

# DYNAMIC CAPABILITIES AS A CATALYST FOR ECONOMIC GROWTH AND POVERTY ALLEVIATION IN DEVELOPING ECONOMIES

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## ABSTRACT

*Economic growth continues to be a critical avenue for poverty alleviation. However, despite sustained efforts to stimulate the economic growth, poverty remains persistent in many developing economies, indicating that growth alone is insufficient to deliver inclusive socio-economic outcomes. This challenge calls for a strategic rethinking of how firms contribute to development beyond traditional macroeconomic approaches. Traditional growth models often overlook firm-level adaptability. Dynamic Capabilities offers a missing link. This paper examines how a firm's Dynamic Capabilities can serve as a strategic mechanism for inclusive economic growth and poverty alleviation. Using a conceptual and integrative review approach, the paper synthesizes literature from strategic management, sustainability, innovation and development economics to explain how the dynamic capabilities enable firms to enhance productivity, generate employment and foster income stability. This paper advances that when firms embed sustainability and ethical governance considerations into their dynamic capabilities, they are better positioned to pursue innovation-led growth that integrates marginalized populations into economic value chains. The study presents a conceptual model illustrating the pathways through which dynamic capabilities translate firm-level strategic adaptability into macro-level inclusive growth outcomes. This paper extends the application of dynamic capabilities beyond competitive advantage to the domain of socio-economic development. In practice, it offers insights for policymakers on the importance of capability-building interventions and for managers on aligning strategic renewal with sustainable development goals. The paper concludes by identifying pathways for future empirical inquiry to test the proposed framework across developing economies.*



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## 1. INTRODUCTION

Poverty has continued to persist especially in developing economies despite growth in GDP and decades of policy reforms. Economic growth is a vital catalyst for alleviating poverty among populations. A 10% decrease in poverty increases per capita income by approximately

3–4% (Bao & Liao, 2024). However longitudinal studies show that poverty sticks around longer than we think, particularly where systems fail to support change (Dercon & Krishnan, 2008; Ward, 2016). The UN - “Department of Economic and Social Affairs” (UN DESA) policy brief notes that plenty of families fluctuate around the poverty line, which underscores how fragile

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escape from poverty can be (UN DESA, 2025). The World Development research highlights “urban poverty traps” where poor households remain stuck near the poverty threshold, even with overall economic growth (Janz et al., 2023).

Narod/world bank (World Bank, 2000; World Bank, 2004). reports a recent state of stagnancy in poverty decline with a substantive 839 million people (about 10.3% of the world’s population) still living in extreme poverty (Norad, 2025). 1.1 billion lives hang in extreme poverty, as per the undp’s multidimensional poverty index (UNDP, 2024a; UNDP, 2024b; UNDP, 2025). When we look at kids specifically, that number climbs past half a billion who face harsh shortages in daily necessities, according to UNICEF (2025). Despite progress across nations, poverty decline now seems stuck, leaving vast groups trapped where things like safe water or shelter remain out of reach. Dunpont and Roy (2025) show that persistence in poverty and inequality is as a result of “multi-level traps” - a mix of institutional and personal elements. That idea sticks.

When global shocks like pandemics, rising costs, climate shifts, and political unrest pile up, weaknesses in progress become harder to ignore. Questions grow about whether today’s main approaches to fighting poverty truly work. At once, firms stand as key drivers - not just job makers but also catalysts for change, efficiency, and broader economic shifts. Still, after years of pushing economic expansion, deep-seated poverty lingers across numerous poorer nations - proof that mere expansion cannot fix uneven social and financial gains. Despite progress, Economic growth and poverty alleviation often hits roadblocks tied to flawed aid models, weak systems, and broad policy missteps.

This paper argues that dynamic capabilities (DCs) constitute a critical missing link between firm-level strategy and national development outcomes in developing economies. Teece et al (1997) urge that “DCs is the organization’s ability, to build, integrate and reconfigure its competencies (both internal and external) in response to environmental changes”. By enabling firms to innovate, adapt, and scale in resource-constrained and uncertain environments, dynamic capabilities can foster employment generation, income stability, and resilience - key pathways through which economic growth translates into poverty reduction. Importantly, these effects are not automatic; they are shaped by contextual factors such as institutional quality, governance frameworks, and the strength of entrepreneurial ecosystems.

The primary objective of this paper is to develop a conceptual framework that explains how dynamic capabilities at the firm level can act as a catalyst for economic growth and poverty alleviation in developing economies. By reframing firms as strategic agents of development rather than passive beneficiaries of policy, this paper advances a capability-driven perspective on economic growth and poverty alleviation - one that is particularly relevant for developing economies facing persistent structural challenges. Specifically, the paper

addresses how dynamic capabilities can enable firms to contribute to inclusive economic growth and poverty reduction in developing economies?

## **2. LITERATURE REVIEW**

### **2.1 Dynamic Capabilities**

Dynamic capabilities theory offers a powerful framework for addressing this gap. Originating from strategic management scholarship, dynamic capabilities refer to a firm’s ability to sense opportunities and threats seize opportunities through strategic investments, and reconfigure resources in response to environmental change (Teece et al., 1997; Teece, 2018). Unlike static resource-based views, dynamic capabilities emphasize adaptability, learning, and innovation under conditions of uncertainty—characteristics that closely mirror the realities of developing economies.

While the dynamic capabilities literature has grown substantially, its empirical and theoretical focus has remained largely firm-centric, prioritizing competitive advantage and financial performance. Only recently have scholars begun to call for extending the theory toward broader societal outcomes, including sustainability and inclusive growth (Teece, 2023a; Teece, 2023b). This paper responds directly to this call by positioning dynamic capabilities as a micro-foundation for economic growth and poverty alleviation, thereby extending the theory into the domain of development economics.

### **2.2 Statement of the Problem**

Despite sustained efforts to stimulate the economic growth, poverty remains persistent in many developing economies, indicating that growth alone is insufficient to deliver inclusive socio-economic outcomes. Traditional growth models often overlook firm-level adaptability. Conventional paradigms for – for instance - PRSPs, aid-for-trade initiatives, social risk management, and inclusive development models have often focused on macroeconomic stability, institutional reforms and external assistance as main conduits of economic growth and poverty reduction; however they lack an explicit firm-level dynamic capabilities perspective necessary to translate growth into sustained and inclusive poverty reduction (Bourguignon, 2014; Bourguignon, 2015; World Trade Organization, 2016).

Although these strategies have resulted in notable improvements in some settings and evidence has accumulated against their sole effectiveness as part of strategies to ensure lasting an inclusive development outcome, mounting evidence suggests that they are insufficient on their own to deliver sustained and inclusive development outcomes (Easterly, 2006; Rodrik, 2011). This challenge calls for a strategic rethinking of how firms contribute to development beyond traditional macroeconomic approaches.

Dynamic Capabilities lens offers a missing link. This gap leaves unresolved how firms strategically adapt to translate macroeconomic reforms into sustained and

inclusive poverty reduction. This paper therefore proposes a conceptual framework that can serve as a strategic mechanism for inclusive economic growth and poverty alleviation. By explicitly integrating Dynamic Capabilities into development economics, this study provides a missing micro-foundational link between growth-oriented reforms and inclusive poverty reduction.

### **2.3 Purpose of the Study**

This paper examines how a firm's Dynamic Capabilities –a missing link in conventional models - can serve as a strategic mechanism for inclusive economic growth and poverty alleviation and suggests a DCs Inclusive Growth Nexus “DC – IGN” framework thus linking the gap in existing literature.

### **2.4 Economic Growth and Poverty Alleviation in Developing Economies**

Economic growth has long been regarded as a primary mechanism for poverty reduction in developing economies. Classical and neoclassical growth theories posit that increases in aggregate output eventually improve welfare through employment creation, income expansion, and productivity gains.

Still, new research on development often doubts that rising growth automatically translates into poverty alleviation. Data shows progress in several countries is patchy, unstable, or barely shared among all people - many still miss out (World Bank, 2024; UNDP, 2024).

Poverty shifts, changes shape - income tells only part of the story. Education, health, job quality matter just as much when it comes to living basics. New ways to measure hardship confirm: low income drops, yet struggles grow elsewhere, especially where violence or instability last long (UNDP, 2024). These findings suggest that macroeconomic growth alone is insufficient to eliminate poverty unless accompanied by structural transformation and inclusive economic participation.

### **2.6 Limitations of Aid, Institutional, and Macroeconomic Approaches**

For years, global development strategies leaned heavily on three main tools - foreign aid, changes in how institutions operate, and fiscal stability efforts. Even though each brought clear advantages where they worked, rising data points now question their deeper impact. For example, foreign aid outcomes often sit somewhere between good and unclear, depending sharply on whether local leaders manage things well, whether systems can actually absorb support, or whether people truly back the goals behind it (Easterly, 2006; World Bank, 2024). Nowhere is the problem clearer than in situations where reliance on aid actually reduces motivation to build internal skills.

Similarly, institutional reforms- though essential - are often slow-moving and insufficient when implemented in isolation. Firms thrive just as much on steady rules as they do on robust ones. Still, budget control paired with open markets brought stability - yet sometimes sharpened the “rich - poor” gaps while holding back new work

opportunities (Rodrik, 2011; IMF, 2023). These limitations point to a critical omission in mainstream development thinking: the micro-level mechanisms through which economic actors translate policy frameworks into productive and inclusive outcomes.

### **2.7 Firms as Strategic Agents of Development**

Firms hold key but often overlooked roles in advancing development. Progress within one part of a company does not automatically help marginalized populations - outcomes depend heavily on how growth unfolds, whether jobs rise or output spikes, where the poor are placed in the economy, and how freely people move across industries. For job-rich advancement to ease hardship among low-income groups, it needs to happen in areas that are already performing better; instead, sectors lagging behind might demand gains in efficiency first before they can ease raw numbers of poor workers.

A country-specific quantitative and qualitative investigation is necessary to identify barriers to job creation, productivity, and mobility, ensuring that the impoverished may access improved employment possibilities, Facilitate employment development, enhance productivity and mobility, and ensure that the impoverished can engage in improved opportunities (Bhaskaran, 2011; Hull, 2009). Firms help boost the economy when they hire workers, which lifts incomes and weakens poverty. Growth spreads through new jobs, higher pay, better standards of living - these follow expansion over time (Esaku, 2022; RP World, n.d). Multinationals and innovative firms bring new ways of managing work, along with ideas about how better skills can grow locally (Kar & Sadiq, 2024). These businesses local suppliers by setting rules on quality, offering education programs, sometimes pulling them into larger trading networks tied closely to what the foreign firm does itself (Su et al., 2021).

### **2.8 Toward an Integrated Strategy - Development Perspective**

Integrating dynamic capabilities into development opens up a new way to see progress not as just forced from outside but growing from inside. Firms that sharpen their ability to notice changes, grab chances, and shift operations tend to spark invention, create jobs, stabilize earnings, while handling disruptions - actions that reshape how poverty moves. (Adenutsi, 2009; Girod & Whittington, 2017; Zungu & Laryea, 2025). However, the strength of these effects depends on contextual moderators such as institutional quality, governance effectiveness, and ecosystem support.

The “Industrial Policy for Learning and Capacity Accumulation” framework advocated by Lall (1992) and Cimoli et al (2009) only focused on firm learning, technological upgrading and industrial competitiveness, giving it a narrow dynamic perspective. That idea fell short when trying to unpack DC's into sensing, seizing, and then reconfiguring - something as pointed by Teece (2007) - leaving little room for nuanced poverty analysis. Way before that, Lundvall and Johnson {1994}, followed

by Lundvall (1992) built a model called the learning economy. This version highlights growth through experience plus how companies adjust over time. Yet it zooms out wide, seeing big-picture systems instead of individual businesses driving change. Firms appear more as passive players than active movers within it. Starting with Sutton (2012), came a model focused on what companies can actually do. This idea centered on making things well enough to ship abroad without losing local strength. Built into it was a clear effort to grow skills directly within the business, not just outcomes. Even so, its attention stayed mostly on production and trade, leaving broader needs like poor community improvement to the side. Growth was tied in, yet tackling hardship wasn't the main push - it slipped through the cracks. Firms as engines of growth are explained by the "Entrepreneurial Ecosystems Framework". The framework puts more emphasis on opportunity sensing

and resource mobilization. However it is more entrepreneurship focused and lacks reconfiguration logic of dynamic capabilities. Lin (2012) recognized firm upgrading within evolving structures through the "New Structural Economics" (NSE) model. The framework offered a structural transformation guided by comparative advantage. However it was state-centric as firms remained policy followers. The Capabilities Based Development which was developed by Hausmann et al. (2005) was successful in identifying binding constraints to growth hence acknowledges firm experimentation and discovery. However, it is not framed as a dynamic path – dependent capabilities.

The most recent framework that emphasizes organizational transformation and learning was developed by Mazzucato (2020) and advocated for innovation – led inclusive growth. The framework is called "Mission Oriented Innovation Policy".

**Table 1.** Summary of existing poverty eradication and economic growth frameworks

<b>Traditional economic growth and poverty eradication models/frameworks</b>				
<b>S/NO</b>	<b>Framework</b>	<b>Developer / Author (s) &amp; Year</b>	<b>Core focus</b>	<b>Key Limitations</b>
1	Harrod-Domar Growth Model	Harrod (1939); Domar (1946)	Savings, Investment and capital-output ratios	Assumes fixed coefficients; Unstable growth; Ignores firm behaviour and learning
2	Lewis Dual - Sector Model	Lewis (1954)	Labour transfer from traditional to modern sector	Assumes automatic absorption of labour; Ignores firm productivity and capability building
3	Big Push Theory	Rosenstein-Rodan (1943)	Cordinated large scale industrial investment	Overly state-centric; neglects firm level innovation and adaptability
4	Structural Change Model	Kuznets (1966)	Sectoral transformation and income reallocation	Focus on macro structural shifts; firms seen as passive agents
5	Endogenous Growth Theory	Romer (1990); Lucas (1988)	Human capital, R7 D, Knowledge spillovers	Innovation treated at aggregate level; Limited insights in to firm-level capability development
6	New Institutional Economics (NIE)	North (1990); Williamson (2000)	Institutions, transaction costs, property rights	Institutions emphasized over firm agency; assumes firms respond uniformly
7	Washington Consensus	Williamson (1990)	Liberalization, Privatization, macroeconomic stability	"Trickle-down" assumption; weak poverty outcomes; neglects productive capabilities
8	Aid-Led / Financing Gap Models	Chenery & Strout (1966)	Foreign aid to close savings-investment gaps	Dependency risks; Limited incentives for firm competitiveness
9	Poverty Trap Models	Sachs et al (2004)	Breaking low income equilibrium via aid	Deterministic; underplays entrepreneurship and adaptive capacity
10	Industrial Policy for Learning & Capability Accumulation	Lall (1992); Cimoli, Dosi & Stiglitz (2009)	Firm learning, technological upgrading, industrial competitiveness	Does not use DCT constructs (Sensing, Seizing and Reconfiguration); Weak poverty lens
11	Learning Economy Framework	Lundvall (1992); Lundvall & Johnson (1994)	Interactive learning, innovation systems, competence building	Macro-system focus; firms not theorized as strategic agents
12	Productive Capabilities Framework	Sutton (2012); Sutton & Trefler (2016)	Building firm capabilities for manufacturing and exports	Narrow sectoral focus; Poverty reduction is indirect
13	Entrepreneurial Ecosystems Framework	Stam (2015); Acs et al (2017)	Entrepreneurial firms as growth engines	Entrepreneurship focus; lacks reconfiguration logic of DCT
14	New Structural Economics (NSE)	Lin (2012)	Structural transformation guided by comparative advantage	State-centric; firms remain policy followers
15	Capabilities-Based Development (Economic Capabilities)	Hausmann, Rodrik & Velasco (2005)	Identifying binding constraints to growth	Not framed as dynamic; path-dependent capability
16	Mission-Oriented Innovation Policy	Mazzucato (2018)	Innovation-led inclusive growth	Focus on state capability more than firm capability
17	Solow-Swan Neoclassical Growth Model	Solow (1956); Swan (1956)	Capital accumulation, labour growth, exogenous technology	Treats firms as homogeneous; innovation and adaptability are exogenous; weak link to inclusive outcomes

Still, attention went mostly to government strength instead of business capacity. Worth mentioning too - older structures such as the Harrod–Domar model (Eltis,

1987), along with ideas about poverty traps (Sachs et al., 2004), sit quietly without moving, frozen by constant shifts in how economies actually grow. The necessity to

address the complex nature of poverty has put traditional growth models of poverty eradication to the test (Agola & Awange, 2014)

Even when methods such as industrial policy, learning economy, or productive capabilities highlight firm-driven growth, they often miss how companies themselves spot opportunities, create value, and reallocate resources independently. Beginning fresh, this study inserts Dynamic Capabilities Theory into development economics, bridging a gap between top-down policies and bottom-up household results. Although existing models acknowledge skill development and progress along value chains, they fail to organize these shifts around adaptive behaviour. That quiet moment hints at something deeper - companies thinking ahead shape big changes so many people benefit steadily from reform.

When people examine issues side by side, a pattern emerges - shaping how market abilities connect with rural development, easing daily challenges where they're needed most. Following that pattern, attention shifts toward measuring earnings alongside on-going difficulties across less advanced areas. The framework explicitly links firm-level dynamic capabilities to economic growth and poverty alleviation in developing economies.

## 2.9 Research Gap

Existing poverty reduction and economic growth frameworks lack a micro-level, capability-based mechanism explaining how firms and organizations transform policy reforms and market opportunities into sustained, inclusive, and innovation-driven development outcomes - a gap that the Dynamic Capabilities–Inclusive Growth Nexus (DC-IGN) explicitly addresses.

## 3. METHODOLOGY

The research adapts a qualitative conceptual research methodology grounded from secondary data drawn from scholarly articles like Scopus data bases and web of science data bases. A total sample of 43 papers were obtained and reviewed following Prisma framework. The search term was “poverty alleviation” or “poverty reduction” AND “economic growth” AND “Dynamic Capabilit\*”

## 4. DISCUSSION AND ANALYSIS

### 4.1 The Proposed Conceptual Framework

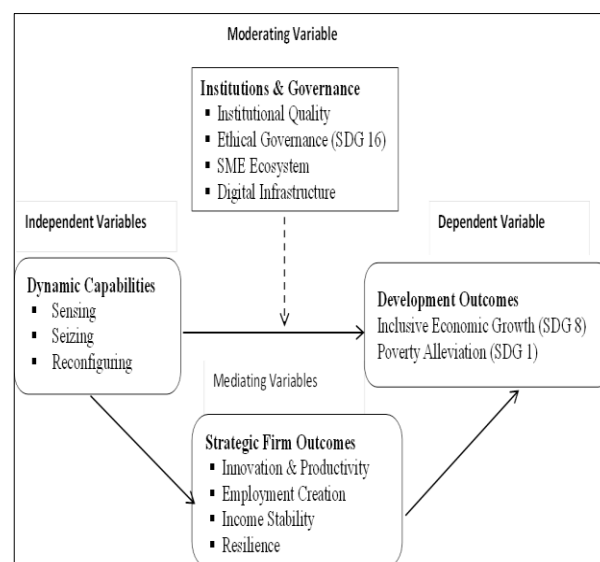
Figure 1 shows the proposed framework. All constructs were obtained through literature review as per the below table 2 below.

**Table 2.** Construct sources

LEVEL	CONSTRUCT	DESCRIPTION	THEORETICAL ANCHOR
Firm-Level	Dynamic Capabilities	Sensing, Seizing and reconfiguring to adapt and innovate under uncertainty	Teece (2007, 2018)
Mechanisms	Innovation & Productivity	Learning-driven efficiency and upgrading	Cirera & Maloney (2017)
Mechanisms	Employment Creation	Quantity and quality of jobs	Hull (2009), Esaku (2022)
Mechanisms	Income Stability	Participation in value chains resilience	UN DESA (2025)
Micro-level	Inclusive Growth	Broad-based structural transformation	World Bank (2024)
Micro-level	Poverty Alleviation	Reduction in income & multidimensional poverty	UNDP (2024a)
Moderators	Institutions & Governance	Conditions shaping effectiveness	Rodrik (2011); Teece (2023b)

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Source: Author's compilation (2026)



**Figure 1.** The Dynamic Capabilities–Inclusive Growth Nexus (DC-IGN) Mode

Source: Author (2026)

### 4.2 How the DC-IGN Model Works (Brief Explanation)

The DC-IGN model explains how firm-level dynamic capabilities translate economic growth into inclusive development and poverty alleviation in developing economies. At the core of the model are dynamic capabilities —sensing, seizing, and reconfiguring— which enable firms to identify opportunities and social needs, invest strategically in innovation and inclusive business models, and continuously adapt resources under conditions of uncertainty

These capabilities do not reduce poverty directly. Instead, they operate through strategic firm-level mechanisms, including innovation-driven productivity growth, employment creation and job quality improvement, income stability through value-chain inclusion, and enhanced resilience to economic shocks.

When these firm outcomes scale across the economy, they aggregate into inclusive economic growth, characterized by broad-based participation and structural transformation.

What stands out is how the method sees businesses shaped by deeper systems - rules, fairness in management, support for small enterprises, and tech networks. It's these background elements that decide whether what a company can do spreads fairly or shuts certain groups out. In the end, the framework treats enterprises not just as profit-makers but as drivers of progress, viewing adaptable skills as the overlooked piece that connects macro gains to real people's lives escaping hardship.

## 5. MAJOR FINDINGS AND OUTCOME

### 5.1 Key Contributions

By proposing the DC-IGN framework, this paper attempts to extend dynamic capabilities to development outcomes and bridges strategic management and development economics. Further, it introduces a firm-centric micro-foundation for economic growth and poverty reduction.

### 5.2 Policy & Managerial Implications

Managers, Institutions and policy makers should shift from aid-centric to capability-centric development and support capability building. Furthermore, Organizations should align firm strategy with SDGs and enhance adaptability

## 6. CONCLUSION

Rather than focusing solely on aid and infrastructure, policymakers should invest in capability-building ecosystems that enhance firms' adaptive and innovative capacities. The key message of this paper is simple: economic growth reduces poverty not automatically, but strategically—through firms with the capability to adapt, innovate, and include.

The limitation of this framework is that it is just a proposed one and has not been empirically tested. Other researchers could look in to empirically testing the framework in examining how dynamic capabilities at the firm level enhance economic growth and poverty alleviation

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