

*Original Research Article*

# The Impact of Business Strategy on Performance of Industrial SMEs in Palestine: The Empirical Evidence

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**Abstract**

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The statement that business strategy correlates with organizational performance has been confirmed by many strategic management literatures. Despite of that, only a few empirical researches were conducted on the effect of business strategy on Performance of SMEs in Palestine. The purpose of this study is to determine whether the performance of Manufacturing SMEs differs with the choice of business strategies they adopt. The independent variables were low cost strategy, differentiation strategy, focus strategy, hold and maintain strategy, bare bone strategy, product type strategy, and customer type strategy. In other words, the effects of these seven constructs were measured against SMEs performance. The study was based on resource based view theory (RBV) and contingency theory. The number of Questionnaires used to collect data from the respondents was 341. The respondents are from manufacturing SMEs in West Bank of Palestine. The findings indicate that there is a significance difference between the business strategy implemented by the manufacturing SMEs and performance.

**Keywords:** Business Strategy, Performance, Palestine, Small-and-Medium Enterprises (SMEs), Manufacturing sector

## INTRODUCTION

The concept of business strategy was introduced to business organizations in the 1950s. Ever since its introduction and adoption of organizations, business strategies have dominated the interest and attention of managers, consultants and scholars (Hashim, 2015b).

The firms need to pursue a variety of opportunities and strategies for growth and survival, and this comes as a result of the Organization's ability to innovate. (Zakaria et al., 2016). Moreover, In terms of globalization the SMEs face higher risks as a result of their small size and resources (Rehman and Anwar, 2019).

The review of the business literature in Palestine shows that limited research was conducted on the types of business strategy being adopted by small and medium enterprises (SMEs) (Ahmad and Ramadan, 2018; Haseeb et al., 2019; Ramadan and Ahmad, 2018b). The earlier studies and research focus on the relationships between performance and business strategy, while most of the research concentrated on large business firms (Hashim et al., 2015). In addition, previous scholars have paid very little attention to the SMEs performance (Ali et al., 2017). In the USA, which is considered as a

developed nation, the relationship among performance and strategy was found in most of the published literature. The differences between SMEs and large enterprises were well documented in literature, but the greater part of strategic studies concentrate on large enterprises (Parnell et al., 2015).

SMEs in Palestine play a vital role in GDP. The percentage contribution of SMEs to the Palestinian GDP was approximately 24% in 2004 (Al Hadwi and Albondok, 2006), while the Palestine Investment Fund (PIF) in their annual report in 2014 argue that the SMEs contribution of Palestinian GDP was 55% (Palestine Investment Fund, 2014). Besides SMEs participation to the GDP, it recycles national income, reduces unemployment rates, and adds to domestic investment motivation. Moreover, it employs 82% of all workers and constitutes about 99% of Palestinian firms (Jalad et al., 2010).

### Significance of Study

This study provides an overview and imperative contributions to the SMEs sectors in Palestine by investigating the relationship between business strategy and performance of manufacturing SMEs in Palestine. Primary data were used to investigate the importance of manufacturing SMEs to the Palestinian economics and social life in order to discover the SMEs assets, capital, geographical distribution, sectoral distribution, markets and financing sources.

The study provides great benefits for owner-managers, government policy makers, scholars, and educators by clarifying the concepts of business strategy and relationship with performance in the context of industrial SMEs in Palestine.

### Literature Review

#### Business Strategy

All firms have their own way in developing their strategies by exploiting implicit or explicit knowledge to create competitive advantage. Wernerfelt (1984, p. 171) claims that the traditional concept of strategy "is phrased in terms of the resource position (strengths and weaknesses) of the firm", while many of the official economic tools run on the product-market side. Although both visions should finally yield the same insights, it might be expected, depending on the vision taken, that these insights come along with different ease. With regard to this, the way of choosing some strategic options is suggested through generalizing a firm's resource position.

Galbraith and Schendel (1983) debate that strategy is a system or complex network of intertwined relationships between various management decision variables such as

marketing, production, research and pricing, etc. Porter (1985) shows that here are two types of strategy that recognized by most of the organizations of the time of developed practice and strategic planning theory, 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). Moreover, differentiation and cost leadership strategy have a positive and significant influence on a firm's sustainability (Haseeb et al., 2019).

### Performance of SMEs

Based on the review of literature, it was found that firm performance is the final outcome which reflects the firm success in fulfilling its business goals (Shamimul, Hilman and Gorondutse, 2017). Interestingly, recent studies focus on variations in performance among firms depending on their ability to controlling the challenges which related with external collaborations (Ferrerias-Méndez, Fernández-Mesa and Alegre, 2019).

SMEs are anticipated to upgrade their performance, especially in developing and emerging countries context (Amroune, 2016). The outcome of executed strategies can be defined as business performance which is the main part in investigating organizational phenomena, while performance improvement stays in the middle of strategic management (Ho et al., 2016). However, Strategic decisions do not automatically improve performance like the case of digital transformation (Bouwman et al., 2019).

Nevertheless, there is a big need for studies that inspect the relationship between competitive capabilities and business performance in the manufacturing SME sector in developing countries. To achieve a superior performance there is a need to cove the limitation in the literature on SMEs resources and capabilities (Ho et al., 2016; Ramadan and Ahmad, 2018a).

It is admitted that dynamic, strong and efficient SMEs would play an essential role in assuring sustainable economic growth and generating competitive advantage. Likewise, SMEs is considered as the key drivers of economic growth, and in order to improve performance and understand the ways to intensify competitiveness, this highlights the need to study the behavior of SMEs. It is significant for organizations operating in intense competitive environment to formulate effective strategies, which enable them to accomplish, chase and sustain the competitive advantage (Hussain et al., 2015).

Al-mahrouq (2010) in his study about success factors of small and medium-sized enterprises (SMEs) in Jordan found that there are five factors that have significant and positive impact on the success of the SMEs firms in Jordan. These factors are financial structure, technical

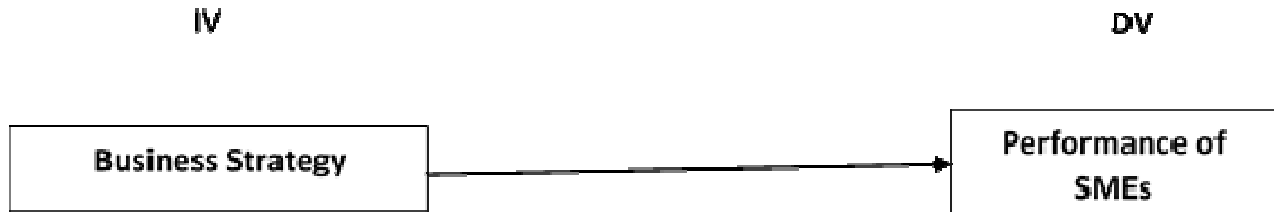


Figure 1. Research Framework

procedures and technology, human resources structure, marketing and productivity and structure of the firm.

Matanda, Ndubisi and Jie (2016) use the 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. Correspondingly, the performance measurement of SMEs faces many difficulties because of data reliability problems, an unwillingness or inability, to provide the desired information and inadequate data availability. 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.

### Study Framework

Based on the research literature review gaps, this study explores the constructs in the context of performance of SMEs in Palestine. Figure 1 shows the proposed framework of relationship between independent variables which are the business strategy, while the dependent variable is the performance.

The types of business strategy used in the study are: 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. While the Performance will be measured through return on asset, return on investment, return on sales and net profit.

### RESEARCH METHODOLOGY

The data were collected from owners-managers of SMEs in Palestine (West Bank). In this study, questionnaires were personally administered, whereby the questionnaires were accompanied with a pen as a gift. Efforts were being made to increase the response rate by reminding respondents through phone calls, SMS and personal visits (Sekaran and Bougie, 2009). Because of these efforts, 259 questionnaires were returned out of 341 questionnaires that are personally administered to the respondents (owner-managers of SMEs) in Palestine.

Consequently, this makes the response rate of 75.36%; however, out of the 259 responses obtained, only 252 questionnaires were used for further analysis (before removing four of outliers) making a valid response rate of 73.90% (Yehuda, 1999). This was because the respondent did not answer the questionnaire accordingly. The response rate is comparable with other past studies (Ahmad, 2005; Aminu and Shariff, 2015; Didonet et al., 2012; Dubihlela and Dhurup, 2015; Gaur, Vasudevan and Gaur, 2011).

The paper adopts the design of proportionate stratified random sampling, which defined by Sekaran (2003) as: "Stratified random sampling, as its name implies, involves a process of stratification or segregation, followed by random selection of subjects from each stratum" (Sekaran, 2003, p. 272).

The members represented in the sample from each stratum will be proportionate to the total number of elements in the respective strata. Thus, the stratified sample of 341 industrial firms is needed for this survey, and the study included 11% of members from each stratum in the sample. This would mean that 15 from Qalqilia, 48 from Ramallah and Al Birih, 32 from Jenin, 73 from Nablus, 41 from Bethlehem, 93 from Hebron, and 11 from Salfit were included in the sample. Moreover, 23 from Tulkarm, 2 from Tubas and 3 from Jerico, was in the sample.

### Measurements

The variables of this study are business strategy and performance. These main two variables of study were measured as follows:

#### Business Strategy

This section of the questionnaire aimed to capture information on the types of business strategy adopted by the firms. This includes low cost strategy, differentiation strategy, focus strategy, hold and maintain strategy, bare bone strategy, product type strategy and customer type strategy (Ahmad, 2005; Canwell and Sutherland, 2004; Hashim, 2015a; Porter, 1980, 1985b; 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.

The reason for selecting these business strategies is that 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.

## Performance

The performance of the industrial SMEs are measured by using 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 five-year period (Hashim, 2015).

The ROI, ROS and ROA are measured as follows:

- a.  $ROI = \text{net profit} / \text{total equity}$
- b.  $ROS = \text{net profit} / \text{total sales}$
- c.  $ROA = \text{net profit} / \text{total assets}$

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 years 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 years period (2012-2016).

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 compute as:

$$BPCI = (ROI + ROS + ROA) / 3$$

## RESULTS

The one-way ANOVA was used to test if the performance

of SMEs will vary with the choice of business strategy they adopted (Hashim, 2015a; Hashim et al., 2015). The results of the ANOVAs in tables 1, 2, 3, 4 and 5 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 1 below presents the results of the ANOVA analysis between the business strategy and the growth of ROA that are statistically significant. At .000 significant level, the F-value for growth in ROA is 16.231, providing support for the hypothesis. These results indicate that there are significant differences 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 low on growth and is significantly different.

As shown in Table 2 below, the F-value for ROI is 30.057 and the result support the research hypothesis at 0.000 significant level. These results suggest that there are significant differences 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 bare bone strategy (2.4667) is the one that is low on growth and is significantly different.

The results provided in Table 3 below indicate that the ANOVA analysis between the business strategy and the growth of ROS are statistically significant. At .000 significant level, the F-value for growth in ROS is 12.984, providing support for the hypothesis. These results indicate that there are significant differences 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 hold and maintain strategy (2.4667) is the one that is low on growth and is significantly different.

Table 4 shows that the results of the ANOVA analysis between the business strategy and the growth of net profit are statistically significant. At .000 significant level, the F-value for growth in net profit is 9.269, providing support for the hypothesis. These results indicate that there are significant differences 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) is the one that is low on growth and is significantly different.

As shown in Table 5, the F-value for BPCI is 9.899 and the result support the research hypothesis at 0.000 significant level. These results suggest that there are significant differences 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) is the one that is low on growth and is significantly different.

**Table 1.** One-Way ANOVA of Strategy Types by ROA Growth

<b>Strategy Type</b>	<b>Mean</b>	<b>F Ratio</b>	<b>Significance F</b>	<b>Duncan</b>
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 bone strategy	3.6492			
Specializing by product type strategy	4.0782			
Specializing by customer type strategy	3.8440			

**Table 2.** One-Way ANOVA of Strategy Types by ROI Growth

<b>Strategy Type</b>	<b>Mean</b>	<b>F Ratio</b>	<b>Significance F</b>	<b>Duncan</b>
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 bone strategy	2.4667			
Specializing by product type strategy	2.9600			
Specializing by customer type strategy	4.0917			

**Table 3.** One-Way ANOVA of Strategy Types by ROS Growth

<b>Strategy Type</b>	<b>Mean</b>	<b>F Ratio</b>	<b>Significance F</b>	<b>Duncan</b>
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 bone strategy	3.3692			
Specializing by product type strategy	3.9231			
Specializing by customer type strategy	3.5011			

**Table 4.** One-Way ANOVA of Strategy Types by Net Profit Growth

<b>Strategy Type</b>	<b>Mean</b>	<b>F Ratio</b>	<b>Significance F</b>	<b>Duncan</b>
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 bone strategy	3.0123			
Specializing by product type strategy	4.0667			
Specializing by customer type strategy	3.8000			

**Table 5.** 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 bone strategy	3.7959			
Specializing by product type strategy	4.1485			
Specializing by customer type strategy	4.2945			

## DISCUSSION

This result is consistent with that of Hashim et al. (2015) who supported the contingency theory of strategic management. Their result argued that no 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 out-perform their competitors, then they would have 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 et al. (2012) also found a significant positive relationship between performance and business strategy, and SMEs in different manufacturers tend to adopt different business strategies. In addition, their performance varied by the different strategy types that they adopted. As such, the differentiation strategy affects significantly firm performance (Kaliappen and Hilman, 2014).

## CONCLUSION

This study found that the firms must develop and implement business strategies that fit with business environment for them to support their organizational performance. The result is also consistent with and supports the contingency theory of strategic management which confirms that different companies in different environment should adopt different business strategies. Furthermore, the findings show a significant difference between the business strategy implemented by the manufacturing SMEs and their performance. 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 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 suggests that the managers can enhance their firm's performance by adopting an effective and different strategy with respect to high environment uncertainty.

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**APPENDICES**  
QUESTIONNAIRE

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

<b>Section A. Background of Owner/Managers:</b> Please circle on the appropriate numbers				
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 5. None	2. 2	3. 3	4. Others
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<
<b>SECTION B. Firm information:</b> 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 (workfield)	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 USD300,000				
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 USD150,000				
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 USD300,000				
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: SMEs Business Strategy**

26. 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 3:**

27. 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
	0 TO 10%	11 % To 20%	21 % TO 30%	31 % TO 40%	> 40 %	0 TO 10%	11 % To 20%	21 % TO 30%	31 % TO 40%	> 40 %	0 TO 10%	11 % To 20%	21 % TO 30%	31 % TO 40%	> 40 %	0 TO 10%	11 % To 20%	21 % TO 30%	31 % TO 40%	> 40 %	
2016																					
2015																					
2014																					
2013																					
2012																					