predict organizational performance of small and medium enterprises using dynamic capabilities. The conclusions therefore summarize each variable in their order of significance in influencing organizational performance of small and medium enterprises in Lamu County, Kenya.

9.1.1 Sensing Capability

Sensing capability had a positive influence on organizational performance of small and medium enterprises in Lamu County, Kenya. Actions of competitors being always anticipated by firms attracted the highest convergence in opinion on explaining sensing capability. Attendant aspects explaining sensing capability included firms' operations involving predicting customers' demands; firms always embracing new ideas for continuous improvement; firms proactively remaining aware of the changes in the environment and firms analyzing the environment to identify customer needs. Since it was concluded that all aspects of sensing capability had a positive influence on organizational performance of small and medium enterprises, the null hypothesis was rejected.

9.1.2 Learning Capability

Regarding learning capability, the study concluded that it had a statistically significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya. Facets including firms customarily promoting acquisition of new knowledge though learning and development; transfer of knowledge within firms through shadowing and apprenticeship being facilitated; firms always supporting a learning culture by providing a conducive environment for learning; intellectual property rights being always pursued and sustained in most firms converged in explaining learning capability. Given that it was concluded that elements under the subject variable had a positive influence on organizational performance of small and medium enterprises, the null hypothesis was rejected.

9.1.3 Reconfiguration Capability

Regarding reconfiguration capability, the study established that the variable had a positive influence on organizational performance of small and medium enterprises in Lamu County, Kenya. The influence was statistically significant and inferred that an improvement in reconfiguration capability resulted in an improvement of organizational performance. On further analysis, it was determined that firms regularly acquired and maintained new resources; firms looked out for opportunities to expand by acquiring small business enterprises and also through mergers and attendant partnerships; firms were always seeking to create new ideas on how to navigate in the market and also that firms always sought to create proficiencies, thus the conclusion that reconfiguration capability had a positive influence on organizational performance of small and medium enterprises, hence the null hypothesis was rejected.

9.1.4 Relational Capability

The study established that relational capability influenced organizational performance, and the findings aligned well with extant literature that firms cultivated strategic interactions for better partnerships; firms maintained external visibility for better liaisons with all stakeholders; firms enhanced internal coordination for better relationship ventures; firms developed strong relations with customers to achieve better customer satisfaction; and firms always sought to achieve and maintain functional infrastructure hence the conclusion that relational capability had a positive influence on organizational performance of small and medium enterprises, hence the null hypothesis was rejected.

9.2 Recommendations

This section puts forth recommendations based on findings about the study objectives and from the literature review on dynamic capabilities and organizational performance of small and medium enterprises.

9.2.1 Managerial Implications

Firms must have strong interaction response capacity to attract and maintain customers and also have a well-established database to serve customers better. Firms must be encouraged to entertain new ideas by staff to enhance innovation and to continuously release redundant resources and proficiencies. Firms ought to exploit the competencies at their disposal for transformation and sharing for seamless delivery to customers. There ought to be effective governance and incentive alignment as elements that are strongly pursued by firms. Additionally, firms must always seek to achieve and maintain functional infrastructure in order to continuously serve and satisfy their customers' needs and attendant endeavours. Firms need to keep up with changes in the technological space to be at par with the obtaining dynamics.

9.2.2 Sensing Capability

The results of the study indicated that sensing capabilities had a statistically significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya. These results advocate that senior managers should elaborate on how to exploit new opportunities to achieve optimal value. Senior managers should have the

skills to mobilize and allocate resources to pursue new business opportunities that will improve the survival and performance of SMEs. The study recommends that it is essential for senior management to have clarity on the best strategy to sense new opportunities.

9.2.3 Learning Capability

The results of the study indicated that learning capabilities had a statistically significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya. SMEs managers and supporting organization should not only focus exclusively on either technology innovation capabilities or organizational learning capabilities, but should give due emphasis on the combined and synergetic approach to get the maximum firm performances benefits from these capabilities. The study recommends that SMEs in Lamu should increase in research and development activities to realize improved performance.

9.2.4 Reconfiguration Capability

The results of the study indicated that reconfiguring capabilities had a statistically significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya. On reconfiguration capabilities, the study recommends that the business analysts working among SMEs in Lamu should continuously redesign their business processes to create value.

9.2.5 Relational Capability

The results of the study indicated that relational capabilities had a statistically significant influence on organizational performance of small and medium enterprises in Lamu County, Kenya. The study recommends that SMEs owners should develop deeper relationship with customers for repeat sales or referrals for business.

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