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MODERATING ROLE OF DYNAMIC CAPABILITIES IN THE RELATIONSHIP BETWEEN INTELLECTUAL CAPITAL AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ABUJA, FCT

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ABSTRACT

This study investigates the moderating role of dynamic capabilities in the relationship between intellectual capital and performance of Small and Medium Enterprises in Abuja, FCT. Recognizing the high failure rate of SMEs within their first five years, the research aims to understand the factors influencing SME performance. Data were collected through questionnaires administered directly to the targeted demographic, and analyses were conducted using SPSS version 23 for preliminary findings and Partial Least Squares (PLS) path modeling for the main analysis. The study's findings indicate that human capital does not significantly impact SME performance in the FCT. However, relational and structural capital were found to have significant effects. Interestingly, dynamic capabilities were observed to significantly moderate the relationship between human capital and SME performance, but not between relational capital and SME performance. Conversely, dynamic capabilities do moderate the relationship between structural capital and SME performance. Based on these findings, the study recommends that SME owners and managers in the FCT should focus on developing technical, interpersonal, and conceptual skills to enhance enterprise management and performance. Additionally, improving relational capital through stakeholder relationship-building is advised. These strategies are expected to contribute positively to the sustainability and success of SMEs in the region.

Keyword*:* Intellectual capital, human capital, relational capital structural capital, dynamic capabilities

1.0 INTRODUCTION

The performances of Small and Medium Enterprises (SMEs) has continued to be a serious concern to the Nigerian government and the organized private sector groups. This is because, nowadays, SMEs are the biggest employers of labor, and means of economic development in the world. Therefore, the country needs to have an SME sector that is capable of generating employment, wealth creation, poverty reduction, and economic growth.

The contributions that SMEs make to the economic prosperity and growth of nations have been widely acknowledged and well-documented by policymakers as well as researchers worldwide (Khalique, 2020; Bansal, Garg, Jain, & Yadav, 2023). Many industrialised and developing nations have shifted away from the conventional focus on Large Scale Enterprises (LSEs) in favour of SMEs, believing that SMEs make a greater contribution to their economies.

In Japan SMEs contributes 80% to the GDP, in Germany they contributed 75% to German GDP and in the USA SMEs contributes 79% of the country's GDP (Kee & Rahman, 2020). In addition, Ghana SMEs provide about 85 percent of manufacturing employment, and contribute 70 percent to the Ghanaian GDP (Bansal, Garg, Jain & Yadav, 2023). Similarly, in South Africa, the sector contributes between 52 and 57 percent of the GDP and 61 percent of employment. According to the South Africa Ministry of Trade and Industry, (2017) SMEs account for 60% of employment, they contribute 52% - 57% to the GDP of South Africa, as there are some 2.8 million diverse SMEs in South Africa. In Seychelles SMEs represent about 65% of businesses, largely within the private sector, and contribute about 49% of Seychelles Gross Domestic Product (GDP) (Kamara 2017 and Mirza *et al., 2022*).

However, in Nigeria, SMEs contribute 42.3% to the GDP and 30% employment ratio (Bansal, Garg, Jain & Yadav, 2023) which shows that SMEs are performing below per (better) in Nigeria in comparison to other developed and developing countries of the world (Haris, Yao, Tariq, Malik & Javaid, 2019). This shows that SMEs are not performing in Nigeria when compare to other developed and developing countries of the world (Adusei, *et al., 2022*).

Most SMEs in Nigeria environments have not been performing to expectation. Some of the SMEs fails within their first five years of existence and a smaller percentage goes into extinctions between the sixth and tenth year, while only about five to ten percent survives, thrives and grow to maturity (Kaya, 2019, Bansal *et al.,* 2022). Several factors have been identified contributing to this premature death of SMEs. Most SMEs do not possess the require intellectual capital skills because they lack knowledge, applied experience, organizational technology, customer relations and professional skills that provide a them with a competitive edge in the market. SMEs find it difficult in assigning meaningful and reliable quantitative values to identifiable intellectual capital. Most SMEs do not understand the complexity and the higher costs involved in the development of the intellectual capital. The presence of these practical issues of SMEs dying within their first five years of existence that led to the conduct of studies on intellectual capital and performance of SMEs.

Inconsistence in previous studies necessitates the introduction of moderator, for instance; a study conducted by Kantur (2016) and Beltramino, Garcia-Perez-de-Lema, & Valdez-Juarez, (2021) has documented negative relationship, while other studies such as Al-Dhuhouri (2020) and Popa *et al., (*2021) documented positive relationships between intellectual capital and SMEs performance. It is on the basis of these differences in results and following one of the recommendations of Baron and Kenny (1986), Mirza *et al.,* (2022) and Gichira, (2016) that the current study integrated a moderator (i.e Dynamic capabilities). Moreover, according to Kantur (2016) and Villanueva, *et al., (2022),* it is necessary for every organization with intellectual Capital to have dynamic capabilities to have outstanding SMEs performance. There are scanty studies on intellectual capital and SMEs performance in Nigeria as most of these studies on intellectual capital were conducted in developed and few developing countries.

Also, Al-Dhuhouri, (2020), & Kaya, (2019) consider only one dimension to intellectual capital i.e. human capital, incorporating other forms of intellectual capital (structural capital and relational capital) as recommended by Lshanty & Emeagwali, (2019) and Adusei, *et al.,* (2022) is another contribution to knowledge. The work of Lshanty and

Emeagwali, (2019), Agostini and Nosella, (2022) that made a direction to this study had a methodological problem that may not lead to the generalization even in a single geopolitical zone. This is because the study covered a particular section of the SMEs.

The Independent Variable (IV) (i.e., intellectual capital) concerns with intangible benefits derived by a specific firm, which is generated from its workforce or employees and the relationships it has established with other groups (Kaukab, Adawiyah, Setyanto, & Suroso, 2020). In their study, Bansal, Garg, Jain, and Yadav, (2023) as many other studies considered only one dimension of intellectual capital (i.e., human capital). Whereas, Ramírez, Dieguez-Soto, Manzaneque, (2021) suggested that incorporating other forms of intellectual capital (i.e., structural and relational forms of intellectual capital) could be another significant contribution to literature.

Although there are empirical studies that have investigated the effects of these intangible resources on firm performance (e.g., Savitri, and Syahza, (2019), little attempt has been made to study more on the relationship between intellectual capital and SMEs performance. Therefore, additional research on this relationship is required, especially in Nigeria where there has been relatively little research on intellectual capital.

Research on dynamic capability is still in its emergent state, very little has been known about what dynamic capabilities (DCs) are all about and their relationship with performance particularly in developing economies (Bentour, 2020). The current study aims to fill these gaps by conducting a quantitative examination of the various elements of intellectual capital, such as human capital and relational capital.

This current study has been designed to fill the aforementioned gaps by conducting an empirical study on intellectual capital dimensions i.e. human capital, relational capital and structural capital on SME performance through the moderation of dynamic capabilities. Similarly, no study has been conducted on the effects of intellectual capital on SME performance based on the current available literature. Consequently, based on the abovementioned independent, intervening, as well as dependent

variables, this study aims to respond to 4 direct, and 3 indirect (i.e., moderating) questions. The study aims at achieving 4 direct, and 3 indirect objectives as presented in the following subsections. The study therefore examines the moderating role of dynamic capabilities in the relationship between intellectual capital and performance of Small and Medium Enterprises in Abuja, FCT.

Research Questions

The research questions are:

Does human capital, relational capital, structural capital and dynamic capabilities have influence on SMEs performance in Abuja Metropolis?

Do dynamic capabilities moderate the relationship between human capital, relational capital and structural capital and SMEs Performance?

Research Objectives

The main objective of the study is to examine the moderating role of dynamic capabilities on the effect of intellectual capital on SMEs performance in Abuja metropolis. Other specific objectives include:

To examine the effect human capital, relational capital, structural capital and dynamic capabilities on SMEs Performance in Abuja Metropolis.

To determine whether dynamic capabilities moderate the relationship between human capital, relational capital and structural capital on SMEs performance.

Hypotheses of the Study

i. Human capital, relational capital, structural capital and dynamic capabilities has no significant effect on SMEs Performance in Abuja Metropolis.
ii. Dynamic capabilities do not moderate the relationship between human capital, relational capital and structural capital and SMEs performance.

The study examined the moderating role of dynamic capabilities in the relationship between intellectual capital and performance of Small and Medium Enterprises in Abuja, FCT. It concentrates on SMEs that operate within Federal Capital Territory (FCT). The

study was cross sectional in nature and was conducted in 2021.

2.0 Literature Review

This chapter is concerned with the1review of related1literature. It discusses the variables under study. It explains the concept of SMEs performance, Performance measurement system, concept of intellectual capital, dimension of intellectual capital, concept of dynamic capabilities. This chapter also focuses on1empirical evidence1and explain the theoretical framework1underpinning the study.

The Concept of SMEs Performance

Performance is a quantitative and qualitative measures that assesses the extent to which an organisation has achieved a goal or set of goals (Hariyati, et al., 2022). Performance is a collection of management activities that give a broad overview of how well employees have performed their duties and assumed their obligations, holding them accountable to the public for their accomplishments or failings. Standard work outcomes, or criteria that have been established since the beginning of the business are included in the achievement of the results of a series of activities in question (Rovelli, et al., 2021).

Concept of Intellectual Capital

Intellectual capital is intellectual elements or material that can be recorded as assets such as; knowledge, information, intellectual property, as well as the experiences, dedication, and skills or capability of employees (Lang, Behl, Phuong, Gaur, & Dzung, 2023). Hariyati, Nuswantara, Hidayat, & Putikadea (2022) characterised intellectual capital as including a number of components, including human, structural, and relational capital, all of which have an impact on performance.

The Concept of Dynamic Capabilities

The idea of dynamic capacities (DCs) was inspired by Schumpeter's work in 1934, according to several scholars (e.g., Eckstein and Egena, 2014; Wombo and Fawcett, 2013). According to the Schumpeterian theory, performance is determined by routines and capacities that make up a business's basic structure as well as evolutionary factors that account for how well a firm fits into its environment (Gnanzou and Goellner, 2015). Additionally, the viewpoint contended that the core of DCs is the

innovative fusion of quick knowledge and a firm's current resources into new operational capabilities (Gunasekaran, 2016).

Review of Empirical Studies

This section provides a comprehensive assessment of empirical research that are relevant to the present investigation, with the aim of identifying any gaps in the existing literature.

A comparative research on SMEs operating in Malaysia and Pakistan in 2012 by Khan (2012) revealed that intellectual capital has a significant influence on the performance of SMEs in both countries. In a study done in Iran with 39 insurance firms chosen as the sample, Kemboi (2015) found a substantial positive association between value added intellectual capital and a company's profitability.

Additionally, investigations done by Pal and Soriya, Khalique, and Samad (2013) led to the conclusion that an organization's performance may be greatly improved by its intellectual capital. In a study done in Spain using a sample of 400 Spanish customers, Leaniz and Chepkwony (2015) found a direct correlation between economic, social, and environmental sustainability and improved business performance. This study also demonstrated that economic sustainability is regarded as the most crucial factor in boosting corporate performance. In a research on European Universities, Corcoles (2013) found that knowledge obtained from the case studies serves as a foundation for understanding how European universities assess and manage their intellectual capital. The enhancement of the internal leadership and the facilitation of benchmarking analysis at European Universities both depend on intellectual capital analysis. In a study of mid-size listed multinational Danish producers of retail equipment and store solutions, Lueg (2013) provided an example of how IC might be used by businesses under pressure from low-cost competitors. The BM of SHOP INC will be impacted by increases in IC in terms of culture, organisational structure, technical administration, inclusion of strategic relationships, cost structure, and increased profitability.

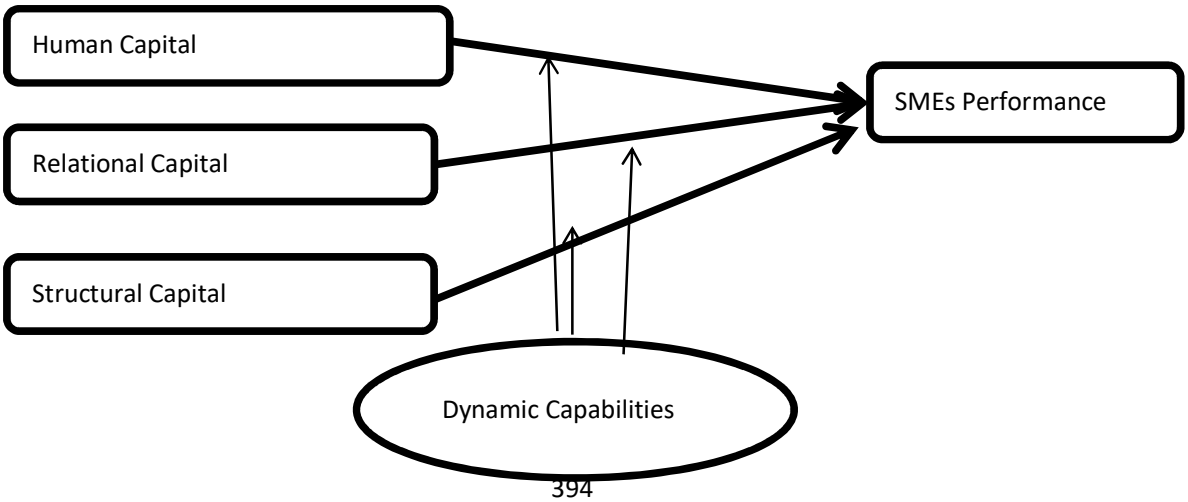
Razafindrambinina and Santoso (2013) study conducted in Indonesia using data from publicly listed non-financial institutions on the Jakarta Stock Exchange identified no significant correlation between intellectual capital and its components and

brokers' investment,. However, it was confirmed that brokers' recommendations are almost always based on financial performances. The findings showed that the Indonesian capital market has not taken advantage of how intellectual capital may increase a company's potential, and that might be linked to brokers' and investors' general lack of knowledge of the significance of intellectual capital.

Isa (2013) conducted research on the relationship between intellectual capital and organisational success, focusing in particular on spiritual capital. The participants in the interview encompass a diverse group of individuals holding positions ranging from general managers to senior vice presidents and CEOs. The study includes executives at assistant general manager levels, working across different departments within the business areas and headquarters of 14 states. The data are subjected to statistical analysis procedures such as variance analysis, factor analysis, ANOVA testing, regression analysis, route analysis, and narrative analysis. The study reveals a robust association between performance and spiritual capital. Enhancing the presence of spiritual capital within senior management might potentially contribute to improved business performance, since it enables effective management and utilisation of existing intellectual capital.

Research Framework

A research framework serves as a foundational structure or model that facilitates the coordination and consolidation of our collaborative research endeavours.



Theoretical Framework

Resource-Based View (RBV)

Theoretically, many researchers and writers have made some effort in developing the frameworks and theories of internal firm resources and capabilities. This investigation incorporates the resource-based view of the company as a theoretical framework, drawing upon the works of Barney (1986, 1991) and Setiowati (2015). In the words of Khalique (2011), a prominent advocate of the resource-based view (RBV), it is argued that in the event where all firms within an industry possess identical resources, none of them would be able to maintain a sustainable competitive advantage.

3.0 Research Methodology

Introduction

This chapter outlined the methodologies utilized in the execution of the present study. The provided text offers an overview of the methods and methodologies employed in the research. These encompass the research design, study population, sample size, sampling techniques, data collection technique, and assessment of the reliability and validity of the research instruments, variable measurement, pilot study, data analysis technique, and model specification.

Research Design

The research employed a cross-sectional survey research design. Using survey questionnaires, primary data were gathered from the study's population. The questionnaire was broken up into sections, and each section had closed-ended questions.

Population of the Study

The population of this study comprises of Small and Medium Enterprises (SMEs) in Federal Capital Territory (FCT). Federal Capital Territory (FCT) has five thousand six hundred and ninety (5690) SMEs (SMEDAN, 2013), with a variety of activities such Manufacturing, Trade Distributions and services.

Sample Size

The primary objective of the study is to derive conclusions for the purpose of formulating generalisations about the

population of interest. Nevertheless, in the majority of studies, researchers rarely examine the entire population due to its large size. Consequently, it is imperative to extract samples that are representative of the entire population. The sample size of 361 was determined using the methodology proposed by Krejcie and Morgan (1970) in this study.

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.
Source: Krejcie & Morgan, 1970

The study adopts Salkind's view for adjusting sample size, which is frequently employed in survey research, in order to reduce the non-response1rate (Bartlett, 2001). This perspective posits that the sample size could be increased by around 40% to 50% in order to accommodate for the possibility of misallocated questionnaires. Given that 181 represents exactly half, or 50%, of the total value of 361, it follows that the sample size amounts to 542. Hence, a total of 542 survey instruments was disseminated among the small and medium-sized enterprises (SMEs) located in the Federal Capital Territory (FCT) through a random selection process.

Sampling Technique

In this study, the simple random sampling was employed. The simple random or unrestricted sampling is that kind of sampling procedure in which each element of a population is assured an equal chance to be included in the sample.

Method of Data Collection

The primary data was sourced via a closed ended questionnaire to draw response from targeted population. The data used for this study was collected from primary source. Five hundred and forty-two (542) questionnaires was distributed to the respondents.

Techniques of Data Analysis

The researcher employed Statistical Package for the Social Sciences (SPSS) version 18 for preliminary analyses. In the main analysis, the study employed Partial Least Squares (PLS) 3 in order to compute the two basic models of PLS Path Modelling, which includes measurement model and structural model (Anderson & Gerbing, 1988).

4.0 Data Presentation and Analysis

This chapter discusses findings of the present study. Firstly, it discusses the response rate followed by assessment of outlier and then descriptions of the respondents. Furthermore, the results of the measurement and structural models was highlighted. Lastly, the chapter ends with discussions of the finding and its implications.

Response Rate

A total of 542 questionnaires were disseminated among the participants. However, according to the data presented in Table 4.1, a total of 542 questionnaires were issued, but only 396 of them were ultimately included in the study. After the completion of the questionnaire, a total of 12 questionnaires that were found to be incomplete were excluded from the analysis. Hence, considering a total of 396 responses out of 542, the response validity rate is at 73.1%, which is deemed satisfactory for conducting the analysis in the current research. Sekaran (2003) suggests that a 30% rate would be deemed acceptable for a cross-sectional study. The decision to enlarge the sample size was prompted by issues of non-response or incomplete completion of the questionnaire.

Table 4.1: Response Rate of the Questionnaire

Questionnaire	Frequency	Rate (%)
Distributed copies of questionnaires	542	100
Copies of Questionnaires returned	408	75.3
Copies of Questionnaires not returned	134	24.7
Copies of Questionnaires returned and excluded	12	2.2
Usable Copies of questionnaires	396	73.1

Field Survey, 2024

Assessment of Outlier

Outliers are observations from a study with a special combination of characteristics that is identified as clearly unique from the other observations (Hair, *et al.*, 2014), which could distort statistics (Tabachnick & Fidell, 2001).

Assessment of the Measurement Model

In a definition provided by Hair (2010), a measurement model is a method for precisely representing a variable or construct by assigning numerical values to them according to a predetermined set of rules. In evaluating the measurement model of this study, the researcher measures each latent construct by assessing the reliability of individual items., the internal consistency reliability (i.e., construct reliability), discriminant validity, as well as convergent validity for each of reflective constructs (Hair, 2020).

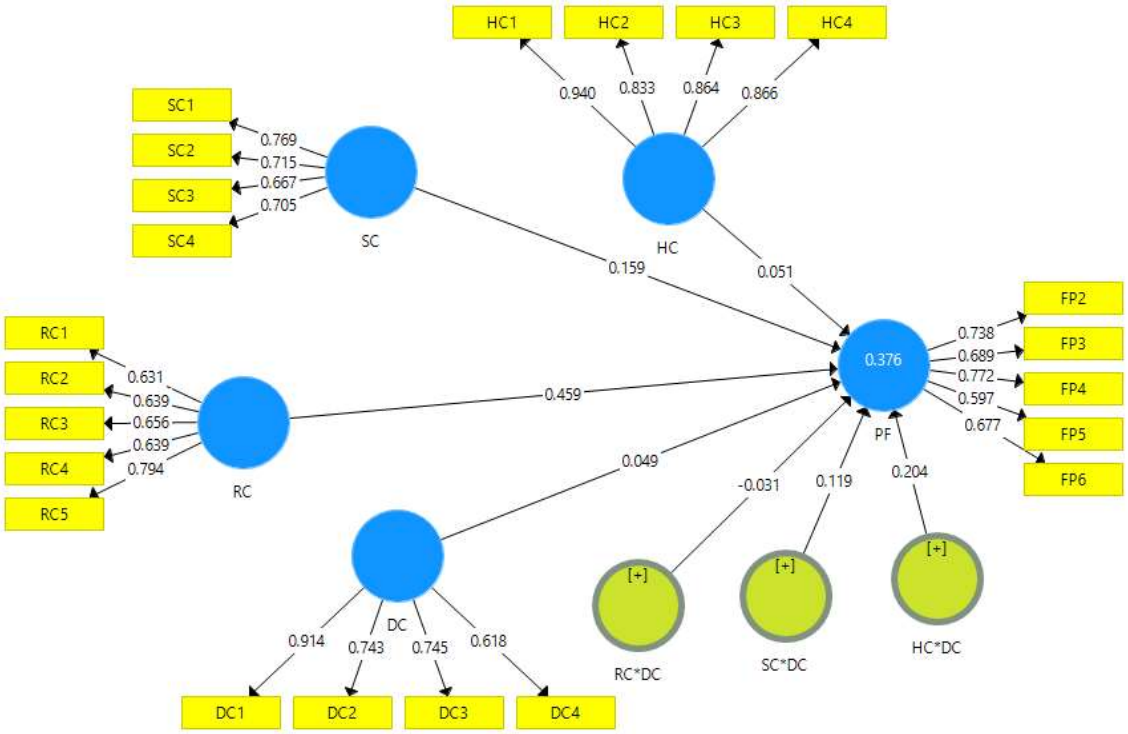


Figure 4.1: *Measurement Model*

Assessment of the Structural Model

Following the successful fulfillment of the measurement model requirements, this section proceeds to assess the outcomes of the structural model analysis, encompassing the examination of both the direct and moderating hypotheses. Consequently, the present work utilized the conventional bootstrapping technique, employing 5000 bootstrap samples derived from the original sample data, in order to evaluate the statistical significance of the path coefficients (Hair, et al., 2014; Sarstedt et al., 2014).

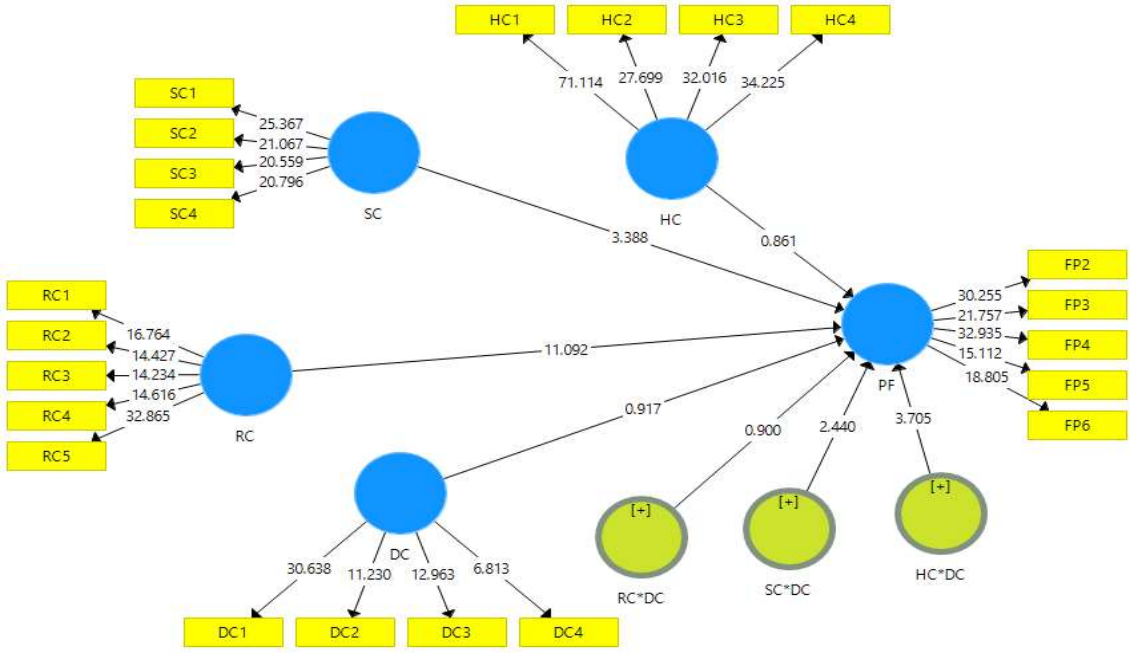


Figure 4.4: Structural Model

Path Coefficients for Direct and Moderation Relationships

The outputs of the structural model, which investigates the direct relationships between the predictors and criterion variables in this investigation, along with the interaction effect of the moderator variable, are presented in Table 4.5. The analysis of this data requires the usage of the coefficients (Beta) that reflect the path relationship, the standard error (SE), and the t-value (T Statistics).

Table 4.5: *Path Coefficient for Direct and Moderation Relationships*

Constructs	Beta	St. Dev.	T Statistics	P Values	Decision
HC -> PF	0.04	0.06	0.86	0.39	Fail to reject
RC -> PF	0.46	0.04	11.09	0.00	Reject
SC -> PF	0.16	0.05	3.39	0.00	Reject
DC -> PF	0.06	0.05	0.92	0.36	Fail to reject
HC*DC -> PF	0.20	0.06	3.71	0.00	Reject
RC*DC -> PF	-0.03	0.03	0.90	0.37	Fail Reject
SC*DC -> PF	0.11	0.05	2.44	0.01	Reject

As presented in Table 4.5 above, the main concern is to look at the significance of the interaction term. Therefore, if the effect of the interaction term on the independent variables is significant, it is assumed that the moderator has an important moderating effect on the relationship between the independent variable and the dependent variable. Therefore, bootstrapping result as shown in Table 4.5 reveals that human capital does not significantly influence SMEs performance associate at 5 percent significance level (β = 0.04; t = 0.86; p = 0.39).

Therefore, first hypothesis, we fail to reject which state that ''Human capital has no significant effect on SMEs performance in Federal Capital Territory (FCT)''. It can be seen that relational capital has a significant positive effect on SMEs performance (β = 0.46, t-value = 11.09, p-value < 0.00). This means an increase in unit in relational capital leads to 46% increase in SMEs performance. Thus, in the second hypothesis (H_1) which states; relational capital has no significant effects on SMEs performance is rejected. Also, structural capital has significant effect on SMEs performance in Federal Capital Territory (FCT) (β = 0.16 and t- value = 3.39, p-value <0.00). This means as structural capital increases by one unit, SMEs performance increases by 16. Hence, hypothesis three (H_3), structural capital has no significant effect on SMEs performance in FCT is rejected. For the fourth hypothesis dynamic capabilities has no significant effect on SMEs Performance in Federal Capital Territory (FCT) (β = 0.06; t = 0.92; p = 0.36). Therefore, we fail to reject the fourth hypothesis which states that ''Dynamic capabilities has no significant effect on SMEs Performance in Federal Capital Territory (FCT)''

The moderating result shows that dynamic capabilities also significantly moderate the relationship between human capital and SMEs performance as stated in hypothesis five, where (β = 0.20, t-value = 3.71; p value <.000). Dynamic capability does not significantly moderate the nexus between relational capital and SMEs performance as stated in hypothesis six, where (β = -0.03; t = 0.90; p = 0.37). Finally, dynamic capability moderate the relationship between structural capability and SMEs performance as shown in hypothesis seven, where (β = 0.11; t = 2.44; p = 0.01).

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Discussion of Findings

Based on the results, the performance of SMEs is not significantly influenced by human capital. This suggests that when employees enhance their talents and competence, the performance of SMEs tends to decrease. The second hypothesis (H1), which posits that relational capital does not have a substantial impact on the performance of SMEs, is refuted. The third hypothesis, which posited that there is no significant impact of structural capital on the performance of SMEs in the FCT, has been refuted. Therefore, the findings indicate a substantial impact of structural capital on the performance of SMEs in the FCT. The findings of the study indicate that dynamic capabilities play a substantial moderating role in the relationship between human capital and the performance of SMEs. The study showed that dynamic capability does not significantly moderate the relationship between relational capital and SMEs performance. Finally, dynamic capability moderates the relationship between structural capability and SMEs performance.

5.0 Conclusion and Recommendations

Conclusion

The study, based on the findings, concludes that human capital has no significant effect on SMEs performance. Also, it is revealed relational capital and structural capital was discovered to have significant positives effect on SMEs performance. The moderating result shows that dynamic capabilities significantly moderate the relationship between human capital and SMEs performance. Dynamic capability does not significantly moderate the relationship between relational capital and SMEs performance and finally dynamic capability moderate the relationship between structural capability and SMEs performance.

Recommendations

The study's findings have led to the formulation of the following suggestions for the diverse stakeholders affected.

1. In general, this study does not provide evidence that human capital has a major impact on the performance of SMEs. When it comes to efficiently planning, directing, organising, and

controlling the firm, which ultimately leads to increased performance, owners and managers of SMEs should possess technical, interpersonal, and conceptual abilities.

2. In order to improve relational capital, managers should encourage their employees to cultivate relationships with all of the stakeholders in the organisation. The owners and managers of SMEs should work to develop their relational capital because doing so will improve the performance.
3. The management of the organisation should thoroughly evaluate and explore all available methods and resources in order to construct an enhanced organisational structure. The enhancement of structural capital by owners/managers of SMEs is crucial. This is because a firm that possesses robust structural capital stands to benefit from improved performance.
4. To enhance performance, it is imperative for owners and managers to possess the capability to effectively integrate, construct, and modify both internal and external competences. In addition, it is imperative for individuals to possess the capacity to effectively incorporate, modify, acquire, and relinquish resources with the purpose of aligning with and potentially instigating shifts within the market.
5. Training and development programmes must to be formulated in a manner that facilitates employees in acquiring knowledge and skills that are applicable to their current position, as well as preparing them for future advancement.
6. In order to enhance the relationship between relational capital and performance, it is imperative to enhance the dynamic capability of organisations.
7. The management of the organisation should thoroughly evaluate and explore all available means and resources in order to construct an enhanced organisational structure.

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