

Strategic capabilities and firm performance: A study of SMEs in Kandy district in Sri Lanka

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Abstract

The economic growth of developing countries can be sustained by the expansion of small and medium enterprises since they are considered as the engine of growth. It is important to accelerate the growth of small and medium enterprises in order to gain sustainable development in this era. Many scholars have argued that the strategic capabilities are salient factors which contribute to the performance of small and medium enterprises. However the recent literature provides contradictory findings about the relationship between strategic capabilities and performance. Literature suggests four strategic capabilities that effect on firm performance which termed as strategic planning, opportunity exploitation –exploration, learning capabilities, network capabilities. Main objective of the study was to examine the relationship between strategic capabilities and performance of small and medium enterprises in Kandy District. More importantly the study focused on strategic capabilities process where, there is a dearth of studies which have concentrated on strategic capabilities. Specific objectives include identifying the level of involvement in the strategic capabilities. Data were collected through personally attended structured questionnaire survey which focused 50 owner/managers of small and medium enterprises in Kandy District. Data were analyzed using descriptive statistical techniques which include the mean, standard deviation, skewness, kurtosis and variance of summarizing data, correlation analysis and regression analysis. The findings revealed that the selected small and medium enterprises possess strategic capabilities which have significant positive influence over firm performance. Therefore, small and medium enterprises should take steps to enhance and develop their strategic capabilities to ensure sustainable growth and development of their businesses.

Keywords: *Firm performance, learning capabilities, opportunity exploitation and exploration, strategic capabilities.*