

## The Impact of strategic Agility on the SMEs competitive capabilities in the Kingdom of Bahrain

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**Abstract:** With a highly uncertain and changing business environment, the typical way of planning a business is not particularly useful in different organizations world-wide. The current literature explores the concept of strategic Agility based on the idea of flexible planning and implementation and can pivot direction at the time of crises. Three main theories underpinning these concepts are contingency-based theory, resource-based theory, and Dynamic capability theory. These theories have one common point of view: enterprises' ability to cope with unexpected changes, survive unprecedented threats from the business environment, and take advantage of changes as opportunities. The literature has identified various variables that impact the adoption of strategic Agility in the organization, including strategic sensitivity, Resource fluidity, and Leadership unity. Some studies in the literature have found these variables as dimensions of strategic Agility. Further, the literature discussed how competitiveness could be achieved through strategic Agility at times of crisis, particularly in SMEs, which are highly prone to external problems due to limited resources and budgets.

**Keywords:** Strategic Agility, Competitive Capabilities, Small and Medium Business.

Type: **Research paper**



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### 1. Introduction

In recent years, the world has witnessed radical and rapid changes due to globalization after the Fourth Industrial Revolution and changes in economic, political, and social factors, which affect the market's instability in a hypercompetitive environment. It requires great flexibility and proactive planning by the public and private sector to increase its competitiveness and the sustainability of resources and services, contributing to Promote economic growth around the world (Sampath & Krishnamoorthy, 2017).

Awareness these days about the importance to be flexible in business survival, especially after the Covid-19 pandemic, which had a significant impact on business and the economy due to the lock down policies and social distancing in order to prevent and protect public health (Omar, Ishak, & Jusoh, 2020).

A term of strategy became important in the last few years called strategic Agility, which is a quantum leap in the field of planning and strategy development, as the concept of strategic Agility is the extent of flexibility and the ability of the institution to adapt and innovate and convert challenges into opportunities by anticipating unexpected internal events, in addition to rapid response, towards any emergency effectively and efficiently.

Furthermore, all various sectors should have flexible strategies to prepare for any activities; in addition, to enhance the ability to deal with emergencies with high potential of flexibility and efficiency, supporting smart work teams, fostering a culture of innovation, and ensure the sustainability of resources and services, especially small and medium-sized companies that have suffered the most significant impact due to the lack of liquidity and the inability to adapt quickly upon changes, a large percentage of SMEs are struggling to survive in business these days (Gerald, Obianuju, & Chukwunonso, 2020).

Literature studies show that there is no fixed definition of SMEs. The definition differs as each country has a different classification over the years according to economic, social, and cultural differences (ROBU, 2013).

Some classification of small and medium enterprises was according to the number of employees or the company's annual sales volume, while there are some factors less importance contributes to the classification in some countries, such as the size of capital and the credits obtained (ROBU, 2013).

Over the past decades, Small and medium enterprises (SMEs) are considered an essential and decisive factor in increasing the gross domestic product (Darwish, 2014), which enhances global economic growth in general, because of its strength and direct impact on economic and industrial activity, in addition to the vital role in the sustainable development of countries (Bouazza, Ardjouman, & Abada, 2015).

In the Arab countries, there are more than 10 million companies under the SMEs category, which affects the vital role of these companies in the GDP and economic growth of countries, as they realize the importance of supporting, encouraging, and financing these companies (Emine, 2012).

In the Kingdom of Bahrain, the Economic Vision 2030 is considered the road map of the Kingdom, which is based on three pillars: sustainability, competitiveness, and fairness; its aims to enhance the effectiveness of the public and private sectors, encourage entrepreneurship programs, create a safe environment for business, and achieve competitiveness, According to the Ministry of Industry, Commerce and Tourism (MOICT) reports show that the percentage of companies Small and medium enterprises in the Kingdom are close to 98% (Attallah, Al-Jayyousi, & Mamlook, 2019).

Moreover, the Studies and statistics report the role of the government team in the Kingdom of Bahrain to address the Covid-19 pandemic through proactive steps and distinctive flexible planning that contributed to mitigating the impact on the business sector and citizens (Ebrahim, et al., 2020).

As stated by the ministry of finance and national economy reports, the government supported the economy through financial stimulus packages that exceed 4.5 billion Bahraini dinars to support the sectors by injecting the necessary liquidity (MOFNE, 2020).

However, in the business sector, to survive and enhance competitiveness, it required shifting its strategies from classical strategies to the strategic agility concept with rapid changes, taking pre-emptive steps, and being proactive for any emergency that occurs,

which contributes to reducing the effect of new changes on business to sustain resources and promote the economy.

Business leaders and interested authors in the field believed that strategic Agility has become imperative to face challenges, enhance competitiveness, create business opportunities, increase economic growth, and consider the turbulent world.

This Study will explore the role of the strategic agility concept and its dimensions and study the impact of strategic Agility on small and medium enterprises (SMEs).

The Studies also focus on the Impact of strategic Agility on SMEs during the covid-19 pandemic. Finally, based on studies and analyzes, suggested recommendations are proposed about the importance of strategic Agility.

## **2. Literature Review**

### **2.1 Theoretical Foundations of the Research**

This section of the literature review examines various theories that apply to the Study. The research was based on three theories: dynamic capability theory, resource-based theory, and contingency theory.

#### **2.1.1 Contingency theory**

The concept of contingency theory is that a firm's business environment is the most appropriate tool for determining how it will organize. Consequently, this is an aspect of environmental dynamism that mainly deals with unpredictability and the absence of pattern (Dess & Beard, 1984).

According to Porter's five forces model, a firm function best when it understands factors related to exit barriers, power of buyers and suppliers, competition between rivals, and the threat of new entrants. Therefore, when a firm becomes aware of how these factors affect its business environment, it will determine the best way for it to organize and operate (Porter, 2008).

Eisenhardt and Martin (2000) defined environmental dynamism as a component of high-velocity markets or moderately dynamic ones. According to the authors, high-velocity markets generate less predictable and non-linear changes while moderately dynamic markets face frequent but predictable paths.

Child, Chung & Davies (2003) adds that contingency theory is more concerned with the fit between environmental conditions and strategies and structures that have been formulated. It is based on the view that environmental conditions tend to determine the nature of the organizational design responses needed to achieve superior performance, and therefore, organizations must adapt to the surrounding environment to survive. In this regard, the organization's performance is determined not by the firm's actions or environment but by a combination of the two aspects.

From the contingency perspective, therefore, the extent to integrate and control the organization is conducive to the organization's good performance and the prevailing circumstances. In developing economies or markets, where the environment is unpredictable or illiberal, a straightforward interpretation of the contingency theory suggests that closely coupled organization forms always lead to better performance.

In a nutshell, Garino & Bititci (2007) observes that the concept of organizational fit is based on the idea that proper alignment among the external and internal organizational factors will positively impact the performance of the organization. Moreover, given that the tenets of Agility are to quickly and readily respond to the changing business environment to meet external demands for a profitable business and optimal gains, analyzing the internal and external factors of organizational performance is key to helping an organization gain competitive advantages over rivals, especially in a highly contested market environment.

The contingency theory is significant to this Study because it claims that there is no ideal approach to manage leadership or operations activities in an organization. Instead, the ideal strategy relies on the internal and external circumstances in an organization and its nature. Consequently, when organizations understand and adopt strategic agilities, they must be aware of the Impact of internal and external factors that might affect their performance and include them in the environmental analyses.

### **2.1.2 Dynamic capability theory**

This theory focuses on a firm's ability to adapt and survive rather than merely remain sustainable. Teece and Pisano (2003) stated that firms that want to succeed require timely responsiveness, swift product innovation, and a management team that can effectively control and deploy competencies instead of merely accumulating valuable resources.

The theory argues that a firm's resources are likely to be worn out when competitors imitate its products or make substitutes. Therefore, to remain competitive, organizations need to constantly develop new strategies for competitive advantage based on their flexible capabilities (TEECE, PISANO, & SHUEN, 1997).

The dynamic capability theory consequently argues that the future performance and success are based on its dynamic capabilities rather than on its operating capabilities.

Winter (2003) defined operating capabilities as current approaches use to earn an income. On the other hand, dynamic capabilities are optimal capabilities achieved when a firm systematically generates and modifies its operating capabilities as the firm finds ways of becoming more effective. This, in turn, implies that dynamic capabilities are achieved through organizational learning.

Therefore, according to Kuuluvainen (2012), the central concern for the overall strategy and management of the organization should be to maintain the dynamic fit between what the organization has achieved and wants to offer and what the environment dictates—achieving organization fit demands that the firm should be able to change its processes. The firm must possess specific dynamic capabilities that will increase its opportunities to survive and provide it with the potential to grow to the highest heights.

Ambrosini and Bowman (2009) observe that the roots of the dynamic capabilities of an organization stem from evolutionary economics.

Moreover, the essence of the dynamic capabilities approach is that competitive success comes about from alignment, continuous development, and the reconfiguration of firm-specific assets. This implies that dynamic capabilities will impact the firm's resource base, which will form the core of the firm's competitive advantages.

Dynamic capabilities, however, do not just arise from nothing but are, in most cases, the outcome of learning and experience within organizations. The significance of dynamic capabilities is amplified since the global economy is now more open, and the sources of manufacturing and innovation are more diverse both organizationally and geographically.

With globalization and the emergence of multiple intentions in the modern-day marketplace, it is expected that the international business environment will continue being dynamic. Consequently, firms that possess capabilities for observing the changes in the environment will have better opportunities to grow and prosper compared to their slower rivals.

### **2.1.3 Resource-based theory**

The resource-based theory views resources as tangible and intangible assets that are evident in a firm and affect its performance (Wernerfelt, 1984).

Tangible assets are defined as a firm's physical resources such as property, equipment, financial capital, and inventory, while intangible assets are invisible resources such as brand reputation, trademarks, and intellectual property, brand name, and expertise.

Makadok (2001) noted that intangible assets are critical in helping a firm attain and sustain competitive advantage because they are valuable and inimitable. The theory assumes that an organization owns numerous resources that it can use as inputs in production. The firm will consequently have human, physical, and organizational capital. Every firm has a unique set of resources and capabilities that create its strategy and profit generation. In the dynamic and highly competitive modern business environment, an organization needs to have evolving capabilities and be managed dynamically as it seeks to increase its revenues (Hitt, Ireland, & Rowe, 2005).

Therefore, differences in firm performance and competitive capabilities are based on the uniqueness of their resources and capabilities rather than on their industry's structure (Porter, 2008).

Grant (1991) argues that while a firm's strength and competitiveness are based on the physical, information, human, and organizational capital resources, specific resources represent the unique strengths leveraged for competitive advantage. The major assumption, which underlies the resource based view ( RBV ), is that resources are homogenous and mobile between different firms and industries. Otherwise, the capabilities of a firm would be equal, and no firm in an industry would achieve a competitive advantage over the other. In this regard, the long-term success of an organization, according to Warnier, Weppe & Lecocq (2013) is that the long-term success of business innovation is based on the internal sources of the organization that is offering it, the ability of the firm to utilize the resources to attain a competitive advantage over the rivals and the contribution of the innovation to the financial performance of the organization in the market.

From the strategic Agility of SMEs perspective, the application of the RBV model among SMEs is essential since the relative nature of the resources value in the organization is a critical consideration for the firms operating in diverse institutional environments, especially in the international setting. Since institutional influences tend to vary from one country to another, resource-based advantages are not usually universal but context-specific. Therefore, in many ways, RBV is more of a pendulum swing, which SMEs must consider while rolling out their entry into a business environment.

This theory applies to the current study because it highlights that organizations need to create more value, which is dependent on the number of resources and distinctive strategic capabilities that it has to use those resources. For firms that want to be profitable and maintain a high-level competitive advantage in the long term, they must establish successful sustainable strategies by adopting strategic agilities that enhance their ability to identify, properly utilize, and sustain available resources.

## **2.2 Strategic Agility**

### **2.2.1 Overview of strategic Agility**

To provide a clear understanding of the term strategic agility, the term agility is examined first. Agility was conceived in the early 1990's Study was undertaken by the National Institute of Aerospace which the U.S. government-sponsored. Many definitions of Agility have been made for this domain, so it is difficult to nail down exactly what it is as there is no consensus on the idea, and it differs from time to time. However, it can be best described as being a keenness to learn, flexibility, and overall efficiency in learning, along with the capability to keep adjusting the company's positioning to gain optimal outcomes. Some of the definitions of Agility as coined by different authors are as follows:

The capability to survive by reacting quickly and effectively to changing markets is driven by customer-designed products and services (Kumar & Motwani, 1995). The ability of enterprises to cope with unexpected changes, survive unprecedented threats from the business environment, and take advantage of changes as opportunities (Zhang & Sharifi, 2000). Ability to effectively change operating states responds to uncertain and changing demands placed upon them (Narasimhan, Swink, & Kim, 2006).

The above definitions of Agility demonstrate that the most common idea or feature of Agility is to quickly and readily respond to the changing business environment to meet the external demands for optimal gains effectively. Strategic Agility, mainly, is the idea of quickly learning and transforming the company's strengths into a direction that future opportunities can be best utilized.

Therefore, the organizations continue to enhance the idea of self-governance, empowerment, and innovation to make the best out of the situation in a competitive landscape of business. With a highly uncertain and changing business environment, the regular way of planning a business is not particularly useful in different organizations worldwide. This is due to the fact that businesses are faced with complex external problems and challenges that they must incorporate and understand thoroughly to respond appropriately. This involves a comprehensive understanding of the internal strengths and weaknesses to gain the maximum output from the situation. Such conceptualization has been raised under the umbrella of strategic Agility, which is explained as quickly recognizing the opportunities and changing the direction towards a better response (McCann, 2004).

Most strategic engineering firms are always ready to pivot their direction based on the customer needs and wants. They perform thorough risk assessments and recognize the potential barriers in advance to minimize the threats to the organization. Further, it is essential to understand that firms with the capacity to respond in a challenging and changing environment have a higher chance of continuing their business profitably for a longer time (Lee, 2002).

To achieve its desired performance, a firm should measure and identify all the factors that are critical in helping it reach flexibility in its operations. The main objective of an agile business is to ensure that all its customers and employees are satisfied and that it acquires the necessary skills to ensure it swiftly and effectively responds to changes in its economic and operational environment. The factors that create agile performance consequently enhance business performance, and sometimes, firms might link variables and utilize strategic thinking to select a suitable variable while ignoring another. When the marketplace is highly competitive, a firm will require numerous capabilities. This is because organizations need to be ready to deal with the changing variables in their industries. This readiness is perceived as a strategic asset that allows a firm to improve its performance. Various studies have analyzed the issue.

Yaghoubi and Dahmardeh (2010) studied the factors that lead to organizational Agility. They determined that these factors include drivers, capabilities, and enablers of Agility. Additionally, Mason (2010) found a link between overall internal performance and operational agility enablers in both active and ambiguous conditions. The author also found a significant relation between operational Agility and market-related overall performance when there are similar circumstances. This implies that agility drivers are the changes or factors that occur in a situation and motivate an organization to revise its current strategy, realize that it needs to be agile, and consider Agility as a preferred approach to attaining business sustainability, profitability, and success.

According to Misiko (2014), innovation and creativity are significant contributors to a firm's ability to become agile, followed by total quality management (TQM) and I.T. adoption. Additionally, Hashim (2015) noted that TQM, creativity and innovation, I.T. adoption, and new human resource management practices all Impact a firm's ability to attain a competitive advantage. On their part, Okotoh (2015) determined that I.T. increases knowledge sharing capabilities, allows firms to improve their information management capabilities, increased their ability to obtain analytical decision support, and improves communications, which in turn increased operational performance. As such, I.T. adoption, strategic alliances, and human resource management practices positively affect operational performance.

Waweru (2016) examined strategic agility enablers and the performance of SMEs in Kenya. The research results indicated that a firm's human capital base, I.T. integration, organizational structure, innovation practices, and the effectiveness of its operational processes are all factors that affect the performance and competitive capabilities of SMEs in Kenya. The researcher also determined that discontinuous innovations, such as exploring new paradigms and experimenting with new ideas, influence SMEs' performance in Kenya. Also, the Study concluded that employees' competence, skills, and experience are critical in the performance of SMEs. Nejatian, et al. (2019) explains that in recent years, the world's business and market environments have changed significantly by becoming bolder and dynamic. The technological developments and dominance of phenomena such as data analytics and Internet of Things, rapid technological advancements, Industry 4.0, change in customer preferences and taste, and increased organizational knowledge transfer rates have all contributed to increasing pressure on the organizations and made them adapt and respond to changes in their operating environment. The durability of change as an intrinsic element in the modern-day market submits that organizations must continuously revisit their strategic decisions.

Moreover, organizations that can keep pace with the changes survive while those that fail to do so get eliminated from the market. To deal with these changes and keep up with the pace, Weber and Tarba (2014) suggest that organizations must develop strategic Agility to align their strategies accordingly. In this regard, concepts such as resource-based view, sustainable competitive advantage, and strategic planning need to be incorporated to serve such purposes. According to Lengnick-Hall and Beck (2009), strategic Agility has in the recent past gained momentum and has so far proved to provide organizations with competitive capabilities that allow organizations to cope with the changing needs of the environment. The concept allows organizations to cope with the dynamic nature of the business environments by constantly spotting, sensing, and seizing intentional strategic moves and changing the organization's configurations.

Therefore, for businesses such as SMEs, Moore and Manring (2009) explain that focusing on the main resources for growth and performance over time is essential to their success. Strategic Agility allows them to gain success by setting their organizational strategies and aligning them to the vision and mission statements.

### **2.2.2 Dimensions of Strategic Agility**

The discussion of the literature under the concept of strategic Agility suggests various key components or variables of strategic Agility that need to be explored in understanding the appropriate dimensions of the concepts. According to Doz and Kosonen (2007), three main dimensions of organizations that enhance the strategic Agility in the organization include strategic sensitivity, resource fluidity, and leadership unity. These capabilities must be developed thoroughly to create integration in the company to achieve higher strategic Agility (Doz, 2020).

#### **A) Strategic sensitivity**

Strategic sensitivity is explained as the sharpness of perception and higher awareness of the company to the minute details. A company can recognize and sensitively refresh and alter existing market opportunities and threats (Doz & Kosonen, 2010). This kind of ability is needed to move from forward-looking strategic strategy to insight-based strategic sensitivity, which can rely on circumstances rather than potential anticipations (Doz, 2020).

Strategic sensitivity is found in promoting open strategic discussions as the planning phase is more open. Strategic sensitivity requires that a firm be perceptive and gain insights into emerging realities as they occur, similar to recognizing patterns in the environment. However, recognizing patterns is not simple because it is counterintuitive, and people tend to follow established cognitive and emotional patterns (Beer & Eisenstat, 2004).

Therefore, it is not an easy task to accept the intrinsic uncertainty and lack of clarity that accompanies decision-making about the future in an increasingly dynamic business environment. This is because when organizations and individuals are faced with perplexing information, they default to denying the problem.

Arbussa Bikfalvi and Marquès (2017) observe that strategic sensitivity is critical to the organization's performance since it is defined by strategic foresight, which is essential in predicting and understanding organizational trends current situations of the environment. It is also based on the organization's ability to adapt to new innovative ideas. As such, in

the context of SMEs, there is a need to conduct an adequate analysis of response initiatives to the prevailing and foreseen strategic opportunities and challenges. This is important because it will allow the organizations to understand the context in which they are operating, the existing challenges, and how they can go about them to seize the prevailing opportunities in the market.

Furthermore, strategic Agility requires that firms examine the present situation based on possibilities in the future, which means that they should be able to discern in their current blurry patterns the beginnings of the future.

According to Scharmer (2007), strategic sensitivity starts by understanding and accepting reality instead of creating irrational and unsupported narratives. This means that business managers should not lose touch with reality, and they should ensure that they remain sensitive to new, unfamiliar, and external factors. This implies that they should not rely on what they deem to be comfortable but instead get out of their comfort zones because doing so will heighten their sensitivity and allow them to operate mindfully rather than automatically.

According to Acquier and Dalmaso (2013), strategic sensitivity is critical in mitigating risks in organizations by ensuring that agile strategies become internally sustainable. It guarantees that organizational resources will increase the value of strategic resources. Therefore, if properly nurtured, developed, and implemented, resource sensitivity will significantly contribute to the organization's sustainable competitive advantage.

Calabrese (2001) adds that anticipating how strategic sensitivity will adapt to the organization's performance is impossible. However, with proper formal knowledge exchange and strategies between actors, this can be achieved.

According to Argyris (1999), large organizations face challenges in achieving strategic sensitivity because these firms usually encourage their employees to develop a collective view that may be biased or false. This skewed view causes the employees to ignore adverse external changes because most firms rely on predictability and success. Like individuals, organizations thrive on regularity rather than on adjustment and continuous change (Hamel, 2008).

Therefore, large organizations that have been in operation for a long time rarely offer an opportunity for employees and management to acquire and develop strategic sensitivity but instead limit the workers' potential strategic sensitivity. Organizations reward predictability, and business shareholders expect their dividends to grow steadily even as they monitor their corporate leaders to deliver expected results. Argyris (1999) argues that business success limits strategic sensitivity because managers become complacent and have no worries about the possibility of failure in the future when the business is thriving.

To develop strategic sensitivity, organizations need to be open to discovery and innovation. However, Laurie and Harreld (2009) argue that this is not a simple process because the amount of time that business managers and executives usually spend on professional interactions with outsiders on strategically relevant issues is minimal.

However, the authors found that most managers understand that they need to spend more time on such interactions if they are to develop innovative strategic solutions to their organizations' needs. In addition to freeing up time, leaders and employees must also learn how to use it effectively for strategic sensitivity. In many organizations, individuals advance in their careers by working in operational roles such as manufacturing and sales, where managers rely on activities being performed rather than reflection and strategy.

Other critical roles like finance focus on developing specialized skills. They focus on speed in responding to problems and crises, which is highly different from strategic considerations. Consequently, active leaders can use their ability to develop and manage agendas as a way of helping develop intellectual leadership capabilities. On their part, the use of human resource planning and management strategies can enable managers to shift from regular problem-solving to time effectively to hone their strategic sensitivity.

## **B) Resource fluidity**

Resource fluidity is a concept based on understanding the company's internal capabilities thoroughly and readily deploying these resources in a new fashion with appropriately reallocating them to gain from new opportunities (Morton et al., 2018).

This needs thorough planning and a keen ability to shift the resources and ownership. Further, the organization should leverage the integration of multi-dimensional opportunities to decentralize the activities. Also, organizations should be able to mobilize the knowledge among employees to increase the flow of knowledge management that would help in the appropriate implementation of resource fluidity.

Lado et al. (2006) explain that in modern-day hypercompetitive business environments, innovation and turbulence have become the norm as companies seek ways to develop dynamic capabilities and make organizations adaptable to changes and make them less vulnerable. Firms that fail to adapt to these changes and reconfigure their resources adequately are likely to lose their competitive advantages. Against this background, the implementation of resource fluidity is key to helping organizations reduce risks associated with poor management of the organization's internal capabilities.

According to Gilbert (2005), many organizations suffer from resource rigidity in their process, affecting their resource allocation outcomes. Rigidity results from the use of fixed routines, making conservative commitments and setting portfolios of technology. Individuals are also used to hoarding their resources, and this ultimately affects their ability to be fluid.

Birkinshaw and Hamel (2008) stated that most business and management concepts were developed during an era of stability to maximize subunit operating efficiency based on fixed patterns of resource allocation and use. As such, they did not take into consideration changing environments. Therefore, resource fluidity is mainly concerned with shifting resource commitment in real-time instead of blindly executing a pre-arranged plan. To achieve this, an organization must initially identify the needs and opportunities for resource allocation before becoming apparent. They must be comfortable with emerging situations in this complex pattern recognition and make sense of the factors involved.

According to Acquier and Dalmasso (2013), resource fluidity is a desirable goal for organizations in several circumstances and is a vital tool for the performance and success of the organization. Properly allocated resources lead allows the organization to properly adjust and adapt the available resources to seize the available opportunities. However, making resources more fluid tends to contradict the Resource-Based View of the organization and could make the firm's firm competitive advantage less sustainable.

Moreover, even though resource fluidity is a major priority for organizations, especially in hypercompetitive business environments, it has dangerous implications for the sustainability and competitiveness of the organization (Doz & Kosonen, 2010).

These risks emanate from the fact that where market uncertainties prevail, resource uncertainties are also standard. In such situations, managers get tempted to underestimate or overestimate the strategic values of their resources or do not fully understand how such resources are to be reorganized.

Bock et al. (2012) adds that without resource fluidity, strategic sensitivity, and leadership unity, aspects of strategic Agility are useless. This is because intelligence and commitment without rapid and efficient resource deployment, especially in the fast-developing business environment, will not benefit the organization. In this regard, organizations must establish effective strategic and dynamic resource allocation processes to gain the full benefits of strategic Agility.

### **C) Leadership unity**

Leadership unity refers to the ability of an organization's top team to make bold, swift decisions without being hindered by organizational politics (Doz & Kosonen, 2010).

Practical leadership unity involves dialoguing, aligning common interests, caring, integrating interdependencies, and revealing personal aspirations and motives. To a large extent, leadership unity relies on the ability of the top team to trust and understand each other, and this requires that they actively develop behaviors that foster trust.

Doz and Kosonen (2010) noted that most management groups often engage in debates where they exchange arguments, and the strongest wins the debate. Also, most executives who control revenues of profit flows are the ones who mostly win these debates, and they try to take as little time as possible in securing their win. They rarely put up the debates for team deliberation and discussion, so the rest tends to offer little advice in such situations.

However, if the top team embraces and engages in Dialogue, this will help break this control pattern and allow all executives to express their opinion. They should be able to speak their mind openly without fear of retaliation and, in the process, appreciate their limits of understanding and how it can be improved. They should create a fair process and adaptive Leadership to ensure that they engage in decisive Dialogue, leading to a collective commitment that benefits the entire organization.

Practice in Dialogue brings openness, ensuring that the top team can understand each other's underlying motives in decision-making. When there is open Dialogue, the team will understand each other's thought processes, fears, aspirations, and satisfactions (Doz & Kosonen, 2010).

Also, when the top team and its employees have shared values, this creates an inner cultural and ethical breadth which allows for more flexibility in reconfiguring business models and allows employees to gain deeper insights into the organization.

Therefore, in addition to incentivizing workers, effective Leadership can develop inspirational and aspirational images that can improve engagement and allow employees to embrace new business models that will improve organizational competitive advantage. One of the significant characteristics of leadership unity that describes firms capable of reinventing their business model is caring ( & Kosonen, 2010).

When the top managers care enough to secure employees' wellbeing, they will also be likely to cultivate empathy towards others and thus understand their emotional expectations and needs. Consequently, employees will obtain a sense of mutual respect and be motivated to become more creative and innovative as they seek new business models. Many innovative firms are usually willing to experiment. For top teams, their

ability to be playful and creative comes more quickly when they understand their motives and, therefore, engage in dynamic debates that allow them to explore the assumptions behind disagreements.

Doz and Kosonen (2010) observe that leadership unity revolves around the ability of different organization members to understand one another. Skills and styles of agile Leadership and communication tend to set the attitude for the firm's agile culture and create resonance with the teamwork that managers desire. In an organization, managers act as role models for their teams. Without proper Leadership attaining Agility can be elusive. Leadership's success depends on agile development and the ability of the organization to be future-oriented, tackle market uncertainties, and seize external opportunities.

Lewis et al. (2012) emphasize that leadership unity is a necessary aspect of strategic Agility. Unity means collaborating with other leaders and support staff to develop the organizations' vision and look into the future while making choices and firm commitments as a unit. This is important in that it helps the management to deploy and implement resources and at the same time make strategic choices that guarantee the achievement of the goals of the organization. However, despite the importance of Leadership in helping an organization attain Agility, many executives tend to have low confidence in their organizations to move quickly, especially when making decisions and implementing them has come.

To consolidate the above views, Salma (2016) conducted a study investigating the need to adopt strategic Agility in the ICT industry in Kenya. One of the Study's objectives was to determine the role of Leadership in adopting Strategic Agility in Organizations. The Study's findings illustrated a positive relationship between the adoption of strategic Agility and leadership unity. This Study's findings empathized on the importance of leadership unity in strategic Agility.

### **2.3 Competitive capabilities**

Competitive capabilities refer to the ability of a company to outperform its competitors with more significant distinction to satisfy customer needs by offering them value and high-quality products and services and retaining competitive advantage (Gerald, Obianuju, & Chukwunonso, 2020). As such, capabilities are an indicator of the effectiveness of a firm's strategic Agility, and they focus on a firm's ability to develop and adopt available resources in a way that generates competitive advantage (AMBE, 2010).

Competitive capabilities consequently create a supply chain of indicators that demonstrate the benefits of strategic Agility. These abilities need to be easy to act upon so that a firm can implement swift correctional actions promptly to enhance performance.

According to Zhang and Sharifi (2000), a firm's competitive abilities that use strategic Agility include speed, flexibility, competence, and accountability. Strategic Agility involves enhanced information systems and advanced production technologies, and its main aim is to ensure that innovation occurs speedily and that customers have more power in the organization. Therefore, a firm's competitive capabilities involved in strategic acceleration should be based on innovative learning and customer satisfaction. In general, this implies that a firm's competitive capabilities are based on its ability to meet customer expectations compared to its rivals in the industry.

Hong, Tran & Park (2010) explains that companies in the current global market environment compete based on their network capabilities, including customers and suppliers. The dynamic nature of the business environment and changing customer needs and preferences demand an adequate flow of information through supply chains. Information communication technologies, including electronic data change and the Internet, have significantly helped to improve supply chain communication and coordination effectiveness. However, only the firms leverage these technologies that gain the full benefits and become competitive.

According to Gunasekaran and Ngai (2004), managers in all types of organizations are under pressure to control the cost of running their businesses and seek ways of differentiating their products and services from competitors. Competitive advantage can be gained from many discrete activities that a firm performs when designing, producing, marketing, and delivering a product to the market. These activities contribute to the firm's relative cost position, which creates the basis for differentiation.

Toni and Tonchia (2001) found that a firm's competitive capabilities include factors related to time, flexibility, costs and productivity, and quality. They determined that these capabilities ensure that a firm remains viable in the long term and contribute towards achieving leadership status. On their part, Rosenzweig and Roth (2007) found that competitive capabilities can be divided into cost leadership, quality, products, process flexibility, and delivery reliability. Similarly, Chen and Paulraj (2004) noted that the competitive capabilities of a supply chain include delivery reliability, swift confirmation of customer orders, customer satisfaction, quick handling of customer complaints, volume flexibility, and product conformance to specifications.

Nader & Heidari (2016) observes that the Small and Medium-Sized Enterprises (SMEs) today operate in challenging circumstances. Developments such as economic globalization and the changing technology have helped empower consumers and make it difficult for firms to compete with rivals. Moreover, selling products in overseas markets has come with several challenges, which must be overcome. Therefore, identifying and building a competitive advantage for SMEs in the global markets is essential.

Hutton & Eldridge (2019) explains that some of the competitive capabilities that SMEs need to develop include essential elements such as quality, flexibility, delivery, and cost advantage, which vital to any organizational strategy.

Therefore, aligning these elements to the organizational capability is vital to achieving competitive advantage. In this regard, firms should strive to increase their competitive strengths through the development of competitive capabilities.

## **2.4 SMEs**

### **2.4.1 Overview of SMEs**

The number of SMEs across the globe is growing, and they account for most businesses in most countries (World Bank, 2021). However, it is essential to note that the country an SME operates in provides the specifics on the defined size of the SMEs. For instance, some countries classify firms as SMEs based on their annual sales, amount of assets owned, market capitalization, number of employees, or a combination of these features (ROBU, 2013). For example, in Bahrain, SMEs make up 30% of the country's GDP and are defined as firms that do not exceed 100 employees or BD3 million in turnover (Bentrepreneur, 2019).

SMEs are essential in economic development in various countries because they favor flexibility and innovation. Many technological processes and innovations are attributed to SMEs because larger firms are inflexible and tend to improve old products to generate more quantity and obtain public benefits (OECD, 2020). The success of SMEs. Therefore, it depends on their ability to create new products and services, and as such, they can adapt swiftly to changes in the business market. They play a critical role in shaping a country's economy and are thus an attractive and innovative system. SMEs also stimulate competition for the design of products, prices, and efficiency. Without SMEs, more giant corporations would maintain a monopoly in most markets.

Mukumba (2014) explains that Small and Medium Enterprises (SMEs) play a vital role in economic development since they are the primary sources of employment. In developing countries, SMEs play a crucial role since they can create new employment, improve income distribution, facilitate export growth and reduce poverty. Moreover, SMEs foster entrepreneurship development, the rural economy, and industry. Several studies reveal that a country's economic growth is closely linked with the development of SMEs. Despite the significance and the role of SMEs in the global economy, these business models are hugely underrepresented in world trade.

SMEs are often given incentives that help them obtain finance and pay favorable taxes, and the form of incentives offered is dependent on individual countries' policies. SMEs can be found in any industry, but some businesses are more likely to be SMEs than others by their nature. For example, personal care services, restaurants, legal offices, trucking companies, bars, and dentist offices often operate with relatively few employees. SMEs usually undergo various stages of growth, but in general, they face numerous challenges before they mature and decline (Churchill & Lewis, 1983).

These challenges are based on a firm's market environment, location, history, and owner's characteristics. However, they also create job opportunities, employing a large percentage of a country's labor force and allowing these workers to improve their professional skills. As a result, these firms are critical in economic development because they provide quality jobs that promote economic inclusion and reduce poverty, especially in developing nations. In this process, the SMEs also grow and expand into new markets over time.

Ruangchoengchum (2017) adds that SMEs account for most businesses in many countries around the world. They are critical players in the economy, and thus enabling them to adapt and thrive in different business segments is essential to boosting their economic growth and delivering inclusive globalization. In all aspects of development across the globe, SMEs have a significant role in helping their respective economies achieve Sustainable Development Goals (SDGs) by promoting sustainable and inclusive economic growth, promoting industrialization, providing employment, and reducing income inequalities. However, enhancing the potential of SMEs to participate and reap the full benefits of a digital and globalized world depends on the availability of conducive conditions and healthy competition. In this regard, supporting these businesses in terms of financing and incentives from their respective governments is necessary, especially for developing countries.

#### **2.4.2 Covid-19 Effect on SMEs**

Since the emergence of Covid-19, the world has experienced unprecedented levels of economic shocks as lockdowns and social distancing policies affect consumer purchasing behavior and thus a decline in economic activities (UNCTAD, 2020). As such, SMEs and

larger corporations are struggling to survive. Masago et al. (2021) examined SMEs in Kenya and determined that many small firms were caught unawares by the pandemic. Many SMEs laid off employees, reduced their wages, and sought new sources for their raw materials even as demand for their products declined. Bartik et al. (2020) studied approximately 5,800 SMEs and found that many became financially fragile, and many of them were forced to lay off employees in mass, close their businesses, or find new operating strategies.

According to the OECD (2020), the pandemic has affected both the supply and demand side of SMEs. On the supply side, these firms have experienced a reduction in labor supply as workers stay home due to restrictions or are forced to look after their dependents. Additionally, supply chains have been disrupted and thus caused a shortage of intermediate goods and parts. On the demand side, reduced demand for their products has impacted SMEs' ability to function, leading to liquidity shortages (OECD, 2020).

Additionally, consumers have lost their incomes, and some are afraid to visit physical stores to make purchases for fear of contagion. In general, SMEs are likely to be vulnerable to social distancing policies than larger companies (Hebert, 2021).

The Impact of the pandemic affects financial markets and thus reduces the potential to obtain credit. While this challenge affects all firms, the Impact on SMEs is particularly severe because of their higher levels of vulnerability and lower resilience caused by their size (OECD, 2020).

It is also important to note that SMEs are strongly represented in the transportation and tourism industry, significantly affected by the pandemic. SMEs may, however, be more resilient and flexible in dealing with costs related to the pandemic. This is because the costs for prevention and changes in work processes might be higher for SMEs because of their small size, but they also have limited adoption and digitalization of technologies, which reduces their overall costs (OECD, 2020).

Also, SMEs face challenges in finding the information they need to help stop the virus's spread, lighten the shock, and government initiatives available to provide support. Considering the limited resources and their limited potential to access capital, the period over which SMEs will survive the shock of the pandemic is more restricted than for larger organizations. Reports indicate that 50% of SMEs are operating with cash reserves that can only last 15 days, and even healthy SMEs have less than two months' cash reserves (JPMorgan Chase & Co., 2020).

In general, it appears that the Impact of the pandemic on SMEs might make some of them go bankrupt as long as containment measures continue. According to Amuda (2020), the adverse effects of the COVID-19 pandemic manifests on business and economic activities. The health impacts of the virus have significant economic implications because it has devastated trade and business transactions. More so, COVID-19 has affected SMEs due to the preventative measures put in place by governments, which include shutdown and lockdowns. Many SMEs have been driven out of business, leading to the call for providing alternative responses to guarantee the survival of these businesses.

Al-Fadly (2020) observes that the major problem faced by SMEs is that the COVID-19 pandemic has transitioned from being a health crisis to becoming an economic crisis. Many small businesses the world over are trying to survive the difficult times. SMEs that have suffered the most include those operating in food and service, travel, and accommodation.

Syriopoulos (2020) explains that the role of small and medium enterprises (SMEs) in the real economy cannot be overemphasized. Based on prior experience, SMEs and entrepreneurship can help identify and commercialize new market trends. However, as COVID-19 moves from the public health pandemic to the economic crisis, it is of great interest for entrepreneurs, managers, and employees as well as decision-makers to identify essential trends on how SMEs will react or spend their energies. As a result of COVID-19, most enterprises are faced with difficulties managing due to the significant decline in the demand for goods and services. This challenge is exacerbated by the limited ability of SMEs to counteract the risks posed by the pandemic and huge losses resulting from the slowed business activities.

Lutfi, Pricylia Chintya & Hasanuddin (2020) explains that besides the health impacts associated with COVID-19, the Impact on the economy, public welfare, and employment are dire. The Impact on the global economy is also significant. While the measures aimed to control the spread of the virus, which has also affected businesses, many countries have not put measures for cushioning the SMEs against the slowed business and losses. Therefore, the pandemic grossly threatened the stability of the SMEs during this period.

### **2.4.3 Government of Bahrain's Role in Supporting SMEs**

The government of Bahrain played a critical role during the pandemic in ensuring citizens' safety and using proactive planning strategies for economic sustainability and growth. In addition to providing support through financial packages worth 4.3 billion dinars to boost the economy, the government also established legislations and decisions to help SMEs remain sustainable during the pandemic (Reuters, 2020).

As far back as 2019, the government offered preference to SMEs by allocating them 10% of all public tenders (Arabian Business, 2019). This strategy should help SMEs during the difficult times of the pandemic because it creates a better playing field that allows them to participate in the limited contracts available in the Kingdom.

Small businesses play a significant role in the growth of Bahrain's economy. According to Labour Market Regulatory Authority, over 90% of licensed firms in Bahrain had less than ten employees and account for 30% of GDP. The SMEs also provide 75% of the private sector workers (ALRABEEI & KASI, 2014).

Moreover, Bahrain's economic vision 2030 envisions an economy based on increased levels of productivity and high-wage jobs (Tawfiqi, et al., 2018).

Over the years, the Bahraini government has concentrated on developing SMEs by providing facilities to enhance their growth and development. In this regard, increasing entrepreneurship volume in Bahrain and supporting entrepreneurship activities remains the government's key focus to achieve the desired vision 2030 outcome. Currently, the government provides support to SMEs in the form of lo financing and addresses SMEs' difficulties.

The Bahraini Ministry of Industry, Commerce, and Tourism realizes that SMEs are a significant contributor to the economy. Accordingly, the government formed the SMEs Development Board, whose mandate is to strengthen startups' and SMEs' capacities to enhance their competitiveness in domestic, regional, and international markets (Bentrepreneur, 2019).

The Board also aimed to create policies and strategies that would help increase SMEs' contribution to the Kingdom's GDP by 40%, exports from SMEs by 20%, and national employment levels to include more Bahraini nationals (Bentrepreneur, 2019). Additionally, the SME Development Directorate collaborates with the SME Development Board to ensure SMEs continue to develop in Bahrain. SMEs in Bahrain operate in a flexible and attractive business environment that offers a variety of incubation, advisory, and development programs in marketing and finance and training programs from related business entities. The country's institutional frameworks have created an ecosystem that is conducive for startups and SMEs; various public, private, and international institutions collaborate to support such firms in all stages of growth (Almajdoub,2018).

SMEs can also scale up by taking advantage of the available government and private sector funding schemes. For example, Tamkeen, a semi-government agency that was launched in 2006, has so far offered training to more than 140,000 individuals and businesses (Almajdoub,2018).

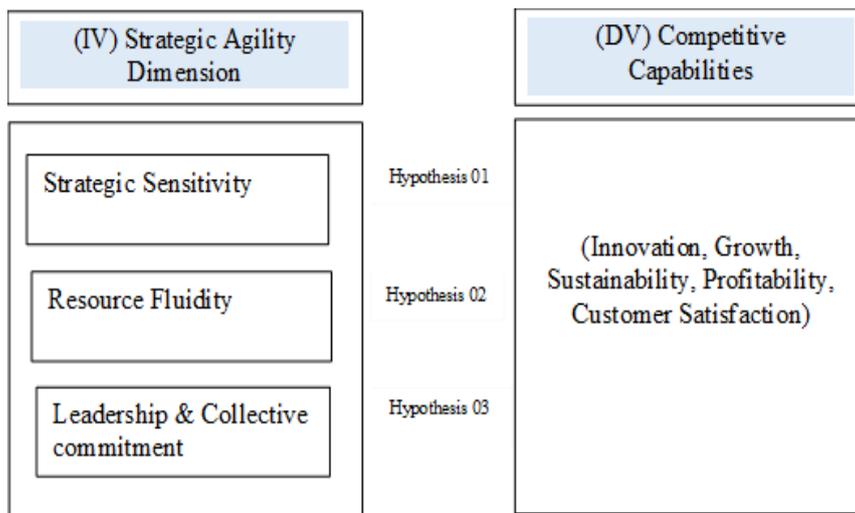
There are various specialized incubators, angel investors, and co-working spaces that allow startups and SMEs to develop resource capabilities for their operations. These private programs and government initiatives have helped SMEs in the country retain operational capabilities to a certain extent despite economic challenges.

**2.5 Summary Literature Gap**

Overall, this literature review covers many aspects regarding the Impact of strategic Agility on SMEs' competitive capabilities and highlights the challenges and opportunities of applying strategic Agility. The significant gap in the literature is that there was a shortage in similar studies generally and no similar studies on the Impact of strategic Agility on SMEs' competitive capabilities in the Kingdom of Bahrain either in the private or public sector, and that gap should be addressed by this study.

**2.6 Strategic Agility Conceptual Model**

Based on studies for identifying the research hypothesis, the conceptual model below will explore the relationships between independent and dependent variables.



**Fig. 1.** A Conceptual Model of Strategic Agility on SMEs Competitive Capabilities

The research proposed the following hypotheses:

H01: Strategic sensitivity is significantly associated with SMEs' competitive capabilities.

H02: Resource fluidity is significantly associated with SMEs' competitive capabilities.

H03: Leadership and collective commitment is significantly associated with SMEs' competitive capabilities.

## 2.7 Conclusion

In conclusion, it can be stated that the literature review covers many aspects regarding the Impact of strategic Agility on SMEs' competitive capabilities, as well as highlighting the challenges and opportunities of applying strategic Agility. Ability to effectively change operating states in response to uncertain and changing demands placed upon it with a highly uncertain and changing business environment. The regular way of planning a business is not particularly useful in different organizations worldwide. This is due to the fact that businesses are faced with complex external problems and challenges that they must incorporate and understand thoroughly to respond appropriately. To achieve its desired performance, a firm should measure and identify all the factors that are critical in helping it reach flexibility in its operations. Thus, the main objective of an agile business is to ensure that all its customers and employees are satisfied and that it acquires the necessary skills to ensure it swiftly and effectively.

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