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**INVESTIGATING THE RELATIONSHIP BETWEEN  
BUSINESS STRATEGY, DISTINCTIVE CAPABILITIES,  
ENVIRONMENT AND PERFORMANCE OF  
MANUFACTURING SMES IN PALESTINE**



**DOCTOR OF PHILOSOPHY  
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**INVESTIGATING THE RELATIONSHIP BETWEEN BUSINESS STRATEGY,  
DISTINCTIVE CAPABILITIES, ENVIRONMENT AND PERFORMANCE OF  
MANUFACTURING SMES IN PALESTINE**

By

HASHEM I.M. RAMADAN



**Thesis Submitted to  
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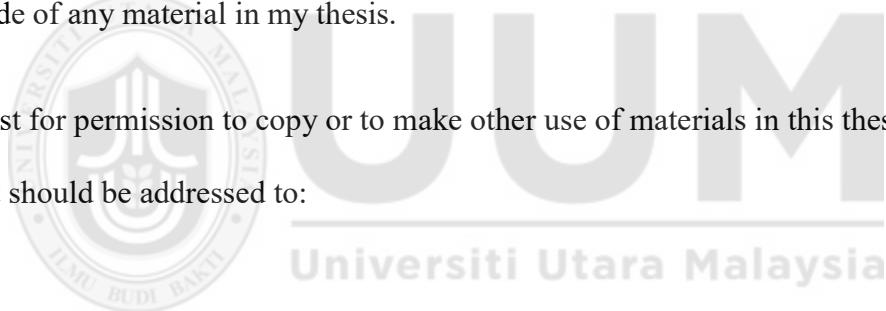
  
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## ABSTRACT

The main objective of this study is to examine the relationship between distinctive capabilities (DC), business strategy (BS), business environment (BE) and performance of manufacturing SMEs in Palestine. Additionally, to investigate the moderating effect of environment uncertainty on the relationship between distinctive capabilities and performance of SMEs. Based on contingency, industrial organization and resource-based view theories, the study explores whether DC (i.e., Administrative activities, Production and Operations activities, Marketing activities, Financing activities and Human Resource activities), BS (i.e., Low cost strategy, Differentiation strategy, Growth strategy, Hold and maintain strategy, Bare bone strategy, Specializing by product type strategy and Specializing by customer type strategy), and BE (i.e., Market environment, Technological environment and Competitive environment ) have a significant influence on performance. Data were collected from the manufacturing SMEs operating in West Bank in Palestine, using a cross-sectional study design. The study adopts proportionate stratified random sampling design 341 respondents and questionnaires were distributed and collected through the personally-administered method. Partial Least Squares Structural Equation Modelling (PLS-SEM 3.0) and one-way ANOVA in IBM SPSS statistics 24 was used to test the study hypotheses. The findings indicate that there is a significance difference between the business strategy implemented by the manufacturing SMEs and performance, the proposed relationship between distinctive capabilities and performance was highly significant. Although the performance was not influenced by administration, production, marketing and human resource, while its influenced by finance. Moreover, the strength of business environment had a negative moderating effect on the relationship between distinctive capabilities and performance of manufacturing SMEs in Palestine.

**Keywords:** small-and-medium enterprises (SMEs), business strategy, distinctive capabilities, environment uncertainty, performance.

## ABSTRAK

Objektif utama kajian ini adalah untuk menyelidik hubungan antara keupayaan tersendiri (DC), strategi perniagaan (BS), persekitaran perniagaan (BE) dan prestasi PKS sektor pembuatan di Palestin. Di samping itu, kajian juga bertujuan untuk menyelidik kesan perantaraan ketidakpastian persekitaran terhadap hubungan antara keupayaan tersendiri dan prestasi PKS. Berdasarkan kontinjenensi, organisasi industri dan teori pandangan berasaskan sumber, kajian ini menyelidik sama ada DC (iaitu aktiviti pentadbiran, aktiviti pengeluaran dan operasi, aktiviti pemasaran, aktiviti pembiayaan dan aktiviti sumber manusia), BS (iaitu strategi kos rendah, strategi pembezaan, strategi pertumbuhan, strategi memegang dan mengekalkan, strategi minimalis, strategi pengkhususan mengikut jenis produk dan strategi pengkhususan mengikut jenis pelanggan), dan BE (iaitu persekitaran pasaran, persekitaran teknologi dan persaingan yang kompetitif) mempunyai pengaruh yang signifikan terhadap prestasi. Data dikumpulkan daripada PKS pembuatan yang beroperasi di Tebing Barat, Palestin, menggunakan reka bentuk kajian keratan rentas. Kajian ini mengamalkan reka bentuk pensampelan rawak berstrata berkadar dengan 341 responden. Soal selidik diedarkan dan dikumpulkan melalui kaedah yang diberikan secara peribadi. Pemodelan Persamaan Terkecil Separa Berstruktur (PLS-SEM 3.0) dan ANOVA satu arah dalam statistik SPSS IBM 24 digunakan untuk menguji hipotesis kajian. Penemuan menunjukkan bahawa terdapat perbezaan yang signifikan di antara strategi perniagaan yang dilaksanakan oleh PKS pembuatan dan prestasi. Hubungan yang dicadangkan antara keupayaan dan prestasi tersendiri sangat penting. Walaupun tidak dipengaruhi oleh pentadbiran, pengeluaran, pemasaran dan sumber manusia, prestasi banyak dipengaruhi oleh faktor kewangan. Tambahan pula, kekuatan persekitaran perniagaan mempunyai kesan pengantaraan negatif terhadap hubungan antara keupayaan tersendiri dan prestasi PKS sektor pembuatan di Palestin.

**Katakunci:** perusahaan kecil sederhana (PKS), strategi perniagaan, keupayaan tersendiri, ketidakpastian persekitaran, prestasi.

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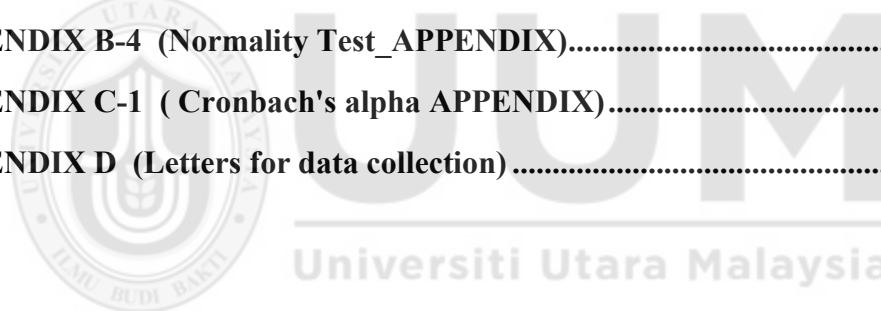
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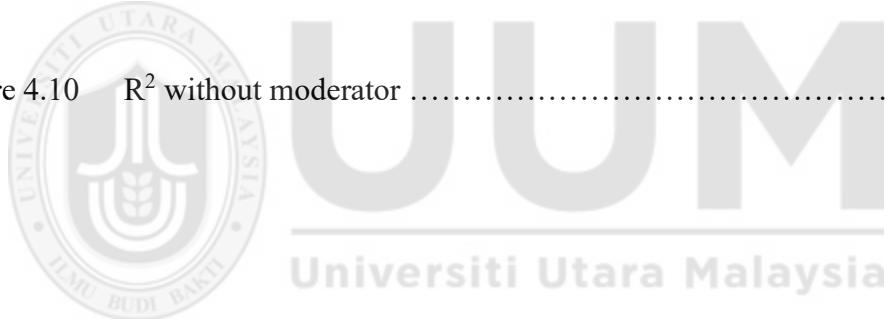
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## LIST OF ABBREVIATIONS

BPCI	Business performance composite index
BE	Business Environment
BS	Business Strategy
CLC	Capability lifecycle
CT	Contingency Theory
etc.	Latin for <i>et cetera</i> , "and other things"
DC	Distinctive Capabilities
GDP	Gross domestic product
GoF	Goodness of fit
i.e.	Latin for <i>id est</i> , "that is"
JD	Jordanian dinar currency
IO	Industrial organization Theory
LE	Egyptian pounds currency
n.s.	Not significant
OYAGSB	Othman Yeop Abdullah Graduate School of Business
PCBS	Palestinian Central Bureau of Statistics
PEU	Perceived environmental uncertainty
PLS	Partial Least Squares
PFIU	Palestinian Food Industries Union
PNA	Palestinian National Authority
SWOT	Strengths, Weaknesses, Opportunities, and Threats related to business competition

Q <sup>2</sup>	Stone-Geisser Predictive relevance and average of model to estimate PLS path model evolution
q <sup>2</sup>	Change in predictive relevance when blindfolding tests are turn
R <sup>2</sup> or r <sup>2</sup>	Coefficient of determination
RBV	Resource-based view theory
RM	Malaysian ringgit currency
ROA	Return on assets
ROI	Return on investment
ROS	Return on sales
ROE	Return on equity
SD	Standard deviation
SPSS	Statistical Package for the Social Science
SEM	Structural equation modelling
TQM	Total quality management
UNCTAD	United Nations Conference on Trade and Development.
VIF	Variance inflation factor
WB	World Bank
West Bank	The West Bank is a geopolitical area located in Palestine, which is called the West Bank because it lies west of the Jordan River.
€	Euro sign currency
£	United Kingdom currency - The pound sterling

# CHAPTER ONE

## INTRODUCTION

### 1. Introduction

#### 1.1 Background and Motivation of the Study

The concept of business strategy was introduced to business firms in the 1950s. Ever since its introduction and adoption in organizations, business strategy has dominated the interest and attention of managers, consultants and scholars (Hashim, 2015b). A review of the business literature in Palestine shows specifically that limited research has surveyed the types of business strategy being adopted by small and medium enterprises (SMEs). Furthermore, only a few of the previous studies have focused on the connection between performance and business strategy, while most of the research has concentrated on large business firms (Hashim, Ahmad, & Zakria, 2015; Jee Gin, Arputhan, & Sentosa, 2016; Ramadan & Ahmad S., 2018a, 2018b). For example, the United States which is considered as a developed country, they have linked performance with strategy in most of the published works and the differences between SMEs and large enterprises are well documented in the literature, but the greater part of strategic studies have concentrated on large enterprises (Parnell, Long, & Lester, 2015).

The literature has proposed that SMEs have major differences according to their strategies and growth modes. Three distinct kinds of SMEs exist, which are: 1) continuous growth innovators; 2) independent stable survivors; and 3) leap wise growth networkers. Success

factor affect the three categories of firms' performance ranging from the least important, to fairly important and to the most important (Maurya, Mishra, Anand, & Kumar, 2015).

Jackson (2015) argued that varied potential strategies exist that SME's can apply to create efficiency, raise quality, extend the market base, decrease operating costs, and create sustainable growth over time. Total Quality Management (TQM) might be a significant factor to create more quality and growth of a firm regardless of the size, product, or sector. Both Continuous Improvement and TQM concentrate on quality and enhance customer service.

### **1.1.1 Overview of Global SMEs**

In a developed country like the United Kingdom, SMEs are considered the backbone of economy forming 99.9% of businesses, employing 59.1% of private sector and 48.8% of the turnover of in the private same sector (Li, Coates, Johnson, & McGuinness, 2015). The contribution of SMEs to the gross domestic product (GDP) and employment in developed country like Singapore are 49% of GDP and 62% in employment, Taiwan 38% of GDP and 70% in employment, United Kingdom 55% of GDP and 54% in employment and South Korea is 50% of GDP and 70% in employment (Pulka, Ramli, & Bakar, 2018). Interestingly, in Malaysia, which it is a developing country, SMEs in the Manufacturing sector participate in the economic growth significantly. Approximately SMEs firms in Malaysia are 99.2% of total business. SMEs in Malaysia contribute up to 32% of GDP. Furthermore, 59% of jobs are generating by SMEs (Ho, Ahmad, & Ramayah, 2016). In other developing country (Nigeria) the SMEs are the major mechanism for economic growth and development, in 2012 there was 17, 284, 671 SMEs Enterprises, employing

32,414,884 people, contribute up to 46.54 percent of GDP, the SMEs are very crucial because it contribute a lot for employment and GDP, so it considered for Nigerian economy as the life blood (Uchegbulam, Akinyele, & Ibidunni, 2015).

In many countries SMEs are fighting for survival. For example, In China where many of SMEs are young from 1,000 of 1,500 new SMEs collapse in first year, and just 15% survive for ten years (Parnell et al., 2015). However, this high rate of failure occurs not only in China but in many other nations fail as well. In Arab countries like Egypt, which is in the process of economic development, SMEs play a relatively significant and important role for the national economy (H. Zaied, 2012). The SME sector in Algeria is very young, but the situation of SMEs in Algeria is particularly difficult, and 97.8% of these firms do not survive and move from a planned economy to a market economy (Amroune, 2016).

Thus, the low rate of survival SMEs is a universal phenomenon that requires more study about SME success factors in both developing and developed economies (Parnell et al., 2015). Some of these factors are external while others are internal. In China, for example, external factors include complicated strategies as a result of environmental uncertainties, changing and unexpected government policies, and the difficulty of obtaining capital sufficient access to capital (Parnell et al., 2015). Jayathilake (2015) found that when SMEs in Sri Lanka have a strong dynamic ability they are better able to confront market challenges via entrepreneurship strategy. So, the study encouraged SMEs firms to develop and create dynamic capabilities because they increase firm wealth and longevity.

The above literature demonstrates the importance of small and medium enterprises in the economy in developed or developing countries as a key driver of economic growth, innovation and creating jobs.

### **1.1.2 Overview of SMEs in Palestine**

The Palestinian state is divided into two main parts. About 5860 km<sup>2</sup> (square kilometres) are in West Bank (including East Jerusalem), and about 365 km<sup>2</sup> (square kilometres) are in Gaza Strip, which represent just 22% of the historical area of Palestine. In 2016 the population was estimated at 4.8 million (61% in the West Bank and 39% in the Gaza Strip) (Palestinian Central Bureau of Statistics, 2016b).

Several barriers limit the development of SMEs in Palestine. These include the absence of a single, uniform national definition of medium-sized and small enterprises, a lack of vision and a national strategy for the development of small and medium enterprises in Palestine, weak administrative backgrounds, and the limited use of administrative, marketing and financial concepts (Al Hadwi & Albondok, 2006). The last census of businesses, which the Palestinian Central Bureau of Statistics (PCBS) conducted in 2012, showed that around 20% of companies of West Bank were either permanently or temporarily closed. The number of closed firms across all of Palestine was 18,465 firms. Of these, 15,712 were in the West Bank and 2,753 were in the Gaza Strip (Palestinian Central Bureau of Statistics, 2013). These closures had several negative side effects on the GDP and the economy.

The deficit in the Palestinian goods trade balance for 2016 (which represents the difference between exports and imports) reached 4437.3 million USD, while the volume of trade transactions (which is the sum of exports and imports) was 6290.3 million USD (Palestinian Central Bureau of Statistics, 2016d). The volume of trade with Israel, which exceeds 80% of the total volume of the Palestinian trade exchanges, shows the extent of dependency and link with Palestinian economy with the Israeli economy (Palestinian Economic Council for Development and Reconstruction - PECDAR, 2015). The majority of exports continue to be destined for Israel. Similarly, the imports mainly come from Israel (Office of the United Nations Special Coordinator - UNSCO, 2016). The trade transactions volume between Palestine and Israel are 3,848,253 thousand USD, and the total value of imports from Israel in 2015 was 3,044,627 thousand USD, while total value of exports for Israel in 2015 was 803,626 thousand USD (Palestinian Central Bureau of Statistics, 2016c), these numbers and facts show that great opportunities exist for establishing new Palestinian factories and firms, which will primarily be SMEs.

The exports from the Palestinian Manufacturing sector to foreign markets during 2014 were approximately 943 million USD, with a growth rate of 4.3% for 2013, But this amount of increase should not distract considering the volume of imports from abroad, which amounted to about \$ 5.7 billion USD during 2014, which increased by 9.5% from 2013. Therefore, the deficit in the trade balance increased (Palestinian Central Bureau of Statistics, 2016c; Rantisi, 2016).

The Manufacturing sector still suffers from weakness. For example, Kiswani's (2016) report showed that the Manufacturing sector in Palestine has suffered from a reduction of the productive base, which dropped from 32% to 17% of its contribution in GDP, which reflects the decline in the number of workers, the import-export ratio, and the high cost of labour compared to neighbouring countries. Additionally, the data indicate that about 85% of the raw materials used by Palestinian manufacturers come from Israel or through it, which reflect a serious indication of the extent sensitivity and dependency of the manufacturing sector on Israeli policies (Rantisi, 2016). Such examples illustrate the need for a comprehensive plan to promote the manufacturing section and increase investments in it so that the sector can achieve comprehensive development and work to replace imports in favour of Palestinian products (Palestinian Business Forum, 2014).

Illiteracy rates in Palestine are considered one of the lowest in the Arab world 3.3%, as contrasted with illiteracy among individuals 15 years and over in all Arab countries of 21.5% in 2014 and a global illiteracy rate among individuals 15 years and over of 14.7% (Palestinian Central Bureau of Statistics, 2016a). The number of accredited higher education institutions in Palestine (West Bank and Gaza Strip) is 50 institutions, 14 of them are traditional universities, 1 is an open university, 17 are university colleges, 18 are community colleges. The West Bank has 33 higher education institutions distributed among 9 traditional universities (2 governmental, 6 public, and 1 private), 12 university colleges (4 government, 5 private, 2 public and 1 United Nations Relief and Works Agency), 12 community colleges (1 government, 6 public, 4 private, and 1 United Nations Relief and Works Agency). The Gaza Strip has 16 higher education institutions distributed among 5 traditional universities (1 governmental, 2 public, and 2 private), 5 university

colleges (3 government and 2 private), 6 community colleges (1 public, 1 governmental, 2 private, 2 United Nations Relief and Works Agency) (Ministry of Education & Higher Education, 2016).

Total merchandise imports amounted to 5,225.5 million USD in 2015 as shown in Table 1.1 below, which fell 0.1% compared with 2014, and became increased to 5,363.7 million USD in 2016, while Palestinian exports of goods rose by 2.0% compared with 2014 to reach 957.8 million USD in 2015. The deficit in the goods trade balance for 2015 (which represents the difference between exports and imports) declined by 10% compared with 2014 and reached 4,267.7 million USD, while the volume of trade transactions (which is the sum of exports and imports) also dropped 6.7% compared with 2014 and reached 6,183.3 million USD in 2015, and reached 6,290.3 million in 2016 and rose by 1.7% (Palestinian Central Bureau of Statistics, 2016c). While the trade balance for October 2017 showed an increase in the trade deficit by 8% compared to September 2017. It also reached 373.8 million USD in that month, and increased by 16.6% compared to October, 2016 (Palestinian Central Bureau of Statistics, 2017).

Table 1.1 below show the total value of imports, exports in goods, net balance and trade transactions volume in Palestine 1995-2015.

Table 1.1

*Total Value of Imports, Exports in Goods, Net Balance and Trade Transactions Volume in Palestine, 1995-2015*

Value in Thousands of USD				
Year	Total Value of Imports	Total Value of Exports	Net Trade Balance	Trade Transactions Volume
1995	1,658,191	394,177	-1,264,014	2,052,368
1998	2,375,102	394,846	-1,980,256	2,769,948
2001	2,033,647	290,349	-1,743,298	2,323,996
2004	2,373,248	312,688	-2,060,560	2,685,936
2007	3,284,035	512,979	-2,771,056	3,797,014
2010	3,958,512	575,513	-3,382,999	4,534,025
2013	5,163,897	900,618	-4,263,280	6,064,515
2014	5683199	943717	-4,739,482	6,626,917
2015	5,225,467	957,811	-4,267,656	6,183,278
2016	5,363,768	926,499	-4,437,269	6,290,267

Source: Palestinian Central Bureau of Statistics (PCBS): Registered Foreign Trade, 2015 and 2016.

Figure 1.1 below shows the total value of imports, exports of goods, net balance and trade transactions volume in Palestine 1995-2016. The line graph shows the changes in total value by imported goods between 1995 and 2016. There was a rise in imports in that period. The total value of imported goods in 1995 was 1,658.2 million USD, and reached 5,363.7 million USD in 2016, moreover, there was an increase of 2.5% compared to 2015. On the other hand, the line graph shows a plateau or steady or nonsignificant rise in export goods between 1995 and 2016. Also, there was a decrease in total value of exports between 2000 and 2003 because of the political circumstances at that period. Even so, the exported goods

totalled 926.4 million USD with an decrease of 3.2% compared to 2015 (Palestinian Central Bureau of Statistics, 2016c, 2016d).

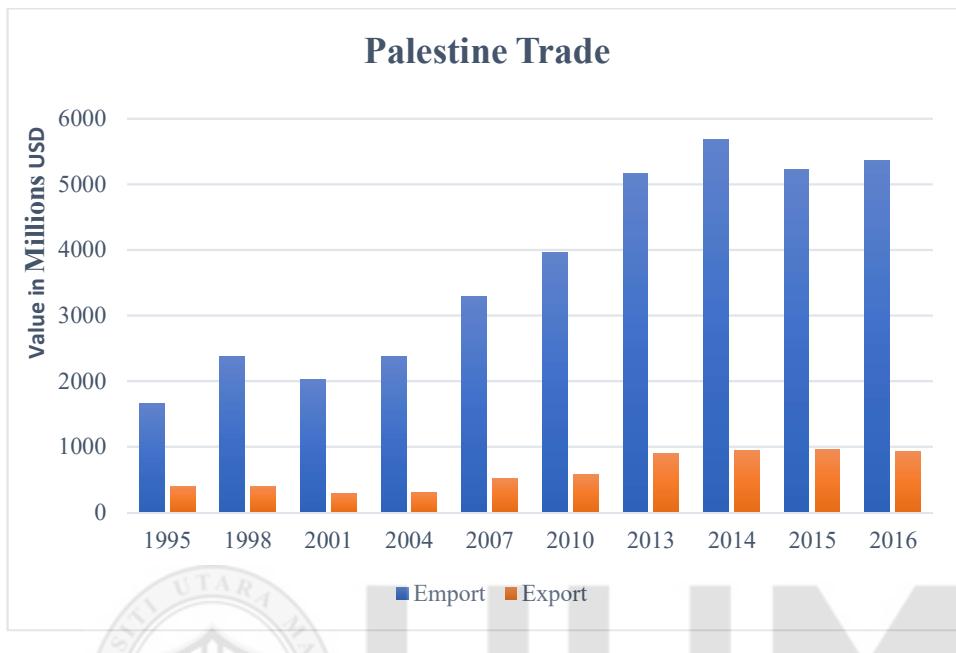


Figure 1.1

*Total value of imports, exports of goods in Palestine 1995-2016.*

Source: Adopted from Palestinian Central Bureau of Statistics (PCBS): Registered Foreign Trade, 2015 and 2016.

Figure 1.2 below shows the net trade balance and trade transactions volume of Palestine 1995-2015. The graph shows the changes in the net trade balances in goods (representing the differences between Exports and Imports) between 1995 and 2016. There was a decline in the net trade balance (which means an increase of deficit) in that period. The deficit in 1995 was -1,264 million USD, USD -4,267.6 million USD in 2015 and USD -4,437.3 million USD in 2016, even, there was a decrease of 10.0% compared 2015 to 2014, there is an increase of deficit by 4% in 2016 compared to 2015. Trade transactions in 2016 increased by 1.7% compared to 2015 and reached 6,290.2 million USD (Palestinian Central Bureau of Statistics, 2016c, 2016d).

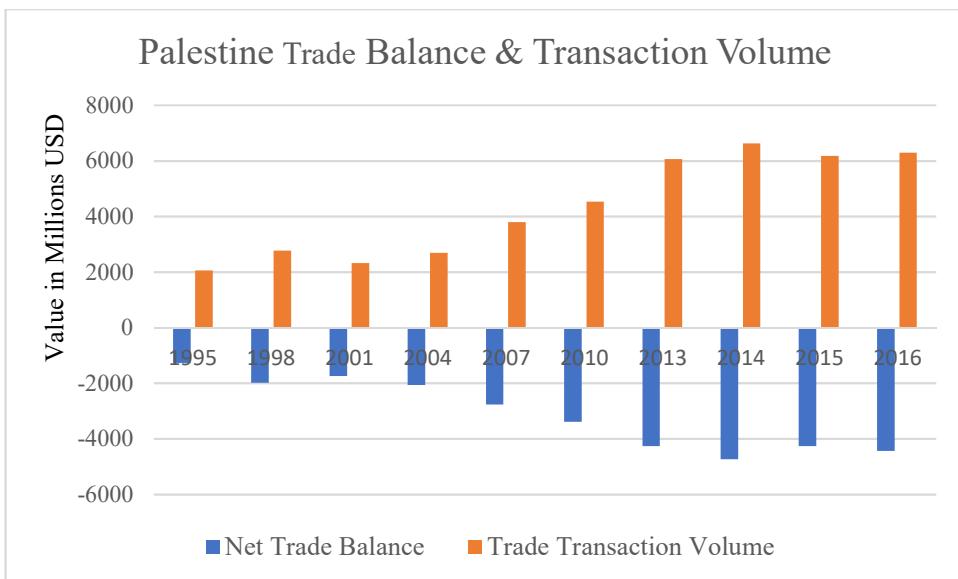


Figure 1.2

*Palestine trade balance & transaction volume 1995 – 2015.*

Source: Adopted from Palestinian Central Bureau of Statistics (PCBS), Registered Foreign Trade, 2015 and 2016.

The majority of exports continued to be destined for Israel. Similarly, imports mainly come from Israel (Office of the United Nations Special Coordinator - UNSCO, 2016). The trade transaction volume of Palestine and Israel were 3,848,253 thousand USD, and the total value of imports from Israel in 2015 were 3,044,627 thousand USD, while the total value of exports for Israel in 2015 was 803,626 thousand USD (Palestinian Central Bureau of Statistics, 2016c).

Palestinian Central Bureau of Statistics (2016b) reports show that the unemployment rate of Palestine in 2015 was 25.9% compared with 26.9% in 2014, and the full employment increased to 71.2% in 2015 from 66.6% in 2014. According to reports, 59.5% of employed persons work in West Bank, 28.8% work in Gaza Strip and 11.7% work in Israel.

The Palestinian Central Bureau of Statistics (PCBS) Survey of the Perceptions of Owners/Managers of Active Manufacturing Enterprises Regarding the Economic Situation Third Quarter 2015 showed that 82.3% of owners/managers believed that the financial situation in Palestine experienced a slow down during the third quarter of 2015 compared with the second quarter 2015. Furthermore, 82.6% said that production situation was down also (Palestinian Central Bureau of Statistics, 2015). 28.6% of the owners/managers of manufacturing firms, were dissatisfied with the facilities provided by government institutions to obtain required permits and licenses. Table 1.2 below shows the percentage of owners/managers in Palestine who were not satisfied with the services they had received (Palestinian Central Bureau of Statistics, 2015).

Table 1.2

*Percentage of Satisfaction of Owners/Managers in Palestine about Services*

Kind of Service	Not-satisfied
Electricity supply	25.9%
Water supply	39.2%
The quality of roads	30.8%
Providing information to enterprises	39%
Promotion of developmental policies	40.9%
Tax rate	53.7%
Access to governmental consulting and training	40.6%
Access to information (manufacturing technology, markets, global conventions, financial grants, .... etc.)	40.9%

Source: Survey of the Perceptions of Owners/Managers of Active Manufacturing Enterprises Regarding the Economic Situation Third Quarter 2015 by the Palestinian Central Bureau of Statistics (PCBS).

Abu Jazar (2006) indicates some of the characteristics and real situation of SMEs in Palestine, which are:

1. The ownership of small and medium enterprises by individual and family ownership indicates a strong correlation between Palestinian society and business.
2. The distribution of small and medium enterprises on various sectors including: 1) the productivity and manufacturing sector, such as craft manufacturers that includes carpentry, blacksmithing, turnings, sewing and weaving, 2) the upholstery food, handicrafts, chemical and plastic sectors, 3) the service sector that includes cars, cool and heating, and 4) the mechanics manufacturers, maintenance of machines, and radio and television works.
3. The most important motives of the establishment of small and medium enterprises are economic factors, whether for economic needs or creating a job vacancy.
4. The core funding for small and medium projects has been focused in self-financing via savings and personal debt sources and exhibits a lack of dependence on funding from non-governmental lending and banking institutions. This is because the Islamic religion forbids interest on loans, which makes many people avoid dealing with lending banks and institutions. Also, it is impossible for the owners of these projects to be accepted as customers to banks and lending institutions because there are no guarantees from this group to enable them to borrow from banks (Abu Jazar, 2006).

Interestingly, this may explain why Palestinian investors are investing in Israel, Hass (2011) reports on a highly disputed study by Issa Smirat, which found that the total private Palestinian investment in Israel was between \$2.5 billion as an optimistic estimate and \$5.8 billion according to a more pessimistic estimate, while private Palestinian investment in the West Bank was only \$1.5 billion in 2011. One-third of Palestinian investors said that they had no interest in investing in the West Bank, and the other two-thirds said that they would move investment into the West Bank if the Palestinian government managed the economy better and conditions improved (e.g., availability of loans, infrastructure) (Anthony et al., 2015; Hass, 2011; Smirat, 2011).

On the other hand, SMEs play a vital role in GDP in Palestine. The percentage contribution of Palestinian SMEs to the GDP was approximately 24% in 2004 (Al Hadwi & Albondok, 2006), while the annual report of Palestine Investment Fund (PIF) in 2014 said that the contribution of Palestinian SMEs to GDP was 55% (Palestine Investment Fund, 2014). Besides contributing to the GDP, SMEs also recycle national income, add to domestic investment motivation, and reduce unemployment rates. They constitute about 99% of Palestinian firms and employ 82% of all workers (Jalad et al., 2010). In the last Establishment Census 2012 in Palestine that Palestinian Central Bureau of Statistics (PCBS) made, there were 131,730 establishments of Palestine, including 89,479 firms in the West Bank and 42,251 establishments in the Gaza Strip, the SMEs account for around 11% of the whole establishments in Palestine, which equals 14,359 enterprises as shown in Table 1.3 below.

Table 1.3

*Number of Operating Establishments in the Private Sector, Non-Governmental Organization Sector and Governmental Companies in Palestine, the West Bank and the Gaza Strip by Number of Employees, 2012*

Area	Number of Employees						Total
	1-4	5-9	10-19	20-49	50-99	100+	
Palestinian Territory	117,234	9,977	2,983	1,172	227	137	131,730
West Bank	79,700	6,561	2,097	844	177	100	89,479
Gaza Strip	37,534	3,416	886	328	50	37	42,251

Source: Palestinian Central Bureau of Statistics (PCBS): Establishment Census, 2012 – Main Findings

Establishments closed in Palestine numbered 18,465, including 15,712 in the West Bank and 2,753 in the Gaza Strip. That means there 16% closed establishment (not working) and 3% temporarily closed in West Bank; the final result showed that around 20% of establishments in West Bank were either closed or temporarily closed (Palestinian Central Bureau of Statistics, 2013).

Table 1.4 below shows the percentage of Operating Establishments in the Private Sector, the Non-Governmental Organization Sector and Governmental Companies in Palestine, the West Bank and the Gaza Strip by Employment Size Group, 2012. Henceforward, this study will adopt the definition of SMEs in Palestine. SMEs are classified as having employees numbering between 5 and 99 employees, of these firms having employees numbering from 5 to 19 are classified as small-sized business and firms having from 20 to 99 are classified as medium-sized businesses (Herzallah, Gutiérrez-Gutiérrez, & Rosas, 2014; United Nations Conference on Trade and Development (UNCTAD), 2004). There

are 14,359 SMEs in Palestine equal to 10.9% of total firms in Palestine; the SMEs in West Bank are 9,679, which represent 10.82% of the total SMEs in West Bank, and the SMEs in Gaza Strip equal 4,680 firms, which represent 11% of total SMEs in Gaza Strip.

Table 1.4

*Percentage of Operating Establishments in the Private Sector, Non-Governmental Organization Sector and Governmental Companies in Palestine, West Bank and Gaza Strip by Number of Employees, 2012*

Area	Number of Employees						Total
	1-4	5-9	10-19	20-49	50-99	100+	
Palestinian Territory	89%	7.57%	2.26%	0.89%	0.17%	0.10%	100%
West Bank	89%	7.33%	2.34%	0.94%	0.20%	0.11%	68%
Gaza Strip	89%	8.09%	2.10%	0.78%	0.12%	0.09%	32%

Source: Calculated from Table 1.3.

This study addresses a gap between literature in the field of SMEs in Palestine. Only a few empirical studies have handled the impact of business strategy, distinctive capabilities and environment uncertainty on the performance of Manufacturing SMEs in Palestine, and this paucity suggests the need for a more empirical investigation into this area. Most studies about SMEs made by the Palestine Economic Policy Research Institute (MAS) in Palestine were supported and funded by the International Development Research Centre (IDRC) in Canada (Jalad et al., 2010).

### **1.1.2.1 Definition of SME**

SMEs are defined in different ways in various countries around the world, and the definition can be formed depending on the nature of SMEs (i.e., manufacturing or services) and the national and local needs (Shah, El-Gohary, & Hussain, 2015). For example, the United Nations Conference on Trade and Development defined SMEs as small enterprises employing 5-19 employees and medium-sized enterprises employing 20-50 employees (United Nations Conference on Trade and Development (UNCTAD), 2004). Because of these variations, disagreements or differences through the years have appeared in the literature concerning convenient definitions of SMEs (Uchegbulam et al., 2015). Often, SMEs are defined according to the total number of employees in a firm and/or the value of total assets. These criteria can be generalized across both SMEs and large firms. However, the definition of a SMEs can be observed in many different ways, according to organization or country (Aminu & Shariff, 2015) as shown in Table 1.5 below.

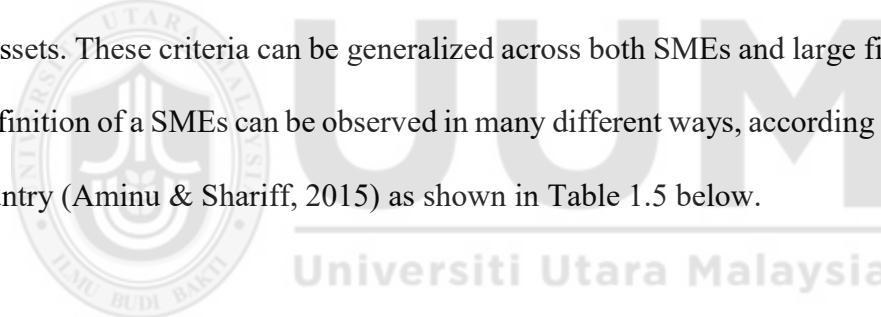


Table 1.5  
*SME Definitions*

Country	No. of Employees		Financial Cost	
	Small	Medium	Small	Medium
<b>Malaysia</b>	5 – 50	51-150	RM 250,000 and less than RM 10 million	RM10 million and RM 25 million
<b>UK</b>	10 – 49	50 – 249	£ 8.2 Million	£ 35.2 Million
<b>Nigeria</b>	< 100	100 to 199	< €10 million turnover	< €50 million turnover
<b>Palestine<sup>1</sup></b>	5 – 29	30 – 99	-	-
<b>Jordan</b>	5 – 29	30 – 100	10,000 JD - 50,000 JD	50,000 JD – 100,000 JD
<b>Egypt</b>	10-49	50-99	LE 5 million	LE 10 million
<b>Israel</b>	10-49	50-249	--	--
<b>Europe</b>	10 – 50	< 250	€10 million	Sales volume < €50 million

Sources: (Al-Mahrouq, 2010; Aminu & Shariff, 2015; Zaied, 2012; Hamed, Abu Hantash, Khalifa, & Salah, 2009; Malaysia, 2005; OECD, 2016; Uchegbulam et al., 2015; the United Nations Conference on Trade and Development (UNCTAD), 2004)

In Jordan and Egypt, the governments have promulgated official definitions of SMEs. Jordan is the nearest country to Palestine and shares much of a common heritage with Palestine. This is because the Palestine population was subject to rule by the Hashemite Kingdom from 1951 until the Israeli occupation of West Bank in 1967 (Abdul Hadi, Hamad, Yahya, & Iqbal, 2013) and because of the similarities between Palestine and Jordan, which makes them comparable (Barakat, López, & Rodríguez, 2015). In Jordan,

<sup>1</sup> The study definition of SMEs in Palestine.

the Ministry of Industry and Trade in 2003 defined SMEs thusly; firms that employ between 5-29 employees with a capital of between 10,000 J.D. to 50,000 J.D. are considered a small enterprise, while the firms that employ between 30-100 employees with a capital of between 50,000 J.D. to 100,000 J.D. are considered a medium enterprise (Al-Mahrouq, 2010). In close by Egypt, the Egyptian Ministry of Industry (MOI) defined the firms that employ from 10-49 employees with investment costs of LE 5 million as small enterprises, while the firms that employ from 50-99 employees with investment costs of LE 10 million as medium enterprises (Zaied, 2012). In Israel firms that employ between 10-49 employees are considered as small-sized enterprises, and firms that employ between 50-249 employees are considered medium-sized enterprises (OECD, 2016).

Like other developing countries, Palestine has seen various definitions of SMEs. Herzallah et al. (2014) in their study about the Total Quality Management (TQM) and the performance of Manufacturing SMEs in Palestine adopted the Fourth European Directive definition defined small-sized enterprises as those employing more than 10 and less than 50 employees and whose annual turnover or annual balance sheet total does not exceed 10 million Euros, and medium-sized enterprises (SMEs) as those employ fewer than 250 employees and which have an annual turnover not exceeding 50 million euros, and/or an annual balance sheet total not exceeding 43 million Euros (European Commission, 2005).

Correspondingly, Atyani and Haj Ali (2009) defined micro enterprises as having less than five workers, small-sized enterprises as having 5-9 workers, and middle-sized enterprises as having 10-19 workers in Palestine. Some studies like Rajab (2015) have argued that an official Palestinian definition for SMEs was created in 2011, which has not been officially published to date. However, the Palestinian Central Bureau of Statistics (PCBS) has

produced a definition according to which enterprises with 1-4 employees are considered small-sized enterprises, enterprises with 5-20 employees are considered medium-sized and enterprises with more than 20 employees are considered large-sized. (See PCBS, Establishment Census, 2012, Table 5, p. 53 and Palestine Monetary Authority (PMA), 2014, p. 25).

In line with UNCTAD (2004), Herzallah et al. (2014), and the Jordanian and Egyptian definitions of SMEs, the absence of a national definition of small- and medium-sized enterprises (Atyani & Haj Ali, 2009), and in consideration the Palestinian Central Bureau of Statistics (PCBS) segmentation in their reports on the Number of Manufacturing Operating Establishments in Private Sector (Palestinian Central Bureau of Statistics, 2013) this current study will define categories of SMEs as small enterprises (employing 5-29 persons) and medium-sized enterprises (employing 30-99 persons).

### **1.1.2.2 Manufacturing Sector in Palestine**

The manufacturing sector is consider the backbone and one of the most productive sectors of any country and play a key role along with the rest of the production sectors to increase the gross domestic product (Palestinian Business Forum, 2014). This sector comprises 11.9% of total employment in Palestine, including 15.3% of total workers in the West Bank and 5.4% of workers in the Gaza Strip (Rantisi, 2016). This sector is particularly critical in Palestine because Palestinians have been deprived of most of the benefits of their natural resources due to Israeli policies. World Bank sources approximate that if Palestinians were allowed to exploit the natural resources in the Dead Sea minerals only, the annual revenue would be estimated at 918 million USD. Looking at the total Palestinian GDP for 2014,

the reduction of 918 million USD equivalent to 55.7% of the Palestinian Manufacturing sector, mining, and quarrying and manufacturing industries in that year (Mustafa, 2016; Palestinian Business Forum, 2014).

Although the Palestinian Ministry of National Economy (2017) reports show that the number of new companies registered in the West Bank increased by 16.8% for 2016 compared to 2015, the number of new factories licensed in 2016 declined by 9.3% over the previous year. Additionally, the value of the capital of these factories saw a decrease of 27.5% over the previous year, with 176 new licensed factories with a value of capital amounting to 115.7 million USD.

With respect to the various areas of Palestine, the Nablus governorate had 21.0% of the new factories, followed by Hebron governorate at 19.3% followed by the Jenin governorate with 11.4% while the Salfit and Jericho governorates reported the lowest rate of 4.0% each in terms of the total number of new factories licensed. The distribution of the factories according to a capital category shows that 10.2% of the new plants did not exceed 100,000 USD and comprised only 0.6% of the total capital invested during this period. Factories with capital from 100,001-500,000 USD comprised 19.9% of the new plants, with capital amounting to 5.9% of the total capital. Factories, which capital ranging from USD 500,000 and 1,000,000 USD, were 10.8% of the total plants, and accounted for 6.5% of the total capital. Lastly, 59.1% of the newly licensed plants had capital exceeding one million USD, and this category accounted for 87.0% of the total capital during this period, as shown on Figure 1.3 below (Ministry of National Economy, 2017).

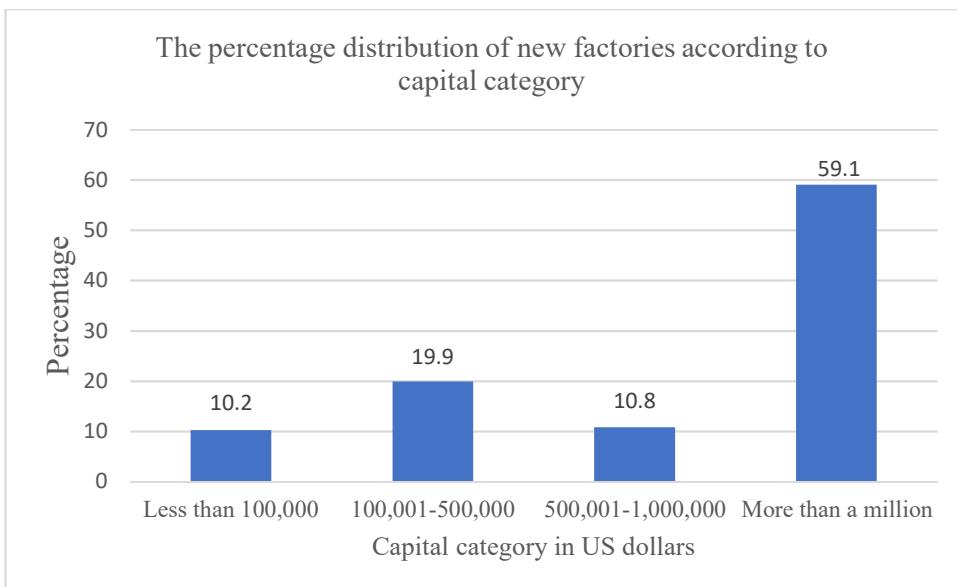


Figure 1.3

*The percentage distribution of new factories according to capital in the West Bank.*  
Source: Adopted from Ministry of National Economy Report (2017), Palestine.

#### 1.1.2.2.1 Types of Manufacturing Sector Activities

Both the Palestinian Central Bureau of Statistics (2013) and the Palestinian Business Forum (2014) have divided the Manufacturing section in Palestine into five main activities, which are:

1. Mining and quarrying, which is further subdivided into 1) other mining and quarrying, and 2) mining support service activities.
2. Manufacturing activities comprise the main component of the Manufacturing section and the largest number of activities according to Palestinian Central Bureau of Statistics (2013) divisions. These include the manufacture of the following: food products, beverages, tobacco products, textiles, wearing apparel, leather and related products, wood and products of wood and cork, except for furniture, articles of straw and plaiting materials, paper and paper products, the printing and reproduction of recorded media,

coke and refined petroleum products, chemicals and chemical products, basic pharmaceutical products and pharmaceutical preparations, rubber and plastics products, other non-metallic mineral products, basic metals, fabricated metal products, except machinery and equipment, computer, electronic and optical product, electrical equipment, machinery and equipment n.e.c., motor vehicles, trailers and semi-trailers, other transport equipment, furniture, other manufacturing, and repair and installation of machinery and equipment.

3. Electricity, gas, steam and air conditioning supply.
4. Water supply, sewerage, waste management and remediation activities, which is divided into: water collection, treatment and supply; sewerage, waste collection, treatment and disposal activities; materials recovery; and remediation activities and other waste management services.
5. Construction, which is divided into: construction of buildings, civil engineering, and specialized construction activities.

The value added by the Manufacturing sector to the GDP ranged between 10% and 13% during the period from 1999 to 2014, as the sector remained relatively flat in value added to the economy as shown in Figure 1.4.

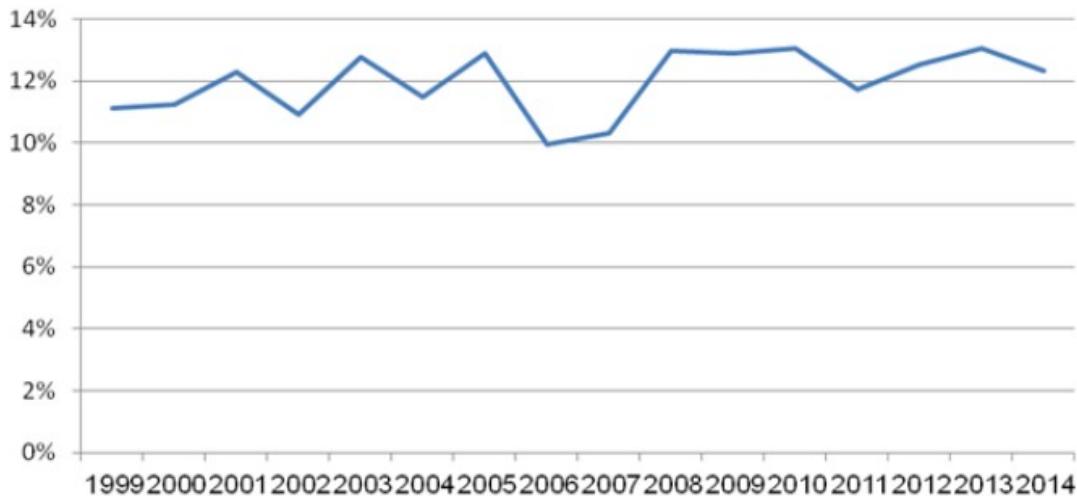


Figure 1.4

*Percentage contribution of the Manufacturing sector to the GDP.*

Source: Adopted from Rantisi (2016).

The manufacturing sector comprises the largest percentage of the total Palestinian economic activity, while other medium-sized manufacturing companies 19.6% of the overall Manufacturing activity. The low contribution of medium-sized manufacturers to Palestinian Manufacturing activity is attributable to several reasons including: 1) preventing the importation of the necessary raw materials manufacturing by Israel, 2) restrictions on the export abroad and the small size of the Palestinian markets, and 3) the high cost of production compared to the return of the manufacturing in this small market (Palestinian Business Forum, 2014).

### **1.1.2.3 Issues and challenges of SMEs in Palestine**

Overall, the Palestinian marketplace suffers from the restrictions imposed by Israel on the freedom of movement of people and goods between Palestinian cities. Israel still controls all Palestinian land, air space and even the marine coastline next to the Gaza Strip. The crossing agreement between Israel and the Palestinian Authority signed in 2005 was supposed to lead to the improvement of trade and facilitate the movement of people and goods in the West Bank and Gaza Strip and re-open the Gaza airport. However, the desired result was not produced, which, in turn, led to the halting of trade, disrupted production and increased unemployment rates in the Gaza Strip. In West Bank, Israel still exercises control, leading to closures, roadblocks and checkpoints (Sabella, 2009; Sultan, 2011).

Consequently, free movement and trade issues and challenges remain timely and related. Realizing and understanding that the economic performance of any organization or country in developed and emerging economies is shaped by environmental factors is critical. Thus, the efficiency, effectiveness, uniqueness and quality of a nation's corporate governance is directly related to firm performance (Nuhu & Ahmad S., 2017).

The volume of trade with Israel, which exceeds 80% of the total volume of the Palestinian trade exchanges, vividly demonstrates the extent of dependency and linkage of the Palestinian economy with the Israeli economy. The depth of the difficulties faced by the Palestinian boycott of Israeli goods and the trade relationship with Israeli suggests the need for the long-term development of national product on or the importation of substitutes from abroad. This will not be easily achieved in light of Israel's control over Palestinian border

crossings, and the cost of alternatives is much larger than good imported from Israel. Accordingly, to ensure the success of the boycott of Israeli goods, the Palestinian government should support agricultural and manufacturing development with respect to comprehensive economic development and not merely boycott Israeli products (Palestinian Economic Council for Development and Reconstruction - PECDAR, 2015).

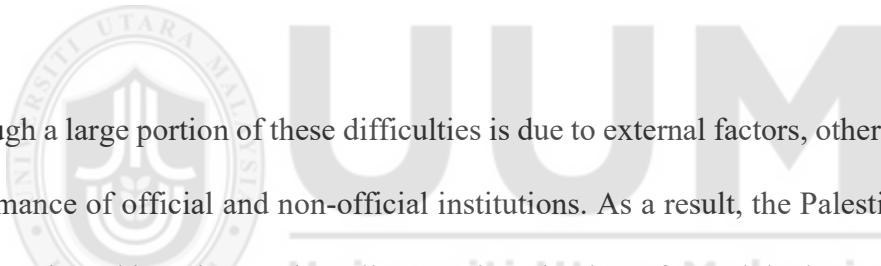
The fragmentation of West Bank and land loss relating to the expansion of by-pass roads constitute a major obstacle for Palestinian development. Even though the aim of these roads is to link Palestinian communities, they seem, in some measure, a waste of time. That is because the Oslo agreement (1993) gave Israel the right to retain both military and civil control of West Bank Area C, in which more than 150,000 people are living under a constraint on building and the freedom of travel (Sultan, 2011).

Abu Jazar (2006) mentioned several main causes of the crises of SMEs in Palestine including weakness in domestic capital, poor management and planning, a lack of raw materials, and a weak of the domestic market. Additionally, other barriers include:

1. Israeli practices and policies over the past years against any growth or development of the economy.
2. Israeli control of border crossings linking the Palestinian territories with the surrounding countries and the world, whether they relate to the separation of the West Bank from the Gaza Strip or the dismemberment of towns and villages in the West Bank.

3. Fiscal and monetary policies that favour the needs and interests for the Israeli economy over the needs and interests over Palestinian interests, the lack of a Palestinian national currency, and fully sovereign Palestinian tax laws.

Although the prevailing economic and social conditions in Palestine are much like its counterparts in various developing countries, a need exists to specifically emphasize the Palestinian situation because of the realities of the occupation and Palestinian rights and abilities. Because of these special circumstances, the Palestinian economy is facing great difficulties with respect to the development and optimization of economic resources available for its needs (Abu Jazar, 2006).



Although a large portion of these difficulties is due to external factors, others related to the performance of official and non-official institutions. As a result, the Palestinian economy has been shaped by micro and small enterprises that have formed the largest proportion of facilities and economic activities. Census results for 2007 have pointed out that about 99% of the Palestinian establishments employ less than 20 workers. These establishments contribute about 82% of the total employees in firms in Palestine workers. Micro and small enterprises need support and complementary services more than large facilities do. That is because small business owners almost universally suffer from limited financial resources and technical capacities needed to develop and expand (Hamed et al., 2009; Jalad et al., 2010).

A review of the experiences of leading countries and the opinions of expertise points to the importance of the rule of law in determining the definition and standardization of facilities for micro and small enterprises, and these demonstrate that having laws including a clear and comprehensive definition for those facilities are the first step for their development. And the importance of a national definition is highlighted as a prerequisite before proceeding with development steps (Hamed et al., 2009). Unfortunately, micro and small enterprises in the Palestinian territories face great difficulties due to the lack of a unified definition of these facilities. Various institutions have formulated definitions, but no national standard definition exists (Al Hadwi & Albondok, 2006; Hamed et al., 2009).

Micro and small enterprises in Palestine suffer from a low level of available financing. Most such firms needs external financing to develop their activities. Abdelkarim (2010) found that 62% of these establishments needed external financing, and 76% of that firms that need external financing belonged to services sector and 48% belonged to the commerce sector. Thus, firms that not requiring this kind of finance are centred in the commerce sector.

Adequate financing is not the only problem. Often people who are interested in setting up manufacturing projects in Palestine lack the proper information. The lack of information on the needs of the domestic market for various goods and services force some of those willing to invest either not to invest or to imitate existing projects, which seem to them successful. They also resort to importing and exporting or trading generally. The scale of this problem is related to two contradictory facts. First, Palestinians depend on Israel for

80% of what they eat, drink and wear, which means that there are thousands of goods and services that they need. Second, the majority of potential investors and entrepreneurs do not have knowledge of the needs of the community (Abu Jazar, 2006).

Sabella (2009) found evidence from his study that most micro and small business owners in the Palestinian territories do not have a clear idea about the importance of marketing and that most of them do not use any marketing tools. In addition to not adopting any clear and specific goals of a marketing plan, most micro and small enterprises lack a marketing department responsible for marketing their products and services. Indeed, a more than three-quarters of the sampled firms in this study did not have a marketing department or were not going to set up a marketing department in the future (Sabella, 2009). Moreover, the amount of capital at the beginning of the project is modest because most sources of capital are personal, and Most of the projects in Palestine market their products locally (Abu Jazar, 2006).

Micro and small enterprises should focus their main efforts on the development of their capabilities in the areas of production, quality control, and risk so that they can produce quality goods and services at a reasonable cost to compete locally and globally. They should work to develop the capabilities and skills of their employees and work on the development of production skills including an assessment of the workload and cost control skills and strive to create close relationships with foreign companies through alliances for production licenses, marketing, distribution and technical cooperation, and production contracts for the benefit of international companies. They should also participate in

regional and global trade fair activities as they have a positive effect on the construction micro and small enterprises (Atyani & Haj Ali, 2009).

Al Hadwi and Albondok (2006) found the following barriers to develop for micro and small enterprises in Palestine. These included:

1. The absence of a national definition of small and medium-sized enterprises.
2. The absence of vision and a national strategy for the development of small and medium enterprises (SMEs) in Palestine; and
3. The role of the public sector was very modest in supporting small and medium enterprises (SMEs) in Palestine.

Evidence shows the impact of the arbitrary ability of Israel to intervene in the Palestinian labour market, and its attempt to establish a distinction between Palestinians. This is achieved by allowing more workers from the West Bank to work in Israel, reaching its highest level of 16.8% of the total employees in the West Bank at the end of the third quarter 2014. As a result, the employment rate of workers who reside in the West Bank is about 17.7% in West Bank, unlike the situation in the Gaza Strip, which had an unemployment rate in 2014 of about 43.9%. This reflects the size of control of the Palestinian employment rate by Israel, which is related to the political situation in the West Bank (Palestinian Economic Council for Development and Reconstruction - PECDAR, 2015).

## 1.2 Problem Statement

The concept that business strategy is correlated to organizational performance has been confirmed in the literature. In spite of this, few empirical researches have studied SMEs in Palestine in general or particularly with respect to the impact of business strategy, business risk and distinctive capabilities on the performance of SMEs in Palestine (Herzallah et al., 2014; Ramadan & Ahmad S., 2018a, 2018b; Shabat, 2007).

Hashim et al.'s (2015) found that the contingency theory of strategic management, which is to say there no one business strategy is the best for all companies. More importantly, the firms must develop and implement business strategies that fit with their business environment for them to support their organizational performance.

There is a significant and positive relationship between performance and business strategy that SMEs in different manufacturers tend to adopt different business strategies and that their performance varied by the different strategy types they adopted (Hashim 2015a; Hashim and Hashim 2015; and Kim and Choi 1994).

Shamimul, Hilman and Gorondutse (2017) argue that, across the literature, firm performance is an outcome that reflects a firm's success in fulfilling its business goals. Amroune (2016) said that the SMEs must understand what leads to improved performance. Business performance is the main consideration in investigating organizational phenomena, while performance improvement is a concern of strategic management (Ho et al., 2016). Matanda, Ndubisi, and Jie (2016) used firm performance as a dependent variable.

All companies regardless of different forms (financial institution, small manufacturer, support provider, professional services, distributor, and countless others) needs to know the level of its performance (Dubihlela & Dhurup, 2015), with regard to this, SMEs are anticipated to upgrade their performance, especially in developing and emerging countries context (Amroune, 2016; Ramadan & Ahmad, 2018b). In this study model business performance of SMEs is a dependent variable which will be measured by business strategy and distinctive capabilities as independent variables and environment uncertainty as a moderator.

According to Smirat (2016), the unique environment uncertainties exerted by Israeli's imposed restrictions were still the greatest threat for doing business in Palestine. Moreover, Parnell et al. (2015) found that there is a negative relationship between market uncertainty and performance of SMEs in China and USA. Moreover, reducing environmental uncertainty leads to higher levels of company performance (Bendickson, Gur, & Taylor, 2016). Environmental uncertainty can have a negative influence on firm performance (C.-H. Liu, 2017).

The degree of uncertainty reflected by dynamism and complexity in an environment forces a firm to be dependent on those environments for resources (Lumpkin & Dess, 2001; Ramadan & Ahmad S., 2018b).

According to Hortinha, Lages and Filipe Lages (2011, p. 38) "Strategic orientations are capabilities that reflect the strategic directions a firm takes to create the appropriate behaviors for continuous superior performance".

Zakaria, Abdullah, and Yusoff (2016) claimed that the organization should allow a diversity of strategies and opportunities to enhance and pursue a firm's capability to innovate for growth and survival.

Based on the literature review, strategic management, effective business strategy should be developed based on competitive advantage (Hashim, 2015a). The literature shows that previous researches on SMEs lack scope and strategic focus in their investigations (Hashim, Ahmad S., & Zakria, 2015). A review of previous research on the relationship among business strategy, distinctive capabilities and performance, however, indicates that most past empirical studies have primarily concentrated and investigating large business firms. Limited studies have investigated this relationship with respect to SMEs (Hashim et al., 2015; Parnell et al., 2015). Thus, the linkage between business strategy and the performance of small and medium sized enterprises (SMEs) has remained largely unexplored in developing countries and particularly from the Palestinian perspective, the place of this study. Most studies about SMEs in Palestine had been made by the Palestine Economic Policy Research Institute (MAS) in Palestine and were funded by the International Development Research Centre (IDRC) in Canada (Jalad et al., 2010).

Most Palestinian firms suffer from high production costs due to an unstable environment and the Israeli blockage of borders, so firms are forced to buy massive amounts of raw materials and extra spare parts. Moreover, it is difficult for Palestinian firms to adopt low-cost strategies or to compete via the economies of scale because most firms do not have up-to-date technologies and open markets in which to sell their production (Sultan, 2011).

For example, purchasing new machines, especially in areas in which competing with Israeli products is difficult, leads most owners of small businesses to purchase used machines (Abu Jazar, 2006).

The private Palestinian investment in Israel was between \$2.5 billion and \$5.8 billion in 2011 while the total private Palestinian investment in the West Bank was only \$1.5 billion in the same year (Smirat, 2011). If invested in Palestine, that amount of investment could create more than 260,000 jobs, with taxes of 250 million USD and would help to solve the problem of the Palestinian budget deficit (Al-Hayat Al-Jadida, 2011; Al-Quds University, 2011; Anthony et al., 2015; Hass, 2011).

In response to these practical and theoretical problems, the study wants to investigate if the performance of manufacturing SMEs in Palestine differ in the business strategies that they adopt, is there a relationship between distinctive capabilities, general administration capabilities, production/operation capabilities, marketing capabilities, human resources capabilities and finance capabilities on performance of manufacturing SMEs in Palestine. And if environment uncertainty has a significant direct effect on performance or moderate the relationship between distinctive capabilities and performance.

Moreover, this current study will contribute to the literature in performance, business strategy, environment and distinctive capabilities about SMEs in Palestine. This study investigates the current situation of SMEs in the West Bank with respect to financial or political difficulties.

### **1.3 Research Questions**

Based on the problem statement, the main questions in this research were about the consequences of these factors of the SMEs performance. The following research questions were used for conducting the research:

1. Do performance of manufacturing SMEs in Palestine differ in the business strategies that they adopt?
2. Is the distinctive capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
3. Is the level of general administration capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
4. Is the level of production/operation capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
5. Is the level of marketing capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
6. Is the level of human resources capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
7. Is the level of finance capabilities has a significant positive effect on performance of manufacturing SMEs in Palestine?
8. Is environment uncertainty has a significant negative effect on performance of manufacturing SMEs in Palestine?

9. Does the environment of uncertainty moderate the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine?

#### **1.4 Research Objectives**

The general objective of the study is to examine the relationship among business strategy, distinctive capabilities and business environment on the performance of SMEs in Palestine.

The specific objectives were as follows:

1. To determine whether the performance of manufacturing SMEs in Palestine differs with their choice of business strategy they adopt;
2. To investigate if there is a significant positive relationship between the distinctive capabilities and the performance of manufacturing SMEs in Palestine;
3. To investigate if there is a significant positive relationship between the level of administrative capabilities and the performance of manufacturing SMEs in Palestine;
4. To investigate if there is a significant positive relationship between the level of production/operation capabilities and the performance of manufacturing SMEs in Palestine;
5. To investigate if there is a significant positive relationship between the level of marketing capabilities and the performance of manufacturing SMEs in Palestine;
6. To investigate if there is a significant positive relationship between the level of human resources capabilities and the performance of manufacturing SMEs in Palestine;

7. To investigate if there is a significant positive relationship between the level of finance capabilities and the performance of manufacturing SMEs in Palestine;
8. To investigate if there is a significant negative relationship between environment uncertainty and the performance of manufacturing SMEs in Palestine; and
9. To investigate if environment uncertainty moderates the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine.

### **1.5 Significance of the Study**

This research provides an overview of the distinctive contributions of SME in Palestine, through investigating the relationship among distinctive capabilities, business strategy, environment and performance of manufacturing SMEs in Palestine using modern primary data. The study sheds light on the importance of SMEs in Palestinian economics and social life and SMEs capital, geographical distribution, sectoral distribution, markets and financing sources.

The results of this study will provide knowledge of the needs and problems that SMEs face and suggest ways in which to help them to improve their performance and their ability to produce and compete. This will help SMEs products to enter into Palestinian, regional and international markets provide details about the owners and managers of SMEs and their characteristics including age, groups, educational qualifications, production capacity, and the relationship between workers and employers.

## **Theoretical Contribution**

The first contribution of this study is that it integrated three theories together (i.e., Resource- Based View Theory (RBV), Contingency Theory (CT), and Industrial Organizational Theory (IO) in the context of the Arab world and Palestine.

Moreover, in the view of absence of empirical studies investigating the relationship between business strategy, distinctive capabilities, environment and performance of manufacturing SMEs in Palestine, this study represented an attempt to fill this theoretical gap in the literature. The study integrates the external environment as a moderator in the situation of uncertainty. At the same time, it will also use seven strategies including low cost strategy, differentiation strategy, focus strategy, hold and maintain strategy, bare bones strategy, product type strategy, and customer type strategy, which is operationalized (Ahmad S., 2005; Porter, 1980) on new and different environment of Palestine, depending on the contingency besides RBV and IO theories with the performance of SMEs.

The significance of the theory is part of the subject. In which the external environment as moderator not investigated before in family business strategic studies context in undeveloped countries, and under Israeli political occupation.

## **Methodological Contribution**

The study uses proportionate stratified random sampling in a different way from the prior studies. Moreover, this study used SmartPLS 3.0 by Ringle, Wende, and Becker (2015) to determine causal links among the constructs in the theoretical models to produce results.

Because these instruments and their items were used in United States, Australia and other developed countries, the validity and reliability, construct reliability, convergent validity and discriminant validity were assessed and found to be satisfactory (Ahmad S., 2005; Desarbo et al., 2005; Hitt & Ireland, 1985; Parnell et al., 2015; Porter, 1980, 1985).

### **Practical Contribution**

The study provides great benefits for owner-managers, government policy makers, scholars, and educators by clarifying the concepts of distinctive capabilities, business strategy, environment and their relationships with performance in the context of manufacturing SMEs in Palestine.

The firms also should be responding more rapidly to an unexpected change of environmental uncertainty to survive (Desarbo, Di Benedetto, Song, & Sinha, 2005). More few key contributions about how Palestinian manufacturing SMEs could promote their performance by adopting an effective strategy with respect to high environment uncertainty. In addition, this study contributes to the literature about how managers can enhance their firm's performance by selecting a strategy that is closely aligned with Palestinian environment.

### **1.6 Operational Definitions of Key Terms**

#### **1.6.1 Business Strategy**

The word strategy comes from the Greek *strategos*, “a general”, which, in turn, comes from roots meaning “army” and “lead”. The Greek verb *stratego* means to “plan the

destruction of one's enemies through effective use of resources." (Bracker, 1980, p. 219). According to Eden and Ackermann (1998), the Greek word *strategos* means "a general set of manoeuvres carried out to overcome an enemy" (p. 3). Porter (1985) defines strategy as "an internally consistent configuration of activities that distinguishes a firm from its rivals" (p. xvi).

Porter (1981) mentioned that, Learned, Christensen, Andrews, and Guth in their book which published in 1969, has developed a framework that has become the foundation of business policy. They defined strategy as "how a firm attempts to compete in its environment, encompassing key choices of goals, products, markets, marketing, manufacturing, and so on" (p. 610). Dess, Lumpkin, and Eisner (2010) defined strategy as "the ideas, decisions, and actions that enable a firm to succeed" (p. 9).

This study adopted low cost strategy, differentiation strategy, focus strategy, hold and maintain strategy, bare bones strategy, product type strategy, and customer type strategy. (Ahmad S., 2005; Porter, 1980).

### **1.6.2 Low cost strategy**

This occurs when a firm adopts a strategy that focuses on high productivity, low margins, products, budget prices and the cheapest products (Porter, 1980; Uchegbulam et al., 2015).

### **1.6.3 Differentiation strategy**

This means that a firm adopts strategy that focuses on the best products, best quality, a great image, best services, premium price and intensive campaigns (Porter, 1980).

### **1.6.4 Growth strategy**

This strategy focuses on risk taking, expansion, an aggressive search for market share, the use of price cuts, promotional campaigns, and market penetration (Hashim, 2015a; Rogers, 2001).

### **1.6.5 Hold and maintain strategy**

This means that a firm adopts a strategy that focuses on continuing the present strategy and scrounging up enough resources to keep sales, market share, profitability, and competitive position at survival levels (Ahmad S., 2005; Canwell & Sutherland, 2004).

### **1.6.6 Bare bones strategy**

This strategy focus on low overheads, use of low-wage labour, tight budget control, maximise the efficiency of scarce resources and a rigid to a no-frills expenditure policy (Ahmad S., 2005; Berry, 2014).

### **1.6.7 Specializing by product type strategy**

This means specialization in only one product (Ahmad S., 2005; Rogers, 2001).

### **1.6.8 Specializing by customer type strategy**

This means specializing in serving customers who are the least price sensitive, going after those buyers who are interested in additional services or product attributes or other extras, serving customers who place custom orders and targeting buyers who have special needs or tastes (Ahmad S., 2005).

### **1.6.9 Distinctive Capabilities**

This involves the capacity for a set of resources to perform a task or activity in an integrative manner. This capability evolves over time and must be managed dynamically in pursuit of above average returns, should not be simple or highly imitable. Furthermore, it should not be so complex that it defies internal control (Hitt, Ireland, & Hoskisson, 2014). In this study, distinctive capabilities refer to general administration, production and operation activities, human resources, financial resources, and marketing resources (Hitt & Ireland, 1985).

### **1.6.10 Business Environment uncertainty**

This “describes the extent to which a manager perceives the organization’s environment as unpredictable” (Parnell et al., 2015, p. 406). In this study business environment uncertainty refers to market uncertainty, technology uncertainty and competitors uncertainty (Desarbo, Di Benedetto, Song, & Sinha, 2005; Parnell *et al.*, 2015).

### **1.6.11 Performance**

The performance of the manufacturing SMEs is measured by using net profit, the number of employees, return on investment (ROI), return on sales (ROS) and return on assets (ROA) over five-year period (Ahmad S., 2005; Hashim, 2015a).

### **1.6.12 Manufacturing SMEs**

This study defined SMEs as small enterprises (employing 5-29 persons) and medium-sized enterprises (employing 30-99 persons). This study defined manufacturing SMEs as working in on these economic activities: 1) mining and quarrying, 2) manufacturing, 3) electricity, gas, steam and air conditioning supply, 4) water supply; sewerage, waste management and remediation activities, and 5) construction (Palestinian Central Bureau of Statistics, 2013).

### **1.6.13 Competitive strategy**

Competitive strategy is an organization's scope and direction on long-term for gaining an excellent competitive advantage (Porter, 1985). A competitive strategy builds the structure to analyze rivals and manufacturers, as well describe generic strategies to accomplish a competitive advantage, differentiation, low cost and a niche or focus. Competitive strategy also seeks a suitable competitive place in manufacturing, the main place in which competition exists. Competitive strategy describes the actual way to execute generic strategies (Porter, 1985).

#### **1.6.14 Resources**

These are the tangible or intangible inputs into a firm's production process and may be physical, human or organizational capital (Hitt et al., 2014).

#### **1.6.15 Manufacturing Organization**

“Manufacturing organization is concerned with the workings of markets and industries, in particular the way firms compete with each other” (Carbal, 2000, p. 3).

### **1.7 Summary**

The purpose of this chapter was to give an overall view of the importance of the business strategy, distinctive capabilities and environment uncertainty on the performance of manufacturing SMEs in Palestine. This chapter also provides the problem statement, the research questions, the research objectives, the significance of the study, a description of the manufacturing sector in Palestine and types of manufacturing sector activities, a definition of SMEs and issues and challenges of SMEs in Palestine. This chapter was an introductory chapter; the next chapter contains the literature review chapter.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The small and medium enterprises (SMEs) sector is broadly considered as a key driver of economic growth, innovation, poverty alleviation, vital for sustaining the economy and job creation in both developed and developing countries (Akbar, Omar, Wadood, & Yusoff, 2017; Das & Rangarajan, 2017; Dehbokry & Chew, 2015; Dubihlela & Dhurup, 2015; Sánchez-Hernández & Gallardo-Vázquez, 2016). However, as Kattan, Pike, & Tayles (2007) and Ramadan and Ahmad S. (2018b) have mentioned the literature on the unstable and uncertain environments like Palestine are limited. Moreover, on a few previous studies have focused on the connection between performance and business strategy, while most research has concentrated on large firms, and in the context of developed countries like the United States (Hashim, Ahmad S., & Zakria, 2015). Furthermore, although the differences between SMEs and large enterprises are well documented in the literature, but the larges part of strategic studies have concentrated on large enterprises (Parnell et al., 2015). As a result, a great need exists for studies inspecting the relationship between competitive capabilities and business performance in the manufacturing SME sector in developing countries like Palestine. To achieve superior performance in the context of developing countries, the gap in the literature on SMEs resources and capabilities needs to be bridged (Ho et al., 2016).

SMEs play a vital role in increasing GDP, recycling national income, domestic investment motivation, and reducing unemployment rates, particularly in Palestine. SMEs comprise

about 99% of Palestinian firms and employ about 82% of all workers (Jalad et al., 2010). The last Establishment Census 2012 in Palestine showed that there were 151,066 companies in Palestine, numbering 102,344 in the West Bank and 48,722 in the Gaza Strip. Firms that had closed in all of Palestine numbered 18,465, including 15,712 in the West Bank and 2,753 in The Gaza Strip. The final tally showed that around 20% of companies in West Bank were either closed or temporarily closed (Palestinian Central Bureau of Statistics, 2013).

In China where many of the SMEs are young and fighting to survive, from 1,000 to 1,500 of new SMEs collapse in the first year, and merely 15% survive for ten years. So the low rate of survival SMEs is a universal phenomenon emphasize required more studies and investigation about the SMEs success factor in both developing and developed economies (Parnell et al., 2015). Furthermore, Tatoglu et al. (2016) argue that SMEs from emerging countries face the challenge of gaining sustained competitive advantage.

Dubihlela and Dhurup (2015) in their study argued that business performance is influenced by four moderators which are: 1) competitive intensity 2) the performance of the economy, 3) market turbulence and 4) technological turbulence. These also have an impact on a national economy.

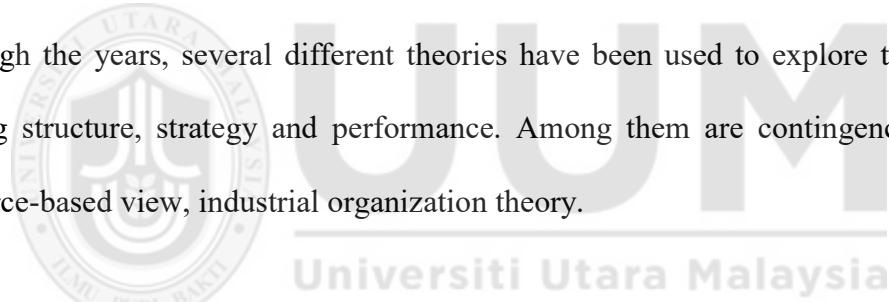
Dynamic, strong and efficient SMEs play an essential role in assuring sustainable economic growth and generating a competitive advantage. As SMEs are key drivers of economic growth and a need exists to improve performance and understand the ways to increase

competitiveness, the behavior of SMEs must be studied. It is critical for organizations operating in an intensely competitive environment to formulate effective strategies, which will enable them to accomplish and sustain a competitive advantage (J. Hussain, Ismail, & Akhtar, 2015).

This study addresses a gap in the literature in the field of SMEs in Palestine. Only a handful of few empirical studies have handled the impact on business strategy, business risk and distinctive capabilities, environment on performance of SMEs in Palestine.

## **2.2 Underpinning Theories**

Through the years, several different theories have been used to explore the connection among structure, strategy and performance. Among them are contingency theory, the resource-based view, industrial organization theory.



### **2.2.1 Contingency Theory**

Linguistically contingency signifies “it depends”; that is something depends on other things. The contingency theory also means that no one unique solution or way to organize exists and that a unique solution does not work effectively under all conditions (Ginsberg & Venkatraman, 1986). Thus, an effective leader must be able to find a suitable fit between a situation and actions and style and behavior (Achua, 2015). According to Fiedler (1967), the effectiveness of leadership style is “contingent upon the degree to which the leadership situation provides the leader with influence” (p.344 ). This influence depends upon leader position power, leader-member relations, task structure, the heterogeneity or homogeneity

of the group, and the degree of stress in the situation. Fiedler (1964) argues that according to contingency model, a leader should operate more effectively on the structure and clarify problems to move a team to a better situation. For example, a firm with steadily declining performance is very different from a firm with a continuously increasing performance level (Ginsberg & Venkatraman, 1986). The available strategic options range is dictated by the level of performance and is impacted by organizational contingencies and internal and external environment. In this context, the literature shedding light on the contingent links between a dependent variable and contextual or independent variables including an organization's strategic response or the relationship between performance and strategy are legitimate studies in this tradition.

Hashim and Hashim (2015) argued that no one best acceptable way exists among the various approaches proposed and promoted in the literature to develop and activate a business strategy in a company. The applicability, relevance and adoption of any approach depends on the business environment and the type of company. Thus, different companies competing and operating in various environments develop their own distinct business strategies as the literature on strategic management recommends. In line with this perspective, past studies have given evidence to show that firms that have employed a specific business strategy that fits with their business environment are able to perform better and outperform their competitors.

Contingency theory suggests that the functional departments or business units which embody a variety of different activities should be classified according to the shape of the environment in which they occur, the characteristics of a task, and the alternative

performance dimensions and their relative importance. Whenever feasible the activities in various categories should be structured in different ways (Ruekert, Walker, Jr., & Roering, 1985).

Hashim et al. (2015) appeared to support the contingency theory of strategic management. They believed that there no one business strategy was the best for all companies. According to contingency theory, different types of strategies are needed for various firms in different business environments. Importantly, firms must develop and implement business strategies that fit with their unique business environment to support their organizational performance adequately.

Despite the widespread use of contingency theory, Schoonhoven (1981), among others, had articulated a criticism of contingency theory, pointing out several potential problems. He proposed that contingency theory has five problems, “ranging from a simple lack of clarity in its theoretical statements to more subtle issues such as the embedding of symmetrical and non monotonic assumptions in the theoretical arguments” (p. 349).

Schoonhoven started from the premise of Galbraith’s contingency theory of 1973, which talked about organizing for effectiveness.

1. Schoonhoven (1981) said the first problem was that: “contingency theory is not a theory at all, in the conventional sense of theory as a well-developed set of interrelated propositions” (p. 350), it is a meta theory or more an orienting strategy, suggesting ways

in which visualizing the phenomenon or approach to this phenomenon should be explained.

2. The second contingency theory problem is “the lack of clarity by contingency theorists blurs the fact that an empirical interaction is being predicted” (Schoonhoven, 1981, p. 351). He gave an example that, when the theorists of contingency emphasize a relationship between two variables which predict the third one, this means that an interaction exists between the first two variables (dimensions of technology and structure which predict organizational effectiveness as a third variable).
3. The third problem of contingency theory is that “because of a lack of clarity, theoretical statements also fail to provide any clues about the specific form of the interaction intended” (Schoonhoven, 1981, p. 351). And seldom make a mathematical function implicit interaction between technology (or environment) and structure is explicit.
4. A fourth problem is that “the operational and computational procedures that researchers tend to use impose assumptions on an already imprecise conceptual framework” (Schoonhoven, 1981, p. 352).
5. Finally, the fifth problem of contingency theory is that “An assumption of symmetrical effects is hidden in the language of contingency theory” (Schoonhoven, 1981, p. 353).

However, Schoonhoven did not advocate abandoning contingency theory entirely, instead, he suggests that a contingency theory of organizational effectiveness that included interactive, non-monotonic, and symmetrical arguments would rectify these problems.

### **2.2.2 Resource Based View (RBV)**

Hitt et al. (2014) argued that industrial organization theory is concerned with the external environment, where the resource-based view is concerned with the internal environment. In the RBV, companies achieve sustained competitive advantages by applying strategies that avoid internal weaknesses, concentrate on and use internal strengths, seize environmental opportunities and face or neutralize external threats.

The resource based view is the most dominant theory in strategic management (Jawad Hussain, Ismail, & Ali Shah, 2015), moreover, Hoopes et al. (2003), Peteraf (1993) and Uchegbulam et al. (2015) emphasized that the resource-based view has four base conditions that must be met for achieving sustained competitive advantage. These conditions are: 1) superior resources, 2) ex ante limits to competition, 3) imperfect resource mobility and 4) ex post facto limits to competition.

In traditional strategic analysis language, resources are a strong point or strengths firms use to develop and implement their strategies. Firm resources comprise not only all assets, but also organizational processes, capabilities, knowledge, information, and firm attributes that a firm can develop and implement strategies upgrading its effectiveness and efficiency (Barney, 1991). One helpful step in this process is a SWOT. A SWOT analysis provides guidelines to gain more insights that help to create a strategy and add to the RBV of a company (Valentin, 2001).

The resource-based view (RBV) can be used to differentiate and focus strategies to shed light on the dynamic relationship between internal and external environments and firm performance. In general, the conclusion can be reached that the performance of a firm is higher when a firm differentiates itself from other firms and creates a focused strategy. This view confirms that a scarce or rare resource helps a firm to achieve a competitive advantage. Nonetheless, a competitive advantage may still be generated through a non-unique resource if the number of companies who possess such resources are less than the number of companies needed to produce a good or service in a competitive environment (Mosakowski, 1993).

The resource-based view can be a management device to estimate the available resources of a firm. One salient idea of RBV is that the efficient and effective application of resources can help a firm to achieve a competitive advantage. A resource is anything could be considered as a weakness or strength of a given company; it could be defined as those tangible and intangible assets like employment of skilled personnel, brand names, capital, machinery, in-house knowledge of technology, trade contacts, efficient procedures, etc. (Wernerfelt, 1984).

RBV looks to explain a firm's sustained competitive advantage via internal sources. The RBV's innermost proposition is that, if a company seeks to gain a sustainable competitive advantage then it must control and obtain rare, inimitable, valuable, and non-substitutable resources and capabilities. RBV considers that the basis of a company's competitive advantage of the company is actually a group of valuable intangible or tangible resources

at a firm's disposal. By applying the correct competitive strategy, a firm can attain a competitive advantage, and a firm can improve their performance by selecting the correct strategies based on intangible assets. The proposition is that every company is an overall of the bundle of unique capabilities and resources that are a major source of business in gaining returns. The assumption is that firms gain competitive advantages through unique resources and strategies (Uchegbulam et al., 2015).

According to the resource-based view competitors vary in their capabilities and resources in durable and serious ways (Helfat & Peteraf, 2003; Hoopes et al., 2003; Peteraf, 1993; Wernerfelt, 1984). The RBV asks: Why do the same manufacturers companies have different performance over time? Some researchers have linked these differences to innovation and manufacturers conditions. Helfat and Peteraf (2003) developed the capability lifecycle (CLC) concept to provide a more comprehensive approach to resource-based theory. By incorporating the founding, development, and maturity of capabilities to the theory, they believed that CLC helps explain the sources of heterogeneity in organizational capabilities.

However, previous literature on RBV has not provided much information about how managers transform a firm's resources to produce value or a competitive advantage. Such means that further study needs to be done on the linkage between the management of resources and the creation of value, particularly with respect to the affect for a firms external environment on managing resources (Sirmon, Hitt, & Ireland, 2007).

### **2.2.3 Industrial Organization Theory**

Industrial organization theory is interested in industries and the functioning of markets, specifically the ways in which companies compete against each other (Carbal, 2000). Thus, as Hitt et al. (2014) argued, industrial organization theory is concerned with the external environment of a company. Firms can gain a better analysis of strategic management through the lens of industrial organization theory. By joining the study of industrial organizations with that strategic management, industrial organization theory offers much. In addition to analytical techniques, industrial organization theory has inspired the development of new methodologies that can be utilized for research on strategic management and help in the development of policy (Porter, 1981).

Because individual companies have little or no influence on manufacturing structure, industrial organization theory proposes that companies should be familiar with the structure of the manufacturing to maximize the probability of success (Parnell, 2006). Porter's (1985) five forces is built the logic of analysing manufacturing structure. If a firm understanding the structure very well, that firm is in a more effective position in an manufacturers and can improve its performance (Porter, 1985).

From a normative standpoint, effective strategy formulation, according to the SWOT which evolved from Learned, Christiansen, Andrews, and Guth in their book which published in 1969, as shown in Figure 2.1 below requires relating four key elements. To be successful, a company must match its external environment and its internal competences, and the Learned, Christiansen, Andrews, and Guth model offers a series of general consistency

tests for helping a firm to investigate if its strategy is actually related these elements (Porter, 1981).

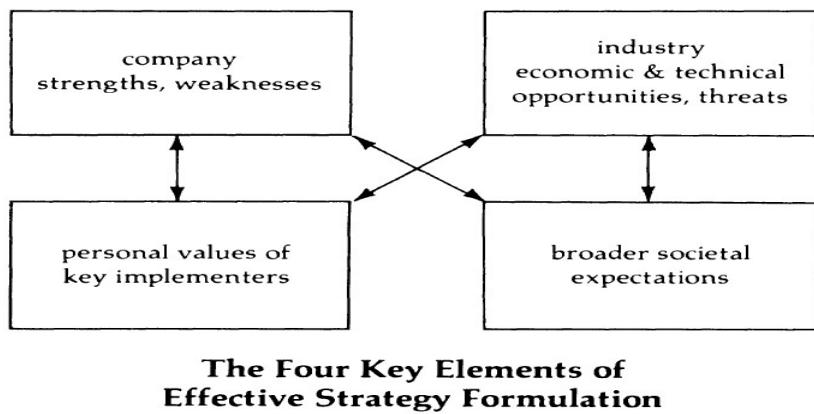


Figure 2.1

*The four key elements of effective strategy formulation.*

Source: Porter, M. E. (1981). The contributions of industrial organization to strategic management. *Academy of Management Review*, 6(4), 609–620.

The development of traditional industrial organization theory becomes for facing the market institution need to understand the economic processes. All of the primary importance questions regarding market practices, market to conduct, evolution and cartel development didn't address by scholars who, with very few exceptions, they handle the firm's variables as exogenous. Such experimentalists decisions show the serious need for a theory about the evolution and creation of market institutions (Plott, 1982).

### 2.3 Business Strategy

Wernerfelt (1984) claims that the traditional concept of strategy “is phrased in terms of the resource position (strengths and weaknesses) of the firm” (p. 171), while many of the official economic tools run on the product-market side. Although both visions should

ultimately yield the same insights, the expectation is that, depending on the vision taken, these insights come be derived differently. Regarding this, one method of choosing strategic options is suggested through generalizing a firm's resource position. This generalization can be applied to the relationship between resources and profitability, in addition to procedures for managing the company's resource position over time.

Galbraith and Schendel (1983) argued that strategy is a complex network or system of intertwined relationships between and among various management decision variables such as research, pricing marketing, and production, among others. In addition, a strategy is not steady; rather strategies evolved and are formulated and formulated over time. Using principal component and cluster analysis over cross-section and time-series data, they captured complex patterns among the constituent components of the strategy. Thus, group businesses that employed like strategies could be grouped together, while businesses located in different clusters exhibited significantly different strategies, in terms of both strategic posture and the directions in which the strategies were evolving. At the same time where organizations and their strategies in developing economies differ from their peers in developed economies, only a limited number of studies are related to their strategy development practices (Hughes, Hodgkinson, Arshad, Hughes, & Leone, 2017).

All firms have either implicit or explicit competitive strategies while competing within a manufacturing. The strategy is either developed implicitly or explicitly. It is developed implicitly over the activities of the company's different functional departments, or explicitly over a planning process (Porter, 1980).

Figure 2.3 shows the widest competitive strategy formulating level which includes four key factors that determine the firm's success limits. The first key factors are the company's strengths and weaknesses whose profile of assets and skills relative to competitors, including brand identification, technological posture, financial resources, and so on. The second one is the personal values of an organization which is the needs and motivations for implementing the adopted strategy by the personnel and the key executives. A company can successfully adopt the internal limits of competitive strategy which is determined by strengths and weaknesses combined with values. While the broader environment and manufacturing determines the external limits. The third key factor is Manufacturer's opportunities and threats (economic and technical) which define the competitive environment with its potential rewards and attendant risks. The impact on the company as evolving mores, social concerns, and government policy, ...etc. be reflected by the final key factor which is the societal expectations. Definitely, before firms start to develop and implement their policies and goals, the above four key factors must be taken into consideration (Porter, 1980).

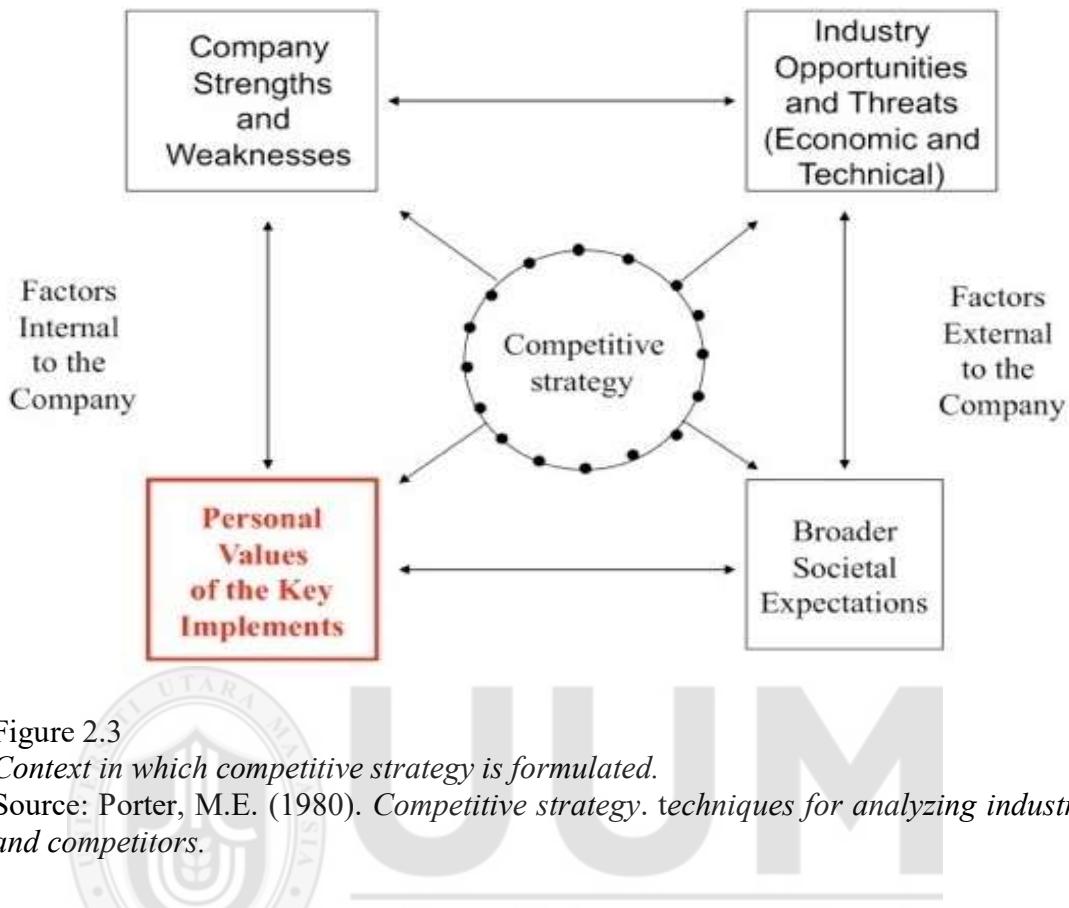


Figure 2.3

*Context in which competitive strategy is formulated.*

Source: Porter, M.E. (1980). *Competitive strategy. techniques for analyzing industries and competitors.*

Porter (1980) and Hashim and Hashim (2015) further indicate that firms are able to develop three generic business strategies through the competitive advantage obtained from core activities. The three-potential successful generic strategies are: low cost, differentiation, and focus or niche strategies. The low-cost strategy can be developed by increasing profit and sales through the adoption of scope, technology and economics of scales. The adoption and development of a differentiation strategy means that a company must focus on differentiating its services and products by creating new different ways to make them appear unique as well as different. However, in Porter's final generic business strategy niche/focus, a company needs to focus on marketing efforts and product development in a specific market segment that has differentiation or cost as an advantage.

Hashim et al.'s (2015) study results support the contingency theory of strategic management, which is to say there no one business strategy is the best for all companies. According to contingency theory, different types of strategies are needed for various firms in the different business environments. More importantly, the firms must develop and implement business strategies that fit with their business environment for them to support their organizational performance. Moreover, Porter (1980) recommended that if firms want to outperform their competitors, then they have to adopt business strategies such focus on (niche) strategy, low cost strategy and differentiation strategy. On the other hand, Hashim (2015a), Hashim and Hashim (2015) and Kim and Choi (1994) also found a significant and positive relationship between performance and business strategy that SMEs in different manufacturers tend to adopt different business strategies and that their performance varied by the different strategy types they adopted. Moreover, Leonidou, Christodoulides, Kyrgidou, and Palihawadana (2017) argue that small companies have the chance to pursue green business strategies, provided that the capabilities and appropriate resources are in place, and that the natural environment should be looked as a competitive opportunity. With regard to this, Akter, Wamba, Gunasekaran, Dubey and Childe (2016) found that the results also illustrate the significant moderating impact of business strategy alignment on the big data analytics capability and firm performance relationship.

Finally, 40% of the SMEs in manufacturing sectors in Palestine applies low differentiation and high-cost strategy, while 40% apply low differentiation with a low cost of strategy, 10% apply a high cost and high differentiation strategy, and 10% apply a low cost and high differentiation strategy (Sultan, 2011).

### **2.3.1 Types or Levels of Business Strategy**

Hashim (2015a) argued that, in addition to various perspectives and approaches in a developing business strategy in firms, processes include: 1) deliberate formulation, 2) systematic analysis and 3) emergent formation.

There are several types or levels of business strategies developed in firms, according to business activities and the firms size, at least there are three levels or types of the business strategy include: the corporate level, the business level, and the functional level strategies.

#### **2.3.1.1 Corporate Level (Grand, Master or General) Strategies**

Corporate strategy is formulated in large companies at the top level. Corporate strategy concentrates on what companies and businesses will be in and the way in which resources will be specified between these various businesses. Furthermore, this strategy covers a longer time horizon and the whole organization. Some examples of this strategies involve expansion or growth, defense or retrenchment (rejuvenation or termination), stability as well as collections of these types of strategies (Hashim, 2015a).

Porter (1985) showed that two types of strategy are recognized by most organizations; these types are: corporate strategy and business unit strategy. “Business strategy charts the course for a firm's activities in individual industries, while corporate strategy addresses the composition of a firm's portfolio of business units” (Porter, 1985, p. 317).

#### **2.3.1.2 Business (Generic, Competitive) Level Strategies**

The business strategy is unlike the corporate strategy in that a business strategy focuses on the way to position or compete in a specific or a particular manufacturers or business. This

strategy contends with competitors in the same group by determining the best method by which companies compete with single or many services or products. In large companies, all strategic business units (SBU) develop their own business strategy. Some examples of business strategy are: growth, focus (niche), low cost differentiation, defenders, harvest, prospectors, reactors, analysers and vertical integration (Hashim, 2015a).

### **2.3.1.3 Functional Level Strategies**

A functional strategy is formulated at the lowest level in companies. They are adopted at different business functional areas in firms. Some examples of these functional areas include human resources, accounting and finance, operations, marketing and manufacturing. These strategies are developed by geographical area, product line and/or type of customer. Functional strategies motivate a firm's business strategies and extend to a relatively short period of time. Financial strategies, production strategies, marketing strategies, research and development strategies, human resources strategies and purchasing strategies are examples of functional strategies (Hashim, 2015a).

### **2.3.2 Low Cost Strategies**

A low cost strategy, became an increasingly popular strategy in 1970s regarding the generalization of the experience curve concept, through a set of functional policies for achieving the basic objective of the overall cost leadership the manufacturers (Porter, 1980). Porter's generic strategies indicate how a firm choosing a market place can gain a competitive advantage by producing at a lower cost, by selling products at a premium price or by differentiating services and products (Uchegbulam et al., 2015).

A low cost strategy using economics of scales, technology and scope can concentrate on increasing sales and profits (Hashim, 2015a). The adoption cost leadership requires cost savings drawn from experience, evasion of marginal customer accounts, cost reductions in areas like research and development, advertising, sales force, and services, among others. To achieve these goals requires great attention by the managerial level about cost control. By reducing costs, the leadership acts as a firm's isolator against the rivalry of competitors (Ahmad S., 2005; Porter, 1980).

The power of pricing works in two ways. A powerful buyer can force price competition because of the ability to lower prices to the level of the most efficient competitor, and a powerful supplier can defend against competitors by decreasing input costs through more flexibility. The lower costs that firms have achieved can protect them from their competitors because a low-cost position usually creates substantial barriers to entry in terms of cost advantages or economies of scale. Finally, a low-cost position place a firm in a more suitable place vis-à-vis their manufacturing competitors (Porter, 1980). By focusing on low costs, even SMEs can perform better than their competitors through asset parsimony in manufacturers and/or efficiency where the differentiation of products is not a prevalent in their marketplace (Kim & Choi, 1994).

### **2.3.3 Differentiation Strategies**

Hashim and Zakaria (2015) noted that a “firm differentiates its products and services by developing different ways to make them appear unique as well as different” (p. 159). Firms that successfully adopt differentiation can charge a higher price for their products than their

competitors can because of the quality of service, costs of the delivery system, unique features and distribution channels (Kaliappan & Hilman, 2014).

Thus, differentiation strategy seeks to develop fundamental differences in different dimension, which allows customers to make a clear contrast between the services and products of a firm's rivals. Successful differentiation often rewards a firm with a premium price for its uniqueness. Differentiation cares about cost issues because high costs influence premium prices (Ahmad S., 2005).

Actually, a company can differentiate itself through many different dimensions. Differentiation approaches take many forms: 1) brand image or design (Mercedes in automobiles), 2) customer service (Seal in metal cans and Crown cork), 3) technology, 4) dealer network and 5) features. Achieving differentiation means that a firm can earn above average returns in a manufacturing because it can create a defensible position through these five dimensions that is even more unassailable than cost leadership. Differentiation isolates a company from competitive rivalry because of customer's brand loyalty and lower sensitivity to price (Porter, 1980).

Hill (1988) claims that two important respects are flawed in Porter's differentiation model. The first one is that firms can through differentiation attain a gross low-cost position. Contrary to Porter's statement, differentiation and cost leadership are not necessarily inconsistent. The second one is that, in many situations when a firm adopts a sustained competitive advantage, there is a requirement for simultaneously pursuing both differentiation and low-cost strategies because there is no low-cost unique position in many

manufacturers, and numerous firms commonly have the same low-cost structures and emphasize both differentiations successfully.

However, differentiation market approaches may face a challenge in countries like the location economy in China because of the low wages of most jobs and centralized planning. Conversely, in the United States, a greater chance exists for the success of differentiated product and services because of a free market approach (Parnell et al., 2015). In this instance, a differentiation strategy means that a firm adopts the best product, best quality, great image, best service, premium prices and intensive campaigns (Porter, 1980). Because of this, a differentiation strategy significantly affects the performance of firms (Kaliappan & Hilman, 2014).

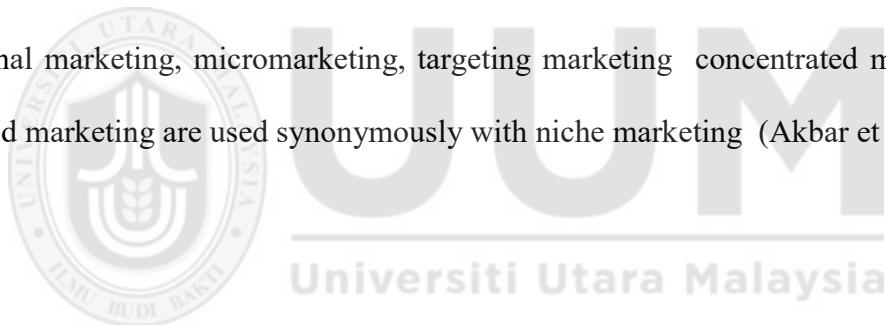
#### **2.3.4 Focus/Niche Strategy**

This is the third Porter generic strategy. This strategy focuses on a narrow competitive scope in the same sector. This strategy means that a firm selects a group or target segment to serve while others are excluded. Such a focus can help a firm to achieve a competitive advantage for the selected group by optimizing its strategy, and a competitive advantage does not extend to the overall group (Porter, 1985).

The focus/niche marketing strategy is considered one of the most important and successful strategies adopted by organizations around the world, and those who apply a niche or focus strategy often insure the success of their companies (Akbar et al., 2017). In these strategies, a firms assert its marketing efforts and product development in a particular market segment with a differentiation or cost strategy (Hashim et al., 2015).

Focus strategy is that which focuses on a geographic market, a segment of the product line or a particular buyer group because as with differentiation, many forms of focus may be taken. Although the goals of differentiation and low-cost strategies are to reach manufacturing-wide objectives, a focus strategy aims to serve a particular target completely well, and, typically, all functional policies were considered while developing the strategy. As such, firm utilizing this strategy can serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, firm achieves either lower costs or differentiation or both by serving the particular target (Porter, 1980).

Regional marketing, micromarketing, targeting marketing concentrated marketing and focused marketing are used synonymously with niche marketing (Akbar et al., 2017).



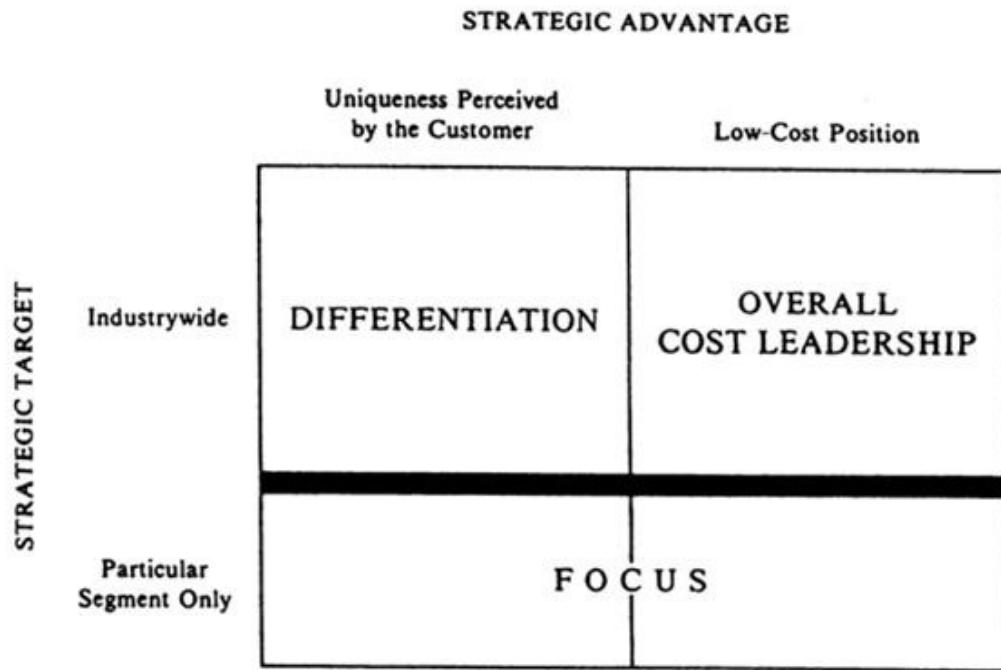


Figure 2.4  
*Three generic strategies.*

Source: Porter, M. E. (1980). *Competitive strategy. techniques for analyzing industries and competitors.*

Figure 2.4 illustrates the differences among the three generic strategies of differentiation, low cost, and focus. When a firm achieves focus, a possibility exists to gain above-average returns with respect to the manufacturers. Firm focus means that a firm either has high differentiation, a low-cost position with its strategic target, or both. These positions provide a defense against competitive forces, as discussed before in the context of differentiation and cost leadership. Firms use focus to select target groups in which the competition is either the weakest in or at least vulnerable to substitutes (Porter, 1980).

### **2.3.5 Growth Strategy**

Hashim (2015a) define growth strategy as: risk taking, expansion, aggressive search for market share, use price cuts, promotional campaign. The most successful SMEs are those that successfully applied growth strategies to enhance their business performance (Okkonen, Pasanen, & UAS, 2017). Often the Negative growth is a sign of problems for SMEs, whereas recession, i.e. when the growth is stopped, is usually a sign of the company's future problems (Okkonen et al., 2017).

Firm growth reflects the increase in amount or size, also growth indicates the improvement in quality or increase in size as a result of development process (Okkonen et al., 2017). Rogers (2001) in his book argued that a more general term growth strategy is used to encompass strategies treated separately, market development, market penetration, diversification and product development. Discover one or more fast-growing market segments, and direct product or service and communications to them.

### **2.3.6 Hold and Maintain Strategy**

The hold and maintain strategy defined as: continuing the present strategy and scrounging up enough resources to keep sales, market share, profitability, and competitive position at survival levels (Ahmad S., 2005). Canwell and Sutherland (2004) have argued that a firm utilizes a hold and maintain to protect its current market share and, thus, does not actively pursue new customers to expand its market share. This strategy seeks to preserve a firm's major customer base because it is generally recognized that the bulk of profits are derived from existing customers. These strategies effectively concentrate on efforts in fending off

competitors. Theoretically, this strategy should give the bulk of returns to an organization in terms of profits and dividends paid to the investors, and the business has maximised returns on investment. The hold and maintain strategy is a sound one, “providing that the environment retains a degree of consistency and that the competitors are not overly active in the market. The strategy does mean that the business runs the risk of being caught unprepared” (Canwell & Sutherland, 2004, p. 116).

### **2.3.7 Bare Bones Strategy**

The bare bones strategy is based on low overhead, use of low-wage labour, tight budget control and a rigid to a no-frills expenditure policy (Ahmad S., 2005). This strategy is often used by start-up and small businesses that are seeking to maximise the efficiency of scarce resources (Berry, 2014).

### **2.3.8 Specializing by Product Type Strategy**

Rogers (2001) defined product specialization strategy as “the opposite of market specialization strategy, where the marketing thrust concentrates on a single product or service, rather than a broad range of products or services” (p. 49). Briefly, this means that a firm specializes in only one product (Ahmad S., 2005).

### **2.3.9 Specializing by Customer Type Strategy**

By specializing in serving customers who are the least price sensitive, a firm can go after those buyers who are interested in additional services or product attributes or other extras,

serving customers who place custom orders and targeting buyers who have special needs or tastes (Ahmad S., 2005).

## **2.4 Porter's Strategies and Organizational Performance**

Porter (1980) confirmed that the three generic strategies are viable, alternative approaches to facing competitive force. When the firm is failing to develop at least one of the three strategies, this firm is in a poor strategic situation and is “stuck in the middle”. This firm will suffer from a lack of capital investment, market share, and play the low-cost game, or focus on developing a low-cost position or differentiation in a more limited domain. These firms that are stuck in the middle surely will have low profitability. They will either lose a big number of customers who have requested low prices or move their business away from low-cost firms Which leads to bid away its profits. Also, these firms probably suffer from a conflicting motivation system and a set of organizational arrangements and a blurred corporate culture.

Firms that have adopted differentiation and focus strategies have been found to perform better than firms that did not adopt them (Mosakowski, 1993). Galbraith and Schendel (1983) argued that six business strategies existed for businesses in consumer markets (climber, build, niche, cash out, continuity, and harvest) and four in manufacturing markets (maintenance, low commitment, niche, and growth). They find that only the growth strategy type (industrial), build (consumer) and niche/ focus (both) appear suitable. Ahmad S. (2005) discussed the idea that much literature has suggested that firms adopting different business strategies can be defined via Galbraith and Schendel's (1983) or Porter's dimensions. A few studies have examined them in the context of SMEs.

## 2.5 Performance of SMEs

Business performance is the main consideration in investigating organizational phenomena, while performance improvement is a concern of strategic management (Ho et al., 2016). The outcomes of executed strategies can be expressed in terms of business performance. That is because regardless of form, all companies regardless of form (financial institution, small manufacturer, support provider, professional services, distributor, and countless others) must know their level of performance (Dubihlela & Dhurup, 2015). Across the literature, firm performance is an outcome that reflects a firm's success in fulfilling its business goals (Shamimul, Hilman, & Gorondutse, 2017). With regard to the need to know, SMEs must understand what leads to improved performance (Amroune, 2016).

Studies of business performance, in general, have created a link between a firm's use of competitive methods, its resultant strategic situation in a marketplace and the level of its performance. Although numerous studies have mentioned that different firms in different countries have had different performance goals, the literature has proposed that growth and financial profitability are the best measurements of organizational performance. Many researchers have worked diligently to recognize key drivers that maximize performance (Ahmad S., 2005).

Al-Mahrouq (2010) in his study about success factors of small and medium-sized enterprises in Jordan found that five factors have significant and positive impacts on the

success of the SMEs firms in Jordan. These factors are 1) financial structure, 2) technical procedures and technology, 3) human resources structure, 4) marketing and productivity and 5) the structure of the firm.

Matanda, Ndubisi, and Jie, (2016) and Suriyankietkaew and Avery (2016) used firm performance as a dependent variable. The performance of SMEs can be measured in terms of financial performance, innovation, sales, human resources management (HRM) performance and market share. However, the accurate measurement of performance of SMEs has faced many difficulties because of data reliability problems, either an unwillingness or an inability to provide the desired information, or simply inadequate data availability. Nonetheless, the measurement of performance can be done in absolute terms in terms of changes from a past period or relative to competitors and may be based on either subjective or objective measures. As Kaliappan and Hilman (2014) mentioned organizational performance studies are not relatively new as many scholars have studied organizational performance as a dependent variable.

Because of the general deficiency in business development by operators/owners of many SMEs, identifying the connection between organizational performance and competitive strategy has been intractable. Some direction has been specified, even so, most of the new firms in the United States employ differentiation strategy for a focused market. Unfortunately, many SMEs tend to avoid formal planning compared to big enterprises (Parnell et al., 2015). According to Chi, Tansuhaj and Sun (2016) Firm's financial

performance is positively affected by international entrepreneurship activities strategies and international entrepreneurship activities operations.

The best metric to identify the success of a firm is profitability, which is considered in Western companies as the most common measure of performance. The most common metrics for financial profitability are: return on sales (ROS), profit margin (PM), return on equity (ROE), return on assets (ROA) and return on investments (ROI). In Malaysia, manufacturing firms prefer to determine financial performance via the metrics of net profits, gross profits, sales and sales growth (Chi et al., 2016; Galbraith & Schendel, 1983; Hashim, 2015a; Ramadan & Ahmad, 2018b; Robinson, 1982).

In their study of Malaysian SMEs, Ho et al. (2016) revealed satisfactory financial performance did not always lead to competitive capabilities. Often, these capabilities were determined by satisfactory nonfinancial performance in terms of quality and delivery. In this study, financial performance items included sales growth, cash flow, profitability and return on investment, while nonfinancial performance items were business image, customer satisfaction, customer retention, the relationship among employees and employee satisfaction. In addition, Soto-Acosta, Popa, and Palacios-Marqués (2016) results show that e-business use contributes positively to SMEs firm performance through organizational innovation. Moreover, Wang, Pauleen and Zhang (2016) their findings suggest that communication performance is likely to enhance business performance in terms of marketing, innovation, and collaboration.

With the above studies in mind, this current study of SMEs utilizes performance as a dependent variable, which will be measured by independent variables including business strategy, distinctive capabilities and by environment uncertainty as a moderator.

### **2.5.1 Performance Measurement and Business Strategy**

Measurement of performance becomes so critical today because of increasing competition; changing organizational roles; changing external demands; specific improvement initiatives; the changing nature of work; and the power of information technology. There should be better and more accurate ways of determining product costs. This will lead to the need for reliable measurement (Ahmad S., 2005).

In a study of SMEs in the United Kingdom, Haddoud, Jones, and Newbery (2017) utilized a composite measurement of performance, which Zou et al. developed in 1998. This method captures three performance dimensions: financial, satisfaction and strategic dimensions. Financial dimensions measure a firm's profits and volume of sales in export markets and sales growth, whereas the satisfaction dimension represents the export venture success of the firm's. Ultimately, the strategic measures captured the contributions to the export venture to the global market share, global strategic position and firm's global competitiveness.

Environment, objectives and strategies affect the measurement of organisational performance for accomplishing objectives. There are four types of market performance outcomes that are: 1) financial performance, 2) customer satisfaction, 3) employee satisfaction and 3) innovative outcomes (J. Hussain et al., 2015).

Although, different companies in different countries tend to emphasize different objectives as found in the various studies, overall the literature suggests that the most common measures of organizational performance in terms of financial profitability are the growth and financial profitability, profit margin, return on assets, return on equity, and return on sales (Hashim, 2015a). Hitt and Ireland (1985) used (ROI, ROE, ROA, EPS) accounting indices items in their study for measuring performance. In their study, Hashim et al. (2015) the performance of the SMEs was measured in terms of average performance. Measures including sales, assets, gross profit, employment, equity, return on sales, return on equity, return on assets were used to evaluate the performance of the SMEs.

## **2.6 Distinctive Capabilities**

SMEs are the backbone of many economies. As such, more awareness of factors required to enhance their capabilities and survive against global competition is required (Akbar et al., 2017). “Strategic orientations are capabilities that reflect the strategic directions a firm takes to create the appropriate behaviors for continuous superior performance” (Hortinha, Lages, & Filipe Lages, 2011, p. 38). A firm's capabilities rest in the ability of a firm to unite its resources and create added value through its production. Firms can be appraised of and identified their capabilities through a criterion-based functional classification of firm activities (Ahmad S., 2005). Zakaria, Abdullah, and Yusoff (2016) argued that to pursue and enhance a firm's capability to innovate for growth and survival, an organization should allow a diversity of strategies and opportunities.

According to Hitt & Ireland (1985), various relationships exist between distinctive capability elements and performance. Table 2.1 below shows the different effects of each variable with different strategic types of company performance.

Table 2.1

*The Effects of Variables and Different Strategic Types on Company Performance*

Distinctive Capabilities	Strategy	Relationship with Performance
Production / Operation	Stability Strategy	Positive
Production / Operation	Internal Growth Strategy	Positive
Production / Operation	Consumer non-durable goods industry	Positive
Production / Operation	Consumer durable goods industry	Positive
Production / Operation	Capital goods industry	Positive
Production / Operation	Producer goods industry	Positive
Marketing	Stability	Positive
Marketing	Retrenchment Grand Strategy	Positive
Marketing	Consumer non-durable goods industry	Positive
Marketing	Producer goods industry	Negative
Finance	Internal Growth Strategy	Positive
Finance	External acquisitive Growth Grand Strategy	Positive
Finance	Consumer non-durable goods industry	Positive
Engineering	External acquisitive Growth Grand Strategy	Negative

Table 2.1 (Continued)

Distinctive Capabilities	Strategy	Relationship with Performance
Engineering	Consumer non-durable goods industry	Negative
Research and Development	External acquisitive Growth Grand Strategy	Negative
Research and Development	Consumer non-durable goods industry	Negative
Administration Activity	Retrenchment Grand Strategy	Negative
Administration Activity	External acquisitive Growth Grand Strategy	Positive
Public & Governmental Relation	External acquisitive Growth Grand Strategy	Positive

Source: Adapted by the researcher from Hitt and Ireland. (1985). Corporate distinctive competence, strategy, industry and performance. *Strategic Management Journal*, 6(3), 273–293.

Many indicators from present studies have assured that a developing effort of competitive capabilities by organizations has a positive effect on their business performance. For a manufacturing organization, the competitive capabilities include quality, flexible product innovation, delivery dependability and price (Ho et al., 2016). Moreover, Wamba, Gunasekaran, Akter, Ren and Dubey (2017) in the results of their study they confirm the strong mediating role of process-oriented dynamic capabilities in improving insights and enhancing firm performance.

Each organization has its own unique concept of strategic capabilities. Capabilities are rare in general, and, in same manufacturers, each organization has its own capabilities, often

different from others. Additionally, capabilities also are relatively immobile, which means that a capability is more beneficial for one company than for another and is difficult for a competitor to imitate. Nevertheless, strategic capabilities do not prevent members of groups from sharing common capabilities because groups members often have similar common capabilities and resources. Indeed, many studies have indicated links between business strategies and organizational capabilities (Parnell et al., 2015).

The literature has supported the relationship between performance and strategic capabilities (Hitt & Ireland, 1985; Ho et al., 2016; Lagat & Frankwick, 2017; Odhiambo, Kibera, & Musyoka, 2015; Parnell et al., 2015; Prommarat, Pratoom, & Muenthaisong, 2015). A number of studies have shown a positive relationship between performance and capabilities. Hit and Ireland (1985) indicated that the relationship between organization performance and corporate level has distinctive competencies moderated by manufacturers type and grand strategy type. Thus, to increase performance, all a firm's grand strategies, their interactions and its principal decisions must fit with distinctive competencies (Hitt & Ireland, 1985; Parnell et al., 2015).

Even different types of resources are vital for building capabilities, and scholars have placed more attention on examining the impacts of tangible resources on firms performance (Odhiambo et al., 2015). So, firms must know and understand their resources and capabilities before a strategy can be formulated. Resources can be classified into several categories, and Ahmad S. (2005) has suggested six major categories of resources

including: 1) physical resources, 2) technological resources, 3) reputation, 3) human resources, 4) financial resources and 5) organizational resources.

### **2.6.1 General Administration**

According to Hitt and Ireland (1985), a negative relationship exists between administration activities and performance with the retrenchment grand strategy. Their study proposed that the activities of general administration like training, development of managerial personnel, and discussing new business opportunities and training, among others should be reduced in the case of the retrenchment grand strategy (Hitt & Ireland, 1985).

Moreover, Hitt and Ireland (1985) indicated that a positive relationship exists between administration activities and performance with an external acquisitive growth strategy for manufacturer producer firms in the case of vertical integration. But, evidence exists that mergers have a low success of chance (Hitt & Ireland, 1985).

### **2.6.2 Product/Operation**

As shown in Table 2.1, the relationship between production/operations activities and performance has been positive with several kinds of organization strategies like a stability strategy, an internal growth strategy and in several manufacturers like the consumer non-durable goods manufacturers, the consumer durable goods manufacturers, the capital goods industry and the producer goods manufacturers (Hitt & Ireland, 1985). The study results of Farrington, Venter and Richardson (2018) show that only “product differentiation” influences the financial performance of family SMEs.

### 2.6.3 Human Resources

Human Resources comprises two main streams: leaders and followers. The leaders can be divided into three main streams, which are the top management of a company, divisional managers and line leaders. Followers can be further categorized into middle line executives and the general workers on the floor. If top management and other employees work towards achieving overall goals in support of the formulated plan, a dynamic approach to strategy formulation can be implemented successfully (Ahmad S., 2005).

Domínguez-Falcón, Martín-Santana, and Saá-Pérez (2016) have argued that human resources have a significant effect on a firm's success and performance. Also, human capital can be leveraged to supply firms with a source of a competitive advantage (Huselid, Jackson, & Schuler, 1997).

Andrés, William, Sarache, Julia, and Naranjo-Valencia (2016) have shown evidence that, when the labour force (human capabilities) is more involved in the design of strategy, this involvement will increase a firm's performance. Additionally, human resources must relate to firm needs (Nu'Man, Kaliappan, & Hilman, 2017). Furthermore, company performance is affected by the set of human resources practices of firms (Huselid et al., 1997). Moreover, Karna, Richter, and Riesenkampff (2016) argue that human capabilities positively affect the financial performance of firms.

#### **2.6.4 Marketing**

Marketing has a significant influence on firm performance (Cacciolatti & Lee, 2016). As also shown in Table 2.1, the relationship between marketing activities and performance is positively related with the stability and retrenchment grand strategies and the consumer non-durable goods manufacturers, but marketing activities have a negative relationship with performance in the producer goods manufacturers (Hitt & Ireland, 1985). Interestingly, G. Liu, Eng, and Takeda (2015) argued that only a few empirical studies have focused on the relationship between capacities and market-based resources with firm performance.

If a firm wants to gain a positional competitive advantage, it is essential for that firm to use its capabilities/competences according to the theory of competitive advantage. Therefore, a firm should develop marketing capabilities so as to enjoy superior performance. These marketing capabilities will give a company the ability to deliver these services/products better than its competitors. By doing so, marketing capabilities are able to achieve their full possibility with respect to performance through attaining positional competitive advantages. Consequently, if a firm can consider all its competitive advantages simultaneously, that firm can precisely capture the logical relationship between performance and marketing capabilities (Tan & Sousa, 2015). Both Martin & Javalgi (2016) and Takata (2016) found that marketing capabilities were positively related to performance. On the other hand, Vorhies, Linhoff, Patwardhan, and Sun (2015) said that firms adopting a defender strategy did not need a high level of marketing capabilities as

did firms that were prospectors. Also, Liu et al. (2015) argued that not all kinds of marketing capabilities positively influence enterprise performance.

### **2.6.5 Finance**

As shown in Table 2.1, the relationship between finance activities and performance is always positive with several kinds of organizational strategies in including the internal growth Strategy, the external acquisitive growth grand strategy and in the consumer non-durable goods manufacturers (Hitt & Ireland, 1985). Also, Binti Mohamad, Abd Rahman, and Mohd Saad (2017) found that a firm's working capital management has a significant effect on performance.

### **2.7 Business Environment (Environmental Uncertainty)**

Currently, the interest with the environment is increasing and firms seek earn higher profits or competitiveness and at the same time solutions to preserve nature (Lucato, Costa, & de Oliveira Neto, 2017). Environmental uncertainty for a long time has been considered as an important variable to determine firms performance (Jauch & Kraft, 1986; Song, Augustine, & Yang, 2016). Different environment circumstances and various relationship with outside parties required varied types of organizational structural accommodation for achieving a high level of performance (Child, 1972).

Environments are considered a complicated system of social, market, interrelated economic, technological and political variables. Under low environmental conditions, these variables can be placed on a continuum ranging from low to high uncertainty (Kattan et al., 2007).

In their study, Wang, Chen, and Chen (2012) found that external environmental factors, which affect different organizations, are uncertain and complex and create problems with organizations and that they can change rapidly. Any organization that neglects environmental factors will create difficulties for itself. Many researchers have found that a link between performance and market orientation depends on the organizational environment.

Perceived environmental uncertainty (PEU) is considered as a multidimensional construct, and it helps explain how managers understand the scope of an organization's unpredictable environment. In China, uncertainty management is considered an essential function of an entrepreneur. So, to avoid competitive stagnation and management immobility, managers should be flexible (Parnell et al., 2015). Reducing environmental uncertainty leads to higher levels of company performance (Bendickson et al., 2016). Therefore, environmental uncertainty can have a negative influence on firm performance (C.-H. Liu, 2017).

Nonetheless, others have found either few or no effects of the external environment on firm performance. For example, Hartanto, Wahyudi, and PH (2017) argued in their study in Semarang, Indonesia that the external environment had no impact on the performance of SMEs. In a study of SMEs in India, Gaur, Vasudevan, and Gaur (2011) claimed that environmental factors played a limited role a company's performance in that a link was found only between two subdimensions of market orientation and performance. However, in Malaysia, Hashim and Hashim (2015) found that, based on a competitive advantage and through strategic management to develop and execute effective business strategies, leaders

would be able to position their organizations successfully in the marketplace and deal with changes occurring in their business environments.

## **2.8 The Moderating effect of Business Environment (Environmental Uncertainty)**

The concept of moderation perspective appears when the influence of a predictor variable on a criterion variable depends on a third variable, which is called the moderator. The environment is considered as a critical contingency in strategic management and organization theory. Dubihlela & Dhurup (2015) divided the ingredients forming the external environment into market turbulence, technology changes, competition and the general economic conditions. An environment may include: 1) a stock of resources and 2) a source of information. The degree of uncertainty reflected by complexity and dynamism in an environment forces a firm to be dependent on those environments for resources (Lumpkin & Dess, 2001; Ramadan & Ahmad S., 2018b).

Slater and Narver (1994) argued that previous studies have provided very limited support for the environment as a moderator of the relationship between market orientation and performance. Regarding this, they found that little supported exists for the assumption that the environment effects the nature and strength of the relationship between performance and market orientation. Also, they strongly believe that managers should not try to match current market conditions through adjusting business's market orientation.

Conversely, Kohli, and Jaworski (1990) claimed that the environment moderates (increases or decreases) the strength of the relationship between performance and market orientation.

Therefore, a firm should select a strategy closely aligned with its environment, and firm should respond more rapidly to unexpected changes related to environmental uncertainty to survive (Desarbo, Di Benedetto, Song, & Sinha, 2005). Moreover, according to Zhai et al. (2018) the absorptive capacity can positively moderate the relationship between entrepreneurial orientation and innovation performance.

To help SMEs improve their performance studies have shown that a management orientation having flexible planning is an important facilitator. In general, the literature of management orientation has concentrated on the environmental uncertainty of technological and market level confusion. Technological turbulence helps explain the technological change rate, inputs, processing, and delivery outputs to customer. Market turbulence explains the customer preferences and their composition change (Didonet, Simmons, Díaz-Villaviciencio, & Palmer, 2012).

### **2.8.1 Market Uncertainty**

Uncertainty is defined as difficulty in predicting the future because of incomplete knowledge. All uncertainty studies argue that organizations and individuals fight to minimize uncertainty because certainty provides confidence and leads to the existence of meaningful behaviours and expectations from the physical and social environment (Beckman, Haunschild, & Phillips, 2004). Most scholars have indicated that organizations react to uncertainty by placing transactions in a more hierarchical context (Podolny, 1994).

Market uncertainty leads to negative consequences in both developed and developing countries, particularly in SMEs. In developing countries like Nigeria SMEs continue to face different problems like an unstable macroeconomic environment. This consequence of this is costly to nations resulting in a high debt burden, high inflation, high dependence on imports, the lack of the adoption of appropriate technology, and diminished business serviced and training (Uchegbulam et al., 2015). Parnell et al. (2015) found a negative relationship between market uncertainty and the performance of SMEs in China and the United States. Market turbulence also explains the customer preferences and their composition change (Didonet et al., 2012).

### **2.8.2 Technology Uncertainty**

Firms with more experience in technological turbulence can find success with minimum levels of market orientation. Technological turbulence explains the technological change rate, inputs, processing, delivery outputs to the customer (Didonet et al., 2012).

Under the condition of technological turbulence, management can minimize focus on technology with more attention to uncertainties and risks that arise (Didonet et al., 2012).

Parnell et al. (2015) found that a negative relationship between technology uncertainty and performance of SMEs in China and USA.

### **2.8.3 Competitive Uncertainty**

Furthermore, among various challenges that SMEs face, competition is considered a fundamental challenge (Akbar et al., 2017). Interestingly, Yu, Wang, and Brouthers (2016) found that uncertainty influences a firm's ability and willingness to identify its competitors,

especially foreign ones. They “found that firms perceiving high environmental uncertainty tended to identify significantly fewer rivals (especially foreign rivals) than firms perceiving lower environmental uncertainty” (Yu et al., 2016, p. 32). As well, Parnell et al. (2015) found that a negative relationship between competitive uncertainty and the performance of SMEs in China and the United States.

## **2.9 Summary**

The purpose of this chapter was to discuss theoretical aspects and the prior literature on distinctive capabilities, business strategy and the environment (independent variables) and the performance of SMEs (dependent variable), which were relevant to the research questions and research objectives of this study. Consequently, all factors of distinctive capabilities, business strategy and the environment with respect to the performance of SMEs performance were justified and used to develop the hypotheses and conceptual framework presented in Chapter Three. The chapter discusses the methodology of this study.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter discuss the impacts of business strategy, business risk and distinctive capabilities on the performance of manufacturing SMEs in Palestine, based on the relevant literature. This chapter develops the conceptual frame work and the hypotheses of the study.

#### 3.2 Theoretical Framework

Based on gaps identified in the research literature, this study explores the constructs in the context of performance of SMEs in Palestine. Figure 3.1 shows the theoretical framework relationship between independent variables, which are distinctive capabilities and business strategy and the moderator variable, which is business environment while the dependent variable is performance.

The business strategy elements are: low cost strategy, differentiation strategy, growth strategy, hold and maintain strategy, bare bones strategy, specializing by product type strategy and specializing by customer type strategy. While the distinctive capabilities elements are: administrative activities, production and operations activities, marketing activities, financing activities and human resource activities. The environment elements are: the market environment, the technological environment and the competitive

environment. Finally, performance will be measured through return on assets, return on investments, return on sales and net profit.

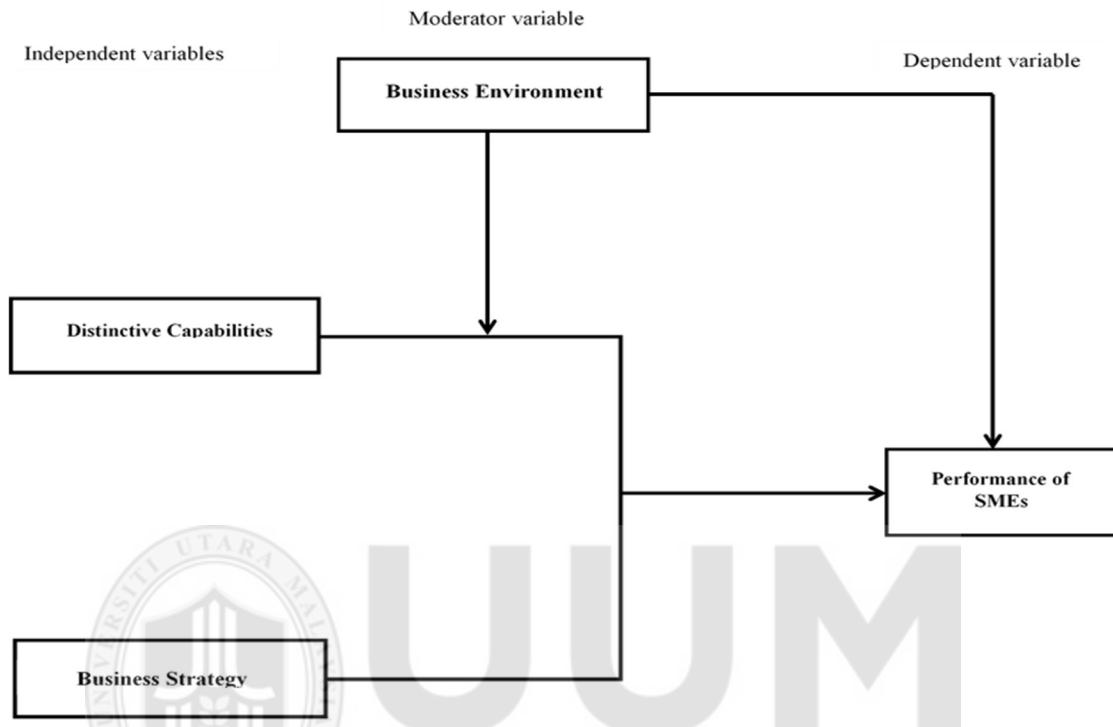


Figure 3.1  
*Theoretical Framework: Effects of business strategy, the environment and distinctive capabilities on performance.*

### 3.3 Development of the Hypotheses

After considering the research questions, research objectives and conceptual framework, this study developed a nine of hypotheses for analysis. All the strategic factors were explicated in Chapter Two, and the role of each variable was justified in the framework.

**H<sub>1</sub>: The performance of manufacturing SMEs (PS) differs with the choice of business strategy (BS) that they adopt.**

**H<sub>2</sub>: Distinctive Capabilities (DC) has a significant positive effect on performance of SMEs (PS).**

H<sub>2a</sub>: General administration capabilities has a significant positive effect on performance of SMEs.

H<sub>2b</sub>: Product/operation capabilities has a significant positive effect on performance of SMEs.

H<sub>2c</sub>: Marketing capabilities has a significant positive effect on performance of SMEs.

H<sub>2d</sub>: Human resources capabilities has a significant positive effect on performance of SMEs.

H<sub>2e</sub>: Finance capabilities has a significant positive effect on performance of SMEs.

**H<sub>3</sub>: Business Environment (BE) has a significant negative effect on performance of SMEs (PS).**

**H<sub>4</sub>: The Business Environment (BE) moderates the relationship between Distinctive Capabilities (DC) and the performance of SMEs (PS).**

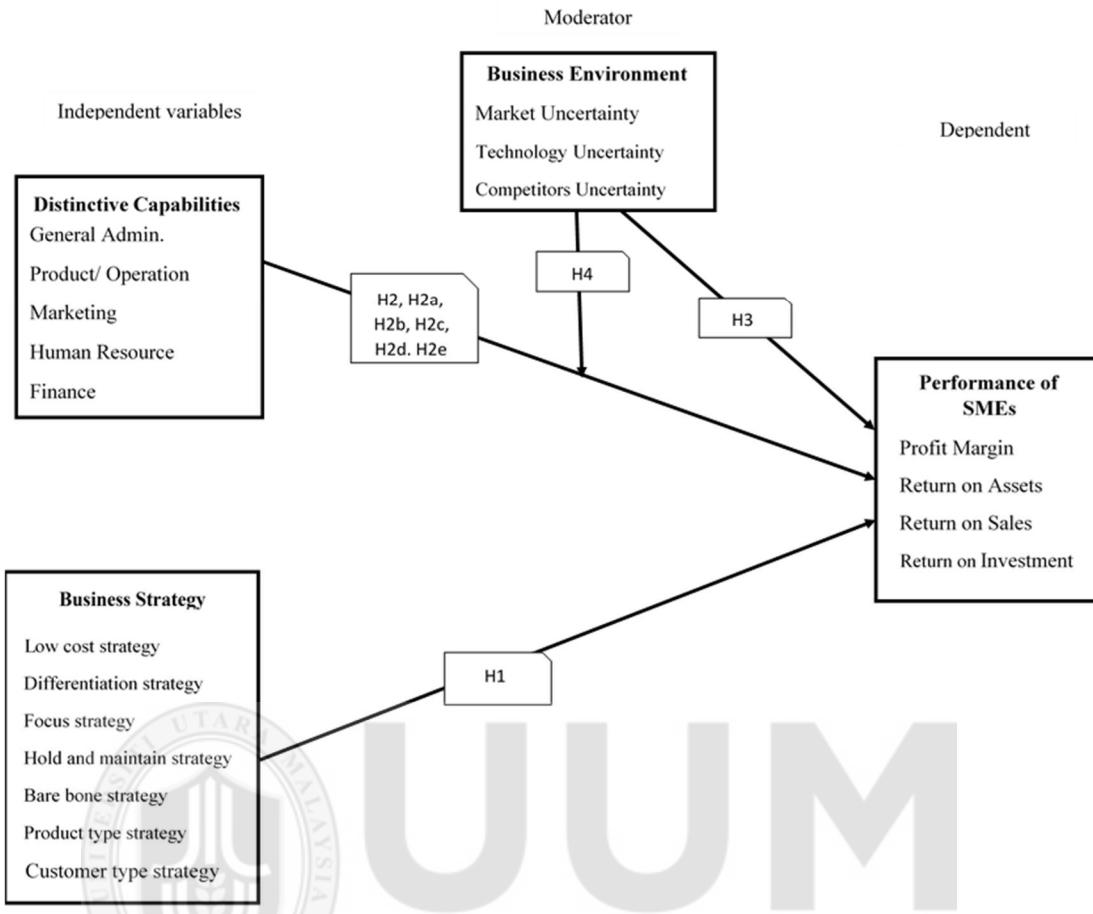


Figure 3.2  
*Hypothesized framework.*

### 3.4 Type of Study

This is a cross-sectional study because it describes the characteristics of the population and gathered data at a specific point in time and not over a long period of time, and the sample survey involved Palestinian manufacturing SMEs. Based on last Establishment Census 2012 in Palestine that the Palestinian Central Bureau of Statistics (PCBS) made, there were 131,730 firms in Palestine; of these 89,479 were in West Bank, and 42,251 were in the Gaza Strip. At the time of the census, 14,359 SMEs existed in all of Palestine, which was equal to 10.9% of the total number of firms in Palestine; of these 9,679 SMEs were in West

Bank, which represented 67.4% of total number of SMEs in all of Palestine and 4,680 SMEs were in the Gaza Strip, which represented 32.6% of total SMEs in all of Palestine.

The total number of manufacturing SMEs in West Bank was 3,106 firms, as shown in Table 3.1 below. This study used a definition of SMEs as enterprises employing 5-99 persons. The total of these firms was 3,316 (Mining and Quarrying, 156; Manufacturing, 2,922; Electricity, Gas, Steam and Air Conditioning Supply, 22; Water Supply, Sewerage, Waste Management and Remediation Activities, 21; and Construction, 195) See Table 3.1.

Using the guidelines, of Krejcie and Morgan (1970) and Sekaran (2003), the sample size was 341 SMEs from these 3,106 firms. The sampling was randomly selected from the Chamber of Commerce list for each governorate. The samples will be represented by grouping the manufacturing SMEs into three geographical main regions. The regions are the Northern Region of West Bank (Jenin, Nablus, Tups, Qalqilia, Salfit and Tulkarm), the Central Region (Al Quds<sup>2</sup>, Ramalla and Al Birih and Jerico), and the Southern Region (Bethlehem and Hebron).

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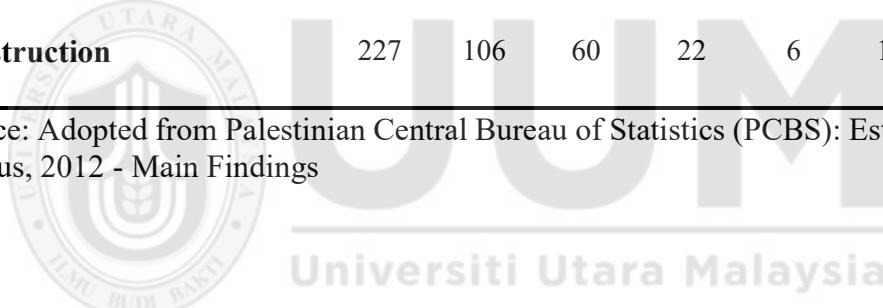
<sup>2</sup> The data do not include those parts of Jerusalem that were annexed by Israel in 1967.

Table 3.1

*Number of Manufacturing Operating Establishments in the Private Sector, Non-Governmental Organization Sector and Governmental Companies in the West Bank by Main Economic Activity and Employment Size Group, 2012*

<b>Economic Activity</b>	<b>Employment Size Group</b>					<b>Total</b>	
	<b>1-4</b>	<b>5-9</b>	<b>10-19</b>	<b>20-49</b>	<b>50-99</b>		
<b>Mining and quarrying</b>	99	121	28	5	2	-	255
<b>Manufacturing</b>	9,712	1,889	708	275	50	23	12,657
<b>Electricity, gas, steam and air conditioning supply</b>	27	9	4	4	1	4	49
<b>Water supply; sewerage, waste management and remediation activities</b>	177	16	4	1	-	-	198
<b>Construction</b>	227	106	60	22	6	1	422

Source: Adopted from Palestinian Central Bureau of Statistics (PCBS): Establishment Census, 2012 - Main Findings



### **3.5 Methodology and Questionnaires Design**

The primary data for the study were collected through the survey method by using a standardized structured self-administrated questionnaire involving manufacturing SMEs in West Bank. For the purpose of this study, the study employed questions that had been used in many other studies were found to be valid and reliable.

The first section focused on the general characteristics of manufacturing SMEs. These characteristics included firm place, information on the owners/managers, percentage of ownership, manufacturing experience, size of capital, age, organization structure, and the

number of employees. In this section, the study added a question about the firm place for the manufacturing SMEs governorates in West Bank, and the questions about dollar volume of the business in the last fiscal year, the initial paid-up capital when the business was started and the dollar volume (USD) of the business when started. The current study adopted the intervals from Al-Mahrouq's (2010) study about success factors of small and medium-sized enterprises in Jordan.

The second section of the questionnaires concerning business activities covered information on the areas of finance, human resource, marketing, administrative and production/operations (Ahmad S., 2005; Hitt & Ireland, 1985; Porter, 1980, 1985). A question about the employee training was added to the human resource activities because of the feedback received from experts. A numerical interval Likert-type scale ranging from 1 (low) to 5 (high) was used.

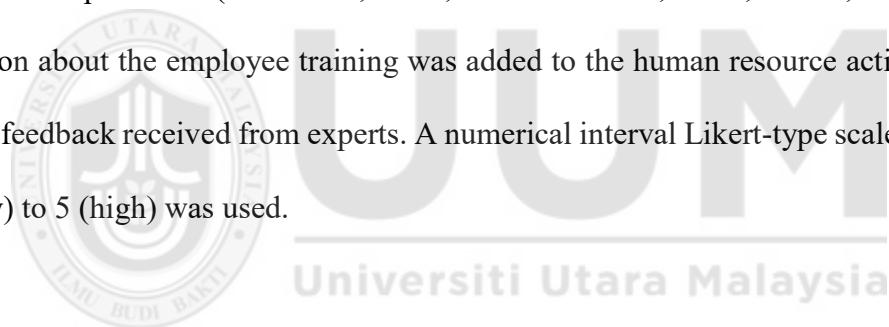


Table 3.2  
*The Measurements of Business activities*

Items	Source
<b>Level of your administrative capabilities</b>	
1. Our company attracts high and multi-skill top management.	
2. Our company performance are outstanding than our competitors.	
3. We grab the opportunities and eliminate threats better than our competitions.	
4. Difference in opinions among employer and employees is solve.	
5. We know our identity, vision, mission, objectives, business strategy, policy.	
6. We are able to promote to improve, coordinate an effective collaboration between top management and executives.	(Ahmad S., 2005; Hitt & Ireland, 1985; Porter, 1980, 1985)
7. We are able to develop a more effective strategic planning for the company to grow and make profit better than our competitors.	
8. We are able to promote and exercise management by objective among the employees successfully.	
9. Our employees are exposed to the latest technological assistance in decision making which is better than our competitors.	
10. Our employees manage to get the job done with the access of efficient management system with minimum cost.	
<b>Production and Operations capabilities</b>	
1. Our expansion program is align with our contract out program.	
2. We maintain our work force efficiency.	
3. Modification of machineries result in improving our output.	(Ahmad S., 2005; Hitt & Ireland, 1985; Porter, 1980, 1985)
4. Our procurement department is very efficient in their job.	
5. Our equipment's are maintain efficiently.	
6. We always provide our customer with high quality product.	
7. One of our priority is efficient output and material handling.	
8. One of our priority is to comply with OSHA.	
9. We are more innovative than our competitors.	

Table 3.2 (Continued)

Items	Source
10. Our production technology is the best in the industry.	
11. All our R&D expenses generated value added continuously.	
12. All employees have high team spirit which support our QCC activities.	
<b>Marketing capabilities</b>	
1. Continuous research on all or our marketing function.	
2. Our major customers are highly reputable organizations.	(Ahmad S., 2005;
3. Our price strategy is more effective than our competitor.	Hitt & Ireland,
4. We have effective sales promotion and advertising campaigns.	1985; Porter, 1980,
5. Our distribution channels are the most effective.	1985)
6. We have efficient and effective product-line.	
7. We have highly skilled and dynamic marketing sales teams.	
<b>Financing capabilities</b>	
1. Our company capital structure is the best in the industry.	
2. We are innovative to meet needed working capital growth.	
3. Our working capital position is better than our competitors.	(Ahmad S., 2005;
4. Our short-term capital cost is the lowest in the industry.	Hitt & Ireland,
5. Our company tax management is effective.	1985; Porter, 1980,
6. We manage our financial risk efficiently.	1985)

Table 3.2 (Continued)

Items	Source
7. We have business opportunities with less risk and high return.	
8. Our ROI, ROE, ROS indicate excellence company performance.	
<b>Human Resource capabilities</b>	
1. We experience manufacturing harmony in the company.	
2. Our term and condition of employment is effective.	
3. We have effective recruitment, and career development program.	(Ahmad S., 2005;
4. HRD functions are efficiently managed.	Hitt & Ireland,
5. Collective bargaining and agreement satisfy our needs.	1985; Porter, 1980,
6. Our employees are committed with quality programs.	1985)
7. Incentive are provided to creativity and innovative employees.	
8. Effective grievance procedures compared to our competitors.	
9. We received our ISO certification for our Q system.	
10. Training programs for staff consistently implemented.	

The third section of the questionnaire assessed the degree of environmental uncertainty, three separate scales of six items each were used to assess various sides of environment uncertainty. These questions were adapted from Desarbo, Di Benedetto, Song, and Sinha (2005) and Parnell et al. (2015). The technological environment uncertainty scale included the difficulty of technological forecasting, the extent of technical opportunity, the assessment of technological change, and other aspects of technology. The assessment of

the market environment uncertainty scale was based on customer product needs, ease of forecasting marketplace changes, changes in customer preferences and customer price sensitivity changing customer base. The competitive environment uncertainty scale assessed the ability of firms to match competitive offers, the extent of promotion and price wars, and other competitive aspects. In these scales, a higher score meant that the environment is more uncertain.

Table 3.3  
*The Measurements of Environment*

<b>Items</b>	<b>Source</b>
<b>Market environment</b>	
1. In our kind of business, customers' product preferences change quite a bit over time	
2. Our customers tend to look for new products all the time	
3. Sometimes our customers are very price-sensitive, but on other occasions, price is relatively unimportant	Desarbo, Di Benedetto, Song, and Sinha (2005) and Parnell et al. (2015)
4. New customers tend to have product-related needs that are different from those of our existing customers.	
5. We cater to many of the same customers that we used to in the past	
6. It is very difficult to predict any changes in this marketplace	

Table 3.3 (Continued)

Items	Source
<b>Technological environment</b>	
1. The technology in our industry is changing rapidly.	
2. Technological changes provide big opportunities in our industry.	
3. It is very difficult to forecast where the technology in our industry will be in the next two to three years.	Desarbo, Di Benedetto, Song, and Sinha (2005) and Parnell et al. (2015)
4. A large number of new product ideas have been made possible through technological breakthroughs in our industry.	
5. Technological developments in our industry are rather minor.	
6. The technological changes in this industry are frequent.	
<b>Competitive environment</b>	
1. Competition in our industry is cutthroat.	Desarbo, Di Benedetto, Song, and Sinha (2005) and Parnell et al. (2015)
2. There are many 'promotion wars' in our industry.	
3. Anything that one competitor can offer, others can match readily.	
4. Price competition is a hallmark of our industry.	
5. One hears of a new competitive move almost every day.	
6. Our competitors are relatively weak.	

The fourth section of the questionnaire captured information on the types of the business strategy adopted by the firms. These included low cost strategy, differentiation strategy, focus strategy, hold and maintain strategy, bare bones strategy, product type strategy, and

customer type strategy (Ahmad S., 2005; Canwell & Sutherland, 2004; Hashim, 2015a; Porter, 1980 and 1985; Rogers, 2001). Structured questions containing brief descriptions of each of the seven strategy types were used to explain business strategies in this study. Respondents were requested to choose only one of the seven business strategies descriptions that best described the business strategy that their firm was adopting. Since the collected data in this section is nominal, the one-way ANOVA in SPSS 24 used to test if the performance of SMEs will vary with the choice of business strategy that they had adopted (Hashim, 2015a; Hashim et al., 2015).

The reason for select these business strategies because most of them have been widely adopted before as the literature indicates. Moreover, through adopting these strategies, the results or conclusions of this study can be compared with earlier studies.

Table 3.4  
*The common business strategies adopted by SMEs*

Strategy	Descriptions	Source
<b>1. Low cost strategy</b>	High productivity, low margin products, budget price and cheapest product.	
<b>2. Differentiation strategy</b>	Best product, best quality, great image, best service, premium price and intensive campaign.	Ahmad S. (2005)
<b>3. Growth strategy.</b>	Risk taking, expansion, aggressive search for market share, use price cuts, promotional campaign.	

Table 3.4 (Continued)

Strategy	Descriptions	Source
<b>4. Hold and maintain strategy.</b>	Continuing the present strategy and scrounging up enough resources to keep sales, market share, profitability, and competitive position at survival levels.	
<b>5. Bare bone strategy.</b>	Base on low overhead, use of low-wage labor, tight budget control and rigid to a no-frills expenditure policy.	
<b>6. Specializing by product type strategy</b>	Specialize in only one product	Ahmad S. (2005)
<b>7. Specializing by customer type strategy</b>	By specializing in serving customers who are the least price sensitive, going after those buyers who are interested in additional services or product attributes or other extras, serving customers who place custom orders and targeting buyers who have special needs or tastes.	
<b>8. Others (please specify)</b>		

This is a sample survey involving Palestinian manufacturing SMEs. So, to ensure that the samples were well represented, the manufacturing SMEs were grouped into three geographical main regions. The regions were the Northern Region of West Bank, the Central Region, and the Southern Region. Table 3.2 below shows the number of manufacturing SMEs in main governorates in West Bank.

This study adopted a proportionate stratified random sampling design. Sekaran (2003) defined stratified sampling as “Stratified random sampling, as its name implies, involves a process of stratification or segregation, followed by random selection of subjects from each stratum” (p. 272). A stratified random sampling involves stratifying the elements along meaningful levels and taking proportionate or disproportionate samples from the strata. “This sampling design is more efficient than the simple random sampling design because, for the same sample size, each important segment of the population is better represented, and more valuable and differentiated information is obtained with respect to each group” (Sekaran, 2003, p. 274).

A stratified sample of about 341 manufacturing firms is needed for this survey, and the study included 11% of members from each stratum in the sample. Thus, members represented in the sample from each stratum will be proportionate to the total number of elements in the respective strata. This would mean that 73 from Nablus, 48 from Ramallah & Al Birih, 93 from Hebron, 32 from Jenin, 41 from Bethlehem, 15 from Qalqilia and 11 from Salfit were included in the sample. In addition, 23 from Tulkarm, 3 from Jerico, 2 from Tubas were represented in the sample as shown in the third column of Table 3.5 below.

Table 3.5  
*Proportionate Stratified Random Sampling*

<b>Governorate</b>	<b>Number of Subjects in the Sample</b>	
	<b>Number of Elements</b>	<b>Proportionate Sampling (11% of the elements)</b>
Nablus	662	73
Ramallah & Al Birih	436	48
Hebron	856	93
Jenin	290	32
Tulkarm	210	23
Bethlehem	371	41
Jerico	23	3
Tubas	21	2
Qalqilia	137	15
Salfit	100	11
<b>Total</b>	<b>3106</b>	<b>341</b>

Source: Calculated from Palestinian Central Bureau of Statistics (PCBS):  
 Establishment Census, 2012 - Main Findings.

The questionnaires were self-administrated and either sent through e-Mail or delivered personally to randomly selected owners/managers of the selected manufacturing SMEs as per the list provided by the chamber of commerce for each governorate. The chambers of commerce lists were chosen because of their reliability and because they were the most up-to-date lists available in Palestine (West Bank).

Table 3.6  
*Number of Manufacturing SMEs by Governorates in the West Bank*

<b>Economic Activities</b>	<b>Number of manufacturing SMEs by governorates in the West Bank</b>									
	Nablus	Ramallah & Al Birih	Hebron	Jenin	Tulkarm	Bethlehem	Jerico	Tubas	Qalqilia	Salfit
Mining and quarrying	22	6	99	9	5	12	-	-	-	-
Manufacturing	595	355	725	261	190	343	20	18	134	99
Electricity, gas, steam and air conditioning supply	3	3	3	1	1	1	1	-	-	-
Water supply; sewerage, waste management and remediation activities	2	4	4	1	4	-	1	-	1	-
Construction	40	68	25	18	10	15	1	3	2	1
<b>Total</b>	<b>662</b>	<b>436</b>	<b>856</b>	<b>290</b>	<b>210</b>	<b>371</b>	<b>23</b>	<b>21</b>	<b>137</b>	<b>100</b>

Source: Adopted from Palestinian Central Bureau of Statistics (PCBS): Establishment Census, 2012 - Main Findings.

The final section of the questionnaire measured the performance of the manufacturing SMEs. These were computed as the percentage sales volume, the amount of assets, the amount of equity, the number of employees, return on investment (ROI), return on sales (ROS) and return on assets (ROA) over a five-year period from 2012 to 2016 (Hashim, 2015a).

The ROI, ROS and ROA were measured as follows:

$$\text{ROI} = \text{net profit}/\text{total equity}$$

$$\text{ROS} = \text{net profit}/\text{total sales}$$

$$\text{ROA} = \text{net profit}/\text{total assets}$$

The average performance measures were derived by adding the annual figures of (dollar sales volume, the amount of assets, the amount of equity, the number of employees, ROI, ROS and ROA) for over a three-to-five-year period and divided by three or five.

The growth (average rate) performance measures were computed by taking the average percentage change in the performance measures (sales volume, the amount of assets, the amount of equity, and the number of employees, ROI, ROS and ROA) for over a three-to-five-year period (2012-2016), see Table 3.7 below.

Table 3.7  
*Firm financial records*

Year	% RETURN ON ASSET (USD)		% RETURN ON INVESTMENT (USD)		NET PROFIT (USD)		TOTAL NO. OF EMPLOYEES
	> 40 %	31 % TO 40%	21 % TO 30%	11 % To 20%	0 TO 10%	> 40 %	
2016							
2015							
2014							
2013							
2012							

Source: Own

The rate of change of each of the performance measures was computed by taking the difference between two years and was divided by the earlier year, resulting in each performance measure having three or four figures (i.e., 2012 and 2013; 2013 and 2014; 2014 and 2015; 2015 and 2016). Dividing the total growth rate from 2012 to 2016 by three or four derives the average rate of growth of each of the measures.

In addition, this study adopted the business performance composite index (BPCI) as the mean values of ROI, ROS and ROA (Hashim, 2015a, p. 127-128 ).

The BPCI was computed as:

$$\text{BPCI} = (\text{ROI} + \text{ROS} + \text{ROA}/3)$$

Then, the data were analysed through simple linear regression and multiple regression using SPSS and PLS-SEM 3.0.

### **3.5.1 Reliability and Validity Test of the Measures**

Validity and reliability tests were conducted on the data, in order to ensure goodness of the measures of the adapted items. The items adapted to measure concepts must be actually measuring the concept that is to be measured and correctly measuring the variables. Reliability relates to the extent to which particular items adapted in a study will yield the same results on different occasions (Greener, 2008). Moreover, it measures the stability and consistency of the adapted measurement in measuring the concept (Cavana, Delahaye, & Sekaran, 2001; J. Hair, Black, Babin, & Anderson, 2010). For determining the internal

consistency of the measurement scale adapted in this study, composite reliability was used in the main analysis and Cronbach's alpha was used in the pilot study.

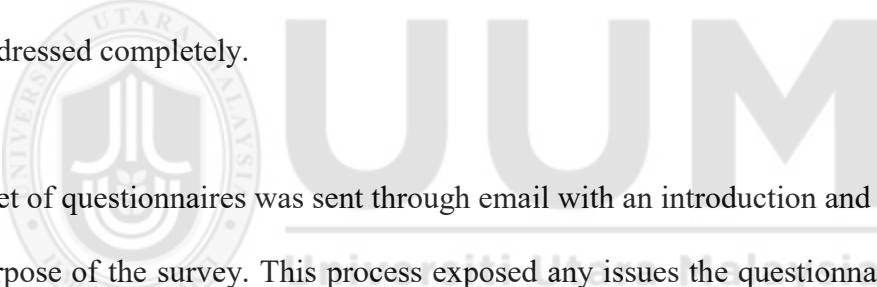
Lancaster (2005) argue that validity refers to the extent to which the methods, measures, or instruments used in a study actually measure what it is supposed to measure or describe. Moreover, the validity concerns the evidence that the technique or instrument, process used in a study is appropriately measuring the intended concept (J. Hair et al., 2010; Sekaran & Bougie, 2009). According to Vanderstoep & Johnston (2009) there are many different types of validity including statistical validity, face validity, concurrent validity, predictive validity, internal and external validity, construct validity, and content validity. Greener (2008) argues that construct validity is one of the important aspects of data analysis, and suggests the importance of face validity, construct validity and internal validity.

This study used the two ways to determine construct validity, i.e., discriminant validity and convergent validity (J. Hair, Ringle, & Sarstedt, 2013; Vanderstoep & Johnston, 2009). Construct validity is also conducted to ensure the items are actually measuring what the study has been operationalized to measure. Therefore, this study conducted face validity to ensure the validity of the items on the face of it is measuring the intended construct. In other words, it is used to attest whether the results obtained from the use of the adapted items can fit the theories around which the test was designed.

### **3.6 Pilot Testing**

The questionnaire was translated from English to Arabic, then it was sent to two Arab native speakers who had a master's degree in English language studies and taught English to degree students for checking and advice.

Prior to the pilot study, a questionnaire was distributed a small group of academic and manufacturing professionals to validate the reliability and improve the survey. These professionals were one person from University Utara Malaysia, Sintok, Malaysia and three persons from Al-Quds University and one persons from Palestine Polytechnic University in Palestine. After receiving the expert's comments, it has been taken into consideration and addressed completely.



Each set of questionnaires was sent through email with an introduction and explanation of the purpose of the survey. This process exposed any issues the questionnaire in terms of question comprehension and wording, and to gauge potential interest in participation. As necessary changes were made in the questionnaire following the suggestions of these experts.

After the review of content validity by experts and the necessary modifications were made for the questionnaire, the researcher conducted a pilot study “A pilot study is a small-scale research project that collects data from respondents similar to those that will be used in the full study” (Zikmund & Babin, 2010, p. 53). The point of a pilot study is to measure the validity of the instruments as well as to test its reliability before starting to distribute it.

Therefore, 40 owners and managers from different manufacturing SMEs in the West Bank were randomly selected and kindly asked to examine the questionnaire in June 2017.

After around 25 days, 34 sets of the acceptable questionnaires were received for the purpose of using the pilot study to check the reliability of the instrument. Then the questionnaires were analysed using the Statistical Package for Social Sciences (SPSS) Version 24. To check for the interim consistency reliability of the independent and dependent variables, the Cronbach's alpha reliability coefficient was used. Bajpai (2011) stated that “The coefficient alpha or Cronbach's alpha is actually a mean reliability coefficient for all the different ways of splitting the items included in the measuring instruments. As different from correlation coefficient, coefficient alpha varies from 0 to 1, and a coefficient value of 0.6 or less is considered to be unsatisfactory” (p. 51).

The results for the pilot study show that the reliability coefficient or Cronbach's alpha = 0.81 for the 34 sets of questionnaires with 96 questions, the full results are shown in (Appendix C1).

### **3.7 Data Collection and Sample Size**

According to Cavana, Delahaye and Sekaran (2001), population refers to the entire group of people, events or things of interest that the study tries to examine. The population in this study are the manufacturing SMEs operating in West Bank of Palestine (as shown in Table 3.5). Since it is practically impossible for research that investigates large number of elements to collect data, test or examine every element (Sekaran & Bougie, 2009).

Therefore, a sample is selected for examination which is a sub-set of the population of the study (Cavana et al., 2001). The samples of this study are SMEs selected from the entire population of manufacturing SMEs operating in West Bank of Palestine. Since the population are 3106 SMEs, the sample size for this study will be 341 SMEs, This is obtained from the table of Sekaran book named Sample Size for a Given Population Size (Sekaran, 2003, p. 294).

A stratified sample of 341 manufacturing SMEs firms was randomly selected from the lists provided by the chamber of commerce for each governorate in the West Bank. The survey questionnaires were self-administrated and delivered either personally or through email (Sekaran, 2003) as shown in Table 3.6 before. The chambers of commerce lists were chosen because of their reliability and because they were the most up-to-date lists available in Palestine (West Bank). The reason to target owners/managers was that they have the power to design and implement strategies and monitor a firm's activities, which is consistent with the requirements of this study.

### **3.8 Summary**

Chapter Three specifies the conceptual framework and hypotheses development and covers measurement and analysis instruments, research design, research methodology, sampling and data collection. This study adopted the quantitative stratified sampling method, and the manufacturing SMEs were randomly selected from the chambers of commerce and manufactures in each governorate. The conceptual framework tests the effectiveness of

business strategy, environment and distinctive capabilities on the performance of SMEs. While the relationship between the independent variables and dependent variable are investigated through the hypotheses posited.



# CHAPTER FOUR

## ANALYSIS AND FINDINGS

### 4.1 Introduction

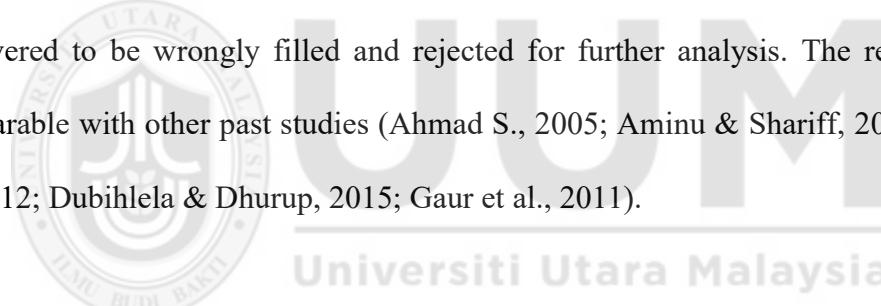
The primary objective of this chapter is to provide research results, which include demographics using descriptive statistics, reliability and validity, as well as results of the hypotheses tests. This chapter presents the research findings of the study based on the data collected from respondent SMEs located in the West Bank of Palestine. In detail, this chapter contains the following sections. First, response rate, non-response bias and common method bias tests are presented. Second, data cleaning and preliminary data screening and preparation are outlined, and details of the characteristics of the sample are presented. Third, the results of tests for reliability and validity of the scales are assessed and presented for the measurement model. Finally, the results of hypotheses tests, the coefficient of determination, the effect size and predictive relevance are examined and reported.

### 4.2 Response Rate

The data used for this research were collected from owners-managers of SMEs in Palestine (West Bank). Firstly, an official letter was collected from the Othman Yeop Abdullah Graduate School of Business (OYAGSB), introducing the researcher and also explain the purpose of the study. Moreover, second official letter was collected from the Palestinian

Food Industries Union (PFIU) for the same reasons (refer to Appendix D). Therefore, these letters were used to get cooperation from the respondents.

In this study, questionnaires were self-administered, and the questionnaires were accompanied with a pen as a gift. Efforts were made to increase the response rate by reminding respondents through phone calls, SMS and personal visits (Sekaran & Bougie, 2009). Because of these efforts, 257 of the 341 questionnaires were returned that were administered to the respondents (owner-managers of SMEs) in Palestine. Consequently, this makes the response rate 75.36%; however, of the 257 responses obtained, only 252 questionnaires were used for making the analysis making a valid response rate of 73.90% (Yehuda, 1999). This was because of the 257 questionnaires collected, five were discovered to be wrongly filled and rejected for further analysis. The response rate is comparable with other past studies (Ahmad S., 2005; Aminu & Shariff, 2015; Didonet et al., 2012; Dubihlela & Dhurup, 2015; Gaur et al., 2011).



### **4.3 Demographic Distribution of the Respondents**

The survey was carried out over a period that extended from June 2017 to mid-September 2017. The final data sample included 252 participants who completed the questionnaire in the research, and their position in the company is illustrated in Table 4.1.

Table 4.1  
*Position in the Company*

<b>Respondents Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Owner and Manager	114	45.2
Partner	69	27.4
CEO/MD	33	13.1
Administration Manager	28	11.1
Executive Manager	8	3.2
<b>Total</b>	<b>252</b>	<b>100</b>

Table 4.1 shows that more than 72% of the respondents were partners or owners and manager; the rest were 13.1% CEO/MD or Administration Manager of 11.1% or Executive Manager of 3.2%.

Table 4.2 below shows that more than 82% of them were men, which agrees with (Sabri, 2008) study who argued that the women shared about 17% of the total businesses in Palestine. Also, 96% of them were between the ages of 25 to 55 and more than 77% had either a graduate or post graduate, degree and 94% of them had more than 5 years of experiences.

Table 4.2  
*Participant's Demographic Information (N=252)*

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	207	82.1
	Female	45	17.9
Age	< 25 years	3	1.2
	25-40 years	155	61.5
	41-55 years	87	34.5
	Above 55 years	7	2.8
Marital status	Married	187	74.2
	Single	59	23.4
	Divorce	6	2.4
Education background	School leavers	26	10.3
	Diploma	32	12.7
	Graduate	175	69.4
	Post Graduate	19	7.5
Work experience	1-5 years	13	5.2
	6-10 years	68	27.0
	11-15 years	92	36.5
	> 15 years	79	31.3

Table 4.3 below shows that 77% of them had only one project and 14% had two projects, more than 50% of them had more than 50% of the percentage of ownership, and 65.9% of said that the reason for starting a business was interest.

Table 4.3  
*Owner/Manager Information (N=252)*

Variable	Category	Frequency	Percentage (%)
Number of businesses owned	One project	194	77.0
	Two projects	35	13.9
	Three projects	14	5.6
	Four projects and above	7	2.8
	Three projects	14	5.6
	Missing value	2	.8
Percentage of ownership	<30%	46	18.3
	30-50%	72	28.6
	51-70%	76	30.2
	>70%	58	23.0
Reason for starting business	Interest	166	65.9
	Independence and self-control	50	19.8
	Work satisfaction	18	7.1
	Use my experience	2	.8
	Interest and independence and self-control	8	3.2
	Interest and work satisfaction	1	.4
	Interest and use my experience	3	1.2
	Interest and independence, self-control and use my experience	3	1.2
	Interest and independence, self-control, work satisfaction and use my experience	1	.4

Table 4.4 show that 43.7% of the participants made managerial decisions the sharing while 56.3%, of the participant's shared in making managerial decisions and 41.7% made strategic plan decisions and 57.5% shared in strategic plan decisions

Table 4.4  
*Participant's Role in Decision Making (N=252)*

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Managerial decisions	Make	110	43.7
	Share	142	56.3
	Do not make or share	0	0
Strategic plan decisions	Make	105	41.7
	Share	145	57.5
	Do not make or share	2	.8

Table 4.5 shows that 67.5% of firms sold their products in the national market, 13.5% in sold their products in regional market, 3.2% sold their products for Israeli market only, and 12.4% sold their products in the regional, national, international and Israeli market.

Table 4.5  
*Breadth of operation (N=252)*

<b>Respondent Categories</b>	<b>Frequency</b>	<b>Percentage (%)</b>
National	170	67.5
Regional	34	13.5
International	14	5.6
Israel	8	3.2
National and Regional	3	1.2

Table 4.5 (continued)

Respondent Categories	Frequency	Percentage (%)
National and Israel	14	5.6
National, Regional and Israel	5	2
National, Regional, International and Israel	4	1.6

Table 4.6 show the place of a firm and response rate in each governorate. Nablus and Hebron had the biggest number of respondents, Nablus with 62 respondents and Hebron with 61 respondents, with response rates of 67% and 66% respectively. On the other hand, Jerico and Tubas had the smallest number of respondents in the study sample with two respondents for each governorate with response rates of 85% and 100% respectively.

Table 4.6  
*Place of Firm and response rate*

No	Region	Population	Number of	No. of	Response
		(N)	Surveys Distributed	responses	rate
1	Nablus	662	73	62	85%
2	Jenin	290	32	23	72%
3	Ramalla & Al Birih	436	48	36	75%
4	Hebron	856	93	61	66%
5	Tulkarm	210	23	15	65%
6	Jerico	23	3	2	67%
7	Bethlehem	371	41	29	71%
8	Tubas	21	2	2	100%
9	Salfit	100	11	10	91%
10	Qalqilya	137	15	12	80%
<b>Total</b>		<b>3106</b>	<b>341</b>	<b>252</b>	<b>74%</b>

As shown in Table 4.7, the manufacturing activities comprised 67.1% of the sample, while the mining and quarrying were second at 21.8%, and electricity, gas, steam and water supply and sewerage represented 3.2% and 1.2% respectively.

Table 4.7  
*The Company's Activity (Work Field)*

<b>Respondent Categories</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Mining and quarrying	55	21.8
Manufacturing	169	67.1
Construction	17	6.7
Electricity, gas, steam	8	3.2
Water supply; sewerage	3	1.2
Total	252	100

The results provided in Table 4.8 indicate that 41.7% were in the category (6-10 years) of duration of business, 26.6% from the category less than 5 years of duration of business, 20.2% from the category 11-15 years of duration of business, and the firms were more than 15 years in business represented 11.5%. The total percentage for the firms having less than 3 shareholders was 53.6%, and firms having 3-6 shareholders represented 34.1%. The distribution the companies legal form of operations was 31.3% for sole proprietorship, while partnership and private limited company were 33.7% and 30.2% respectively. Finally, 75% of the respondents said that their company had a written business plan, which means that they know the strategy they adopt.

Table 4.8  
*Firm Information (N=252)*

Variable	Category	Frequency	Percentage (%)
Duration of business	< 5 Years	67	26.6
	6-10 Years	105	41.7
	11-15 Years	51	20.2
	> 15 Years	29	11.5
Total number of shareholders	< 3	135	53.6
	3-6	86	34.1
	7-10	23	9.1
	> 10	8	3.2
The company's legal form of operations	Sole proprietorship	79	31.3
	Partnership	85	33.7
	Private limited company	76	30.2
	Other	12	4.8
Did the firm have a written business plan?	Yes	189	75
	No	63	25

Table 4.9 below presents the results of the number of a firm's products. More than 72% of the firms produced more than three products, and 20.2% produced two or three products; the rest produced only one product. For 38.9% of the firms, the number of the leading products that generated 80% of the company dollar volume was two products, and for 32.1% of the firms, the number of the products that generated 80% of the company dollar volume was only one.

Table 4.9  
*Number of Firms Product (N=252)*

Variable	Category	Frequency	Percentage (%)
Number of products produced	One product	19	7.5
	Two or three products	51	20.2
	More than 3 products	182	72.2
Number of leading products that generate 80% of the company dollar volume	1 product	81	32.1
	2 products	98	38.9
	3 products	46	18.3
	4 products	15	6.0
	5 products	8	3.2
	15 products	1	.4
	20 products	2	.8
	30 products	1	.4

Table 4.10 shows the dollar (USD) volume of firm business in three categories. The first is the dollar (USD) volume of firm business in the last fiscal year, the second is the initial paid-up capital when at the start-up business stage, and the third is the dollar (USD) volume of the business in the first year the business. The results showed that more than 26% of the firms made more than 300,000 USD volume in last fiscal year, while 33.3% of firms made less than 75,000 USD in the first year of business.

Table 4.10

*The Dollar (USD) Volume of Firm Business (N=252)*

Variable	Category	Frequency	Percentage (%)
The dollar (USD) volume of firm business in the last fiscal year	< USD 75,000	28	11.1
	USD 75,001 - 150,000	70	27.8
	USD 150,001 – 300,000	88	34.9
	Above USD 300,000	66	26.2
The initial paid-up capital when the business started	< USD 15,000	55	21.8
	USD 15,001 - 75,000	89	35.3
	USD 75,001 – 150,000	61	24.2
	Above USD 150,000	47	18.7
The dollar (USD) volume of the business in the first year that the business started	< USD 75,000	84	33.3
	USD 75,001 - 150,000	73	29.0
	USD 150,001 – 300,000	52	20.6
	Above USD 150,000	43	17.1

The result provided in Table 4.11 below indicates that around 33% of the firms started with less than 5 employees at first year, while in the last year more than 82% of firms had from 5 to 19 employees, and just 4% of the firms had from 50-99 employees.

Table 4.11  
*Number of firm employees (N=252)*

Variable	Category	Frequency	Percentage (%)
The initial number of employees when starting the business	< 5	83	32.9
	5-19	137	54.4
	20-49	25	9.9
	50-99	7	2.8
The number of full-time employees in the firm at the end of last fiscal year	5-19	207	82.1
	20-49	35	13.9
	50-99	10	4.0

The results provided in Table 4.12 indicate that 99 firms in manufacturing had adopted a low-cost strategy, and 28 firm in mining and quarrying had also adopted a low-cost strategy. Thirty firms in manufacturing had adopted a differentiation strategy, 18 firms had adopted a growth strategy, four companies had adopted a hold and maintain strategy. The low-cost strategy had the biggest number of firms with 140 in the entire sample, followed by the differentiation strategy with 47 companies and 31 company with a growth strategy, while the bare bones strategy had the lowest number of firms with only five.

Table 4.12  
*Business Strategy Work Field Crosstabulation*

Strategy Type	Mining and quarrying	Manufacturing	Construction	Electricity, gas, steam	Water supply; sewerage	Total
Low cost strategy	28	99	9	3	1	140
Differentiation strategy	13	30	3	1	0	47
Growth strategy	6	18	2	3	2	31
Hold and maintain strategy	2	4	0	0	0	6
Bare bones strategy	2	3	0	0	0	5
Specializing by product type strategy	2	8	1	1	0	12
Specializing by customer type strategy	2	4	1	0	0	7
<b>Total</b>	<b>55</b>	<b>166</b>	<b>16</b>	<b>8</b>	<b>3</b>	<b>248</b>

#### 4.3.1 Summary of Demographic Distribution of the Respondents

From the above tables we can notice that more than 72% of the respondents were partners or owners and manager of manufacturing SMEs; the rest were 13.1% CEO/MD or Administration Manager of 11.1% or Executive Manager of 3.2%. More than 82% of them were men. Also, 96% of them were between the ages of 25 to 55. more than 50% of them had more than 50% of the percentage of ownership. Moreover, 43.7% of the participants

made managerial decisions the sharing while 56.3%, of the participant's shared in making managerial decisions and 41.7% made strategic plan decisions and 57.5% shared in strategic plan decisions.

Moreover, we can see that 41.7% of the SMEs were in the category (6-10 years) of duration of business, 26.6% from the category less than 5 years of duration of business, 20.2% from the category 11-15 years of duration of business, and the firms were more than 15 years in business represented 11.5%. 75% of the respondents said that their company had a written business plan, which means that they know the strategy they adopt. around 33% of the firms started with less than 5 employees at first year, while in the last year more than 82% of firms had from 5 to 19 employees, and just 4% of the firms had from 50-99 employees. The biggest number of firms adopted low-cost strategy with 140 in the entire sample, followed by the differentiation strategy with 47 companies and 31 company with a growth strategy, while the bare bones strategy had the lowest number of firms with only five.

#### **4.4 Test of Non-Respondent Bias**

Evidence from the existing literatures has established that non-respondents sometimes differ systematically from respondents in attitudes, behaviors, personalities and motivations any or all of which might affect the results of the study (Malhotra, 2009). In this study, non-response and response bias were tested using a t-test to compare the similarities between the mean, standard deviation, and standard error mean. Levene's test of the early and late responses in main study variables such as business strategy, distinctive

capabilities, business environment, production, human resources, finance, competitors and performance, was employed.

Several researchers including Churchill, Brown, and Suter (2010) and Malhotra (2009) have argued empirically that late respondents could be utilized instead of non-respondents, mainly because the former may not have responded if they had not been followed up. According to Malhotra (2009), non-respondents are considered to possess similar characteristics as late respondents. Thus, in this study, the sample was categorized into two groups, namely, early responses and late responses with the former being those who returned the questionnaires within three months following the distribution and the latter being those who returned the questionnaires after a month following the distribution. Hence, 195 respondents were grouped into early responses, and 53 were grouped into late responses. Descriptive as well as Levene's tests were conducted for the equality of variance on the main variables of the study.

Table 4.13 shows all values in the significance column exceeded the cut off value of 0.05, implying that the variances were assumed to be approximately equal for all variables, which had no significant differences between early and late respondents for the 2-tailed test. No significant differences existed between early and late respondents for the main variables ( $p < 0.05$ ). Therefore, the two groups were found to have come from the same population because no significant differences existed between early and late respondents for the main variables ( $p < 0.05$ ). Detailed verifications of the descriptive test and Levene's test are available in Appendix B1 for the test of non-respondent bias.

Table 4.13  
*Test of Non-Respondent Bias*

<b>Variables</b>		<b>N</b>	<b>Mean</b>	<b>F</b>	<b>Sig.*</b>	<b>Sig.* (2-tailed)</b>
DC_hr	Early	195	35.8769	1.131	.289	.931
	Late	53	35.8302			.929
DC_fina	Early	195	46.4154	.263	.608	.452
	Late	53	45.9434			.448
En_Tech	Early	195	22.4308	3.248	.073	.030
	Late	53	24.0755			.018
En_Comp	Early	195	18.4769	2.255	.134	.469
	Late	53	19.2642			.492
Perf	Early	195	11.4120	.025	.875	.751
	Late	53	11.3006			.748
DC_mark	Early	195	31.8974	1.938	.165	.701
	Late	53	31.7170			.681
En_mark	Early	195	18.4359	1.219	.271	.001
	Late	53	21.9057			.001
DC_adm	Early	195	46.4256	.297	.587	.320
	Late	53	45.8302			.303
DC_pro	Early	195	55.9846	.438	.509	.414
	Late	53	55.4340			.404
BusStr	Early	195	2.14	1.038	.309	.169
	Late	53	1.87			.129

*Note:* \* p < 0.05.

## **4.5 Data Screening and Preliminary Analysis**

Before applying the necessary data analysis techniques, data screening was necessary. This is necessary because the data distribution has a direct impact on the choice of data analysis techniques and tests (Byrne, 2010). Although this study used PLS to evaluate the model quality (measurement and structural model) and to test the hypotheses, which has no concern about data distribution, data screening was still employed so that the nature of the distribution of the data could be known. In this procedure, detection and treatment of missing data, outliers, normality, linear relationship and multicollinearity tests were run.

### **4.5.1 Why PLS-SEM**

PLS-SEM is the approach that has become established in marketing and business research, also natural science disciplines, such as chemometrics, generally use PLS regression. The PLS-SEM is the appropriate method if the research objective is prediction and theory development. In contrast, CB-SEM is the appropriate method if the research objective is theory testing and confirmation (J. F. Hair, Ringle, & Sarstedt, 2011).

V. E. Vinzi, Trinchera, & Amato (2010) stresses that PLS-SEM is a path modelling statistical method for modelling complex multivariate analysis of relationships between observed and latent variables. SEM has become an important approach when it comes to investigating the cause and effect relations between latent constructs (J. F. Hair et al., 2011). Moreover, the valid and reliable confirmatory factor analysis is better achieved using PLS-SEM path modelling (Asyraf & Afthanorhan, 2013).

PLS-SEM has been used by several researchers in various research areas in social sciences, including business research as a statistical methodology (J. F. Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). For instance, management information system (Marcoulides, Chin, & Saunders, 2009) (Chin, Marcolin, & Newsted, 2003); marketing (J. F. Hair, Sarstedt, Ringle, & Mena, 2012); family business (Sarstedt, Ringle, Smith, Reams, & Hair, 2014); human resource (Becker, Klein, & Wetzels, 2012).

PLS-SEM is more robust in handling non-normal data because it has flexible assumptions about the normality of the distribution of variables (Jörg Henseler, Ringle, & Sinkovics, 2009). Moreover, PLS-SEM has the ability to assess latent variables and their relationship with the items (outer model) and test the relationship between the latent variables (inner model) (J. F. Hair et al., 2012; Jörg Henseler et al., 2009).

In particular, PLS-SEM estimates paths under conditions of normality with large sample sizes and is more likely to detect variances among groups than the covariance-based SEM approach (Marcoulides et al., 2009). However, some of the benefits of PLS-SEM, such as small sample size, abnormality of data and prediction ability are added advantages for PLS-SEM method rather than a condition (Sarstedt, Ringle, & Hair, 2014). Moreover, under non-normality conditions and smaller samples, the PLS-SEM method seems to be more preferable. But even in the moderately non-normal data, large sample size is needed even though the approach is less sensitive to sample and normal distribution (Marcoulides & Saunders, 2006). Furthermore, PLS-SEM addresses the problem of statistical power within

analysis in similar conditions of data than covariance based SEM (Haenlein & Kaplan, 2011; Reinartz, Haenlein, & Henseler, 2009).

This is in line with (Haenlein & Kaplan, 2004; J. F. Hair et al., 2012) that PLS-SEM is a more suitable for model with high number of exogenous latent variables explaining small number of endogenous latent variables. PLS-SEM has been demonstrated to be a superior model that performs estimations better than first generation and other co-variance based regressions models for assessing mediation and moderation. Specifically, based on the arguments for choosing a suitable technique to estimate structural equation models, PLS-SEM is adopted for this study due to the complexity of the research model.

Particularly, PLS-SEM, can be applied in marketing, strategic management and another social sciences research, as a multivariate analysis method. In addition, PLS-SEM has no restrictions in terms of the interaction technique used in moderation test compared to other covariance based techniques; therefore, it is a feasible alternative for testing moderation effect (Chin et al., 2003; V. E. Vinzi et al., 2010).

Finally, PLS-SEM allows for complex models that include chains of effects, such as mediation and other more complex relationships (Lowry & Gaskin, 2014). Therefore, this study used SmartPLS 3.0 (Ringle, C. M., Wende, S., & Becker, 2015) to determine the inner model (significance of the path coefficients, coefficient determination, the effect size and predictive relevance) and outer model (reliability, convergent validity and discriminant validity).

#### **4.5.2 Treatment of Missing Data**

In applied quantitative research, missing data is an issue of major concern to many researchers and has the capability of negatively affecting the results (Cavana et al., 2001).

In addition, the missing data is crucial because PLS-SEM will not run well if there are any missing values. In this study, 4 returned questionnaires (1.5%) had small numbers of missing values. In total, there were 11 missing values, ranging from 1 to 5 in each questionnaire.

The missing values were treated using SPSS by replacing them with mean substitution (Hair, Black, Babin, & Anderson, 2010). Hence, the 11 missing values were replaced with the mean of nearby values, which led to improved correlations (Appendix B-2).

#### **4.5.3 Removing Outliers**

Outliers are any observations that are numerically distant when compared to the rest of the dataset (Byrne, 2010). Many different methods exist for detecting outliers within a given research, among which includes classifying data points based on an observed (Mahalanobis) distance from the research expected values (Hair et al., 2010). Part of the constructive arguments in favour of outlier treatments based on Mahalanobis distance, because it adjusts for correlations and weights all variables equally, so the Mahalanobis distance measure is likely to be the most appropriate (Hair et al., 2010).

In this study, the table of chi-square statistics was used as the threshold value to determine the empirical optimal values. In this research, the value was set at 26.124 as it was related to the 8 measurement items (at level 0.001). Hair et al. (2010) suggested creating a new

variable in SPSS to be called “response” to denote the beginning to the end of all variables. The Mahalanobis distance can simply be achieved by running a simple linear regression through the selection of the newly created response number as the dependent variable and selecting all measurement items apart from the demographic variables as the independent variables. In this current study, A new output was called MAH\_1 for which a comparison was made between the chi-square as stipulated in the table and the new Mahalanobis output. Based on MAH\_1 output, 4 cases were identified as outliers because their MAH\_1 was greater than the threshold value (26.124) (i.e., 35.40, 38.58, 33.80 and 51.47), and were subsequently deleted from the dataset. Sequel to the treatment of these outliers, the final analysis of this study used the remaining 248 samples (Appendix B-3).

#### **4.5.4 Normality Test**

After an examination for outliers, the normal distribution of the data was assessed. The normal distribution is a key assumption for statistical analysis and structural equation model (Hair et al., 2010). PLS-SEM is a lenient model that makes no assumptions about the normality of the data distributions ( Hair, Hult, Ringle, & Sarstedt, 2017; Reinartz, Haenlein, & Henseler, 2009; Temme, Kreis, & Hildebrandt, 2011). Although PLS-SEM is a non-parametric statistical method and does not require data to be distributed normally, it is important to check if the data are not too far from being normal (Hair et al., 2017). That is because extremely non-normal data can be a problem in assessing the parameters and the standard errors may be inflated from bootstrapping.

According to Hair et al. (2010), normality refers to the shape of the distribution of data for an individual metric variable and its correspondence to the normal distribution of the benchmark for statistical methods. To check the normality, i.e., assessing possible deviation from normality and the shape of the distributions, this study skewness and kurtosis (Curran, West, & Finch, 1996; Hair et al., 2010; Kline, 2015; Tabachnick B & Fidell, 2013). However, Tabachnick and Fidell (2013) stated that deviation from normality via skewness and kurtosis often do not make a substantive difference in the analysis when the sample is more than 200. Nonetheless, these tests were run.

According to Curran et al. (1996), skewness values should be less than 2 and kurtosis values should be less than 7. Additionally, following a similar argument Kline (2015) stated that an absolute value of skewness greater than 3 and a kurtosis value greater than 10 may indicate a problem; and values above 20 may indicate a more serious problem.

Based on this recommendation, the absolute values of the skewness and kurtosis were found, and all the items in this study were within the acceptable range of  $< 2$  and  $< 7$ , respectively. The result indicated that the data set did not violate the normality assumption, indicating that all variables were approximately normally distributed (see Appendix B-4).

#### **4.5.5 Multicollinearity Test**

Testing of multicollinearity among independent variables is greatly recommended before testing the proposed model (Hair et al., 2010). Multicollinearity indicates the existence of a setback in correlation matrix when an independent variable is significantly correlated

with another independent variable. Additionally, based on the recommendation of Hair et al. (2010), an issue of multicollinearity arises when the correlation value is more than 0.90.

According to Hair et al. (2010), the tolerance value is the amount of variability of the chosen independent variable that is not explained by other independent variables whereas the variance influence factor (VIF) is the inverse of tolerance. The tolerance value and variance influence factor's (VIF) cut-off points are 0.10 and 10, respectively, indicating that VIF value should be closer to 1.00 to indicate little or no multicollinearity.

Further, when multicollinearity between variables is high, the standard error of the regression coefficient increases; so, the statistical significance of these coefficients becomes less reliable. Therefore, in this study, multicollinearity was tested by examining correlation matrix.

Table 4.14 highlights the collinearity statistics for all the independent variables in the study model. The correlations between the variables were below 0.90, denoting no problem of multicollinearity. Tolerance values ranged between 0.807 and 0.351 while VIF values ranged between 1.439 and 2.849. Thus, the results signified no violation of the multicollinearity assumption.

Table 4.14  
*Multicollinearity Test*

Model	Collinearity Statistics		
	Tolerance	VIF	
General Administration	.573	1.746	
Product/Operation	.351	2.849	
Marketing	.527	1.897	
Human Resources	.598	1.672	
Finance	.426	1.534	
Market Uncertainty	.807	1.439	
Technology Uncertainty	Business Environment	.520	1.823
Competitors Uncertainty		.578	1.732

*Note:* The dependent variable is Performance.

The correlation matrix of the independent variables was examined to find out if there is any indication of high correlations among the variables. According to Hair et al. (2010) and Pallant (2016), multicollinearity exists when the correlation between independent variables is 0.9 and higher. However, Pallant (2016) suggests a correlation value above 0.7 as the threshold for multicollinearity among independent variables. The results showed that none of the exogenous variables was highly correlated with any other exogenous variable. Table 4.15 shows that the correlation values were well below the threshold of 0.7 and higher. Therefore, no problem of high correlation existed among the variables.

Table 4.15  
*Correlations among the Exogenous Variables*

Variable	BS	DC_A d	DC_F	DC_H	DC_M	DC_P	Env_C	Env_M	Env_T	Perf
BS	1									
DC_Ad	0.051	<b>0.733</b>								
DC_F	0.139	0.571	<b>0.819</b>							
DC_H	0.075	0.708	0.64	<b>0.794</b>						
DC_M	0.138	0.657	0.604	0.683	<b>0.785</b>					
DC_P	0.097	0.75	0.635	0.716	0.698	<b>0.767</b>				
Env_C	0.093	-0.037	0.084	0.073	-0.001	0.01	<b>0.868</b>			
Env_M	-0.054	-0.023	-0.034	0.037	-0.017	-0.024	0.103	<b>0.859</b>		
Env_T	0.091	-0.006	-0.03	-0.001	0.01	-0.004	0.097	0.078	<b>0.833</b>	
Perf	-0.02	-0.261	-0.198	-0.226	-0.215	-0.262	0.159	0.076	0.032	<b>0.721</b>

*Note:* BS =Business Strategy, DC\_Ad =Distinctive Capabilities of administration, DC\_F = Distinctive Capabilities of finance, DC\_H = DC of human resources, DC\_M = DC of Marketing, DC\_P = DC of Production, Env\_C = Environment of Competitor, Env\_M = Environment of Marketing, Env\_T = Environment of technology, and DC =Distinctive Capabilities.

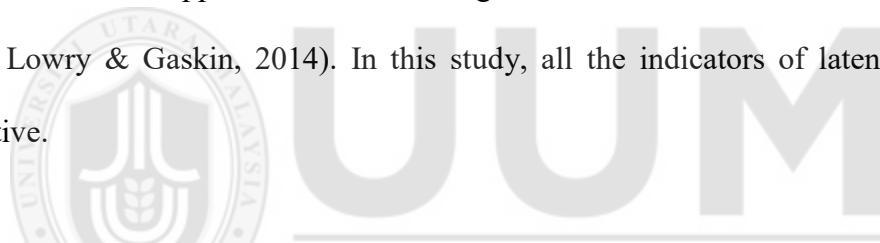
#### 4.6 Evaluation of PLS-SEM Result

In this section, the results of the factor analysis results are reported. As previously mentioned in Chapter Three, all the items were adapted from previous studies. This current study evaluated the reliability and validity of the construct measures. The outer model implies the unidimensionality of the study variables, in the meaning of factor analysis. Then, after confirming the reliability and validity of the constructed measure, the structural models were assessed and the relationships between the latent variables were examined.

After the checking and screening the data as described in the previous discussion, the next step was to assess the outer model and inner model (Hair, Ringle, & Sarstedt, 2013; Vinzi, Chin, Henseler, & Wang, 2010). PLS-SEM was used in this study to evaluate the outer

model (measurement model) and the inner model (structural model). In other words, PLS-SEM was used to analyse the direct and moderating results of this study. SmartPLS 3.0 by Ringle, Wende, and Becker (2015) was used to determine causal links among the constructs in these theoretical models.

Before conducting the PLS-SEM analysis, a model must be configured in a way that will be clearly understood. To do this, indicators should be clarified to establish which indicators are formative if any, and which are reflective. It is essential to note that model configuration is vital because the approach in testing reflective measurement model is quite different from the approach used in testing formative measurement model (Hair et al., 2013; Lowry & Gaskin, 2014). In this study, all the indicators of latent variables are reflective.



Specifically, the latent (unobserved) variables and the indicator (observed) variables are reflective rather than formative variables. Further, the analysis did not involve testing second-order structures that contain two layers of components. In other words, the study constructs in the inner model were treated as first order constructs. In terms of the sequence and relationship among the constructs, the study has eight exogenous latent variables that include two independent variables (DC and BS), and one moderating variable, business environment. The endogenous variable in this study is the dependent variable firm performance.

The original study model included 59 reflective measurement items (manifest variables or indicators) for nine variables (latent variables) including two independent variables, one dependent variable, and one moderator variable, which constitute 9 relationships between them based on the hypotheses proposed study (see Figure 4.1).



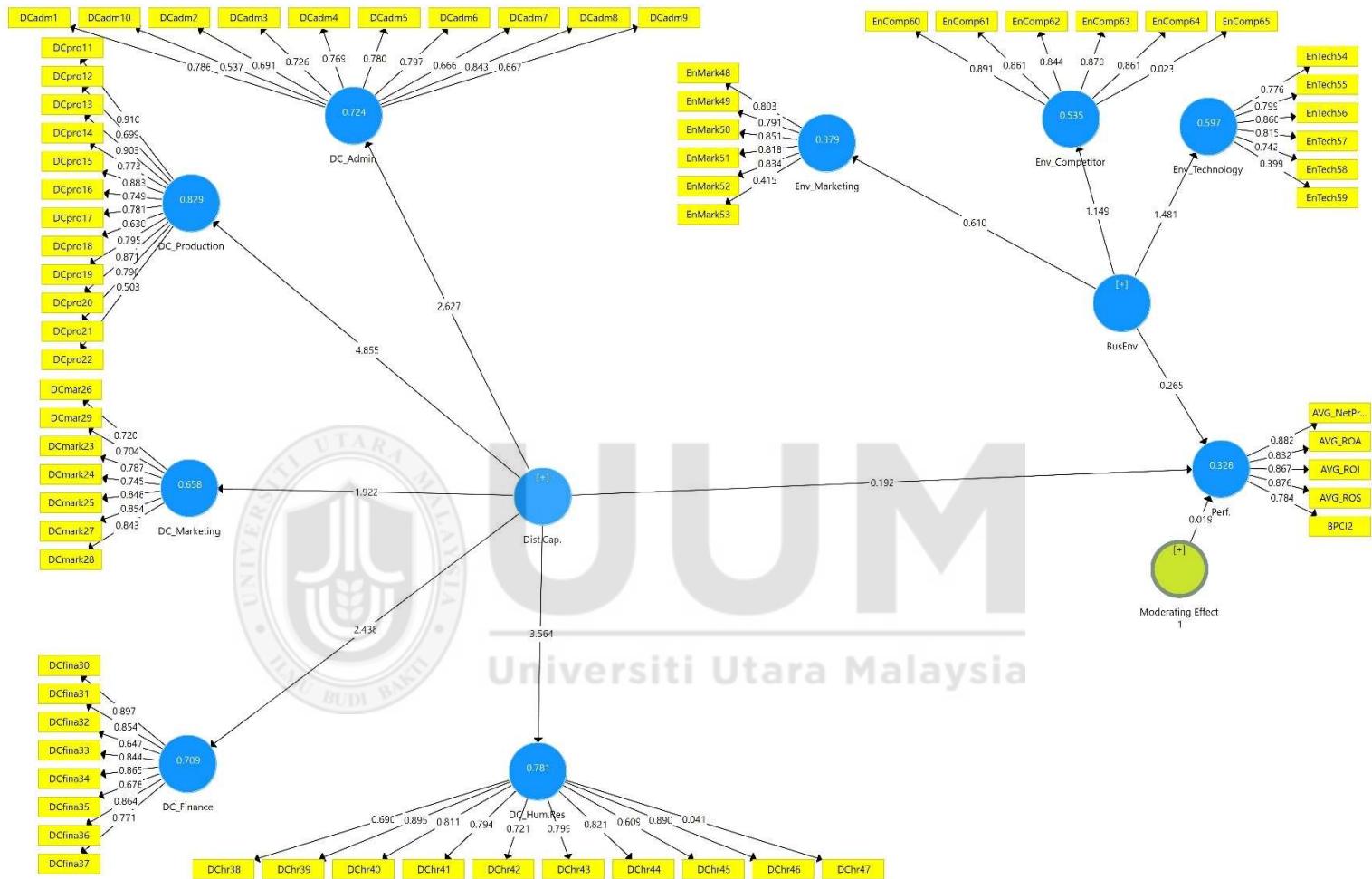


Figure 4.1  
Original study model.

#### **4.6.1 The Measurement Model**

The two key criteria used to evaluate the measurement models are validity and reliability.

Reliability is “tests how consistently a measuring instrument measures whatever concept it is measuring. Validity tests how well an instrument that is developed measures the particular concept it is intended to measure” (Sekaran, 2003, p. 203). Generally, in assessing the reflective measurement items, the researcher followed the guidelines that Hair et al. (2011) and Gotz, Lier-Gobbers, and Krafft (2010) suggested. First, construct validity, convergent and discriminant validity were assessed followed by the reliability analysis.

##### **4.6.1.1 Construct Validity**

Construct validity testifies to how well the results obtained from the use of the measure fit the theories around which the test is designed (Sekaran & Bougie, 2009). According to Ramayah, Lee, and In (2011), the instrument should tap the concept as theorized. This can be achieved by assessing convergent and discriminant validity by looking at the respective loadings and cross loadings. According to Hair et al. (2011), indicator loadings (factor loadings) should be higher than 0.70. Similarly, Valérie (2012, stated that:

researchers often apply the informal rule that the correlation coefficient (or loadings) must be greater than 0.70, which implies that the variance shared between the construct and its measure is greater than the error of the variance. Therefore, more than 50% of the variance in the observed variable is due to its construct. If the correlation is less than 0.70, results must be interpreted with care, as this low correlation may be due to a poorly formulated

item (low reliability), an inappropriate item (low content validity) or an inappropriate transfer of an item from one context to another (pp. 107-108).

While Hair et al. (2017) said that: “Generally, indicators with outer loadings between 0.40 and 0.70 should be considered for removal from the scale only when deleting the indicator leads to an increase in the composite reliability (or the average variance extracted)” (p. 137). Based on the above recommendations, this study used a cut-off value for factor loadings at 0.65 as being significant.

Accordingly, seven loadings were deleted because they were lower than 0.65. They were DCpro22 (0.50), DCadm10 (0.539), DCadm7 (0.647), DChr45 (0.611), EnTech59 (0.399), EnMark53 (0.415), and Encomp65 (0.023). They were clearly shown in Figure 4.1 and Table 4.16 before deletion. After deleting these items, all the remaining items that measured a particular construct loaded highly on that construct and loaded lower on the other constructs, thus confirming construct validity. Table 4.17 shows the result after deletion.

Table 4.16  
*Loadings and Cross Loadings (Before Deletion)*

	perf	DC_A dmin	DC_Finan ce	DC_H um.Re s	DC_M arketi ng	DC_P roduct ion	Env_C ompeti tor	Env_Marke ting	Env_Tec hnology
<b>AVG_NetPr ofit</b>	<b>0.886</b>	0.218	0.28	0.268	0.264	0.186	-0.171	-0.268	-0.176
<b>AVG_ROA</b>	<b>0.833</b>	0.12	0.209	0.178	0.184	0.145	-0.202	-0.409	-0.256
<b>AVG_ROI</b>	<b>0.868</b>	0.153	0.233	0.172	0.182	0.146	-0.244	-0.371	-0.298
<b>AVG_ROS</b>	<b>0.88</b>	0.22	0.281	0.269	0.265	0.185	-0.167	-0.27	-0.167
<b>BPCI2</b>	<b>0.777</b>	0.414	0.402	0.464	0.383	0.435	-0.376	-0.274	-0.228
<b>DCadm1</b>	0.225	<b>0.766</b>	0.51	0.531	0.538	0.589	0.039	0.017	0.063
<b>DCadm10</b>	0.137	<b>0.539</b>	0.442	0.527	0.484	0.603	-0.036	0.103	-0.016
<b>DCadm2</b>	0.169	<b>0.733</b>	0.28	0.352	0.291	0.346	-0.057	-0.017	-0.094
<b>DCadm3</b>	0.275	<b>0.761</b>	0.388	0.413	0.35	0.412	-0.134	-0.065	-0.127
<b>DCadm4</b>	0.202	<b>0.728</b>	0.51	0.579	0.54	0.615	0.057	0.037	0.089
<b>DCadm5</b>	0.206	<b>0.808</b>	0.362	0.435	0.376	0.412	-0.066	-0.017	-0.048
<b>DCadm6</b>	0.252	<b>0.721</b>	0.551	0.583	0.571	0.637	0.052	0.046	0.018
<b>DCadm7</b>	0.21	<b>0.659</b>	0.575	0.57	0.481	0.636	0.114	0.011	0.047
<b>DCadm8</b>	0.237	<b>0.843</b>	0.49	0.521	0.499	0.596	-0.071	0.003	-0.026
<b>DCadm9</b>	0.182	<b>0.709</b>	0.254	0.329	0.273	0.333	-0.064	0.007	-0.086
<b>DCfina30</b>	0.322	0.487	<b>0.889</b>	0.575	0.571	0.557	-0.073	0.014	-0.002
<b>DCfina31</b>	0.267	0.463	<b>0.843</b>	0.527	0.535	0.5	-0.077	0.089	0.005
<b>DCfina32</b>	0.167	0.331	<b>0.687</b>	0.382	0.281	0.372	-0.079	0.017	0.02
<b>DCfina33</b>	0.318	0.473	<b>0.783</b>	0.537	0.568	0.55	-0.048	0.027	0.001
<b>DCfina34</b>	0.339	0.41	<b>0.849</b>	0.542	0.53	0.467	-0.101	0	0.001
<b>DCfina35</b>	0.162	0.383	<b>0.715</b>	0.407	0.32	0.399	-0.058	0.049	0.005
<b>DCfina37</b>	0.324	0.697	<b>0.792</b>	0.357	0.29	0.349	-0.028	-0.049	0
<b>DChr38</b>	0.249	0.415	0.371	<b>0.693</b>	0.4	0.445	-0.105	-0.031	-0.032
<b>DChr39</b>	0.283	0.533	0.639	<b>0.894</b>	0.535	0.622	-0.073	-0.018	0.004
<b>DChr40</b>	0.355	0.63	0.724	<b>0.811</b>	0.637	0.725	-0.044	-0.074	-0.002
<b>DChr41</b>	0.204	0.485	0.557	<b>0.792</b>	0.463	0.551	-0.075	0.021	0.009

Table 4.16 (continued)

	perf	DC_A dmin	DC_ Finan ce	DC_H um.Re s	DC_M arketi ng	DC_P roduct ion	Env_C ompeti tor	Env_ Marke ting	Env_ Tec hnology
<b>DChr42</b>	0.196	0.474	0.4	<b>0.723</b>	0.42	0.486	-0.066	-0.006	0.011
<b>DChr43</b>	0.284	0.61	0.71	<b>0.798</b>	0.645	0.69	-0.032	-0.013	-0.026
<b>DChr44</b>	0.315	0.568	0.556	<b>0.822</b>	0.52	0.552	-0.1	-0.01	-0.006
<b>DChr45</b>	0.186	0.299	0.329	<b>0.611</b>	0.266	0.376	-0.144	-0.036	-0.042
<b>DChr46</b>	0.271	0.611	0.665	<b>0.888</b>	0.556	0.652	-0.07	-0.04	-0.023
<b>DChr47</b>	0.266	-0.057	0.004	<b>0.039</b>	0.018	0.026	-0.076	-0.753	-0.072
<b>DCmar26</b>	0.256	0.297	0.359	0.266	<b>0.73</b>	0.284	-0.051	-0.047	-0.111
<b>DCmar29</b>	0.262	0.294	0.347	0.256	<b>0.714</b>	0.289	-0.031	-0.043	-0.108
<b>DCmark23</b>	0.244	0.618	0.576	0.65	<b>0.781</b>	0.647	-0.036	0.02	0.056
<b>DCmark24</b>	0.236	0.6	0.581	0.616	<b>0.738</b>	0.601	-0.071	0.072	-0.008
<b>DCmark25</b>	0.284	0.48	0.529	0.569	<b>0.849</b>	0.514	-0.024	0	-0.018
<b>DCmark27</b>	0.258	0.393	0.495	0.454	<b>0.858</b>	0.472	-0.007	-0.003	-0.048
<b>DCmark28</b>	0.211	0.528	0.58	0.579	<b>0.839</b>	0.585	0.09	0.04	0.054
<b>DCpro11</b>	0.302	0.775	0.749	0.802	0.691	<b>0.914</b>	-0.006	-0.007	-0.013
<b>DCpro12</b>	0.185	0.399	0.37	0.397	0.349	<b>0.726</b>	-0.043	-0.091	-0.036
<b>DCpro13</b>	0.266	0.716	0.65	0.716	0.655	<b>0.919</b>	0.002	0.025	-0.032
<b>DCpro14</b>	0.214	0.523	0.548	0.59	0.493	<b>0.745</b>	0.043	0.074	0.054
<b>DCpro15</b>	0.256	0.675	0.666	0.69	0.633	<b>0.851</b>	0.003	0.055	0.018
<b>DCpro16</b>	0.192	0.566	0.558	0.601	0.498	<b>0.761</b>	0.001	-0.056	0.047
<b>DCpro17</b>	0.205	0.472	0.431	0.459	0.399	<b>0.808</b>	-0.008	-0.078	-0.003
<b>DCpro18</b>	0.169	0.486	0.405	0.486	0.391	<b>0.539</b>	-0.017	0.127	0.015
<b>DCpro19</b>	0.175	0.557	0.572	0.623	0.572	<b>0.721</b>	-0.039	0.071	-0.032
<b>DCpro20</b>	0.226	0.589	0.573	0.599	0.548	<b>0.895</b>	0.022	-0.044	-0.02
<b>DCpro21</b>	0.163	0.505	0.433	0.502	0.427	<b>0.828</b>	0.004	-0.064	-0.006
<b>DCpro22</b>	0.21	0.396	0.325	0.397	0.299	<b>0.501</b>	-0.005	-0.05	0.074
<b>EnComp60</b>	-0.27	-0.033	-0.08	-0.11	-0.059	-0.036	<b>0.891</b>	0.11	0.268
<b>EnComp61</b>	-0.22	-0.007	-0.05	-0.047	0.021	0.049	<b>0.861</b>	0.067	0.271

Table 4.16 (continued)

	perf	DC_A dmin	DC_Finan ce	DC_H um.Re s	DC_M arketi ng	DC_P roduct ion	Env_C ompeti tor	Env_Marke ting	Env_Tec hnology
<b>EnComp62</b>	-0.20	-0.023	-0.06	-0.056	0.03	0.044	<b>0.844</b>	0.071	0.258
<b>EnComp63</b>	-0.27	-0.047	-0.11	-0.132	-0.086	-0.037	<b>0.87</b>	0.118	0.24
<b>EnComp64</b>	-0.27	0.004	-0.04	-0.054	0.008	-0.003	<b>0.861</b>	0.138	0.399
<b>EnComp65</b>	-0.02	0.001	0.004	-0.043	-0.029	0.011	<b>0.023</b>	0.035	0.141
<b>EnMark48</b>	-0.23	0.033	0.008	-0.009	0.026	-0.012	0.033	<b>0.803</b>	0.069
<b>EnMark49</b>	-0.26	-0.027	-0.01	-0.082	0.01	-0.029	0.08	<b>0.791</b>	0.121
<b>EnMark50</b>	-0.29	-0.003	0.014	-0.037	0.009	-0.034	0.097	<b>0.851</b>	0.061
<b>EnMark51</b>	-0.35	0.002	0.007	0	-0.027	-0.025	0.128	<b>0.818</b>	0.08
<b>EnMark52</b>	-0.29	0.003	0.014	-0.045	0.026	-0.029	0.078	<b>0.834</b>	0.044
<b>EnMark53</b>	-0.21	0.049	0.037	0.023	0.021	0.023	0.097	<b>0.415</b>	0.741
<b>EnTech54</b>	-0.19	0.009	0.044	-0.006	0.005	0.018	0.09	0.248	<b>0.777</b>
<b>EnTech55</b>	-0.18	-0.011	0.026	0.011	-0.037	0.028	0.073	0.178	<b>0.799</b>
<b>EnTech56</b>	-0.13	-0.055	-0.02	-0.035	-0.077	-0.02	0.083	0.21	<b>0.86</b>
<b>EnTech57</b>	-0.15	-0.063	0.008	0.006	-0.035	0.025	0.056	0.184	<b>0.816</b>
<b>EnTech58</b>	-0.18	0.026	0.009	0.004	-0.007	-0.027	0.085	0.319	<b>0.742</b>
<b>EnTech59</b>	-0.27	0.009	-0.03	-0.029	0.047	0.008	0.85	0.154	<b>0.399</b>

Table 4.17  
*Loadings and Cross Loadings (After Deletion)*

	perf	DC_A dmin	DC_F inanc e	DC_H um.Re s	DC_M arketi ng	DC_Pr oducti on	Env_C omptit or	Env_M ark eting	Env_Te chnolog y
<b>AVG_NetProft</b>	<b>0.886</b>	0.208	0.28	0.27	0.264	0.18	-0.17	-0.247	-0.135
<b>AVG_ROA</b>	<b>0.833</b>	0.117	0.209	0.181	0.184	0.141	-0.203	-0.376	-0.206
<b>AVG_ROI</b>	<b>0.866</b>	0.156	0.234	0.175	0.183	0.143	-0.242	-0.319	-0.246
<b>AVG_ROS</b>	<b>0.88</b>	0.209	0.281	0.271	0.265	0.179	-0.166	-0.25	-0.129
<b>BPCI2</b>	<b>0.778</b>	0.396	0.402	0.461	0.383	0.426	-0.377	-0.25	-0.136
<b>DCadm1</b>	0.225	<b>0.753</b>	0.51	0.545	0.538	0.581	0.038	0.001	0.038
<b>DCadm2</b>	0.17	<b>0.796</b>	0.28	0.357	0.29	0.349	-0.059	-0.028	-0.074
<b>DCadm3</b>	0.276	<b>0.803</b>	0.388	0.412	0.35	0.411	-0.133	-0.053	-0.095
<b>DCadm4</b>	0.203	<b>0.698</b>	0.51	0.588	0.539	0.612	0.058	0.007	0.052
<b>DCadm5</b>	0.207	<b>0.854</b>	0.362	0.437	0.375	0.407	-0.068	-0.033	-0.042
<b>DCadm6</b>	0.252	<b>0.721</b>	0.551	0.583	0.571	0.637	0.052	0.046	0.018
<b>DCadm8</b>	0.238	<b>0.862</b>	0.49	0.53	0.498	0.59	-0.072	-0.002	-0.011
<b>DCadm9</b>	0.182	<b>0.771</b>	0.254	0.333	0.273	0.334	-0.066	-0.002	-0.066
<b>DCfina30</b>	0.323	0.436	<b>0.89</b>	0.584	0.571	0.557	-0.075	0.011	0.01
<b>DCfina31</b>	0.268	0.398	<b>0.844</b>	0.532	0.535	0.502	-0.079	0.082	0.016
<b>DCfina32</b>	0.168	0.266	<b>0.686</b>	0.388	0.281	0.372	-0.079	-0.005	0.031
<b>DCfina33</b>	0.319	0.435	<b>0.784</b>	0.546	0.567	0.549	-0.049	0.025	0.011
<b>DCfina34</b>	0.34	0.369	<b>0.85</b>	0.548	0.53	0.467	-0.101	-0.001	0.016
<b>DCfina35</b>	0.163	0.317	<b>0.714</b>	0.412	0.32	0.398	-0.057	0.031	0.01
<b>DCfina37</b>	0.325	0.614	<b>0.792</b>	0.357	0.29	0.349	-0.028	-0.056	-0.001
<b>DChr38</b>	0.25	0.38	0.371	<b>0.655</b>	0.4	0.444	-0.104	-0.036	-0.039
<b>DChr39</b>	0.284	0.455	0.639	<b>0.907</b>	0.534	0.616	-0.073	-0.028	0.017
<b>DChr40</b>	0.356	0.55	0.724	<b>0.827</b>	0.636	0.721	-0.045	-0.083	0.012
<b>DChr41</b>	0.205	0.407	0.557	<b>0.801</b>	0.462	0.549	-0.075	0.003	0.034
<b>DChr42</b>	0.197	0.422	0.4	<b>0.685</b>	0.419	0.484	-0.065	-0.02	-0.002
<b>DChr43</b>	0.285	0.549	0.71	<b>0.807</b>	0.644	0.683	-0.031	-0.007	-0.041

Table 4.17 (Continued)

	perf	DC_Ad min	DC_F inance	DC_H um.Res	DC_M arketin g	DC_Produc tio n	Env_C omptit or	Env_M ark eting	Env_Techn ology
<b>DChr44</b>	0.316	0.523	0.556	<b>0.838</b>	0.519	0.543	-0.1	-0.028	0.014
<b>DChr46</b>	0.272	0.533	0.665	<b>0.9</b>	0.555	0.648	-0.068	-0.044	-0.018
<b>DCmar26</b>	0.256	0.269	0.36	0.272	<b>0.732</b>	0.291	-0.053	-0.034	-0.118
<b>DCmar29</b>	0.263	0.262	0.347	0.263	<b>0.716</b>	0.291	-0.034	-0.025	-0.123
<b>DCmark23</b>	0.245	0.553	0.576	0.657	<b>0.779</b>	0.643	-0.036	0.001	0.049
<b>DCmark24</b>	0.237	0.541	0.581	0.628	<b>0.736</b>	0.597	-0.071	0.062	-0.008
<b>DCmark25</b>	0.285	0.432	0.529	0.576	<b>0.85</b>	0.513	-0.024	-0.002	-0.031
<b>DCmark27</b>	0.259	0.351	0.496	0.464	<b>0.859</b>	0.472	-0.008	-0.007	-0.067
<b>DCmark28</b>	0.212	0.457	0.58	0.588	<b>0.839</b>	0.589	0.094	0.029	0.016
<b>DCpro11</b>	0.303	0.693	0.748	0.808	0.69	<b>0.911</b>	-0.006	-0.009	-0.025
<b>DCpro12</b>	0.185	0.337	0.37	0.401	0.349	<b>0.74</b>	-0.043	-0.077	-0.009
<b>DCpro13</b>	0.267	0.637	0.65	0.719	0.654	<b>0.919</b>	0	0.02	-0.039
<b>DCpro14</b>	0.215	0.418	0.548	0.588	0.492	<b>0.743</b>	0.039	0.052	0.047
<b>DCpro15</b>	0.257	0.566	0.666	0.694	0.632	<b>0.848</b>	0.001	0.034	0.013
<b>DCpro16</b>	0.193	0.508	0.557	0.602	0.497	<b>0.762</b>	-0.002	-0.073	0.039
<b>DCpro17</b>	0.206	0.4	0.431	0.465	0.398	<b>0.817</b>	-0.007	-0.075	0.008
<b>DCpro18</b>	0.17	0.35	0.404	0.49	0.391	<b>0.528</b>	-0.015	0.127	0.013
<b>DCpro19</b>	0.176	0.426	0.571	0.628	0.572	<b>0.718</b>	-0.039	0.074	-0.025
<b>DCpro20</b>	0.227	0.515	0.573	0.606	0.547	<b>0.9</b>	0.022	-0.042	-0.027
<b>DCpro21</b>	0.164	0.435	0.433	0.508	0.426	<b>0.836</b>	0.005	-0.063	0
<b>EnComp60</b>	-0.275	-0.049	-0.087	-0.106	-0.059	-0.037	<b>0.893</b>	0.113	0.034
<b>EnComp61</b>	-0.224	-0.032	-0.051	-0.035	0.021	0.052	<b>0.859</b>	0.033	0.098
<b>EnComp62</b>	-0.202	-0.046	-0.062	-0.047	0.031	0.047	<b>0.842</b>	0.038	0.092
<b>EnComp63</b>	-0.279	-0.058	-0.113	-0.12	-0.086	-0.038	<b>0.874</b>	0.118	0.023
<b>EnComp64</b>	-0.272	-0.022	-0.049	-0.051	0.008	-0.006	<b>0.862</b>	0.119	0.126

Table 4.17(Continued)

	perf	DC_Ad min	DC_Fi nance	DC_Hu m.Res	DC_M arketin g	DC_Pr oductio n	Env_C omptito r	Env_Mar keting	Env_Techn ology
<b>EnMark48</b>	-0.237	0.025	0.008	-0.01	0.026	-0.01	0.035	<b>0.841</b>	0.057
<b>EnMark49</b>	-0.268	-0.033	-0.011	-0.08	0.01	-0.029	0.081	<b>0.797</b>	0.084
<b>EnMark50</b>	-0.297	-0.017	0.014	-0.033	0.009	-0.029	0.098	<b>0.893</b>	0.023
<b>EnMark51</b>	-0.35	-0.029	0.006	-0.003	-0.028	-0.017	0.128	<b>0.862</b>	0.033
<b>EnMark52</b>	-0.295	-0.018	0.014	-0.043	0.026	-0.022	0.078	<b>0.889</b>	0.017
<b>EnTech54</b>	-0.198	0.016	0.044	-0.002	0.004	0.008	0.083	0.021	<b>0.795</b>
<b>EnTech55</b>	-0.18	-0.011	0.026	0.012	-0.038	0.024	0.068	0.046	<b>0.85</b>
<b>EnTech56</b>	-0.136	-0.06	-0.022	-0.036	-0.078	-0.024	0.078	0.037	<b>0.904</b>
<b>EnTech57</b>	-0.15	-0.077	0.008	0.009	-0.036	0.019	0.053	0.043	<b>0.867</b>
<b>EnTech58</b>	-0.179	0.023	0.009	0.005	-0.007	-0.031	0.078	0.059	<b>0.766</b>

#### 4.6.1.2 Convergent Validity

Convergent validity is described as the level to which many items measuring the same concept are in agreement (Ramayah et al., 2011). In light of classical test theory, convergent validity has its basis on the correlation between responses taken through various methods of measuring a particular construct (Peter, 1981). Hair et al. (2010) suggested that researchers utilize factor loadings, composite reliability (CR) and average variance extracted (AVE) to assess convergence validity.

All the items loadings should be more than the recommended value of 0.70 (Hair et al., 2011; Valérie, 2012). In addition, composite reliability values reflect the level to which the construct indicators reveal the latent variable, and they should be greater than 0.70, as recommended by prior researchers (Hair et al., 2011; Valérie, 2012). In this study, all the

composite reliability values ranged from 0.913 to 0.953, as shown in Table 4.18, indicating good convergent validity.

On a final note, the average variance extracted (AVE) measures the variance encapsulated by the indicators relative to measurement error, and this should be higher than 0.50 to justify the use of the construct ( Hair *et al.*, 2011; Valérie, 2012). In this study, the AVEs ranged from 0.623 to 0.759, which were all within the recommended range (see Table 4.8). Therefore, the entire latent variables satisfied the threshold value and were considered to have met the standard recommended for convergent validity.

**Table 4.18**  
*Results of Measurement Model*

<b>Model Construct</b>	<b>Measurement Item</b>	<b>Loading</b>	<b>Composite Reliability (CR)</b>	<b>Average Variance Extracted (AVE)</b>
Business Strategy	BS	1	1	1
	DCadm1	0.753		
	DCadm2	0.796		
	DCadm3	0.803		
DC_Admin	DCadm4	0.698	0.922	0.634
	DCadm5	0.854		
	DCadm8	0.862		
	DCadm9	0.771		
	DCfina30	0.89		
	DCfina31	0.844		
	DCfina32	0.686		
DC_Finance	DCfina33	0.784	0.913	0.637
	DCfina34	0.85		
	DCfina35	0.714		
	DCfina37	0.792		

Table 4.18 (continued)

Model Construct	Measurement Item	Loading	Composite Reliability (CR)	Average Variance Extracted (AVE)
DC_Hum.Res	DChr38	0.655		
	DChr39	0.907		
	DChr40	0.827		
	DChr41	0.801	0.937	0.759
	DChr42	0.685		
	DChr43	0.807		
DC_Marketing	DChr44	0.838		
	DChr46	0.9		
	DCmar26	0.732		
	DCmar29	0.716		
	DCmark23	0.779		
	DCmark24	0.736	0.92	0.623
DC_Production	DCmark25	0.85		
	DCmark27	0.859		
	DCmark28	0.839		
	DCpro11	0.911		
	DCpro12	0.74		
	DCpro13	0.919		
	DCpro14	0.743		
	DCpro15	0.848		
	DCpro16	0.762	0.953	0.696
	DCpro17	0.817		
	DCpro18	0.528		
	DCpro19	0.718		
	DCpro20	0.9		
	DCpro21	0.836		

Table 4.18 (continued)

Model Construct	Measurement Item	Loading	Composite Reliability (CR)	Average Variance Extracted (AVE)
Env_Compетitor	EnComp60	0.893		
	EnComp61	0.859		
	EnComp62	0.842	0.938	0.753
	EnComp63	0.874		
	EnComp64	0.862		
	EnMark48	0.841		
Env_Marketing	EnMark49	0.797		
	EnMark50	0.893	0.933	0.735
	EnMark51	0.862		
	EnMark52	0.889		
	EnTech54	0.795		
Env_Technology	EnTech55	0.85		
	EnTech56	0.904	0.922	0.700
	EnTech57	0.867		
	EnTech58	0.766		
	AVG_NetProfit	0.886		
Performance	AVG_ROA	0.833		
	AVG_ROI	0.866	0.929	0.729
	AVG_ROS	0.888		
	BPCI	0.778		

#### 4.6.1.3 Discriminant Validity

Discriminant validity measures the degree to which items differentiate among constructs or measure distinct concepts. Hair et al. (2011) stated that discriminant validity stipulates that each latent construct of the AVE should be higher than the construct's highest squared

correlation with other latent constructs (Fornell & Larcker, 1981) criterion and the indicators loadings should be greater than all its cross loadings.

In the present study, discriminant validity of the measures was assessed through the Fornell and Larcker (1981) criterion. Similar with correlation matrix shown in Table 4.19, the diagonal elements are the average variance square root extracted from the latent constructs. Discriminant validity exists if the diagonal elements are greater than other off-diagonal elements in the rows and columns. This was the case in the correlation matrix, and hence, confirmed discriminant validity.

Table 4.19  
*Correlations among Constructs and Discriminant Validity*

	DC_Ad in	DC_Fin ance	DC_Hu m.Res	DC_Ma rk	DC_Pro du	Env_Co mp	Env_M ark	Env_Te ch	perf
<b>DC_Ad min</b>	<b>0.792</b>								
<b>DC_Fin ance</b>	0.53	<b>0.799</b>							
<b>DC_Hu m.Res</b>	0.6	0.734	<b>0.807</b>						
<b>DC_Mar keting</b>	0.546	0.65	0.661	<b>0.788</b>					
<b>DC_Pro duction</b>	0.62	0.683	0.737	0.646	<b>0.833</b>				
<b>Env_Co mpetitor</b>	-0.046	-0.083	-0.083	-0.02	0.003	<b>0.866</b>			
<b>Env_Ma rketing</b>	-0.017	0.007	-0.039	0.01	-0.025	0.098	<b>0.857</b>		
<b>Env_Te chnology</b>	-0.026	0.015	-0.003	-0.035	-0.001	0.086	0.049	<b>0.838</b>	
<b>Perf.</b>	0.275	0.344	0.339	0.314	0.275	-0.291	-0.34	-0.201	<b>0.849</b>

#### 4.6.1.4 Reliability Analysis

Cronbach's alpha was utilized along with composite reliability values to examine the inter-item consistency of the measurement items. The values of Cronbach's alpha and composite reliability (CR) values should be higher than 0.70 (Hair et al., 2011; Valérie, 2012). Table 4.20 presents the values of Cronbach's alpha and the CR of all constructs. All exceeded the recommended value of 0.70. Hence, construct reliability was confirmed.

Table 4.20  
*Cronbach's Alpha and Composite Reliabilities of Constructs*

	Number of items	Cronbach's alpha	Composite Reliabilities
Business Strategy	1	1	1
DC_Admin	8	0.902	0.922
DC_Finance	7	0.888	0.913
DC_Hum.Res	8	0.922	0.937
DC_Marketing	7	0.900	0.919
DC_Production	9	0.944	0.953
Env_Competitor	5	0.917	0.938
Env_Marketing	5	0.909	0.933
Env_Technology	5	0.893	0.922
Performance	5	0.905	0.928

#### 4.6.2 Structural Model

After analysing the measurement model, the next step in the PLS Analysis was to evaluate the structural model, i.e., by analysing the inner model. To do this, the researcher depended on requirements mentioned by Chin (2010, p. 656); Hair et al. (2013, p.7), Hair et al. (2011, p. 145), and Valérie (2012, p. 109) by considering the  $R^2$  values, the effect size ( $f^2$ ), the

predictive relevance of the model, and the goodness of fit (GoF). The level and significance of the path coefficients and bootstrapping were employed to test the study's hypotheses.

#### **4.6.2.1 R Square ( $R^2$ )**

In the evaluation of the structural model by PLS-SEM, Hair et al. (2011) stated that:

The primary evaluation criteria for PLS-SEM results are the coefficients of determination ( $R^2$  values) as well as the size and significance of the path coefficients. The  $f^2$  effect sizes, predictive relevance ( $Q^2$ ), and the  $q^2$  effect sizes give additional insights about the quality of the PLS path model estimations variance, the key target constructs a level of  $R^2$  should be high. The judgment of what  $R^2$  level is high depends, however, on the specific research discipline. Whereas  $R^2$  results of 0.20 are considered high in disciplines such as consumer behavior,  $R^2$  values of 0.75 would be perceived as high in success driver studies. In marketing research studies,  $R^2$  values of 0.75, 0.50, or 0.25 for endogenous latent variables in the structural model can, as a rule of thumb, be described as substantial, moderate, or weak, respectively (p. 147).

Accordingly, the quality of the structural model can be assessed by  $R^2$  value, which shows the variance in the endogenous variable that the exogenous variables explain. Based on the results reported in Figure 4.2, the following can be shown.

1. First, the  $R^2$  was 0.239, indicating business environment can account for 23.9% of the variance in the environment technology, which is in the weak range.
2. Second, the  $R^2$  value of environment competitors was 0.490, suggesting that the business environment can explain 49.0% of the variance in the extent of environment competitors. Because the  $R^2$  value was very close to 50%, it was in the moderate range.
3. Third, the  $R^2$  value of environment marketing was 0.426, suggesting that 42.6% of the variance in the extent of environment marketing can be explained by business environment.
4. Fourth, the  $R^2$  value of distinctive capabilities of administration was 0.628, suggesting that 62.8% of the variance in the extent of distinctive capabilities of administration can be explained by distinctive capabilities.
5. Fifth, the  $R^2$  value of distinctive capabilities of production was 0.801, suggesting that 80.1% of the variance in extent of distinctive capabilities of production can be explained by distinctive capabilities. Because the  $R^2$  value was more than 83%, it was in the high range.
6. Sixth, the  $R^2$  value of distinctive capabilities of marketing was 0.662, suggesting that 66.2% of the variance in extent of distinctive capabilities of marketing can be explained by distinctive capabilities.
7. Seventh, the  $R^2$  value of distinctive capabilities of finance was 0.706, suggesting that 70.6% of the variance in extent of distinctive capabilities of finance can be explained by distinctive capabilities.

8. Eighth, the  $R^2$  value of distinctive capabilities of human resources was 0.792, suggesting that 79.2% of the variance in extent of distinctive capabilities of human resources can be explained by distinctive capabilities.

9. Finally, the  $R^2$  of performance was 0.352, indicating that business strategy, distinctive capabilities, business environment can account for 35.2% of the variance in the performance, which was in the moderate range.

Table 4.21 below show the outputs of  $R^2$  through SmartPLS 3.0

**Table 4.21**  
 *$R^2$  values for endogenous variables*

<b>Variable</b>	<b><math>R^2</math> value</b>
Business Environment	23.9%
Environment Competitors	49.0%
Environment Marketing	42.6%
Distinctive Capabilities of Administration	62.8%
Distinctive Capabilities of Production	80.1%
Distinctive Capabilities of Marketing	66.2%
Distinctive Capabilities of Finance	70.6%
Distinctive Capabilities of Human Resources	79.2%
Performance	35.2%

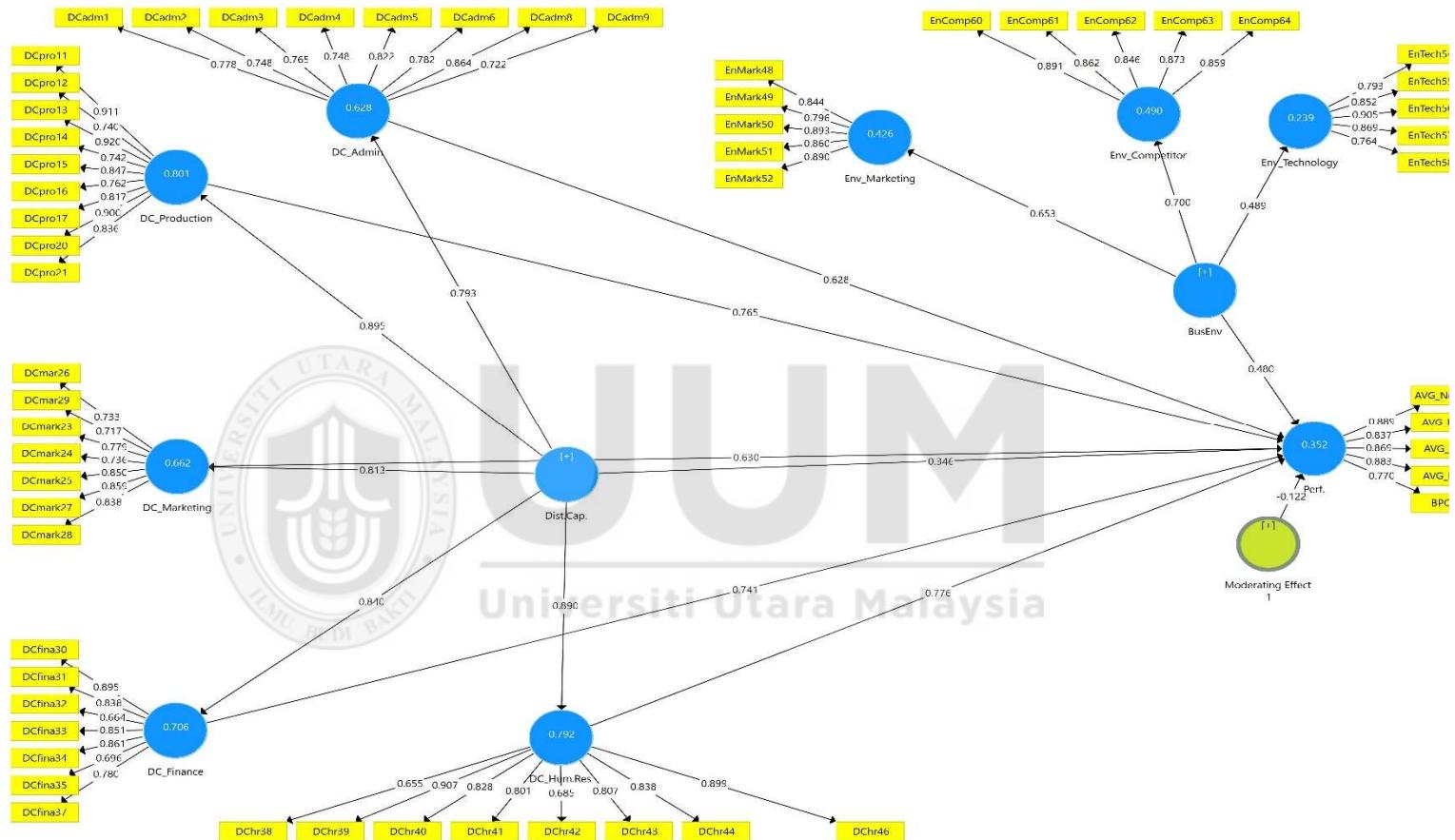


Figure 4.2  
Items loadings, path coefficient and  $R^2$  values.

#### 4.6.2.2 Effect Size ( $f^2$ )

It is also good to determine the effect sizes of specific latent variables' impact upon the dependent variables with the help of  $f^2$  analysis, which is complementary to  $R^2$  (Chin, 2010). The  $f^2$  effect size was calculated as it is not automatically provided in PLS. The size was manually calculated with the help of the formula;  $f^2 = (R^2 \text{ included} - R^2 \text{ excluded}) / (1 - R^2 \text{ included})$  represented by:

$$\text{Effect size : } f^2 = \frac{R^2_{incl} - R^2_{excl}}{1 - R^2_{incl}}$$

The  $f^2$  values of 0.02, 0.15 and 0.35 were used to interpret small, medium and large effect sizes of the predictive variables respectively as Cohen (1988) recommended. Based on the proposed model of the study, the effect sizes of specific latent variables and the moderators role can be evaluated by the same formula proposed by Cohen (1988). Various researchers have made use of such assessments in PLS analysis (Landau & Bock, 2013; Lew & Sinkovics, 2013).

As for the moderator model, the moderating impact can be assessed by comparing the proportion of variance explained (expressed by  $R^2$  of the main effect model [the model without moderating effect]) along with the  $R^2$  of the full model (the model with moderating effect). This premise was made on the basis of the effect size. According to Cohen (1988, p. 412, as cited in Henseler & Fassott, 2010, p.732), the effect size  $f^2$  is calculated using the formula provided below. Hair et al. (2013), and Henseler and Fassott (2010) recommended that the main effects be changed into simple/single effects when analysing the moderator model.

$$f^2 = \frac{R^2 \text{ model with moderator} - R^2 \text{ model without moderator}}{1 - R^2 \text{ model with moderator}}$$

Table 4.22 shows a large effect size for Business Environment ( $f^2 = 0.329$ ), and a medium effect size for Distinctive Capabilities ( $f^2 = 0.167$ ) on performance. While Administration, Finance, Human Resource and Marketing had a very small effect size on performance ( $f^2 = 0.002, 0.007, 0.002, 0.002$  respectively). Meanwhile, production had no effects (0.00).

Table 4. 22  
*Effect Sizes of Latent Variables*

Variables	F <sup>2</sup>	Effect size rating
Business Environment	0.329	Large Effect size
Distinctive Capabilities	0.167	Medium Effect size
Administration	0.002	very Small Effect size
Finance	0.007	very Small Effect size
Human Resource	0.002	very Small Effect size
Marketing	0.002	very Small Effect size
Production	0	No Effect size

#### 4.6.2.3 Predictive Relevance of the Model (Q<sup>2</sup>)

In addition to assessing the quality of the structural model by considering the R<sup>2</sup> values and effect sizes, quality can also be assessed by using a blindfolding procedure to generate the cross-validate communality and cross-validated redundancy. Based on the recommendation of Hair et al. (2011), cross-validated redundancy was assessed by the PLS-SEM estimates of both the structural model and the measurement models to predict

data, which perfectly fits the PLS-SEM approach. If an endogenous construct's cross-validated redundancy measure value (i.e.,  $Q^2$ ) for a certain endogenous latent variable is larger than zero, its explanatory latent constructs exhibit predictive relevance.

The  $Q^2$  is a criterion to evaluate how well the model predicts the data of omitted cases which is referred to as predictive relevance (J. Hair et al., 2013). According to Valérie (2012, p. 109), the Stone-Geisser test is calculated by the following formula:

$$Q^2 = 1 - \text{SSE}/\text{SSO}$$

To use blindfolding to obtain  $Q^2$ , Hair et al. (2011) recommended that the number of cases in the data must not be a multiple integer number of the omission distance "otherwise the blindfolding procedure yields erroneous results", and they suggested choosing a value of  $d$  between 5 and 10. Therefore, this study used 9 as a value for  $d$  to obtain cross-validated redundancy measures for each dependent variable.

As suggested Hair et al. (2011) suggested, the model will have predictive quality if the cross-redundancy value is more than zero; otherwise the predictive relevance of the model cannot be concluded. Table 4.23 shows that the obtained cross validated redundancy values for commitment, economic and social satisfaction were found 0.471, 0.438, 0.573, 0.38, 0.534, 0.342, 0.277, 0.179 and 0.228, respectively. These results support the claim that the model has an adequate prediction quality.

Table 4.23  
*Prediction Relevance of the Model*

<b>Total</b>	<b>SSO</b>	<b>SSE</b>	<b>1-SSE/SSO</b>
DC_Admin	1,488.00	787.633	0.471
DC_Finance	1,488.00	835.665	0.438
DC_Hum.Res	1,736.00	740.87	0.573
DC_Marketing	1,736.00	1,075.80	0.38
DC_Production	2,232.00	1,041.16	0.534
Env_Competitor	1,488.00	979.308	0.342
Env_Marketing	1,488.00	1,075.42	0.277
Env_Technology	1,488.00	1,221.63	0.179
Perf	1,240.00	956.771	0.228

#### 4.6.2.4 Goodness of Fit (GoF) of the Model

PLS Structural Equation Modeling possesses a single measure of GoF, defined by Tenenhaus, Vinzi, Chatelin, & Lauro (2005, p. 176) as the global fit measure, that is, a geometric mean of the average variance extracted and the endogenous variables average  $R^2$ . It is calculated with the help of the formula below:

$$GoF = \sqrt{(\text{Avg}(R^2) \times \text{Avg}(AVE))}$$

Based on the result obtained, the GoF value of 0.123 was compared with the baseline values as recommended by Watzels, Odekerken-Schoder, & Oppen (2009), (small = 0.1, medium = 0.25, and large = 0.36). The result indicated that the model's goodness of fit measure was medium than the adequate validity of the global PLS model.

## **4.7 Hypotheses Testing**

The final step was to test the hypothesized relationships by running one-way ANOVA in SPSS, and PLS algorithm and the bootstrapping algorithm in SmartPLS 3.0. The one-way ANOVA used to test the first hypothesis in this study, which states that the performance of SMEs will vary with the choice of business strategy that they had adopted.

### **4.7.1 Business Strategies Hypotheses Tests**

The one-way ANOVA used to test if the performance of SMEs will vary with the choice of business strategy that they had adopted (Hashim, 2015a; Hashim et al., 2015). The results of the ANOVAs in Tables 4.24, 4.25, 4.26, 4.27, and 4.28 indicate statistically significant differences in the performance (BPCI, growth in ROI, ROA, ROS and net profit) of the SMEs that adopted the different business strategies.

Table 4.24 below presents the results of the ANOVA analysis between the business strategy and the growth of ROA that are statistically significant. At the .000 significance level, the F-value for growth in ROA is 16.231, providing support for the hypothesis. These results indicate that significant differences are present in the mean growth in ROA among the SMEs that adopted the different business strategies types in the study. The Duncan Multiple Range test indicates that the means for hold and maintain strategy (2.8000) is the one that is the lowest on growth and is significantly different.

Table 4.24  
*One-Way ANOVA of Strategy Types by ROA Growth*

Strategy Type	Mean	F Ratio	Significance F	Duncan
Low cost strategy	4.1769	16.231	.000	0.05
Differentiation strategy	3.2090			
Growth strategy	3.6089			
Hold and maintain strategy	2.8000			
Bare bones strategy	3.6492			
Specializing by product type strategy	4.0782			
Specializing by customer type strategy	3.8440			

As shown in Table 4.25, the F-value for ROI was 30.057, and the result supports the research hypothesis at the 0.000 significance level. These results suggest that significant differences exist in the mean growth in ROI among the SMEs that adopted the different business strategies types in the study. The Duncan Multiple Range test indicates that the means for the bare bones strategy (2.4667) was the one that was lowest on growth and is significantly different.

Table 4.25  
*One-Way ANOVA of Strategy Types by ROI Growth*

Strategy Type	Mean	F Ratio	Significance F	Duncan
Low cost strategy	3.8644	30.057	.000	0.05
Differentiation strategy	4.2768			
Growth strategy	3.3308			
Hold and maintain strategy	3.3625			
Bare bones strategy	2.4667			
Specializing by product type strategy	2.9600			
Specializing by customer type strategy	4.0917			

The results provided in Table 4.26 indicate that the ANOVA analysis between the business strategy and the growth of ROS that are statistically significant. At the .000 significance level, the F-value for growth in ROS was 12.984, providing support for the hypothesis. These results indicate that significant differences are present in the mean growth in ROS among the SMEs that adopted the different business strategies types in the study. The Duncan Multiple Range test indicates that the means for the hold and maintain strategy (2.4667) was the one that was the lowest on growth and is significantly different.

Table 4.26

*One-Way ANOVA of Strategy Types by ROS Growth*

Strategy Type	Mean	F Ratio	Significance F	Duncan
Low cost strategy	4.1348	12.984	.000	0.05
Differentiation strategy	3.2694			
Growth strategy	3.5896			
Hold and maintain strategy	2.4667			
Bare bones strategy	3.3692			
Specializing by product type strategy	3.9231			
Specializing by customer type strategy	3.5011			

Table 4.27 shows that the results of the ANOVA analysis between the business strategy and the growth of Net Profit that are statistically significant. At the .000 significance level, the F-value for growth in Net Profit was 9.269, providing support for the hypothesis. These results indicate that significant differences exist in the mean growth in Net Profit among the SMEs that adopted the different business strategies types in the study. The Duncan Multiple Range test indicates that the means for hold and maintain strategy (2.6333) was the lowest one on growth and is significantly different.

Table 4.27  
*One-Way ANOVA of Strategy Types by Net Profit Growth*

Strategy Type	Mean	F Ratio	Significance F	Duncan
Low cost strategy	4.0011	9.269	.000	0.05
Differentiation strategy	3.2524			
Growth strategy	3.5896			
Hold and maintain strategy	2.6333			
Bare bones strategy	3.0123			
Specializing by product type strategy	4.0667			
Specializing by customer type strategy	3.8000			

As shown in Table 4.28, the F-value for BPCI was 9.899, and the result supported the research hypothesis at the 0.000 significance level. These results suggest that significant differences exist in the mean growth in BPCI among the SMEs that adopted the different business strategies types in the study. The Duncan Multiple Range test indicates that the means for hold and maintain strategy (3.3094) was the one was the lowest on growth and is significantly different.

Table 4.28  
*One-Way ANOVA of Strategy Types by BPCI*

Strategy Type	Mean	F Ratio	Significance F	Duncan
Low cost strategy	4.2763	9.899	.000	0.05
Differentiation strategy	3.8438			
Growth strategy	4.3414			
Hold and maintain strategy	3.3094			
Bare bones strategy	3.7959			
Specializing by product type strategy	4.1485			
Specializing by customer type strategy	4.2945			

#### 4.7.2 Distinctive Capabilities and Environment tests (Rest of the Model)

The second step was to test the hypothesized relationships by running PLS algorithm and bootstrapping algorithm in SmartPLS 3.0. Although path coefficients are very important in PLS analysis, (Hair et al., 2011) confirmed that, when paths are non-significant or reveal signs that are against the hypothesized direction, the prior hypothesis should be rejected. On the other hand, significant paths showing the hypothesized direction support the proposed causal relationship empirically. Further, they stated that each path coefficient's significance, just as with the indicators' weights and loadings, can be assessed by means of a bootstrapping procedure. In Figure 4.2, the items loadings, path coefficient, and  $R^2$  values are clearly show.

Using the bootstrapping method in the assessment of path coefficients entails a least bootstrap sample of 5000, and the number of cases should be equal to the number of observations in the original sample (Hair et al., 2011). Moreover, the critical t-values for a two-tailed test are 1.65 (with a significance level of 10%), 1.96 (with a significance level of 5%), and 2.58 (with a significance level of 1%). Along this vein, the researcher set a 5000 re-sampling with a replacement number from the bootstrap cases equal to the original number of sample (248) to produce standard errors and obtain t-statistics. Figure 4.3, Figure 4.5 and Table 4.27 contain the path coefficient and the bootstrapping results, where the hypothesized relationships below were tested:

H1: The result revealed that the proposed relationship between business strategy and performance was highly significant ( $p = .000$ ,  $t = 9.269$ ), and, hence, the hypothesis was supported (i.e., was tested by one-way ANOVA).

H2: The result revealed that the proposed relationship between distinctive capabilities and performance was highly significant ( $\beta = 0.354$ ,  $t = 6.654$ ,  $p = .000$ ) and, hence, the hypothesis was supported.

H2a: The result provided no support for H2a ( $\beta = 0.072$ ,  $t = 1.029$ ,  $p = 0.434$ ). This implies that the performance was not influenced by the administration, and, therefore, the hypothesis was not supported.

H2b: The result provided no support for H2a ( $\beta = -0.041$ ,  $t = 0.451$ ,  $p = 0.745$ ). This implies that the performance was not influenced by production, and, therefore, the hypothesis was not supported.

H2c: The result provided no support for H2a ( $\beta = 0.111$ ,  $t = 1.716$ ,  $p = 0.051$ ). This implies that the performance was not influenced by marketing, and, therefore, the hypothesis was not supported.

H2d: The result provided support for H2a ( $\beta = 0.194$ ,  $t = 2.015$ ,  $p = 0.031$ ). This implies that the performance was influenced by finance, and, therefore, the hypothesis was supported.

H2e: The result provided no support for H2a ( $\beta = 0.088$ ,  $t = 0.861$ ,  $p = 0.248$ ). This implies that the performance was not influenced by human resource, and, therefore, the hypothesis was not supported.

H3: The result revealed that the proposed relationship between business environment and performance was highly negative significant ( $\beta = -0.432$ ,  $t = 8.126$ ,  $p = 0.000$ ), and, hence, the hypothesis was supported.

H4: The result provided support for H4 ( $\beta = -0.116$ ,  $t = 2.675$ ,  $p = 0.008$ ). This indicates that the strength of business environment had a negative moderating effect on the relationship between distinctive capabilities and performance. In other words, the strength of business environment enhances the relationship between distinctive capabilities and performance.

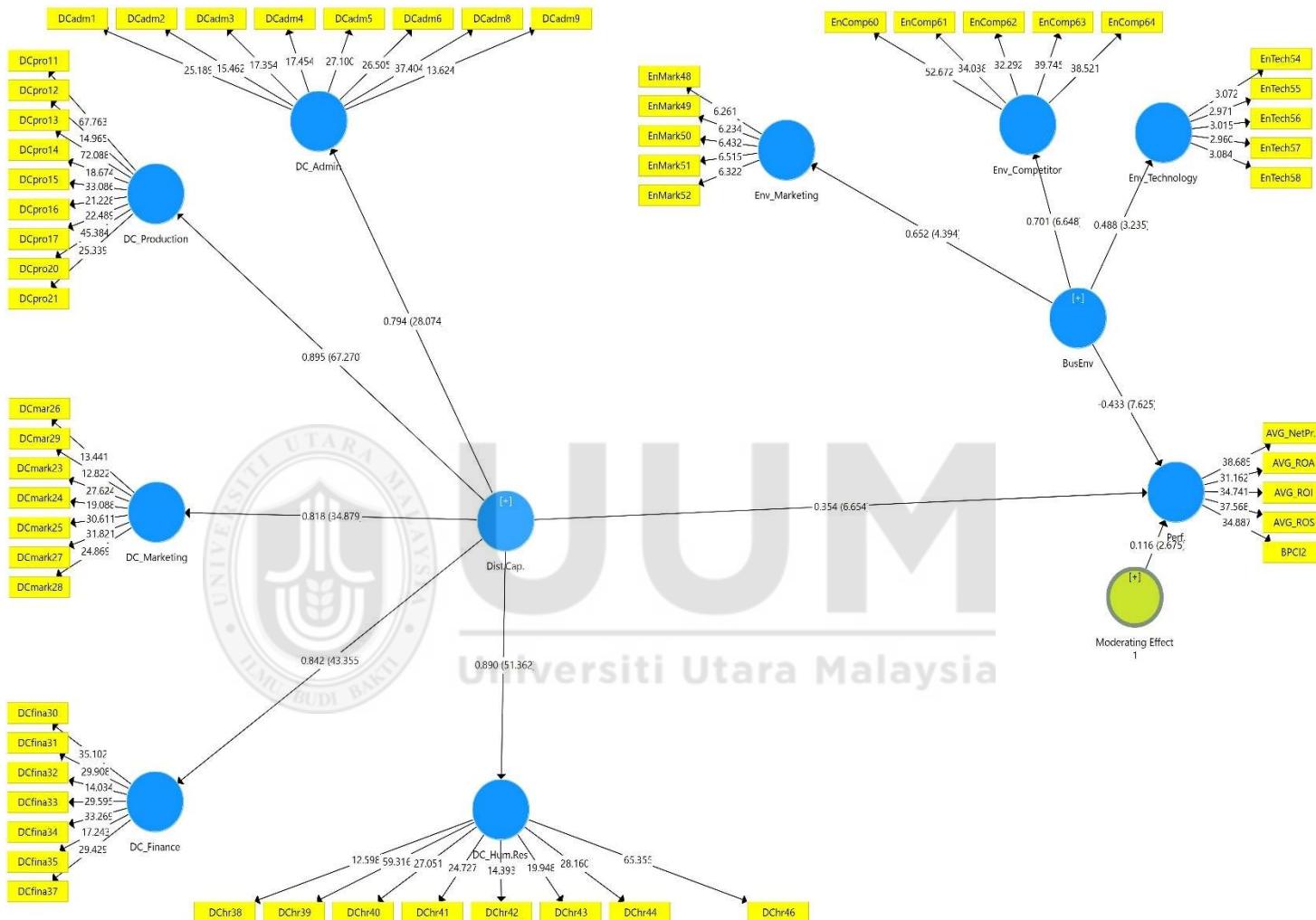


Figure 4.3  
PLS bootstrapping (*t*-values) for the study model A.

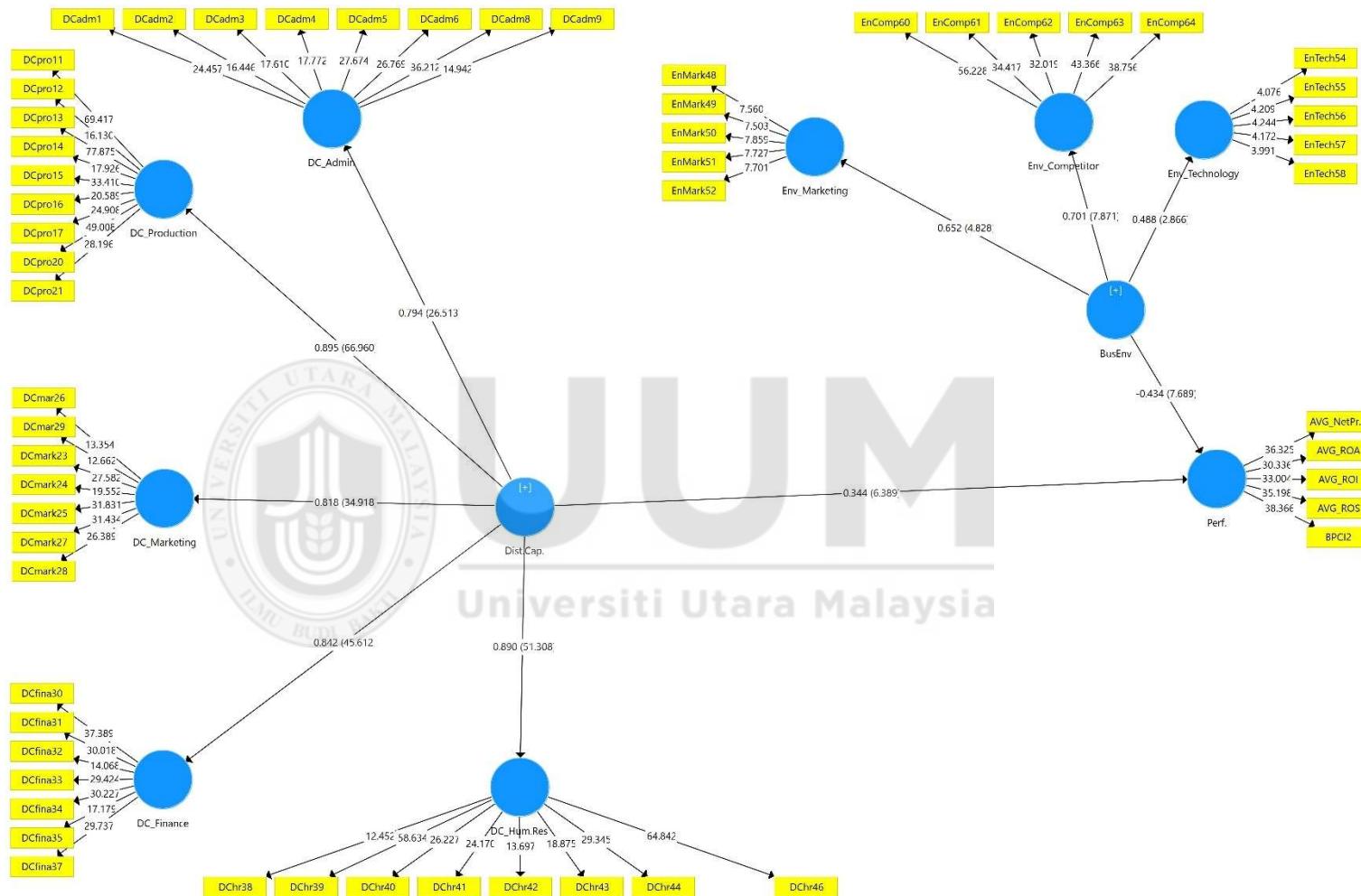


Figure 4.4  
PLS bootstrapping (t-values) for the study model B -without moderator.

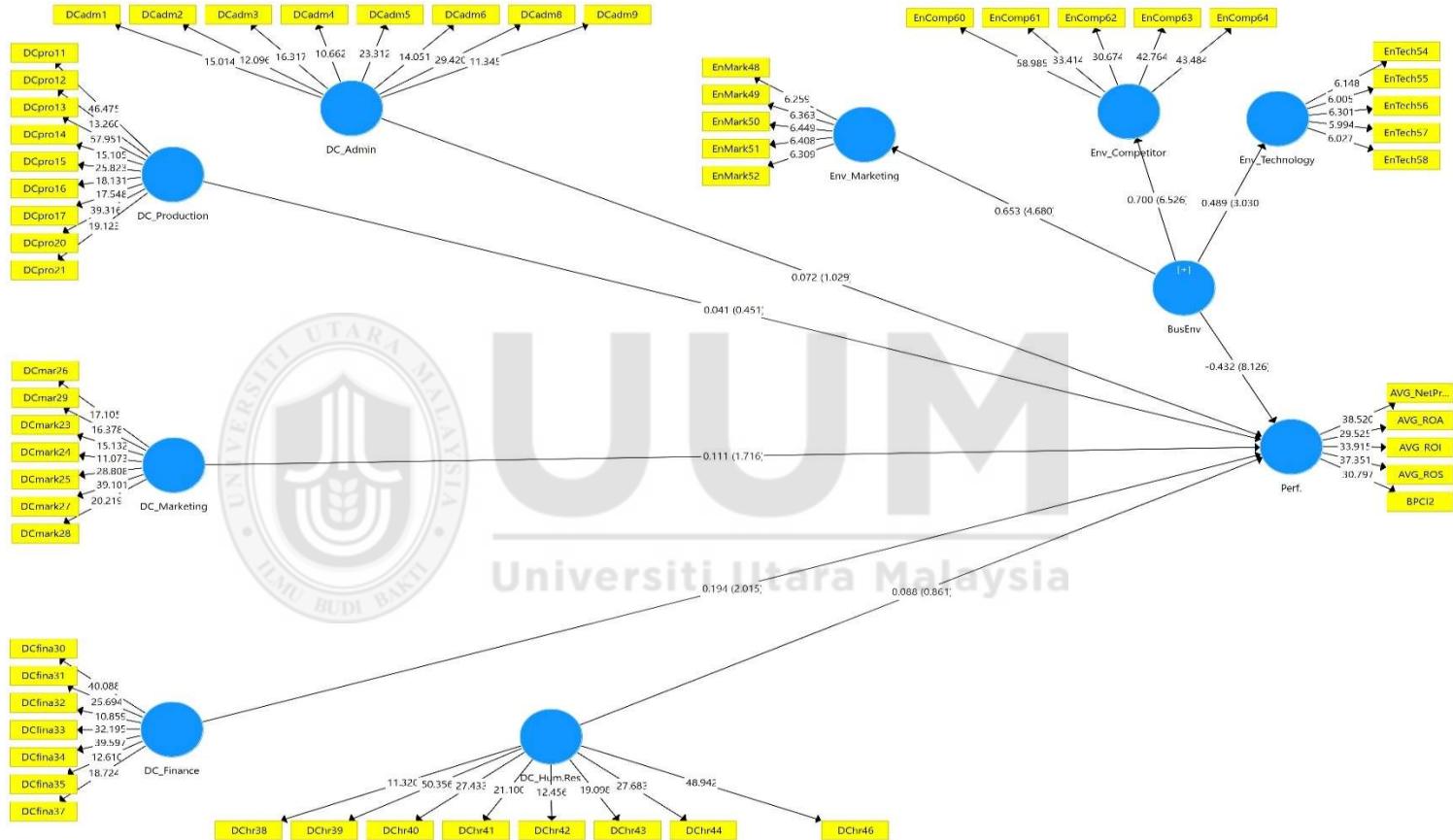


Figure 4.5  
PLS bootstrapping (t-values) for study model C- direct effect.

Table 4.29  
*Result of Hypothesis Testing*

Hypothesis	Relationship		Path coefficient	Standard Deviation	t-value	P-value	Supported
H1	Business strategy →	Performance	0.78197	9.269	0.000	Yes	
H2	Distinctive capabilities →	Performance	0.354	0.054	6.654	0.000	Yes
H2a	Administration →	Performance	0.072	0.066	1.029	0.434	No
H2b	Production →	Performance	-0.041	0.098	0.451	0.745	No
H2c	Marketing →	Performance	0.111	0.064	1.716	0.051	No
H2d	Finance →	Performance	0.194	0.092	2.015	0.031	Yes
H2e	Human resource →	Performance	0.088	0.106	0.861	0.248	No
H3	Business environment →	Performance	-0.432	0.056	8.126	0.000	Yes
H4	Moderator →	Performance	-0.116	0.049	2.675	0.008	Yes

Notes: t-values > 1.65\* (p < 0.10); t-values > 1.96\*\* (p < 0.05); t-values > 2.58\*\*\* (p < 0.01).

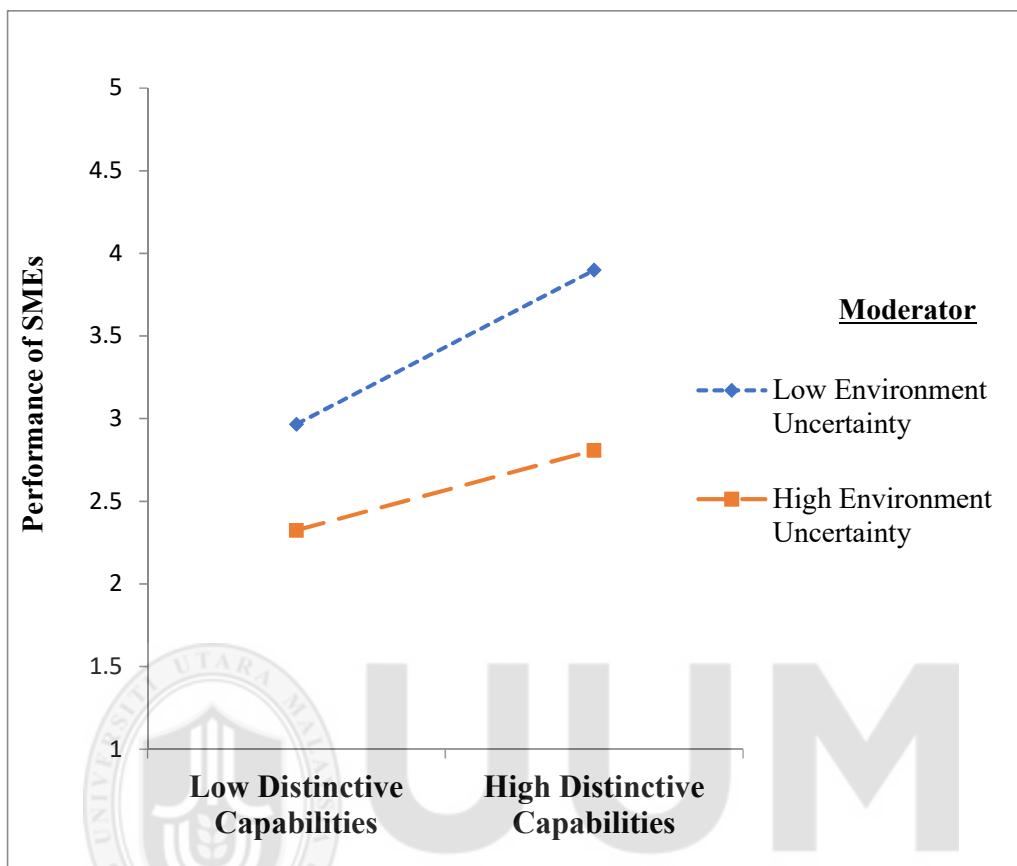


Figure 4.6  
*Moderating Effect of EU on DC and PS Relationship*

As illustrated in the graph in Figure 4.6, it indicated to the impact of the distinctive capabilities (DC) on the SMEs performance (PS) moderates by the environment uncertainty (EU), showed that the effect of the distinctive capabilities (DC) on SMEs performance (PS) would be higher when the environment uncertainty moderation effect slightly lower rather than when the effect of environment uncertainty moderation is higher.

## 4.8 Additional Analysis

### 4.8.1 The analysis on the firm's sample which have from (5 to 19) employees

Because there is no formal definition of SMEs in Palestine, as mentioned before, this study adopts the definition of SMEs as the firms which employ between 5 to 99 employees, the number of firms with full time employees at the end of last fiscal year which have between 5 to 19 employees are 207 firms, which represent more than 82% of the study sample (refer to table 4.11). So, this is the analysis result in case we want to consider the SMEs which have this number of employee (between 5-19).

Table 4.30 below contain the path coefficient and the bootstrapping results, where the hypothesized relationships below were tested:

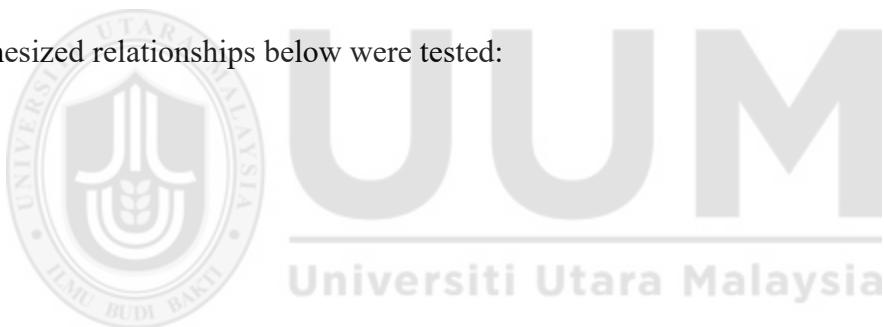


Table 4. 30

*Result of Hypothesis Testing for firms from (5-19) employees*

Hypothesis	Relationship	Path coefficient	Standard Deviation	t-value	P-value	Supported
H1	Business strategy → Performance	0.78197	8.168	0.000	Yes	
H2	Distinctive capabilities → Performance	0.350	0.054	6.088	0.000	Yes
H2a	Administration → Performance	0.038	0.068	0.537	0.591	No
H2b	Production → Performance	-0.015	0.116	0.130	0.896	No
H2c	Marketing → Performance	0.126	0.074	1.683	0.936	No
H2d	Finance → Performance	0.108	0.104	1.091	0.276	No
H2e	Human resource → Performance	0.151	0.119	1.265	0.207	No
H3	Business environment → Performance	-0.465	0.061	7.601	0.000	Yes
H4	Moderator → Performance	-0.106	0.048	2.251	0.025	Yes

Notes:

t-values &gt; 1.65\* (p &lt; 0.10); t-values &gt; 1.96\*\* (p &lt; 0.05); t-values &gt; 2.58\*\*\* (p &lt; 0.01)

When we compare this results in table 4.30 with the previous result of the whole model in table 4.29, we notice that there are no significant differences between both of them, on the other hand we got the same hypothesis results, except H2d hypothesis which becomes not supported here with ( $\beta = 0.108$ ,  $t = 1.091$ ,  $p = 0.276$ ). This implies that the performance was not influenced by finance, and, therefore, the hypothesis was not supported.

Figures 4.7 and 4.8 below show the PLS bootstrapping (t-values) for the study model and the direct effect of PLS bootstrapping (t-values) for SMEs firms which employ between 5 to 19 employees.



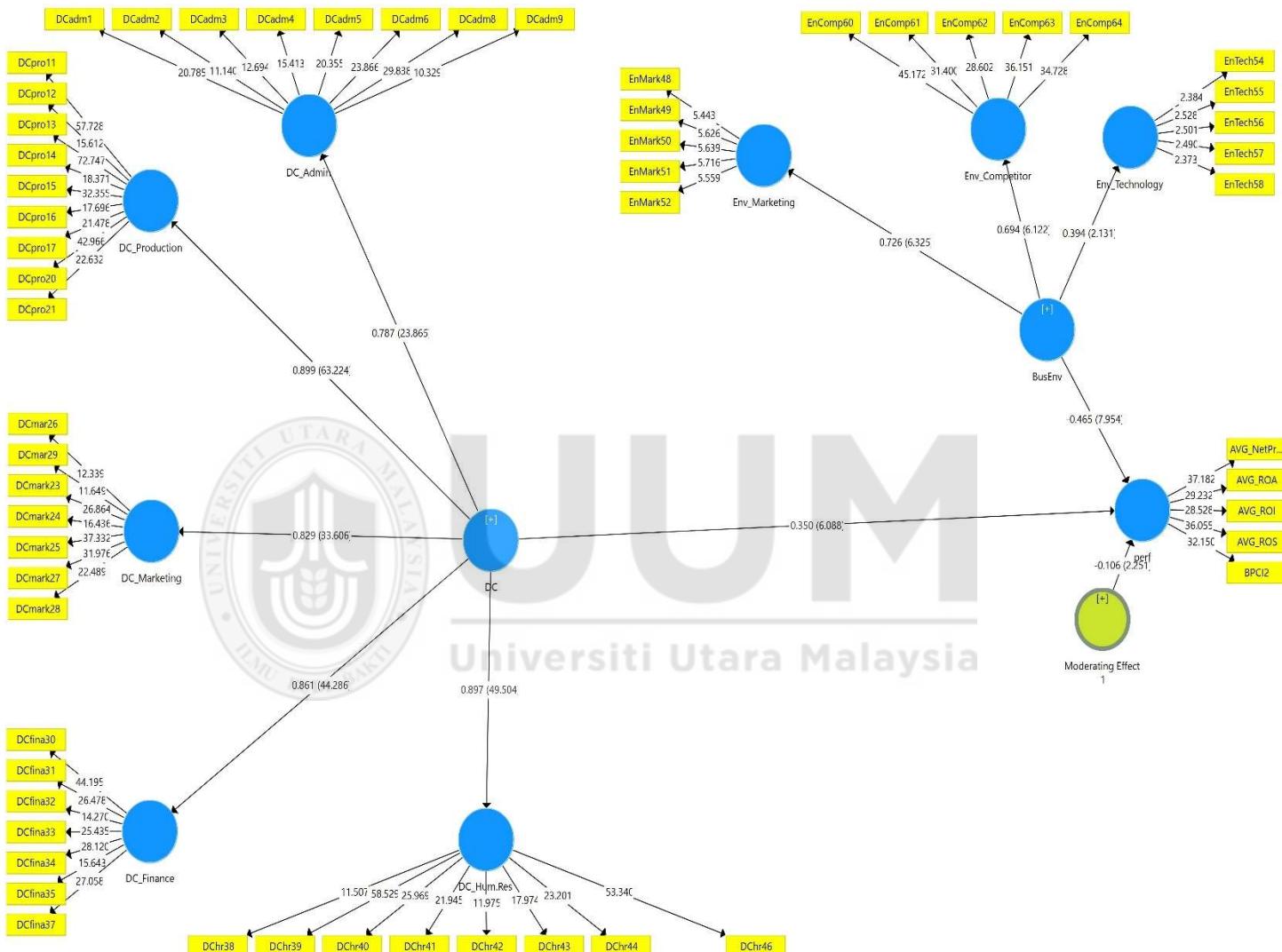


Figure 4.7  
PLS bootstrapping (*t*-values) for the study model (between 5 to 19 employees).

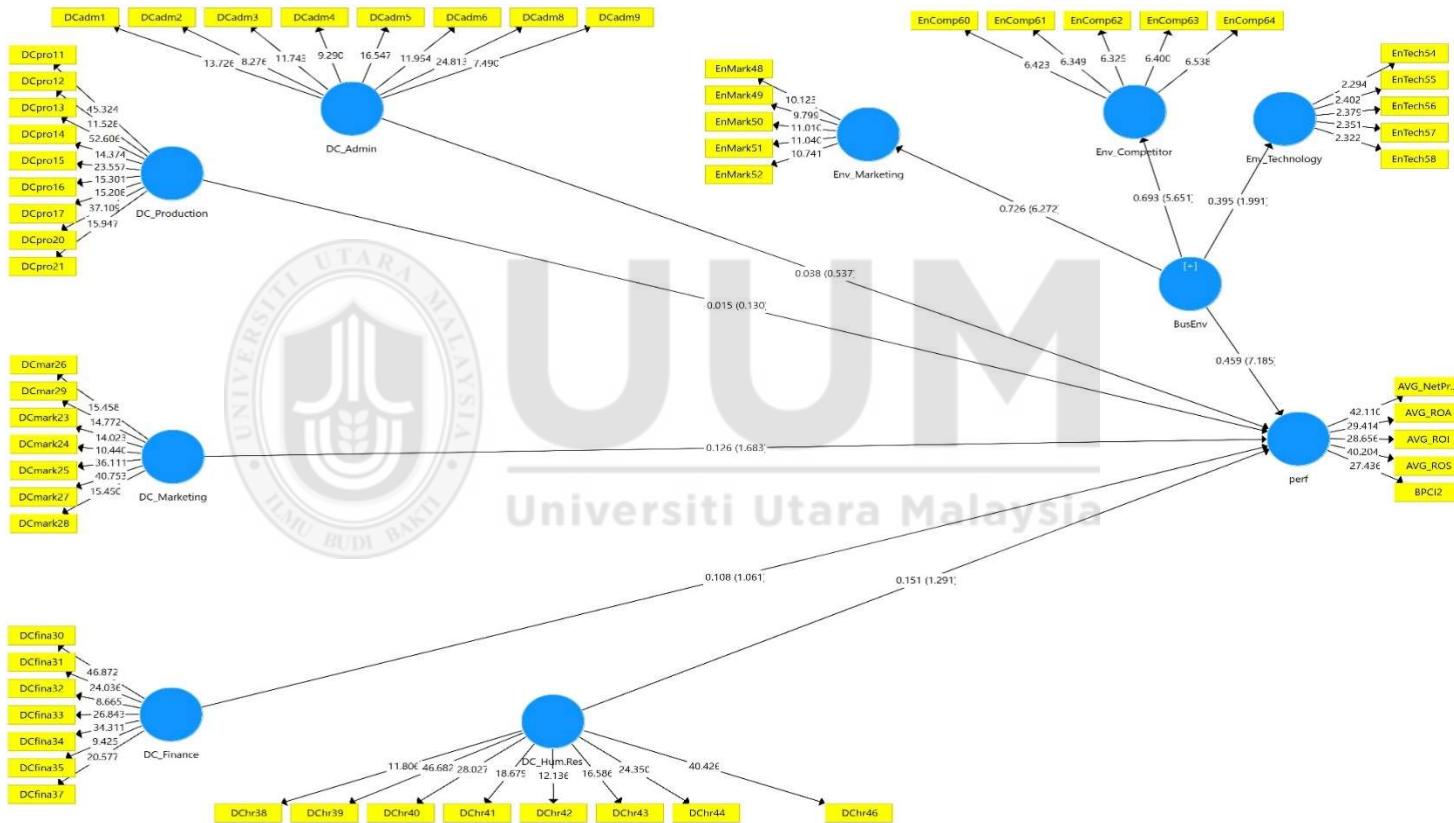


Figure 4.8  
PLS bootstrapping (*t*-values) for study - direct effect (between 5 to 19 employees).

#### **4.8.2 R<sup>2</sup> Effect on Performance with and without moderator**

The moderation model in Figure 4.9 and Figure 4.10 tests whether the prediction of SMEs performance from DC influences can be improved when the business environment as moderating variable become significant. Figure 4.9 presents the path assessment when the moderator variable is included as an independent variable, and it shows that the path coefficient of business environment was negative ( $\beta$  -0.116;  $t$  = 2.596,  $p$  = 0.008). Similarly, Figure 4.10 indicates a significant relationship between business environment and firm performance ( $\beta$  -0.434;  $t$  = 8.308,  $p$  = 0.000). Hence, the conclusion can be made that business environment had a negative influence on firm performance, and the level of R<sup>2</sup> that is accounted for the model improves from 0.325 to 0.338.

Consequently, the value of R<sup>2</sup> for performance was 0.325, indicating that distinctive capabilities, business environment can account for 32.5% of the variance in the performance, which was in the moderate range. Additionally, this value of R<sup>2</sup> improved to 33.8% when the business environment become a moderator.

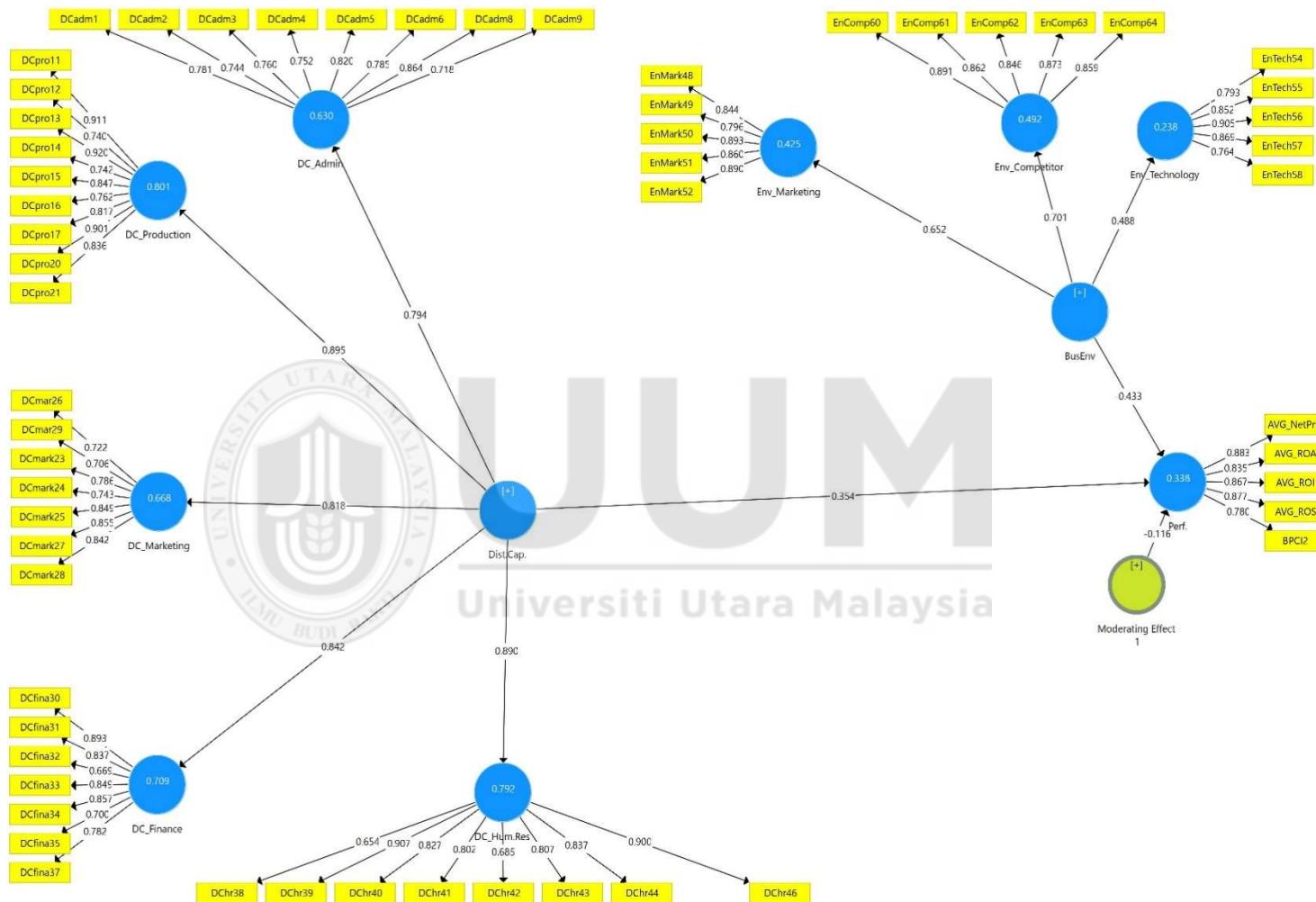


Figure 4.9  
 $R^2$  with moderator.

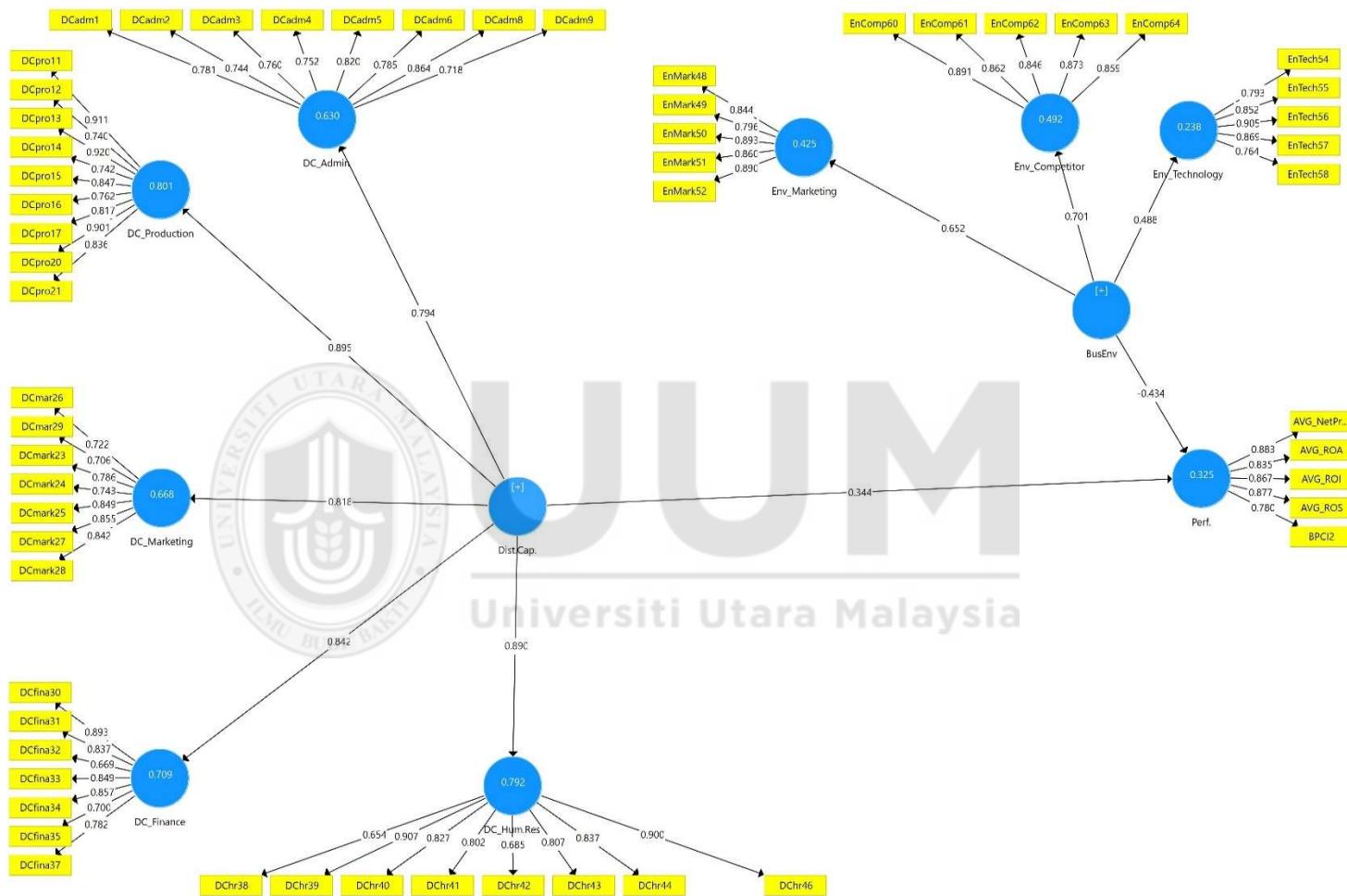
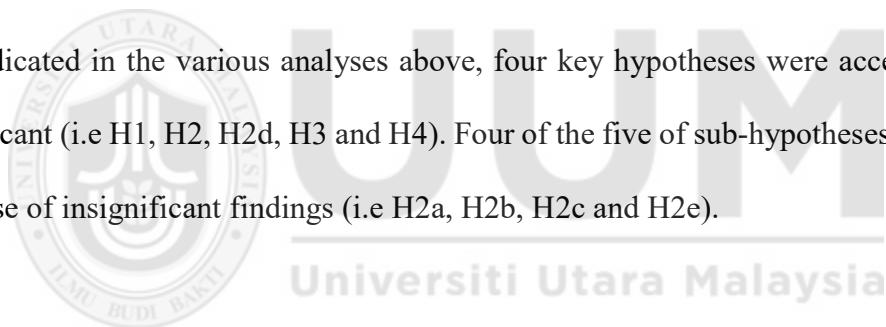


Figure 4.10  
 $R^2$  without moderator.

#### **4.9 Summary of Findings**

This chapter has reported the findings of this study. It has also presented findings on the response rate and characteristics, techniques employed in measurement refinements, and analyses run to examine the instrument validity and reliability tests, among others. In general, the results showed significant relationships between business strategy, distinctive capabilities and business environment and performance. More importantly, this chapter has offered results of PLS analysis that was obtained from the evaluation of the measurement model, structural model and hypotheses testing. Additionally, an evaluation was performed via a one-way ANOVA.

As indicated in the various analyses above, four key hypotheses were accepted as being significant (i.e H1, H2, H2d, H3 and H4). Four of the five of sub-hypotheses were rejected because of insignificant findings (i.e H2a, H2b, H2c and H2e).



# CHAPTER FIVE

## RECOMMENDATIONS AND CONCLUSION

### 5.1 Introduction

This chapter summarizes the research findings and highlights their contributions to the theoretical and methodological literature based on the research questions, research objectives, hypotheses and literature review. Additionally, the chapter offers recommendations for owners and managers of manufacturing SMEs. Finally, this chapter concludes and summarizes the study.

### 5.2 Recapitulations of Research Findings

This study was conducted to fill the gaps in the context of the relationship between business strategy, distinctive capabilities and business environment on the performance of manufacturing SMEs in Palestine.

Based on previous studies in performance, business strategy, distinctive capabilities and business environment (Ahmad, 2005; Hashim et al., 2015; Herzallah et al., 2014; Parnell et al., 2015; Ramadan & Ahmad S., 2018a, 2018b; Shabat, 2007), a theoretical model of the performance of manufacturing SMEs was built to present the proposed testable relationships among the study constructs in the context of relationships between business strategy, distinctive capabilities and business environment with the performance of

manufacturing SMEs in Palestine. The model was developed to answer the study questions, which were:

1. Does the performance of manufacturing SMEs in Palestine differ with their choice of business strategy they adopt?
2. Is there a relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine?
3. Is there a relationship between the level of general administration capabilities and performance of manufacturing SMEs in Palestine?
4. Is there a relationship between the level of production/operation capabilities and the performance of manufacturing SMEs in Palestine?
5. Is there a relationship between the level of marketing capabilities and the performance of manufacturing SMEs in Palestine?
6. Is there a relationship between the level of human resources capabilities and the performance of manufacturing SMEs in Palestine?
7. Is there a relationship between the level of finance capabilities and the performance of manufacturing SMEs in Palestine?
8. Is there a relationship between environment uncertainty and the performance of manufacturing SMEs in Palestine?
9. Does the environment uncertainty moderate the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine?

In addition to the study questions, several study objectives were articulated; these objectives were to:

1. To determine whether the performance of manufacturing SMEs in Palestine differs with their choice of business strategy they adopt;
2. To investigate the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine;
3. To investigate the relationship between level of administrative capabilities and the performance of manufacturing SMEs in Palestine;
4. To investigate the relationship between the level of production/operation capabilities and the performance of manufacturing SMEs in Palestine;
5. To investigate the relationship between the level of marketing capabilities and the performance of manufacturing SMEs in Palestine;
6. To investigate the relationship between the level of human resources capabilities and the performance of manufacturing SMEs in Palestine;
7. To investigate the relationship between the level of finance capabilities and the performance of manufacturing SMEs in Palestine;
8. To investigate the relationship between environment uncertainty and the performance of manufacturing SMEs in Palestine; and
9. To investigate if the environment uncertainty moderates the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine.

As mentioned in Chapter Four, data were collected from owners-managers of SMEs in the West Bank of Palestine. Of the 341 self-administered questionnaires, 257 were returned by

the respondents who were the owners/managers of SMEs in Palestine. Of these 248 were useable; hence, the effective response rate was 72.7%.

Nine hypotheses were formulated and tested statistically based on PLS-SEM using SmartPLS 3.0. and one-way ANOVA using IBM SPSS version 24. The empirical results supported five of the hypotheses of which three were direct and one was a moderating hypothesis and the rest are sub-hypothesis, one of them is supported and four not supported.

### **5.3 Discussion**

To discuss the empirical study's findings, the sub-sections are organized to answer the nine main research questions based on the objectives of the study.

#### **5.3.1 The relationship between the performance of manufacturing SMEs in Palestine differed with their choice of business strategy that they had adopted.**

This result is consistent with that of Hashim et al. (2015) who supported the contingency theory of strategic management. Their result argued that no one business strategy was best for all companies. According to contingency theory, different types of strategies are needed for firms in different business environments. Most importantly, firms must develop and implement business strategies that fit with their business environment to support organizational performance. Moreover, the results are consistent with Porter (1980), who recommended that if firms desired to outperform their competitors, then they had to adopt various business strategies including a focus (niche) strategy, a low cost strategy or a differentiation strategy. Akter et al. (2016); Hashim (2015a); Hashim and Hashim (2015); Kim and Choi (1994); Leonidou et al. (2017) and Parnell, Lester, Long, and Köseoglu

(2012) also found a significant positive relationship between performance and business strategy, and SMEs in different manufacturers tend to adopt different business strategies and that their performance varied by the different strategy types that they adopted. As such, the differentiation strategy affects significantly firm performance (Kaliappan & Hilman, 2014).

Sultan (2011) found that firms in the manufacturing sectors of SMEs in Palestine applied different strategies: the results showed that 40% of them applied low differentiation with a low cost of strategy, while 40% applied low differentiation with a high-cost strategy, 10% applied low cost with a high differentiation strategy, and 10% also applied high cost with a high differentiation strategy.

The present study results seem to support the first hypothesis that the performance of manufacturing SMEs (PS) differs with the choice of business strategies (BS) they adopt (as shown in Tables 4.22, 4.23, 4.24, 4.25 and 4.26). The results indicated statistically significant differences in the BPCI ( $p = 0.00$ ,  $F$ -value = 9.899), ROI growth ( $p = 0.00$ ,  $F$ -value = 30.057), ROS growth ( $p = 0.00$ ,  $F$ -value = 12.984), Net Profit growth ( $p = 0.00$ ,  $F$ -value = 9.269) and ROA growth ( $p = 0.00$ ,  $F$ -value = 16.231).

Finally, the results of this research are also consistent with the contingency theory of strategic management, which posits that different firms in different environments should adopt different business strategies. The contingency theory suggests that no one business strategy is the best for all companies. This theory argues that a firm needs to adopt a

particular business strategy to adapt to its particular business environment to improve its performance. Additionally, this study suggest that the managers can enhance their firm's performance by adopting an effective and different strategies with respect to high environment uncertainty.

### **5.3.2 The relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine.**

To achieve the second objective of this study regarding the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine, the results revealed that the proposed relationship between distinctive capabilities and performance was highly significant ( $\beta = 0.349$ ,  $t = 6.654$ ), and, hence, the study hypothesis was supported.

The present finding seems to be consistent with Hitt & Ireland (1985), various relationships exist between distinctive capabilities elements and performance. Many indicators from present studies have assured that developing competitive capabilities by organizations has a positive effect on their business performance. For manufacturing organizations, the competitive capabilities include quality, flexible product innovation, delivery dependability and price (Ho et al., 2016).

The literature supports the relationship between performance and strategic capabilities (Hitt & Ireland, 1985; Ho et al., 2016; Odhiambo et al., 2015; Parnell et al., 2015; Prommarat et al., 2015). A number of studies have shown a positive relationship between performance and capabilities like Wamba et al. (2017). Moreover, Hitt and Ireland (1985)

indicated that the relationship between organization performance and corporate level distinctive competencies is moderated by the manufacturers type and grand strategy type. Thus, to increase performance, all a firm's grand strategies, their interactions and its principal decisions must fit with distinctive competencies (Hitt & Ireland, 1985; Parnell et al., 2015).

### **5.3.3 The relationship between level of administrative capabilities and performance of manufacturing SMEs in Palestine.**

The third objective of the study was to investigate the relationships between the level of administrative capabilities and the performance of manufacturing SMEs in Palestine. One hypothesis was tested to meet this research objective. The result revealed that the proposed relationship between the level of administrative capabilities and performance was not significant ( $\beta = 0.072$ ,  $t = 1.029$ ,  $p = 0.434$ ), and, hence, study hypothesis was not supported. This indicated that the level of administrative capabilities did not have a significant impact on the performance of manufacturing SMEs in Palestine. This result consistent with Giang, Ngoc, Oanh, Ut, & Giang (2016) and Schmitt et al. (2018) they found that there was no effect of administering on performance.

According to Hitt and Ireland (1985), a negative relationship exists between administration activities and performance with a retrenchment grand strategy. On the other hand, Hitt and Ireland (1985) indicated that a positive relationship exists between administration activities and performance with external acquisitive growth strategy for good manufacturer producer firms in the case of achievement vertical integration. However, evidence suggests that this type of merger has a low chance of success (Hitt & Ireland, 1985).

### **5.3.4 The relationship between the level of production/operation capabilities and the performance of manufacturing SMEs in Palestine.**

The fourth objective of the study was to investigate the relationships between the level of production/operation capabilities and the performance of manufacturing SMEs in Palestine. One hypothesis was tested to meet this research objective. The result revealed that the proposed relationship between the production/operation capabilities and performance was not significant ( $\beta = -0.041$ ,  $t = 0.451$ ,  $p = 0.745$ ), and, hence, the study hypothesis was not supported. This indicated that the level of production/operation capabilities did not have a significant impact on the performance of manufacturing SMEs in Palestine.

The present finding seems to be consistent with Kiswani (2016) who said that the manufacturers sector in Palestine was suffering from melt down in its productive base, which had dropped from 32% to 17% of its contribution in GDP. This reflects the decline in the number of workers, the export-import ratio and the high cost of labour compared to neighbouring countries. Along with Rantisi (2016) they argued that about 85% of raw materials that Palestinian manufacturing used either comes from Israel or through it, which reflects a serious indication of the extensive sensitivity and dependency of the Palestinian manufacturing sector to Israeli policies. Additionally, Sultan (2011) found that most Palestinian firms suffer from the high production costs due to the unstable environment and the Israeli blockage of borders. Thus, firms are forced to buy huge amounts of raw materials and extra spare parts. In spite of that, Hirunyawipada and Xiong (2018) and Betts,

Super and North (2018) they found that operations capability enhances the financial performance.

### **5.3.5 The relationship between the level of marketing capabilities and the performance of manufacturing SMEs in Palestine.**

To achieve the fifth objective, this study formulated one hypothesis to investigate the relationships between the level of marketing capabilities and the performance of manufacturing SMEs in Palestine. One hypothesis was tested to meet this research objective. The result revealed that the proposed relationship between the production/operation capabilities and performance was not significant ( $\beta = 0.111$ ,  $t = 1.716$ ,  $p = 0.051$ ), and, hence, the study hypothesis was not supported. This indicated that the level of marketing capabilities did not have a significant impact on the performance of manufacturing SMEs in Palestine.

The present finding seems to be consistent with Vorhies et al. (2015) who said that firms which adopt a defender strategy did not need a high level of marketing capabilities as do prospectors, and, along with Liu et al. (2015), they argued that not all kinds of marketing capabilities positively influence enterprise performance. In spite of that, Odhiambo et al. (2015) they found that marketing capability strongly and positively influenced the performance of SMEs in Kenya and with Martin and Javalgi (2016) and Hirunyawipada & Xiong (2018) they found that marketing capabilities were positively related to performance. The result is consistent with the studies of Cacciolatti and Lee (2016), Dubihlela and Dhurup (2015) and Takata (2016).

In the case of Palestine, Sabella (2009) found evident that the majority of business owners of MSMEs in Palestine do not have a clear idea about the importance of marketing and that most of them do not use any marketing tools.

### **5.3.6 The relationship between the level of human resources capabilities and the performance of manufacturing SMEs in Palestine.**

The sixth objective of the study was to investigate the relationships between the level of human resources capabilities and the performance of manufacturing SMEs in Palestine. One hypothesis was tested to meet this research objective. The result revealed that the proposed relationship between human resources capabilities and performance was not significant ( $\beta = 0.088$ ,  $t = 0.861$ ,  $p = 0.248$ ), and, hence, the study hypothesis was not supported. This indicated that the level of human resources capabilities did not have a significant impact on the performance of manufacturing SMEs in Palestine.

The present finding seems to be consistent with Huselid et al. (1997) who found no meaningful effectiveness relationships between technical HRM and enterprise performance, and with Domínguez-Falcón et al. (2016) who argued that HR practices did not have a strong effect on company performance. Conversely, Raineri (2016) found that HR had a significant and positive relationship with firm performance. Interestingly, Gong, Law, Chang, and Xin (2009) found that performance-oriented HR subsystems had a positive relationship with firm performance, while at the same time, they found that maintenance-oriented HR subsystems had no positive effect on firm performance. In spite of that, Karna et al. (2016) argue that human capabilities positively affect the financial performance of firms.

### **5.3.7 The relationship between the level of finance capabilities and the performance of manufacturing SMEs in Palestine.**

The seventh hypothesis formulated based on the above objective was H2e, which posited a relationship between the level of finance capabilities and the performance of manufacturing SMEs in Palestine. The finding provided support for H2e as the regression result suggested a strong and positive relationship between the level of finance capabilities and performance with ( $\beta = 0.194$ ,  $t = 2.015$ ,  $p = 0.031$ ), and, hence, the study hypothesis was supported. This indicated that the level of finance capabilities had a positive and significant impact on the performance of manufacturing SMEs in Palestine.

The present finding seems to be consistent with Binti Mohamad et al. (2017) who found that a firm's working capital management had a significant effect on performance, and with Bendickson et al. (2016) who argued that reducing environmental uncertainty led to higher levels of company performance. However, Sadalia, Syahyunan, and Butar-Butar, (2017) found that capital had no significant effect on financial performance.

### **5.3.8 The relationship between environment uncertainty and the performance of manufacturing SMEs in Palestine.**

The eighth objective of this study regarded the relationship between environment uncertainty and the performance of manufacturing SMEs in Palestine. The result revealed that the proposed relationship between environment uncertainty and performance was negative and significant ( $\beta = -0.432$ ,  $t = 8.126$ ,  $p = 0.000$ ), and, hence the study hypothesis was supported.

The relationship between performance and environmental uncertainty has been supported in the literature (Bendickson et al., 2016; C.-H. Liu, 2017; Ramadan & Ahmad S., 2018a). A number of studies have shown a negative relationship between performance and environmental uncertainty. The present finding seems to be consistent with Liu (2017) who said that the environmental uncertainty has a negative influence on performance. Thus, to increase performance, all firm's must reduce the environmental uncertainty or they should know more about their external environments. Nonetheless, Hartanto et al. (2017) found that the external environment did not affect SME performance. Moreover, some authors claim that there is a positive relationship between financial performances and environment, while others say that this conclusion cannot be established and do not agree with this statement (Lucato et al., 2017).

### **5.3.9 The Business Environment (environment uncertainty) moderates the relationship between Distinctive Capabilities and the performance of manufacturing SMEs in Palestine.**

The final objective of this study was to examine whether (business environment) environment uncertainty moderates the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine. As shown in Table 4.27, business environment negatively moderated the relationship between Distinctive Capabilities and performance of manufacturing SMEs ( $\beta = -0.112$ ,  $t = 2.675$ ,  $p = 0.008$ ); thus, providing support for H4. The result indicated that business environment (i.e., how much information and data we have about the business environment that means that we can minimize the level of environment uncertainty) plays a key role in enhancing the relationship between distinctive capabilities and the performance of manufacturing SMEs.

The present results seems to be consistent with Kohli and Jaworski (1990) who claimed that the environment moderates (either increases or decreases) the strength of relationship between performance and market orientation. Because of this firms have to select the strategy that is closely aligned with its environment. Therefore, firms should be responding more rapidly to unexpected changes of environmental uncertainty to survive (Desarbo, Di Benedetto, Song, & Sinha, 2005). Bendickson et al. (2016) argued that reducing environmental uncertainty led to higher levels of company performance and with Liu (2017) who said that the environmental uncertainty has a negative effect on performance.

Others have found different results. Hartanto et al. (2017) found that the external environment did not affect the performance of SMEs. On the other hand, Parnell et al. (2015) found a negative relationship between market uncertainty, competitor's uncertainty, and technology uncertainty with the performance of SMEs in China and the United States. Additionally, and according to Zhai et al. (2018) they found that the absorptive capacity can positively moderate the relationship between entrepreneurial orientation and innovation performance.

Finally, and regarding to the previous results we notice that the owner-managers, government policy makers, scholars, and educators have to focus on distinctive capabilities, business strategy, environment and their relationships with performance of manufacturing SMEs in Palestine. Moreover, the firms to survive should be responding more rapidly to an unexpected change of environmental uncertainty.

## **5.4 Contributions of the Study**

Scholars, academic researchers, governments and practitioners in strategic management, distinctive capabilities, environment uncertainty have given more interest to the SMEs performance. The study's conceptual framework was based on the theoretical gaps and prior evidence identified in the literature, and the framework was also explained and supported by contingency theory (Fiedler, 1964), the resource-based view theory (Barney, 1991) and industrial organization theory.

Based on the study's results and findings, this research has several important contributions, specifically in terms of strategic management and performance of manufacturing SMEs in the context of Palestine. The results of this study provide practical, theoretical and methodological contributions. These contributions and implications are discussed in the following sub-sections.

### **5.4.1 Theoretical Contributions**

This study offers several theoretical contributions, as follows:

The first contribution of this study is that it integrated three theories together (i.e., Contingency Theory (CT), Resource- Based View Theory (RBV) and Industrial Organizational Theory (IO) in the context of the Arab world and Palestine.

The findings of this study are consistent with and support the contingency theory of strategic management. The results supported the argument that no one business strategy is best for all companies. According to contingency theory, different types of strategies are

needed for various firms in different business environments, so no one best business strategy exists for all firms. Most importantly, firms have to develop and implement business strategies that fit with their business environment to support their organizational performance.

The findings of this study did not offer complete support of the resource-based view theory (RBV). Although performance was influenced by distinctive capabilities and by finance capabilities, the results showed that administration capabilities, production capabilities, marketing capabilities and human resource capabilities had no significant effect on the performance of the SMEs. On the other hand, Betts et al. (2018) argue that RBV work to inform how practices affect performance and how production capability reacts uniquely with environmental practices with different strategic foci.

The results of this study were consistent with and supported industrial organization theory. The results revealed that the proposed relationship between environment uncertainty and performance were negative and significant, and, hence, the study's hypothesis was supported. In addition, business environment negatively moderated the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine. The result indicated that business environment has a key role in enhancing the relationship between distinctive capabilities and the performance of manufacturing SMEs. Thus, if owners or managers have good information and data about the business environment in which they operate than they can reduce the level of environment uncertainty, thus increasing performance.

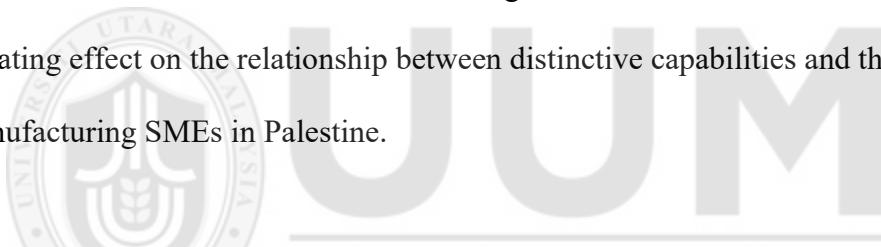
This study contributes to the theoretical foundation about the important role that the business environment (environment uncertainty) plays in designing effective distinctive capabilities to fit the performance of manufacturing SMEs. This study also supports other studies that have underlined the importance of adopting an effective business strategy, towards successful and high performance (Ahmad S., 2005; Hashim et al., 2015; Herzallah et al., 2014; Parnell et al., 2015; Pulka et al., 2018; Shabat, 2007).

Regarding the importance of environment uncertainty, this study contributes to the literature about the effect of market uncertainty because of the impact of unstable political issues in Palestine on the psyche and perception of owners and managers. These circumstances (political uncertainty) have become a normal part of the daily lives managers due to their long-term existence, which, in turn, has led to the neglect of their potential impacts on decision-making process (Sabella, 2009; Sultan, 2011). Nonetheless, SMEs managers should focus their main efforts on developing their firms' capabilities in the areas of quality control, production, and risk so that they can produce goods and quality services at a reasonable cost to compete locally and globally (Atyani & Haj Ali, 2009).

Additionally, in connection with other SMEs studies, this current study make a good contribution to the literature regarding business strategy, capabilities, uncertainty and performance of SMEs in Palestine and the Arab world that has received negligible attention previously (Herzallah et al., 2014; Ramadan & Ahmad S., 2018a, 2018b; Shabat, 2007). In the United States, which it is considered to be a developed country, performance has been linked with strategy in many studies and the differences between SMEs and large

enterprises have been documented well in the extant literature (Parnell et al., 2015). Accordingly, this current study makes the preferences of SMEs managers for designing business strategy and performance in Arab culture more comprehensible.

This study also contributes to the growing knowledge about SME performance. The results found that significance differences exist between the business strategy implemented by the manufacturing SMEs and performance; moreover, the proposed relationship between distinctive capabilities and performance was highly significant. Although the performance was not influenced by administration, production, marketing and human resource, finance capabilities influenced it. Moreover, the strength of business environment had a negative moderating effect on the relationship between distinctive capabilities and the performance of manufacturing SMEs in Palestine.



Finally, because no commonly accepted formal definition for SMEs exists in Palestine, the current study placed SMEs in the following categories: small-sized enterprises employing 5-29 persons, and medium-sized enterprises employing 30-99 persons (refer to section 1.1.2.1).

#### **5.4.2 Methodological Contributions**

Beside theoretical contributions, this study offers methodological contributions. This study used SmartPLS 3.0 by Ringle, Wende, and Becker (2015) to determine causal links among the constructs in the theoretical models to produce results. Additionally, as well as using

one-way ANOVA in SPSS, one-way ANOVA was used to test the first hypothesis in this study.

With regard to the instrument used to extract data from the respondents, the measurement scales in this study were adapted from previous studies (Ahmad S., 2005; Desarbo et al., 2005; Hitt & Ireland, 1985; Parnell et al., 2015; Porter, 1980, 1985), as discussed in the methodology section. Because these instruments and their items were used in United States, Australia and other developed countries, the validity and reliability, construct reliability, convergent validity and discriminant validity were assessed and found to be satisfactory. Hence, this study contributes to the literature and methodology of manufacturing SME performance by establishing the validity and the reliability of the adapted measures in the Palestinian and Arab world.

Moreover, this study contributes to the methodology by translating the final instrument (questionnaire) into the Arabic language. Palestine and the Arab world, as discussed before, suffer from a lack of studies and literature of business strategy and performance of small and medium enterprises partly because of materials being unavailable in the Arabic language. So, presenting a translated version of the questionnaire in the Arabic language will assist future research by providing an Arabic-language version of a valid instrument (refer to Appendix A-2).

Finally, this study also makes a methodological contribution by examining the validity and the reliability of previous items and the adapting and adopting them for the context this

study. Additionally, this study decreases the scarcity of instruments used in measurements and contributes significantly to the literature by validating items to measure constructs of this study's model. Moreover, the developed instrument is strong, and the items will be within hand reach for future consideration.

#### **5.4.3 Practical Contributions**

The study provides great benefits for owner-managers, government policy makers, scholars, and educators by clarifying the concepts of business strategy, distinctive capabilities, environment uncertainty and their affects on the performance of manufacturing SMEs in the context of Palestine and the Arab world. The findings of this study provide good information for the requirements and problems that SME face and suggests ways to help them to understand how they can improve their performance and their ability to produce and compete in their markets, so that SMEs products can enter into the Palestinian, regional or international markets, discover the characteristics of owners and managers of SMEs like age, educational qualifications, production capacity, and the relationship between workers and employers.

In addition, this study contributes to the literature about how managers can enhance their firm's performance by selecting a strategy that is closely aligned with Palestinian environment. The firms also should be responding more rapidly to an unexpected change of environmental uncertainty to survive (Desarbo, Di Benedetto, Song, & Sinha, 2005). More few key contributions about how Palestinian manufacturing SMEs could promote

their performance by adopting an effective strategies with respect to high environment uncertainty.

The study results show that a negative relationship exist between environment uncertainty and the performance of manufacturing SMEs in Palestine. Thus, to increase performance the managers of manufacturing SMEs in Palestine must reduce the effect of environmental uncertainty and should know more about the external environment. This is consistent with Bendickson et al. (2016) who argued that reducing environmental uncertainty led to higher levels of company performance.

Moreover, and regarding the impact of the environment uncertainty on the performance of SMEs, the study's findings show that environment uncertainty significantly moderates the relationship between distinctive capabilities and the performance of manufacturing SMEs in a negative way. So, it plays critical role in enhancing the influence of distinctive capabilities on performance of manufacturing SMEs. That means that the managers can use the effect of environment uncertainty to enhance the influence of firm capabilities on performance.

Finally, this study's results show that the performance of SMEs was not influenced by administration capabilities, production capabilities, marketing capabilities and human resource capabilities, while finance capabilities influenced it. As such, the managers can focus more on the firm finance capabilities to enhance performance, without neglecting other firm capabilities.

## **5.5 Limitations and Suggestions for Future Research**

Even though this study has provided contributions to literature and support for a number of the hypothesized relationships between the endogenous and exogenous variables, the current study like other studies has limitations that must be listed for the benefit of future research.

First, because of the political situation and the siege imposed on the Gaza Strip by Israel, the study explored only Palestinian companies in West Bank. Therefore, to improve the generalization of the results of this study, future research can be expanded to SMEs in the Gaza Strip.

Second, this study sample explored only the manufacturing sector of SMEs in Palestine; this action may limit the generalizability of the study results. So, future studies in this area need to empirically investigate other SMEs sectors.

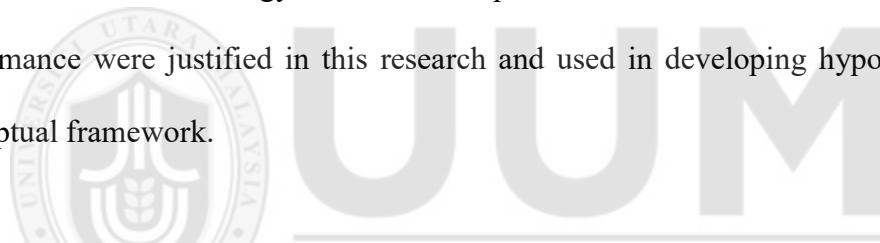
Third, this study adopted a cross-sectional design to allow causal inferences to be made from the population, Therefore, future research. to measure the theoretical constructs at different points of time and to confirm the findings of the present study, should include a longitudinal design.

Finally, future studies can use nonfinancial performance items like the business image, customer satisfaction, and customer retention, among others in measuring the performance

of SMEs. In addition, future studies can apply a qualitative approach to answer the study questions by interviews with owners and managers.

## **5.6 Conclusion**

The purpose of this study was to investigate and give an overall view of the importance of business strategy, distinctive capabilities and environment uncertainty on the performance of manufacturing SMEs in Palestine. Therefore, the study discussed theoretical aspects and prior literature about distinctive capabilities, business strategy and environment as independent variables and the financial performance of SMEs as dependent variable. All factors of business strategy, distinctive capabilities, and environment towards SMEs performance were justified in this research and used in developing hypotheses and the conceptual framework.



The finding of this study helps to fill the literature gap between developed and developing countries because most previous business strategy and performance research on SMEs has been conducted in the context of developed countries. Consequently, this study opens a path of hope to expand SME studies in Palestine and the Arab world and help firms in designing more effective strategies as a way of promoting their performance.

In this specific context, hypotheses were tested on a sample of 341 manufacturing SMEs in Palestine. Consequently, this study adopted quantitative stratified sampling method, and manufacturing SMEs were randomly selected from a chamber of commerce and manufacturing list in each governorate.

The results of this study show that a significant relationship between business strategy, distinctive capabilities and business environment and performance, and the business environment negatively moderated the relationship between distinctive capabilities and SMEs performance. Moreover, the performance was not influenced by administration capabilities, production capabilities, marketing capabilities and human resource capabilities, while finance capabilities influenced it. Additionally, this study offered results of the PLS analysis obtained from an evaluation of the measurement model, structural model and hypotheses testing. Additionally, a one-way ANOVA was also used.

As indicated before, four of main hypotheses were accepted as being significant while four of five of sub-hypotheses were rejected because of insignificant findings, and the fifth sub-hypotheses about the relationship between finance and performance of SMEs was accepted.

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## APPENDICES

### APPENDIX A-1

#### QUESTIONNAIRE (English Version)

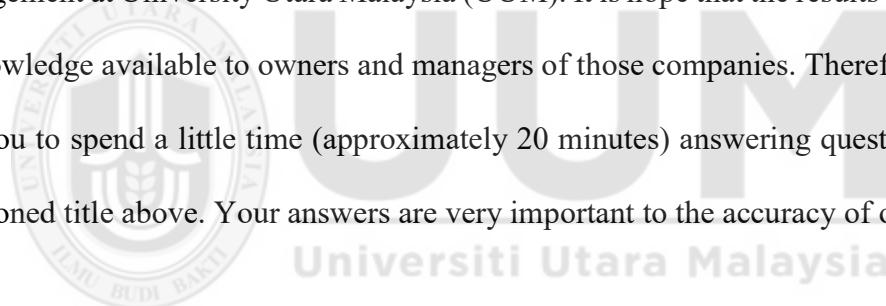


## QUESTIONNAIRE

### **Investigating the Relationship between Distinctive Capabilities, Business Strategy, Environment and Performance of Manufacturing SMEs in Palestine**

**Dear sirs/madams,**

This questionnaire was designed to Investigating the Relationship between Distinctive Capabilities, Business Strategy and Performance of manufactural SMEs in Palestine in partial fulfilment of the requirements for the degree of doctoral of philosophy in management at University Utara Malaysia (UUM). It is hope that the results will contribute to knowledge available to owners and managers of those companies. Therefore, we would like you to spend a little time (approximately 20 minutes) answering questions related to mentioned title above. Your answers are very important to the accuracy of our study.



#### **INFORMATION GATHERED WILL BE KEPT STRICTLY CONFIDENTIAL**

**Please return the completed questionnaire using the self-addressed envelope  
enclosed at your earliest possible convenience.**

*Thank you for your help*

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**Section 1: SMEs basic information's**

<b>Section A. Background of Owner/Managers: Please circle on the appropriate numbers</b>				
1. Gender	1. Male	2. Female		
2. Age	1. 25-35	2. 36-46	3. Above 46	4. Others
3. Marital status	1. Married	2. Single		
4. Education background	1. School leavers	2. Undergraduate	3. Masters	4. Others specify .....
5. Number of business owned (if none, go to no 8)	1. 1	2. 2	3. 3	4. Others
	5. None			

6. Reason for starting business	1. Interest	2. Lay-off	3. Family	4. Others
7. Business experience	1. 1-5 years	2. 6-10 years	3. 11-15 years	4. > 16 years
8. Position in the company	1. CEO/MD	2. Manager	3. Others	
9. Managerial decisions	1. Make	2. Share	3. Do not make	4. Do not share
10. Strategic decisions.	1. Make	2. Share	3. Do not make	4. Do not share
11. Breadth of operation	1. National	2. Regional	3. International	4. Israel
12. Duration of business	1. < 5 years	2. 6-10 years	3. 11-15 years	4. Above 15 years
13. Percentage of ownership	1. <30%	2. 30-50%	3. 51-70%	4. >70%
14. Total no. of shareholders	1. <3	2. 3-6	3. 7-10	4. 10<

**SECTION B. Firm information:** Please attempt all the questions by shading on the appropriate numbers or writing the answers in the blank provided.

15. Place of Firm	1. Nablus	2. Jenin	3. Tulkarm	4. Ramalla & Al Birih
	5. Bethlehem	6. Jerico	7. Hebron	8. Others (specify)
16- The company's activity (work field)	1. Mining and quarrying	2. Manufacturing	3. Construction	4. Electricity, gas, steam
	5. Water supply; sewerage	6. Other (specify) .....		

17. Your legal form of operations? 1. Sole proprietorship 2. Partnership 3. Private limited company  
4. SMEs company 5. Others (specify)

18. How many products do you produce? \_\_\_ products. 1. One 2. Two 3. Three 3. More than 3

19. How many of your leading products generate 80% of your dollar volume? \_\_\_ products.

20. What was the dollar (USD) volume of your business in the last fiscal year?

1. <USD 75,000 2. USD 75,001 - 150,000 3. USD 150,001 – 300,000 3. Above USD 300,000

21. What was your initial paid-up capital when you started the business?

1. <USD 15,000 2. USD 15,001 - 75,000 3. USD 75,001 – 150,000 3. Above USD 150,000

22. What was the dollar (USD) volume of your business in the first year you started the business?

1. <USD 75,000 2. USD 75,001 - 150,000 3. USD 150,001 – 300,000 3. Above USD 300,000

23. What was the initial number of employees when you first started your business?

1. < 5 2. 5 -19 3. 20 - 49 4. 50 - 99

24. What was the number of full time employees in your organisation at the end last fiscal year?

1. 5 -19 2. 20 - 49 3. 50 - 99

25. Do you have a written business plan? 1. Yes 2. No

## Section 2: Business capabilities.

Please tick on the appropriate boxes that best describe the situation at your company.

<b>A. Level of your administrative capabilities.</b>	Low High				
	1	2	3	4	5
1. Our company attracts high and multi-skill top management.	1	2	3	4	5
2. Our company performance are outstanding than our competitors.	1	2	3	4	5
3. We grab the opportunities and eliminate threats better than our competitions.	1	2	3	4	5
4. Difference in opinions among employer and employees is solve.	1	2	3	4	5
5. We know our identity, vision, mission, objectives, business strategy, policy.	1	2	3	4	5
6. We are able to promote to improve, coordinate an effective collaboration between top management and executives.	1	2	3	4	5
7. We are able to develop a more effective strategic planning for the company to grow and make profit better than our competitors.	1	2	3	4	5
8. We are able to promote and exercise management by objective among the employees successfully.	1	2	3	4	5
9. Our employees are exposed to the latest technological assistance in decision making which is better than our competitors.	1	2	3	4	5

10. Our employees manage to get the job done with the access of efficient management system with minimum cost.	1	2	3	4	5
<b>B. Production and Operations capabilities</b>					
11. Our expansion program is align with our contract out program.	1	2	3	4	5
12. We maintain our work force efficiency.	1	2	3	4	5
13. Modification of machineries result in improving our output.	1	2	3	4	5
14. Our procurement department is very efficient in their job.	1	2	3	4	5
15. Our equipment's are maintain efficiently.	1	2	3	4	5
16. We always provide our customer with high quality product.	1	2	3	4	5
17. One of our priority is efficient output and material handling.	1	2	3	4	5
18. One of our priority is to comply with OSHA.	1	2	3	4	5
19. We are more innovative than our competitors.	1	2	3	4	5
20. Our production technology is the best in the industry.	1	2	3	4	5
21. All our R&D expenses generated value added continuously.	1	2	3	4	5
22. All employees have high team spirit which support our QCC activities.	1	2	3	4	5
<b>C. Marketing capabilities</b>					

23. Continuous research on all or our marketing function.	1	2	3	4	5
24. Our major customers are highly reputable organizations.	1	2	3	4	5
25. Our price strategy is more effective than our competitor.	1	2	3	4	5
26. We have effective sales promotion and advertising campaigns.	1	2	3	4	5
27. Our distributions channels are the most effective.	1	2	3	4	5
28. We have efficient and effective product-line.	1	2	3	4	5
29. We have highly skilled and dynamic marketing sales teams.	1	2	3	4	5
<b>D. Financing capabilities</b>					
30. Our company capital structure is the best in the industry.	1	2	3	4	5
31. We are innovative to meet needed working capital growth.	1	2	3	4	5
32. Our working capital position is better than our competitors.	1	2	3	4	5
33. Our short-term capital cost is the lowest in the industry.	1	2	3	4	5
34. Our company tax management is effective.	1	2	3	4	5
35. We manage our financial risk efficiently.	1	2	3	4	5
36. We have business opportunities with less risk and high return.	1	2	3	4	5

37. Our ROI, ROE, ROS indicate excellence company performance.	1	2	3	4	5
<b>E. Human Resource capabilities</b>					
38. We experience manufacturing harmony in the company.	1	2	3	4	5
39. Our term and condition of employment is effective.	1	2	3	4	5
40. We have effective recruitment, and career development program.	1	2	3	4	5
41. HRD functions are efficiently managed.	1	2	3	4	5
42. Collective bargaining and agreement satisfy our needs.	1	2	3	4	5
43. Our employees are committed with quality programs.	1	2	3	4	5
44. Incentive are provided to creativity and innovative employees.	1	2	3	4	5
45. Effective grievance procedures compared to our competitors.	1	2	3	4	5
46. We received our ISO certification for our Q system.	1	2	3	4	5
47. Training programs for staff consistently implemented.	1	2	3	4	5

### Section 3: Environment

In general, how much do you disagree or agree with each of the following statements characterizing the business environment or conditions in the primary markets your SMEs currently serves? Please indicate the degree to which you agree or disagree with the following statement regarding this selected business

unit (anchors: 1 = strongly disagree / 5 = strongly agree)

<b>A. Market environment</b>	Strongly disagree		Strongly agree		
	1	2	3	4	5
48. In our kind of business, customers' product preferences change quite a bit over time					
49. Our customers tend to look for new products all the time	1	2	3	4	5
50. Sometimes our customers are very price-sensitive, but on other occasions, price is relatively unimportant	1	2	3	4	5
51. New customers tend to have product-related needs that are different from those of our existing customers.	1	2	3	4	5
52. We cater to many of the same customers that we used to in the past	1	2	3	4	5
53. It is very difficult to predict any changes in this marketplace	1	2	3	4	5
<b>B. Technological environment</b>					
54. The technology in our industry is changing rapidly.	1	2	3	4	5
55. Technological changes provide big opportunities in our industry.	1	2	3	4	5

56. It is very difficult to forecast where the technology in our industry will be in the next two to three years.	1	2	3	4	5
57. A large number of new product ideas have been made possible through technological breakthroughs in our industry.	1	2	3	4	5
58. Technological developments in our industry are rather minor.	1	2	3	4	5
59. The technological changes in this industry are frequent.	1	2	3	4	5
<b>C. Competitive environment</b>					
60. Competition in our industry is cutthroat.	1	2	3	4	5
61. There are many 'promotion wars' in our industry.	1	2	3	4	5
62. Anything that one competitor can offer, others can match readily.	1	2	3	4	5
63. Price competition is a hallmark of our industry.	1	2	3	4	5
64. One hears of a new competitive move almost every day.	1	2	3	4	5
65. Our competitors are relatively weak.	1	2	3	4	5

## Section 4: SMEs Business Strategy

71. Listed below are common business strategies adopted by SMEs. Please circle the business strategy that best describe the strategy that your company adopted.

<b>1. Low cost strategy</b>	High productivity, low margin products, budget price and cheapest product.
<b>2. Differentiation strategy</b>	Best product, best quality, great image, best service, premium price and intensive campaign.
<b>3. Growth strategy.</b>	Risk taking, expansion, aggressive search for market share, use price cuts, promotional campaign.
<b>4. Hold and maintain strategy.</b>	Continuing the present strategy and scrounging up enough resources to keep sales, market share, profitability, and competitive position at survival levels.
<b>5. Bare bone strategy.</b>	Base on low overhead, use of low-wage labor, tight budget control and rigid to a no-frills expenditure policy.
<b>6. Specializing by product type strategy</b>	Specialize in only one product
<b>7. Specializing by customer type strategy</b>	By specializing in serving customers who are the least price sensitive, going after those buyers who are interested in additional services or product attributes or other extras, serving customers who place custom orders and targeting buyers who have special needs or tastes.
<b>8. Others (please specify)</b>	

**SECTION 5:**

**72. Please fill in the table below base on your financial records.**

Year	% RETURN ON ASSET (USD)	% RETURN ON INVESTMENT (USD)	% RETURN ON SALES (USD)	NET PROFIT (USD)	TOTAL NO. OF EMPLOYEES
2016	> 40%				
2015	31 % TO 40%				
2014	21 % TO 30%				
2013	11 % To 20%				
2012	0 TO 10%				
	> 40 %				
	31 % TO 40%				
	21 % TO 30%				
	11 % To 20%				
	0 TO 10%				
	> 40 %				
	31 % TO 40%				
	21 % TO 30%				
	11 % To 20%				
	0 TO 10%				



**APPENDIX A-2**  
**QUESTIONNAIRE (Arabic Version)**





## استبيان

التحق من العلاقة بين الكفاءات المميزة، استراتيجيات الأعمال والغموص في البيئة مع الأداء في الشركات الصغيرة والمتوسطة في القطاع الصناعي في فلسطين

حضرات السادة / السيدات،

تم تصميم هذا الاستبيان من أجل التتحقق من العلاقة بين القدرات الداخلية، استراتيجيات الأعمال والغموص في البيئة وتأثيرها على الأداء في الشركات الصغيرة والمتوسطة في القطاع الصناعي في فلسطين، وذلك من أجل إكمال متطلبات الحصول على درجة الدكتوراه في إدارة الأعمال من جامعة اوتارا الماليزية (UUM). ويدعونا الأمل بأن النتائج سوف تسهم في زيادة المعرفة المتاحة لأصحاب ومديري تلك المصانع والشركات وصانعي القرارات الاقتصادية. وبناء عليه، نطلب من حضرتكم قضاء بعض الوقت ( حوالي 20 دقيقة) في الإجابة على الأسئلة التالية. اجابتكم مهمة جدا لدقة الدراسة.

ملاحظة: المعلومات التي يتم جمعها سيتم التعامل بها بسرية تامة ولأغراض البحث العلمي فقط.

مع الشكر الجزيل لكم ولحسن تعاونكم

المشرف : بروفيسور شعاري بن أحمد

الباحث: هاشم إسماعيل رمضان

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#### الجزء الأول: معلومات عامة

أ- خلفية المالك / المدير				يرجى وضع دائرة حول الاختيار المناسب	
		2- أنثى	1- ذكر	الجنس	1
55- فوق 4	55-41-3	40-25-2	25- أقل من 1	العمر	2
4- أرمل	3- مطلق	2- أعزب	1- متزوج	الحالة الاجتماعية	3
4- دراسات عليا	3- بكالوريوس	2- دبلوم	1- توجيهي فما دون	المستوى التعليمي	4
4- فأكثر	3-3	2-2	1-1	عدد المشاريع التي تملكها (في حالة لا يوجد انتقال للسؤال رقم 8)	5
2- الاستقلالية والتحكم في الذات		1- تحقيق الربح المالي		الهدف من إنشاء المشروع	6

5- آخر (حدد .....)	4- الاستفادة من الخبرة	3- تحقيق الرضا الوظيفي			
%70 < -4	%70-51 -3	%50-30 -2	%30 > -1	نسبة الملكية	7
16 - أكثـر من 4	15 - 11 -3	10 - 6 -2	1- أقل من 5 سنوات	عدد سنوات الخبرة	8
4- مدير اداري	3- مدير عام	2- شريك	1- مدير مالك	الوظيفة الحالية	9
.....	6- أخرى .....		5- مدير تنفيذي		
3- لا دور في اتخاذ القرارات	2- مشارك في اتخاذ القرارات	1- متخذ قرارات		الدور في اتخاذ القرارات	10
3- لا دور في إعداد الخطة	2- مشارك في إعداد الخطة	1- معد للخطة		الدور في الخطة الاستراتيجية	11
4- إسرائيل	3- دولي	2- إقليمي	1- محلي	مجال النشاط (بيع المنتجات)	12
16 - أكثـر من 4	15-11 سنة	10-5 سنوات	1- > 5 سنوات	عمر المصنع أو المؤسسة	13
10 < -4	10-7 -3	6-3 -2	3 > -1	عدد الشركاء الاجمالي	14

**ب - خلفية المشروع :** الرجاء الاجابة عن جميع الأسئلة باختيار الاجابة المناسبة أو تعينه الفراغ.

4- الخليل	3- رام الله والبيرة	2- جنين	1- نابلس	موقع الشركة / لمصنع (حسب المحافظة)	15
8- أخرى (حدد)	7- بيت لحم	6- أريحا	5- طولكرم		
4- امدادات المياه والكهرباء والغاز	3- الإنشاءات	2- صناعات تحويلية	1- تعدين واستغلال المحاجر	نشاط المشروع (مجال العمل)	16
.....	6- أخرى (حدد)	5- إمدادات المياه والصرف الصحي			

الشكل القانوني للمؤسسة: 1- ملكية شخصية 2- شراكة 3- شركة خاصة محدودة 4- أخرى (حدد) .....	17
كم عدد المنتجات التي تنتجونها؟ ..... المنتجات 1- منتج واحد 2- اثنان أو ثلاثة 3- أكثر من ثلاثة	18
ما عدد المنتجات التي تولد 80% من اجمالي الانتاج لديك؟ ..... منتجات.	19
ما حجم اعمالكم بالدولار للسنة الماضية؟	20
300,000 < -4      300,000 - 150,001      -3      150,000 – 75,001      -2      75,000 -1- أقل من	
ما هو مقدار رأس المال الأولي بالدولار المستثمر عند تأسيس المشروع؟	21
150,000 < -4      150,000 - 75,001      -3      75,000 – 15,001      -2      15,000 -1- أقل من	
كم كان حجم الأعمال بالدولار في السنة الأولى للتأسيس؟	22
300,000 < -4      300,000 - 150,001      -3      150,000 – 75,001      -2      75,000 -1- أقل من	
ما عدد العاملين عندما بدأت لأول مرة عملك؟	23
1- أقل من 5 موظفين      2- 5 – 19 موظف      3- 20 – 49 موظف      4- 50- 99 موظف	
ما عدد العاملين بدوام كامل في المؤسسة الخاصة بك في نهاية السنة المالية الماضية؟	24
-1 - 5 – 19 موظف      2- 20 – 49 موظف      3- 50- 99 موظف	
هل لديك خطة عمل (Business Plan) مكتوبة؟ 1- نعم 2- لا	25

الجزء الثاني: الأنشطة الإدارية

يرجى وضع دائرة على الاختيار المناسب لأفضل وصف في شركتك						أ- مستوى الأنشطة الإدارية
موافق بشدة		غير موافق بشدة				
5	4	3	2	1	تجذب شركتنا أصحاب أفضل وأعلى مهارات متعددة.	1
5	4	3	2	1	مستوى أداء شركتنا أفضل من منافسينا.	2
5	4	3	2	1	نحن نستفيد من الفرص ونقل التهديدات أفضل من منافسينا.	3
5	4	3	2	1	الاختلاف في وجهات النظر بين الموظفين وأصحاب العمل يتم حلها.	4
5	4	3	2	1	نحن نعرف هويتنا، رؤيتنا، رسالتنا، استراتيجية وسياستنا.	5
5	4	3	2	1	نحن قادرون على رفع التعزيز والتتنسيق الفعال بين الادارة العليا والمدراء التنفيذيين.	6
5	4	3	2	1	نحن قادرون على تطوير خطط استراتيجية أكثر فعالية للشركة لتحقيق نمو وربح أفضل من منافسينا.	7
5	4	3	2	1	نحن قادرون على تعزيز وممارسة الإدارة من خلال الهدف بين الموظفين بنجاح.	8
5	4	3	2	1	يتمتع موظفونا بأفضل مساعدة تكنولوجية في صنع القرار أفضل من منافسينا.	9
5	4	3	2	1	موظفينا يتمكنو من انجاز المهام باستخدام أنظمة إدارة فعالة وبأقل تكلفة.	10
ب- أنشطة الانتاج والعمليات						

5	4	3	2	1	برنامجا التوسيعى يتماشى مع العقود المبرمة خارجيا.	11
5	4	3	2	1	نحافظ على كفاءة الفوئ العاملة لدينا.	12
5	4	3	2	1	صيانة وتعديل الأجهزة والماكينات يؤدي إلى تحسين انتاجنا.	13
5	4	3	2	1	قسم المشتريات لدينا فعالين جدا في عملهم.	14
5	4	3	2	1	صيانة الماكينات لدينا تتم بفعالية.	15
5	4	3	2	1	نحن نقدم لزبائننا دائما منتجات ذات جودة عالية.	16
5	4	3	2	1	واحدة من أهم أولوياتنا هو كفاءة الإنتاج ومناولة المواد.	17
5	4	3	2	1	واحدة من أهم أولوياتنا هو الامتثال لإجراءات السلامة والصحة المهنية (OSHA)	18
5	4	3	2	1	نحن أكثر إبداعا من منافسينا.	19
5	4	3	2	1	تكنولوجيا الإنتاج لدينا هي الأفضل في هذه الصناعة.	20
5	4	3	2	1	جميع النفقات على البحث والتطوير لدينا ترفع من القيمة المضافة باستمرار	21
5	4	3	2	1	جميع العاملين لديهم روح الفريق العالية التي تدعم أنشطة فريق ضبط الجودة (QCC).	22

#### د- الأنشطة التسويقية

5	4	3	2	1	نحن نقوم بأبحاث مستمرة على جميع أنشطتنا التسويقية.	23
5	4	3	2	1	زبائننا الرئيسيين هم من المنظمات المرموقة.	24
5	4	3	2	1	استراتيجية التسويق لدينا أكثر فعالية من منافسنا.	25

5	4	3	2	1	الحملات الاعلانية والترويجية للمبيعات فعالة عندنا.	26
5	4	3	2	1	قدوات التوزيع لدينا هي الأكثر فعالية.	27
5	4	3	2	1	خطوط الانتاج لدينا تعمل بكفاءة وفعالية.	28
5	4	3	2	1	فرق المبيعات والتسويق لدينا من ذوي المهارات العالية والحيوية.	29
<b>و – الأنشطة التمويلية</b>						
5	4	3	2	1	هيكل رأس المال لدينا هو الأفضل في هذه الصناعة.	30
5	4	3	2	1	نحن نعتبر مبتكرين في مواجهة الحاجة لنمو رأس المال العامل اللازم.	31
5	4	3	2	1	رأس المال العامل لدينا هو الأفضل مقارنة مع منافسينا.	32
5	4	3	2	1	تكلفة رأس المال على المدى القصير لدينا هي الأدنى في هذه الصناعة.	33
5	4	3	2	1	الإدارة الضريبية لدينا فعالة.	34
5	4	3	2	1	إدارتنا للمخاطر المالية تعمل بكفاءة.	35
5	4	3	2	1	لدينا فرص أعمال أقل مخاطرة مع عائد مرتفع.	36
5	4	3	2	1	العائد على الاستثمار، العائد على حقوق المساهمين، والعائد على المبيعات تعكس أدائنا المتميز.	37
<b>ه – أنشطة الموارد البشرية</b>						
5	4	3	2	1	يتوفر لدى موظفينا الخبرة والإنسجام في الشركة.	38
5	4	3	2	1	مواصفات وشروط التوظيف لدينا تعتبر فعالة.	39

5	4	3	2	1	برامج التوظيف والتطوير الوظيفي لدينا تعتبر فعالة.	40
5	4	3	2	1	وظائف تنمية الموارد البشرية تدار بكفاءة.	41
5	4	3	2	1	النقاشات الداخلية المشتركة وما يتفق عليه تلبي احتياجاتنا.	42
5	4	3	2	1	موظفينا ملتزمون ببرامج الجودة.	43
5	4	3	2	1	يتم توفير حوافز الإبداع للموظفين المبتكرين.	44
5	4	3	2	1	إجراءات التظلم لدينا فعالة بالمقارنة مع منافسينا.	45
5	4	3	2	1	نحن نتبني متطلبات شهادة نظام الأيزو ISO لدينا.	46
5	4	3	2	1	ننفذ برامج تدريبية لموظفينا باستمرار.	47

### الجزء الثالث: البيئة

Universiti Utara Malaysia

بشكل عام، كم أنت تختلف أو تتفق مع كل من العبارات التالية التي تميز بيئه الأعمال أو الظروف السائدة في السوق و يخدم الشركات الصغيرة والمتوسطة لديك حاليا؟ في العبارات التالية يرجى الإشارة إلى الدرجة التي تتفق أو تختلف فيها فيما يتعلق بهذه الأعمال المختارة.

يرجى وضع دائرة على الاختيار المناسب لأفضل وصف في شركتك						
موافق بشدة		غير موافق بشدة		أ- البيئة السوقية		
5	4	3	2	1	في عملنا هذا، تفضيلات الزبائن للمنتجات تتغير بشكل بطيء مع الوقت	48
5	4	3	2	1	عملاننا يميلون للبحث عن منتجات جديدة بشكل مستمر.	49

5	4	3	2	1	في بعض الأحيان الزبائن لدينا حساسين جداً للسعر، ولكن في مناسبات أخرى، السعر يكون غير مهم نسبياً.	50
5	4	3	2	1	احتياجات الزبائن الجدد من المنتجات تختلف أحياناً عن متطلبات الزبائن الحاليين.	51
5	4	3	2	1	نحن نلبي احتياجات العديد من الزبائن أنفسهم الذين الذين كنا نخدمهم في الماضي.	52
5	4	3	2	1	من الصعب جداً التكهن بأي تغييرات في هذا السوق.	53
<b>ب- البيئة التكنولوجية</b>						
5	4	3	2	1	التكنولوجيا في صناعتنا تتغير بسرعة.	54
5	4	3	2	1	توفر التغييرات التكنولوجية فرصاً كبيرة في هذه الصناعة.	55
5	4	3	2	1	من الصعب جداً التنبؤ أين ستكون التكنولوجيا في صناعتنا في السنتين أو الثلاث سنوات القادمة.	56
5	4	3	2	1	عدد كبير من أفكار المنتجات الجديدة أصبحت ممكنة من خلال التقدم التكنولوجي في الصناعة.	57
5	4	3	2	1	التطورات التكنولوجية في هذه الصناعة هي بسيطة إلى حد ما.	58
5	4	3	2	1	التغييرات التكنولوجية في هذه الصناعة متكررة.	59
<b>ج- البيئة التنافسية</b>						
5	4	3	2	1	المنافسة في صناعتنا قاسية جداً.	60
5	4	3	2	1	هناك العديد من "الحروب الترويجية" في صناعتنا.	61
5	4	3	2	1	أي منتج جديد يقدم من قبل المنافسين، يمكن للأخرين أن يطابقوه بسهولة.	62

5	4	3	2	1	الأسعار المنافسة هي السمة المميزة لهذه الصناعة.	63
5	4	3	2	1	نسمع أخبار تنافسية جديدة كل يوم تقريبا.	64
5	4	3	2	1	منافسينا ضعاف نسبيا.	65

#### الجزء الخامس : الاستراتيجيات المتبعة في المشاريع الصغيرة والمتوسطة.

71- فيما يلي استراتيجيات الأعمال المعهول بها في المشاريع الصغيرة والمتوسطة. يرجى وضع دائرة حول استراتيجية العمل التي تصنف أفضل الإستراتيجيات التي اعتمدتموها لديكم.

استراتيجية التكالفة المنخفضة <b>Low cost strategy</b>	-1	إنتاجية عالية، توافر اقتصاديات الحجم، سعر الميزانية وأرخص المنتجات. products, budget price وHigh productivity, low margin, and cheapest product.
استراتيجية التمايز <b>Differentiation strategy</b>	-2	أفضل المنتجات، وأفضل نوعية، صورة منتج مميزة، أفضل خدمة، أسعار متميزة، وحملة دعائية مكثفة. Best product, best quality, great image, best service, premium price and intensive campaign.
استراتيجية النمو. <b>Growth strategy</b>	-3	المخاطرة، والتوسيع، بذل أكبر جهد ممكن في البحث عن حصة في السوق، واستخدام خفض الأسعار، حملات ترويجية. Risk taking, expansion, aggressive search for market share, use price cuts, promotional campaign.
استراتيجية الامساك والاحتفاظ. <b>Hold and maintain strategy.</b>	-4	استمرارا لل استراتيجية الحالية ويعملون بجمع موارد كافية للحفاظ على المبيعات، والصلة السوقية والربحية، والوضع التنافسي والهدف هو البقاء في السوق (البقاء على قيد الحياة).

Continuing the present strategy and scrounging up enough resources to keep sales, market share, profitability, and competitive position at survival levels.		
تحفيض المصارييف الغير مباشرة، واستخدام العمالة ذات الأجر المنخفضة، رقابة مشددة على الميزانية وتخفيض النفقات على الكماليات.  Base on low overhead, use of low-wage labor, tight budget control and rigid to a no-frills expenditure policy.	استراتيجية العظام العارية  <b>Bare bone strategy.</b>	-5
متخصصون في منتج واحد فقط  Specialize in only one product	استراتيجية نوع المنتج  <b>Specializing by product type strategy</b>	-6
متخصصين في خدمة العملاء الذين لا يهتمون بالسعر، البحث عن المشترين الذين يرغبون في خدمات إضافية أو مواصفات معينة للمنتجات، وخدمة الزبائن الذين لديهم طلبات واحتياجات وأنواع خاصة.  By specializing in serving customers who are the least price sensitive, going after those buyers who are interested in additional services or product attributes or other extras, serving customers who place custom orders and targeting buyers who have special needs or tastes.	استراتيجية التخصص حسب نوع الزبائن  <b>Specializing by customer type strategy</b>	-7
	أخرى (يرجى التحديد)	-8

الجزء السادس:

72. يرجى ملء الجدول أدناه بناء على السجلات المالية الخاصة بكم.

العام Year	% RETURN ON ASSET (USD) نسبة العائد على الأصول	% RETURN ON INVESTMENT (USD) نسبة العائد على الاستثمار	% RETURN ON SALES (USD) نسبة العائد على المبيعات	NET PROFIT (USD) صافي الربح	عدد العاملين
2016				> 40 % 31 % TO 40%	
2015				21 % TO 30%	
2014				11 % To 20%	
2013				0 TO 10%	
2012				> 40 % 31 % TO 40% 21 % TO 30% 11 % To 20% 0 TO 10%	

**APPENDIX B-1**  
**(Test of Non-Respondent Bias)**

**Group Statistics**

	Bias	N	Mean	Std. Deviation	Std. Error Mean
sum_DCfina	Early	176	35.8068	3.46033	.26083
	late	72	36.0139	3.52254	.41513
sum_DChr	Early	176	46.3807	4.09285	.30851
	late	72	46.1528	3.92055	.46204
Sum_EnTech	Early	176	22.4716	5.02102	.37847
	late	72	23.5417	4.53760	.53476
Sum_EnComp	Early	176	18.4261	6.85984	.51708
	late	72	19.1806	7.36441	.86790
Sum_Perf	Early	176	11.4485	2.34688	.17690
	late	72	11.2407	2.04930	.24151

Sum_DCmark	Early	176	31.9659	3.12391	.23547
	late	72	31.5972	2.78153	.32781
Sum_ENmark	Early	176	18.2500	7.10694	.53571
	late	72	21.4444	6.32653	.74559
Sum_DCadm	Early	176	46.3920	3.98709	.30054
	late	72	46.0694	3.54181	.41741
Sum_DCpro	Early	176	56.0341	4.43479	.33429
	late	72	55.4583	4.12118	.48569
BS71	Early	176	2.06	1.236	.093
	late	72	2.15	1.431	.169

### Independent Samples Test

		Levene's Test				t-test for Equality of Means				
		for Equality of Variances				95% Confidence Interval of the Difference				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
sum_D_Cfina	Equal variances assumed	.143	.706	-	246	.671	-	.48661	-	.75139
	Equal variances not assumed			.426			.20707		1.1655	3
sum_D_Chr	Equal variances assumed	1.080	.300	.403	246	.687	.22790	.56572	-	1.3421
	Equal variances not assumed				.410	137.	.682	.22790	.55557	.88637
Sum_E_nTech	Equal variances assumed	1.595	.208	-	246	.119	-	.68359	-	.27635
	Equal variances not assumed			1.56	5		1.0700	2.4165	0	
Sum_E_nComp	Equal variances assumed	1.327	.250	-	246	.442	-	.98055	-	1.1769
	Equal variances not assumed			.769			.75442	2.6857	7	
Sum_P_efr	Equal variances assumed	.396	.529	.656	246	.513	.20774	.31686	-	.83186
	Equal variances not assumed				.694	150.	.489	.20774	.41637	
					095		.29937		-	.79927
								.38378		

Sum_D	Equal variances assumed	.996	.319	.870	246	.385	.36869	.42375	-	1.2033
Cmark									.46596	3
	Equal variances not assumed				.913	147.	.362	.36869	.40361	-
					268				.42894	1
Sum_E	Equal variances assumed	1.789	.182	-	246	.001	-	.96399	-	-
Nmark				3.31			3.1944		5.0931	1.2957
				4			4		7	2
	Equal variances not assumed				-	147.	.001	-	.91809	-
				3.47	301		3.1944		5.0087	1.3801
				9			4		7	2
Sum_D	Equal variances assumed	1.843	.176	.597	246	.551	.32260	.54053	-	1.3872
Cadm									.74206	7
	Equal variances not assumed				.627	147.	.531	.32260	.51435	-
					603				.69383	3
Sum_D	Equal variances assumed	1.637	.202	.947	246	.345	.57576	.60807	-	1.7734
Cpro									.62193	4
	Equal variances not assumed				.977	141.	.330	.57576	.58961	-
					334				.58983	5
BS71	Equal variances assumed	2.429	.120	-	246	.597	-.096	.181	-.453	.261
				.530						
	Equal variances not assumed				-	116.	.619	-.096	.193	-.477
				.498	584					.286

**APPENDIX B-2**  
**(Treatment of Missing data)**

**DCadm4**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	89	35.3	35.5	35.5
	Strongly agree	162	64.3	64.5	100.0
	Total	251	99.6	100.0	
Missing	System	1	.4		
	Total	252	100.0		

### DCpro12

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	1	.4	.4	.4
	Agree	89	35.3	35.5	35.9
	Strongly agree	161	63.9	64.1	100.0
	Total	251	99.6	100.0	
Missing	System	1	.4		
	Total	252	100.0		

### DCpro22

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	76	30.2	30.3	30.3
	Strongly agree	175	69.4	69.7	100.0

Total	251	99.6	100.0	
Missing System	1	.4		
Total	252	100.0		

### DCmar29

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	.8	.8	.8
	Neutral	9	3.6	3.6	4.4
	Agree	99	39.3	39.4	43.8
	Strongly agree	141	56.0	56.2	100.0
Total		251	99.6	100.0	
Missing System		1	.4		
Total		252	100.0		

### APPENDIX B-3

#### (MAH\_1 APPENDIX)

(MAH_1 appendix B-3)					
Removing Outliers (Mahalanobis)					
<b>N</b>	<b>Mah_1</b>	<b>N</b>	<b>Mah_1</b>	<b>N</b>	<b>Mah_1</b>
1	2.52018	85	3.09102	169	9.56205
2	18.75910	86	2.76861	170	3.75905
3	5.81516	87	5.44391	171	6.65627
4	4.81192	88	5.40903	172	8.68896
5	11.66574	89	5.51101	173	7.31412
6	6.48423	90	10.15003	174	8.03771
7	6.52604	91	5.56927	175	7.77427
8	8.05673	92	5.74444	176	8.22227
9	7.28235	93	7.02263	177	12.17109
10	6.07305	94	8.48092	178	5.29254
11	5.69609	95	7.65910	179	15.77381
12	3.20683	96	5.21686	180	5.48900
13	5.45087	97	11.55233	181	12.98981
14	9.13143	98	12.83490	182	3.74242
15	1.40641	99	4.26276	183	4.42097
16	12.74839	100	5.01366	184	7.96560
17	6.51621	101	3.67343	185	5.37617
18	4.18819	102	8.88607	186	5.17307
19	5.14840	103	9.77207	187	7.74085
20	5.52113	104	3.97157	188	6.16697

21	3.50432	105	6.24791	189	2.51642
22	6.46530	106	5.33543	190	13.45122
23	5.86380	107	11.99479	191	8.28459
24	6.01299	108	7.86866	192	5.82337
25	7.30146	109	9.40352	193	2.97281
26	9.23829	110	12.65920	194	14.69311
27	3.28314	111	2.00634	195	5.23525
28	4.14454	112	7.09454	196	2.75902
29	4.74987	113	3.86415	197	5.03565
30	9.87553	114	6.86841	198	5.17610
31	7.76068	115	5.23665	199	2.40727
32	9.81016	116	9.82909	200	9.02744
33	9.17950	117	8.24657	201	6.31228
34	7.50266	118	2.75832	202	6.70988
35	5.26767	119	6.27260	203	5.92073
36	4.45769	120	4.45765	204	4.99004
37	5.63838	121	2.14849	205	11.88165
38	5.36752	122	12.06931	206	3.18636
39	5.23213	123	13.30810	207	6.08464
40	9.94897	124	4.09787	208	11.91151
41	5.82101	125	10.48767	209	10.40743
42	7.31171	126	2.37068	210	11.14933
43	5.63373	127	9.37449	211	8.74944
44	5.62232	128	10.81016	212	4.98494
45	7.37423	129	6.16095	213	9.17221
46	4.96256	130	7.20043	214	23.08654
47	3.69169	131	7.03082	215	2.83600

48	5.95900	132	6.28063	216	4.51344
49	6.88438	133	3.13350	<b>217</b>	<b>35.40774</b>
50	5.51075	134	8.39199	218	10.48673
51	6.72449	135	3.15573	219	7.69051
52	15.88405	136	8.34655	220	16.92415
53	4.31812	137	6.94390	221	9.33356
54	9.95813	138	5.89475	<b>222</b>	<b>38.58042</b>
55	5.20874	139	18.06690	223	17.66137
56	4.83342	140	4.66539	224	21.39368
57	7.51430	141	3.26707	225	6.60422
58	5.55788	142	9.43664	226	12.63041
59	6.92322	143	12.47981	227	7.56905
60	4.19902	144	6.99854	228	15.37507
61	3.67028	145	4.92576	229	13.56457
62	3.94363	146	6.87447	<b>230</b>	<b>33.80586</b>
63	6.06880	147	5.19896	231	17.20394
64	6.76081	148	5.98489	232	6.46680
65	3.99813	149	1.91162	233	12.65910
66	4.42521	150	2.70516	<b>234</b>	<b>51.47769</b>
67	10.48377	151	3.20348	235	7.62830
68	6.23117	152	2.68446	236	5.70675
69	9.94704	153	5.84034	237	12.07510
70	5.40998	154	3.72737	238	7.84779
71	14.09019	155	6.86486	239	12.28342
72	6.51300	156	15.52386	240	16.16089
73	5.51450	157	5.57078	241	11.00499
74	7.28097	158	9.24093	242	9.81491

75	13.75264	159	7.07663	243	2.96115
76	7.52571	160	8.00735	244	15.21983
77	4.47859	161	3.91630	245	20.24395
78	6.13432	162	3.08162	246	5.51091
79	6.63205	163	5.84096	247	11.55324
80	9.87449	164	6.52580	248	8.32155
81	5.61946	165	11.88360	249	4.96535
82	3.16292	166	3.09102	250	10.77943
83	4.45048	167	2.76861	251	10.71696
84	6.76475	168	5.44391	252	7.20213



**APPENDIX B-4**  
**(Normality Test\_APPENDIX)**

**Descriptives**

		Statistic	Std. Error
AVG_ROA	Mean	2.3516	.04016
	95% Confidence Interval for Mean	Lower Bound	2.2725
		Upper Bound	2.4307
	5% Trimmed Mean	2.3391	
	Median	2.4000	
	Variance	.400	
	Std. Deviation	.63239	
	Minimum	1.00	
	Maximum	4.60	
	Range	3.60	
	Interquartile Range	.80	
	Skewness	.384	.155
	Kurtosis	.807	.308
AVG_ROI	Mean	2.2024	.03529
	95% Confidence Interval for Mean	Lower Bound	2.1329
		Upper Bound	2.2719

	5% Trimmed Mean	2.1982	
	Median	2.2000	
	Variance	.309	
	Std. Deviation	.55572	
	Minimum	1.00	
	Maximum	4.00	
	Range	3.00	
	Interquartile Range	.80	
	Skewness	.197	.155
	Kurtosis	.510	.308
AVG_ROS	Mean	2.4218	.04834
	95% Confidence Interval for Mean	Lower Bound	2.3266
		Upper Bound	2.5170
	5% Trimmed Mean	2.3961	
	Median	2.4000	
	Variance	.579	
	Std. Deviation	.76121	
	Minimum	1.00	
	Maximum	5.00	
	Range	4.00	
	Interquartile Range	1.00	
	Skewness	.516	.155
	Kurtosis	.649	.308
AVG_NetProfit	Mean	2.0871	.04184

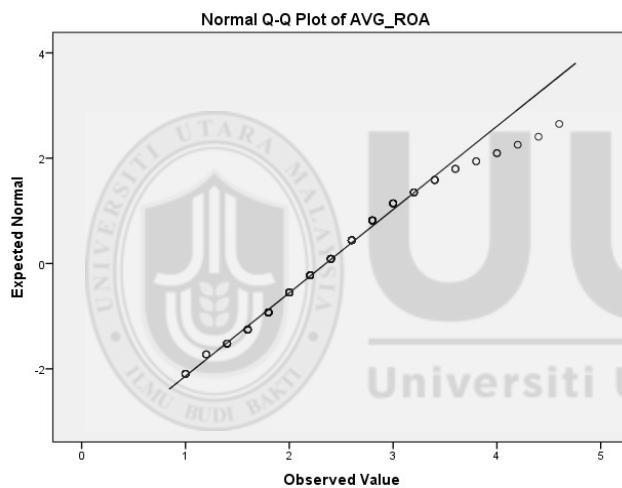
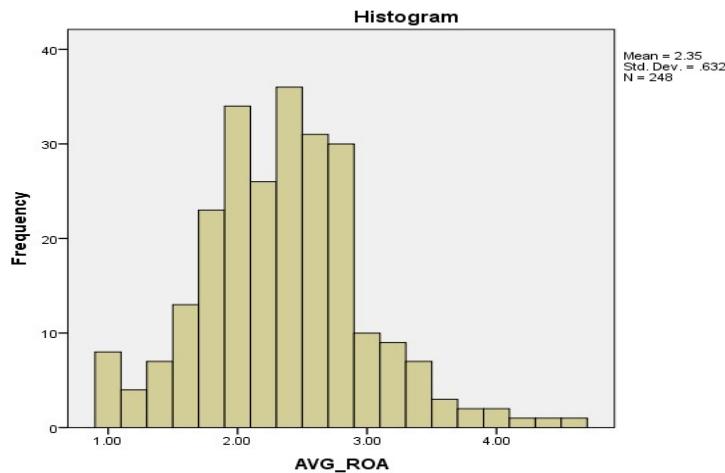
	95% Confidence Interval for Mean	Lower Bound	2.0047	
		Upper Bound	2.1695	
5% Trimmed Mean		2.0620		
Median		2.0000		
Variance		.434		
Std. Deviation		.65891		
Minimum		1.00		
Maximum		5.00		
Range		4.00		
Interquartile Range		1.00		
Skewness		.755	.155	
Kurtosis		1.286	.308	
BPCI	Mean	2.3253	.03227	
	95% Confidence Interval for Mean	Lower Bound	2.2617	
		Upper Bound	2.3888	
5% Trimmed Mean		2.3293		
Median		2.3333		
Variance		.258		
Std. Deviation		.50815		
Minimum		1.00		
Maximum		4.20		
Range		3.20		

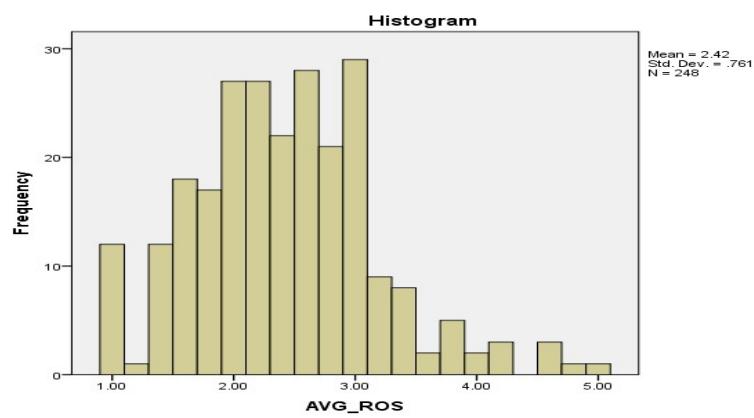
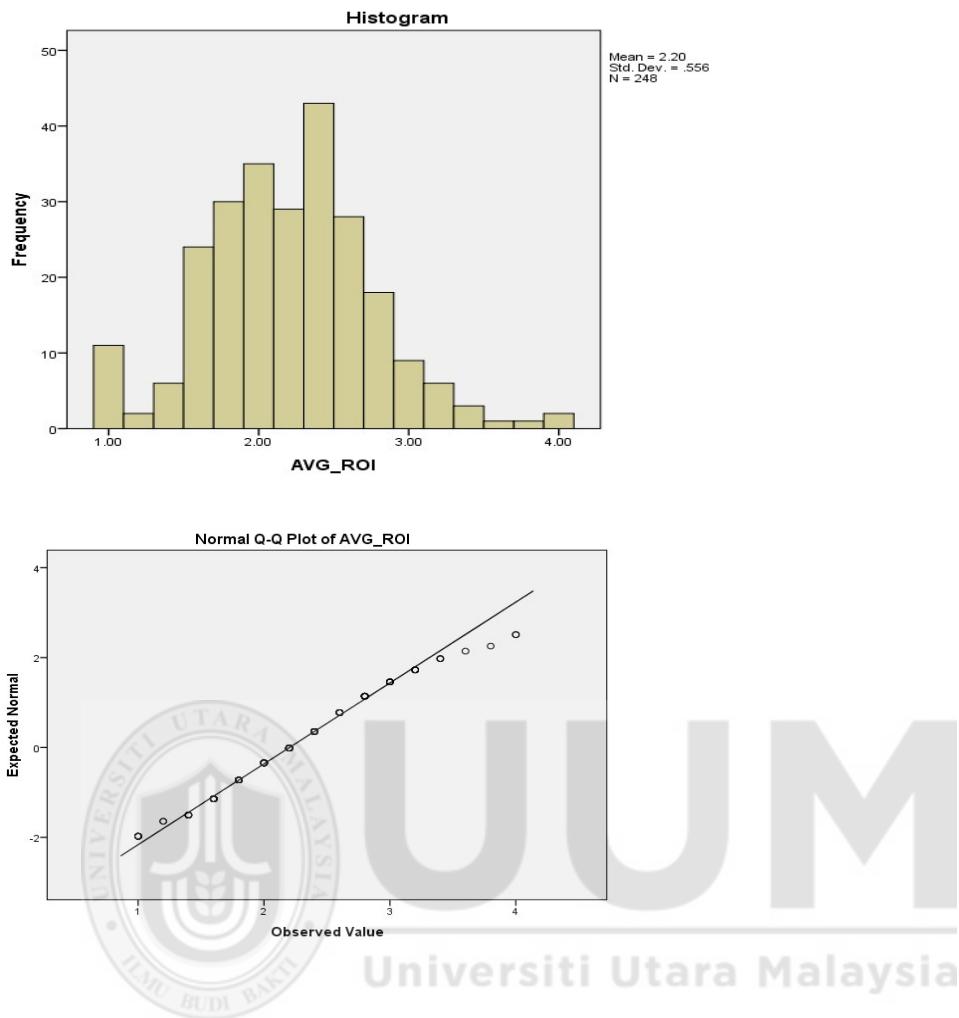
Interquartile Range	.67	
Skewness	-.028	.155
Kurtosis	1.303	.308

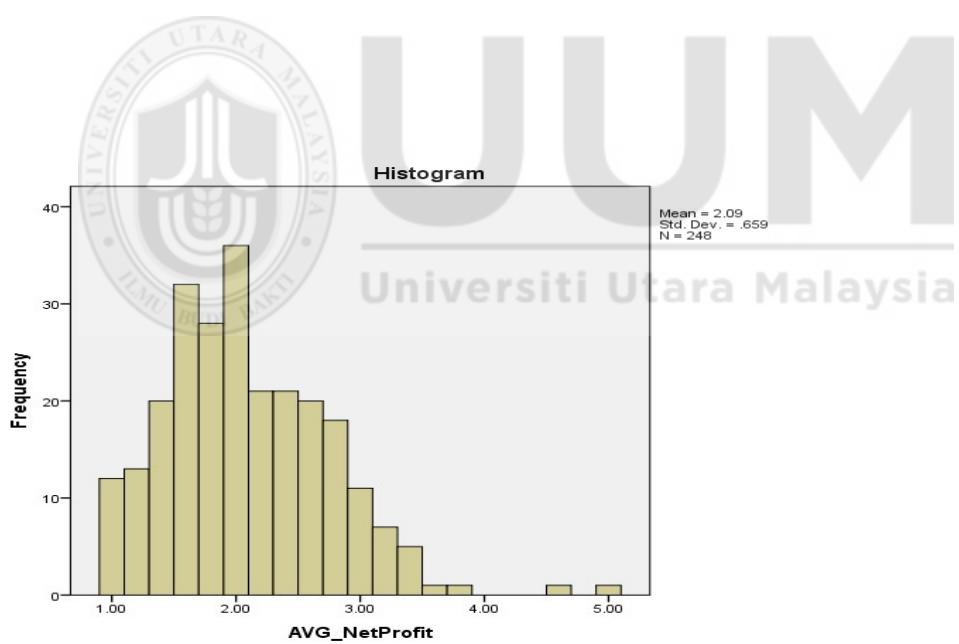
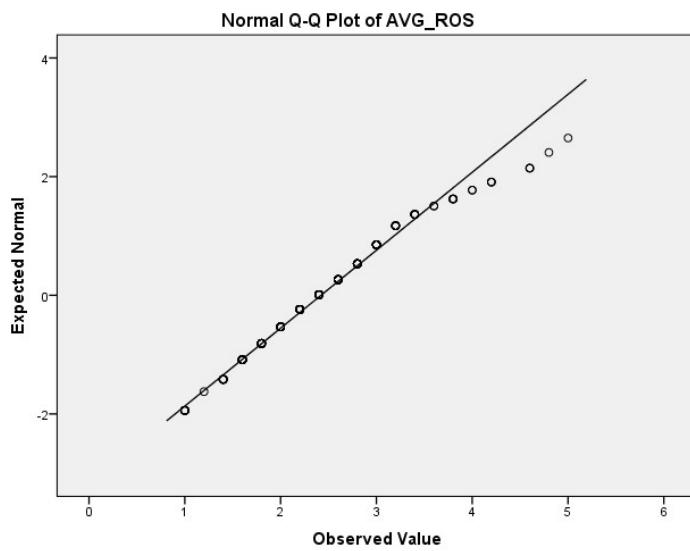
### Tests of Normality

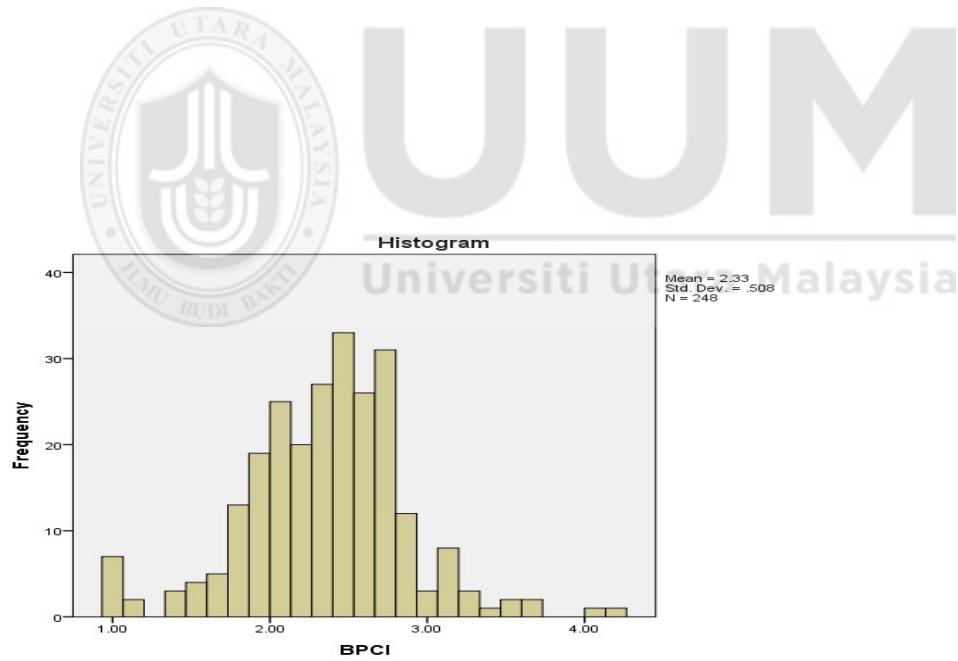
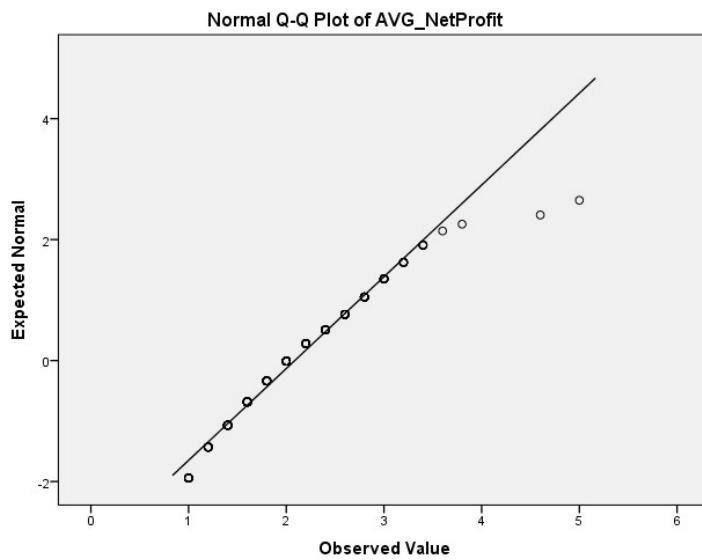
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AVG_ROA	.094	248	.000	.975	248	.000
AVG_ROI	.087	248	.000	.976	248	.000
AVG_ROS	.087	248	.000	.970	248	.000
AVG_NetProfit	.121	248	.000	.956	248	.000
BPCI	.078	248	.001	.974	248	.000

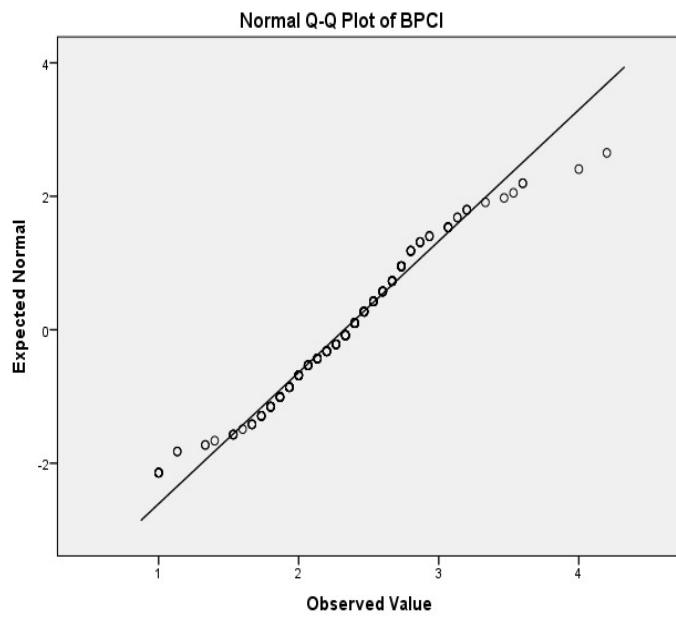
a. Lilliefors Significance Correction











**APPENDIX C-1**  
**( Cronbach's alpha APPENDIX)**

**Scale: ALL VARIABLES**

Case Processing Summary			
		N	%
Cases	Valid	34	100.0
	Excluded <sup>a</sup>	0	.0
	Total	34	100.0
a. Listwise deletion based on all variables in the procedure.			

Reliability Statistics	
Cronbach's Alpha	N of Items
.801	96

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Q01	442.2941	13848.638	.393	.800
Q02	441.7353	13903.231	.249	.801

Q03	441.9706	13910.635	.269	.801
Q04	442.0882	14006.083	-.313	.802
Q05	441.9706	13950.272	.018	.801
Q06	442.4412	13929.345	.092	.801
Q07	442.2059	13949.078	.021	.801
Q08	441.8529	13918.675	.244	.801
Q09	442.4412	13873.951	.398	.800
Q10	442.3529	13921.811	.151	.801
Q11	442.4412	13898.618	.231	.801
Q12	441.7647	13916.064	.265	.801
Q13	441.3235	13955.619	-.006	.801
Q14	441.8235	13951.180	.020	.801
Q15	441.5294	13922.620	.242	.801
Q16	441.3235	13917.680	.301	.801
Q17	441.6471	13947.447	.038	.801
Q18	441.6765	13974.407	-.121	.802
Q19	441.6471	13969.750	-.105	.802
Q20	442.0588	13885.693	.385	.800
Q21	442.3824	13891.213	.249	.801
Q22	442.1471	13935.220	.096	.801
Q23	442.3529	13882.357	.335	.800
Q24	442.8529	13847.038	.380	.800
Q25	442.0588	13936.663	.069	.801
Q26	442.8235	13817.241	.464	.799

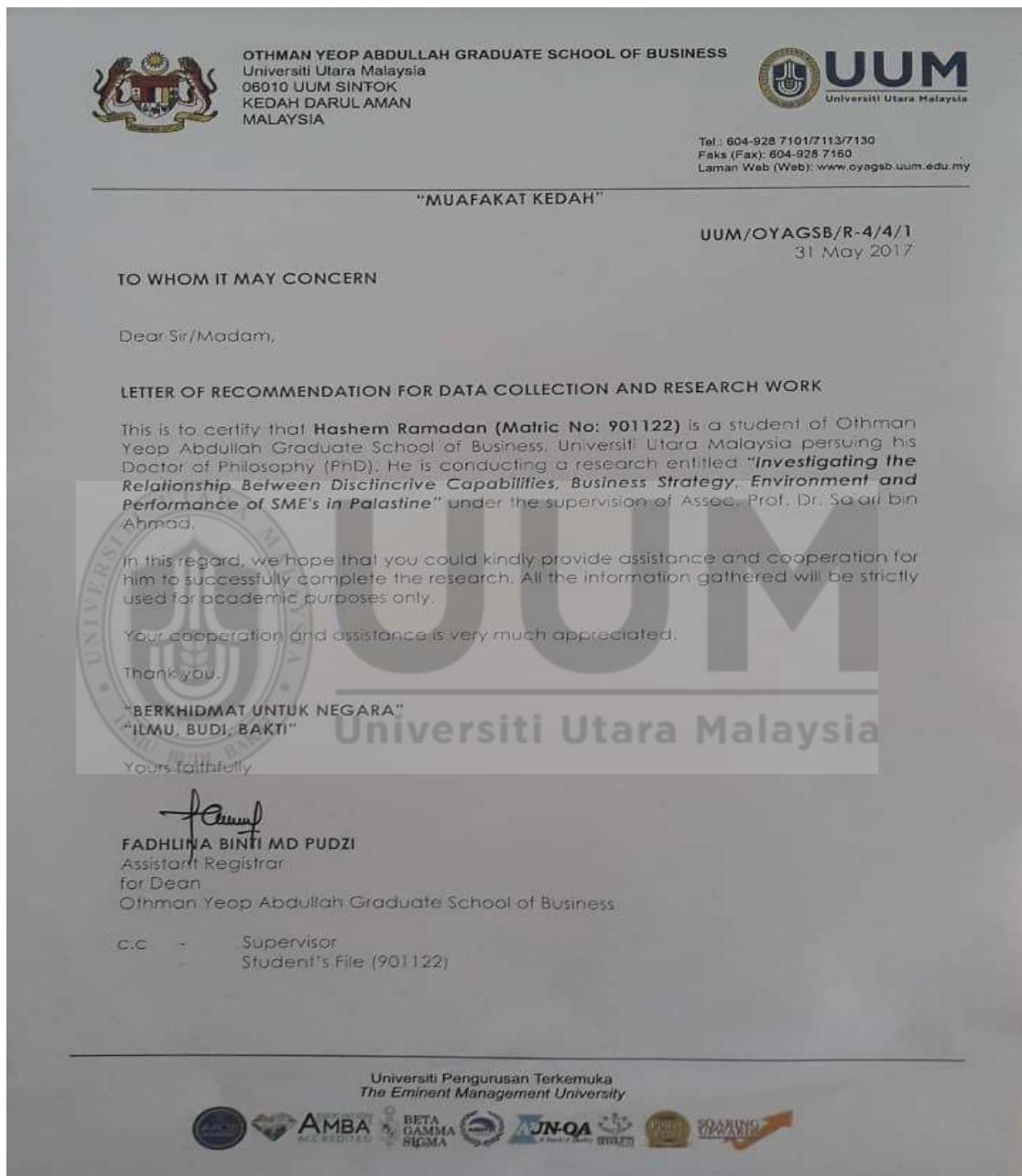
Q27	442.1765	13921.968	.148	.801
Q28	441.6765	13947.680	.043	.801
Q29	442.0000	13928.182	.140	.801
Q30	442.1471	13922.129	.162	.801
Q31	442.2059	13957.199	-.013	.802
Q32	442.2647	13897.898	.250	.801
Q33	442.5588	13940.375	.052	.801
Q34	441.6765	13960.589	-.039	.802
Q35	441.7647	13907.276	.302	.801
Q36	442.3235	13909.135	.220	.801
Q37	441.8235	13922.695	.253	.801
Q38	442.0294	13881.060	.365	.800
Q39	442.0294	13873.181	.468	.800
Q40	442.4412	13891.102	.280	.801
Q41	442.3235	13931.922	.101	.801
Q42	442.1471	13888.978	.293	.801
Q43	441.8824	13910.228	.202	.801
Q44	442.0588	13931.936	.088	.801
Q45	442.2941	13898.396	.317	.801
Q46	443.6765	13750.892	.521	.799
Q47	443.2353	13779.276	.525	.799
Q48	443.2059	13972.956	-.064	.802
Q49	442.7353	13892.564	.212	.801
Q50	442.2353	13944.488	.050	.801

Q51	442.5588	13900.799	.221	.801
Q52	441.7353	13945.837	.046	.801
Q53	442.6471	13873.932	.301	.800
Q54	442.7647	13859.216	.330	.800
Q55	442.6765	13871.195	.348	.800
Q56	442.7941	13832.047	.403	.800
Q57	442.2059	13859.381	.391	.800
Q58	443.2059	13969.381	-.057	.802
Q59	442.8235	13851.483	.420	.800
Q60	441.9412	13922.360	.135	.801
Q61	442.2353	13883.398	.254	.800
Q62	442.5000	13946.803	.027	.801
Q63	442.5588	13911.345	.189	.801
Q64	442.6176	13933.213	.082	.801
Q65	443.2941	13905.668	.171	.801
Q66	441.9412	13931.815	.156	.801
Q67	441.9706	13964.151	-.058	.802
Q68	442.0000	13941.273	.067	.801
Q69	442.1471	13932.735	.093	.801
Q70	442.0294	13957.908	-.018	.802
Q71	434.2647	13206.019	.056	.826
Q72	444.0882	13908.022	.172	.801
Q73	444.0000	13911.758	.149	.801
Q74	443.7353	13954.564	-.003	.802

Q75	443.7647	13932.852	.091	.801
Q76	414.8529	9020.008	.880	.760
Q77	444.1765	13908.089	.186	.801
Q78	444.1176	13917.561	.139	.801
Q79	443.7647	13959.640	-.021	.802
Q80	443.8235	13929.119	.108	.801
Q81	418.2941	9480.517	.928	.755
Q82	444.2353	13918.004	.152	.801
Q83	444.1176	13920.228	.136	.801
Q84	443.8529	13959.523	-.021	.802
Q85	443.9118	13935.962	.079	.801
Q86	420.8529	9936.553	.880	.760
Q87	444.3529	13917.387	.165	.801
Q88	444.2059	13909.623	.210	.801
Q89	443.9118	13961.477	-.031	.802
Q90	443.9118	13927.234	.109	.801
Q91	423.1176	10291.865	.836	.764
Q92	444.4118	13926.128	.135	.801
Q93	444.2941	13921.668	.176	.801
Q94	443.8824	13962.471	-.033	.802
Q95	443.9706	13941.666	.054	.801
Q96	424.1176	10295.440	.812	.766

## APPENDIX D

### (Letters for data collection)





التاريخ: 2017/07/6

حضرة السادة اعضاء الهيئة العامة المحترمين

الموضوع: تسهيل عمل حامل هذا الكتاب

تحية طيبة،،،

يهديكم اتحاد الصناعات الغذائية الفلسطينية لجمل التحيات ونود إعلامكم ان "السيد هاشم اسماعيل رمضان" يقوم بعمل رسالة الدكتوراه في إدارة الأعمال من جامعة اوتارا الماليزية (UUM) في مجال التحقق من العلاقة بين الكفاءات المميزة، استراتيجيات الأعمال والمحظوظ في البيئة مع الأداء في الشركات الصغيرة والمتوسطة في القطاع الصناعي في فلسطين، لذا هو بحاجة للحصول على بعض البيانات بالخصوص، يرجى من حضرتكم مساعدته، علماً بأن هذه البيانات والمعلومات التي سيحصل عليها ستستخدم لأغراض البحث العلمي فقط .

مع فائق الاحترام والتقدير

المدير العام  
نصر عطياتي

