

# **The Moderating Effect of Environment Uncertainty on the Relationship between Distinctive Capabilities and Performance of Manufacturing SMEs in Palestine: A Conceptual Framework**

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**Abstract:** *This study aimed to examine the moderating effect of Environment Uncertainty (EU) on the Relationship between Distinctive Capabilities (DC) and Performance of SMEs (PS). Interestingly, only a few empirical researches were explored on the effect of business environment on the Distinctive Capabilities and Performance of SMEs in Palestine. The number of Questionnaire which will be used to collect data from the respondents will be 341. The respondents are from manufacturing SMEs in West Bank of Palestine. The result of this research can give a high benefit for government policy makers, owner-managers, scholars, and educators. Also, will indicate if there is a negative relationship between environmental uncertainty and the performance of manufacturing SMEs.*

**Keywords:** *environment uncertainty, Performance, small-and-medium enterprises (SMEs), Palestine.*

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## **I. Introduction**

A review of the business literature in Palestine shows specifically that limited researches have surveyed the types of business strategy being adopted by small and medium enterprises (SMEs). Furthermore, a few of the previous studies and researches were focusing on the connection between performance and business strategy, while most of the research concentrated on large business firms (Hashim, Ahmad, & Zakria, 2015; Ramadan & Ahmad, 2018), for example USA which it is considered as a developed country they link performance with strategy in most of the published strategic group, furthermore differences between SMEs and large enterprises documented well in the literature, but the greater part of strategic studies concentrate on large enterprises (Parnell, Long, & Lester, 2015).

The Manufacturing sector consider as the backbone and one of the most productive sectors of any country and play a key role with the rest of the production sectors to increase the gross domestic product (Palestinian Business Forum, 2014). This sector employs 11.9% of total employment in Palestine, 15.3% of workers in the industrial sector in the West Bank and 5.4% of workers in the Gaza Strip, this percentage distributed among 12.6% of males and 8.5% of females (Rantisi, 2016).

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).

On the other hand, 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).

## **II. Significance of Study**

The results of this study will give us a good knowledge of the needs and problems that SMEs faced and suggest ways to help them improve their performance and their ability to produce and compete, so that SMEs products can enter into a Palestinian, regional and international markets, discover the owners and managers of SMEs and their characteristics include age, groups, educational qualifications, production capacity, the relationship between workers and employers.

The study can give a high benefit for government policy makers, owner-managers, scholars, and educators by clarifying the concepts of environmental uncertainty as a moderator on the relationship between distinctive capabilities and performance in the context of industrial SMEs in Palestine.

## **III. Literature Review**

### **The moderating effect of environment uncertainty**

The concept of moderation perspective appears while the influence of predictor variable on a criterion variable depends on a third variable which called moderator. While the environment is considered in strategic management and organization theory as one of the critical contingencies. The environment used to conceptualize as (1) as a stock of resources, and (2) as a source of information. The degree of uncertainty which reflected by complexity and dynamism make the firms dependence on those environments for resources (Lumpkin & Dess, 2001).

Slater & Narver (1994) argues that the previous studies provide very limited support of environment as a moderator of the relationship between market orientation and performance. With regard to this, they found in their study that there are a few supports for the assumption that the environment effects the nature and strength of the relationship between performance and market orientation. Also, they strongly believe that the managers shouldn't try to match current market conditions through adjusting business's market orientation.

Kohli & Jaworski (1990) claim that the environment moderate (increase or decrease) the strength of relationship between performance and market orientation. Also, the firm select the strategy that closely aligned with its environment. The firm should be responding more rapidly unexpected change of environmental uncertainty in order to survive (Desarbo, Di Benedetto, Song, & Sinha, 2005).

To help SMEs in improving their performance studies shows that management orientation of flexible planning is an important facilitator. In general, the literature of management orientation concentrated on environmental uncertainty of technological and market level confusion. Technological turbulence explains the technological change rate, inputs, processing, delivery outputs to customer. Market turbulence explains the customer preferences and their composition change (Didonet, Simmons, Díaz- Villavicencio, & Palmer, 2012). Dubihlela & Dhurup (2015) divided the ingredient that forms the external environment are the market turbulence, technology changes, competition and the general economic conditions.

### **Market Uncertainty**

Uncertainty defines as difficulty in predicting the future by firms, because of incomplete knowledge. The combined issue of all uncertainty studies that organization and individuals fight to minimize uncertainty, because certainty give confidence and existence meaningful of their behavior and expectation from physical and social environment (Beckman, Haunschild, & Phillips, 2004). Most scholars indicate that organizations reaction to uncertainty by placing transactions in more hierarchical context, after removing it from the market (Joel M. Podolny, 1994).

In developing countries like Nigeria SMEs continues facing different problems like unstable macroeconomic environment. This consequence of costly operating environment because to nations high debt burden, high inflation, high dependent on imports, lack dependent on technology, business service and training (Uchegbulam, Akinyele, & Ibidunni, 2015). Parnell et al. (2015) found that there is a negative relationship between market uncertainty and performance of SMEs in china and USA. Market turbulence explains the customer preferences and their composition change (Didonet et al., 2012).

### **Technology Uncertainty**

Firms with more experience in technological turbulence can success with minimum levels of market orientation. Under this condition of technological turbulence, management can minimize focus on technology with more

attention to uncertainties and risks that arises (Didonet et al., 2012). Parnell et al. (2015) found that there is a negative relationship between technology uncertainty and performance of SMEs in china and USA.

Technological turbulence explains the technological change rate, inputs, processing, delivery outputs to the customer (Didonet et al., 2012).

### **Competitors Uncertainty**

Furthermore, of various challenges that SMEs face, the competition considers as the fundamental challenge of SMEs (Akbar, Omar, Wadood, & Yusoff, 2017). Interestingly, Yu, Wang, & Brouthers (2016) founds that uncertainty influence the firm's ability/willingness to identify their competitors, especially foreign one. They connect also with rivals and environment uncertainty "we theorized and 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 as, Parnell et al. (2015) found that there is a negative relationship between competitor's uncertainty and performance of SMEs in china and USA.

### **Performance of SMEs**

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). The outcome of executed strategies can be defined as business performance, Business performance is the main part in investigating organizational phenomena, while performance improvement stays in the middle of strategic management (Ho, Ahmad, & Ramayah, 2016). In this study model business performance of SMEs is a dependent variable which will be measured by the independent variables. Across the literature it observed that firm performance is the final outcome, which reflects the firm success in fulfilling its business goals (Shamimul, Hilman, & Gorondutse, 2017).

This kind of studies in general created a link between firms use of competitive methods, its resultant strategic situation at a marketplace and great intensity of the performance. Although, numerous studies mentioned that different firms focus on several goals in different countries, the literature proposed growth and financial profitability are the best measurements of organizational performance. Many researchers continually worked in an attempt to recognize key drivers that maximize performance (Ahmad, 2005; Ahmad & Ramadan, 2017).

The best sign to identify the success firm are profitability, which is considered in western companies as the common measure of performance. While, the financial profitability's common measurements are: return on sales (ROS), profit margin (PM), return on equity (ROE), return on assets (ROA). the Malaysian manufacturing firms preferred to determine the financial measurements the net profit, gross profit, sales and sales growth (Galbraith & Schendel, 1983; Hashim, 2015; Robinson, 1982).

## **IV. Study Framework**

Based on the research literature review, this study explores the constructs in the context of performance of SMEs in Palestine. Figure 1 below shows the Proposed framework of the moderating effect of environment uncertainty on the relationship between independent variable which are the distinctive capabilities and the dependent variable which is the SMEs performance.

The ingredient that forms the external environment are divided by Dubihlela & Dhurup (2015) to technology changes, market turbulence, competition and the general economic conditions. And the Performance will be measured through return on investment, return on asset, return on sales and net profit.

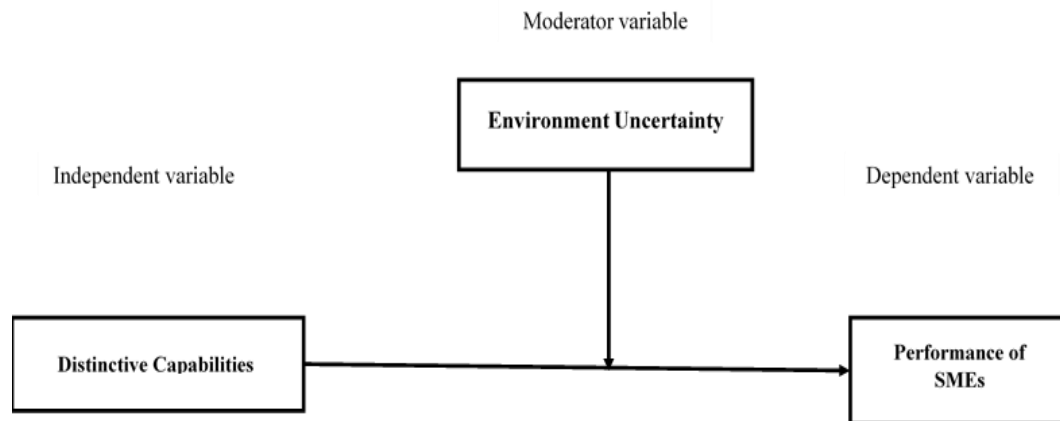


Figure 1. Research Framework

## V. Research Methodology

The primary data for the study will be collected from owners-managers of SMEs in Palestine (West Bank). The questionnaires will be either self-administrated / through E-Mail to randomly owners/managers of the selected industries SMEs as per the list provided by chamber of commerce for each governorate personally. The chambers of commerce lists will choose because of its reliability and the most up to date list available in Palestine (West Bank).

After considering the conceptual framework and research objectives, this study adopts the following hypothesis to be analyzed:

**H<sub>1</sub>) The Environmental Uncertainty (EU) moderate the Relationship between Distinctive Capabilities (DC) and Performance of SMEs (PS).**

## VI. Conclusion

This research can provide an overview and distinctive contributions of the sector of SMEs in Palestine, through investigating the relationship between distinctive capabilities, business strategy, environment and performance of industrial SMEs in Palestine using modern primary data, Sheds light on the importance of SMEs in Palestinian economics and social life, to discover the SMEs property, capital, geographical distribution, sectoral distribution, markets and financing sources. The results of this study will give a good knowledge of the needs and problems that SMEs faced and suggest ways to help them improve their performance and their ability to produce and compete, so that SMEs products can enter into a Palestinian, regional and international markets, discover the owners and managers of SMEs and their characteristics include age, groups, educational qualifications, production capacity, the relationship between workers and employers

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