

## DYNAMIC CAPABILITIES: AN EXPLORATION OF HOW SMALL FIRMS RENEW THEIR RESOURCE BASE

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The concept of dynamic capabilities evolves from the resource-based view of the firm enlightens the capacity of a firm to purposefully create, extend or modify its resource base to become a source of superior performance, and may enable the firm to achieve sustainable competitive advantage. This study aims to extend the concept of dynamic capabilities by exploring the resource renewal process of small firms. Building on the emergent literature on dynamic capabilities, we suggest a multidimensional construct with three factors: resource coordination & integration, learning and strategic response capabilities. A multivariate analysis (Structural Equation Modeling) of survey responses of 488 firms belong to manufacturing SMEs in Sri Lanka indicates that underlying constructs of dynamic capabilities help firms to renew their resource bases. A positive direct impact of firm capabilities on competitive advantage is revealed in addition to the positive influence of the capabilities to the entrepreneurial and strategic actions of the firm. A key implication is that the dynamic capabilities have a more expansive and vital role in the adaptation of small firms in today's business world than ever considered. The findings have valuable implications for practitioners and academics.

**Keywords:** Competitive advantage, Dynamic capabilities, Entrepreneurship, Small firms