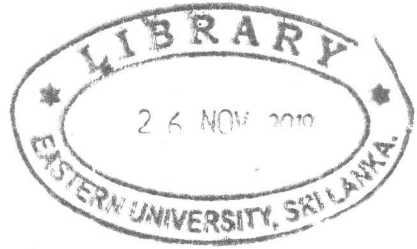


**IMPACT OF DYNAMIC CAPABILITIES ON SMALL AND
MEDIUM ENTERPRISES PERFORMANCE IN A VOLATILE
ENVIRONMENT AS MODERATED BY
ORGANIZATIONAL INERTIA**



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REG NO: EU/IS/2013/MS/39
INDEX NO: MS 1569



A project report submitted to the Faculty of Commerce and Management, Eastern University, Sri Lanka, as a partial fulfillment of the requirement for the Degree of Bachelor of Business Administration (BBA), Specialization in Human Resource Management.

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2019

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ABSTRACT

In present times the concept of dynamic capabilities has gained center of debate as it has been considered one of the ways to deal with the changing environmental turbulence and pressures for inert organizations which eventually lead to decline of organizational performance and competitive advantage.

In Sri Lanka especially in Batticaloa, the studies related to dynamic capabilities, organizational inertia and organizational performance are rare and there is need to fill this empirical gap by investigating the influence of the dynamic capabilities of small and medium enterprises (SMEs) on organizational performance, and the interaction between dynamic capabilities and organizational inertia in a volatile environment.

The main objectives of the study are to measure the level of dynamic capabilities, organizational inertia and organizational performance among SMEs of Batticaloa, to examine the relationship among these three variables and to assess the moderating role of organizational inertia in relationship between dynamic capabilities and organizational performance on SMEs in Manmunai North Divisional Secretariat in Batticaloa. To achieve these objectives, the target population was considered as SMEs in Manmunai North Divisional Secretariat in Batticaloa District. Questionnaires were issued to a sample of 160 SME owners in Manmunai North Divisional Secretariat in Batticaloa. Descriptive, Pearson's correlation, simple and moderated multiple regression analysis were used to analyze the data.

The findings show that the level of dynamic capabilities and organizational performance were high and the organizational inertia prevails in lower level among SMEs in Manmunai North Divisional Secretariat in Batticaloa District. Also, findings indicated that dynamic capabilities have a positive and significant relationship with organizational performance of SMEs. Also, the relationships between dynamic capabilities and organizational inertia and between organizational inertia and organizational performance were negative and significant. Further findings of this study revealed that organizational inertia negatively moderates the relationship between dynamic capabilities and organizational performance of SMEs in Manmunai North Divisional Secretariat in Batticaloa District.

By addressing the findings of this study SME owners could try to reduce the inertia in their business by which the relationship between dynamic capabilities and performance can be induced and this lead the businesses in achieving competitive advantages.

Keywords: Small and Medium Enterprises, Dynamic Capabilities, Organizational Performance, Organizational Inertia

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