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COMPETITIVE ADVANTAGE OF SMALL AND MEDIUM SIZE ENTERPRISES IN PALESTINE

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Author's Declaration

I certify that all material in this thesis, which is not my work has been identified and that no material has previously been submitted and approved for the award of degree by this or any other university.

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ABSTRACT

The main core of this study is to assess the current state of the Palestinian Small and Medium Size Enterprises (SMEs) sector and determine its potential and opportunities open to this sector for playing a central role in the development process, as well as to examine the reasons behind the limited presence of SMEs' in the Palestinian territory.

This thesis explores and examines via qualitative and quantitative research methods, the competitive advantages and distinctive competencies that determine success in firms established in Palestine before and after the Oslo Agreement. The study embraces two case analyses, in-depth interviews of successful and less-successful firms and an extensive survey interviewing the owner/manager of established firms in the West Bank and Gaza Strip (WBGS). The empirical analysis is based on survey data from 200 Textile and Garment ventures. Data was examined and analysed using multiple statistical analysis, results were summarised and presented in table and graph forms.

In this study, relations between firms' basic resources, competitive positioning tools, and performance are analysed. Comparison is made between the performance of firms based in the West Bank and that of firms in Gaza Strip. Comparative analyses reveal similarities and differences between the two regions. Implications for firm owner-managers and policy makers are discussed. Finally, the study provides suggestions for future research.

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LIST OF ABBREVIATIONS

Competitive Advantage (CA)

Declaration of Principles (DOP)

European Union (EU)

Gaza Strip (GS)

Gross Domestic Products (GDP)

Gross Fixed Capital Formation (GFCF)

Gross National Products (GNP)

Industrial Organisation (IO)

Information and Communication Technology (ICT)

Information Technology (IT)

Non-Governmental Organisation (NGO)

Occupied Palestinian Territory (OPT)

Organisation for Economic Cooperation and Development (OECD)

Palestinian Authority (PA)

Palestinian Centre Bureau of Statistics (PCBS)

Palestinian Economic Policy Research Institute (MAS)

Palestinian Liberation Organisation (PLO)

Paris Protocol (PP)

Research and Development (R&D)

Research-Based View (RBV)

Small and Medium-size Enterprises (SME)

Small Firms (SF)

Textile and Garment (T&G)

United Kingdom (UK)

United Nations Conference on Trade and Development (UNCTAD)

United Nations Industrial Development Organisation (UNIDO)

United State of America (USA)

West Bank (WB)

West Bank and Gaza Strip (WBGS)

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

TABLES IN THE APPENDICES

CHAPTER ONE

Introduction and Background

1.1 Introduction

The question of Palestine is considered as one of the most long-standing and difficult international conflicts of the twentieth century. Many peace initiatives and United Nations resolutions could not establish an acceptable peaceful compromise between the Arabs, especially Palestinians, and the Israelis. Nevertheless, the whole world welcomed the historic accord signed by Israel and the Palestinian Liberation Organization (PLO) on September 13, 1993. The Accord has gave the impression that sustainable development is on its way to the Middle East including the Occupied Palestinian Territories (OPT).

The OPT are also known as the West Bank and Gaza Strip (WBGS)[1]. Despite the fact that the WBGS have rich human resources, they need to build modern infrastructure and economic institutions to provide employment and to raise living standards of the Palestinian community. Obviously, the task is not an easy one due to many political uncertainties involving the two areas. However, hard work, perseverance, and a truly joint effort by the international community are the key factors to any long-term success.

The development of small and medium-sized enterprises (SMEs) has long been regarded as a seedbed for industrialization and, therefore, crucial for the achievement of broader development objectives. In the case of the future State of Palestine, the importance of these enterprises as an engine of growth is even more crucial, especially in view of the occupation conditions, the economy's weak and distorted supply capacity, and the limited size of local markets.

Recent decades have seen radical changes in the global business environment. Considerable expansion of multinational corporations during a distinct period of the 1960-1970s and reorientation of the "East Asian Tigers" in the late-1960s that targeted external markets resulted in increased production capacity and competitive pressures. In the 1990s a number of researchers became interested in the dynamics of small enterprises. In the eighties the first small enterprise tracer studies started to appear, allowing statements about the dynamics of small enterprises over time. This new direction was very much influenced by the success of East Asia as analysed in the World Bank "East Asian miracle". This study found that small enterprises did make an important contribution to economic development. Also many researchers got an opportunity to go back to

[1] In this study the terms OPT, WBGS and Palestine are all used to denote the same meaning

the place where they collected data years ago, allowing them to make some generalisations over time.

This kind of research is rare in the Mediterranean countries. However, in the case of the OPT, the development of SMEs ranks high on the Palestinian Authority's (PA's) policy agenda. Nonetheless, relatively little is known about the dynamics determining their birth, expansion, size and Competitive Advantage (CA). A solid understanding of these dynamics is extremely important at this critical stage of the development process, when Palestinian policy-makers are struggling to enhance the economy's resilience in the face of a widespread crisis that started in September 2000 and to set the stage for its sustained recovery.

1.2 Problem Statement

The importance of CA and distinctive competencies as determinants of a firm's success and growth has increased tremendously in the last decade. Practitioners and academicians have centred their studies on firm specific characteristics that are unique, add value to the ultimate consumer and are transferable to many different industrial sittings. Thus, it is understood that across sectors, most firms should recognise that attaining CAs is the most challenging issue facing firms in the 21st century.

Firms, regardless of size, location, and type of economy in which they evolves need to face the overwhelming competitive phenomenon. Recognising a successful competitive position has, therefore, become a challenge. For firms, facing up to these challenges is magnified by the globalisation of businesses, changing economic cycles, different economies of scale and scope, as well as changing consumer preferences. While facing these competitive challenges some firms are able to face the various issues and problems while others struggle.

From the outset, a series of questions came to mind and the aim of this researcher was somewhat defined. However, as the course of studies progressed and research was implemented, a clearer view came to attention. As such, the researcher of this study firstly delineated his research aim and geared it. First to investigate and examine factors that determined success of some firms in the Textile and Garment (T&G) industries. Second, research was oriented at finding out what made some firms with similar resources grow and succeed where others did not. Third, the focus was on analysing why so multinationals and foreign firms became successful and grew where many local firms did not (see Chapter 8: 8.4 & 8.5).

As a result of these queries, a larger concern surfaced. Why did owners/managers sit complaining without taking a proactive attitude? Why not follow the example (not imitate) of larger firms and initiate researching the environment? Why not unite to seek solutions and kick off some innovative changes in either product or service offer? Why not commence the usage of differentiated strategies to counterbalance their aggression and incursion? Since no immediate replies came to my attention, the sole decision facing this researcher was to delineate a research design and initiate an investigative process. Because of these personal queries, the exploratory phase included the investigation of varied secondary sources including literature, available private studies and statistics. Later on, field research and interviews became the tools to obtain potential answers to these questions.

Thus, this researcher believes and has addressed the idea that businesses all over need to explore how their resources and skills can be transformed into competencies and CAs that will position the firm in advantageous position vis-à-vis competitors.

For the purposes of this research and in order to adequately probe the hypothesis underlying it, respondents were contacted via a qualitative and quantitative instrument, which was used and tested to measure performance. Analyses were implemented and frequency tables, figures and cross tabulations were used to support the thesis.

1.2.1 Empirical and Theoretical Problems

This research has been designed not only with the intention of complying with the requisite of a thesis, but also with the interest of genuinely finding out which are the CAs, distinctive competencies existent and/or needed in SMEs to determine success, as well as analysing whether success differs across sector, place of work and the size of firms. Furthermore, the chosen topic seeks to help increase understanding of traits that make some firms succeed. While seeking to attain this goal, this study is also geared to understand why some firms are able to succeed in diverse economic cycles while others fail, which is also the opinion of Garnsey (1996) who proposed a resource-based growth model of small firms that explicitly draws on Penrose's (1959) theory of the growth of the firm. Also the growth model by Garnsey is a stage model, but the stages are described in resource terms (e g, resource identification, resource mobilization, resource generation, resource maturity).

Despite the widespread practical and academic interest in Small Firm's (SF's) success and overall economic performance, theoretical, empirical and practical public studies on firms and the issues affecting them, especially those established in Palestine, do not exist. Locally, it is a known fact that in the case of Palestine no documented public studies exist on SMEs that might show if differences across sectors are just locally embedded or if they are intrinsic in nature to business elsewhere. Moreover, the existent local studies that are of private nature, corporate contracted and government reports, have mostly failed to address the issue. It is, however, very complicated to get hold of these reports.

This study seeks to unearth the existence of the factors described and to utilize the finding not just to comprehend and weigh these results against other studies and culture, but also to employ these outcomes as a pre-emptive measure and achievement motivator. Likewise, the aims delineated will ultimately ratify this researcher's ingrained belief that to acquire capabilities, develop analytical tools, having knowledge of and understanding what determines success is becoming even more of a challenge as the 21st century evolves and in the future. Since research on the determinants of success and on relating local findings to other research is non-existent within the context of Palestine, this study utilising qualitative and quantitative research aims to demonstrate the hypothesis formulated in chapter five, which conjectures that the Competitive Advantage (CA) and the role of distinctive competences are determinants of success across sector, place of work and size. The following Chapters endeavour to precisely provide evidence for such an aim.

1.3 Entrepreneurial and Academic Perspective

1.3.1 Academic Perspective

From an academic perspective, the topic has chosen aims to increase the understanding regarding the CAs, distinctive competencies, existent and/or lacking in SMEs, as well as understanding why some firms succeed where others fail. The aims formulated are based on the relevance of the topics for any prospering economy, on the importance SMEs have for the economy in terms of job generation and economic contribution, on the significance SF analysis has worldwide and on the natural desire any firm has to compete and achieve its goal. Indeed, relevance on the subject also resides on the widespread practical and academic interest in SF's growth and success, as well as on the growth and impact of the overall economic performance of the sector for any economy. The intensification of theoretical and practical studies on firms' signals even further the relevance of the topic.

With regard to the firms established in Palestine, the significance of Textile and Garment (T&G) SMEs is obvious due to the fact that their competitiveness levels have increased mainly after the

Oslo Agreement. Competing has become more challenging and in addition, studies of the nature proposed do not exist on the public scene. Still, this sector's capacity of job generation and percentage contribution to the economy has pushed the local government to design a new secretariat division. The latter division aims to gather statistics, plan, compile studies bound to profile the sector, to determine what affects them and to seek solutions. Likewise, some government policies are being revised to include incentives and benefits channels for the T&G sector.

The support mechanisms designed are geared to establish a new role for SMEs unlike any other period in time. Additionally, the current recession facing the Palestinian economy has highlighted the potential importance of the sector in local economy. While these positive endeavours are enduring, the public attitude toward the importance of supporting and demanding products and services provided by SMEs, rather than large corporations, is not improving. Quite the opposite is happening and much more needs to be done in this respect.

It is this researcher's opinion that there is a large need to consolidate statistics and demographics on SMEs and, more importantly, to find out if differences in businesses performance are just locally embedded or if they are intrinsic in nature to businesses elsewhere. Statistical data and studies on the West Bank and Gaza Strip (WBGS) are not up to date, and studies of a private nature, which are requested and retained by the solicitors. As such, this researcher deemed it imperative to implement this study and to gear it to find out the existence of the factors described.

1.3.2 Entrepreneurial Perspective

From an entrepreneurial standpoint, the topic chosen is relevant for several reasons. Small business research though rapidly progressing still lacks a theoretical grounded understanding of the factors underlying small business research. Particularly, this is the case within the constraint of Palestine, whereas business academic research is incipient and lacks structure, where statistics are disorganised, and lack usable standards.

Currently, there are policy decisions oriented to the creation of a small business statistics compilation centre and to centralise data. The establishment of this unit is recognition of the importance of this sector. The unit's interim goal is to reinforce the decision-making capability of small local entrepreneurs and try to deter failures. Native firms face different problems to remain competitive and survive in the contemporary business environment. However, other economic sectors recognise their importance.

Of further importance is that traditional business persons have not kept up to par with cultural, economic and technological changes. These traditional businesses do not often update their stores' premises, are not computer oriented, possess outdated shopping and inventories systems and many are still behind on other computer technologies like Asynchronous Transfer Mode network. Other SMEs have not changed their strategies nor internalised the need to change and adapt to changing consumer preferences. From another angle, consumers are rapidly changing and their loyalties are non-existent. Moreover, new innovating products and services and offerings are surging daily via various means of communications providing alternative to consumer's minimum wishes and desires. The consumers' ease of access to resources makes it essential for firms that wish to compete to update and rethink their strategies. In general the researcher of this study is of the opinion that many of the local firms still lack many of the CAs needed to face the challenges that competition posits. The reasons could be cultural, structural, choice or by the political circumstances, within which the Palestinian economy is striving.

In spite of this, to compete in the current business scenario, it becomes mandatory for many small independent businesses to seek alternative ways to exploit their distinctive competencies to gain sustainable CAs, and to seek different ways to improve performance and grow. Moreover, new consumers and publics (sectors that businesses need to respond to, including investors, government, and employees) are demanding not only sustained and profitable performance and growth but also that firms are cost effective. The innovativeness required by today's consumer, the globalisation of the economy and the environmental changes brought alongside it make the challenges facing SFs even larger.

From an entrepreneurial perspective, competition is often based on size, on economies of scope and scale, and most SMEs do not possess them. Successful and larger firms have a different business approach. They tend to establish efficient operations and organization and are adept at analysing and incorporating population, demographics and changes in work attitudes. In addition, management tends to be in the hands of "experts", freeing the entrepreneurs of valued time for analysing, evaluating the environment and choosing opportunities. On the contrary, managers in traditional businesses decide and implement their own goals, centralise decision-making, tend to lack vision and risk taking, and rarely have participative management systems. As such, for these groups, incorporating changes tend to be not proactive, rather it is reactive.

From a benefit perspective, this study will assist entrepreneurs and policy makers since results obtained from this study will provide insight into the problems of SMEs and what determines success or failure. A domino effect could assist, among others, to increase the availability of funds necessary to finance new opportunities and increase the sector support. As Penrose (1959: p. 39) stated, "there is a relation between entrepreneurial ability and the finance a firm can attract, and that difficulties attributed to lack of capital may often be related to the existence of entrepreneurial services."

1.4 Main Purpose of this Research

In view of the above discussions, and due to the lack of specific published studies about SMEs in Palestine and the problems the study might meet, an exploratory case study was conducted during the pilot-test phase that includes 29 cases (further justified in chapter 5). These exploratory case studies not only assist us in developing operational definitions, research questions and research design (Cooper & Schindler, 2000; Yin, 1994), but also provide a guide for identifying the driving forces that influence the enterprises' development and growth.

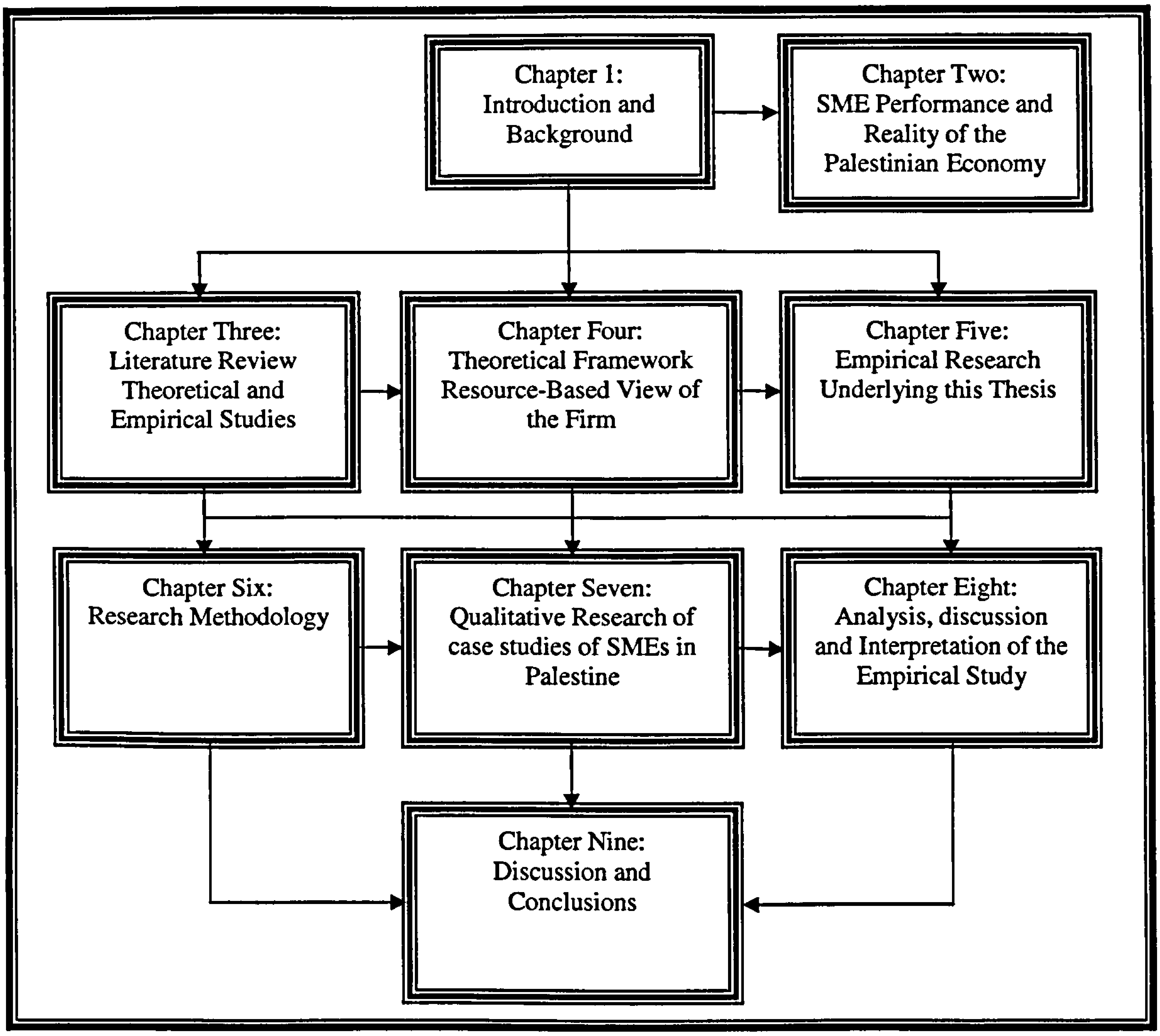
Likewise, the scheduled design will aid to act in accordance with the approach underlying this thesis, which seeks to explore and examine, via quantitative and qualitative research methods, the CA and distinctive competencies that determine success in firms established in Palestine before and after the Oslo agreements. Distinctively, the research design will include in its focus whether the factors that determine success differ across sector (T&G sector) to those factors posited by firms elsewhere. Precisely, this research deems it imperative to support the general objectives.

1.4.1 Structure of this Thesis

This research is structured in nine Chapters; Figure 1.1 serves as an illustration of the structure of this research, based on the content of the individual Chapters. The arrows in the figure indicate how the Chapters are linked to each other. The bibliography and appendix section appearing at the end of this thesis.

Figure 1.1

The Structure of the Thesis



Source: Researcher's elaboration

The First Chapter presents the introduction, problem statement, main objectives and questions posited for this thesis. The introduction presents and articulates in a dialogue format the queries which lead the researcher to the topic selected and address relevant aspects underlying this study.

Chapter Two contains the secondary data of the study that covers the reality of Palestinian economy in general and on small and medium industrial enterprises in particular. The main core of this Chapter is to assess the current state of the Palestinian industrial sector and determine its potential for development, as well as to examine the possibility of this sector's survival. Understanding the structure and the performance of the Palestinian economy within such a context helps to frame and analyse deep-rooted problems and patterns from this new perspective.

Chapter Three provides an overview of existing literature and examines SME in light of growing expectations that it will generate and support radically new and effective ways of dealing with pressing SME and economic problems. In this Chapter there is a focus on the economic aspects of entrepreneurship, the entrepreneur in economic theory as well as on recent empirical evidence of the economic impact of entrepreneurship on economic growth. Also the revision and comparison of these theories and how they relate to the Resource-Based View (RBV) are presented.

Chapter Four presents the theoretical framework chosen "the RBV". The Chapter defends the selection of this perspective from other theories. By the same token, the concepts underlying the RBV with the literature review both from a theoretical and empirical standpoint are presented in this Chapter.

Chapter Five addresses how this researcher, using as departure the RBV perspective, expands on it to include what, to his understanding, are the most significant determinants for a firm in a CA when compared to rivals. Specifically, the focus will be on variables considered by this author i.e., the entrepreneurial perspective and the role of the entrepreneur in the decision-making process and in the potential success of a firm. Also, there is an emphasis on the role the entrepreneur might have on firm performance, on the sector or industry choices and size. The Chapter expands and extends to the review of literature and its linkage to the thesis theoretical model.

Chapter Six presents and describes the methodology used in this research, specifically addressing the various methods of analysis used in all phases. This description includes the utilisation of qualitative and quantitative techniques.

Chapter Seven focuses on presenting research findings from a qualitative perspective. It analyses the case studies of selected firms from both successful and less-successful firms' viewpoints by interviews of owners/managers of these firms. This qualitative research portion comprehends not only research findings but also a comparison of results using the critical incident technique and the competitive audit test developed by the University of Pittsburgh in United State of America (USA). Besides, it offers theoretical perspectives geared to defending the usage of this method on this exploratory phase. The second empirical evidence from six pairs of two small, two medium and two large firms in the WBGS will be analysed using Porter's Competitive Advantage model.

Chapter eight involves several aspects, the quantitative results and analysis based on survey results presented according to variables grouping and following literature findings as studied by a majority of research regarding success determinants. Accordingly, findings are presented in terms of three main groupings: owners'/entrepreneurs' traits, demographic traits of business and the strategic tools used by the business. The responses involve the replies from all case studies as well as an analysis pertaining to each portion. Lastly, hypothesis probe are presented as well as a summary of findings.

The thesis concludes (in Chapter Nine) by highlighting the important empirical and theoretical findings of the research, draws conclusions and implications as to the CAs and competencies existent in the WBGS firms and how they can be used to stimulate success and deter demise for SMEs anywhere. At the end of the study, in the conclusions segment, all sections are related to previous empirical and theoretical research. Thus, this Chapter addresses the main questions in the research, relates findings to other studies and specifies how this research can contribute to the theoretical understanding on SMEs and entrepreneurship. At the end, for the benefit of future projects, it suggests some ideas as recommendations that may be taken up for any future research.

CHAPTER TWO

SME Performance and Reality of the Palestinian Economy

2.1 Introduction

Many researchers have been discussing the importance of regional industrial agglomeration and local networking and their contemporary meaning in the age of globalisation since the late 1920s. Names like Porter, Schmitz, Piore & Sabel, Krugman, Scott, Storper, Saxenian, Florida, Keeble & Wilkinson are rather popular mostly in western academic societies, and are now well known to policy makers generally. Local economies are one of the focuses of academic and public attention. The socio-economic background, however, is not necessarily favourable for local economies and communities. Slacking economies, declining industrial districts and threatened local community life in Palestine since the 1990s have been widely recognised and a variety of policy measures have been launched to rescue and stimulate existing local industries. Still, the Industrial 'hollowing out' problem and the growing number of unemployed, as well as a decreasing number of Small and Medium size Enterprises (SMEs) have been identified. The Palestinian territories are now experiencing a decline in the number and performance of SMEs mainly due to the prevailing political circumstances.

It is widely accepted by authors like Porter, Penrose, Barney and others that establishing new SME industry, which can be competitive, is at the top of the agenda of Palestinian Authority (PA) to sustain economic growth. However, there should be a degree of caution when examining the possibility of developing new industries and the economic viability of such an approach for local communities as a whole. The majority of SMEs and the human resources they employ contribute to local such economic growth. As Porter (1998: pp. 77-90) points out, they represent the ideal in that they can be seen as: "*...interconnected companies, specialised suppliers or service providers, which are exploiting geographic, cultural and institutional proximity and maximising the advantages of knowledge, relationships and motivation concerning the real formation and development of industrial clusters*".

However without many competent and vital SMEs, any critical mass formation and robust business linkage cannot be completed and local economies cannot enjoy a sufficient spill-over effect and balanced development.

Understanding the structure and the performance of the Palestinian economy within such a context helps to frame and analyse well-established problems and patterns from this new perspective. For example, a report of the United Nations Conference on Trade and Development (UNCTAD) mentioned that the protracted conflict in the region with Israel has further aggravated the structural weaknesses of the Palestinian economy, setting in motion a cycle of de-development (UNCTAD, 2002). The present economic situation of the Palestinian industrial firms is an outcome of a series of historical events, which the country has witnessed, starting from the first waves of Jewish immigration to Palestine at the outset of Sykes-Picot Agreement 1916 - a home for the Jews[2]. In 1948, hundreds of thousands of Palestinians were forced to flee to neighbouring Arab countries following the establishment of the State of Israel. In the wake of 1967 war, Israel occupied the West Bank and Gaza Strip (WBGS) and annexed Arab Jerusalem to its territories.

The Israeli-Palestinian conflict developed a new dimension in 1987 upon the outbreak of the first Palestinian *intifada* (uprising), which paved the way for the 1991 Middle East Peace Conference, for recognition by the two sides of their mutual right to exist and their decision to resolve the conflict through negotiations. This commitment to peace was translated into a set of confidence building measures in September 1993 upon the signing of the "Declaration of Principles (DOP) on Interim Self-Government Arrangements between Israel and the Palestinian Liberation Organization (PLO), representing the Palestinian People". Considered as a focal point of reference for Palestinian/ Israeli relations, the DOP stipulates an "interim" period that would set the stage for the establishment of an independent Palestinian State in a phased manner, postponing to a later stage a final agreement on the borders of the Palestinian State, along with other issues, such as the status of Israeli settlements, the disposition of Jerusalem and the return of Palestinian refugees. The two sides signed a series of transitional agreements, according to which Israeli military forces withdrew from some parts of the OPT and the Palestinian Authority was established in 1994 to assume the tasks of government in these areas.

[2] The Sykes-Picot agreement was a secret understanding concluded in 16 May 1916, during World War I, between Great Britain and France, with the assent of Russia, for the dismemberment of the Ottoman Empire. The agreement led to the division of Turkish-held Syria, Iraq, Lebanon, and Palestine into various French and British-administered areas. The agreement took its name from its negotiators, Sir Mark Sykes of Britain and Georges Picot of France. For further reading on the original Sykes-Picot negotiations, see Klieman, pp. 11-12; in the greater context of World War I in Stokesbury, p. 192; related to Russia's pre-Bolshevik regional ambitions in Bodger p. 100; France's bargaining position in Fulton pp. 163-165; British positions on the division of the Middle East between 1915 and 1920 in Kent pp. 126-129.

Overall, it is not the aim of the researcher to offer historical events about the Palestinian-Israeli conflict. The aim is to underline some of the main features of the present of the Palestinian economy, especially the industrial sector. Among the reasons for this account is that there is no separation between the present economic and industrial situation in Palestine and its historical context.

2.2 Origins of Industry

In spite of the dearth of data on the origins of industry in Palestine, there are certain indicators of the presence of some rudimentary industrial projects at the start of this century. Most of the projects were small businesses or workshops of an agricultural activities related to food processing including sweet-making shops, flour mills and olive presses. They also included handicrafts, soap factories, clothes and shoes, carpentry and blacksmith workshops (see Al-Ahmad & Dayan, 1982: pp. 11-42 in Arabic and Al-Dabbas, 1981: p. 19, in Arabic)[3].

2.3 The Palestinian Economy under Occupation

Prior to the signing of the Oslo accords, the Israeli government "as the sole authority administering the area" was the determinant, through its economic policy in the WBGS, of the state of the Palestinian economy and the level of living standards prevalent therein. This policy was a function of its larger political-national imperatives and characterized by the deliberate rejection of development as a legitimate objective (Rabbani, 1989). Indeed, development in specific sectors of the Palestinian economy was explicitly undermined by means of legislative and regulatory control such that prospects for autonomous development (and hence sources of competition) were consistently nipped in the bud and all elements of independent free enterprise and private sector growth impeded (see Aftimah, 1993: pp. 64-65 in Arabic; Benvenisti & Khayat 1988; Brynen, et al. 1995; Brown, 1989; Mansour, 1984: pp. 144-145 (in Arabic); Roy, 1996; UNCTAD, 1993a; UNCTAD, 1995: p. 36; UNSCO, 1999; World Bank, 1993: pp. 29-33).

2.4 Economic Viability and the Peace Process

It is generally understood that an economy is viable if it is able to use its human, financial and physical resources to grow, sustain itself and increase the welfare of the inhabitants living within its area. The means to achieve this goal depends on whether an outward or an inward looking approach to economic development is pursued. The success of the East Asian Tigers and Western states in attaining prosperity has revealed the power of outward oriented policies in enhancing

[3] One study indicates that there were 1,236 businesses in Palestine in 1927. More than 75% of these businesses were of an agricultural type or were connected with foodstuffs. (See Yussif Abdel-Haq, Planning and Economic Growth in Jordan, 1979, pp. 23-24).

growth. In particular, openness to world trade and to financial flows has proved to be a viable vehicle for prosperity, since it induces economies to specialise in areas of their comparative advantage and to attract necessary capital and inputs. Regional integration projects are also looked upon as a supportive means for integrating into the world economy and for sustaining growth. This is because such projects improve complementarities between neighbouring countries and allow an efficient allocation of resources (Oman, 1994).

In the Palestinian context, it is difficult to talk about economic viability or the means to achieve it due to the absence of a workable definition of what is a Palestinian economy. While it is generally agreed that the Palestinian economy covers the WBGS, the territories and borders delineating these areas are not well defined.

A number of questions thus remain unanswered. Are the WBGS really one and the same economies, despite the absence of any territorial link between them? Have they grown in the same way and do they share the same characteristics, potential and outlooks? Moreover, is it possible to talk about the economy of Palestine while over 140 Israeli settlements[4] are entrenched in different parts of Palestinian land thus preventing any territorial and economic integration of part the WBGS? Can there be growth and prosperity in Palestine while Jerusalem, which is the physical and economic link between the North and the South of the West Bank (WB), is not included? Furthermore, can trade be a vehicle for Palestinian growth before borders are clearly defined with Israel, Jordan and Egypt, as well as with the rest of the world? Can regional integration be a motor for growth while Palestinian territorial sovereignty is not clearly demarcated?

The Declaration of Principles (DOP) in 1993 and the Interim Agreement on the WBGS signed between Israel and the PLO in 1995 have maintained that it is indeed possible to achieve economic viability without defining borders or territorial sovereignty. The DOPs, which sets out the framework for relations between Israel and the WBGS in the interim period, clearly establishes that all issues pertaining to borders, just as to refugees, settlements, Jerusalem, and Palestinian sovereign control over land and resources are to be left to final status negotiations. The DOPs, though, specifies that "the two sides view the WBGS as a single territorial unit, whose integrity will be preserved during the interim period" (EP, article IV). It was left to various

[4] This figure refers to the number of settlements in the West Bank (123) and in the Gaza Strip (17) as reported by the Israeli Central Bureau of Statistics (ICBS, 1999, table 2.7). However, according to the Foundation of Middle East Peace, which monitors settlements' growth, these figures underestimate by 10-20 per cent the actual number of settlements and which they estimate to be 174 in total (FMEP 1999: p. 1).

parts of the Interim Agreement signed between Israel and the PLO, to resolve the enigma of how to maintain this integrity and ensure its economic viability without tackling the central questions of territory, borders and sovereignty.

2.5 The Reality of the Palestinian Economy

For the past three decades the Palestinians of the WBGS have lived under direct Israeli occupation which has infiltrated every aspect of their political and economic landscape. During the 1970s-early 1990s period, the contribution of WBGS manufacturing to economic activity was consistently low relative to other countries at similar income levels, generally below 10% of Gross Domestic Products (GDP), (World Bank, 1993: p. 151). Manufacturing remained characteristic of early stages of development with large numbers of small enterprises with low levels of capital stocks and no dominant industry leaders. A difficult regulatory environment, a non-conducive tax structure, competition from Israeli producers, a lack of financial intermediaries, a non-supportive public sector and political uncertainty all limited investment. Most investment in manufacturing was self-financed by enterprise owners and the vast bulk of investment was to replace worn out capital stock, rather than for businesses expansion (World Bank, 1993: p. 71)[5]. In the early 1990s, the share of manufacturing in GDP was only half its share in total employment, indicative of low levels of labour productivity. Repeated interruptions during the years of the *intifada* resulted in reduced levels of capacity utilisation and investment in the upkeep and expansion of productive assets such as buildings, machinery and equipment. Restricted access to regional and international markets also impeded investment and development (World Bank, 1993: pp. 2-9; UNCTAD, 1993: pp. 62-69). (also see Appendix A1).

2.6 Palestinian Economy Profile since Oslo 1993

At the time of the 1993 Oslo Accord, the economy of the WBGS was highly vulnerable to relations with Israel, through its dependence on worker remittances[6] and trading arrangements. Health and other social indicators of the population had improved markedly and were good compared to lower-middle income countries and to other countries in the region (World Bank, 1999). The state of infrastructure, however, was poor and public services were in disarray. Decades of lack of maintenance and under-investments during the Israeli occupation had led to over-crowded and dilapidated facilities and poor transport, water, and power systems.

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[5] The World Bank mission found that the real value of total private sector assets in 1990 was only 2 per cent above that in 1975.

[6] In 1991, for example, about 100,000 workers, mostly unskilled and representing about one-third of the labour force, worked in Israel, and some 40,000 workers, mostly skilled, worked in other countries, particularly Jordan and the Gulf States; 25 per cent of GNP came from remittances from Israel. Prior to the 1991 Gulf war, roughly 10 per cent of GNP came from remittances from other countries.

Many Palestinians in the WBGS expected that they would reap a peace dividend following the Oslo Accord, in the form of a surge in private investments, particularly from the estimated 4.5 million Palestinians living outside of WBGS, and renewed economic growth and increased employment[7]. Instead, employment opportunities slowed as periodic border closures by Israel increased in frequency and duration over 1994-1996; unemployment spiked sharply, reaching as high as 50% in Gaza Strip (GS), due also to workers being unable to reach workplaces in Israel. Closures meant that no goods could move between the WBGS and Israel and at times, between WB and GS, and within WB and within GS. This situation disrupted domestic production and public investments, slowed exports from WBGS to and through Israel, and discouraged potential private investments.

In comparison, after 1998, the Palestinian economy enjoyed remarkable growth, with real GDP growth estimated at 6% in 1999. Real per capita Gross National Income (GNI) growth was estimated at 3.5%, bringing per capita GDP and per capita GNI to $1,651 and $1,965, respectively. Moreover, the proportion of the population living below the poverty line decreased by 3.5% during the period 1996-1992, from around 27% to 23% (PCBS, 1998).

The Palestinian recession between September 2000 and late 2003 is among the worst in modern history (World Bank, June 2004). Unemployment increased from 10% of the workforce to an average of 41% during 2002, and the number of the poor rose from 20% to over 50% of the population. In GS, unemployment exceeded 46% of the workforce, and the poverty level rose to 62%. Private investment and trade fell dramatically through 2001 and 2002 (see Appendix A2).

Numerous studies (UNCTAD, 1998; Alonso-Gamo, et al. 1999; European Commission, 1999) attribute less-than-anticipated Palestinian growth performance between 1993 and 1999 to an imperfect implementation of the Paris Protocol (PP), mainly as a result of Israeli restrictions on the movement of goods and people across borders and within WBGS.

Recent literature on the impact of war and conflict on developing economies stresses the profound changes they endure, which will not be reversed once hostilities cease[8]. UNCTAD

[7] Opinion polls carried out in WBGS in September 1993 showed that about two thirds of the population expected that implementation of the DOP would improve economic conditions for Palestinians.

[8] From the wide selection of relevant literature on this topic, the most recent contributions may be found in F. Stewart & V. Fitzgerald (eds), *War and Underdevelopment*, Oxford, Queen Elizabeth House, 2001; and T. Brück., A. Grigsby & V. Fitzgerald, "Enhancing the private sector contribution to post-war recovery in poor countries", Working Paper Number 45 (1), Oxford, Queen Elizabeth House, July 2000.

(2003) has analysed this war-torn economy typology through reference to 25 comparative indicators and actual Palestinian performance over the 1990–2003 phases of conflict affecting the economy. Although the 1990–1999 periods saw some contrary trends, the Palestinian economy since 2000 has come to share many of the features of a variety of developing economies throughout the world, which have faced and surmounted conflict at considerable economic and social cost.

2.6.1 Frequently Border Closures

Closures remain the defining characteristic of Palestinian economic life. The economic space of the WBGS remains highly fragmented; economic activity has significantly declined (UNSCO, 2002). Closures and curfews continue to disrupt business, commerce and routine social exchange; they have raised transport and production costs and severed vital economic links between villages and urban areas. WB businessmen report difficulties in obtaining necessary productive inputs from suppliers, and in shipping finished goods to market. The movement of commercial goods between the WB and Israel declined by 50% during 2003 compared with the level prior to the launch of Operation 'Defensive Shield' in March 2002; Defensive Shield severely restricted Palestinian traders' ability to engage in business outside the WB. Closures and permit cancellations reduced the number of Palestinians working in Israel and in the Israeli settlements and industrial zones (ISIZ) to 2% of employed Palestinians, according to the latest figures from PCBS (2004) compared with 22% on the eve of the *intifada* (see Appendix A3).

2.6.2 Firms Activities

Most of the Palestinian SMEs are involved in light industries and the production of basic consumer goods, particularly food and beverages, wearing apparel, non- metallic products, metal products and furniture products. In 1999, these activities generated 77% of employment and 61% of the value added in the industrial sector of the WBGS (PCBS, 2000). In the services sector, the largest sub-sectors in terms of employment and value-added contribution are education, health and social work, hotels and restaurants, and business activities (excluding research and development, real estate, computer and related activities and renting of machinery). These contributed 24% of the services sector's GDP and employed 79% of its labour force in 1999 (PCBS, 2000). Investment remains concentrated in construction activities, especially for residential purposes, continuing a trend that emerged in the 1920s. In 1999, residential construction accounted for 25% of the total new surface area licensed for construction activities (UNSCO, 2000).

The structure of most enterprises is underdeveloped. Given such an underdeveloped industrial base, the private sector's contribution to job creation remains limited, it accounted for only 45% of total jobs created from 1995 until the third quarter of 2000, with work in Israel and jobs in the PA accounting for the balance (32% and 23% respectively) (World Bank, 2003). Moreover, jobs created in the Palestinian private sector grew at a low rate of 4% per annum, thereby failing to keep pace with the rate of labour force expansion. Export performance has also been very poor, accounting for only 17% of GDP in 2000. This is due particularly to the high transaction costs facing Palestinian exporters and limited access to cheap sources of supply as a result of the Israeli restrictions, recurrent border closures, the absence of a national port or airport, and inadequate physical infrastructures (UNCTAD, 2004). With domestic absorption standing at more than 150% of GDP, the Palestinian trade balance has been showing a persistent deficit, growing from $1.652 billion in 1996 to $2.669 billion in 1999. The ratio of trade deficit to GDP has soared, exceeding 50% since 1995, up from 27% in 1990. This deficit has been underscored by a heavy concentration of trade with one partner, Israel, which accounted for around 69% of total Palestinian trade transactions in 1999. The Palestinian trade deficit with Israel stood at $1.644 billion in that year, as compared with $1.322 billion in 1995.

2.6.3 External Trade

The Palestinian economy continues to function well below its potential. Despite positive growth in 2003, the Palestinian output gap "the difference between the actual level of output and the potential level" remains significant (World Bank, 2004). Foreign trade also remains subdued: Palestinian exports decreased by 4% in 2003; they contributed only 14% to GDP as compared with 20% in 1999 (UNSCO, 1999d: pp. 2-9). Damage to infrastructure[9] and depressed investment levels associated with the *intifada* have significantly lowered the productive capacity of the Palestinian economy (UNCTAD, 2003; World Bank & UNSCO, 1997; World Bank, 2004).

2.6.4 Financial Sector

The decline in overall economic activity in the WBGS since the beginning of the *Intifada* is clearly evident in the total value of checks cleared by banks operating in the WBGS, particularly in the periods of increased Israeli military operations. During the first nine months of 2000, i.e., prior to the *Intifada* the value of cheques presented for clearing averaged US $449 million ($301 million in the WB, $142 million in GS), per month. During 2002, monthly values averaged less than half the pre-*Intifada* levels: $142 million in the WB; $67 million in GS; total, $216 million (World Bank, 2003). August 2003 saw $216 million cleared in the WB and $21 million in GS.

[9] Up until the end of 2002, total damage was estimated by World Bank report (2004), upwards of US 1 billion.

For the first eight months of 2003, the total value of cheques cleared has increased 13.2% (15.2% in the WB, while increasing 2.2% in GS) relative to the January-August 2002 period (See World Bank, 2003: Figure 13). Similarly, the number of cheques has also risen, but not as dramatically: 1.1% overall (5.2%, WB; minus 0.2%, GS) (USAID & World Bank, 2004).

2.6.5 Infrastructure Projects

Since 1993, donor-supported infrastructure investment has involved a range of projects in the energy, solid waste, transportation, and water and sanitation sectors (World Bank, 1999g). In almost all of these areas, the PA inherited infrastructure that was relatively underdeveloped, lagging behind that of other comparable countries. The improvement of physical infrastructure is a key to improving conditions for the Palestinian population, attracting private sector investment, and laying the groundwork for future development (see Japan & World Bank, 1999a, 1999b, 2000; MOPIC, 1998a; Palestinian Electricity Authority, 1999; Selem, 2000; World Bank, 1992a, 1992c; World Bank, 1993e; World Bank, 1999f)

2.6.6 Private Sector Development Projects

Over the period from 1994 to June 2000, the OPT received foreign aid amounting to $3 billion, equivalent to around 14% of GNI per annum. At the outset, donor assistance was mainly channelled to budget support, which accounted for 31% of total disbursements over the period 1994-1995, mainly to support the newly established PA government institutions. By mid 2000, the share of budget support had been reduced dramatically to less than 4%, reflecting a shift in donors' focus towards long-term development projects. However, private sector development projects accounted for around 10% of total disbursements only, as donors' assistance was mainly focused on infrastructure development and institution-building projects, in addition to social development (MOPIC, 1999). At the same time, the impact of private sector support projects was undermined by a lack of coordination among donors.

There are hundreds of industrial projects proposed by several studies to be established in the Palestinian territories (see Alra'ed, 1993c, 1993f; Foreign Investment Advisory Service, 1995; Roy, 1996; Sadler, 1990; UNCTAD, 2002, 2003; UNSCO, 1999, 1999d, 2000; USAID, 2002, 2003, 2004; World Bank, 1992a, 1992c, 2003, 2005; World Bank & USAID, 1996).

2.7 Contribution of Industry to the Economy

The number of industrial firms increased in the WB by 15.7% and declined in GS by 25.2% during 1994-1999. Metallic manufacturing was the biggest in number among WB industrial branches, while wearing apparel was the biggest in GS. Wearing apparel was the largest employer of all the industrial branches in both the WB and GS in 1999. The industrial value added increased by 50% in the WB and by 42% in GS during 1994-1999. However, gross capital formation declined in both areas. Despite the increase in external industrial sales of 34% in the WB during 1997-1999, the importance of foreign markets for industrial sales declined over time. In GS, the volume of industrial external sales declined by 12% and its share of total sales fell to 3% in 1999. Average wages in the industrial sector increased by 11% in the WB and by 6% in GS during 1994-1999. Worker productivity in industry also increased, by 26% in the WB and by 36% in GS during the same period[10].

Palestinian current GDP[11] in 1999 was estimated at $4954 million, distributed between East Jerusalem 6.7%, the WB (excluding East Jerusalem) 63.9%, and GS 29.4%. GNI in the OPT was $6124.7 million, 23.6% higher than GDP. The difference is the net income earned by Palestinian factors of production abroad. Net foreign transfers to Palestinians amounted to 5.9% of GNI, reflecting a decline in transfers during 1999 of 27.6% compared to 1992. Per capita Gross National Disposable Income (GNDI) in the WB was $2309.2. This was 32% higher than in GS $1672.2 and indicates a narrowing of the gap between the two regions. Industry, agriculture and construction generated 37% of Palestinian GDP, while services contributed 63%.

The shares of agriculture and industry in the WB employment declined during 1999 in favour of services and construction. In GS, the share of agriculture increased markedly, along with services, while the shares of industry, construction, trade and restaurants decreased. Employment grew in all economic sectors in the WB, apart from agriculture where it fell by 2% (about 3500 jobs). The growth in jobs was minimal in industry (less than 1%) but was considerable in services 16%, accounting for 79% of new WB jobs, and in construction 26%. In GS, the number employed in industry, construction, trade and restaurants declined by a total of 7260, but employment in agriculture increased by about 11,920 compensating for the loss in other sectors (MAS, 2000, 2004).

The performance of Palestinian economic sectors (pre the second *Intifada*) in 1999 was positive, as reflected in the increase in the value of relevant indicators. Table (2.1) shows the developments in some indicators of sectors covered by PCBS surveys. All the indicators showed positive changes, with the exception of net investment in some sectors.

[10] A series of PCBS Industrial survey, different years (1994-2000).

[11] The PCBS published its preliminary estimates of the 1999 Palestinian national accounts in a press release late January 2001.

Table 2.1

Developments in the Performance of Economic Sectors in 1999 (*Growth rates unless indicated otherwise*) (%)

Sector/Indicator	Manufacturing	Service	Financial Intermediary	Internal Trade	Formal Transport	Informal Transport
Value Added	23.90%	23.60%	21.20%	11.50%	32.70%	9.20%
Employment	12.70%	10%	10.20%	9.90%	29.70%	37.60%
Paid Employees*	67.2%	70%	100%	25.3%	23.7%	22%
Share of Females*	15.60%	33%	26%	6.9%	12.4%	--
Capital/Labour Ratio	52.50%	57.10%	4.20%	35.47%	144.60%	--
Capital Formation	32.20%	11%	49.30%	12.90%	290.90%	--
Net Investment	105.23%	10.2%	29.3%	231%	295.4%	--
Productivity	9.90%	12.30%	10.60%	1.50%	2.30%	20.60%
Wages	14.30%	1.60%	13.60%	11.90%	13.90%	13.60%

Source: PCBS Survey (1999).

Notes: * This is the value of the indicators; a negative sign means a decline.

-- Not available.

The value added of manufacturing in the Palestinian Territories in 1999 rose by 23.9% over 1998. The PCBS survey results showed that the value added of these industries amounted to $695.5 million, with a rise in its ratio to overall production (47.4% in 1999 and 45.9% in 1998). The manufacturing sector employed 69,367 workers in 1999, an increase of 12.7% over 1998. Total industrial employment (including mining, water and electricity) represented 16.4% of the labour force in the local economy in 1999 (PCBS 1999). The higher rate of increase in the value added of manufacturing compared to that of employment indicates higher productivity. This is a positive development in favour of the production base of the Palestinian economy. Around 67.2% of manufacturing employees were paid workers in 1999, an increase of 16.5% over 1998. Dependence on paid employment among the different industrial branches varied. Paid workers accounted for 79% of employees in textiles but only 43% of metal product employees. Female employees in manufacturing made up 15.6% of total employees in 1999. In the apparel sector, women accounted for 45%. This is attributed to the lower wages women received in this sector in addition to their relative advantage in it. However, the employment of women in non-metallic and metal industries, apart from machinery, was almost non-existent at 0.5% and 0.3% respectively.

PCBS industrial survey data in 1999 showed that in spite of the decline in the contribution of the non-metallic sector to the value added of overall manufacturing, the sector was still the largest of Palestinian manufacturing industries. It accounted for 25.9% of the value added in 1999 and contributed 19.7% to employment. The apparel sector was still the largest manufacturing sector in terms of employment in 1999 with 28.6% of total manufacturing employees. This sector contributed 12.2% to the value added in 1999 compared to 14.4% in 1998. The contribution of foodstuffs to total value added continued to increase for the third consecutive year, accounting for 22.8% in 1999. This was in spite of a fall in its contribution to total employment to 10.9%. This indicates increased productivity in this important branch (For more details see PCBS, Industrial Survey 1999 "Distribution of Value Added and Employment in the WBGS: Manufacturing in Selected Sectors, 1999").

The industrial survey data also showed an increase in the gross fixed capital formation in manufacturing in 1999 by 32.2% compared to 1998. However, annual depreciation was greater than gross capital formation, making net investment in Palestinian manufacturing during 1999 negative by $31.4 million compared to a negative net investment in 1998 of $15.3 million. Net investment was negative in most manufacturing sectors. Survey results indicated a steep rise (58.5%) in capital labour ratio (capital intensity) to $7,046 per worker in 1999 as opposed to $4,444 in 1998. The apparel sector recorded the lowest capital intensity of $1,717 per worker, a 5.1% drop from 1998. The highest capital intensity was recorded in foodstuffs of $12,443 per worker, a growth of approximately 150.7% over 1998.

Labour productivity in manufacturing in 1999 was $10,026, about 9.9% higher than in 1998. This increase in productivity is linked to the rise in capital intensity and capital formation. Productivity in foodstuffs, beverages and tobacco, textiles and other non-metallic products were clearly higher than average. However, productivity was lower than average in apparel, footwear, and metal product manufacturing. Annual wages in manufacturing in 1999 represented 44.7% of the level of productivity. The highest wages were in non-metallic product manufacturing where the ratio to productivity was lower than the average by 41.9%. The highest wage productivity ratio was in the apparel industry (77.2%), although it had the lowest wages in manufacturing due to low productivity. It was followed by the footwear industry with a ratio of 74.6%.

Manufacturing accounted for 33.6% of Palestinian exports in 1999 compared to 29.2% in 199818. The industrial survey showed that the ratio of exports to sales in Palestinian manufacturing was 15.7% during 1999. This represented a slight drop (15.9%) in comparison with 1998. Substantial changes also occurred in other manufacturing branches. The ratio of exports to sales in the apparel industry rose from 18.1% in 1998 to about 30.2% in 1999. However, the export performance of other traditional sectors dropped significantly: in the bag and footwear industry from 29.5% to 16.1% and in the textile industry from 28.9% to 23.5%.

The PCBS annual survey of the services sector covers hotels and restaurants, rental and real estate activities, education, health and social work, and other social and personal services[12]. The results of the services survey showed that the value added of these branches in the Palestinian Territories grew by 23.6% in 1999 compared to 1998 and totaled $291.7 million. This rise in the value added is attributed to significant growth in the value added of health and social work (99%). The increase also included other branches, apart from education where the value added fell by 10.3% compared to 1998 (PCBS, 1999 "Share of Employment and Value Added of Services Sectors in the WBGS, 1999).

Furthermore, the value added to production ratio rose in the services sector from 63.5% in 1998 to 65.9% in 1999 and shows a rise in the role of locally produced inputs. The branches covered in the services survey employed 46,193 workers, 10% higher than 1998 figures. The highest rate of growth in employment was in health and social work (35.8%), followed by social services (23.3%), and hotels and restaurants (8.4%). In contrast, the number of those employed in education or real estate and rental activities dropped by 5.4% and 4.6% respectively.

Health and social work made the greatest contribution of the services branches to value added (28.6%) and employment (22.6%) (PCBS, 1999). Female employment in the services sector increased by 12.8% in 1999 to a total of 33%, although female participation in the education sector fell, it remained the highest among the various branches at 58.7%. Female participation in health and social work increased to 48.7% in 1999 compared to 44.6% in 1998. The lowest female participation was in the hotel and restaurant branch (4.7% in 1999). The number of paid employees in the services sector rose in 1999 to 32,541, an increase of 18.1% over 1998. They constituted 70% of all employees in this sector as opposed to 65.6% in 1998. The highest ratio of paid workers was in education (89.4%). All the branches recorded a rise in the number of paid employees in 1999 apart from the real estate and rental sector where paid employees dropped from 60.9% to 58.7%. The increase in paid employees applied to both sexes. The percentage of male paid employees increased from 55.6% to 60.7% of total employees in 1999. The percentage of paid female employees also increased from 86.6% to 90.2% of total female employees. Gross fixed capital formation in the services sector grew by 11% in 1999 to $31.03 million. The highest growth rate was in the hotel and restaurant branch (269.6%), followed by health and social work (80.2%). The other branches recorded a decline in gross fixed capital formation; by -58.6% in

[12] it relates to non government education and health sectors.

education, by -37.7% in other personal and social activities, and by - 13.2% in real estate and rental activity.

Annual depreciation grew in 1999 by 34.9% in comparison with 1998 and totaled $33.45 million. Net investment in 1999 was negative by $2.4 million (PCBS, 1999). The highest net investment was $3.7 million in the restaurant and hotel branch, followed by personal and social services activities ($148,600). The remaining branches recorded negative net investments. The capital intensity in the services sector grew markedly in 1999 to $19,380 per worker, a rise of 57.1% over 1998. Labor productivity in the services sector during 1999 rose by 12.3% to $6,315 per worker. The highest increase in productivity was in health and social work (46.7%), and in real estate and rental activity (20.3%). However, a decline in productivity was recorded in personal and social services and in the education sectors of 8.5% and 5.2% respectively.

Average annual wages rose by only 1.6% in 1999 to $4,932 per worker. This constituted 76.5% of productivity in comparison with 84.6% in 1998. The highest wages were in real estate and rental activity. Wage-productivity ratio was the highest in other social and personal service activities (110.4%). Female wages were 63% those of males in the services sector. The biggest gap in male - female wages was in education while the smallest gap was in hotels and restaurants.

The PCBS conducts an annual internal trade survey covering the sale and maintenance of vehicles and sale of fuels, wholesale and retail trade, and repair of personal goods. The value added of these businesses in 1999 totaled $551.6 million, an increase of 11.5% over 1998. This was due to the marked improvement in income levels resulting from the increased flow of Palestinian workers to the Israeli labor market. The value added to output ratio in this sector was 74.5% during 1999. Despite the decline in contribution of retail trade to the total value added during 1999, it was still the largest contributor, accounting for 45.6% (PCBS, 1999 "Share of Employment and Value Added in Internal Trade Sector in the WBGS, 1999").

The internal trade sector employed 75,211 people in 1999, a rise of 9.9% over 1998. Retail trade employed 70.4% of workers in this sector, although its contribution to value added was no more than 45.6%. This reflected a drop in productivity due to the small size of firms and their nature as family businesses (the average number of employees per firm was 1.7 and only 15.8% of workers were paid). Wholesale trade, on the other hand, contributed 34.3% to the value added and employed 14.2% of all workers, evidence of a rise in productivity. Firms in this sector were relatively large due to the nature of the work (the number of employees per firm was 3.8 and the percentage of paid employees was 54.9%).

The number of paid workers in the internal trade sector constituted about 25.3% of total employees in 1999, rising from 20% in 1998. This increase may be attributed to the fact that some employees in internal trade switched from the informal to the formal sector but the percentage was still low due to the heavy dependence on owners and family members in the workforce, especially in retail trade, where the share of paid employees was 15.8%. In comparison, their share in wholesale trade was 54.9%.

The percentage of female employees in the internal trade sector was 6.9% and 9.2% in the retail trade. Female employees were almost gross fixed capital formation in internal trade grew in 1999 by 18.9% to $21.2 million. However, capital depreciation totaled $22.9 million, making net investment in the internal trade sector negative by $1.6 million in spite of the marked growth in fixed capital formation. Net investment was also negative in vehicle maintenance and sales, fuel sales, and retail trade. In wholesale trade, net investment totaled $482,000.

Average labor productivity in internal trade in 1999 rose by 1.5% (around $17,334 per employee per annum). Productivity in wholesale trade was the highest ($17,753 per worker annually), although there was a decline in productivity of 6.3% compared to 1998. Productivity was up in vehicle sales and maintenance and fuel sales by 39.4% over 1998. In retail trade, productivity dropped by 7.3% compared to 1998 (PCBS, 1999). Average wages per annum in internal trade increased by 11.9% in 1999 to $5,051 per worker, around eight times the growth in productivity. The wage to output ratio therefore rose to 68.9% in 1999. This ratio was 105.5% in retail trade but was as low as 30.9% in wholesale trade.

2.7.1 The Nature of Palestinian Industry

In the WBGS, perhaps what foremost distinguishes Palestinian manufacturing is the fact that it is comprised predominantly of light industries (PCBS, 1994). Chenery & Taylor (1968) defined three industry groups, depending on their stage of development. Hoffman (1958) suggests another way of classifying industries, which he divides into two broad groups: 1) light industries, comprised of basic consumer goods, such as food, beverages, tobacco, textiles, clothes, leather, and wood products (including furniture, printing and publication, rubber products and plastic), and 2) heavy industries, comprised of developed consumer, industrial and capital industries (such paper products, industrial chemicals, oil refineries, coal, metal products, and equipment).

If we follow the United Nations classification (UNIDO, 1983; Kirkpatrick, et al. 1984) light industries usually include basic consumer goods, whereas heavy industries include industrial intermediaries, capital goods and durable consumer goods. Studies carried out on Less Developed Countries (LDCs) during different periods indicate that the contribution of heavy industries increases with the rise of income and with industrial progress by reason of the increased need for intermediary industrial commodities and capital commodities to meet the requirements of industrialisation (Kirkpatrick, et al. 1984: p. 17). This is not surprising therefore, as we can see in Table (2.2) that the contribution of heavy industries to the value added of manufacturing in the WBGS should be meagre. This is due to the backwardness of the industrial sector, on the one hand, and to low-income levels on the other. This reflects the weakness of the WBGS industrial base (PCBS, 2000; MAS, 2001).

Table 2.2

Contribution of Light and Heavy Industries in Value Added to the Manufacturing Sector, 2000

ISIC	Economic Activity	Value added ($)
Light Industries – Manufacture of:		
15	Food and beverages products	40,790.2
16	Tobacco products	1,490.4
17	Textiles	2,935.2
12	Wearing apparel	60,461.2
19	Tanning of leather; manufacture of bags	14,727.0
20	Wood and its products	11,231.9
22	Publishing, printing and reproduction	1,679.1
25	Rubber and plastic	6,526.7
361	Furniture	23,702.6
	Total	163,544.3
Heavy Industries- Manufacture of:		
21	Paper and its products	6,253.6
24	Chemicals and its products	10,221.9
261	Glass and glass products	426.0
269	Ceramics products	1,432.2
27	Basic metals	355.6
22	Metal products	33,146.6
29	Machinery and equipment	4,004.2
33	Medical and optical equipment	335.3
35	Other transport equipment	176.5
	Total	56,351.9
	Grand Total	**219,896.2**

Source: PCBS (2000).

The outbreak of the *intifada* in 2000 has generated increased demand for the products of certain enterprises, thereby encouraging them to hire more workers and/or purchase new assets. Available statistics on tourism SMEs do not allow for a comparison between 2002 and 2001, but UNCTAD survey reveals that they managed to maintain the size of their workforce over the period June 2001-2002, while reducing compensation costs by 8% in relation to the previous period (see Table 2.3). Compared to the 12 month period of the year 1999; the compensation level of these enterprises declined by 27% and the paid labour force by 44%.

Table 2.3

Changes in SMEs' Workforce and Compensation Levels in the WBGS

(Percentage change between June 2000 and June 2002)

Economic activity	Total paid	Total unpaid	Compensation
Mining & quarrying	-18	0	-28
Manufacture of food & beverages	-31	-8	-35
Manufacture of wearing apparel	-28	-2	-38
Manufacture of furniture	-18	-12	-30
Remaining manufacturing activities	-22	3	-26
Total industry	-25	-1	-31
Construction	-15	1	-25
Hotels & restaurants	0	0	-8
Grand average	-24	-1	-29

Source: UNCTAD, (2004)

Moreover, these enterprises witnessed a significant increase in their excess capacity. The K/O ratio of wearing apparel SMEs grew from 25% in 1999 to 44% in 2001, while that of non-metallic producing SMEs increased from 22% to 23% (see Table 2.4). This means that these industries may not be as capital-intensive as they appear to be. This means that these industries may not be as capital-intensive as they appear to be. Other enterprises appear to have become more capital- intensive when in fact they are not. This is particularly the case of tourism enterprises, which reduced the size of their labour force by 53 per cent, lost 45 per cent of the book value of their average assets, and saw their K/O ratio, soar from 116 per cent to 150 per cent. In contrast, food and beverage and furniture SMEs were able to increase the book value of their average assets at a faster rate than their workforce. Moreover, their K/O ratio grew less steeply than the rest of the enterprises, reflecting an improvement in their capital intensity.

Table 2.4

Relative Importance of Capital in SMEs' Production Processes, (WBGS, 2001)

Economic activity	Capital intensity ($)	Productivity ($)	Capital/output ratio (%)
Mining & quarrying	21,229	10,133	126
Manufacture of food & beverages	12,460	10,124	47
Hotels & restaurants	12,401	3,422	150
Remaining manufacturing activities	10,103	6,716	51
Construction	6,675	12,460	25
Non-metallic products	19,227	7,021	23
Manufacture of furniture	4,203	5,647	33
Manufacture of wearing apparel	2,522	3,463	44
Grand average	11,731	6,644	62

Source: UNCTAD, (2004).

2.7.2 Firms Trade and the Current Situation

Trade traditionally played an important role in the small and open Palestinian economy. Throughout the past five years, imports of final goods, services, equipment and intermediate inputs represented approximately 70% of GDP, while exports of goods and services represented less than 20% of GDP. Unfortunately trade is badly registered, as most of it takes place between the WB and Israel, where no custom stations exist (unlike trade between GS and Israel). (World Bank, 2004) The Israeli Central Bureau of Statistics nevertheless estimates such flows; this only covers Palestinian trade with Israel, and not with the rest of the world. However, trade with Israel represents the bulk of total Palestinian trade (Astrup & Dessus, 2001).

Enterprises involved in high-value-added activities constitute a minority, and are concentrated in the pharmaceuticals, textiles and garment, food processing and Information Technology (IT) sub-sectors. These are technology-rich industries and have a high capitalisation base, estimated at \$1.9 billion in 2002[13]. In the same year only 232 enterprises participated in international trade. These are dominated by medium-sized enterprises, mainly involved in manufacturing activities, information technology and services (Paltrade, 2002). The protracted conflict has aggravated the structural weaknesses of these enterprises, thereby undermining the supply capacity of the industrial sector as a whole (FPCCIA, 2001; PFI & Paltrade, 2002; Radi, 1998; UNCTAD, 2000; UNSCO, 2002, 2003; Valdirieso, et al. 2001).

Sector and firm specific impediments require targeted actions to increase competitiveness by focusing on enhancing market access, building trading relationships, improving product quality and diversification, and enhancing productivity[14]. Because of restrictions on the import of capital equipment, many enterprises, particularly manufacturers of metal products and furniture, have been unable to keep up with recent technological developments. In fact, the supply of suitably educated and experienced individuals with a wide variety of skills can encourage the formation of firms which have the internal competencies to sell specialized and innovative services internationally. The range of collaborative partners and the density of network opportunities can encourage the clustering of interacting industries which may provide a competitive advantage for firms entering foreign markets. Although a proper value chain and cluster analysis was not

[13] Palestinian Federation of Industries (PFI) and Palestine Trade Centre (Paltrade), "Private sector needs assessment: Industrial sector survey" prepared in cooperation with Market Access Programme /DAI, USAID funded project, Ramallah, September 2002.

[14] The agriculture sector, for example, suffers from poorly developed post-harvest practices and the lack of extension services, while the furniture sector is constrained by deficiencies in quality control, poor management methods and low product standards.

possible in the timeframe for this study, the work EC & Paltrade (2004) have done in this area provides a useful guide (see Appendix A4).

2.7.2.1 Market Access and the Transition to Sustained Export Growth

Stability and sustained development require the creation of a competitive, export-based economy linked to diverse markets. This will mean a deepening of the productive base and a widening of markets and marketing channels in order to diversify trading relationships. Globalisation and trade liberalisation have greatly sharpened competition in export markets and today's marketplace demands stringent quality and labelling requirements, along with strict adherence to delivery schedules. Palestinian enterprises will need to integrate themselves into global supply chains if they are to succeed in accessing international markets. This will not be easy for the small to medium scale enterprises that dominate the Palestinian private sector. Against this background, the PA faces a major task in helping enhance competitiveness (European Commission & the World Bank, 2004). It will need to help enterprises gain access to markets on favourable terms, through the implementation address issues pertaining to low productivity (compared to labour costs) and diminishing skills. It also needs to stimulate competitiveness at the firm and sector levels, and build enabling environment, which is genuinely supportive for productive activity.

2.8 Essential Conditions for Industrialisation

An improved operating environment is a stimulus for Palestinian entrepreneurs and foreign investors. Such investors will look for well-serviced industrial land and supporting infrastructure. They will also seek a regulatory regime with a minimum of 'red tape' and with clear procedures for conducting business.

While the implications for present policy will continue to be debated, Porter's work does provide the business historian with a powerful paradigm and set of tools for considering business in history. Why are some firms successful and other not? Why do some nations seem to specialise in certain industries with lots of competitors, while other nations do not seem to know that an industry exists? Porter provides ways of thinking about these types of question. The CA of Nations seeks to determine how nations become economically successful. A nation's industrial firms will be successful the more rivals they have. Open the borders to foreign competition, enforce anti-trust laws, and do not favour mergers. Once firms in an industry stop competing, the industry will undoubtedly stagnate, at least relative to their foreign rivals. The recent USA automobile industry is a perfect example of this.

"Don't think a nation can succeed in the long run using low wages as a cost advantage. It will never become competitive and it will not become rich" Porter comes to these conclusions by focusing on why nations become home bases for successful international competitors in various industries and services. He does this by examining ten countries; the USA, Japan, Germany, Switzerland, South Korea, Great Britain, Sweden, and Italy. He also looked at Singapore and Denmark, but did not report on them. He argues that the term "competitive nation" has little meaning. Instead, the economic goal of a nation should be to produce a high and rising standard of living for its citizens. To do this, a nation or rather the industries of a nation must become more productive. Hence he studies what makes an industry and then later an economy productive "upgrading is the key". Improving factor productivity allows firms to compete in sophisticated industrial segments and new industries, while maintaining full employment. A failure to upgrade results in slower productivity growth and could lead to the declining of competitiveness and eventually unemployment.

The quantity and quality of resources available in the WBGS at the present time have been affected in a markedly negative manner by the policies and measures adopted by Israel during the years of occupation (UNSCO, 2000). Therefore there is a need to consider whether it is possible to develop these resources as well as other available resources outside the Palestinian territories in the interest of the Palestinian economy. Certain indicators will be outlined to help arrive at valid conclusions.

2.8.1 Human Resource

Porter emphasises that nearly every industry he studied in almost all of the countries took responsibility for creating or improving human resources. Firms that train their workers will keep them because employees want to work for such employers. He also emphasises the role of education and training for all of the successful post-war economies he studies. A nation will not have the ability to respond to opportunities unless human resources have the ability to exploit them. Indirect targeting by government in this area should prove beneficial because it provides more opportunities for firms to be successful.

In other words, achieving long term sustainable development is dependent on a concomitant development of human resources. Experience of the Newly Industrial Countries in South East Asia provides a good example. These countries have witnessed this development and investment in human capital was cited as the decisive factor in this success. A country such as Singapore, whose population does not exceed 3 million, has been able to achieve an economic miracle in the course of a comparatively short period of time. The population of the WBGS about 3,224,504 million, however, Palestinians in the Diaspora represent a rich extension to the local inhabitants. Although there are no accurate records concerning Palestinians living outside the WBGS, according to PCBS (2001), their number 5,255,811 million, as demonstrated in Table (2.5).

Despite the fact the Palestinians have one of the highest levels of education in the Middle East; human resources within the WBGS have a low level of technical skills and a lack of appropriate professional specialisations. There are several reasons behind this situation. The current political conditions and Israeli restrictions is major factor. Besides, there is a lack of modern training facilities and institutions. Still, Palestinians can acquire necessary high skills and qualifications if they are given the chance to do so. (Hanafi, 1999).

Table 2.5

Number of Palestinians in the World, end Year 2000

Country	**Per cent**	**Palestinian Population**
West Bank	24.3	2,057,145
Gaza Strip	13.8	1,167,359
Israel	11.4	969,300
Jordan	30.2	2,560,262
Lebanon	3.8	326,459
Syria	4.7	401,092
Egypt	0.7	56.663
Saudi-Arabia	2.6	223,312
Kuwait	0.4	36,052
Other Gulf countries	1.3	113,622
Iraq &Libya	1.3	106,737
Other Arab Countries	0.1	5,970
USA	2.6	222,725
Other Foreign Countries	2.6	223,617
Total	**100.0**	**8,480,315**

Source: PCBS, Statistical Abstract of Palestine, No "2", (2001).

Palestinians working abroad and foreign resources also can play an important role in supplying the capital needed for industrialisation. Remittances from Palestinians working abroad before the first Gulf War exceeded $300 millions (World Bank, 1993: Vol. 1, p. 12). As for Foreign resources, they are usually composed of grants, loans and direct investment. Grants and loans may be considered the main sources of formal investment (government), while direct investments constitute the main source for the inflow of private capital. The experience of the Newly Industrial Countries points to the importance of foreign direct investment in the industrialisation process. In Singapore, for example, the amount of these investments reached 54% of GDP; in Hong Kong they reached about 20-26% (Chowdhury & Islam, 1993: p. 105).

2.8.2 Non-Human Resource

The total area of the West Bank and Gaza Strip (WBGS) is quite small. It does not exceed 6000 square kilometres, and natural resources are very limited. The scarcity of natural resources constitutes a hindrance to the growth of industries that need these resources for production. On the other hand, in spite of the Israeli partial withdrawal from the WBGS, the regular policies of land confiscation and Jewish settlements in Palestinian lands make available land very scarce and therefore, very expensive. For example, one square metre of undeveloped land in the GS costs at least 10 times more than comparable land in Israel, and 100 times more than in Jordan (World Bank & USAID, 1996). The cost of serviced land in WBGS is closer to costs in neighbouring countries: up to 3 times the cost in Egypt, 5 times the cost in Jordan, but only one-quarter to one-half the cost in Lebanon (FIAS, 2001). Palestinian producers also face relatively high prices for production factors including electricity and water. Palestinian producers import most of their electricity supplies from Israel. Although this also brings advantages of better power infrastructure, it comes at price off-peak electricity rates are nearly three times higher in GS compared to Israel (World Bank & USAID, 1996).

Water resources are similarly imported from Israel, because the PP did not accord Palestinians access to aquifers in the WBGS. Moreover, Israeli water authorities ration the local water resources available in the WBGS. As a result, water costs are relatively high, on par with Jordan. The cost structure of the stone and marble industry is a clear example of this argument. (Table 2.6) compares unit production costs across the WBGS main competitors in this sector: Jordan, Egypt, Turkey and Italy. The data illustrate that unit water costs are twice those in Egypt and Turkey, and nearly three times the cost in Italy, and represent a relatively large share of total unit production costs in WBGS.

Table 2.6

Structure of Unit Cost of Marble Production (US$/sq. meter)

	WBGS		Jordan		Egypt		Turkey		Italy	
	US$	%	US$	%	US$	%	US$	%	US$	%
Labour	0.155	5.39	0.066	2.51	0.074	3.20	0.203	9.22	0.302	14.19
Electricity	0.426	14.21	0.266	10.12	0.533	23.00	0.224	12.94	0.391	17.92
Water	1.176	40.22	1.176	44.47	0.522	25.40	0.522	26.79	0.353	16.24
Tools	1.120	32.92	1.225	42.90	1.120	42.40	1.121	51.05	1.121	51.59
Total	2.277	100.00	2.622	100.00	2.315	100.00	2.195	100.00	2.172	100.00

Source: D'Alessandro (2000).

2.8.2.1 Meeting Infrastructure Requirements

Under more than three decades of occupation every aspect of infrastructure was neglected. Roads, unless leading to Israeli settlements, are badly paved, usually potholed. In its report on economic and social conditions in the WBGS, the World Bank admitted that the Israeli occupation of the Palestinian Territories has destroyed the social and economic infrastructure and that reconstruction and modernisation are required (World Bank, 1993). Water supplies are expensive and erratic. The requirement by settlements for water led to the Israeli clamping down on new wells being opened, or old wells, which had gone into disuse being reopened. Sewage disposal is often inadequate; in GS the situation is one of crisis, with serious health implications, but improvements are under way. The water and sewage problems are particularly acute for companies that need a constant supply of water such as leather tanning, dyeing, and food processing (Mody, 1999: pp. 121-122).

Where electricity is available it has to be purchased by the local authorities from Israel. This implies that Palestine is at an energy price differential with Israel. The problem with telecommunications has somewhat been resolved by the greater use of mobile phones. During the Israeli occupation, the infrastructure was completely damaged which necessitates a high cost of investment to regain its original inadequate state. Another study conducted for the World Bank and Palestinian Economic Policy Research Institute (MAS) found that the investment needed to develop Palestinian infrastructure to a level equivalent to that of a developing country would amount to \$140-175 million annually (Mody 1997: p. 122). Data on international aid, used in financing infrastructure projects, showed that the grand total of spending on infrastructure from 1994-2000 was in excess of \$235 million. This represented only 21% of the amount required to reach the level of a developing country. Studies show that Israel has consistently impeded the development of Palestinian infrastructure and has destroyed parts of it during the recent Israeli aggression (MAS & World Bank, 1999; Abdel-Razeq, et al. 2001). That means that the need for investment is now greater than the amount cited in Mody's study in 1997. The infrastructure can be illustrated as follows:

2.8.2.2 Energy

Energy generation and distribution in the WBGS is once again dependent upon the Israelis. Over 95% of households in the WBGS have electricity but Israel Electric Company supplies the large majority of this energy (Mody, 1999: pp. 121-122). The Palestinian Electricity Authority acts as middleman in GS between the Israel Electric Company and GS residents. However, in the WB, energy is distributed through small municipalities that have little bargaining power with the Israelis about price. In addition, due to the small size of the municipalities, potential private investors are not attracted to the area (Mody, 1999: pp. 125-127). The price of energy is therefore quite high ($.07 per kilowatt-hour) and consumption quite low. The WBGS received 13 kW per 100 people in 1992-1994 while neighbouring Jordan received 25 kW per 100 people and Lebanon 32 kW per 100 people. Israel's supply was of course the highest, weighing in at 22 kW per 100 people (Shaban, & Diwan, 1999: p. 7). This low number for the WBGS residents does not therefore reflect lack of electricity, but rather the high costs of electricity, as it must be imported from Israel.

The Palestinian Authority plan for energy development centres on WB municipality consolidation in order to attract private investors, building a power plant in GS, and diversification of energy sources. Plans are being laid to consolidate the presently disconnected municipalities but Israeli permission must be obtained for various details of consolidation (Mody. 1999: p. 127). In 1995, the World Bank estimated the need for investment in the energy sector in the WBGS at $964 million. However, total spending on the energy sector by donors totalled $110.4 million during 1994-2000 (MOPIC, 2001).

PCBS data indicate that since 1997 around 99% of population areas have had electricity services. However, the problem has remained in the amount of electricity available for industrial and household consumption, the source of electricity, number of hours available and annual consumption. Electricity available per 100 people in the WBGS was less than in neighbouring countries in 1997. Since then, the volume of power supplied to the Palestinian Territories rose to some 545 million kilowatt per hour by the end of 2000, a 60% increase over 1997. According to one study, an additional 400 million kilowatt per hour are needed in order to meet natural population growth and increased income between 1997-2001 and to raise services to a level comparable with Egypt (Mody, 1999). That is, the current level represents 74% of what Moody suggests.

2.8.2.3 Water Supply

Water is a scarce resource in the WB, and a very scarce resource in GS where the groundwater resources are over-exploited and becoming increasingly contaminated. Present availability of renewable water resources (based on the Oslo II Agreement) is only 115 cubic meters per capita per year, among the lowest in the world, (Table, 2.7). While a favourable final status settlement would provide more water to the WBGS, water resources will be extremely limited and will pose a serious constraint for the economy. This challenge requires re-thinking economic growth patterns and changing attitudes vis-à-vis water.

Agriculture is clearly very important to the Palestinian economy. Yet, an implication of overall water scarcity is that agriculture is unlikely to play a leading role in terms of rapid and sustainable expansion of its output and jobs creation. Presently, WBGS agriculture uses, on average, 70% of all extracted water (strikingly, in GS, it uses 150% of annually renewable water resources), and the sector contributes about 15% to GDP.

By comparison, industry and construction consume about 13% of available water resources and contribute about 25% to GDP. The value added per unit of water is therefore much higher in industry. Typical value added by irrigated agriculture in the region varies between \$0.15 and \$0.30 per cubic meter of water, while value added by most industries can be as high as \$30 to \$50 per cubic meter of water used. To ensure future economic growth, less water should go to agriculture, and more should go to industry. But less water use in agriculture does not necessarily mean lower agricultural outputs, (Shaban, & Diwan, 1999).

Table 2.7

Regional Water Resources

Country	Resources (BCM[a] per year)	Consumption (BCM per year	Resources (cubic meter per capita year)
Israel	2.1	1.9	375
Jordan	0.2	1.0	213
Lebanon	4.2	0.2	1.200
Syria	5.5	3.3	325
WBGS	0.2	0.2[b]	115

Source: World Bank (1995a).

a. Billion cubic meters.

b. Actual Oslo II allocations (interim) are 264.5 million cubic meters (MCM) (242 MCM renewable and 16.5 MCM from Israel).

In 1967 when the Israelis took over control of the WB and GS from Jordan and Egypt respectively, they also took over control of the section of the Jordan River running between Jordan and the WB. However, Israel imposed severe water laws on WB residents, such as "The drilling of new wells for irrigation purposes is strictly prohibited, and existing wells are confined to rigid quotas for the Palestinians" (Awartani, 1997: p. 292).

Over 90% of households have running water, although both the quantity and quality of water is declining through overuse and cracked pipelines that allow seepage of seawater, sewage, and agricultural chemicals into the water supply (World Bank, 2004). Water consumption in the WBGS is at 90 litres per capita per day, far below that of its neighbours (Jordan: 140 litres per capita per day; Israeli 220 litres per capita per day) (Mody, 1999: p. 122). Again this results in dependency on Israel for adequate and clean water.

The Palestinian water authority has been established to develop water policies, but since water resources remain controlled by Israel, any major development must wait for negotiations. The Palestinian water authority therefore must focus mainly around restoring existing structures, improving management, sewage collection, and treatment of water (Mody, 1999: p. 191). Once again, "... the key challenge will be to build increasingly sophisticated institutions to ensure efficient investment in infrastructure" (Mody, 1999: p. 193). With both water and energy, strengthened resources depend on the transfer of control to the PA as well as the ability of the PA to create and implement solid policies and institutions.

2.8.3 Role of the Government

Porter's message for governments is to develop the "diamond". The diamond model proposes four interrelated facets, each of which representing a determinant of regional advantage: 1) firm strategy, structure and rivalry; 2) demand conditions; 3) factor conditions; and 4) related and supporting industries. "Government" and the "Chance" are two factors that influence these four determinants, but are not determinants themselves. This "diamond", originally presented in Porter (1990, p. 127) is replicated in Chapter 7, Figure (7.1).

This means using government as an aid, but not as the primary force. He does not believe that industrial policies (targeting) will be ultimately successful. Targeting distorts market signals and alters the incentives of firms to compete in an industry. When this happens pressure is placed on government bureaucracies to pick industries where the diamond can be developed and exploited. Such countries as South Korea, which have practiced targeting, have had mixed results. Despite targeting machinery and chemical industries, South Korea has not become competitive in these industries. New questions have emerged in the debate about government roles and industrial development. Does the government have a role to play in assisting industrial and economic development?

The role of government towards the industry and the regulatory, trade and incentive system in any country, including Palestine, has various effects on the industry's structure behaviour. It also affects the manager's perceptions about the potential investment opportunities in the long term. The PA, which took responsibility over most of the economic activities in the WBGS, has not done much to alleviate the problems facing the Textile and Garment (T&G) industry; it has taken considerable steps to improve the economic environment. These steps include the gradual rehabilitation of the infrastructure, institutional building and legislative reforms among other actions. These actions, according to leaders of the industrial sector are not enough (World Bank, 1999). The T&G industry has no special incentives that may stimulate investment. There are disincentives that retard investment, especially during this transition period. For example, business firms are required to abide by the provisions of the current labour laws in terms of compensations, pensions, insurance of workers, indemnities, sick leaves, overtime, etc., many of which were not previously enforced. This will significantly increase the cost of production, especially since labour costs represent a high proportion of total manufacturing costs. Some industrialists estimate that this condition will increase labour costs by around 15% (DRC, 1997).

Over the last several decades, the missing link in Palestinian economic growth has been the lack of productive investment in the private sector. Even with the large inflows of capital, most investment post-Oslo has been in construction, with 40% of total investment in 1992 targeted to residential housing. This lack of productive investment can be largely attributed to the unstable and uncertain policy environment in WBGS. Many factors contribute to the perception of risk and uncertainty, including past experience, the capacity of the institutional framework to protect investments and the predictability of future policies. The business environment in WBGS suffers on all three fronts: growth has been highly volatile since 1967, property rights and their enforcement is weak, due to shortcomings in the rule of law and the unsettled status of territorial claims and the shape of final status economic arrangements under a future peace accord is unknown (World Bank, 2002).

The high cost of infrastructure faced by manufacturers in WBGS presents severe challenges with respect to Palestinian competitiveness, some of which are likely to persist in the long run, but many of which are by-products of the interim economic arrangements over which the PA has limited control in the present environment. The PA adopted a strategy of partnership with the private sector to invest in infrastructure. The PA licensed the Palestinian Telecommunications Company (Paltel) and gave it a monopoly in fixed and cellular communications. It also established a partnership with the private sector to produce and distribute electricity in GS and is planning similar partnerships in the WB for electricity and water. Despite the importance of the role played by the private sector, a thorough legal framework is needed, particularly anti-trust laws and consumer protection regulations.

An appropriate legal framework for commercial activities and an effective and independent judicial system to implement and uphold laws, regulations and property rights are critical for the investment environment in the WBGS by reducing the unpredictability and costs of doing business. Cross-country growth accounting studies conclude that differences in the quality of the institutional framework explain a large part of the differences in economic development (Barro & Martin, 1995; Hall & Jones, 1999; Knack & Keefer, 1995). The importance of an effective institutional framework may in fact exceed the potential of specific investment incentives such as the tax exemptions provided by the Palestinian Authority (PA's 1992) Investment Encouragement Law, for instance, or the substantial reductions in corporate and personal tax rates passed by the Palestinian legislature in 1999. International experience suggests that in the absence of sound macroeconomic policies and an adequate institutional framework, tax and other incentives to encourage investment in export-oriented manufacturing industries have not entirely succeeded in promoting growth (Valdivieso, et al. 2001; Madani, 1999; Radelet, 1999).

Private sector development in WBGS suffers from the weak regulatory functions currently performed by the PA (Sewell, 2001). Regulatory institutions are needed that are separate from both the policy-making functions of PA ministries and the investment activities of the government. Independent regulation of financial intermediaries "including supervision of banks" is fundamentally important, but other areas such as utilities also need to be independently regulated. The telecommunications sector provides a good example. The PA is a part owner of Palestinian Telecommunications Company. The company has an exclusive license to supply various kinds of phone services subject to regulation of tariffs. The terms of the agreement with Palestinian Telecommunications Company are not publicly available, however, and rates supervision is not effectively being carried out, implying a need for an independent regulator.

Adequate business finance is critical to developing a flexible and productive private sector, but many Palestinian businesses are undercapitalised. There is no shortage of loan-able funds in the Palestinian banking system, however. The Paris Protocol (PP) facilitated the growth in banking services by allowing for the creation of new banks and the introduction of foreign (mostly Jordanian) banks in the WBGS. Bank deposits grew from $170 million in 1992 to $3.5 billion by the end of 1999. Lending also increased substantially during this period: the ratio of loans to deposits rose from 23% in 1996 to 29% in 1999, and survey respondents reported a marked reduction in financing difficulties during 1996 to 2000[15]. The rapid increase in lending, flagged

[15] Nearly half of WBES respondents (49 per cent) reported financing issues in 2000 to be a moderate or major obstacle to the operation and growth of their business, compared to 79 per cent in a 1996 survey.

concerns over the regulatory structure for banks, supporting the above mentioned need for independent regulation and oversight of the financial intermediation industries of banking, insurance and the stock market.

The nature of government relations with the private sector extends beyond taxation, regulation and consultation on policy, to a potentially deeper interdependence through public-private partnership in service delivery. The PA's record on the delivery of public services has been mixed. For example, a Service Delivery Survey of end-users reports that hospital patients were least satisfied with treatment in government hospitals and most satisfied in Non-Governmental Organization (NGO) and private sector hospitals, and concurrent institutional assessments indicate that government facilities are least well-equipped (CIET international, 1998). These findings suggest room for greater efficiency through increased non-public provision. Competition among service providers is broadly accepted as the best method to obtain efficient service provision, and these benefits of competition in infrastructure are generally sought through the participation of private sector for profit firms in investment and service delivery. This type of arrangement exists in a few cases in WBGS, such as for health services (World Bank, 1999).

Public services could also be delivered through alternative institutional arrangements other than government and private firms. In the WBGS where there is a large and well-developed NGO sector, NGOs have traditionally provided a significant share of services in areas such as health, education, agriculture, low-cost housing, and micro-enterprise credit. An earlier study found that two-thirds of hospitals were owned by NGOs or private firms, and virtually all kindergartens were run by non-public agencies (World Bank, 1999).

2.8.3.1 Industrialisation Policies and Strategies

Theoretically, the goals of any industrialisation strategy can be summarised as increasing the efficiency and growth of the industrial sector and improving its competitiveness (Brush & Chaganti, 1998; Das & Bing-Sheng, 2000). This applies to strategies of both import substitution and export promotion. To achieve the goals of industrialisation strategy, government cooperation is essential, especially to introduce policies and measures known as industrial policies (Hopkins, 1997). These industrial policies or policies influencing them fall into five groups each with its own identified tools: price control, trade policy, fiscal and monetary policies, labour policies and labour relations.

The government therefore has a role in determining both industrial strategy, industrial policy and in implementing and controlling them (Delmar & Davidsson, 1992; Chell & Baines, 2000). There are several forms of government intervention in the implementation of industrial policies, sometimes in the form of laying down guidelines. That is, the government sets in place macroeconomic policies that are not well defined and depends on the market mechanism for their implementation. Its role might be supportive in identifying general trends or a more specific policy to drive an industrial activity in a particular direction (Tybout, 2000). At other times, the government can be active and takes direct intervention in special areas of industrial activity. This includes targeting companies in certain sectors to assist in their restructuring. Finally, the government might assume a central role in which it takes nearly full control. It is necessary to estimate the expected returns and costs of government intervention before adopting any policy. There are actually a number of tools available to industrial policies and the same goals can be achieved by using more than one tool. The tools available to the decision-maker could be guidelines such as economic plans, or direct tools including laws and regulations as well as material and procedural incentives (Amoroso & Gallina, 2000).

The structural problems of the industrial sector and the limited resources available for industrialisation in the WBGS underline the difficulty of expanding and developing the industrial sector to become a driving force in the development of the Palestinian economy (World Bank, 2004). However, modern economic thought that tries to interpret the economic progress of some countries and the under-development of others emphasises that wealth is created and not necessarily inherited (Lichtenstein & Lyons, 2001). Natural resources, geographical location or military power are no longer essential elements in determining the wealth of a country or the welfare of its population. It is the decisions and behaviour of individuals and their governments, the efficiency of the institutions they have developed and how they invest their savings that determine their economic progress and welfare (Reynolds, et al. 2001).

The competitive advantage of a country depends on four basic factors: market conditions for goods and services; the market conditions for inputs; supportive institutions and strategies; and the industrial structure and rivalry among existing firms (Porter, 1990, 1992; Wernerfelt, 1984; Barney, 1991; Boxall, 1992). The secondary elements influencing competitiveness include government policy towards the four basic factors, in addition to the chance or luck factor. "Chance" in such forms as war, oil shocks, or acts of pure invention will have an influence, but they are ultimately secondary. Government will also be important, but not as a fifth determinant. Rather government's role is to influence the four points of the diamond (Porter, 1990). Industrial success may stand on the basis of the availability of natural resources, on skilled labour with high productivity, on the ability to develop and innovate, or on the basis of information (Brush & Chaganti, 1998; Barney, 1991).

The WBGS have few natural resources, save those of the Dead Sea salts. Stone and marble remain the most important resources available and exploited in Palestine. The Palestinian areas also have low levels of rainfall. Yet, Palestine has potential of other kinds, such as tourism at historical and religious sites. The WBGS areas have been temporarily divided into areas A, B and C. This has resulted in a number of crucial restrictions: the limited ability of the PA to make active use of available economic resources or to implement economic policies in terms of issuing industrial and construction licenses, and severe restrictions on travel by people from one area to another. Moreover, the Palestinian areas also suffer from weak infrastructure services in general in comparison with neighbouring countries (UNSCO, 2002). Data indicate a weakness in the base of capital resources available for investment. Indeed, fixed investment was even not enough to cover the depreciation of production assets in most years (Wren, 2001).

The WBGS policy options are constrained by the fact that it is highly integrated with the Israeli economy, both through trade and through the labour market. Panagariya & Diwan (1997) and others have recommended, as part of a new trade policy for WBGS, that GS be converted into a free port (Hong Kong-style). However, the establishment of a free port requires important investments, including a world-class port, warehousing facilities, communications and other infrastructure, the acquisition of specific skills, and more. The free port also requires simple and transparent rules and regulations, efficient public administration and streamlined public services. If such a policy is put into place, the WBGS is likely to benefit. On the other hand, if transactions costs remain high due to cumbersome, non-transparent rules and widespread rent-seeking activities, WBGS will end up with large sunk costs and little return to show for it. This assessment is confirmed by Rao (2000) by examining forty three free zones in the Middle East. The sample included commercial, export processing, industrial and mixed zones, both public and private. Rao provides detailed reasons for the generally poor performance of these zones. The major reason identified is the uncompetitive and restrictive policy frameworks within which these zones operate. On the other hand, if the policy framework were such that a free zone in GS turned out to be a success, its expansion to the WB might have to be considered.

Another policy priority is to enhance the globalisation of SMEs by preparing them for competition in foreign markets. Although cost is still a key factor in selecting suppliers, production and supply agreements with multinational enterprises are increasingly becoming quality-driven. Consequently, small specialised firms with high quality standards are realising new global opportunities. Those with leading-edge technologies and expertise are participating in international R&D projects as a major technology partner.

2.8.4 Competitiveness

The lack of resources and fragility of the infrastructure and the high price of land as well as electricity and water needed by industry (Nasr, 1997), led to an increase in transportation and production costs, and consequently to the inability of the Palestinian areas to compete locally or globally (Wren, 2001). Similarly, the fragmentation of Palestinian territory prevented the possibility of accumulating enough savings even as regards average industries. All of this has contributed to the backwardness of the Palestinian industrial sector at present.

The PA has allocated huge sums for the building of roads, the restoration of the GS harbour, the construction of a new airport, the repair and development of the telecommunications network, and the rehabilitation of the infrastructure. All of these initiatives, however, have run up against numerous difficulties, including Israeli obstacles, the slowness of the donor countries in meeting their financial commitments, and the absence of a competent institutional structure to plan and maintain the infrastructure (Lichtenstein & Lyons, 2001).

Porter stresses the dynamic and interdependent nature of the four points of the diamond. He demonstrates how the absence of any of these elements can lead to a loss of national advantage. But he particularly stresses domestic rivalry as the most important element of this analysis. Firms may not respond to opportunities unless they are pushed. "CA emerges from pressure, challenge, and adversity, rarely from an easy life." Porter uses the "diamond" to look at the German printing industry, the USAs patient monitoring equipment industry, the Italian ceramic tile industry, and the Japanese robotics industry in some detail. He stresses that free trade makes the domestic or home base all the more important. If production can take place anywhere, the home base is a key.

Industry will emigrate from or not develop in a location where all four elements of the diamond are not strong. Reliance on a CA based on factor costs will not be successful because somewhere there will always be a location or country where factor costs are cheaper. Employing foreign technology will also be a problem because such users will always be a generation behind. More than half of Porter's book looks at the eight countries since World War II. His argument is that post-war industrial history is a story of creating, not exploiting existing advantage. It is a story of overcoming disadvantage. High labour costs are a static or a competitive weakness, but they force firms to find new (and better) ways of manufacturing, thus becoming a dynamic advantage. Or, to give a more recent example, restrictive environmental controls should not be viewed as a cost burden, but rather as an opportunity to develop an advantage in a new area.

2.8.4.1 Comparative and Competitive Advantage in Palestinian Exports

Traditionally, the basis for international trade has been explained by the theory of comparative advantage. In brief, the theory suggests that countries will export goods which can be produced with relative cost efficiency (this being dependent on a country's physical endowments and the proficiency of its work force) and will import goods for which domestic production is inefficient and, therefore, relatively costly (Krugman & Obstfeld, 1994). A more modern theory, which rejects the assumptions of the comparative advantage theory,[16] Porter suggests that the pattern of international trade could better be understood on the basis of CA. Such an advantage may be derived from the economic, cultural, natural, and/or institutional attributes of a country. Export development in this view is based on the ability of industries to produce better quality goods, provide better services, new features, and constantly innovate and adapt business operations to changing environments. A country's physical endowments are of relatively minor importance in determining these advantages (Porter, 1990).

Some studies reveal that attention to small businesses in Arab countries was first witnessed in 1926 when the first conference on small enterprises was held in Beirut under the umbrella of the United Nations (ESCAP, 1994). Nevertheless, this subject did not gain any attention from the Arab governments that were mostly focusing on large-scale enterprises issues and five year development plans in which marginal attention was given to small businesses. Three and five year development plans were focusing on the role of the public sector in economic and industrial affairs and paying attention to the large and state driven industries without any care or support to the individual initiative and small businesses.

Based on the above implication, Palestinians can learn a few lessons from the neighbouring countries SME development and promotion experience. During 1997-1998 the Palestinian Ministry of Planning and International Cooperation (MOPIC), in conjunction with the Middle East Competitive Strategy Centre, conducted a study to identify the sources of CA in the

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[16] For example, the standard theory assumed that all countries had access to the same technology; that products produced in different countries were basically the same in quality (no product differentiation); that a country's resources were fixed in quantity and; that neither labour nor capital were mobile between countries. See Michael E. Porter, The Competitive Advantage of Nations, New York: The Free Press, 1990.

Palestinian economy[17]. The study identified nine industries based on their contribution to GDP and share of total employment: cut-flowers, food products and beverages, furniture, olive oil, pharmaceuticals, plastics, stone-cutting, T&G and tourism (MOPIC, 1998). Using different criteria confirms the importance of the industries identified by Ministry of Planning and International Cooperation (MOPIC), but also points to others. UNSCO (2000) report lists the 50 most important groups of merchandise exports in value terms for 1992. These groups "ranked according to their absolute value and share of exports" accounted for nearly 90% of all registered Palestinian exports. For example, fabricated construction materials (SITC code 661)[18] accounted for $26.4 million in exports or 22% of total exports.

The list, suggestive of the current state of Palestinian comparative or CAs, indicates that 37 of the 50 main export groups were manufactured goods, while the remainder were fresh or processed agricultural products.[19] Of the manufactured exports, a high proportion is related to the construction industry (mainly in Israel) including products made of cement, stone, metal, wood, clay and plastic. Another key characteristic is that "excluding vegetables and fruits, vegetable oil and stone products" most exports are produced with imported raw materials, machinery and equipment.

As the theory of CA suggests, abundant natural resources are not a prerequisite for developing competitive exports. Rather, export development can occur on the basis of value-added operations applied to imported raw materials. (UNSCO data indicates that over half of the value of Palestinian imports was raw materials and other inputs.)

UNSCO report provides other information relevant to comparative or CA. Trade intensity is defined as the proportion of trade volume (the value of imports plus exports) accounted for by the merchandise group. As such, trade intensity indicates the relative importance of the group in overall trade transactions. These groups are also concentrated in the upper rankings of the list, indicating their relative importance in overall Palestinian exports.

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[17] See MOPIC, Building Competitive Advantage in the Palestinian Economy, August 1998. MOPIC suggests that the Palestinian territory is at the factor-driven stage of development, meaning that the resource base of the country remains the principal source of export activities.

[18] SITC refers to the Standard International Trade Classification. See United Nations Standard International Trade Classification, Revision 3, New York, 1926. Main merchandise groups represent a number of related industries. The SITC main group description may obscure the particular product(s) produced in the Palestinian territory. Using the five-digit SITC code would be necessary to determine these.

[19] Agricultural and agro-industrial products are included in SITC code groups 054, 421, 057, 011, 042, 022, 071, 292, 034, 052, 075, 017 and 056.

2.8.5 SMEs' Survival Dynamics

Most Small and Medium Size Enterprise (SME) start-ups over the period 1999-2001 involved enterprises engaged in food and beverages and furniture. The birth rate varies significantly by location and size, with WB based small enterprises constituting the majority of new enterprises. The number of small mining and quarrying enterprises, which are mainly located in the WB, also registered a 60% increase. In 2002, West Bank-based small enterprises involved in the construction sector registered a significant birth rate, with their number increasing by 34% in relation to 2001 (see Table 2.8).

SMEs involved in tourism activities registered the highest death rate in 2001 in relation to 1999. The number of Gaza-based SMEs involved in furniture activities decreased significantly over the same period, particularly medium-size enterprises, which were wiped out, while the number of West Bank-based enterprises decreased by 10 per cent. SMEs involved in the production of non-metallic products as well as those involved in construction were also particularly affected, while wearing and apparel enterprises appeared to be the most resilient. This masks the varied impact of the crisis on the SMEs by locality. The number of West Bank-based SMEs declined at a faster rate than those operating in Gaza. The year 2002 witnessed a higher death rate compared to 2001, with the number of SMEs involved in most of the activities registering a significant decline (see Table 2.8).

Table 2.8

SMEs' Dynamics: New Start-Ups and Closures by Activity (WBGS, 2001-2002)

Economic activity	WB %	Gaza %
Food and beverages	-60	27
Wearing apparel	-29	-22
Non-metallic products	12	-7
Furniture	-53	17
Construction	-5	34

Source: UNCTAD, (2004).

Moreover, and as shown earlier, SMEs involved in the manufacturing of food and beverages and furniture products registered the highest expansion rates in 2001 in relation to 1999, in addition to those involved in mining and quarrying activities. However, the proliferation of the crisis has generated a massive contraction across the surveyed sectors, bringing the employment level of most SMEs below that of 1999. SMEs involved in tourism activities registered the highest death rate in 2001 in relation to 1999.

The number of GS-based SMEs involved in furniture activities decreased significantly over the same period, particularly medium-size enterprises, which were wiped out, while the number of West Bank-based enterprises decreased by 10%. SMEs involved in the production of non-metallic products as well as those involved in construction were also particularly affected, while wearing and apparel enterprises appeared to be the most resilient. This masks the varied impact of the crisis on the SMEs by locality. The number of the WB-based SMEs declined at a faster rate than those operating in GS. The year 2002 witnessed a higher death rate compared to 2001, with the number of SMEs involved in most of the surveyed activities registering a significant decline.

Apart from scaling down their production activities, SMEs resorted to several measures to cope with the crisis. These included postponing the payment of taxes and fees by 42% on average and reducing maintenance activities by 7% (UNSCO, 2002; World Bank, 2003; PCBS, 2004).

2.8.6 SMEs Contribution to the Industry

SMEs contribution to industrial growth has a marked presence in the industrial sector. In 1999, they constituted 51% of the enterprises involved in mining and quarrying activities, 42% of those involved in the manufacturing of wearing apparel, 39% of the non- metallic product enterprises and 24% of enterprises producing food and beverages, UNCTAD (2004) shows that these enterprises stand as a major source of employment, absorbing 52% of the sector's work force and generating 67% of total compensation. They also make a significant contribution to production growth, accounting for 40% of the sector's Gross Fixed Capital Formation (GFCF)[20], 56% of the sector's value added, and 62% of total output. Moreover, industrial SMEs have a relatively high remuneration level. This is reflected in their compensation-to-value-added ratio of 35%, exceeding that of the industry as a whole by 5%.

However, these enterprises are more dependent on imported intermediate goods, as reflected by the 43% value-added-to-output ratio, which was 5% below that of the industrial sector. This is especially the case of medium- size enterprises, whose value-added-to-output ratio stands at 39% as compared with 44% for small enterprises. Within industrial branches, non- metallic manufacturing SMEs are the main contributors to total compensation, value added, output and GFCF, while wearing apparel manufacturing SMEs stand as a major source of employment (UNCTAD, 2004). The latter also stand as the second contributor to value added and GFCF, while food and beverage SMEs are the second- largest contributors to output.

[20] GFCF is measured by value of acquisitions less disposals of new or existing fixed assets.

2.8.6.1 SMEs Production Processes

UNCTAD (2004) survey reveals that SMEs' underdeveloped production processes are the major impediment to improving their performance. The majority (over 50%) of firms expressed an urgent need of technical assistance in the area of product development. Furthermore, over half of SMEs attributed their inability to increase their participation in foreign trade to the poor quality of their products and the lack of skilled labour, in addition, the lack of trade finance due to their low level of efficiency and productivity; how can the enterprises in the sector continue to operate? What kind of economic and extra-economic factors affect firms' performances? And, does the existing institutional set-up enable the elimination of bottlenecks and enhance 'competitiveness'?

More than 60% of industrial and construction SMEs operate with old equipment and machinery. They are also unable to cover the depreciation costs of their machines and equipment, exhibiting an investment gap that ranged from $746,7000 (in the case of furniture manufacturing enterprises) to $13 million on average (in the case of non- metallic manufacturing enterprises).[21] This is despite the fact that the majority of enterprises allocate significant amounts of their financial resources to acquiring new equipment. About 55% of the surveyed enterprises indicated that a major chunk of their resources goes into the purchase of new equipment (UCTAD, 2004).

2.9 Summary

The Palestinian economy has exhibited modest economic performance for the past three decades, including the most recent Interim Period during which better economic outcomes were anticipated under the PP. The growth outcomes observed post-Oslo illustrate the close inter-linkages between political and economic factors. The interim nature of the peace accords and the inherent limits on Palestinian sovereignty generated uncertainty and risk, especially in the context of periodic Israeli closures and severe mobility restrictions on goods and labour. Although the Palestinian economy's main performance indicators rank it within the category of middle-income LDCs, its sustained development is obstructed by structural impediments that are common to LDCs. In addition to the major factor of the impact of prolonged occupation and strife, most notable is Palestine's poor infrastructure that is coupled with a weak institutional set-up, and an underdeveloped industrial base. Just as the case of the LDCs, these impediments work against developing the Palestinian economy's productive capacity.

[21] The term investment gap refers to the size of investments required to cover maintenance costs.

As a result, inadequate legal and regulatory institutions, auditing standards, and transparency impose costs on private agents by exacerbating rather than mitigating the uncertain environment. Limited access to capital is a fundamental manifestation of insufficient financial intermediation, which in turn dampens economic growth by reducing potential investment and job creation. And finally, the PA's interface with the private sector does not reflect a level of partnership that promotes private sector growth sufficiently to generate positive feedback through policy efficiency and effectiveness.

The Oslo process, rather than create an economy capable of competing eventually in a regional liberal economic environment has merely served to nurture the distortions that crippled the growth prospects of the Palestinian economy in the past. Rather than offering the Palestinians a genuine opportunity to exploit their much heralded "human resource base" it has led to the creation of a public sector dinosaur and a private sector increasingly dependent on patronage rather than merit for its survival. Perhaps most worrying is the 'brain drain' of both competent public sector technocrats and private sector entrepreneurs, disillusioned by the ceilings imposed by continued Israeli control, a nepotistic PA and a seemingly impotent international community.

Therefore, the problem is how to create a sound domestic base for the national economy that is able to achieve a good standard of quality and productivity and to participate in the international economy despite the challenges posed by the systematic distraction of the economy caused by the occupation and consequent financially risky environment faced by many Palestinian SMEs.

CHAPTER THREE

A General Review of the Literature on SMEs

3.1 Introduction

Entrepreneurship as a field of academic study has deep roots in economics and sociology, dating back to the 18th century (Aldrich, 2004; Blaug, 1996; Martinelli, 1994; Swedberg, 2000)[22]. The interest in entrepreneurship did not begin with Schumpeter (Blaug, 1996; Martinelli, 1994) but his contributions effectively pulled together the threads of a fragmented literature. Schumpeter's influence on entrepreneurial theory in economics has been overwhelming (Blaug, 1996; Martinelli, 1994), and this influence has spilled over to entrepreneurial studies in sociology and organization studies (Aldrich, 2004; Swedberg, 2000).

There are various ways in which entrepreneurship may affect economic growth. Entrepreneurs may introduce important innovations by entering markets with new products or production processes (Acs & Audretsch, 1990). They may increase efficiency by increasing competition. They may enhance our knowledge of what is technically viable and what consumers prefer by introducing variations of existing products and services in the market. The resulting learning process speeds up the discovery of the dominant design for product-market combinations. Knowledge spills over play an important role in this process (Audretsch & Feldman, 1996; Audretsch & Stephan, 1996). Lastly, they may be inclined to work longer hours and more efficiently as their income is strongly linked to their working effort[23]. Moreover, there have been efforts to empirically investigate the importance of the impact of entrepreneurship on economic performance, especially at the firm, region or industry level (e.g. Audretsch, 1995; Audretsch & Fritsch, 2002 and Caves, 1998). However, contributions at the level of the nation state (Blanchflower, 2000; Carree, et al. 2002) are limited. See Carree & Thurik (2003) for a survey of studies of the impact of entrepreneurship on growth at various levels of observation.

This Chapter focuses on the economic aspects of entrepreneurship, the entrepreneur in economic theory, as well as on recent empirical evidence of the economic impact of entrepreneurship on economic growth. However, there is a wide range of theoretical formulation and empirical

[22] See Blaug (1996) for a brief, informative history of the concept of entrepreneurship.
[23] See Carree & Thurik (2003) and Audretsch & Thurik (2001) for a more elaborate treatment of the intervening variables between entrepreneurship and growth.

analyses concerning entrepreneurship and Small Firms (SFs). Although there are intersections and common grounds among these approaches, they can be classified in four major groups.

The first group of approaches analyses SFs in relation to the macro-economic structure and its development. In this group, the increasing importance of SFs is due to new forms of economic and technological transformations in the world capitalist economy following the economic crisis of the 1970's (Audretsch & Thurikm, 2001; Carreem, et al. 2002; Hirst & Zeitlin, 1991; Johnson, et al. 1998a; Leborgne, 1988; Piore & Sabel, 1984; Porter, 1990, 1998; Reynolds, 1999; Wood, 1991).

The second type of analysis is based on microeconomics, and the social, psychological and anthropological aspects of SFs. A series of issues are opened in these discussions concerning SFs (Adler, 1997; Baumol, 1990, 1993, 2003; Bechhoffer & Elliott, 1981; Carlsson, 1990; Birch, 1987, 1995; Davidsson & Wiklund, 2001; Inglehard, 2000; Keeble & Wood, 1991a; Lucas, 1978; Mead, 1998; Porter, 1980, 1985; Pratten, 1991; Thomas & Muller, 2000). The labour practices, technology and capital structure of SFs and the entrepreneurship and its personal and culture domain and social classes in Small and Medium-size Enterprises (SMEs), are all discussed.

The third group combines SFs and local economic development in a policy orientated approach. SMEs are seen as a central motive of the bottom-up policies and capacity building strategies in restructuring old industrial centres and the promotion of local development in rural-peripheral areas and scholars have increasingly embraced institutional perspectives in the study of entrepreneurship, helping to clarify the role of cultural factors in creating the demand for new entrepreneurship. (Bennett, 1991; Bennett, et al. 1999; Garofoli, 1992; Bennett & McCoshan ,1993; Burt, 1992; Scott, et al. 2000; Thornton & Ocasio, 1999; Vazquez, 1992; Williamson, 2000).

The final set of formulations, artisan works, petty-commodity production and dualist approaches; consider SFs as a function or outcome of underdevelopment in developing countries. In contrast to the advanced economies, in developing countries SFs are often regarded as backward and traditional. However, this relatively old debate has been revised following the last decade's changes in the world economy (Acs & Audretsch, 1999; Aldrich, 1999; Bhidé, 2000; Breman, 1985; Bromley, 1985; Curran & Blackburn, 1994; Friedmann, 1986; Gerry & Brikbeck, 1981; Liedholm, 2002; Loveman & Sengenberger, 1991; Storey, 1994; Wren, 2001).

3.2 Definition of SMEs

There is no consensus on the definition of SMEs. Definition of SMEs varies from one country to another, and depends on the phase of a country's economic development and its prevailing social condition. Even within one country, there may be more than one definition adopted by different institutions or agencies, which are involved in helping SMEs, to suit their purposes or function (Storey, 1983).

Studies on SMEs differed in opinion about the criteria to be adopted in defining small businesses, which are mainly due to difference in objectives, areas in which researches are conducted, and degree of industrial superiority of the concerned country. For instance, one of the specialized studies concluded that there are more than 250 definitions for small businesses (storey et al, 1987). Another study conducted by Georgia Institute for Technology introduced around 60 different definitions for small businesses in 75 countries (World Bank, 1978). Also, the study may refer to the techniques and criteria of some specialized institutions in dealing with and defining small businesses, banking and financial institution for instance, take into account fixed assets and the capacity to pay back financial obligations. Labour unions, on the other hand, show more concern with the number of employees rather than financial aspects. Trade-oriented enterprises pay more attention to sales volume and turnover whereas service-oriented enterprises have more concerns with the number of clients. Likewise, industrialists focus more on production capacity and number of production units (see Appendix A5).

3.3 The Role of SME

On Decent Work and the Informal Economy, the International Labour Organization report to the International Labour Conference in June (2002), emphasises the critical role that entrepreneurs play in creating employment. It carries out significant promotional and technical activities to assist government's employers and workers' organizations create more and better jobs in countries around the world.

SMEs are strong contributors to the economic development of countries. They generate employment, stimulate regional development and promote indigenous entrepreneurship. Likewise, economic trends, and political forces also have a notable impact on their performance and growth (Liedholm & Mead, 1999). Liedholm and Mead's argument is that SMEs are a major source of job creation, either through the expansion of existing firms or through start-ups. In the African context, for instance, job creation through expansion appears to be more desirable, firm growth often reflects a demand-driven pull that generates all kinds of positive externalities in terms of investment and human capital.

By contrast, job creation through start-ups mirrors the struggle to get secured paid employment and the effort to raise income at any cost. This is of course not always the case but it holds true in many African countries. Research has shown that these two job creation patterns in SMEs are influenced by macro-economic trends. Liedholm and Mead argue that: *"There is evidence that, when the overall economy is growing well, many micro and small enterprises (MSEs) are also thriving and expanding by adding to their workforce. Under such circumstances, the majority of new jobs in MSEs result from an expansion of existing enterprises. In times of macroeconomic stagnation, all enterprises – large and small – are under pressures to cut back on their levels of employment. To sustain themselves, many people are pressed to start new enterprises, since there are few other alternatives available to them. In such times, then, the majority of new jobs in MSEs come from new business starts" (Liedholm & Mead, 1999: p. 67).*

David Birch (1987,1995), who coined the term "gazelles" argued that SFs play a disproportionate contribution to job creation, was awarded the first Nutek Prize, a Swedish "baby Nobel Prize," recognising research in the field of small business and entrepreneurship (Hopkins, 1997). Although their impact on job creation has put SFs on the public policy agenda, it concerns the most effective role of government in supporting SFs. Indeed, the more general question is whether governments should be involved in supporting private enterprise at all.

One school of thought advocates a relatively passive role of government: to create an overall environment that is supportive of new business development but without providing specialised assistance to selected industries or firms (for example, Levie, 1994; Lohmann, 1998). Another school of thought advocates a more active role involving the development of specialised policies and programs that allow new and SFs to overcome systematic disadvantages in the market (for example, Porter, 1990; Levie, 1994; Hallberg, 1999; Collinson, 2000). Given the growth over the past two decades in many countries of specialised industry, often involving public sector entities, to proffer advice to new and SFs (for example, studies by Bennett & Robson, 1999; Gibson 1997). The general propensity to establish policies and programs together with the keen interest in supporting rapid growth businesses in particular and the emerging recognition that effective policies and programs need to be customised to segments with the population of SFs (Delmar & Davidsson, 1998; Reuber & Fischer, 1999; Chell & Baines, 2000).

The role played by micro, small and medium enterprises in job creation, income generation and therefore poverty alleviation has been recognised worldwide. Liedholm (2002) indicates that SFs involved in non-primary activities in some developing African and Latin American countries employ about 17-27% of the working group population. Berry, et al. (2002) report, that micro and small manufacturing enterprises in Indonesia employ 67% of total workers in manufacturing establishments. Apart from sustaining employment, manufacturing SMEs are likely to offer strong grounds for linkages creation among firms in the manufacturing sector (Ranis & Stewart, 1999) and between local primary activities and manufacturing sub-sectors since they utilize high percentages of local inputs (Ishengoma, 2004).

Though micro, small and medium firms offer employment and income to the majority of people in the developing countries, their performance has been characterized by low contribution to output (Berry, et al. 2002), low growth rate and inability to graduate into higher size categories (Liedholm, 2002).

Small Firms in Palestine played an intermediary role between large private firms and opportunities in local markets and the search for wealth divert many youngsters to early employment in small businesses. They carry a hope of being their own boss and some, although small in proportion manage this. Family, social networks, religious and ethnic solidarity support the market relations of small businesses (Taeube, 2004). The characteristics of entrepreneurs and their family backgrounds are very important in SFs because of their absolute control and management in the firm and small business owners do not come from a particular social background and education but their business experience is developed through opportunities provided by the social environment and family links in their locality. In addition the CA of SFs needs to be explored as a very dynamic part of the analysis. Local cultural elements and traditions are important for small business entrepreneurship.

3.4 Small Firms Economic and Business Survival

Survival and growth dynamics of SFs are very much related to market opportunities and the development of economic sectors. But such an approach should also take into account government policies, sectoral dynamics and the industrialisation process in national economies, although entrepreneurship is at the very core of small business development, SFs may only benefit their owners in the absence of market competition, policy guidance and local democracy, therefore, survival and growth patterns of SFs and entrepreneurs indicate further potentials as well as risks for local economies and communities. There is a wide range of studies in the field of

SF economics, and labour market. The dominant discussion is centred around competitiveness, innovativeness, job creation and growth and survival in the SME. The focus is frequently on the internal dynamics and peculiarities of small business. A series of social, anthropological and psychoanalytic analyses of small business entrepreneurship have been given a special focus in these works. The empirical base of these studies has been dominated by the experiences of advanced economies. In the assessment below the literature of these studies is reviewed to highlight the main issues about entrepreneurship.

According to Lichtenstein & Lyons (2001), "the primary mission of enterprise development must be to develop entrepreneurs. The secondary challenge is to provide the services necessary to help those entrepreneurs become successful". Entrepreneurship development starts with the entrepreneur, identifying potential entrepreneurs, providing skills to help people realize their entrepreneurial potential, and empowering individuals to explore ideas and exploit opportunities to create their own businesses and their own wealth. Entrepreneurship and the creation of new businesses are thought to be crucially important to economic prosperity, and as a result an ever increasing amount of research is conducted in this broad area (Drucker, 1985).

The words enterprise and entrepreneurship are used in a number of different and sometimes contradictory ways (Chell, 1991; Chell, et al. 1991; Ronstadt, 1984). For example, enterprise is sometimes meant in a narrow sense which relates specifically to business, and sometimes the meaning is broader, relating to personal characteristics or a style of behaving that can apply in a wide variety of contexts including business (Bridge, O'Neill & Cromie, 2003). The narrow meaning relates to business entrepreneurship, which in practice can mean activities such as starting a business, being in business, developing a business or even the business itself.

Successful entrepreneurs cultivate the art of networking and coalition-building to augment their own scarce resources (Low & MacMillan, 1988; Birley, 1985; Das & Beng, 1997; Johannisson, 1998; Szarka, 1990). Free advice, referrals, and inside information offset the intrinsic lack of organizational resources. In effect, the network becomes the entrepreneur's organization. The existence of effective networks within regions is a major element supporting entrepreneurship (National Commission, 2000). Entrepreneurs frequently economise by focusing on niches that dominant firms leave untouched because of their limited profit potential. Narrow markets do not require the large capital investments required for broad markets and suit the limited resources of entrepreneurs. They also allow entrepreneurs to sidestep frontal competition with entrenched rivals. Consequently, entrepreneurs often focus on local markets, customers with specialised needs, or new and emerging markets that are too uncertain for large competitors (Bhide, 2000).

The challenges of entrepreneurship require persistence and determination. "It can't be done" is a phrase entrepreneurs commonly encounter. Scarce resources, novel ideas, unexpected bumps in the road are all part of the entrepreneurial process and require persistence in the face of obstacles. Entrepreneurs face the continual need to improvise in response to challenges in an ever-changing environment. They do not engage in extensive research or detailed planning. As Bhide reports, they cannot afford to do so with limited resources, the modest likely profit of most ventures does not merit it, and the high uncertainty limits its value (Bhide, 2000). Sixty% of Inc. 500 founders started their businesses with no formal written business plan (Inc. 500, 2002). Once launched, entrepreneurs are tactically flexible in adjusting to external changes. Only 16% of 2001 Inc 500 CEOs[24] remained in the same business and the same target market as when they launched the venture (Inc. 500, 2002).

Generally, when an environment is homogeneous and stable, the public entrepreneurship seen is of the classic type, individual and exceptional. When the environment is heterogeneous and turbulent, the public entrepreneurship observed is more systemic, meaning that it is not limited to a single individual, but concerns a large number of people, affects all aspects of the organization's operations and becomes institutionalised (Scott, 2000).

Storey (1983) points out that small business is a special entity which has some serious, distinctive problems that require governmental assistance if this sector is to survive and prosper. Increasing government regulation in the form of occupational safety rules, environmental restrictions, product safety regulations and increased minimum wage regulations may pose the greatest threat of all to the survival of SFs. Analyses of SF economics usually focus on the dynamics of growth and survival, and on business formation. Storey (1990) suggests that SFs are not simply 'scaled-down' versions of large firms. Gibrat's law, which indicates that firm growth is independent of firm size, has been used, for example, as the basis for a number of theoretical formulations. Evans (1987a, 1987b) concluded that Gibrat's law must be rejected for smaller firms. However, his study indicates that the relationship is non-linear so that the growth/size relationship varies over the size distribution of firms.

[24] Corporate Europe Observatory (CEO) is a European-based research and campaign group targeting the threats to democracy, equity, social justice and the environment posed by the economic and political power of corporations and their lobby groups.

Analyses of SF economics indicate that there are sets of parameters that are significant in determining growth and survival, age, size and ownership structure. The network of relations of SFs to each other and to larger firms is also a significant element for survival and growth, replacing organizational structures of large firms.

The importance of SMEs in general and technology-based SMEs in particular to national economic activity has been well documented in the extant literature. SMEs contribute greatly to economic wealth in terms of turnover (Camino & Carbonne, 1999), innovation (Barber, et al. 1989), employment (Storey, 1994), growth (Barber, et al. 1989) as well as in their role in providing a seedbed for emerging industries (Keogh & Evans, 1998) and as a motor for change in several industry sectors (Peña, 2002). However, these contributions can only be fully realized if this sector grows and develops (Barber, et al. 1989). In reality, however most SFs are born to die or stagnate (Burns, 1990). Peña (2002) opines (based on a study by Van de Ven, et al. 1989) that around 54% of new businesses survive after eighteen months, and only 25% are in business after six years. Bridge, et al. (2003) suggests that in the EU less than half of new enterprises survive after five years. For those enterprises that manage to survive most do not experience growth. Stanworth & Gray (1991); Clark et al, (2001) and Irwin (2000) contend that only a small proportion of SMEs desire growth, while many owners/managers actually eschew growth. Clark, et al. (2001) refers to "stagnant satisfiers" in his study of textile manufacturers in Coventry: those who are content with their level of output and have no desire to expand. Wiklund, et al. (2003) also suggest that firms eschew growth due to non-economic concerns for employee well being, workload and independence.

What then are the factors that prevent the firms that desire growth from achieving that desire? The Resource-Based View (RBV) of the firm asserts that sustained growth through achieving and sustaining a CA over competitors is accomplished by way of generating and acquiring resources (Wernerfelt, 1984; Barney, 1991; Boxall, 1998; Hart, 1995; Das & Bing-Sheng, 2000). Unlike the traditional economic view that relies heavily on an analysis of the competitive environment (Das & Bing-Sheng, 2000; Alvarez & Busenitz, 2001; Brush & Chaganti, 1998), the strategic importance of an organization's "bundle" of resources and capabilities is the foundation of the resource-based theory of the firm (Brush & Chaganti, 1998; Barney, 1991; Wernerfelt, 1984; Fahey, 2000). Westhead, et al. (1995) contends that the formation, survival and growth of new technology-based firms are directly related to each firm's ability to gain access to a predictable and uninterrupted supply of critical resources. Chandler & Hanks (1994) contend that those firms with higher resource levels and broader capabilities grow faster than those with lower resource levels and narrower capabilities. Not only does the RBV of the firm charge management with identifying, obtaining and developing these key resources (Fahey, 2000; Westhead, et al. 1995; Etemad & Wright, 1999) but they must also identify and mitigate or eliminate resource weaknesses or inadequacies as these weaknesses impede growth and prevent the attainment of a sustainable CA (Page & De Castro, 2001; Etemad & Wright, 1999).

Carlsson (1990) points out that broadening the technological base of industry is not easy to achieve by individual SMEs. New technical and managerial skills are required which smaller firms often find difficult to obtain. In addition, a domestic machine tool industry is often necessary for user industries in order to assimilate new technologies. In developing countries the lack of domestic production of numerical control machines and computer-aided machinery is an important barrier to the technological improvement and innovativeness of SFs. Associating, on the one hand, entrepreneurial with "the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations, to perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product–market combinations) and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions" and, on the other hand, managerial with "organising and coordinating", Wennekers & Thurik, (1999: pp. 46-48) cross these definitions with the distinction between self employed and employee.

Development under changing production technology and employment and labour practices of SMEs is widely discussed (Wood, 1991; Acs & Audretsch, 1990a, 1990b; Keeble, 1988; You, 1995). The restructuring of regional and local economies in the advanced countries has been through new technologies, labour practices, and innovative local environments. Keeble (1988) shows that high technology increases the importance of SFs despite the continuing domination of large firms in various sectors of the manufacturing. SF growth and new firm formation have played a significant role in the advanced countries and their regional economies. Flexible specialisation through network relations increased the competitive power of SFs through new technologies and network relations.

The strength and nature of the link between the growth of economic welfare and the development and exploitation of scientific and technological understanding has become a central theme in macroeconomic, industrial and technology policy discussions. At the same time there has been an increasing emphasis on the role which new technology based firms and entrepreneurship play in the technology transfer process (Organization for Economic Cooperation and Development (OECD) 2001a, 2002). These developments are closely related to the recent objective set at the European Council in Lisbon in March 2000 of the EU becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth, more and better jobs, and greater social cohesion. It is also reflected in policy analyses for the United Kingdom (UK), the USA, and the Organization for Economic Cooperation and Development (OECD) in general. "The nation that fosters an infrastructure of linkages among and between firms, universities and government gains CA through quicker information diffusion and product deployment" (US Council on Competitiveness, 1998), 'In an increasingly knowledge-driven global economy invention and innovation are critical to Britain's long-term competitiveness. This requires a virtuous circle of innovation: from the very best in science, engineering, and technology in universities and science labs to the successful exploitation of new ideas, new science, and new technologies by businesses' (DTI, 2002) "Young technology based firms play a key role in linking science to markets. Governments rightly attach priority to encouraging spin-offs from public research to stimulate innovation" (OECD, 2002).

However, the new evolutionary theories are based on the notion that markets are in motion, with new firms continuously entering the industry and forcing others to exit out of the industry. The life-cycle learning model of Jovanovic (1982) is one of the influential models in this approach. His passive learning model implies that entry is more likely to occur into smaller size classes and the probability of failure decreases as the firm ages since inefficient firms exit gradually. Second, the variance of the growth rate among the surviving firms decreases with firm age. Third, as long as the firm size is constant, firm growth decreases with firm age (Caves, 1998). There are a number of studies confirming these inverse growth-age and growth-size relationships (Evans, 1987a, 1987b; Dunne, et al. 1989 (in USA): Kumar, 1985; Hart & Oulton, 1996 (in UK): Lundvall & Battese, 1998 (in Kenya). See also Agarwal & Gort, 1996; Audretsch & Mahmood, 1995; Dunne, et al. 1988, 1989 and Hahn, 2000).

It can deduced from this model that as entrants usually start small with unskilled managers, small-sized classes are mainly made up of new and inexperienced firms. Therefore, their average efficiency levels are lower. Via experimentation in the market, as they learn to synthesise information their managerial and technological skills progress (Casson, 1999). Those who are successful in raising efficiency survive. Through this selection mechanism, large-sized classes comprise experienced and efficient firms. Consequently, we can expect large-sized classes to be more productive than the small-sized groups. In a more general version of learning models, Ericson & Pakes (1995) focus on the impact of uncertainty arising from investment decisions. The quality of investments, together with the parameters describing the evolution of the market and the competition, determine the distribution of outcomes in each period. Therefore, there is a source of continuous dynamic competitive pressure that forces all firms in the industry to struggle to maintain profits and survive.

Firms must continuously initiate technological and organizational changes to be able to maintain and strengthen their competitive positions. This implies that older and larger firms will have advantages in innovation over younger and smaller firms, if the accumulation of experience plays an important role in innovation, which is called as routinised regime by Audretsch (1991, 1999). On the contrary, under the entrepreneurial regime, i.e., if information outside the industry is a relatively important factor in generating innovation, new entrants may have advantages in innovation, and a greater chance of survival and growth. Thus, in industries where technology changes and diffuses rapidly, the presence of new firms in both small- and large-sized groups points to a smaller productivity differential.

By complementing these learning models, it is emphasised in the market evolution models (Gort & Klepper, 1982; Agarwal & Gort, 1996) that as a market evolves the sources of technical change shift between incumbent firms and inventors external to an industry. Further, through the market evolution, the importance of learning by doing as a source of technical knowledge declines because of the growth of other sources of information. Evidently, Davis & Haltiwanger (1992) showed in USA manufacturing sector that the selection effects associated with both passive and active learning models are more important in rapidly growing sectors than in mature or contracting sectors.

3.5 Competitive Dynamics and Resource Heterogeneity

Analysis will look first at competitive dynamics from a resource perspective at a point in time, and then at their evolutionary dynamics as the competitive landscape changes over time. The starting point in applying the extended Resource-Based View (RBV) is to consider how resources may be encapsulated within firms, and how firms may generate either Ricardian or Schumpeterian rents from this bundling. The Ricardian rents mean the extraction of profits from the rareness and superiority of a firm's resources, and the distinctiveness of the routines built to exploit these resources. This is the conventional perspective of the RBV. The Schumpeterian rents mean the entrepreneurial profits extracted by a firm from a bundle of resources assembled from a variety of sources, through the capture of synergies between these resources (Winter, 1995; Mahoney & Pandian, 1992)[25]. This leads to questions such as what determines the rate of growth of firms as resource bundles, the limits to this growth, the circumstances under which firms divest resources, and how these matters are translated into entrepreneurial and management practice. These are questions dealt with by the leading scholars such as Coase (1937), Penrose (1959) and Richardson (1972).

As firms translate their newly discovered activities into "routines" so management attention is liberated for further discovery, and they are led to grow and diversify, building on their "excess" resource base, i.e. on a disequilibria between their resource complement and their activities. Successful diversification is based on co-specialisation of resources which act synergistically with each other. Firms seek complementary resources from other firms with which they have direct dealings, through the dynamics of resource propagation, replication, leverage and transfer. In a similar spirit, Granstrand discusses the means by which firms acquire resources as encompassing "generation, combination, transformation, regeneration and recombination of resources" (Granstrand, 1998: p. 477).

These constitute the *exchange dynamics* of the resource economy, driven by disequilibria[26] considerations (rather than the equilibrium considerations which govern neoclassical analysis of the goods and services economy). What drives firms in these patterns of behaviour is the competitive dynamics of an industry; the role played by rival firms, as well as by potential partners and other kinds of organizations. So we turn first to the analysis of competitive dynamics from the extended resource perspective.

3.6 Competitive Advantages as Determinant of Success

The important of CA has increased tremendously in the last decade. Practitioners and academicians have centred their studies on firm specific characteristics that are unique, add value to the ultimate consumer, and are transferable to many different industrial settings, thus a firm can have advantage over another, for example, lower cost structure, lower level of wages and

[25] On Schumpeterian vs. Ricardian rents, in the context of the RBV, see Winter (1995) or Mahoney & Pandian (1992). Resource synergies correspond in the resource realm to complementarily assets, or co-specialised assets, leading to economies of scope, in the activities realm.

[26] Standards can be interpreted as equilibrium where users are agents with multiple technical choices (Cowan & Miller 1998). But such game-theoretic formulations, while illuminating, miss the essential dynamic features of standardization. Often it is not foresight and calculation on the part of agents which leads to the emergence of a standard, but the outcome of unforeseen technological dynamics.

superior customer service. Currently, the most relevant advantages are those oriented to perceived customer value. A recognised example is Walmart's sustained CA.

Sustained CA is a term amply used today. The introduction of this word departs from the concept CA, a concept that was attributed to Barney (1991), even though Schoemaker in 1990 tied it to strategy achievement and Grant (1991) popularised the term in the USA. Regardless, both terms refer to the same concept. It refers to how the CA is extended or duplicated and also to how advantages do not necessarily extend for a period of time nor persist indefinitely. As such, for an advantage to be sustained it cannot be imitated, must be difficult to attain, must be rare, valuable, must be source of above average profits and superior performance, measured in conventional terms such as market-share and profitability. At this juncture, economic literature provides an explanation that makes logical sense. The former holds that given strong competitive pressures, high rationality will prevail and economic rents will dissipate. In addition, when the resources underlying the advantage are limited or quasi-limited in supply, superior returns will persist (Peteraf, 1993). As such, firms will focus attention on the nature of the firm's resource pool.

As was noted above, for a CA to be sustained and for the firm to obtain above average returns valued to customers, CA is and will become an even stronger area of firm's strength in the future. Barney (1991) reported that, for a resource to be a potential source of CA it must permit the firm to conceive or implement strategies that will improve its efficiency and effectiveness by measuring the needs of customers. This also means that resources need to meet other conditions and that there are complementarities between the RBV of the firms and environmental models of CA (Barney, 1991; Collis & Montgomery, 1995).

Strategy researchers have made significant efforts in building the taxonomy of strategic adaptation in different industrial settings. In particular, the development of the strategy-conduct performance perspective has provided to the understanding of how firms both adjust to environmental challenges and exploit new opportunities through entrepreneurial action. One of the basic claims of this research has been the need for industry-specific strategic instruments. The general complexity and turbulence of the market stated within economics and strategy research add to the importance of building more adequate models of market behaviour. The context of the market should be related to the internal choice of strategy at the business level (Rumelt, et al. 1991; Porter, 1991).

Summing up, Peteraf (1993: p. 185) concludes that four conditions need to be met for a firm to obtain CA and even more, to sustain that advantage and obtain above average returns. First, resource heterogeneity, which could create rents, should be developed. Second, *ex-post* limits to competition should be present so the advantages obtained could not be competed away. Third, imperfect factor mobility should be developed to ensure that valuable factors remain with the firm so that rents are shared. Lastly, *ex ante* limits to competition should be attained in order to keep costs from offsetting rents, Peteraf also clarifies that though all conditions are very important, they are distinctive and autonomous. Consequently, the most important condition is heterogeneity, which is considered the *sine-qua-non* of CA.

3.7 Strategic Success Determinants

Unanimously, most theoretical researchers, practitioners and empiricists agree that the success of the small business segment is crucial to both the stability and health of the world economy. As the economy worldwide has shown divers cycles (ups and down), studies have focused more profoundly on finding out which are the success determinants that in the long run will allow firms select the resources, utilize capabilities and develop skills that will instil success. Throughout the literature, it is noticed that there are three ingredients critical to a firm's strategy and success: First, the strategy must be consistent with the conditions underlying the competitive environment. Second, the strategy must place realistic requirements on the firm's resources and third, the strategy must be carefully executed (Pearce & Robinson, 2000).

If firms aim to succeed, they need to define the course of action to follow and select the most suitable strategy. Economic results and statistics of success and failure of SMEs seem to signal a need to define such a strategy. It is this researcher's feeling that the best avenue for success continues to be determining which are the CAs and distinctive competencies exhibited by SMEs as well as analysing which of these competencies found determine success across sector and size.

Accordingly, the scenario of business makes development of competencies and CAs not only a desirable factor, but also paramount for the future survival and success of enterprises. Many reasons attest to this need: the changes in consumer's preferences and dynamics, the changes in customers' demographics as well as varied consumers' purchasing patterns. These reasons among others, makes it mandatory for firms to be competitive and to counterbalance the problems posited in their environment. In addition, firms need not only to possess, project and exploit their resources, capabilities and CAs, but also to make the most of their distinctive competencies (Grant, 1991; Hamel & Prahalad, 1994) to implement effective strategies.

Researchers like McGee & Love (1999: p. 85) have asserted that limited empirical research that identify which specific organizational resources and capabilities exist or should be developed in SMEs to project CAs and prevent failures. The resource base discussion has to be linked to a chain of causality focusing on the setting and conditions (in the market) that make them successful. If not, resources will have their position only because they are rare and not possible to imitate (Porter, 1991). They found this to be a common occurrence in most SMEs.

In the case of Palestine, research on the subject is almost nonexistent. As such, this study will fill a vacuum. The present study will envelop not just empirical research, but will extend further, to include the theoretical perspective, theoretical reviews, extensive interview and surveys of Textile and Garment (T&G) firms owners/managers to support and come to valid conclusion.

Moreover, while the competitive environment keeps increasing exponential, the external environment adds more pressure to firms. Due to the Palestinian growing instability, new systems are being devised to stimulate an economy that has weakened since the *intifada* in September 2000. Nonetheless no improvement on the overall situation is foreseen in the short term[27] even though hope of such undertakings is latent. This is in spite of lower interest geared to stimulate the economy, larger investment in advertisements and of improved services that have become more noticeable to the firms publics (clients, suppliers, etc).

3.8 Summary

The purpose of this Chapter is to provide an overview of existing literature, and to examine Small and Medium size Enterprises (SMEs) and entrepreneurship in light of growing expectations that it will generate and support radically new and effective ways of dealing with pressing economic problems. This Chapter has discussed theoretical formulation and empirical analyses concerning SMEs; the SFs economic and business survival, CAs as determinant of success and strategic success determinants.

There are numerous definitions of SMEs and entrepreneurship describing a wide array of economic activities and functions. In this study a distinction has been made between theoretical definitions, which tend to cover a number of different aspects without being practically

[27] A review of economic indicators and the pervasive socio-political events in the Palestinian environment have strenuously affected the economic spectrum. Previously the Palestinian economy, which is closely linked to that of Israel, however, the expected recuperation has not occurred this time, yet. Business, in lieu of these changing economic cycles has been confronted with the prospect of having to re-evaluate their strategy, investment portfolio and operations.

applicable, and operational definitions, covering individual elements of entrepreneurial activities. Entrepreneurial activities range from creative destruction and innovation to dealing with uncertainty and spotting profit opportunities. Three links are emphasised through which those activities affect economic growth, innovation, competition, and firm start-ups.

Regarding the theoretical treatment of entrepreneurship, there appears to be a focus on innovative activities and a prominence of firm start-ups when it comes to empirical studies. The German school, represented by Schumpeter, focus on the entrepreneur as an innovator and implementer of change and economic growth, destroying existing systems by imposing new ones. One of the distinguishing aspects of the Chicago school is the role assigned to the entrepreneur as dealing with uncertainty. In this view the successful entrepreneur has a special talent or exclusive knowledge that yields an advantage when facing uncertainty. The identification and exploitation of disequilibria in the market are the essential characteristics of the Austrian entrepreneur. By doing so, the entrepreneur functions as a restorer of equilibrium, enhancing the performance of the market. Endogenous growth theories are an extension of the neoclassical theory, where a number of otherwise exogenously determined parameters have been incorporated into the models.

In economic history there is an emphasis on the importance of institutions for productive entrepreneurship. Entrepreneurial activities might be either productive or destructive for society at large depending on the structure of the incentives. The concepts of factor conditions used in industrial economics might assist in identifying favourable settings for entrepreneurship and economic growth. In a similar way, it might be possible to make predictions about where entrepreneurial activities are more likely to occur. In evolutionary economics there are assumptions about bounded rationality leading to more or less randomised initial manifestations of entrepreneurial activities. Through a process of learning and survival of the most successful growth is achieved. The rationale of recombinant growth is basically the opportunity of exploiting any convexities in the technology frontier in order to produce innovations through new combinations.

CHAPTER FOUR

Theoretical Framework: Resource-Based View of the Firm

4.1 Introduction

Over the last decade the Resource-Based View (RBV) of the firm has been widely adopted by scholars in their explorations of sources of sustainable Competitive Advantages (CA), (Amit & Schoemaker, 1993; Barney, 1986, 1991; Dierickx & Cool, 1989; Mahoney & Pandian, 1992; Peterraf, 1993; Rumelt, 1984; Wernerfelt, 1984). This stream of research basically suggests that differential firm performance can be attributed to a firm's possession of rare, valuable, non-substitutable, difficult-to-imitate resources (Barney, 1986, 1991; Dierickx & Cool, 1989; Rumelt, 1984). Building upon such a generic conceptual basis, subsequent research efforts set forth the concept of core competencies (Prahalad & Hamel, 1990) and postulate a comprehensive framework for competence-based management (Hamel & Heene, 1994; Heene & Sanchez, 1997; Sanchez, Heene, & Thomas, 1996).

The object here is to develop a rigorously resource-based account. It was Edith Penrose in "*The Theory of the Growth of the Firm*" (1959) who developed the first clear expression of a "Resource-Based View" of the firm. She considered firms to be "bundles of resources" and saw the specialisation of these resources as fundamentally accounting for the variations between firms (Pitelis & Wahl, 1998).

One central notion drawn from the competence-based framework is that the management of an evolutionary process containing both competence building and competence leveraging activities is vital to a firm's success (Sanchez, et al., 1996, p. 13). In brief, competence leveraging refers to the exploitation of an existing stock of competencies, while competence building indicates the exploration of qualitatively new assets or capabilities for the organization (Christensen & Foss, 1997, p. 290; Sanchze, et al., 1996, p. 22, 24). To achieve dynamic corporate coherence (Christensen and Foss, 1997), a successful firm has to establish a business operation model containing both processes (Collis & Montgomery, 1997).

In the literature several theories come to the fore of which the theory of Mintzberg, Chandler, Miles and Snow, and Porter are the most prominent ones. Mintzberg focuses on the process of strategy (deliberate versus emergent strategies) whereas the other three focus on the content of the strategy. Chandler distinguishes volume expansion, geographic expansion, vertical integration and product diversification. Miles and Snow divide organizations into prospectors, defenders, analysers and reactor types. Finally Porter distinguishes three generic strategies and introduces a cost-leadership strategy, differentiation strategy and a focus strategy.

The main theory selected for this thesis (the RBV perspective), explains how this theory related to this study more than any other theory, the determinant a factor that might stimulate or hinder a firm's performance. The reasons why this theory is selected and the defences for this choice appear in following paragraphs. The RBV of the firm and the conditions underlying business or firm performance assumes that each organization is a collection of unique resources and capabilities, each of which provides the basis for its strategy (Barney, 1991; Hitt, Ireland & Hoskisson, 2000). The view is grounded on the perspective that a firm's internal environment, (in terms of its resources and capabilities developed), is more crucial to the determination of strategic actions than is the external environment (Grant, 1991).

To give the present study a solid foundation and relate it to previous research in the field, the theoretical assumptions underlying it are related to other theories. However, before selecting the chosen theoretical framework it became imperative to carry out a revision of other well-known and related theories that potentially could explain how the firm internal decisions might affect performance. The revision and comparison of this theories and how they relate to the RBV are presented here. Furthermore, the RBV encompasses how organizational or firm performance depends on the existence of resources, which if appropriately deployed, based on the capabilities of its directors will turn into CAs for the firm. The view, as Penrose (1959)[28] did foresee, incorporates the role the environment has on attaining the strategy formulated. Adding together, this Chapter includes not only the evolutionary development of the RBV of the firm, but also it addresses the point of view of acknowledged contributors to this theoretical development, as well as studies on how the theory contributes to enlighten the underlying concepts for this thesis.

4.2 Description of the Theoretical Standpoint within which this Research is framed

The advancement of the RBV has been under scrutiny for many years, even though not always with the same significance. Though Penrose's was the pioneer, the initial popularity started in the 1960's, when some researchers suggested (Anderews, 1971; Ansoff, 1965; Hofer & Schendel, 1978) that firms could have sustained CAs by implementing strategies that exploit their internal strengths, this exploitation is always paired to responses to environmental opportunities, while

[28] Penrose is considered the leader- founder whose seminal work became the basis of the Resource-Based View of the firm.

neutralising external threats and avoiding internal weaknesses. Yet, it was not until the late 1980s with the work of Wernerfelt's (1984) when the resource-based view became admired. Presently, this theory is not only popular but also fashionable. Potentially, it might be reaching a higher peak. However, the initial acknowledgment of the impending significance of firm specific resources goes back to Chamberlain and Robinson in the 1930s (Fahy, 2000: p. 94).

Penrose (1959: p. 34), subsequently developed the view focusing on the entrepreneurial services provided and the goals of owners. Likewise, to economists like Penrose and others, the emphasis was on heterogeneity not market structure. To her and her follow writers, unique assets and capabilities of firms were very important factors for attaining resourceful firm performance, which then gave rise to imperfect competition and the attainment of above normal profits. As early as 1933, Chamberlain had already identified the existence of key capabilities for firms, for example technical know-how, reputation and brand awareness, the ability of managers to work together or in teams, patents and trademarks. This terminology is now in vogue in strategy literature (Day, 1994; Hall, 1992).

To shed light on the selection for this theoretical standpoint, several well-known models and typologies of strategy were revised: Ansoff (1965) models, the frameworks of Andrews (1971) and Porter (1980, 1990), the SWOT analysis[29] was reviewed as well as the Strategic Matrix proposed by the Boston Consulting Group. As a result of reviewing these models, diverse points of view surfaced. fer example, Porter's work, which is amply recognised and based on the Bain-Mason Industrial Organization (IO) model, sees the firm as a bundle of activities. The RBV, on the contrary, sees it as a bundle of unique resources. Porter (1990) focused on the environment performance relationship with little emphasis on the impact of firm attributes on performance. He also assumed that firms are identical in terms of relevant resources and that any attempt to develop resource heterogeneity has no long-term feasibility because of the high mobility of strategic resources (Spanos & Lioukas, 2001). The RBV view assumes and focuses on the relationship between the firm's internal characteristics and performance, and that firm may be heterogeneous in relation to the resources and capabilities upon which they base their strategies. A further assumption is that resources and capabilities are not perfectly mobile across firms; this results in heterogeneity among industry members.

[29] SWOT analysis is used often to provide an overview of whether the firm's business is healthy or not. It is grounded on the principle that strategy-making effort must aim at producing a good fit among a company's resource capability and its external situation (competitive conditions, market opportunities and external threats to profitability (Thompson & Strickland, 2001: p. 117).

After a dormant period in the 1980s, the RBV concept shed some more light again. Several authors (Ghemawat, 1986; Hall, 1989; Grant, 1991; Williams, 1992) brought to light cases where companies with particular skills and capabilities were able to outperform rivals. Nonetheless, the theoretical roots go back to Penrose (1959), when she brought back to light the importance of the individual firm. Some industrial economists also contributed significantly by establishing how performance differences persisted in situations of open competition (Amit & Schoemaker, 1993; Barney, 1986a, 1991; Dierickx & Cool, 1989; Peteraf, 1993). Since the 1990s till today the RBV has assumed the centre stage in strategic management literature.

Regarding the origins of CA, Penrose (1959) emphasised that the origins of CA are in the valuable resources or competences the firms possesses, which often are intangible assets like skills and reputation (Wernerfelt, 1984; Collis, et al, 1995). These intangibles are relatively immobile resources that need be to nurtured and should guide the choice of strategy. Even more, the previously mentioned studies suggest special linkages between the resource position of the firm and its sustainable CA. Rumelt (1984) saw this linkage by asserting that understanding the source of sustained CA for firms is a major area of research in the field of strategic management. While Nelson & Winter (1982) contributed to the view introducing the concept of organizational routines, these authors like other strategy scholars including Lippman & Rumelt (1982) examined the effects of resource heterogeneity on inter-firm differences and in efficiency (Seth & Thomas, 1994: p. 177). Evidently, in the early contributions there was no explicit distinction between resources and capabilities. However, to Amit & Schoemaker (1993) resources are assets that are to a certain extent pertinent for firm performance since they are either owned or controlled by the firm.

4.2.1 The Resource-Based View Relations to Other Theories and to this Thesis Goal

An extensive literature review on the subject shows that the RBV includes and is intertwined with concepts from mainstream strategy management research and has also become a paradigm in the field (Peteraf, 1993), specifically its focus on distinctive competencies (Andrews, 1971; Ansoff, 1965; Selznick, 1957) of heterogeneous assets. The importance of these assets according to Kirzner (1997) is also a basic one for entrepreneurship development. In the same line of thought, entrepreneurial opportunities are thought to exist when different agents perceived the value of resources that other sectors have not seen, converting and exploiting these opportunities. RBV is also related to the rate, direction and performance implications of diversification strategies (Ramanujam & Varadarajan, 1989) and with organizational economics (Barney & Ouchi, 1986).

The part this theory provides to this research resides on acknowledging that entrepreneurship is a complicated part of the resource-based framework (Rumelt. 1987; Connor, 1991). Renowned authors including Castrogiovani (1991), Chandler & Hanks (1994) have contributed positively to the development of this view. The abovementioned contributed to the theory by reporting that firms should select and pursue their strategies to generate rents based upon resource capabilities.

Other studies focusing on the RBV by Barney (1991), Grant (1991) and Teece, et al. (1997), point out that the RBV fits comfortably with firm-specific capabilities, assets and the existence of isolating mechanisms as the fundamental determinants of firm performance. Some further works similarly stress that (McCloskey, 1985), the view is closely related to the notion of "competences" and treatments. They stress those intangible assets, as well as the emphasis on the sustainable CA (Schulze, 1994) and show strong concern for preventing imitation of valuable resources (Grant, 1991). Some studies also tackle the idea that resources are relatively immobile, should be nurtured and guide the choice of strategy.

Studies by Stalk, Evans & Schuman (1992: p. 57) on the reversal of fortunes represented by Kmart and Walmart[30] and Sears Roebuck, owner of home Depot, exemplified how the success of these firms is based in terms of capabilities based competition. Additionally, a great deal of research has focused on resources of sustained CA on either isolating a firm's opportunities and threats (Porter, 1980, 1985), or unfolding its strengths and weaknesses (Hofer & Schendel, 1978; Penrose, 1959; Stinchcombe, 1965). The former authors contributed by analysing how strengths and weaknesses are matched to corresponding strategies. Barney (1991: p. 99) reached a similar conclusion while reviewing the same study. Moreover, Mahoney & Pandian (1992), building upon the work of Penrose (1959), noted that a firm achieves rents not because it has more or better resources, but because the firm's distinctive competence allows it to make better use of the resources that are available[31]. Rent is achieved through the effective utilisation of a firm's resources to achieve CA.

Recently, besides using the RBV to study firm performance, the view has been has also used to analyse governmental roles. The stand point for this scrutiny is the economic downturn, which is the second phase of the cycle, recession. The importance of this simile is the effect this point of

[30] Both are renowned US retailers. The history of Goliath eating David was not repeated here. Kmart was the retailer giant, which possessed special competencies, yet Walmart swallowed it in only ten years.

[31] Resources are not productive by themselves but because organisational capabilities are developed to undertake productive activities that add value to the stakeholders. As much, these capabilities provide distinctive competencies or core competencies that when attained, as Hamel & Prahalad (1990: pp. 79-91) expressed, will distinguish firm and will project reaching those capabilities fundamental to a firm performance and strategy.

view has on firm's success and performance. The decline of recession continues however, past equilibrium in a secondary wave that Schumpeter (Penrose, 1959: p. 32) attributes to "errors, excess of optimism and pessimism. Reckless, fraudulent and otherwise unsuccessful enterprises created in the optimism of expansion cannot stand the test administered by recession".

Table (4.1) not only addresses how the chosen view relates to other theories, especially the industrial organization model, but also serves to illustrate and defend the position of selecting this view. Relating IO-related theories to the RBV seeks; ultimately, to explain how diverse points of view deal with firm with aims to obtain above-normal returns (Barney, 1991; Wernerfelt, 1984). For Barney, to obtain returns under the RBV requires that the product is distinctive in the eyes of buyers or is selling at low cost position[32]. Comparing the neoclassical view to the RBV shows that the former is at the heart of the resource-based theory, while the RBV does not include the assumption of freely available and perfectly specifiable production, as does the neoclassical theory. As is argued by Schumpeter, the resource-based theory recognises the power of revolutionary innovation to shift market positions (Prahalad & Hamel, 1990; Rumelt, 1974).

The resource-based theory does reject the necessity of having monopolistic earning to support competitive initiatives. To the Chicago view[33], the resource-based theory sees returns as a result of how fortunate the firm might be in acquiring, combining and deploying resources, rather than from the structure of the industry in which the firm belongs to, as is the case of Bain type IO.

Moreover, the view contributes to this research with its examination on the role of manager. Under this standpoint the manager is the central in the decision making process. This figure decides which inputs will have value for products or services in excess of their investment and expected returns, and also which resources will be difficult for rivals to copy or imitate while at the same time trying to exploit them.

[32] This option of above normal returns is related and reflects Porter's (1980) generic strategies. Empirically, this concept is very relevant in the world of business pervasive product differentiation, according to conner (1991).
[33] See Wennekers et al, (1997); Glancey & McQuaid (2000) and Foss (2003).

Table 4.1

A Historical Comparison of RBV Theory to Five Industrial Organization (IO) Related Predecessors

	Similarities	Distinctions
Neoclassical	❖ Firm as input-combiner: emphasises physical production of goods or services	❖ No "given" production algorithm; identification of resource combination is problematic ❖ Critical resources may be immobile (not available for purchase, or not easily jettisoned if no longer productive): may be by-products of teamwork ❖ Firm size and scope are important issues
Bain-type 10	❖ Firm's environment (other firms/public policy) poses critical constraints on strategy ❖ Persistent above-normal returns are possible	❖ Restraints on output through monopolistic or collusive action, or investment in "artificial" entry deterrence are not primary sources of persistent above-normal returns. ❖ The firm (not the industry) is the appropriate unit of analysis for understanding sources of above-normal returns. ❖ The internal organization of firms is a critical variable. ❖ Firms' behaviour may be at least as much the result of conscious choice as a foregone conclusion from industry structure.
Schumpeter	❖ Spectacular above-normal returns can result from new ways of competing ❖ Entrepreneurial vision is at the heart of the firm ❖ Potential imitations always exist	❖ Feasibility of new ways of competing does not rest on monopolistic (output-restraining) practices ❖ Imitators are constrained by costly-to-copy resources ❖ Exogenous shocks can be critical to "creative destruction" ❖ Healthy earning can result from less than "revolutionary" innovation
Chicago	❖ Firms are production and distribution efficiency-seekers ❖ Size and scope of the firm reflect extent to which production and distribution efficiencies are achieved	❖ Focus more on the intermediate (not long) term, so entry need not dissipate above-normal returns in the time span relevant to the firm and its strategic choice problem ❖ Efficiency seeking goes beyond current products, extending also to new products
Coase/ Williamson Transaction Costs	❖ Asset specificity and small numbers are critical concepts constraining the firm's strategic options	❖ The heart of the firm centres on deployment and combination of specific inputs rather than on avoidance of opportunism

Source: Conner, K. (1991: p. 133).

4.2.2 Disputed Literature Views

Apart from the acknowledged contributions of the view, a number of researchers rationalise that there are some unresolved issues within the view (Fernandez & Suarez, 1996). While some point to the confusion in terminology and definitions including as to what are productive resources, others see complexity in making the point of view operative in terms of objectives, and in the use of measures that are valid and could be used to generalise conclusions, as reported by Fernandez & Suarez (1996: p. 85). Furthermore, various sectors see a need for the view to inquire into the role of the manager (Watson, 2001) as a deciding centre for a firm attaining performance, especially in the 21st century landscape so characterized by economic upheavals.

From the beginning of the utilisation of the RBV, measuring resources was done mainly from a traditional financial standpoint; currently, resources that are more complex are used and measures are wide-ranging. The aforementioned authors point out that measuring resources have traditionally used only optimal resources; yet those who argue in favour of the RBV do not mention resources that might be mediocre or "bad" resources. Only strategic aspects were used to measure firm performance according to Foss, Knudseen & Montgomery (1995: p. 8). In practice, most researchers and practitioners understand how difficult it is to really identify valuable resources. An obvious explanation is the differences on success levels attained by firms that started at the same period of time with similar resources, often in the same industry. Further, the focus on the analysis of internal analysis has ruled out the necessary balance between external and internal analysis. With the exception of Schoemaker & Amit (1994), researchers have given little attention to the combination of both sectors.

It is the judgment of this researcher that most studies only focus on results of performance once it occurs, not previously. What is more, analytical focus rests on firms that have been or are successful, or those firms diagnosed as failed. Firms struggling encounter no guidelines or success indicators. While their examination is reported *a posterior,* the interim phases on how to turn the tide, on determining what has really made one firm succeed or not, still needs further research. On the same token, owners/managers talk of their success, but most do not care to remember failures. A large critique in research circles is that for a theory of the firm to be complete, requires honest objective collaboration from all sectors utility, those who succeed and those that fail. Likewise, a lot of secrecy will have to come out of the closets while reality sets in.

Thus, the theoretical model proposed for this thesis will contemplate determining the CAs and competencies that determine success for SMEs across sector. However, though, the focus will also be on the firm, on the allocation of resources necessary to attain success. Additionally, the study will strongly focus on the effect the external environment and the sector in which the firm evolves might have on the entrepreneur decision-making, and ultimately on its effects on the firm results. It is this researcher's belief that firm's and their owners'/managers' decisions are central for firm performance. Moreover, if firm were isolated, their performance would not be affected by economic, socio-cultural (consumer preferences) and political changes. On the contrary, the opposite is what occurs. Concurring with Penrose (1995: p. 5) revision of her world-renowned study, firm are immersed in their surroundings.

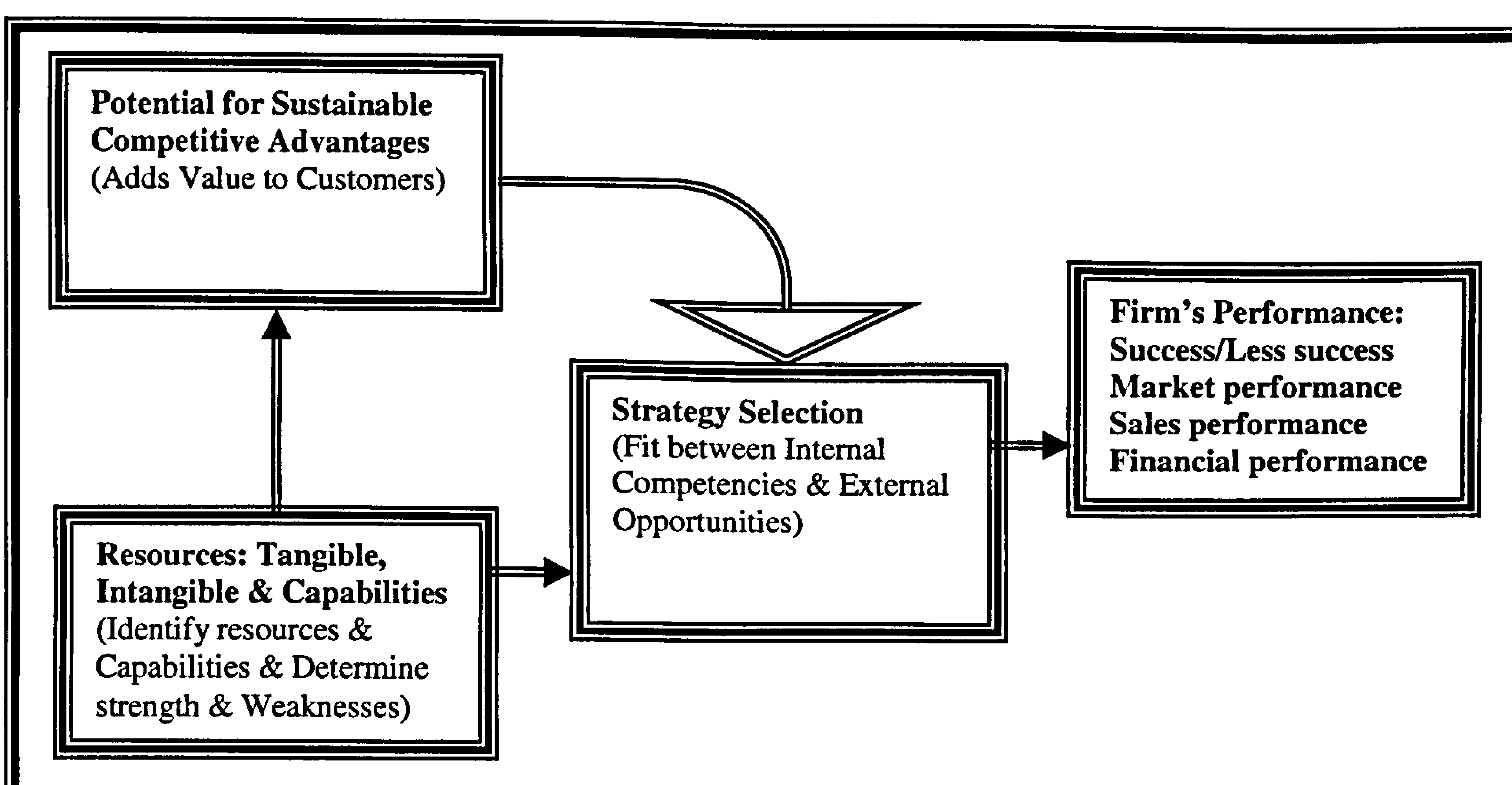
Thus, the evaluation of firm's resources and capabilities is strongly determined by the environment (i.e. labour training, technological developments and levels of competitiveness as well as access to resources). In spite of this, "there is considerable evidence showing that SFs, because of their size are restricted by their environment to specified opportunities as such limiting the prospect of expansion" (Penrose, 1995: p. 215).

4.3 Revision of the Conceptual and Theoretical Framework

Under the RBV standpoint, SFs need to be analysed from the resources possessed, the capabilities developed, the competencies attained and the CAs developed either if they are sustained or not. Figure (4.1) not only exhibits these relationships, it goes further, under the model proposed, firm performance rests strongly on the entrepreneur and the choice he/her makes of a strategy in lieu of the firm's existent and initial resources. For clarification purposes, the theoretical perspective described under this model will be addressed in Chapter Five; this Chapter will deal with aspects to be considered relevant in terms of how these are immersed in or relate to the RBV perspective.

Figure 4.1

The Theoretical Model of Resource-Based View



Source: Researcher's elaboration based on reviewed literature on Grant's (1991: 138) framework for analysing resources and capabilities.

In light of Research-Based View (RBV) researchers and their studies into the nature of Competitive Advantage (CA) have made an important contribution to the field of strategic management. The view has benefited from the rigors of its economic origins and has enhanced the understanding of what determines CA. The standpoint also explains why some resources are more advantageous than others, a concept that might explain why some SMEs, even starting with the same resources, might not make "the right choices". Moreover, the RBV through its insights into the nature of CA also explains why some resources are more advantageous than others.

Consequently, the view also indicates how advantages persist for some firms even in periods of open competition like the ones raging in the WBGS. One of the assumptions for this thesis is that this study can empirically contribute and validate the contributions the RBV has for SMEs, and the role of CA has on firm's success. Furthermore, the perspective's contribution to the present research context is also framed in the entrepreneurship literature. Traditionally, the entrepreneurial literature focus has been on the individual or entrepreneur, on his socio-demographic characteristics and limited decision-making. For this thesis, the entrepreneur is the central figure and he or she endows the firm with the personal abilities that facilitate SF growth and performance, thus, the focus is also on the internal analysis needed to implement to counterbalance pressures from the external environment and on the individual decision maker and his choices.

Thus, the RBV underlying premise is that firms differ fundamentally because each firm possesses a unique "bundle" of resources, tangible and intangible assets and organizational capabilities to make use of those assets. The view also addresses the idea that each firm needs to develop competencies from resources usage, and that resources have to be exploited and provide the added value sought after by its publics. Resources, as such, become a source of CA. The view, as used for this research context, rests on the notion of "core competencies". These are understood as a capability that once identified, nurtured and deployed throughout the firm, becomes the basis for lasting CA. Central to the view is the ability to achieve set goals (Penrose & Robinson, 2000: p. 194). To these authors, three basic resource types exist (tangible, intangible assets and capabilities) that create the bases for distinctive competencies[34].

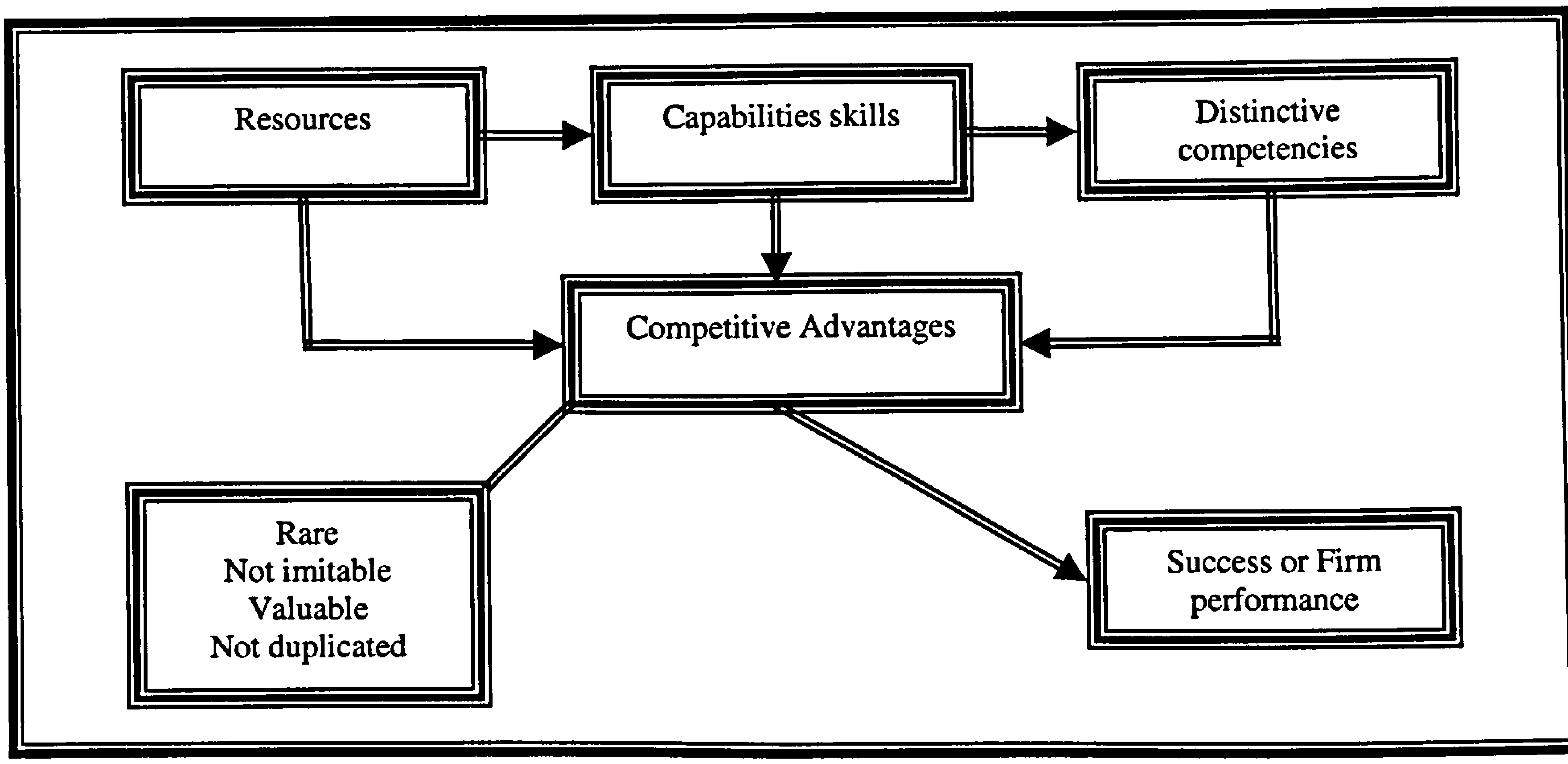
This view was at that time and still remains today the most relevant manner for the firm's executives to implement internal analysis. Moreover, for resources to be of relevance they need to be difficult to imitate and copy, be valuable, long lasting and durable, non-transferrable and rare. Indeed, when analysing resources that could provide a CA, the role of manager becomes central and important. Once the entrepreneur or manager (in the case of hired management)

[34] A distinctive competence is something a company does well in comparison to its competitors according to Prahalad, C. & Hamel, G. (1990).

identifies which resources provide strengths or weaknesses for the firm (Penrose, 1959: pp. 32-34) her or she should seek to convert these resources to capabilities that could be transformed into CA. The following figure (4.2) stresses the relationship between the firm performance and the role of the manager.

Figure 4.2

Relationship between Firm Success and the Type of Resources



Source: Researcher's own elaboration based on Hitt & Ireland's (2000) description of competencies.

From the standpoint of this thesis and as the literature posits, a major contribution of RBV perspective is that it can help to understand the importance of the firm's internal resources (Veciana, 1999) in its capacity to achieve high performance as well as to explore how Small Firms (SFs) can utilize different resources in their strategies. The view also posits, when studying SFs that due to their size, environmental influences also need to be considered.

4.4 From a Strategic Standpoint, how the RBV Relates to Performance

The RBV is key to strategy formulation and to understanding the relationship between resources, capabilities (Collis & Montgomery, 1995; McGee & Finney, 1997), CA and profitability (Grant, 1991). The view also provides insight to understanding the mechanisms through which CA can be sustained (Grant, 1991), to this author, successful organizations, therefore, should bring all their activities to be consistent with their strategy. Moreover, the strategy chosen should allow the firm to better exploit its core competencies relative to opportunities in the external environment and resource choice. From a strategic perspective, the RBV focuses on the ongoing search for rents (income) and on the view that firms should pursue strategies that are best supported by their resource-based capabilities (Chandler & Hanks, 1994).

Specifically, the RBV refers to the strategic choices regarding markets and products as well as the ways to use existing resources and the means to acquire or develop additional unique resources (Wernerfelt, 1984; Andrews, 1971). From an actual and practical standpoint, developing a strategy is enormously important especially if it is understood by all sectors concerned. As such strategic vision is a prerequisite to an effective strategy. Thus, a significant strategy should incorporate three elements: customer needs, customer groups to be served and the competencies the firm needs to deliver value (Thompson & Strickland, 2001: p. 34). To deliver this value, accomplishing goals and objectives, firms need to clarify their strategic intent and define big audacious goals, for example being dominant in a certain niche market. Of course, this is a long-term goal. Strategic intent becomes highly relevant, this intent occurs when a company exhibits and relentlessly pursues and ambitious strategic objective and concentrates its competitive actions an energies on achieving such an objective. It is a commitment.

Additionally, from any point of view, strategies are management's answers to how objectives and goals will be achieved, or how the firm will pursue the organization mission and strategic vision. Hence, strategy entails managerial choices and constant evaluation. Thompson & Strickland (2001: 11) state that, the merit to evaluating a firm's strategy from a qualitative standpoint, resides on its completeness, internal consistency, rationale and suitability to the situation. Yet, from a quantitative point of view, evidence of how well a company is doing rests on studying the firm's records and its recent financial performance. Furthermore, the same authors assert that the two best empirical indicators of performance are: 1) whether the company is achieving its stated financial and strategic objectives and 2) whether the company is an above average performer. Using the object of strategy in a comparative manner and from different point of view, Table (4.2) reviews strategic literature under the RBV while defending the selection of this theoretical standpoint.

4.4.1 Diverse Alternatives to Strategy Formulation and the RBV Perspective

The resource-based perspective alone, according to some researchers, most probably might not be sufficient to explain the success and performance of SFs. Many disagree, including this researcher. After reviewing different theories including Porter's Value Chain, population ecology, Industrial economics and their coverage, as well as their focus on studying the corporation and managerial decision process, in 1996 Porter's work gives due importance to the idea of strategy combined with the proposition of new concepts. In his article (Porter 1996), he emphasises the importance of distinguishing strategy from operational effectiveness. His focus is on strategy as the very way in which all the activities of the firm are tied together and implemented. While maintaining his old framework on CA, he suggests new concepts, such as strategic fitting. Finally, according to Ghemawat he emphasises the role played by commitment in implementing long-range horizon strategy.

Table 4.2

Resource-Based View Strategy Literature

Mechanisms	References
Distinctive competencies and core competencies are those difficult to replicate.	Andrews, (1971)
Culture that is the result of human action but not of human design.	Arrow, (1974); Hayek, (1978)
Corporate culture that is valuable, rare and imperfectly imitable due to social complexity, tacit dimensions and path dependency	Barney, (1986a); Fiol, (1991)
Invisible assets that by nature is difficult to imitate.	Itami, (1987)
Response lags.	Lippman & Rumelt (1982)
Resources and limited strategic. Substitutability by equivalent assets.	Dierickx & Cool, (1989)
Time compression diseconomies.	Dierickx & Cool, (1989)
Valuable heuristics and processes that are no easily imitated.	Schoemaker, (1990)
Unique or rare resources that are not perfectly mobile.	Barney, (1991)
Valuable non-tradable or imperfectly tradable resource.	Barney, (1991)
Resource position barriers.	Wernerfelt, (1994)

Source: Researcher's elaboration based on Mahoney & Pandian, (1992; 363-380).

In order to justify the selection chosen, a contrasting view on the theories mentioned is presented in table format. The following table contrasts the different points of view and highlights various noteworthy authors that have historically contributed to the resource-based literature and empirical studies.

The Resource-Based View (RBV) also proposes that advantages to firms lie in the ability to make good strategy choices and on how to implement them while choices depend on information and careful analysis of the firm environment (Porter, 1991: p. 110). Additionally, even though linking strategy and the firm's resources and skills has suffered comparative neglect and strategy research has been criticised in the study of smaller firms, practical applications exist to prove their viability (Grant, 1991). Formulating a strategy according to Grant requires determining the correct definition about the area of business of the firm, identifying resources and capabilities and maximising rents over time, the primary task of the RBV.

4.4.2 Strategic Approaches

McDonald (1996) in O'Regan & Ghobadian (2002) indicates that a company's 'plan' or strategy must involve "matching the activities of the business to the environment and to the resources available". In this respect the resultant product or service of the business activities will only be as good as the sum of the factors which comprise the business environment and the resources available. O'Regan & Ghobadian point out that strategy is perceived differently by diverse firms, suggesting that a firm's strategy is very much a 'subjective' concept that can only be identified by the owner-manager and key stakeholders in the firm, including investors and employees (O'Regan & Ghobadian, 2002).

There are several schools of thought and all of them aim at clarifying how strategies are delineated from different perspectives and try to systemise how the RBV focuses on the strategic direction. The most conventional approach from these schools is the rational view, based on Porter's industrial organization model. Examples of this group include Cyert & March, (1963) and Mintzberg, (1978). The ecological model based on biological concepts and lead by Hannan & Freeman, explains how firms compete in the market and which, is the essence of their strategy, Table (4.3) illustrate a comparison of these standpoints to the RBV.

Table 4.3

Summary of Different Diverse Strategic Approach

	Rational	**Process**	**Ecological**	**Resources**
Major contribution	Ansoff, (1965); Porter (1980,1985)	Cyert & March (1963); Mintzberg (1978)	Hannan & Freeman (1989)	Wernerfelt (1984); Barney (1991)
Base Discipline	Economics	Psychology & Sociology	Economics, Biology	Economics
Strategic Concept	Establishment of the company's objectives at 1% and of the planned action to reach objectives	Action guide lines of the company as a result of the emergent process of the organizational learning	Positioning market niche. Do not exist strategic election	Search for profitability by accumulating and exploit its resources and capabilities
Characteristics	Explicit plan, deliberate	Emergent, collective	Passive, the change	Deliberate and emergent
Level of analysis	Mainly sector	Company	Population or group	Company
External/Internal approach	External	Internal	External	Internal
Content/Process approach	Content	Process	Process	Content/Process
Static/Dynamic approach	Static	Dynamic	Dynamic	Dynamic

Source: Fernandez, Z. & Suarez, I. (1996: p. 83). More points of view are in the process of being added to this table (Researcher's design based on literature).

4.4.3 The Role of Resources

The RBV focuses primarily on the resources and capabilities that a company has and gives little attention to industries/markets in which it operates. The view also posits that all organizations develop unique resources and capabilities, which become the ultimate source of CA. Yet these resources are not equally found across firms. Under this view the most basic resource is heterogeneity, which assumes that at least some resources and capabilities are different across firms (Barney, (1991). The pioneer on the subject, Penrose (1959), describes better than any other researcher the role of resources for the firm. The most salient characteristic of the resource-based perspective is the focus on the firm's internal strengths, a view that is connected mostly to the seminal work of Penrose (1959). Further, at the most basic level, the perspective describes the firm in terms of the resources that it integrates: "Thus, afirm is more than an administrative unit; it is a collection of resources the disposal of which between different uses and over time is determined by administrative decision", Penrose (1959: p. 24). Table (4.4) below clarifies and describes the type of resources typically found to be sources of CA and lists authors that have extensively delved on the subject, including pioneers like Wernerfelt (1989).

Table 4.4

Classification of the Firm's Resource Pool According to Various Authors

Author	Tangible Assets	The firm's resource bundle intangible assets	Capabilities
Amit & Schoemaker (1993)			Intermediate goods
Hall (1992)		Tangible assets	Intangible capabilities
Hall (1993)		Assets	Competencies
Irvin & Michaels (1989)			Core skills
Itami (1987)			Invisible Assets
Prahalad & Hamel (1990)			Core competencies
Selzinck (1957); Hitt & Ireland (1985); Hofer & Schendel (1978)			Distinctive competencies
Wernerfelt (1989)	Fixed assets	Blueprints	Cultures

Source: The table was redesigned and prepared by the researcher following Fahy's (2000)

Resources are classified in many ways, but the most common classification is based on three categories: tangible, intangible and capabilities. Grant (1991: p. 115) identified six categories, Williamson (1975) identified physical capital resources, human capital resources (Becker, 1964), organizational capital resources, financial resources, technological and reputation. Moreover, resources have to possess some requisites if they are meant to be a source of CA. These traits are offered according to some authors and from standpoints, even though resources are sources of CA, yet not all resources provide these advantages. What resources and capabilities do for a firm is that they provide the potential for CA. Thus, CA and particularly sustainable CA; depends on the nature, type of resources and the capabilities that a company has, how these have been amassed and how they are used and deployed. The RBV also claims that resources as such, are tradable and thus transferable and imitable, and that instead capabilities are unique and the source of CA. Also, that resource must have some capacity to generate profits or prevent losses. If a firm is to obtain high levels of performance and sustained CA, it needs to possess resources that are heterogeneous, difficult to create, substitute or imitate.

Moreover, studies by Hofer & Schendel (1978) under the RBV suggest that the source of CA is rooted in a firm resources and capabilities. Barney (1991) also found that resources include, among others, capital equipment, skills of individual employees, reputation and brand names. Most authors have reported that for any of these resources to exist, managerial capabilities need to exist. To clarify, Love & McGee (1999) differentiate capabilities from resources in the sense that no monetary value can be assigned to them, as is the case of tangible resources.

However, adequate explanations have not been well developed to explain why some businesses succeed where others fail and how managers choose one strategy over another. Dierickx & Cool, (1989); and Barney (1986) sum up that, for firm, the early choices of resources stocks and shape future choices and define strategic positioning of a firm. Brush & Green (1998) are of the opinion, that in spite of the pivotal importance of resource choices, comparatively little empirical research investigates resource priorities or choices and even more, how they change over time. This researcher has observed the same occurrence across countries, and is of the opinion that one of the reasons for SMEs demise lies precisely on their resources priorities and/or utilisation.

Studies on the RBV by Mahoney & Pandian (1992) sustain that to be successful firms need to possess some advantage, and that the most important resources to firms are those which are durable, difficult to identify and understand, imperfectly transferable and not easily replicated. Therefore, the ability of the firm to use resources and capabilities to support a sustainable CA is essential to the planning process. Likewise (Grant, 1991) wrote that the firm's resources, capabilities and strategies are thought to impact performance. Resources to him are the source of a firm's capabilities, whereas capabilities are the main source of CAs. Mahoney & Pandian (1992) posited the same relationship as reported in Chandler & Hanks (1994: p. 332).

Under this analogy, firms are successful because they possess unique resources. Resources are not valuable by themselves, but only because they allow the firm to perform activities that create advantages in particular markets. Resources as such, are the intermediate link between activities and advantage and provide a clear distinction between internal and external resources. The view, therefore, relates firm performance to how the firm directors use their resources to obtain CA that can be sustained or not throughout the firm's business life.

Penrose's (1959)[35] when arguing about the relationship between successes or performance and growth, theorised that managers generally try to maximise the profits of the firm. Furthermore, she assumes that managers, rather than the owners, are in control of the operations of the firm. As such, she concluded, managerial capabilities, together with the role of the decision-maker play a critical role in allocating resources. The way these capabilities are developed will ultimately lead to successful performance.

4.4.4 Capabilities

This resource has been found to be more difficult to define than others; often this is called invisible assets (Itami, 1987) or intermediate good (Amit & Schoemaker, 1993). But, in essence, these are the skills of individuals or groups as well as the organizational routines and interactions throughout which all firms resources are coordinated (Grant, 1991). Many disciplines have contributed to identify the role of capabilities. The contribution of economics to our understanding of distinctive capabilities serves as input and both broadens and narrows the definition. It broadens the analysis by importing factors which are not behavioural but nonetheless contribute to CA, particularly emphasising the role of strategic assets. On the focusing attention on characteristics of the organization that are both appropriable and irreproducible, this latter emphasis is missing in the very wide range of distinctive competencies identified by Snow & Herbiniak (1980). Studies on developing the capabilities necessary to obtain CA address the idea of the irreproducibility of capabilities that yield sustainable CA. studies on the subject have been developed by a number of authors.

Other studies report that companies grow in the directions set by their capabilities and these capabilities slowly expand and change (Penrose, 1959). Empirical studies by Stalk, Evans & Schulman (1992) observing the success of Walmart in its cross-docking system found that even

[35] Foss (1997) researched 22 articles focusing and contrasting the view of RBV pioneers writers. His review exemplifies succinctly Edith Penrose pioneering contribution. He stated that "Although the RBV of strategy first started to gather momentum in the mid-1980s, its roots go back 40 years. In 1959, the late Edith Penrose, an economist and professor at the University of London's School of Oriental and African Studies and at what is now INSEAD in France, wrote *The Theory of the Growth of the Firm.* In it she ventured out of the neoclassical economic model to explain the role of resources in the way companies grow. Described as "provocative and path breaking, in its challenge to traditional economic thinking, her advanced views were largely ignored by the mainstream at the time. Reprinted for the first time in 1995, her book is now seen as the chance for her views to "get the attention they warrant". Edith Penrose, and Philip Selznick who in 1957 first introduced the idea that companies possessed "distinctive competences", are widely cited as the original pioneers of the RBV of strategy, although many of the concepts involved can be seen in the work of others.

though these giant started small and had the same resources (retail space, skilled employees and equipment) as other discounters (Sears, J C Penney), its unique capability to manage resources productively have made them stand out and become the best in the market. Day (1994) found that the best test of distinctiveness of capability is whether it disproportionately facilitates the provision of superior customer value and delivers it better to customers in a cost efficient manner. Teece, et al. (1997) developed the term dynamic capabilities, a concept which identify not only firm specific resources but also explains the contribution of competences, and the resources needed to be developed, deployed and protected so as to achieve congruence with the changing (internal capabilities and external firm specific competencies) environments. Elements of the approach can be found in Schumpeter (1942); Penrose (1959); Prahalad & Hamel (1990); Teece (1976, 1986a, 1997) and Teece, et al. (1997: p. 510).

Additional studies details that dynamic capabilities appeal is promising both for research an as aid to management sectors that need to gain CA in an increasingly demanding environment (Drew & Smith, 1999). Recently, some studies were done describing the growing interest in the role resource-based capabilities have on attaining CA (Collis & Montgomery, 1995; McGee & Finney, 1997). On the issue of capabilities, a number of authors, Teece (1986) draws particular attention to the appropriated problem associated with innovation. Prahalad & Hamel (1990) are concerned with similar issues in the context of organizational knowledge while Barney (1991) stressed that many firms searching for competitiveness develop copycat strategies but mostly fail. For him, strategies fail because the potential copier cannot easily identify what it is that is necessary to copy. Grant (1991) also draws a number some of these topics together.

4.4.5 Dynamic Capabilities

Teece, Pisano & Shuen (1997) created the benchmark for the study of firms' capabilities as sources of distinctiveness generating CAs. They term their view a "dynamic capabilities perspective" precisely to differentiate it from the somewhat static approach taken in the conventional RBV. The focal point in the dynamic capabilities perspective is concerned with how firms' capabilities are fashioned, and adapted to changing economic circumstances. The basic statement of the dynamic capabilities perspective is provided by Teece & Pisano (1994); Teece, et al. (1997) and the contributions to Dosi, Nelson & Winter (2000), while Teece (2000) provides an updated summary with applications to the case of firms from Newly Industrialising Economies. Likewise Eisenhardt & Martin (2000) explore the concept and its relations with the RBV, while the contributors to Dosi, Nelson & Winter (2001) provide the most recent treatment. Our aim is to demonstrate how firms' dynamic capabilities may be built out of their resources and routines as well as their inter-firm relations. It is most straightforward to consider this from a dynamic perspective, considering how these elemental categories make varying contributions to the creation of firms' capabilities as they grow. This is a "capabilities life cycle" approach, which is very much in the spirit of "dynamic capabilities." The aim is to show how the categories of the dynamic capabilities perspective, namely firms' positions, pathways and processes, may be made intelligible in terms of the categories of the resource economy. The real strength of this framework comes out when considering the specificity of resources, routines and relations in functional settings, such as the resources and routines needed for new product development.

Resources to Wernerfelt (1984: p. 172) are all those tangible and intangible resources that are semi permanently tied to the organization. Example of this are brand names, technological knowledge developed by the enterprise reputation as well as qualified personnel, among others. The aforementioned form the basis of CAs and comprise three distinct subgroups: tangible assets, intangible assets and capabilities (Itami, 1987; Aaker, 1989). Tangible assets refer to the fixed and current assets of an organization, which have a fixed long-run capacity. Examples include plant, equipment, land, other capital goods and stocks and deposits. These assets are easy to measure, transparent (Grant, 1991) and relatively easy to duplicate. On the contrary, intangible assets have relatively unlimited capacity allowing firms to exploit their value (e.g. license, patents, reputation) or sell them like brands (Wernerfelt, 1989).

Capabilities often have been found by many researchers difficult to delineate and often are described as invisible assets (Itami, 1987). In essence, capabilities are understood to encompass the skills of individuals or groups as well as organizational routines and interactions through which all the firms resources are coordinated (Grant, 1991). They are the root and source for developing distinctive competencies. Examples of these are teamwork, organizational culture and trust between workers and management.

Skills are highly relevant to any organization and their importance is tremendous; they are inimitable and non-substitutable. Since capabilities are interaction-based and difficult to duplicate, the RBV literature favour developing capabilities as a strong source of sustainable competitive advantage (Collis, 1994).

Competencies from a definitional standpoint are often related and appear equated to capabilities. This term often is used interchangeably with skills. Authors like Fahy (2000) among others believe that the terms could be better understood if the label "term" resources precede the words.

Competencies are also understood as unique skills and activities that a firm can do better than rivals and then SMEs success might reside on the capabilities developed (Lado, Boyd & Wright, 1992; Porter, 1998).

Finding a clear definition of the term competitive advantage is rare (Fahy, 2000: p. 96), yet often the concept is used interchangeably with distinctive competence (Day & Wensley, 1988). From a definitional departure, CA refers to a relative concept and is the advantage one firm has over a competitor in a given market, strategic group or industry (Kay, 1993). A competitive positioning strategy is defined as the implementation of tools that relate the firm to customers in the market, and restrict competition from other rivals through the creation of entry barriers (Porter, 1980, 1985).

To add to the matter, when analysing SMEs, it is understood that firms that support a market position that is valuable and difficult to imitate, in a cost efficient manner, will succeed and potentially sustain advantages and competencies. However, if no competencies are found to exist, then firms should develop and nurture them in order to stimulate efficient performance by SFs. Identifying competencies existent in Palestinian firms is thus a pervasive goal for this study. Authors such as Love & McGee (1999: p. 1) affirmed that to remain competitive in markets increasingly dominated by large discount chains, merchandisers and "category killers", small independent retailers need to develop distinctive competencies. The same elocution can be done regarding services: i.e., insurance, consultancy, etc. Thus, a need exists not just to devise internal systems for firms to adapt to a changing environment and to foresee changes but also to select strategies that can ensure higher levels of competition, sustainability and the profitability that will ultimately enable firms to succeed and grow, not just to survive. In other words, Porter sees good industries, such as pharmaceuticals, where most players enjoy high margins; he also sees bad industries, such as trucking, where most participants suffer from low profitability (Porter, 1980, 1985).

4.4.6 Distinctive Competences

Barney (1986) affirmed that not all enterprise resources would be valuable to the development of CA. those resources that do offer CA are referred to as distinctive competencies (Lado, Boyd & Wright, 1992). McGee & Finney (1997: pp. 69, 89) examined the role which distinctive competences play in attaining CA in cross-section of 189 retailers in rural area of Mid-western communities. Their research could not explicitly address the empirical issue of which unique capabilities allow certain small retailers to achieve CA. thus a number of authors have examined

CAs and competencies throughout the past three decades, as early as 1957 Selznick was one of the first to describe an enterprise's distinctive competencies and relate it to specific reference to managerial qualities. Further along, Ansoff, (1965, 1976); Learned, Christensen, Andrews & Guth (1969) and Hofer & Schendel (1978), among others also studied the concept. Empirical examinations of the concept (Snow & Herbiniak, 1980; Hitt & Ireland, 1985, 2000) generally conclude that the source of distinctive competencies are internal rather than external environments and derive from the way an enterprise uses its resources relative to its competition. Additionally, these concepts can be applicable to both large and small enterprises (Stoner, 1987). Moreover, it is asserted that success and growth within the small business is dependent upon the capacity of the owner to manage expansion within the limits of their resources.

Thus, the 'distinctive competencies' or the potential for development found within any firm include the financial, physical and human resources as well as the experience, leadership, ideas and control base of the entrepreneur (Gibb & Davies, 1992). While empirical studies abound around the resources found in large firms studies, these studies are lacking in analysis of the resources existent in SMEs. Mostly, it is found that SFs tend to lack key resources like technical and managerial skills, organizational adaptability and ability to acquire or use technology (Trulsson, 1999). It is expected, regardless of the economic time that as the business growth cycle continues, the owner must learn to transfer their own expertise and knowledge to their staff. This addresses the need to organise the business as one "system-based" structure that can successfully reproduce and maintain itself without the presence of the original owner. If this system is achieved, business owners will be able to allow for planning time and in the process be able to remain and retain whichever distinctive competences they might have gained. The profitability of a firm depends on both on the CA the firm holds relative to other firms in the industry and on the profitability of the industry itself, much will be gained by identifying how firms obtaining and retain competencies.

Likewise, the RBV focus on core competencies is increasingly being used to determine and explain why one company is more successful than others, though studies have been conducted mostly at corporate level. However, even though the usage of the RBV is believed to be applicable at the firm level, studies by Kesler, Koldstadt & Clarke (1993) published that within the business environment some firms are highly successful while others are not based on the competencies developed. These authors also reported most small businesses are not successful because their owners bypass incorporating changes, new trends and environmental analysis into their business cycle.

Prahalad & Hamel (1990: pp. 79-91) reached the same conclusions, both authors stress that while successful corporations recognise, articulate and manage their competencies in order to establish a range of strategies for their current businesses, they provide, as such, new platforms for future business. These authors specify that the only and most powerful way to prevail in global competition is still invisible to many companies. Currently, it is stated that companies will be judged not, as in the 80s, by their ability to restructure and delay, but by their capacity to identify, cultivate and exploit their core competences. Success, to the management of most companies, would hinge on acquiring competences. It is this researcher's intention to investigate if the finding posited above apply to Palestinian firms and, if such is the case, how changes in their vision can be instilled in them.

To widen their competences firms must evaluate their resources and capabilities and understand their value for the firm. To understand the relationship between resources and competencies is basic. Resources are inputs in the production process, whereas capabilities (often called competencies) refer to the capacity for a coordinated set of resources to perform certain tasks or activities. Though conceptually different, it is difficult from a measurement perspective to separate resource availability from the capacity to utilize these resources. Skills of individual employees are one type of resource that enhances the competitiveness of the firm. It could, however, be the case that these specific or related skills can also provide the competence of organizing other resources. Because of the aforementioned relationships, it may be unwise to separate resources from capabilities in the empirical research on SFs.

For this thesis, resources provide the basis for the firm to develop capabilities. Often resources and capabilities are treated as a joint concept. Several typologies of resources exist in the resource-based literature; however, categorisations may no be applicable to SFs. Winners in the global sphere (Teece, et al. 1997: p. 515) are firms that can demonstrate timely responsiveness and rapid and flexible product/service innovation coupled with internal and external competencies. A rich body of literature pertaining to the RBV on competencies exists. In essence, studies suggest that firm that develop and exploit their distinctive competences outperform those firms that do not do so (Conant, Mokwa & Varadarajan, 1990; Hambrick, 1983; McDaniels & Kolari, 1987) in McGee & Love (1999).

However, these authors note that little empirical research exists focusing on the role distinctive competences play in providing a CA for SFs. CAs and distinctive competencies for successful growth within any business is the product of a complex mix of variables, which are both internal and external in nature. Such variables are often related to the available firm resources, which include all assets, skills, capabilities, organizational processes, attributes and information under the firm's control that can be used to develop competitive positional strategies (Barney, 1991).

4.4.7 Competitive Advantages

One of the main assertions of the RBV is its focus on the firm and on the need firms have to develop and to combine resources to achieve CAs. Penrose's (1959) argument about the relationship between success and firm performance is that managers generally try to maximise the profits of the firm. This author assumes that managers rather than owners are in control of the operations of the firm. Therefore, the growth rate of a firm is limited by the rate at which the firm can obtain enough managerial capacity to manage these new assets, often referred to as the "Penrose effect". The RBV of the firm (Penrose, 1959; Grant, 1991) is closely tied to several concepts, specifically the concepts of core competences and the treatments of intangible assets[36]. This view stresses that the basis of CA is on the valuable resources and competencies the firm possesses. Competitive advantages attainment requires uniqueness in one form or another. This uniqueness could be for example, being the best price discounter or offering the most satisfying service. Foss (1997) found what is important is that a firm differentiates itself from other firms and develops its own unique way of satisfying its customers' wants and needs. Uniqueness, it is argued, may be necessary condition for achieving CA. Moreover, the tie between resources, capabilities and CAs is mostly based on how one variable provides basis for another.

Other studies support the idea that for firms to sustain a CA they need to focus on the utilisation of internal resources and capabilities of a firm (Taggart, 1997; Gadenne, 1998) and on the rent generating potential needed to sustain CA. Penrose (1959: p. 75) argues that: *"it is heterogeneity ... of the productive services available or potentially available from its resources that gives each firm its unique character"*. Penrose also states, a firm may achieve rents not because it has better resources, but rather because the firm's distinctive competence involves making use of its resources.

As seen from the standpoint of the RBV, this view is also in terms of achieved (or income). As such, business is successful not because it has better resources, but rather that the firm's distinctive competence involves making better use of its resources (Penrose, 1959: p. 54). Therefore, firm-specific resources may result in sustainable performance differences

[36] Even though the pioneer of this school is Penrose (1959), many other researchers like Wernerfelt (1984), Barney (1991) and Montgomery, among others, have shown strong interest on the subject.

(Williamson, 1985, 1990). Moreover, the importance of CAs and interplay between CA and distinctive competences has been analysed by many studies.

Most studies on CAs according to Love & McGee (1999) have focused on larger organizations (Snow & Hrebiniak, 1980) or in manufacturing (Nasr, 1997). An exception was the study by Connant, Smart & Solano-Mendez (1993). These authors implemented a survey of 599 small apparel retailers and hypothesised that merchants with clearly defined strategies enjoy a CA, in part, because they possess relatively more distinctive marketing competencies. Yet, their study could not identify specific capabilities and activities. Applying this finding to current research might be worthwhile.

4.4.8 Sustainable Competitive Advantage

Recent studies (Barney, 1986, 1991) have associated the RBV to understand the sustainable CA of the firm. Some theoretical and empirical studies on the subject by Barney (1991), Grant (1991) and Teece, et al. (1997) have found that CAs, capabilities and the treatment of intangible assets as the best alternative to look at the 1990's and the future. The analysis of distinctive competences (Grant, 1991; Petts, 1997; Teece, et al. 1997; Hamel & Prahalad, 1990) based on the RBV approaches to the theory of CA (Porter, 1985) point out the characteristics firms need for sustainability of CA, are durability, transparency, transferability and replicability (Hamel & Prahalad, 1990). A firm has a sustained CA when throughout time it performs better than rivals.

The concept of sustained CAs gathers relevance when we can understand that CA does not lie in the products or services themselves, but in the resources and capabilities that produce them. To sustain a CA a company's own resources and capabilities must therefore be difficult to imitate, not easily substituted by other resources or capabilities, incapable of being rapidly developed elsewhere, and family attached to the company that deploys or uses them. If all of these covenants are obtained then the right mixes of resources and capabilities will be used and combined to provide the right products or services in the right market at the right time. As a result, if these goals are attained, the firm can aim to achieve sustainable CA and obtain above returns. More importantly, in today's competitive environment, to sustain a CA firms need to above all provide value to customers. This value can either be cost advantage, services or differentiated strategies.

4.5 Relationship between Strategic Planning and Organization Performance

Consequently, the RBV assumes the existence of a positive relationship between strategic planning and organization performance. Thus, this view assumes the need to achieve a balanced relationship between the firm's internal and external orientation. Internal orientation depends on the organization's recent history, current situation, past performance and analysis of strength and weaknesses. This departure is supported by studies carried out by Venkatraman (1989, 1990), Lorange & Vancil (1977) are reviewed also by Kargar & Parnell (1996: p. 5). Authors like Andrews (1971); Snow & Hrebiniak (1980); Venkatraman & Ramanujam (1987), in their studies of the RBV support the idea that "the external orientation is based on the ability firms have to obtain reliable and timely information in order to learn about external environmental opportunities and threats faced by the firm" as supported by research contained in Kargar & Parnell (1996: pp. 6-18).

Literature in the field fails to explain why some firms are consistently better than others in the same market with often similar products (Petts, 1997). Even though some researchers say core competencies are difficult to apply to small companies, what appears is that there have been no studies on small companies. Recent studies focus on the efficient use of human resources and most explain that the trend is toward using computers for R&D and continuous improvement and that this focus needs to be understood at all levels, thus, this researcher based on the observance or lack of studies in this area is in the belief that researching the subject might explain the local competitiveness as well as the failures phenomena and potentially initiate a turnaround.

Relating the RBV to environmental changes, proposes as its starting point, that environmental change is relentless and firms through innovation have considerable latitude in both influencing their environment and responding to changes. This view assumes that firms create and sustain CA because of the capacity to improve innovate and upgrade their CA. Penrose, (1959: 79) avowed that environmental change might change the significance of resources to the firm. Strategy researchers emphasise that the fit between environmental demands and strategy has performance implications. Strategic choice theorists maintain that managers have the freedom to choose between different strategic orientations under the same environmental contingencies, i.e. strategy may depend on, but is not completely determined by environment. Hence, managers in different firms may choose different courses of action. It is suggested that those firms that choose an appropriate strategy in the line with the environment will perform better than those who choose a less than optimal strategy. Firms that do not achieve consistency between strategic orientation and environment will be outperformed and eventually fail. In other words, in order for firms to achieve high performance, they need to adapt their strategies to their environment and become proactive.

The RBV also contributes to the large stream of research on diversification strategy which also argues and focuses on the effects environment has on firms' choices. One of these streams provides a theoretical framework for predicting superior performance for certain categories of businesses diversification among others. Most research has dealt with the strategic implications of the firm's internal environment with issues of strategy implementation and analysis and with the organizational processes of major firms. However, threats and opportunities in the environment can lead to responses with either an internal or external target if the firm carries out or implements continuously environmental scanning[37]. What is the problem of SMEs? Even though the environment changes constantly, many of these firms are often incapable of changing and the reasons might be quite varied.

Moreover, if the environment changes at a high rate, organizational reorientation is likely to be more frequent if the environment is stable. The adaptation pattern has performance implications. High-performing firms are likely to reorient according to the environment, whereas low-performing firms reorient either too often or too seldom. In addition dynamic environments are characterized by instability and continuous change. Opportunity arises from social, political, technological and economic changes. New product development, new marketing ideas, production or administrative practices are suitable strategies in response to dynamic environments. Consequently, understanding the firm as a system of unique activities (Penrose, 1959) which can be organised and sustained as a result of the firm's capacity to mobilise, convert and change resources (Fransman, 1994; Garnsey, 1996) and recognising the need to analyse the environment is critical to a firm's success.

Furthermore, this theory does consider the role of the external environment has on the firm performance and accepts that the external environment affects the position obtained by the firm. However, the internal environment is the contributing determinant for the owner's decisions and for the firm to attain success. Yet not all theories analyse the effect of the external environment from the same angle. Other points of view tend to focus on resource accumulation as the basis to

[37] Environmental scanning involves studying or interpreting changes and event that can negatively or positively impact the organisation. Examples are sweep of social, political, economic, ecological and technological events. Mostly the analysis is geared to spot trends and conditions that might become powerful forces. Also these can raise the consciousness of manager about potential developments that could be of considerable impact on his or her industry. Though speculative in nature, strategic planning helps management expand their planning horizon and (Thompson & Strickland, 2001: p. 100) translate vague opportunities into options.

implement the strategy, and see strategy as dictated by the conditions and constraints in the external environment according to the Industrial Organization model (IO model). The RBV suggests that a firm's unique resources and capabilities provide the basis for a strategy.

4.6 RBV and the Importance of the Entrepreneur/Manager

In the RBV perspective, managers are very important for firm performance. They are the responsible sector that selects the appropriate strategy in order to make the most effective use of the firm's resources and capabilities. Managers under this view are the key in the overall process since they have to select an appropriate strategy to effectively optimise the firm's resources and capabilities. The extent to which core resources and capabilities are identified and exploited in appropriate ways by the firm's strategy will influence its performance.

In the resource based perspective (Penrose, 1995: pp. 32-35) also emphasises the importance of the entrepreneur's image of the environment to the firm productive opportunities. According to Penrose, the environment provides few restrictions on the growth of the firm. Increasing costs for resources and declining revenues for individual products are what may limit the expansion for the existent particular resources and products. The environment does not limit the firm to a fixed set of growth opportunities, rather, growth opportunities always exist to the extent that the firm has the resources to identify and exploit these according to Garnsey (1996: p. 3).

The heterogeneity of the managerial sector is a recognised in entrepreneurial and management literature. Most research focuses, though, on a host of traits like risk taking and need for achievement. Yet, recently the emergences of cognitive approaches are geared to understand how entrepreneurs think and make strategic decisions (Busenitz & Barney, 1997; Forbes, 1999). As such, if these cognitive approaches exist, then decisions will be based on strengths and weaknesses in different competitive environments and a potential source of CA (Barney, 1991). This pattern of analysis brings to light some studies on the way of thinking of entrepreneurs. This findings point out that entrepreneurs use heuristics more intensively than managers in larger organizations, (this refer to simple ways of solving problems of any nature).

The theoretical-empirical model presented and designed for this thesis is based on its starting point on the RBV of the firm and the concepts undertaken by this theory. This model specifies how firm performance is determined by the effective allocation of resources, the capabilities and competencies possessed internally and the competencies developed. The role of the environment is posited on its externality to the firm performance. Nevertheless, the difference in the design model and traditional resource-based model is the strong emphasis this researcher sees on the capability and vision of the entrepreneur manager. The role is crucial if the firm is to attain an effective performance.

Penrose (1959), among others, suggested that owners and managers must first gain legitimacy and managerial capacity to compete effectively in the exchange process. In her classic economic work, she considers growth (which she equates to success) to be a process of diversification and efficiency. She argues that, as existing markets become less profitable and new markets become more attractive, firms are constantly pushing to se new opportunities beyond existing products. She also notes "history matters", "*...growth is essentially an evolutionary process and based on cumulative growth of collective knowledge in the context of a purposive firm*" (Penrose, 1995: p. xiii).

Hence, relating this view to the model designed, performance will strongly depend on managerial choices. Managerial choices is what based on resources possessed and exploit them to a point whereas optimisation is attained. Even further, the manager's role will seek not just to exploit but also to constantly seek new avenues to invest these resources and develop capabilities into opportunities. Yet, choices will be ingrained on management experience prior to initiating the firm on education and often on the personal traits and his or her background. All aspects will influence management practice and performance.

4.7 Synthesis

After describing the theoretical framework selected for this thesis, defending the selection of this theoretical standpoint, revising the evolution and how the standpoint fares against other relevant theories, the principal aim of this research is presented.

Though the RBV of the firm departs from the heterogeneity of not only resources but also that of the firm as a unique bundle of resources, designed in such a manner that each firm will delineate its strategy based on the resources possessed, seeking to exploit these resources and obtain new revenues. Thus, the firm will also from this standpoint, convert its available resources into CAs founded this on organizational routines.

Likewise, the RBV perspective allows and contributes to the firm strategy direction. The firm thus becomes the unit of analysis, a firm with capabilities sufficient to determine its future goals and positioning. If the firm is to succeed, this course of events has to analyse the background of the firm, its foundation, directives and needs. Furthermore, as specified by Fernandez & Suarez (1996), the process school of the RBV as well as Porter's view on the content of the strategy is stressed and also includes these departure points. Nevertheless, though the RBV does present and analyse the role of the manager in determining and achieving successful performance, a fact the Penrose (1959) considers the bottleneck to success, the view remains short on signalling how firms with different resources lack the capabilities to attain success.

Hence, the next Chapter will address the standpoint this researcher sees as a necessary condition to succeed. To this researcher, this is considered an expansion of the RBV. The next Chapter will discuss how theoretical and empirical research focuses not only on understanding the mechanisms that instil CAs but also, mostly on other aspects related to the views that are not traditionally analysed with the appropriate strength. This researcher considers these aspects the paramount focus of analysis in a changing and competitive environment under which firms today evolve.

Equally, studies that acknowledge the role the environment plays in contravening decision-making or not, the role of the entrepreneur owner in determining with his or her capability a firm's success and the general conditions underlying success will be discussed.

CHAPTER FIVE

Resource-Based View and SMEs – A Synthesis

5.1 Introduction

Over the past decade or so, there have been a large and diverse collection of contributions in the areas of economics and strategic management that seek to either refine the concept of the Resource-Based View (RBV) or uses it as a framework for tackling conceptual and empirical questions. This Chapter presents how many authors have linked the RBV theoretically and empirically, also focuses on how this view serves as basis for this thesis. Specifically, this section analyses aspects less directly addressed by the RBV. Furthermore, it introduces and relates the RBV to the model chosen for this thesis with its pro and cons and provides a synthesis to how the concepts relates to each other. A defence of the alternatives chosen is also presented here.

The RBV with the underlying theories reacts to how firms based on internal analysis are able to use their resources as source of Competitive Advantages (CAs) to succeed. But, the view does not answer clearly how small business owners can choose resources in an optimal manner, nor how they can allocate these resources in the most appropriate way to obtain above average returns. Moreover, the view does not specifically answer how, because of educational limitation, time scarcity and often financial limitations, many Small and Medium size Enterprises (SMEs) that could be successful or had the potential to be successful. This researcher addresses these thesis objectives by attempting to explain several other aspects not directly reviewed under the RBV standpoint, the relevant role of the entrepreneur and how manager exploits firm's resources across time, the underlying aspects for manager choices and the factors that determine success across firms as well as barriers that impede attaining success. Additionally, the variables surrounding owner/manager business decisions within the environment in which the firm operates are also addressed.

The RBV focuses mostly on how firms exploit their valuable, rare and costly to imitate resources and capabilities to generate economic rents. Yet, many have considered this view too static. As such, evolutionary scholars (theorists like Teece, et al. 1997 and empiricists like Barnet, Greve & Park, 1994), whom Barney (2001) calls the new resource scholars have focused on another aspect, on how the capabilities change over time as well as the competitive implications of these changes. It is precisely on this evolutionary view where the aim for this thesis illustrated by the theoretical model rests.

The model designed and incorporated for this thesis highlights significantly and integrates the manager's role into the key overall decision-making process. It also explains how this key person by optimising the resource allocation and exploiting these resources might ultimately determine firm performance and obtain above average returns. Moreover, the model explains how key resources possessed, if well exploited will provide the CAs and competencies that, if sustained across times will position the firm above competitors. Furthermore, the describe model integrates the role of the environment and how changes in it, including the sector or industry in which the firm operates, provides either positive opportunities or hinder the attainment of the set goals and strategies. In addition, the model specifies under the strategic choices section, the standpoint that for this thesis determines firm performance: traits of the manager, business characteristics and the strategy chosen, which depending on the existence of allocation and resource exploitation will determine the avenues necessary for a firm to succeed. All the aforementioned aspects become the conditions necessary for a firm to survive or sustain whichever performance level it reaches.

Undeniably, the role of the entrepreneur from this standpoint is given solid consideration. Particularly important are owner/manager capabilities to exploit resources, analyse the environment and innovate, based on personal and educational characteristics. Emphasis resides mainly on the owner/manager capability to develop resources that will add value to his firm, to project this value and to develop enough factors or criterion that will provide market value to the firm. Spanos & Lioukas (2001) argue that both Porter and resource-based perspective scholars agree on the importance of reaching an attractive position or CA as a desirable outcome.

From a theoretical perspective, industrial organization focusing on firm life cycles (entry, growth, decline and exit) has evolved into three categories; business turnover (entry and exit), business growth and business survival (or longevity). Business turnover centres on Schumpeter's (1962) "creative destruction" evolving the economy as inefficient resources are freed up from business closures become available to new businesses. Reynolds (1987) added that new firms are a force of innovation and economic growth. Caves (1998), pulls the arguments together and discusses productivity growth associated with business turnover. Business growth studies and consequently average firm size and market structure are often built upon theories developed by Gibrat (Sutton, 1997) on growth proportional to size, Lucas (1978) on the average firm size increasing as managerial talent is lured from SFs to large firms, and Jovanovic (1982) on inefficient firms closing and efficient firms growing after learning their abilities. From an applied perspective, researchers have conducted various studies to analyse business survival (Robb 2000; Gadenne, 1998; Stearns, et al. 1995; Audretsch, 1994; Phillips & Kirchhoff, 1989; Bates & Nucci, 1989; Foley & Green, 1989; Peterson, et al. 1983).

Several authors including Barney (1991), Peteraf (1993), Conner (1991) has examined the relationship between the RBV and strategy-based theory of industry determinants. Other authors have empirically researched the relationship like Rumelt (1991). Yet, Barney (2001: p. 647) specified that research findings support the idea that overall firm effects seem to be larger than industry effects. Barney (2001) refers to his own study with Arikan and concludes that firms that build their strategies on path dependent, causally ambiguous, socially complex and intangible assets outperform firm that build their strategies only on tangible assets.

Moreover, from this analytical perspective, if the entrepreneur makes the correct allocation of resources and selects the most appropriate strategy for the firm, performance will be significantly enhanced. If the contrary occurs, failure will result. To clarify this discussion, the RBV highlights the role of the entrepreneur and even though Penrose (1959) considers it to be the bottleneck. Also, Fahy (2000) considers it very important.

Besides the managerial role, the size of the sector in, which the firm operates might play a definite role on the firm's performance. Likewise firms need to reach a certain size to perform adequately. Though the RBV considers and focuses on the internal environment as the key to success, this thesis will equally focus, though not to a large extent, on the role of the external environment on firm's performance. Why? Because, the author of this thesis believes that firms cannot and do not operate in a vacuum. On the contrary, a firm needs to manage its internal strengths, and always ensure it has knowledge of the external changes that can disrupt plans. This awareness, when combined with pro-activeness, will lead for success attainment. Thus, the researcher needs to go farther and seek further answers to examines what determines success and what allows firms directors to remain successful.

Consequently, small business owners/entrepreneurs are important in many respects and not just for job creation. Their perceptions of their business future irrespective of the sector in which they are provide a balance and Gross National Products (GNP) generation. According to Piore & Sabel (1984), the number of small business formations is a function of the economy. These authors claim that in a growing economy with high monetary returns, business owners will be more optimistic and they will continue their businesses or invest in new business ventures. When the economy is declining, on the contrary, business owners will be more pessimistic and reduce their investment in either new existing businesses or services. Based on their theory, the decisions of whether to continue existent businesses, investing in new ventures or divesting old businesses will respond to the economic environment.

Precisely, this study proposes and examines the external environment as an added determinant of firm performance. Similar conclusions were reached under the population ecology theory[38]. The aim of this section is, in addition to inter-relate the subjects underlying this research not only to the RBV, but also to visualise how the existence of resources, CA has been found and studied as performance determinants in other firms and contexts. More importantly, the review of empirical studies of literature and how these relate to the topics analysed from the perspective of the RBV are discussed not just in terms of how they influence performance, but also on which aspects either of internal or external nature affects firms across sectors.

5.2 Theoretical Framework Model Underlying this Research

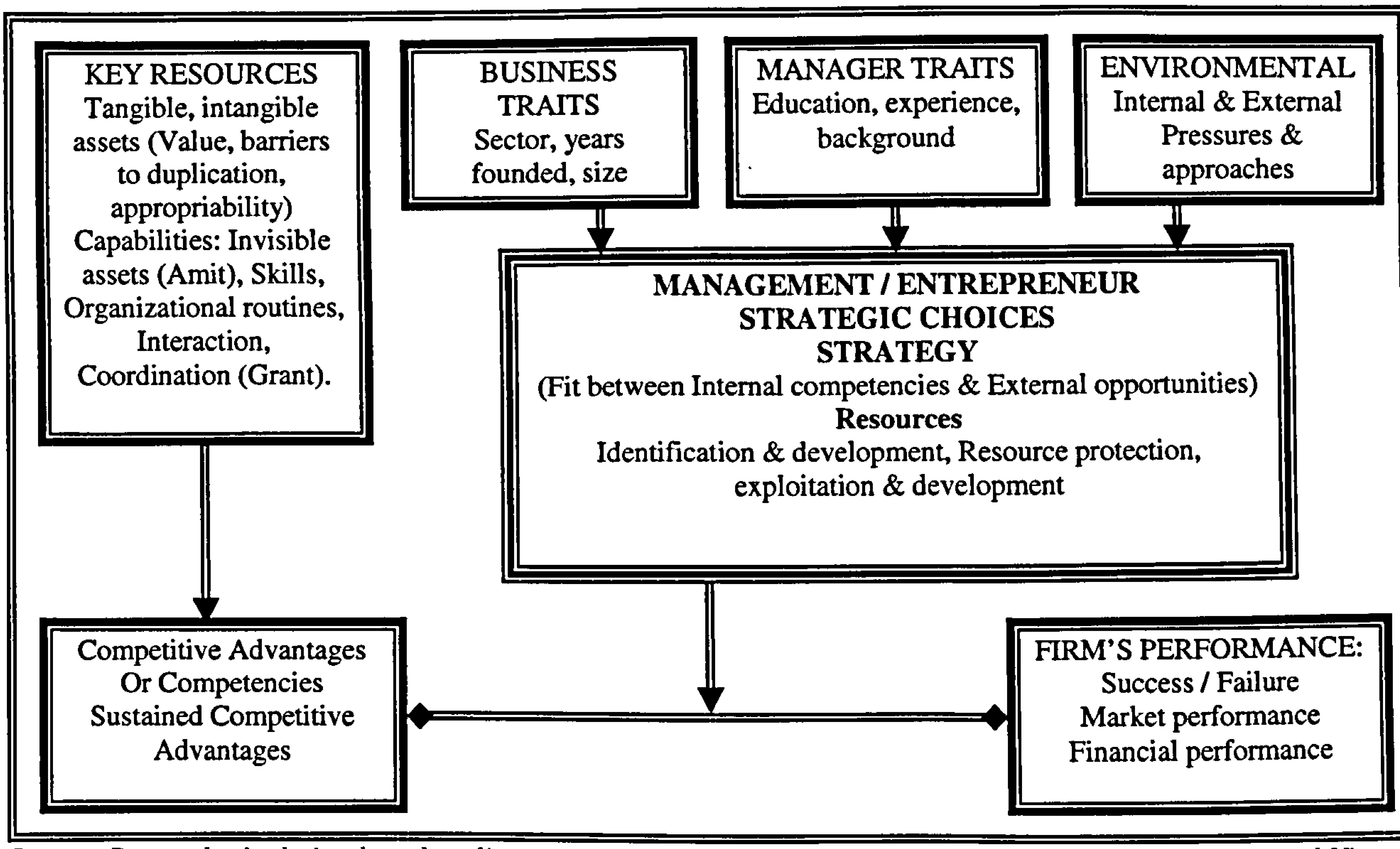
The perspective for this empirical research is described in model (Figure 5.1), which describes the relationship between the variables and how they relate to the chosen theoretical standpoint, the RBV. This model focuses on understanding the conditions that promote business survival and success and how the CAs and distinctive competences existent in successful local firms could assist SMEs and policy makers to device guidelines, which could be utilized as success stimulators and demise determents. The model explains the importance of the entrepreneur and the environment in attaining success. Explanations for each variable are described.

This model is designed partly to explain the number of failures observed in the Palestinian market, which posit the idea of studying why firms' demises occur as well as examining if the reasons behind this occurrence are imbedded in the culture or if they are isolated events. A further reason, is the growth not only in Palestine but worldwide of studies on organizational survival from the 1970s to the 1990s. Likewise studying SMEs is mandatory specially, when considering the trend towards mergers acquisitions, as well as the downsizing that predominates in today's economy. Similarly, entrepreneurship has become the dominant paradigm (Peteraf, 1993) of these economic times, a time whereas the role of the owner becomes more prevalent.

[38] The use of models to explain patterns suggest experiments, or make predictions in ecology. Because ecological systems are idiosyncratic, extremely complex, and variable, ecological theory faces special challenges. Unlike physics or genetics, which use fundamental laws of gravity or of inheritance, ecology has no widely accepted first-principle laws. Instead, different theories must be invoked for different questions, and the theoretical approaches are enormously varied.

Figure 5.1

Modified Resource-Based View Model Underlying this Thesis



Source: Researcher's design based on literature review and Fahy (2000) and Grant (1991), Resource-Based View models.

Entrepreneurship and the RBV both focus on the heterogeneity of resources and see the role of the entrepreneur as a necessary figure for the strategy to be designed and implemented. The entrepreneur under this view is central whatever is achieved in the organization. His or her vision, risk taking and analytic standpoint is what will guide the choice of strategies which will allow exploiting resources to attain superior value and performance. Though some researchers are of the opinion that the RBV focuses on the heterogeneity of resources, there are not enough studies focused on the real aspects of how success is attained. There is still a need to create specific boundaries that will establish the fields of entrepreneurship legitimacy and distinctive contribution (Busenitz, et al. 2001).

A further justification for the model is to answer queries as to why some firms succeed while others fail. More importantly, the model foresees the relationship of the different concepts analysed as fundamental for this thesis. Additionally, though this model is of personal design, it is also based on theoretical standpoints proposed by Hitt & Ireland, 2000, Chapter, 2) and Fahy (2000) as well as Grant (1991). It also rests on traditional resource-based theories as interpreted by this researcher. The relationship among the variables pertaining this study and the way the independent and dependent variables tie to firm performance confirms appropriately to this researcher view of the relationships (relate to Figure 4.1 in Chapter 4).

Moreover, under this model, the resources choices and allocation determine success to a firm, this in turn and based on the owner/manager decision maker are allocated according to choices in order to provide advantages to the firm. These advantages are obtained based on how the decision maker, the entrepreneur, in view of his or her capabilities makes the right choice of resources and allocates them in a manner that can provide advantage. Ultimately, if the choices permit the exploitation of these resources in an above average manner, areas of strengths and opportunities will arise thus allowing the firm not just to survive but also to succeed.

Needless to say, these resources themselves (Kay, 1993) only become a CA if applied to an industry or brought to the market. Hence, Williams (1992) described appropriately, the managerial role as the person converting resources into something of value to customers. This role is determined by manager choices, which are based on the capabilities, experience, knowledge and human resource capital, capabilities are developed to optimise resources utilisation. Most advantageous results to the firm are, therefore, achieved on the basis of information, vision, flexible planning and risk taking abilities of founders. Accordingly, success is also a matter of selecting and making the right choices. Additionally, performance is the dependent variable, whereas size and sector are control variables. All other variables are independent.

The model designed also aims at explaining what determines success or failure. In the specific case of this study, these explanations are quite significant since knowledge about why some SFs perform well and grow while others not and what determines success or performance is almost nonexistent, especially in the case of Palestine. It is important also to gain knowledge about which factors affect success or failure and how to overcome them. Some studies relate that prior sector experience is a factor that is commonly believed to enhance SF performance. Studies by UNCTAD (2004) found that planning, education and innovative practices of founders influence performance. Nevertheless, we need to know much more. However, SF success, performance and failure are areas that have been studied from a multitude of perspectives.

5.3 Concepts Underlying the Theoretical Framework/Model

The entrepreneur; under the model presented for this thesis (Figure 5.1), a firm's performance depends on the entrepreneur's choice of a strategy. This choice is itself determined by the traits, decision-making abilities and risk taking of the manager owner who, based on the resources possessed, allocates them in a way that is conductive to attain the strategy chosen. If the abilities of this central person are outstanding, he or she will position the firm to distinguish itself from other firms in the market and at an advantageous position. If not, the firm will falter. Reaching an advantageous position early, if the life of firm will allow projected CAs valued by the firm clients and success. Results from this decision making process as well as the conversion of these resources into capabilities will lead the firm to attain performance and above average returns. In consequence, success for any firm is the result of owner(s) and entrepreneur's experience and management practices, the decisions made regarding the firm's growth and the environmental or external opportunities and barriers faced. Thus, the role of management becomes tied to environmental opportunities (or barriers) in whichever sector the firm is becomes critical to success attainment.

As such, for mangers to achieve their plans effectively, they need to scan the environment constantly, have a vision and plan proactively and innovatively. In typical entrepreneurial literature, it is generally believed that due to time scarcity and often poor education, an ample number of SMEs base their decisions mostly on mental framework, on contingency planning and gut feeling. Mostly for SFs in any organization time to plan is more sporadic and anaemic. Nevertheless, some researchers like (Williams, 1992) believed that though SMEs do not tend to report doing written plans, they actually do carry on mental planning.

To this author, not planning constantly does necessarily hinder success. On the contrary, there are other ways to plan, including budgets that allows firms to reach goals. Empirically, and through reports in popular magazines, many successful entrepreneurs have accepted that they did not prepare business plans at founding time. The remedy was implemented later, though. In the specific case of some of the firm studies for this thesis, contingency planning[39] and constant updating their goals and reacting to on-going events appears to have rendered outstanding results. The opposite has happened to some firms.

Thus, planning is inherent to success and whichever goal is delineated; success is achieved more profoundly with clearly defined mission, objectives and with purposeful, flexible and coherent planning. Hence, planning implies constant research, upgrading and incorporating changes that could lead team to higher levels of performance.

[39] Refers to planning activities done when the situation or problem arises.

5.4 The Role of Manager/Entrepreneur

This role has been under analysis from many angles in entrepreneurial theory. This analysis goes from new venture creation to established businesses and from successful to less-successful businesses. This thesis deals with established business. However, when describing the new venture creation process, entrepreneurship also recognises the significance of resource decisions. As such, entrepreneurship sees the establishment of a business as a process quite similar to a new venture creation, including its pros and cons. It is argued that a new organization emerges when a motivated entrepreneur envisions an opportunity to acquire new possibilities (Bruno & Tyebjee, 1985) and commits resources to a particular strategic purpose (as in Stevenson (1986) reporting an earlier study by Stevenson & Gumpert, 1985).

In established firms as well as in new businesses, the owner establishes procedures for the usage of resources, for example new venture creation. This process, like that of managing an existing business, is one of "organising" (Gartner, 1985: p. 698), of creating interactions of resources, boundaries and of stated or implied intentions among relevant agents and more than that, "it is to assemble ongoing interdependent action into sensible sequences that generate sensible outcomes" (Gartner, 1991: p. 232). Once the business is established, the entrepreneur, owner and decision maker transforms his or her vision of business and goals into a viable entity comprised of a unique bundle of resources invested in a strategic purpose (Penrose, 1959). The specification and acquisition of resources are central to the success the enterprise might obtain and for the accomplishment of goals. As Amit & Schoemaker (1993) stated, deploying the firm resource base is a managerial role. Yet the key managerial task is the effective deployment of resources in the marketplace. Barney (1986a) proposed that developing a match between resources and the success factors of a firm or industry is a demanding task and this success would depend on the accuracy of managerial expectations about what is the real value of the strategy. As such, not only is management's role crucial but also in itself it is the most pervasive source of CA. Ultimately; this advantage could lead to above average returns (Castanias & Helfat, 1991).

Thus, management's role is present at all stages of the firm's development and actions. During the organising process, entrepreneurs will make judgments about which resources are more or less important, then acquire and use those that they believe best fit their organization. This role, in the case of the entrepreneur will depend on what he or she sees in the environment and the amount of productive services with which he or she used to operate (Penrose, 1995: p. 215).

Generally, it is believed that resource choices are made early in the life of businesses. Thus, the combinations of resources that might yield advantages depend on the choice made, which often are based on risk uncertainty and might, as such, have either positive or negative outcomes. Likewise, a study by Brush, Green & Hart (1998) from (487 Small Firms) data collected by the New Jersey Small Business Development Centre, established and reviewed the process of developing resource combinations involves several and sometimes simultaneous steps:

1. Specifying or determining which resources are important (Stevenson & Gumpert, 1985)
2. Identifying potential resource providers (Hart, 1995)
3. Attracting resource partners (Vesper, 1990)
4. Engaging resource partners and determining terms of ownership, control or distribution (Hart, 1995)
5. Allocation or deployment of resources (Churchill & Lewis, 1983)

Moreover, the same study points out that decisions regarding which resources to acquire are primarily that of the founder/ entrepreneur (Vesper, 1990) and the selection depends on their perceived importance as well as on his/her expectations for the future of the venture (Penrose, 1959) intuition, ingenuity (Penrose, 1959) or a systematic assessment of resources (Barney, 1986). The citations exemplify and back up the importance of the manager/owner in the firm performance at any stage.

Other studies signal that many factors including some of an external nature will influence the entrepreneur's decisions. He or she will attempt to fit the combinations of resources to the significance and implications for the growth of the venture (Penrose, 1959) and to the industry and environment (Miller & Shamsie, 1996). Managers or firm owner' based on their knowledge, education and experience, which in terms determines their capacity to act, will decide among courses of actions. The logical decision is expected to be choosing the best options in order to attain or remain successful in whichever environment they are. Nonetheless, often this is not so simple because often internal issues impede decisions, i.e. expected returns and availability of resources when opportunities surface, sometimes the environment has a role.

Therefore, success to any firm will depend not only on the existent resources, but also on the capability of management and how adept management is to instil and foresee changes. Managers, as such, will make decisions based on the content[40] and knowledge they possess of the situation.

[40] Strategic content is the decision process resting on examination of the firm resources and capabilities.

Furthermore, since many firms can possess similar resources, it is the decisions taken by management, which in terms depend on managerial capabilities that will make the difference.

Therefore, it is up to management to exercise those choices to his or her utmost. Opportunity seeking and environmental pressures will be weighted heavily on managerial decisions. But if management uses knowledge to advantage optimisation of resources can be obtained. Thus, once management uses effectively a firm's resources to train and stimulate personnel to participate in the managerial process, CAs could be reached on all ends. All the same, to be able to foresee and implement decisions requires constant updating, scanning, optimal consumer satisfaction and differentiation. Additionally, if decisions are appropriately done advantages will be projected and perceived by the interested publics. It is this researcher's belief that to make optimal and timely decisions management scan the environment continuously, needs to plan in order to optimise resources and take advantage of opportunities.

5.5 Success and Failure Determinants

Key success factors for SMEs are important determinants of CAs. Therefore, studying which variables determine performance and how success is attained is as relevant as studying managerial role in success. If success[41] is understood as achieving a sustainable CA that in turn is founded on customer satisfaction and financial performance (Doyle & Wong, 1998: p. 516), then attaining success will be a goal of any firm regardless of location or size of business.

Even though Small Firms (SFs) appear to be a vital part of the economy, the prospect for any individual firm is uncertain. Many SFs die during their first years of operation, or struggle to survive. The number of SFs that achieve large economic returns for their owners and grow substantially is limited. Further studies by Gadenne (1998) suggested that the success of a firm is due to the way it utilizes its internal resources and not due only to the strategy it chooses, the environment in which it operates and to the combination of resources it makes, but also to the entrepreneur and managerial characteristics.

Table (5.1), presents variables that according to empirical studies contribute to and identifies causes of success or failure. Needless to say, mostly it is taken *ceteris paribus* that reasons for failure taken in the opposite dimension create success. While revising a study by Beckman &

[41] Success means attaining a competitive position(s) that lead to superior and sustainable financial performance. Effort to understand success rests on the theory of the firm and associated theory of strategy.

Marks in 1996, Costa found that the former found business experience was a major factor in the success of SMEs.

Moreover, Costa (1994: pp. 32-34) in his own study indicated that strategic planning contributes to long-run success (Shonesy & Gulbro, 1998). Shonesy & Gulbro also made reference to studies by Ibrahim & Goodwin (1986), Montagno, Kuratko & Scarcella (1986), and Hofer & Sandberg (1987). Shonesy & Gulbro (1998: p. 26) asserts that "appropriate management and financial planning as success predictors are predictable measures of success".

Table 5.1

Variables Contributing to Success or Failure

Variable	Contributing to Success	Contributing to Failure
Entrepreneur (Personal Qualities)	1) Capacity of leadership (enthusiastic and dynamic	1) The lack of a real leader
	2) Decentralised and former of a good team	2) Not having or controlling a good team
	3) socially skilful and diplomatic (good in 4) good devisor (risk taking) and having adequate ambition networking)	3) The lack of emotional balance
	4) Ambition of economical and professional independence	4) The lack of communication
	5) Good controller of his team	
	6) Being self-confident and trust on his business	
	7) Having the correct age and better if parents own business	
	8) Having the sufficient marketing and creativity skills	5) The lack of experience and marketing skills
	9) Emphasise unique accomplishments over the stability and well being of the group	
	10) Having the capacity of meeting adequate partners	
	11) Having high tolerance of ambiguity, persistence and perseverance	
	12) Being and communication abilities and with creativity enthusiastic and dynamic with high networking	
Entrepreneur (Professional Qualities)	1) Experience and knowledge of the industry and of the products and of the market	1) The lack of experience in the industry
	2) Having basic entrepreneurial education and performing it continually	2) The lack of knowledge in entrepreneurship
Product Market & Strategies	1) Having an exhaustive study of the market (concurrence and customers)	1) The lack of the market knowledge
	2) Orientating market needs (niches well identified, big enough for being profitable)	
	3) Having an unique innovation	
	4) Having defensive and/or offensive strategies, prepared for surviving	
	5) Choosing the right market for the right product (attractive and highly dynamic could be perfect for one product but causes of failure in others)	2) The lack of entrepreneur strategy
	6) Compatibility of the new venture with the company's image, culture and product experience	3) The lack of customer orientation
	7) Innovate the product continually	

Source: Researcher's elaboration based on general literature review and Lussier's (1999) studies.

The studies mentioned above examined environmental factors and entrepreneurial characteristics as factors in success. The categorisation of the factors that instil success has also been seen from various authors' perspective. Mostly research can be seen from a theoretical and empirical perspective. Both sectors will be dealt with, but emphasis will be on empirical research. The following Table (5.2) summarises studies on the field.

Table 5.2

Variables Contributing to Success across Area

Category & subcategory	Stuart & Abetti (1985 / 1987) Abetti & Stuart (1985/1990)	Plaschka & Welsch (1990)	Hofer & Sandberg (1987)	Keely & Roure (1990)	Mc Dougall, Robinson & Densi (1992)	Cressy (1995)	Lussier & Corman (1995 & 1996)	Composite Rating
Market								
Attractiveness	x							1
Innovation								
Uniqueness	x							1
Strategy								
Planning			x	x	x			3
Aggressiveness, clarity	x		x	x	x			4
R&D intensity	x			x	x			3
Market intensity				x	x			2
Compatibility				x	x			2
Industry structure			x	x	x			3
Interaction Strategy/industry			x	x				2
Use of advisors							x	1
Financial								
Record keeping & financial control						(x)		1
capital						(x)		1
Leadership								
Parents owned business							x	1
Entrepreneurship	x			(x)		x		3
Experience		x	(x)	(x)		x		4
social influence (family)		x				x		2
education		(x)				x	x	3
teaming				x		x	x	3

Key: X significant importance, positive correlation[42]; (X) significant importance, negative correlation[43].

Source: Constructed by researcher based on Lussier's (1999) studies recollection.

[42] positive correlation is when one variable increases, so does the other: a correlation in which large values of one variable are associated with large values of the other and small with small; the correlation coefficient is between 0 and +1.
In probability theory and statistics, correlation, also called correlation coefficient, is a numeric measure of the strength of linear relationship between two random variables. A number of different coefficients are used for different situations. The best known is the Pearson product-moment correlation coefficient, which is found by dividing the covariance of the two variables by the product of their standard deviations. Despite its name it was first introduced by Francis Galton.

[43] Negative correlation is when one variable increases, the other decreases: a correlation in which large values of one variable are associated with small values of the other; the correlation coefficient is between 0 and -1.

Many studies have looked at small businesses and have tried to determine the reasons why these businesses have been able to remain successful. Studies that involved owner characteristics found that experience of the owner was very important to a firm's success (Beckman & Marks, 1996; Dyke, Fischer, & Reuben, 1992; Hand, Sineath & Howle, 1987; and Keats & Bracker, 1988). Bird (1989) stated that firms where owners showed innovative abilities, risk-taking propensity, and prior experience were most successful. In Duchesneau & Gartner (1990), it was noted that in addition to prior experience, the willingness to work long hours, good communication skills, good customer service skills, and the ability to plan and be flexible were also favourable owner/manager characteristics. Castrogiovanni (1996) found that pre-existing founder knowledge was positively related to survival of the business also.

In a study by Lussier & Corman (1995), it was noted that a significant difference was found in those firms where the owner's parents also owned a business. This would seem to indicate that experience might also be obtained from association with other owners, as well. Cooper, Dunkleberg & Woo (1989) looked at factors other than experience such as age, gender, and race and found that older "non-minority" male entrepreneurs with four or more years of college were usually associated with successful firms. Hand, Sineath, & Howle (1987) also indicated that age and education were important. Stuart & Abetti (1987), in a study of 24 technical firms, found a strong correlation between experience and initial new venture success. In another study of new technical ventures, Stuart & Abetti (1990) explored age, education, and various dimensions of experience of the entrepreneur and, where applicable, the entrepreneurial team. While age, education, and the amount of years of experience were not found to be positive indicators of performance, the variety and types of experience, including the number of previous ventures started and variety of roles played in such new firms, were highly significant performance indicators.

Given the widely accepted notion that entrepreneurial ventures are the key to innovation, productivity, and effective competition (Plaschka & Welsch, 1990) and the challenges associated with each stage of venture development (McMullen & Long, 1987; Plaschka & Welsch, 1990), the question of whether entrepreneurship can be taught is obsolete (Charney & Libecap, 2000).

Solomon, Duffy & Tarabishy (2002) conducted one of the most comprehensive empirical analyses on entrepreneurship education. In their review of entrepreneurship pedagogy, they stated, "A core objective of entrepreneurship education is that it differentiates from typical business education. Business entry is fundamentally a different activity than managing a business (Gartner & Vesper, 1994); entrepreneurial education must address the equivocal nature of business entry (Sexton & Upton, 1987; Van Clouse, 1990).

Many studies have cited strategic issues as being important to the success of small firms. Mintzberg (1994) stated that small business owners must be able to define necessary strategies to succeed, as the firms continue to change. Castrogiovanni (1996) found that capital reduced the incentives to plan, indicating that the owner felt more secure and thus did not see the need for planning as long as the business was in a positive position. Other studies that looked at appropriate management and financial planning were conducted by Ibrahim & Goodwin (1986), Montagno, Kuratko, & Scarcella (1986), Hofer & Sandberg (1987), Lumpkin & Ireland (1988), and Susbauer & Baker (1989). In particular, Hofer & Sandberg (1987) noted that quality service and production was directly related to effective planning and good management decisions to achieve success. Filley & Pricer (1991) defined several tools for small business success. These included appropriate operating strategies, good financial management and pricing strategies, and motivational strategies. Another study by Costa (1994) found that while strategic planning was important for success, marketing strategies were also necessary. Zetlin (1994) also noted that success strategies involved innovative marketing strategies, strategies leading to a quality product, and customer orientation.

Finally, demographics of small businesses have been noted as contributing to the success of small firms. These would include the age of the business, the location, size of the firm, and type of ownership of the business. A study by Bates & Nucci (1989) confirmed that the age and size of the firm had an impact upon survival. The older the firm, the more likely it was to remain in business, and the larger the firm, the more likely it was to be successful. Boyle & Desai (1991) also indicated that the longer a small firm has been in operation, the better the chance that it would remain in business.

5.5.1 A Literary Review of Failure

Failures or organizational death occur when a firm or organization stops performing those functions that are expected of it (Watson & Everett, 1996). In other words, the organization is unable to "make a go of it" (Cochran, 1981). Small business research has examined most often the reasons why businesses succeed (Shonesy & Gulbro, 1998), however, in lieu of the increase in failures; reason for failures also needs to be examined. Gaskill, Van Auken & Manning (1993) wrote, understanding the reasons for failure will allow policy-makers, advisors and lenders, among others, to better serve small business. It is this researcher's belief that knowing these reasons will assist new entrants and business in general to avoid failures. Additionally, there is no generally accepted list of variables distinguishing business success from failure. The two most common causes or reasons are the characteristics of newness and smallness (Singh & Lumsden,1990)[44]. Aldrich & Auster (1986) believed that the coupling of the two problems causes the non-survival rates for small businesses to be quite high. Other studies report that two distinguishing variables found are capital and management experience.

A revision of 22 journal articles (Lussier, 1999) only 14% (64%) reported the existence of the variables mentioned (see Table (5.2), which presents a review of literature on the subject), including the 15 variables that mostly contribute to success or failure and the explanation for its codes. Also, in a study of 100 firms in New England States in the USA, the same author (Lussier, 1999) reviews the major reasons the firms studied identified as those causing failure; under-capitalisation and high fixed costs (32%), slow economic activity (30%), creditor problems (23%). Slow account receivable and other issues received a lower than (8%) response rate. Studies on the liability of newness (Singh & Lumsden, 1990) found out that a major reason for failure is bad management (Argenti, 1976) and managerial inadequacy, incompetence and inefficiency, the lack of specific business skills and the ability to plan (Shonesy & Gulbro, 1998). Lussier (1999) in service industry model reports that the variable "Planning" states that people starting a service firm with a specific business plan have a grater chance of success than people without a specific plan.

Studies by Dunne, Bradstreet, Bruno & Leidecker (1988: pp. 50-58) suggest that failures can be better understood through analysis of the underlying causes and performance indicators that identify symptoms of eventual demise and that financial predictors can explain failure but they do not identify the causes of failure. Other studies show conflicting and inconclusive results on failure rate (not causes) due to differences in the data used (Haswell & Holmes, 1989), the locale studied and the numbers of businesses represented. Some studies confirm that business failures can be as high as 80% during the first 5 years (Bruno & Leidecker, 1988) while studies by Timmons (1994) found a lower rate. To these authors, failures are considered more relevant than successes and are mostly found to be due to management inefficiency (Argenti, 1976; Dunne & Bradstreet 1993).

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[44] Liability of newness is the propensity of new organisations to have higher failure rates. Some of the problems are lack of networks, difficulties in running the organisations and increased risk of mortality as well as lack of experience to operate a business (Dyke, Fischer & Reuber, 1992). Liability of smallness assumes the organisation size influences organisational mortality. Examples of such studies are lack of financial and human resources, which can create a distinct disadvantage.

Currently, and as the 21st century crises evolve (the East Asian crises), more firms might fail. However, failure is not always running into high debt, cash crunch or depletion and filing for bankruptcies. Failure of diverse nature is happening by the hundreds in the recessive economy of nowadays. The number of firms that had to restructure their business, research or downsize or recapitulate or have asset liquidation is enormous. This does not necessarily mean failure. A large number of firms attest to that; some firms survived and others did not. As the economic situation worsens, contrary to economic growth situations, more firms might experience financial crisis or failures.

Dennis (1993) in his study of business failures in the USA, found that business failure rates average 70,000 firms annually with liabilities around $40 billion annually. Nevertheless, some economists relate business failure to firm density (Fernandez & Suarez, 1996). Those authors see failure as natural and even desirable phenomena similar to Darwin's survival of the fittest. Examining Schumpeterian philosophy (Schumpeter, 1934) asserts that when small businesses are unable to compete with successful new firms, it is particularly older non-innovating firms and unsuccessful new firms suffer losses. Also, that new investments are halted because the economy is disrupted and it becomes impossible to make reliable calculations about the future. The possibilities offered by the current cluster of innovations are exhausted (interest rates raise). This is the first phase of the cycle (Recession). The decline of recession continues however, past equilibrium in a secondary wave, which the former attributes to "errors, excess of optimism and pessimism. Reckless, fraudulent and otherwise unsuccessful enterprises created in the optimism of expansion cannot stand the test administered by recession" (Schumpeter, 1934).

Researchers like Pearce & Robbins (1994) have proposed to study firm decline; their model portrays the turnaround process as a discretionary managerial action taken to arrest the performance downturn and stimulate recovery (Lawrence & Jones, 2001: p. 105). Of course, alert firms can anticipate economic decline if they respond to internal and external pressures that threaten their long-run survival. Examples of such decline being lowered sales, accumulated inventories, lack or slow payments and often exodus of key personnel. Trans World Airline in the USA is an example of a firm that entered bankruptcy procedures to correct their debt structure and level after a leverage buyout did not survive (Setton, 1999). Greyhound Bus a line is a corporation that was badly affected by the increase in air flights competition (Fortune, April, 1999: pp. 48-52) submitted to this procedure and rebounded successfully. Currently with the air scare this firm is profiting exorbitantly. Continental Airlines is another firm that did undergo the process and did quite well. What lies ahead for firms in the future and those that went under the process is unknown. What is known is that not always firms could be considered failures for undergoing the process.

5.6 Firm Growth as a Process of Changing Size

It is possible to use different indicators for the growth of a firm. A growth process is likely to be driven by an increased demand for the products or services that the firm supplies to the market or by a need to increase production or size in order to obtain economies of cost or scale. That is, sales increase first and thus allow the acquisition of additional resources such as employees or machinery. It seems unlikely that growth could take place in other dimensions without increasing sales. However, it is also possible to increase sales without acquiring additional resources, examples of which is outsourcing whenever increased business volumes occur. In this particular case, only sales would increase.

Studies by (Chaston & Mangles, 1997: pp. 48-49) in different countries address the idea that, the characteristics exhibited by firms that grow are almost similar to those identified by successful firms. Also, the same study contrast findings that highlight the significance of SF growth from diverse authors (Coopers & Lybrand, 1994 reports on studies carried out by Burns, 1994 in the UK by Brickau, 1994a in the European Community the German studies and in New Zealand with export firms Tradenz, 1990).

All the aforementioned studies aimed at predicting growth potential of firms based on the internal capabilities of the organization. Since the researchers used large samples, pilot tested their methodology and collected ample qualitative data, results might be enlightening for this research. Common determinants were found among this studies and signal which characteristics are needed in firms that exhibit growth: flexible decision making, offering superior quality products in niche market and differentiating themselves from competition, introducing new services frequently, recognising the need to invest in the continual development of their employees and utilizing clear business plans to guide actions, among others, Chaston & Mangles (1997: p. 48).

Doyle & Wong (1998: p. 517) in studies made from samples drawn in the UK, USA, Africa, the Far East and Australia, showed no significant differences exist on whether firms were trading off future market performance for short-term financial performance, taking this as a measure of success. However, the same studies did find that a market orientation based on customer satisfaction was the best indicator for building customer preference. In addition, their study found a strong correlation between marketing and business performance. This signals that, to ensure success managers depend crucially on its ability to create a differential advantage. This does not mean that marketing is the quick panacea for success.

5.6.1 Small Firm Growth and Size

Many firms measured on returns on investment and profits obtained, seek success. However, successful SFs do not necessarily grow. A firm may exhibit negative cash flow and low return on investment during an expansion or consolidation phase. Also it is feasible that some SFs on purpose trade off survival and short-term profits for long-term growth. Literature has identified two principal problems that explain the failures of small businesses: the ability of newness (Singh & Lumsden, 1990)[45] and smallness[46]. Bradley & Ruback (1999: p. 32) in their studies found and assumed that organizational size influences organizational mortality. Aldrich & Auster (1986) in Aldrich (1989) established that compliance with governmental regulation weighs heavily on smaller organizations and the burden of compliance have also been found to affect failure rates. Lussier (1999: p. 32) reviewed the works of Hodgetts & Kuratko, (1998) to reaffirm his point of view on size and governmental regulations. Additionally, poor and inadequate record keeping can contribute to failure.

5.7 Marketing and its Role on Success and Firm Performance

Brooksbank, Kirby & Wright (1992) strongly indicate that better performing companies give a higher priority to environmental scanning and development of strong marketing than to other business functions of their business or strategic plan (depending on the firm's type of planning level) and to the philosophy of being customer driven. Drucker (1999) argued that the factors mentioned above, joined to appropriate marketing tools, would prevent failure and decreased market positioning for firms. Previous research by Peters & Waterman (1982) strongly indicates that better performing companies give a higher priority to environmental scanning and development of strong marketing than to other business functions in their business or strategic plan (depending on the firm's type of planning level).

Studies of a diverse nature also compare performance and success to the content of the firm's mission statements. A study by Pearce & David (1987) concluded that higher performance companies among the Fortune 500 firms had comparatively more comprehensive mission

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[45] Liability of newness is the propensity of new organisations to have higher failure rates. Some of the problems are lack of networks, difficulties running the organisations, increased risk of mortality as well as lack of experience to operate a business (Dyke, Fischer & Reuber, 1992).

[46] Liability of smallness assumes the organisation size influences organisational mortality. E.g. of such studies are lack of financial and human resources, which can create a distinct disadvantage.

statements than the rest. The conclusions were based on an analysis of the content of those firms' mission statements. Based on their report, firms whose mission statement included references to target markets, principal products or services, geographic domain and core technologies did outstandingly. The most salient were those firms which suggested their philosophy, self-concept and public image. Even though most studies are linked to large firms, the abundance of SFs and the definition Small Business Administration has of a SF as one of up to 500 employees regardless of size, have grown substantially and financially.

5.8 Entrepreneurial Orientation

5.8.1 The Role of Marketing

It is argued that the organizational structure (Covin & Slevin 1988, 1999) and the marketing posture of SFs' influences performance. The RBV posits that the essence of strategy is or should be defined by the firm's unique resources and capabilities (Rumelt, 1984). Also that the value of strategy resides in the firm's ability to sustain a profitable market position which itself is based on the rent generating capacity of the firm's underlying resources. As such, in a competitive world of business, for a firm to be successful requires either that the firm's product is distinctly differentiated or that the firm has a competitive cost position over its rivals (Conner, 1991). Nowadays, those positions are achieved in the marketplace and only when perceived by the firm's clients. Thus, the role of marketing in projecting these perceptions and image has become crucial and value rendering. Research studies also suggest that both an entrepreneurial and strong marketing orientation influences performance.

Other studies (Carson & Cromie, 1989) acknowledge the effects of management styles and the culture of the SF has on the character and nature of marketing planning activities. It is a known fact that marketing is an essential aspect of business success nowadays, whichever way it is measured. Even though limitations and constraints on small business planning and marketing are acknowledged for many SMEs, some authors (Siu & Kirby, 1999) recommend and presume that marketing is universally applicable. Moreover, the same authors point out that the relationship between marketing and corporate or small business plans has not been identified, environmental effects on the competitive position attained by successful firms.

Field studies support the resource-based theory departure that an enterprise's firm-specific resources serve as the driving force for its diversification strategy. Nowadays, according to Kirby & Siu (1998) report, marketing has become a major sought-after capability for any firm as studies by. Mahoney & Pandian (1992: p. 367) found strong empirical evidence to reject the hypothesis that the direction of diversification occurs at random. Instead, they found that a firm's competence and intangible assets in advertising and R&D explain the direction of diversification strategy. Teece, et al. (1997) found that competitive forces are a function of the effectiveness with which firms keep rivals off-balance through strategic investing, pricing and strategic signalling and information control.

5.8.2 The Role of the Environment and Industry Structure

Environmental research and constant analysis of the environment is necessary if businesses opt for strategies geared to increase the competitiveness indispensable for the survival of firms. Some authors articulate that the true origin of CA is due to the proximity of the local environment in which the firm is based and that CA resides as much in the environment as on how it shapes the way the firm's activities are configured and its resources are assembled. Hamel & Prahalad (1994) assert that while management of change is a central concern of executives in most successful organizations, changes in the business environment continually erodes the effectiveness of a firm's strategy and organization. Kesler, Koldstadt & Clarke (1993) and Prahalad & Hamel (1990: pp. 79-91) state "most small business are not successful because their owners bypass incorporating changes, new trends, and environmental analysis into their business cycle".

Under the RBV perspective, the environment provides few restrictions on the growth of the firm. Increasing costs for resources and declining revenues for individual products may limit the expansion for those particular resource and products, but the firm is able to use other resources and it can create new markets. The environment does not limit the firm to a fixed set of growth opportunities. Rather, growth opportunities always exist to the extent that the firm chooses the right ones.

5.8.3 The Environment of the Industry Structure and its Effect on Performance

The industry environment in which a firm operates, does define the constraints. Facing it as well as its resource requirements is difficult in some industries, where perfect competition almost exist, in this instance firms have very few options and face many constraints. However, in other less competitive industries, member firms face fewer constraints and a greater range of options. If an industry affiliation does have a significant impact on a firm's strategic options, when economic factors are less favourable a difference between firms in competitive and less competitive industries. This evidence emphasises even more the usage of resources attaining CAs and survival within the constraints and barriers posited by the sector. Indeed, firms in a less competitive industry will have a better change to survive than in a very competitive industry.

This theory claims that when the economic environment changes from favourable to unfavourable conditions, many businesses, especially small organizations are doomed to fail. In the 1930's a group of economists developed an approach for understanding the relationship between a firm's industrial environment, its behaviour and its performance (Mason, 1939; Bain, 1968). The theoretical framework that developed out of this effort became known as the structure-conduct-performance model (Scherer & Ross, 1990). The mentioned framework indicates that the structure of an industry defines the range of options and constraints facing a firm. In some industries, where perfect competition almost exists, firms have very few options and face many constraints. However, in other less competitive industries member firms face fewer constraints and a greater range of options. In sum, an industry affiliation does have a significant impact on firms.

Survival factors for firms vary depending on how the environment is. When economic factors are less favourable a difference between firms in competitive and less competitive industries should be evident. Firms in a less competitive industry will have a better chance to survive than in a very competitive industry. However, many researchers pointed out that during the recession in the early 1990s, while many large corporations were forced to downsize, the number of small businesses was actually increasing and small businesses provided badly needed jobs for Americans. This brings the researcher to argue that economy may not be the critical factor for the creation of entrepreneurs.

SMEs across sectors often do not possess the financial or human capability to seize opportunities to utilize resources to its maximum, nor have the time disposition to visualise what should be the best avenue to succeed. This is contradictory, because often firms are at an advantageous position and do not optimise on it. It might be partial blindness, lack of vision or choice. Maybe the previous two, since any firm will definitely choose the higher return option if it is foreseen as such.

5.8.4 The Role of Planning in a Firm Success

Overall, planning is terribly important for firms and should be an integral part of the management process since its benefits can outweigh the costs. Ignoring planning is to relegate a source of CA to disadvantage. Reading multiple sources in popular business magazines (Business Week, Fortune, and Entrepreneur) seems to back the idea that organizations that plan effectively achieve higher performance than those that do not. Thus, the model designed intends not only to suggest specific questions that can be addressed in the research. The explanations about what each variable represents and how it relates to the RBV appear in the paragraphs ahead.

Evidence is ambiguous and often contradictory regarding planning. Many authors believe that business mortality would be greatly reduced if more planning were done at pre-start up as well as when the business progresses. However, evidence also suggests that the value of planning is appropriate for machine organizations and it should be minimal within entrepreneurial organizations. Though many disagree with Mintzberg's conclusions, studies of entrepreneurship have argued that the planning process and its effect differ between small and large businesses (Robinson, 1982; Gilmore, 1971). Other studies suggest that formal planning should take place prior to a new business start-up (Hisrich & Peters, 1989 in Hisrich et al, 1997; Sexton & Bowman-Upton, 1991). However, ample notable cases exist where new businesses became successful without much start-up planning. Apple computer, Federal Express, Microsoft, Walmart are just a few examples.

A survey of 220 "inc. 500" businesses (i.e., relatively small, but among the fastest growing businesses nationwide) revealed that 51% did not have formal plans when they started (Castrogiovanni, 1996: p. 802). Also the article reports that a majority of firms (70%) that generated plans did so to obtain external financing. The same research also showed that those businesses without formal plans tended to be more profitable. Thus, most would agree that planning can be beneficial, but some suggest that benefits may differ across contexts. This focusing on where, why and how benefits are derived from planning within what Mintzberg (1989: p. 257) refers to this as the "entrepreneurial context" in particular planning for small business start-ups. Literature pinpoints the benefits of planning. Drucker (1973: p. 122) emphasises that "planning what is our business, planning what it will be and planning what should it be have to be integrated... everything that is 'planned' becomes immediate work and commitment". However, some authors caution that planning can be overdone, incorrectly done and ineffective (Mintzberg, 1994) while other authors cite firms that have survived avoiding planning as Baeckler (1996) found (Perry, 2001: p. 208).

Studies completed by Singh & Lumsden (1990: p. 168) convey the idea that new businesses must establish external legitimacy with customers and sources of capital, as well as with networks. However, the same study reports that older organizations have established their legitimacy especially with customers. According to a study by Cooper (1993) in a previous study (Cooper, Dunkelberg & Woo, 1989) demographic factors like age and educational background are closely associated with organizational success. Likewise, other studies reveal that smaller firms often suffer from lack of resources, especially financial, to be able to formally plan.

Moreover, other studies into the strategic planning process of small businesses seem to pinpoint that most planning deal with generalities. While studies by Braecker & Pearson, 1986) identified eight formal planning components including establishing objectives, environmental and SWOT analysis, studies by Robinson & Pierce (1983) measured whether firms had written plans for at least three years and if such plans included delineated strategies, objectives and resources needs. More recently, Naffziger & Kuratko (1991) studied more intensively into the actual plans to determine the amount of time management spent on development of their plans, their areas and kind of activities, among others. Naffziger & Mueller (1999: p. 10), departing and duplicating a previous research by Robison & Pearce (1984), studied 71 SFs with less than 500 employees in Midwest USA and found that regarding planning, their study demonstrate that planning is prevalent among firms. Those results support Kuratko (1991) studies which affirmed that planning in today's firms is not as anaemic as Sexton & Van Auken (1982) affirmed, it does exist. Regarding the content strategies developed, only half of the firms reported to have made formal mission statements and used those only moderately to drive strategic plans.

5.9 Environmental Factors and Conditions

The relationship between RBV and firm performance is affected not only by internal elements such as top management commitment and corporate culture, but also by environmental factors. These factors reflect the uncertainty in an organization's operating environment. Drawing on the work of Aldrich (1979), Child (1972), and Pfeffer & Salancik (1978), Dess & Beard (1984) concluded that three dimensions of the environment contribute most to environmental uncertainty and are thus most likely to consistently influence firm performance over time: environmental turbulence, munificence, and complexity.

Environmental conditions vary significantly across firms and such variation is likely to produce differences in the degree of resources firms develop for survival. Aldrich (1979) stated that environments affect organizations through the process of making available or withholding resources. Various theoretical approaches have been used to understand how environments influence organizations. These theories include task decision uncertainty (Duncan, 1972; Lawerence & Lorsch, 1967), environment as a source of resources (Pfeffer & Salancik, 1978, Thompson, 1967), and environment as a source of variation (Aldrich, 1979; Hannan & Freeman, 1977).

Aldrich (1979) attempted to enumerate the dimensions of the environment into six environmental dimensions subsuming all others; geographic concentration and heterogeneity, stability and turbulence (unpredictability based on environmental interconnection), and domain consensus (similar to competition) and capacity. By using factor analysis, Dess & Beard (1984) reduced Aldrich's six dimensions to three: complexity, dynamism, and munificence.

Environmental munificence relates to the degree to which a firm operates in an environment where resources are scarce or abundant (Castrogiovanni, 1991; Dess & Beard, 1984). It represents the extent to which the environment can support sustained growth (Starbuck, 1976). Such growth can allow the organization to create slack resources (Cyert & March, 1963), which can be used as a buffer during periods of relative scarcity.

Environmental complexity describes the number of units with which interaction is required and the extent to which an organization or subunit must have a great deal of sophisticated knowledge about products, customers and so on (Aldrich, 1979). Dynamism is the extent to which unpredictable change occurs in the environment. A manager can predict future events because environmental situation(s) recur frequently through time.

As the environment moves from stable-simple to stable-complex to dynamic-simple to dynamic-complex, the absence of concrete information about the environment and the lack of knowledge about the effects of specific organizational actions increase. As a result the decision maker moves from certainty, through risk to uncertainty (Thompson, 1967, p. 134). Environmental uncertainty represents the extent to which future states of the competitive environment cannot be anticipated or accurately predicted (Lawrence & Lorsch 1967). It results from environmental flux, complexity and interdependency (Duncan, 1972) and requires strategic and organizational flexibility (Lawrence & Lorsch, 1967). Tushman & Nadler (1978) argue that the greater the instability of the general environment, the greater the uncertainty facing decision makers. When the environment is stable, firms can pre-plan and reduce the amount of the information that is required during task implementation.

Complexity and dynamism are closely related to environment uncertainty. Managers facing a more complex environment will perceive greater uncertainty and will face greater information processing than managers facing a simple environment (Duncan, 1972). Lumpkin & Dess (2001: 436) also argued that "In essence, dynamism and complexity reflect the degree of uncertainty facing an organization and munificence signals a firm's dependence on those environments for resources".

5.9.1 High Munificence and Low Uncertainty: Internal Development

The RBV suggests that a company with strong internal capabilities can enjoy an enduring competitive advantage and achieve superior performance (Dierickx & Cool, 1989). Organizational theorists emphasize that organizations must adapt to their environment to remain viable. In this discussion we argue that firms develop internally their resources and capabilities in a munificent environment with low uncertainty. An environment with low uncertainty is a stable environment in which conditions remain the same, or the process of change is very slow. In these conditions firms will be able to predict environmental changes and to develop internally the resources and capabilities needed to achieve a sustained competitive advantage and to compete more efficiently in the market.

However, developing resources internally might be influenced by other factors. For instance, external market forces sometimes constrain the supply of certain manufacturing sources (Dierickx & Cool, 1989). Some resources are not available in the market and should be built internally, reputation for quality is an example of such resources, or the non-appropriable assets needed for strategy implementation such as customers' trust or dealers' loyalty. Clearly, markets for such assets do not exist. These are commodities that have real, practical economic value; but they are not available for trade in the open market. As a result, a firm that does not have non-tradable assets, which it requires for implementing its product-market strategy, is constrained to build these assets (Dierickx & Cool, 1989).

Internal development enhances the building and leveraging of core competencies through transferring the accumulated skills and expertise across business units in a corporation (Dess & Lumpkin, 2003). This facilitates the accumulation of assets stock through time (Dierickx & Cool, 1989), thereby reducing the imitability of the resource bundles. Furthermore, internal development helps the company protect its core capabilities and resources from unwanted appropriation that is associated with other modes such as alliances or joint ventures.

The internal development is a convenient strategy in a munificent and low uncertain environment, because internal development is a costly and time-consuming process. It is applicable where the environment is stable, and the supply of resources is not limited. Further, decreasing environmental uncertainty allows firms to pursue the benefits of internalisation. Firms can invest in specialized assets that result in a low economic cost of production. Internalisation enables firms to realize internal capital market economies. These benefits can be effectively achieved in a relatively stable environment (Bergh & Lawless, 1998). In a turbulent environment, where firms are not able to predict how the environmental factors are going to change, internal development would not be a well-situated strategy. Furthermore, internal development might not be a recommended strategy for firms competing in emergent markets, or in highly competitive industries (Eisenhardt & Schoonhoven, 1996). In such situations, developing new products becomes increasingly complex (Leonard-Barton, 1995) and requires multiple capabilities that few companies have internally.

In summary, in a munificent environment with low uncertainty, we believe that internal development facilitates the development of relationships and interactions among resources and capabilities and deepens the competitive advantage of the firm. Therefore, in high munificent and low uncertain environments, firms will develop their resources and capabilities through internal development.

5.9.2 High Munificence and High Uncertainty: Acquisition

The RBV suggests that acquisition typically occurs when a firm requires additional resources that can not be built internally with acceptable cost (risk) or within an acceptable time. In a munificent environment with high uncertainty, acquisition is recommended as a better way to develop resources. Here, it becomes critical for firms to have rapid access to resources that they need to compete in the market, and to have the most efficient way to utilize all possible synergies from the firm's resources. Moreover, acquisition serves to buy a bundle of imperfectly tradable resources (Wernerfelt, 1984).

Despite the argument that acquired resources cannot be the basis for rent generation if they have been acquired in the market (Dierickx & Cool, 1989), acquired resources can generate rents for two reasons. First, the value of resources is not the same for all firms (Wernerfelt, 1984). A particular resource will be of higher value to a company that lacks it than to a company that already has it, and would need it only to reinforce its existing resource set. Thus, it is the dependency of the firm on the resource (Peffer & Salancik, 1978) and not the intrinsic value of the resource that determines the price paid. Second, the missing resource can reduce a disadvantage that limits the firm's competitiveness, as it complements other resources and capabilities (Teece, 1986). Thus, as the company obtains the resource in the market, it can also realize the advantages provided by other resources. In this manner, acquired resources will generate rents for the firms despite having been obtained in the open market.

As noted above, acquisitions represent an investment intended to create economic value, especially through the development of synergy. Dominant theory suggests that firms acquire other firms with some forms of relatedness, thereby creating efficiency through synergy. Synergy usually implies that gains accrue to the acquiring firms through two sources: (a) improved operating efficiency based on economies of scale or scope; and (b) some kind of skill transfer (Ansoff, 1965).

Contradictory results have been reached regarding the view that related acquisitions produce more value for the acquiring firm (Harrison, et al. 1991). For instance, Lubatkin (1987) found no significant difference in returns for shareholders of related versus unrelated firms. Similarly, Singh & Montgomery (1987) found that above normal returns were not generated for acquiring firms, despite the fact that they extremely controlled for type and degree of synergy. Although the combination of acquiring firms and target firms may create greater total value, Barney (1988) suggested that acquiring firms gain above normal returns from acquisitions only when private or uniquely valuable synergistic assets are involved. Private means that the information about the combination is not available to outside bidders. Uniquely or inimitable synergy is created when no other combination or forms could produce the same value.

However, if the company has a limited budget resource in a turbulent environment, acquisitions can mean high strategic-opportunity costs if they do not bring a sustained reduction in environmental uncertainty. Furthermore, the acquisition of resources is not always feasible since the necessary resources might be difficult to identify or buy, and this method does not facilitate the development of system relationships (Dierickx & Cool, 1989).

In summary, in munificent environments with high uncertainty, acquisition permits the rapid development of the resource set of the firm by complementing existing resources and capabilities with new ones purchased in the market. Therefore, in high munificent and high uncertain environments firms will develop their resources and capabilities through acquisition.

5.9.3 High Uncertainty and Low Munificence: Alliance

According to RBV, alliances help bridge the gap between the firm's present resource endowment and future expected requirements by providing access to external resources and capabilities developed by other firms (Hamel, 1991). Given high uncertainty and low munificence, firms are faced with two critical constraints. They are prompted to seek complementary or slack resources from outside and reduce the risk arising from an uncertain environment. As Oliver (1990) has argued, environmental uncertainty comes from resource scarcity and from a lack of knowledge about environmental fluctuations, availability of exchange partners, and available rates of exchange in an inter-organizational field. A low munificent environment will worsen the uncertainty level and make the existing reduced resource flow more problematic and unpredictable.

Eisenhardt & Schoonhoven (1996) found that firms in weak strategic positions enter into alliances to access critical resources. These resources can be concrete, such as specific skills and financial resources (Kogut, 1988), or abstract resources, such as market access (Hagedoorn, 1993) or uncertainty reduction. In highly uncertain situations (i.e., emergent markets, innovative technologies), firms seek, not avoid alliances (Eisenhardt & Schoonhoven, 1996). To create competitive advantages, firms are pressed to stabilize their resources flow and seek complementary resources. At the same time, they try to minimize the system risk brought by the uncertain environment. Different reasons make alliance an optimal choice in this context.

First, alliances satisfy firms' need for complementary resources. No firms can create all the resources required to grow and prosper. Instead, they have to rely on collaboration to gain complementary resources and exploit new business opportunities (Dussauge, Garrette & Mitchell, 2000). Internal development and the acquisition of resources are greatly restricted in low munificent environments. Alliances offer an efficient alternative for firms to obtain their needed resources compared to the market mechanism. Each firm has specific resource endowments (Barney, 1991). Alliances can reduce uncertainty by pooling resources with partners and increasing their abilities to counter the changing demands from the environment. Firms search for strategic alliance partners that have resources that they can leverage, and then integrate them to create synergy, thereby strengthening firms' competitive advantages.

Second, technology complexity increases the transaction costs over market mechanism (Devlin & Bleackley, 1988). Osborn & Baughn (1990) contend that technology intensity, defined by a high R&D-to-sales ratio, reflects high uncertainty. This uncertainty increases the transaction costs of market-dominated mechanisms. Firms are prompted to select alliance governance rather than the market mechanism because of the higher cost of monitoring, enforcing, and regulating associated with the latter.

Third, alliances reduce the risk for a firm. Scarce resources in low munificent environments restrict firms' ability to innovate. Firms are exposed to the harsh environment without the protection of slack resources. However, firms have to innovate if they hope to outperform their competitors. The more uncertain the market, the higher the risk the R&D will become. A firm usually cannot afford the cost and the possible failure of a major R&D investment. A strategic alliance dilutes risk for all the partners, while sharing the benefits of innovation among them. Uncertainty prompts organizations to establish and manage relationships in order to achieve stability, predictability and dependability in their relations with others (Oliver, 1990).

Fourth, alliances facilitate organizational learning in a volatile environment. Faced with changing environments, the most advanced technologies will become obsolete in a short time, especially in the high-tech industries. Doz (1996) contended that alliances could simultaneously prevent organizational inertia while promoting environmental adaptation. Organizations have to refresh their existing knowledge base, upgrading and learning new knowledge. Alliances help firms learn from other partners. On the other hand, the internalisation process cannot accomplish the task of learning, which is especially important in uncertainty environment. Hoffmann & Schaper-Rinkel (2001) also argued that firms facing high environmental uncertainty could use alliances to enhance and speed up organizational learning as well as stabilize their environments, while reducing strategic uncertainty.

Although alliances enable firms to compete in uncertain and low munificent environments, they are not without drawbacks. Alliances expose firms' core competencies to their partners, thus siphoning such special resources from the firms (Eisenhardt & Schoonhoven, 1996; Teece, 1987). In addition, alliances may produce appropriation behaviour and moral hazard concerns (Williamson, 1991). However, firms can adopt isolating mechanisms such as patents and copyrights to safeguard their core competences and develop trust among partners to alleviate such side effects.

In summary, despite the problems associated with alliances, they are still a better strategy whenever the environment is characterized by low munificence and high uncertainty. This is because it reduces the risk associated with the environment and the complexity associated with developing new products. Therefore, in low munificent and highly uncertain environments firms will develop their resources and capabilities through alliances.

5.9.4 Low Uncertainty and Low Munificence: Joint Venture

In this context, the environment becomes more stable and predictable compared with high uncertainty environment. However, resources remain as the critical concern for firms competing in low munificent environments. Firms are constrained by their resources to undergo acquisitions or internal development. Thus, they will resort to strategic alliances to seek resources beyond their boundaries.

Inkpen (2001) argued that alliance theory should differentiate among different forms of alliances to achieve high explanatory power. For example, the value creation dynamics through equity-based joint ventures are very different from other alliance forms, such as R&D collaborations and licensing agreements.

Previous studies have argued that joint ventures reduce risk. Pfeffer & Salancik (1978) suggested that joint ventures are undertaken to reduce uncertainty and promote stability. Such uncertainties are associated with exploring new markets, technologies, or activities when the eventual outcome is difficult to predict and the capital investment is relatively intense (Oliver, 1990). However, their conclusions are mainly based on the comparison with arms-length market-based transaction and internal development, but not on the comparison with different alliance forms. We propose that equity-based joint ventures are more closely associated with low uncertain and low munificent environment in comparison with non-equity based strategic alliances such as licensing, supplying service, and R&D collaboration, etc.

Joint ventures require firms to make irreversible equity commitments to form a new entity independent of the parent firms. Such a long-time commitment results from firms' confidence in the possible success of the joint venture. However, when volatile environments turn such possibilities into uncertain futures, firms would rather choose contractual-based strategic alliances. Contractual-based alliances give firms much more flexibility in time and investment, which is even precious in the low munificent environment. However, in a relatively stable environment, firms are prompted to use joint ventures to seek the needed resources.

Joint ventures also enable firms to acquire complementary resources, especially tacit knowledge-based resources. According to RBV, firms' competitive advantages derive from their preferential access to idiosyncratic resources (Dussauge, Garrette & Mitchell, 2000; Nonaka, 1994; Wernerfelt, 1984). Knowledge is classified into explicit knowledge and tacit knowledge by many researchers (Dyer & Nobeoka, 2000; Kogut & Zander, 1992). Explicit knowledge is easily codified and transferred through transactions, while tacit knowledge or know-how is difficult to codify (Love, 1995) and it is sticky, path-dependent and idiosyncratic (Madhok & Tallman, 1998). Equity-based alliances are more effective for learning tacit know-how and capabilities as compared with non equity-based alliances because the tacit knowledge is organizationally embedded (Kogut, 1988; Kale, Singh & Perlmutter, 2000). Joint ventures offer firms opportunities to get close to each other and increase the frequency and intensity of knowledge learning. Thus, in low munificent and low uncertain environments firms will develop their resources and capabilities through joint ventures.

In summary, intense competition forces firms to upgrade their resources and capabilities permanently. In the above discussions, we argue that firms develop their resources through different means: internal development, acquisition, alliances, and joint ventures. We argue that, via these means firms can avoid the attrition of their competitive advantages, which might result from the continuous environmental changes.

This discussion has presented a basis for the selection of strategies to develop resources and capabilities based on the environment munificence and uncertainty. We argued that with high uncertainty and high munificent environments firms are more likely to use acquisition to develop their resources, while with high uncertainty and low munificence firms are more likely to use alliances, and finally with low uncertainty and high munificence firms are more likely to use internal development.

Acquisitions and alliances provide rapid access to resources already developed (Barney, 1986, 1989; Wernerfelt, 1984; Hamel et al. 1989; Hamel, 1991). Internal development leverages core competencies through the transferring of accumulated skills and expertise across business unit in a corporation, thus increases the inimitability of competitive advantages (Dierickx & Cool, 1989).

The propositions discussed through environment conditions, can have direct implications for the practice of management. Managers need to evaluate their resources and capabilities not in absolute but relative to different dimensions of task environments. The more munificent and certain the environment, the more likely managers should consider developing their resources internally. The higher the level of uncertainty, the more likely managers should think of developing their resources via alliances and acquisition.

The resource development means (acquisition, alliance, joint venture, and internal development) complement to some extent the assumptions of the transaction cost theory, whether to make, or to buy. However, the above discussion emphasizes firm specific resources, and task environments as distinctive ways by which firms develop their resources and capabilities, that lead to superior performance and function as an enduring source of competitive advantage.

5.10 Objectives and Hypothesis

The overall objectives for this thesis cover the different angles upon which this thesis is based, specifically these aim at determining which are the CAs and distinctive competencies exhibited by Palestinian firms and their role as determinants of success across size, in addition, the goals aim to design a guideline/model, which SMEs and policy makers could used to induce success and deter failure. Lastly to contribute to the scientific debate in entrepreneurship research, specifically regarding what determines and sustains CAs.

5.10.1 Research Hypothesis

The hypotheses formulated here not only are contained within the conceptual model designed for this thesis, but also these are delineated to answer the questions posited for this research. The hypothesis formulated here are the null hypothesis against which alternative hypothesis advanced under the RBV perspective will be tested.

H1: the traits of the entrepreneur/manager (i.e., level of education, his or her business related experience) the profile or traits of the firm (age, time of founding, initial investment, size and industry) and the strategy used do not affect significantly the level of success attained by the firm.

H2: The CAs and core competencies existent in successful firms in Palestine as well as their performance are not significantly different across sectors (i.e., type of industry) and size.

H3: Firms' success, performance and/or failure do not depend on the CAs attained by the firm or on how these are sustained. This sustainability does not surge from the indirect effects provided by the available resources and capabilities developed by the firms within the environment and industry in which the firm operates.

H4: A firm's strategy based in terms of the level of planning, competence in advertising, R&D and human resources as well as the development of intangible assets like reputation, does not affect positively the firm's direction and performance.

H5: Firms that define their strategy based on the theory of resources and capabilities will obtain better and more positive results than those that do not use this focus.

H6: The factors that determine a firm's success do not vary significantly across sector nor are there barriers inherent to owner/manager; the variance found across firms is only due to the size and growth patterns of firms.

H7: Business owner's performance is not correlated to the size and sector in which the firm is or to the firm's survival rate.

H8: Businesses operated in Gaza Strip do not appear more likely to survive and succeed than those operated in the West Bank. Differences are due to external circumstance and not to personal attributes, like previous experience, product market characteristics and size of the firm, which automatically determines the level of success attained.

H 9: The factors necessary for firms to succeed do not vary significantly across successful and less successful firms in terms of resources and core competencies.

H10: The difference between successful and less successful firms does not reside on the exploitation of resources, innovativeness in products and services and pro-activeness but on the role and attitude of management, the level of sales reached and size attained.

H 11: The problems inherent to firms in the West Bank are not due to inherent barriers like the Gaza Strip smallness nor do they differ significantly from those possessed by firms elsewhere.

H12: The problem is neither to work out a self-centred development model based on import substitution and high protective barriers, nor to create a strong export-led sector. The problem is rather to create a sound domestic base for the national economy that is able to achieve a good quality and productivity level and to participate in some sector of the international division of labour. The problem lies in the forced and systematic occupation-related economic distortion and in the financially risky environment that it creates for many Palestinian SMEs.

5.11 Synthesis

The principal aim of this research and the hypothesis underlying these standpoints is to determine the CAs and distinctive competencies that determine success for Palestinian firms were presented and defended on the Chapters already described. In addition, this Chapter describes the theoretical framework selected for this thesis as well as theoretical model designed to illustrate it. Furthermore, the selection of this theoretical standpoint is contrasted with other theoretical points of view; a revision of the evaluation of the Resource-Based View (RBV) versus other points of view is also considered. A solid argument on how the standpoint chosen the RBV, fares against relevant theories was also presented for the solid purpose of clarifying this researcher's position. Likewise, this Chapter describes and discusses research main and specific objectives, research questions and research hypotheses. Thus, this Chapter becomes a key for establishing the upcoming structure for this thesis. Similarly, the next Chapter will delve more profoundly on the methodology used to accomplish research goals.

Additionally, a discussion and defence of why this theoretical standpoint differs in essence to the traditional RBV perspective is included. For this thesis, the main focus rests on the role of the central figure in determining performance (the manager). Still, this Chapter clarifies the position chosen by this researcher and how, further along, the aims of this thesis will be tested. What is more, the relevance of this subject is presented to address how significant the topic chosen is within the context of the Palestinian territories, specifically within the Palestinian's delineated long-term aim, seeking competitiveness in highly changeable times. Justification for this study is presented with some of its various reasons: a) no studies of this nature appear to exist, studying differences across sector, b) it covers a very critical period (1993-2000) of the Palestinian economic history, which considered extremely important for the WBGS as the Palestinian approaching the end of the occupation era, c) nor are there any research that seeks to establish criteria that could be used as success stimulators and demise deterrent.

Thus, within the Palestine context, statistics of varied nature do exist as well as articles on general economic performance do abound. Yet, no study has been published on the subject presented here or following the perspective taken or the theoretical standpoint chosen. A further justification is the incidence of failures in certain specific sectors, and the incursion of multinational firms with the perceived barriers to succeed that this competition in costs and economies of scale has delved on Palestinian firms. Thus, the importance of this study is further justified and increased. Moreover, research on entrepreneurship has underscored the importance of understanding, as best as possible, the conditions that promotes business survival and success.

Likewise, the selection of the Resource-Based View (RBV) of the firm above other theories and its focus on the entrepreneur is argued and defended. This selection was done after examining how, on many respects; one theory complements the other while seeking differences across points of view. In addition to the purported conflicting views between the two related perspectives, Industrial Organization (IO) theory and the RBV, some authors like Spanos & Lioukas (2001) and Fahy (2001) see certain relatedness. The RBV and the competitive strategy complement each other in explaining firm's performance. This has been confirmed by research done by Mahoney & Pandian (1992); Conner (1991; Peteraf (1993) and Amit & Schoemaker (1993). As early as 1984, Wernerfelt had seen both approaches as two sides of the same coin. Likewise Barney & Griffin (1992) argued that examining strategy implementation, the skills required to implement it, as well as the resources and capabilities needed to implement it, can not be understood independent of the strategy content and the competitive environment within, which the firm operates. Precisely, this is this researcher's position regarding this thesis. There is no doubt that a need exists to rigorously analyse a firm's success within the context of the environment it operates and analysing the content of the decisions as well as the decision maker' role and traits.

Additionally the emphasis the RBV perspective and its focus on resources make the firm the basic unit of analysis. The firm becomes almost an entity with the capability to decide its future while being conditioned by its history and past decisions, as this writer believes and was asserted by Fernandez & Suarez (1996). The theoretical standpoint adopted emphasises the firm, the existence and selection of specific resources as well as the efforts made in developing and combining resources to achieve CAs as the avenue necessary to acquire success. As Conner (1991) argued, a theory of the firm must explain why firms exist and what determines their size and scope. Specifically this point of view coincides with Lippman & Rumelt's (1982) earlier remarks that, a theory must explain both the origins of inter-firm differences as well as the mechanism that impede their elimination through competition and entry (Fahy, 2000). As such, a main strength of this researcher's theoretical departure selection rests precisely in seeking direct answers (based on formulated questions which appear in the research instrument) as to what determines success for local firms. This view has also been similarly studied by Foss (1996). To obtain responses to these queries, direct questions to the effect were delineated; specifically geared as to which are the resources firms prioritise to achieve success, which are the factors firms considered their success is due to and which their areas of strengths and weaknesses are due.

Examining different points of view, while remaining with the chosen view, added additional insight into a more balanced view of the determinants and sources of CAs, also it balanced the selection of resources that determine a firm's performance focusing on the firm and the entrepreneur's traits and role as the unit of analysis. It is the hope of this researcher that the methodology chosen and the theoretical standpoint selected will provide further insight into understanding the reasons and aims formulated. Lastly, attention is given to different aspects: to characteristics of key resources that can increase firm's value, to the non-substitutability and non duplicability of resources as well as the resource heterogeneity needed to succeed. This emphasis was used with the purpose of explaining not only what determines success for local firms, but also for explaining if the traits and success determinant for Palestinian SMEs differ to firms elsewhere.

CHAPTER SIX

Research Methodology

6.1 Introduction

The research methods used in this study consisted of a multi-method approach. Our intention in combining research methods was to obtain results which can be cross-validated to produce multiple interpretations, conclusions and recommendations for the business integration and transformation strategies for SMEs.

The methodology for this thesis was designed to encompass the research approach necessary to obtain the information required for achieving the research aims. It includes both qualitative and quantitative techniques regarding the Small and Medium size Enterprises (SMEs) established on the West Bank and Gaza Strip (WBGS) after the Oslo Agreement. The design is centred on explaining the methodology and techniques delineated to probe the objectives. Mainly the methodology involved three phases: exploratory phase, qualitative phase and the quantitative phase. The Textile and Garment (T&G) industry is the domain for the information gathered. The firm and the decision maker is the unit of analysis for all phases. Moreover, this Chapter also presents and describes the procedure, methodology, and the techniques used to gather process analysis and test the hypothesis formulated.

To avoid repetitive explanations, it is important to notice that the theoretical framework underlying all research phases is the Resource-Based View of the firm, apart from the additional method of data gathering associated with Porter Diamond Model, attempts are being made to use this model to assess the performance of industrial sector activities under the daily confrontation and changes of the political and economic environment in Palestine, which these methodologies are at various stages of application and are fast coming to practical recommendations in a T&G sector. In addition, there are other elements common to the overall design that will be addressed as commonality and these are: the secondary sources of information, the acceptance and/or rejection process, the focus on the firm and the role of the manager as a decision maker. Thus, a descriptive research provides a summary of the stages involved in developing the research methodology, detailing the processes followed and how these were implemented, and as such provides a guiding framework for the rest of this Chapter. The three phases underlying this thesis implementation are described below:

First phase: In order to provide further support for the research strategy adopted (case study), and get a picture of SMEs sector in Palestine, exploratory pilot research involved 29 firms was implemented within the T&G manufacturing sector in Palestine during March 2005. Findings of the exploratory case studies not only assisted the researcher to develop research questions but also provided some clarification for the research design, particularly regarding the selection of cases (Miles & Huberman, 1994).

Second phase includes direct interviews which involved two methods of data gathering. First method, three matched pairs of successful and less successful cases implemented in the T&G industry. Information was gathered via in-depth interviews with firm's owners/managers of SMEs, focusing on both successful and less successful firms. Each interview took approximately two to three hours, two cases were conducted by two professional researchers from an agent called (Sigma Centre for Statistics), and the other four cases were conducted by the researcher of this study via direct phone call with the firm's owner/manager, during July 2005. Information was supplemented by literary review and reports published in the media relating to the sector's history and performance.

The methodology utilized to analyse this phase followed Yin's (1998) and Maxwell's (1998) case analysis guidelines, Critical incident Technique and SWIFT methods for processing qualitative research. Various approaches have been advanced in industrialised countries, and in some developing countries, to assess the competitiveness and performance of the manufacturing sector and evaluating its competitiveness. Knowledge about the use of these methodologies is not as yet common in countries of the Middle East region, thus it is felt that there is a need to increase awareness and promote the use of these methodologies in the OPT.

Therefore, a second method of data gathering in second phase was also used, a qualitative case study of six T&G enterprises (two small, two medium and two large) is provided to support internal validity for this research and to assess the competitiveness and performance of the industrial sector in the WBGS. In these case studies each interview took approximately two to three hours, two cases were conducted by two professional researchers from (Sigma Centre for Statistics), and the other four cases were also conducted by the researcher of this study via direct phone calls with the firm's owner/manager, during November 2005.

These case studies will develop a basis from which to assess the SME's strategic options. It will consider these options in the light of the increased competitive environment created by the national and international entrants to the marketplace over the past decade. Thus, the research will evaluate the ability of the SME channel to develop sustainable CA by focusing on the determinants of Porter's (1990) Diamond of Competitive Advantage model, This model was originally developed as a means of creating national advantage in an international context (Porter, 1990). Its viability for use in a domestic sense and its application to firms within the industry is further justified in the next Chapter.

Third phase: quantitative research includes results from the questionnaires completed by the selected sample of 200 T&G firms in November 2005. Results from these responses were processed according to the methodology deemed appropriate for each data. The procedures used are described in the appropriate section. The information obtained was processed and transformed via statistical methods designed for such purposes (SPSS). After processing the data, results were analysed following standard statistical procedures appropriate for studies. (In this case and in the pilot phase, 50% of the surveyed sample was conducted by the researcher via a phone call with owner/manager of the firm). Furthermore, findings in all phases and literature were contrasted in order to state conclusions and propose recommendations. In both phases, the qualitative and quantitative techniques, once the information gathered was processed, these were transformed into meaningful statistics using different programs including SPSS and EXCEL.

The purpose of this study indicates that not only it is a descriptive study, but it could also be explanatory because an attempt has been made to explain the Competitive Advantage (CA) process of SME in a new context (Palestine) that had been explored in studies in other contexts. The multi-method approach enables us to assess the complex process of Competitiveness, not only to understand the Competitiveness of SMEs and the role of entrepreneurs, but also to search for driving forces that lead SMEs toward international operations (McCormick, 1999). Although, we have used descriptive, analytical and comparative approaches as a complementary for the research approach.

6.2 Research Approach

Cochran & Dolan (1984) have related differences between qualitative and quantitative research to the distinction between exploratory (qualitative) and confirmatory (quantitative) analysis. Or as stated by Sullivan (2001), the distinction between qualitative and quantitative approaches depends primarily on two factors: 1) the state of our knowledge on a particular research topic, and 2) the researcher's assessment regarding the nature of the phenomenon being studied.

With the development and legitimacy of both qualitative and quantitative research, the combination of both types of research is expanding (Tashakkori & Teddlle, 2003). Lately, the alternative of combining methods (the multi-method approach) has emerged in different research areas as a way of improving research process and findings. "*Multiple methods are used in a research program when a series of projects are interrelated within a broad topic and designed to solve an overall research problem.*" (Morse, 2003: p. 196).

The main advantages of multi-method work are (Tashakkori & Teddlie, 1998): triangulation, seeking to validate data and results by combining a range of data sources, methods or observers; creativity, discovering fresh or paradoxical factors that stimulate further work; and expansion widening the scope of the study to take in contextual aspects of the situation. Qualitative and quantitative methods should not be viewed as polar opposites (Van Maanen, 1983) since their combination introduces both testability and context into the research (Kaplan & Duchon, 1988). Collecting different kinds of data by different methods from different sources provides a wider range of coverage that may result in a fuller picture of the unit under study than would have been achieved otherwise (Bonoma, 1985).

6.3 Research Strategy

The interview guide and structured questions were employed to obtain feedback on the T&G firm's structure and operation in the WBGS. These methods, in addition to the questionnaire were, originally composed in English; they were later translated into Arabic. Translation was checked more than once to ensure reliability. The final instrument was tested with a group of four Palestinian businessmen to see whether it was easy for them to understand. Only a few small changes to the original questionnaire were necessary. The primary list including 270 SMEs was created. We were able to obtain current information (e.g., telephone numbers) on 250 of these firms. In the next stage, we had to identify the firms whose owner/managers or key decision-makers were interested in cooperation. Therefore, we contacted the 250 firms by phone for following purposes:

- To introduce the project, and
- To find out if the key decision-maker was interested in cooperation with the researcher.

According to PCBS (2004), that 624 (33%) of the T&G establishments are located in Gaza Strip (GS), while the rest 1288 (67%) are in the West Bank (WB). Of the firms contacted, 200 firms (about 10% of the total establishments in the WBGS) agreed to participate in the survey, which covered 114 firms in the WB, where most of the establishments are centred in the main cities of

(Nablus, Hebron, Ramallah, Tulkarm, Jenin, Qalqilia, and Jericho) and 86 firms in GS, (Gaza City, Jabalia, Beit-Hanoon, Khan-Younis and Rafah). As we mentioned in phase II, the interviews were conducted by two professional researchers who used a structured interview survey instrument.

Following the method recommended by Yin (1998) detailed interview notes and impressions were completed within a day of the interview. The personal interviews were conducted with key executives of the firms for a total of ninety-seven personal interview hours. The accuracy of the interview data was ensured by using member checks (Lincoln & Guba, 1985), where the original informant verified our interview notes. In addition to the interviews, we collected archival data on products, organization structure, annual reports and financial statements which were used to triangulate (Hunter & Brewer, 2003) the information gathered.

6.4 Research Design

In this study, the researcher undertook in-depth analysis of the Palestinian manufacturing sector using primary firm-level data that were collected as part of the Palestinian manufacturing enterprise survey fielded in July 2005. This survey covered 200 firms drawn from the manufacturing sub sector of T&G, which represent the bulk of manufacturing output in the country. SFs, including medium ones, were covered. The survey used quite an extensive questionnaire, which covered most areas of the WBGS, yielding detailed information on a wide range of issues such as managerial and company background, firm performance, labour force structure and skill, internal and external constraints, expectations and governance. This study has used most of this information to provide a picture of the Palestinian T&G industry, and to identify constraints and opportunities of this sector.

To improve results and analysis two method of data gathering was used. As was mentioned in phase II, this research involved a qualitative case study of six T&G enterprises, three successful and three less-successful. Likewise, an additional 6 case studies which were conducted in November 2005; by using Porter's Competitive Advantage model, may perhaps reveal that SMEs within this industry would apply the determinants of Porter's (1990) model to a strategic analysis of their businesses. More importantly, the implementation of strategies designed to strengthen these determinants would create an environment for sustainable CA for enterprises within this channel.

6.5 The Overall Research Process

As was mentioned earlier this process is delineated under the premises of the Resource-Based View. Collectively, this research should provide the foundation for understanding if differences in performance of business are based on strategy used, the resources possessed, the managerial capabilities developed, the industry in which the firm performs, and/or the entrepreneur' background. Furthermore, the research methodologies as well as the underlying aspects needed to achieve the research goals are presented in its various phases. The study is mostly causal (used to show how one variable causes or determines the value of other variables) in nature, and *ex-post facto* (seeks to explained events that occurred).

Nevertheless, the first phase was of an exploratory nature (seeks insight into the general nature of a problem, the possible decision alternatives or relevant variables that should be considered). Using a combination of both exploratory and descriptive analysis for both qualitative and quantitative sources allowed this research to acquire diverse perspectives and match findings to research purpose from different angles. The design used aided in attaining the delineated main purpose of this study design, which sought to determine if the CA and distinctive competences exhibited by local firms determine success for SMEs across sector, place of work and size.

This Chapter also deal with several other relevant aspects. On the one side, the general methodology used is presented as well as the scope of the thesis. Next the various phases into which the study is divided are also addressed. The procedures, techniques, sources, instruments of analysis as well as the sample selection, the methodology for sample extraction and the process of survey administration are also included. Likewise, the objectives of the study are introduced. Thus, the overall research process implemented for this thesis from initial phases till the end is exemplified by Figure (6.1).

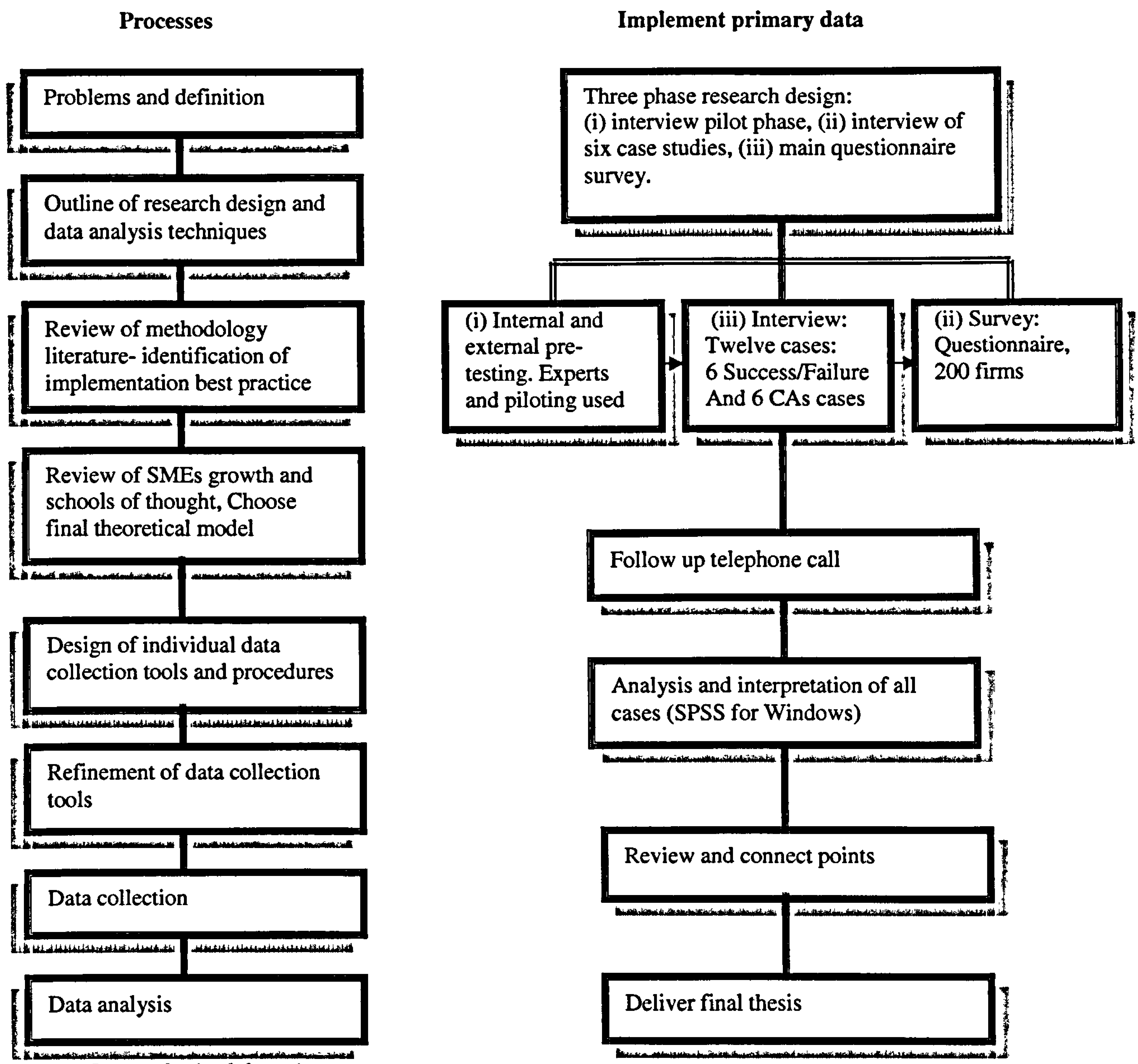
6.6 Research Questions and General Objectives

To remind the reader, the approach underlying this thesis is designed to explore and examine, via qualitative and quantitative research methods, the CAs and distinctive competencies that determine success in firms established in Palestine before and during Oslo agreement. To establish the departure point, the questions posited are presented, not just as a reminder but also for clarifying the research position and methodology selected.

The questions posited include several broad questions: Which are the CAs that determine success for local firms? Which is the relative impact of industry versus firm-specific effects on performance? What is the role of capabilities? Which are the firm's internal determinants of performance? What is the managerial value in the decision-making process and ultimately on success? Are the SMEs in Palestine in a position to generate desired high growth? If not, then what strategies can they adopt to do so? How can SMEs create a sustainable CA within the T&G Industry, an industry moving from fragmentation to consolidation? And how do Palestinian based SMEs use resources to pursue foreign market opportunities?

Figure 6.1

General Research Methodology for the Complete Thesis



Source: Researcher's elaboration

In view of the amount of failures in the Palestinian market and the high levels of competition, we need to ask ourselves; why so many new businesses are successful while traditional firms are stagnant or failing? Why do these "mega stores" and multinationals keep growing in size and sales and our local firms do not? Why new firms emerging daily capture the market fancy with diverse service offering? Seeking to answer the questions, the objectives delineated for this study are:

1. Determine what are the CAs and distinctive competencies exhibited by Palestinian firms and their role as determinants of success across sectors.
2. To analyse which are the success determinants for local firms in terms of resources and core competencies?
3. Add to the research effort in studying SMEs by providing empirical evidence that could develop a guideline useful for SMEs that their policy makers could follow to induce success and deter failure; and finally
4. To contribute to the scientific debate in entrepreneurship research, specifically regarding what determines and sustains CAs.

Specifically, the research design also comprises the factors that determine success which differ across sectors (i.e., retailing, wholesaling, service and manufacturing) to those factors posited by firms elsewhere. Precisely, this research also deems it imperative to answer several questions and probe the hypothesis formulated. Moreover, the problems exhibited by SMEs in Palestine are said to posit significant differences in performance across sector, place of work and size. Since the reasons for such an occurrence are as of now unknown, it is this researcher's belief that a need exists to understand the reasons behind this occurrence. In addition, the chosen methodology aims to rationalise differences. In order to investigate the assumptions delineated, the main aim of this research is to probe if the assumptions posited are correct. If the opposite occurs, then plausible explanations shall be presented or at least a reasonable solution will be attempted.

6.7 Common Elements to all Phases in this Thesis

The different aspects common to all the phases are described as follows:

Unit of analysis: The unit of analysis is the firm. Focus will be at the firm or enterprise level. For clarification purposes, the firm is understood as "more than administrative unit; it is also a collection of resources the disposal of which between different uses and over time is determined by administrative decision" (Penrose, 1959: p. 24). This thesis adopts three main categories of resources: tangible, intangible and capabilities[47]. Often though, the term resources are limited to those attributes that enhance the firm's efficiency and effectiveness. Regardless, in order for a

[47] Other authors use the sub-classification of six major categories of resources: financial resources, Technological resources, physical resources, human resources, reputation and organisational resources.

firm to gain high levels of performance and sustained CA, firms needed to possess resources that are rare, difficult to create, substitute or imitate and that ultimately could be sources of CAs.

Acceptance levels: Hypotheses for the thesis results will be accepted or rejected on a question-by-question basis. Hypothesis acceptance or rejection is based on a Chi-Square confidence level of 95% with a margin of error of 0.05% of acceptance.

Secondary data: research was collected from different sources: external sources to the firm such as library sources, internet and articles published in local and international media. Articles from journals and from government, from textbooks, and other public sources were also used. However, the major portion of the information gathered derives from literature review from databases while internal sources data was generated from the firm, financial information, written reports and advertisements. Accessing internal information from private and public sources was considered of utmost relevance. Thus, reviews of published cases, analysis of techniques and referrals to successful and non-successful firms, and studies on culture were also gathered. Further along, the information obtained was reviewed, organised, compared and analysed accordingly. Additionally, data used for this thesis derived from other external sources from journals, articles published in common media circles, government statistics and from national and international organization. Overall, more than 300 articles were read and large numbers of books were reviewed.

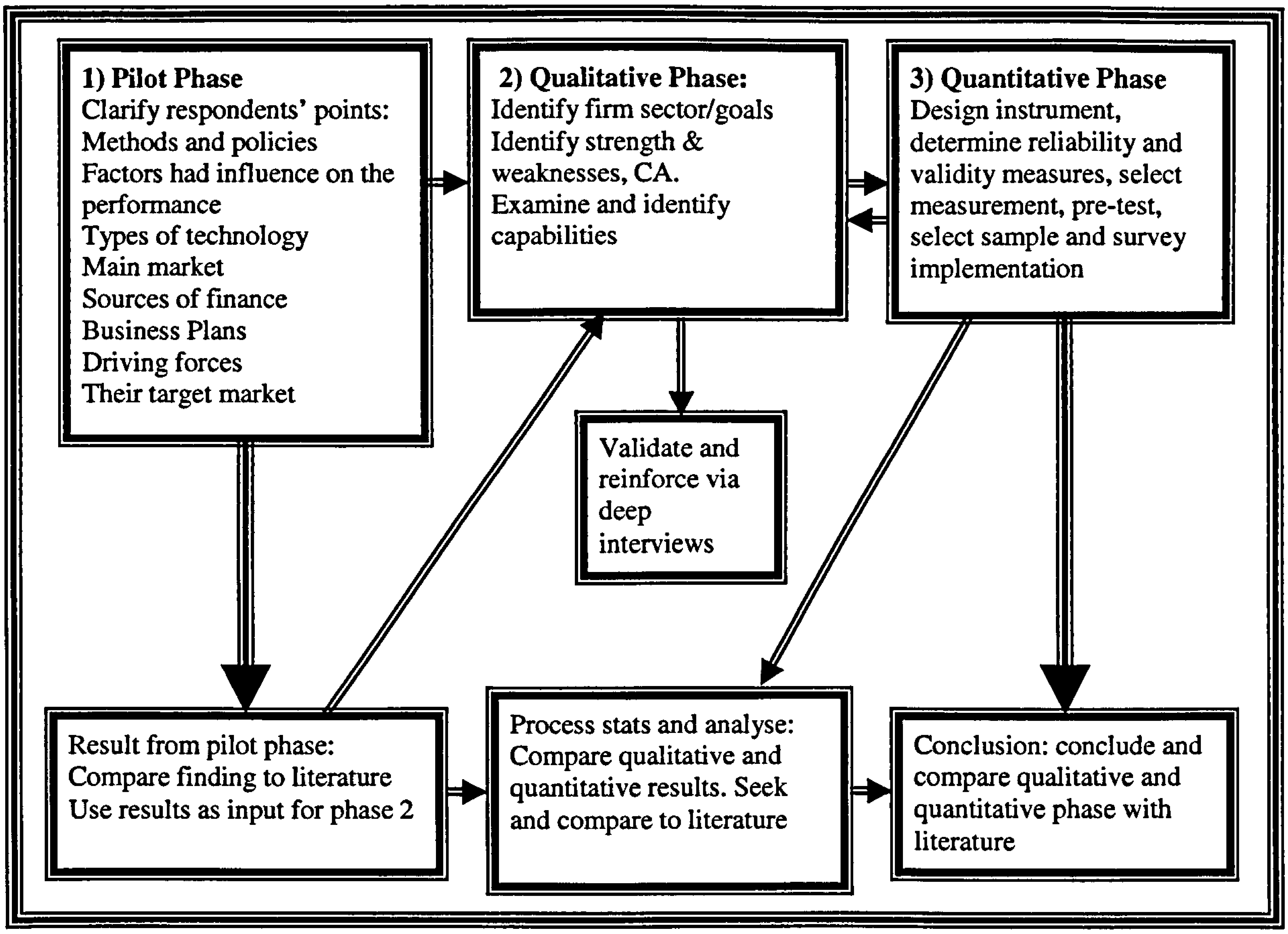
6.8 Empirical Research Model

To generate the information necessary to implement research goals, an empirical research model was designed and implemented. The model describes the process used to test the theoretical framework and is based on several steps: first, a series of questions were developed, next, objectives were delineated and hypotheses were formulated. The sequence is illustrated in the following figure, which at the same time exemplifies the empirical research process (Figure 6.2).

The formulated questions served to statistically test the hypothesis and potentially replicate findings. After this phase, the model was staged to include not only the different sections described, but also to find out if firm performance is related to the size of the firms.

Figure 6.2

Empirical Research Process Model



Source: Researcher's elaboration

6.9 Research Hypotheses and Operationalisation of Variables

The hypotheses formulated and presented here are contained within the conceptual model designed for this thesis and are also delineated so as to explain the model and to answer the questions posited for this research. Hypotheses are formulated according to the concepts each one will measure. Following in Table (6.1) are the hypothesis with the corresponding operationalisations.

Table 6.1

Research hypothesis and Operationalisation

H1	The trait of the entrepreneur (i.e., level of education, his or her business related experience). Profile or traits of the firm (age, time of founding, initial investment, size and industry) and the strategy used do not affect significantly the level of success attained by the firm.	Traits of entrepreneur = the level of education, origin experience previous to founding business and business related experience (Loscocco, et al. 1998). Trait of the firm = age of founding, type of business, initial investment, size, legal organization, original financing.
H2	The CAs and core competencies existent in successful firms in Palestine as well as their performance are not significantly different across sectors and size, (i.e., type of industry). (Cochran, 1981; Chell & Baines, 1998).	Efficient usage of resources, skills developed, networks, reputation, branding, etc.
H3	Firms' success performance and/or failure do not depend on the CAs attained by the firm or on how these are sustained. This sustainability does not arise from the indirect effects provided by the available resources and capabilities developed by the firm within the environment and industry in which the firm operates.	Market performance = reaching planned sales. Market; include building special relationships with customers and suppliers, market knowledge and control over distribution.
H4	A firm's strategy based in terms of the level of planning. Competence in advertising, R&D and human resources as well as the development of intangible assets like reputation, does not affect positively the firm's direction and performance.	Include business plans and planning (Castrogiovanni, 1996), goals set, strategies designed at founding time reaching and updating goals, R&D.
H5	Firms that define their strategy based on the theory of resources and capabilities will obtain better and more positive results than those that do not use this focus.	Strategy content and internal efficiencies attained are source of CA. Barney, (2001); Amit & Schoemaker (1993) found that using this standpoint has shown a positive correlation to success.
H6	The factors that determine firm's success do not vary significantly across sector nor are there barriers inherent to sector; the variance found across firms is only due to the size and growth patterns of firms.	The number of employees and business units measures size. Growth depends on intentions or clear pursuit. Success relates to market, financial, mixed measures and self-reported measures. Performance is based on increased marketing focus, internal analysis and analysis of the environment. Other performance measures are: innovation, being proactive, as well as R&D implemented.
H7	Business owner's performance is not correlated to the size and sector in which the firm is or to the firm's survival rate.	Measures: number of years in industry before founding and business related experience.
H8	Business operated in GS do not appear more likely to survive and succeed than those operated in the WB. Differences are due to external circumstance and not to personal attributes, like previous experience, product market characteristics and size of the firm, which automatically determines the level of success attained.	Survival is seen as how long firms remain in business and cover costs of operations. Also, experience previous and in business related activity (Dyke, Fischer & Reuber, 1992; Lussier, 2001)
H9	The factors necessary for firms to succeed do not vary significantly across successful and less successful firms in terms of resources and core competencies.	Comparison of expressed determinants of success across firms. Problems to succeed and barriers will be used here.
H10	The difference between successful and less successful firms does not reside on the exploitation of resources, innovativeness in products and services and pro-activeness but on the role and attitude management, the level of sales reached and size attained.	Purposeful questions will be asked to answer this hypothesis.
H11	The problems inherent to firms in the WB are not due to inherent barriers like the GS smallness nor do they differ significantly from those possessed by firms elsewhere.	Comparison of result to literature and empirical findings elsewhere, especially countries with similarities.

Continue of Table 6.1: Research hypothesis and Operationalisation

H12	The problem is rather to work out a self-centred development model based on import substitution and high protective barriers, or to create a strong export-led sector. The problem is neither to create a sound domestic base for the national economy that is able to achieve a good quality and productivity level and to participate in some sector of the international division of labour. Nor the problem lies in the forced and systematic occupation-related economic distortion and in the financially risky environment that it creates for many Palestinian SMEs.	Analysis of the secondary data in Chapter two has answered this hypothesis.

6.9.1 General Measures for Control

To obtain replies that could be used to test the hypothesis, a series of questions were formulated and included in the instrument designed to achieve the research aim. Managers were asked specific questions about their firm's CA and areas of strength and weaknesses. For a clear understanding of the questions see the questionnaire included in appendix (A6). Specifically, definitions in this thesis are based on the variables operationalised below and how they tie to literature:

Type of resources to be considered: (Independent variables)

Physical resources: infrastructure, machines, equipment for work or production.

Human resources: selection/training, quality of employees, education, experience and business skills (Cooper, et al. 1994).

Marketing skills: market share, idea generation, dealing with people, goal-setting, recognised leadership.

Financial resources: Sales, ROI, Break-even in number years taken to reach a profit.

Technological/resources: technology, innovative processes, information, databases, and computer skills (some of the resources described here are taken from a study by Hisrich & Brush (1982, 1985).

Market capabilities or measures: (Independent variable) Market positioning measures include building special relationship with customers and suppliers, market knowledge, control over distribution, etc. For this study several questions were drafted to determine market positioning, among these are Lado, Boyd & Wright (1992) is one of the authors using this measurement. Several questions were delineated to cover these aspects. Competitive Advantage: These are defined in terms of the usage of resources and capabilities[48]. Definitions, including earlier ones, suggest a strong association between CA and organizational effectiveness (Day & Wensley,

[48] Capabilities refer to a firm's skill at effectively coordinating its resources and how to deploy and use them advantageously. Resources (include: capital equipment, skills of employees, reputation, brand names (Barney, 1991) and are the source of firm's capabilities as cited in McGee & Love (1999).

1988; Barney, 1990; Grant, 1991) and on identifying, developing and taking advantage of enclaves in which a tangible and sustained advantage can be achieved, includes skills, resources, lower costs, and value adding activities. Service effectiveness and where these advantages reside-self reported measures based on a list deriving from literature. Also these include networks general strategies (financial, market, production, human resources) and the firm structure. Financial measures include net cash flow/income, growth rate per year either in employees' growth or income, gross profit, total sales and return on sales.

Overall firm success: (Dependent variable) self-reported involves two dimensions: the external aspect or market performance, (Venkatraman & Ramanujam, 1987 and Siu & Kirby, 1998) and internal aspects like profitability that brings to term firm's success in the market. Mostly market performance has been positively and significantly affecting profitability in most empirical studies (Rumelt & Wensley, 1981). Profitability is measured in terms of Return on Investment (ROI), profit margin and reaching planned sales. By compare the firm's position today to those in existence when the firm started, it is necessary to include measures of absolute sales across three years and changes in these measures. According to a report by Brush (1992) where she refers to a previous study by her and VanderWerf (1991), in which they have multiple measures. Some of the factors targeted in the questionnaire to determine what have rendered success for the firm in this study are achieving goals and reputation (managerial, prestige, compliance with customer relations, leadership in industry and years to break-even). Moreover, several questions were delineated to relate a firm's financial position; for this a modified Likert scale of four points was used to performance as well as success measures among others. These questions include finding the levels of competitiveness, the owner/manager's opinions on the importance of resources, including human resources as well as organizational resources (Cooper, Gimeno-Gascon & Woo, 1991).

Organizational capabilities: (Dependent variables) Teece, et al's (1997) and include knowledge and skills of employees as well as efficiency in organizational structure, strategic planning procedures and the ability to attract creative personnel. Between this capabilities are organizational, marketing and technical, all of which are considered in literature as sources of sustained CA. As Spanos & Lioukas (2001: p. 914) asserted, these variables will be sourced depending on the interconnectedness or on their mutual dependence. These factors were analysed deeply by Amit & Schoemaker (1993) and by Dierickx & Cool in (1989).

Market capabilities or measures: Independent variable. Market positioning measures include building special relationships with customers and suppliers, market knowledge, control over distribution, etc. For this study several questions were drafted to determine market positioning, Lado, Boyd & Wright (1992) are among the authors using this measurement. Several questions were delineated to cover these aspects.

Sector and place of work: This are controlled variables and includes retail, service, wholesale and manufacturing.

Organizational size: was measured in the number of employees and in the number of business units established.

Strategy: Is represented by the existence of business plans, goals set, strategies designed at founding time as well as in reaching and updating goals. Also the concept covers the self-expressed perception of whether the strategy is differentiated or not or, if it is focused on prices, or differentiated markets, (costs, etc.). Other aspects on which the strategy could rest are analysed: traits of the entrepreneur, traits of the firm. Miles & Snow as early as (1978) consistently found that organizations with clearly defined strategies perform better than those firms whose strategies are characterized by lack of clarity and emphasis.

Traits of the entrepreneur: the level of education, origin, experience previous to founding business and business related experience. Success is also based on the experience of firm's managers (Fishbein & Ajzen, 1981; Lussier, 1996, 2001; Dyke, et al, 1992).

Trait of the firms or profile: Age of founding, type of business, initial investment and type of legal organization, size in units of business or selling locations and in number of employees. Research on success relates it to trade offs and intentions based on the profile of owners (Orser, Hogarth-Scott & Wright, 1998). And Resource-Based View: Measured on how the firm uses resources to achieve CAs and also on how firms use internal analysis.

6.10 Research Methodology Used for all Case Studies

The research process suggested and the system used in this study follows Yin (1998) typology using a holistic multiple case study. This means that one unit of analysis is focused, the T&G industry, the data for each case is individually gathered following the same methodology.

Each case according to Yin's is interpreted alone and when each is finished, following the pre-designed guideline, findings are summarised and compared so as to draw conclusions from which theories can be derived. The process used to analyse and as expressed above, following Yin's (1998) involves: a) deciding the objectives and questions to research; b) deciding on theoretical model to be used; c) design the research methodology and financing of the research; d) select and identify the unit of analysis; e) initiate data gathering; f) analyse data and reach conclusions.

Evidently Yin's (1998) opinions invalidate the former complaints. To Yin, generalising is not only statistical, it is an analytical generalisation and the case is used to contrast or make inferences on similar findings. Maxwell (1998) coincides with Yin (1998) in asserting that what the case method aims at is to develop a theory which could be transferred to other cases rather than generalise. Table (6.2) below illustrates the different requirements necessary for the case research followed step by step in this study process of analysis.

Table 6.2

Process as Yin (1998) Sees as Basic Processes in a Well-Delineated Case Study Research

Phase	Activities	Motive(s)
Initiate research	Define the research question. Possible constructions or concepts at priori. No theory and hypothesis as a start.	Guide efforts. Give a better support to previous measurement. Keep theoretical flexibility.
Select cases	Determine the population. Theoretical and random sample.	Limit unusual variations and reinforce external validity. Guide efforts toward those cases, which extended the theory.
Design protocols and research instruments	Various methods for the facts collection. Combine both qualitative and quantitative data. Meet various researchers.	Fundamental theory is reinforced. Search for synergy of evidence. Encourage divergent perspectives.
Field work	Overlap the findings with a first analysis of data. Use of flexible methods for information gathering.	Speed up the analysis and adjust the information gathering. Allow the researchers to take advantage of the emergent aspects of each case.
Data analysis	Analyse each case, information and search for trends between the cases through divergent techniques.	Allow the sequence and generation of a preliminary theory. Strength the researchers to go far their previous impressions and to visualise the evidence from multiple view.
Formulate hypothesis	Tabulate the available evidence for each concept. Apply replant theory (logically) between the cases. Search for evidence to identify causes after relations detected.	Reinforce your definition, validity and measurement. Confirm, extend and/or refine the theory. Give internal validity.
Literature review	Contrast of divergent literature. Comparison of similar or favourable literature.	Give internal validity, raise the theoretical level and adjust concept definition. Reinforce the generalisation, improve the conceptual definitions and increase the theoretical level.
Reach conclusions. Finalise the study	Theoretical saturation if possible.	Finish the process when the marginal improvement is minimum

Source: Eisenhardt (1989: p. 533).

Specifically, the present study being a multiple case analysis and embedded in the same industry, seeks to generalise as to whether the CAs and success determinants in the T&G industry are

Centre for Statistics) and via phone by the researcher with direct questioning. The dependent variable 'success' was compared to factors linked to performance. Selection and interviews of firms in the study, observation of business premises of employees and customers' behaviour, as well as internal primary data was gathered from all business sector studied and incorporated into the research findings.

6.10.1 Research Design across Phases

The research design and methodology utilized for this thesis involve many interrelated decisions. Most significantly the choice of the research approach (causal and descriptive) and to determine the ways by which information will be gathered and aims achieved. The research tactics are also part of the design (which includes measures used, questionnaire constructed, design and sampling plan). Finally, data collection and analytic tools are the last component of the research design. Moreover, among other relevant elements reflected on are: which questions are delineated, how research objectives and hypotheses are formulated and under which premises, as well as the tactics delineated to achieve aims. The fit necessary to assess complexity of the population to be studied as well as the assessment of the research process in terms of costs, timing and reality is also encompassed in the design.

The research approach for this thesis includes the various methods used for data collection, the types of methodologies used, the research design and elements contained in each phase. Likewise, each phase describes how the resulting analysis will be utilized to reach the expected results formulated for this thesis.

6.10.2 Exploratory Pilot Case Studies

To study the management of critical success factors, we opted for using the case study method; a case study is "an empirical enquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident and it relies on multiple sources of evidence" (Yin, 1994: p. 13). To achieve the purpose of the pilot phase and get a picture of SMEs sector in Palestine, we conducted 29 case studies within the T&G manufacturing sector in Palestine during March 2005. Due to the central key role of owners/entrepreneurs in the process of decision making of SMEs (Westhead, et al. 2001; Miesenbock, 1988; Bilkey, 1978), in each firm, the individual entrepreneur was the case being studied. Therefore, the 'entrepreneur' was the unit of analysis. In an informal conversational (unstructured) interview we asked the owner/manager or other decision-makers to tell us the history of the firm's involvement in national and international operations from the outset[49].

This type of interview enabled us to unfold the respondent's perspective on the issues we are dealing with. In keeping with Marshall & Rossman (1999), respondents were informed about the purpose of the study (The role of SMEs in Palestine) and requested to explain their views and perceptions while they were explaining the history of the firms and their involvement in subcontracting operations with the Israeli firms. The researcher also aimed at earning their confidence and persuading them of the importance of their cooperation and that their views were valuable and useful for the implementation of this study while ensuring them of the confidentiality of the information.

In order to select cases at this stage the only available database that has information about the type of business and number of employees of firms in Palestine, was chosen as the source of information. With respect to the definition adopted for SME, the database was searched for manufacturing (T&G firms) that have more than 20 employees. The total qualified firms sorted were 183. Due to closure and shortage of time, (Yin, 1994: p. 75) were considered as the main criteria for selecting the pilot cases. Therefore, the study was limited to those manufacturing firms that were established or had central offices in the main cities, two cities in GS (Gaza city and Khan Younis) and three cities in the WB (Hebron, Nablus and Tulkarm), 124 firms were contacted by phone. Explaining the purpose of the interview, we managed to arrange appointments with 18 firms in the WB and 11 firms in GS.

6.10.2.1 Data Recording and Management

In this section, a brief discussion is given on how the data were recorded and managed for easy retrieval and analysis. The face-to-face interviews with about 50% of the sample were tape-recorded and transcribed in full detail after each interview in Arabic and the other half of the sample was completed by phone with the owner/manager of the firm by the researcher. The interviews were translated into English and organised to clarify respondents' points of view regarding the main issues we are exploring at this stage.

Review of the interviews shows that the information could be classified in nine categories:

1. Methods and policies that they have used to start their operations;

[49] In this study the terms owner, manager, decision-maker, entrepreneur, and case are synonymous.

2. Factors which had influence on the performance of the business over the period of the Oslo agreement;
3. Driving forces that influence the owner-manager's decision for entering the market;
4. Types of technology that the business has;
5. Main market for business's product;
6. Sources of business's finance;
7. Business competitive advantage;
8. Business plans for the future; and
9. Their target market for the future.

6.10.2.2 Analysis of the Pilot Findings

The review of findings showed that most of these firms had close relationships with Israeli markets "subcontracting" and for importing raw materials and technology. Dependency on the Israeli market for importing technology and raw material was one of the factors that widely influenced the firms' decisions and operations in production process. This finding supported the researcher's choice of definition, due to dealing with both inward and outward activities, as well as contracting forms of subcontracting activities (i.e., licensing or technology transfer agreements) that were interacting and influencing the firms' operations. Most of the firms import raw materials and machinery to varying degrees, depending on the nature of the T&G industry and Israeli market demand. Based on the discussion so far, it could be concluded that the activities of the selected SMEs in Palestine is a complex and multidimensional process, the understanding and analysis of which requires a holistic view.

Therefore, in order to understand the process of decision making and the role of SMEs in the Palestinian market, questions should be developed to clarify the nature of firms' business and their resources and skills can be transformed into competencies and CAs that will position the firm in advantageous position in relation to competitors.

The findings of the exploratory cases confirmed Miesenbock's (1988) statement that the entrepreneur is the key variable in SME development. Findings showed that, in most cases the owner-managers' background, experiences, competencies, motivations, attitudes, social relationships and the most effective factor is the Israeli occupation, which directly influenced the firms' activities in the internal and external market. Although in most cases, environmental factors such as lack of foreign exchange for importation, market saturation, etc. had motivated firms to start exporting, it was the owner-manager's attitude and knowledge of the national and international market and his/her capability of adapting the firms' resources to the environmental opportunities that determined the process.

In summary, the findings of the pilot study revealed three types of driving forces that influence the development of SMEs in Palestine; therefore, research questions should be developed in three areas:

1. Characteristics of the entrepreneur (owner-manager/decision-maker) with emphasis on entrepreneurship dimensions and their relationships;
2. Characteristics of the firm with emphasis on the CA and distinctive competencies that determine success in firms established in Palestine before and after Oslo agreements; and
3. Characteristics of domestic environment with emphasis on identifying the driving forces that influence the enterprises' development and growth.

6.10.3 Qualitative Data Analysis

According to Marshall & Rossman (1999: p. 150), "*Data analysis is the process of bringing order, structure and interpretation to the mass of collected data*". In qualitative studies, researchers devote more attention to conceptualisation "*to understand people, groups and organizations within the full context or situation in which they act*" (Sullivan, 2001: p. 451). In fact, in qualitative data analysis, researchers devote more effort to contextualising than to abstracting or generalising. According to Miles & Huberman (1994) data analysis contains three linked sub processes: *data reduction, data display and conclusion drawing / verification* (in Denzin & Lincoln, 1994). "These processes occur *before* data collection, during study design and planning; *during* data collection as interim and early analyses are carried out, and *after* data collection as final products are approached and completed" (ibid, p. 429). However, as stated by Marshall & Rossman (1999), since the "qualitative data are exceedingly complex and not readily convertible into standard measurable units" (p.151), they "are not immediately available for analysis, but require some processing" (Huberman & Miles in Denzin & Lincoln, 1994: p. 430).

In order to overcome the problem of the manipulation of the qualitative data and to avoid biasing the result, Yin (1998) noted that more important than selecting an analytic technique is to have a general analytic strategy. He presents two general strategies for case study analysis.

1. Relying on theoretical propositions; and
2. Developing a case description

According to Yin (1998), the preferred strategy is to follow the theoretical proposition (the research questions and the review of literature) that led to case study. The propositions shape the data collection plan and help to focus attention on certain data and ignore other data. In other words, *"choices of conceptual framework, of research questions, of samples, of the "case" definition itself, and of instrumentation all involve anticipatory data reduction which, as we have noted, is an essential aspect of data analysis."* (Huberman & Miles in Denzin & Lincoln, 1994: p. 430). The second strategy is a descriptive mode that is used to present the case without specific concern for following the theoretical foundations. Similar to Yin (1998) and Marshall & Rossman (1999) also suggest that researchers should use the preliminary research questions and the related literature to provide guidelines for data analysis.

In this study, consistent with Yin (1998) and Marshall & Rossman (1999), the researcher uses the research questions and theoretical propositions in the analytic phase. Each case will be presented separately in descriptive mode and the empirical evidence will be presented and organised in accordance with the conceptual framework and the embedded units of analysis. Interview results in each case will be assembled and integrated in accordance with each area. However, as we have adopted embedded units of analysis, the analysis of embedded units of analysis will be conducted within each case and then pattern of explanation within each case is compared across case.

6.10.4 Quantitative Data Analysis

This empirical quantitative phase information derived from the 200 sample firms was administrated through questionnaire obtained in the year 2005. The objective continues to be finding and determining the CAs and competences that determine success for firms established in Palestine for at least three years. As discussed earlier, in order to identify the driving forces that lead firms to develop a sustainable CA, a questionnaire including four types of questions was completed by the respondents; closed, open ended, yes or no questions and four point Likert questions. With respect to the nature of the questions, quantitative research results and analysis for this thesis are presented in several parts: first, general results are presented in a descriptive format data under general results heading. Next, the most significant results are presented and analysed under SPSS statistical packages. Analyses are geared to probe the formulated hypothesis and are as such analysed under Chi-Square test. Some of the results are presented in general context, across the WB and GS and across sector.

In general, for most variables these are crossed-analysed against place of work in the WB and GS firms. However, statistics are also crossed across line or size of business. Results were analysed under statistics recognised as the most adequate for nonparametric test under Chi-Square test with its corresponding P-value is used. Results are mostly presented in tables and figures in the form of descriptive and analytic statistics. Data is presented according to variables grouping and following literature findings as studied by a majority of research regarding success determinants. Accordingly, findings are presented in terms of three main groupings: owners/entrepreneurs traits, demographic traits of business and the strategic tools used by the business. Likewise, in accordance with research objectives, CAs, capabilities and potential problems and barriers are also analysed.

Open-ended questions and closed-ended questions are descriptive data of which some are presented by descriptive statistics that provide general information about the population. A series of descriptive statistics and Chi-Square tests were used to analyse the data. In addition to frequency distributions, various measures of central tendency and dispersion were calculated on the collected data. Chi-Square tests were used to examine the association between categorical variables.

The Chi-Square test simply tests the association between two variables. The null hypothesis in a Chi-Square test always assumes that there is no association between the variables (in other words, one variable does not vary according to the other variable), while the alternative hypothesis claims that some association does exist. The alternative hypothesis does not, however, specify the type or direction of the association. A resulting P-value is used to evaluate the significance of a Chi-Square association. A P-value of less than 0.05 is highly significant, indicating that some association between the variables exists. The results of the data analysis and substantive findings are described in (Chapter 8).

Similar to open-ended and close-ended questions are presented by descriptive statistics that support general information about the population. Several questions were delineated to relate firms' financial position, for this a modified Likert scale of 4 points was used as well as success measures among others. These questions include finding the levels of competitiveness, owner manager's opinions on the importance of resources, including human resources as well as organizational resources (Cooper, Gimeno-Gascon & Woo, 1991).

Consequently, results are also presented by sectors and according to research aims. In addition to the patterns of analysis mentioned above, results are also presented in general format and across place of work. Where appropriate, findings are also presented and analysed by business sector, i.e. service, retail and wholesale. The analysis of data was done both manually and using computer instruments and analysis; the interpretation was done addressing the hypothesis and questions posited in the research. Responses were processed and analysed using the statistical packages SPSS. Results are presented in typical tables, figures and in report format.

6.10.5 Data Collection and Analysis

The primary data source is a structured questionnaire. This questionnaire was conducted during face-to-face interviews with the founder of the company. The founders were targeted because they typically possess the most comprehensive knowledge on the organization's history (Carter, et al. 1994). One of the interviewers asks the questions and the other person fills in the questionnaire and takes notes. Immediately after the interview, the researchers crosscheck facts of the data by phone call with the owner/manager of the firm's surveyed to make sure of the reliability and trustworthy of the data collected and take impressions.

In case studies, data collection can rely on different sources of evidence. Yin (1994, 1998) refers to six important methods: 1) documentation, 2) archival records, 3) interview, 4) direct observation, 5) participant-observation, and 6) physical artefacts. Denzin & Lincoln (1994) also mention seven: 1) interview, 2) direct observation, 3) analysis of artefacts, 4) documents, 5) cultural records, 6) visual materials, and 7) personal experiences. And finally, Marshall & Rossman (1999) suggest four sources: 1) participation in the setting, 2) direct observation, 3) in-depth interviewing, and 4) analysing documents and material culture. All these authors agree that no single source has a complete advantage over all others. Therefore, as recommended by Yin (1998), the researcher may use as many sources as possible for increasing the validity and the reliability of the findings. The three sources common to all these categories are documentation, interviews and observation.

6.10.5.1 Interview

According to Yin (1998), interviews are an essential source of case study evidence because not only can well-informed respondents provide important insights into a situation, but they can also provide shortcuts to the prior history of the situation. The interviews can take several forms regarding the type of questions. Patton (1990) categorises interviews into three general types: 1) informal conversational interview, 2) general interview guide approach, and 3) standardised open-ended interview (in Marshall & Rossman, 1999), while Yin (1998) refers to three forms of interview: open-ended nature, focused and structured questions. The interviews conducted in this study were focused on a pre-determined set of discussion topics. However, opportunity was left open for any type of response. The researcher used interview guide approach followed by structured questions in this study, because it provides topics or subject areas within which the interviewer is free to explore, probe and ask questions that elucidate and illuminate the subject under investigation.

The interview guide and structured questions enabled us to: a) build a conversation within a particular subject area, b) word questions spontaneously, and c) establish a conversational style, but with the focus on a particular subject that has been predetermined (Marshall & Rossman, 1999). Meanwhile, the type of interviews conducted was face-to-face and in-depth interview that enabled the interviewer to explore a few general topics through discovering the participant's view (Marshall & Rossman, 1999). Though much more like conversations than formal interviews with predetermined and structured questions, interviews were focused on certain topics (research problem and research questions). Therefore, in order to collect data, the major instrument utilized was the interview guide which is described in detail below.

The interview guide was prepared on the basis of the theoretical frame of reference, the research problem, research questions and findings of pilot study, to ensure that all the relevant variables were covered in the interview. The interview guide covers questions such as:

1. General information about the background of the firms including the main motives of the establishment of the firms, the founders of the firm, the relationships between the founders and the present managers,
2. position of the firm in the domestic market,
3. entrepreneurs' characteristics,
4. firm's characteristics,
5. entrepreneur's source of information about competitors and market opportunities,
6. impact of domestic environment on the firm's activities,
7. The present behaviour of the entrepreneur in the market,
8. State of industry in the market; competition and freedom of entry,
9. Production development, and
10. Knowledge resources.

With respect to the main unit of the analysis, interviews were focused on entrepreneurs' perceptions on different issues and firm's competitive position in the market. Each interview was started with a brief explanation of the research background and short description of the study. The interviewer asked each interviewee to provide his or her perceptions about the issues raised. Each interview began with the history of the firms and its founders and characteristics of the firm.

From that point, and in a very flexible fashion, the interviewer probed for another subject as such to cover all aforementioned issues, then and there the structured questions were completed.

6.10.6 Quality Criteria

In order to develop a sound rationale for the choice of the methodology and to limit bias in interpretation, the trustworthiness of this study is evaluated against different quality criteria. First of all, based on Gummesson's (2000) suggested list, we aim at stating, in the beginning of this Chapter, *the scientific positioning* that is followed in all stages of this study. In addition to this, theories and concepts that govern this thesis along with the reason for the selection of these theories and concepts are discussed in detail in Chapters 4 and 5. However, to address the issue of the quality of this research, according to Marshall & Rossman (1999), we need to respond to quality criteria against which the trustworthiness of the project can be evaluated. As discussed above, a variety of methods, of which some are parallel, are proposed by scholars to increase the quality of research. While Yin (1998) refers to the establishment of correct operation measures, use of multiple source of evidence, establishment of the chain of evidence, Miles & Huberman (1994) and Denzin (in Denzin & Lincoln, 1994) refer to triangulated materials that are trustworthy as the foundation of interpretation. However, in this study, we used a combination of these criteria to enhance the quality of research. In order *to establish correct operational measures (construct validity)* (Yin, 1994: p. 17), the theoretical frame of reference was developed on the basis of integration of different theoretical approaches such as, RBV theoretical model and the concepts underlying this view, competitive advantage, core competencies and capabilities developed determine success for firms across sector and the complementary Porter's Competitive Advantage model. An exploratory pilot study was completed to test the feasibility of the study.

The interview guide and questionnaire were developed on the basis of the theoretical frame of reference and the embedded units of analysis. The interview guide with structured questions and questionnaire were tested by two researchers and by managing directors of four firms to ensure that the questions were asked properly and were understandable. The cases were selected carefully so as to reach the founder/owner or a person who could best answer the questions and could give a good understanding of the entrepreneur's attitude and behaviour with respect to the phenomena under investigation. In order to ensure the integrity, validity and accuracy of the findings (Yin, 1994, 1998; Guba & Lincoln, 1994; Patton, 1990) different steps were taken. First of all, principles of triangulations such as the following were used in collection and investigation of the same data.

- Different sources (interview and documentation)

- Different measures (recording the answers during interview and written answers to questionnaire)
- Different types of questions (open-ended, close-ended, yes-no, and four-point Likert)
- Different method (cross-case, the application of the competitive audit test and quantitative method including Chi Square)

In fact, to overcome the disadvantages of interviewing and misinterpretation of entrepreneurs' answers we linked qualitative data with quantitative data through use of a questionnaire and interviews structured questions. Qualitative-quantitative linkage not only enabled us to confirm or corroborate data via triangulation, but also to elaborate and develop analysis through providing richer detail (Rossman & Wilson, 1984 and 1991 in Miles & Huberman, 1994). Finally, the researcher refers to his prior *professional experience* (more than 30 years in running his own business in Kuwait and the United Kingdom and holding the position of director general with large firms in Kuwait) and contextual knowledge (Patton, 1990) that support the feasibility of the research. Based on the background provided in Chapters 4 and 5, the methodology Chapter specified how the researcher went about finding out what was required to fulfil the purpose of the study and deal with the research problem.

6.10.7 Analysis and Coherence of the Overall Process

Though the search for the topic and the delineation of questions followed a lengthy exploratory phase, ultimately this culminated after implementing the first phase of the study, the pilot phase. Hence, after this phase and utilizing research findings, this research proceeded to design the second phase for this study. In the meantime and prior to establishing the research objectives, a thorough search of literature and other secondary data was implemented in order to delineate the methodology for the third phase. Findings and research goals made this research determine that most aspects concerning SMEs were of considerable interest, taking into consideration the socio-economic development in the Palestinian territories as well as the competitive environment into which SMEs evolve.

Ultimately, the research topic was chosen and the research was delineated, a process which was adequately illustrated in the model presented in the Chapter. Moreover, once the revision of literature and secondary information were available, the methodology for this thesis was designed and implemented in an exploratory fashion so as to gather the data needed to address the issues studied. Hence, after completing these steps, the theoretical framework chosen and descriptive research procedures were reformulated. The chosen framework for this study is the RBV of the firm and the concepts underlying this view. Thus, the design was fit to prove if the CA, core competencies and capabilities developed determine success for firms established in Palestine across place of work and sector.

Finally, after processing and analysing the data as specified previously, conclusions and recommendations were formulated, conclusions followed the main aim of this research, while recommendations aimed at the learning process from the standpoint of entrepreneurship, from a learning and standpoint and from the point of view of potential assistance for policy implementation. Furthermore, conclusions include limitations and suggestions for future research.

CHAPTER SEVEN

Qualitative Research of Case Studies of SMEs in Palestine

7.1 Introduction

In spite of the enormous proliferation of competing schemes in the business strategy literature, there are two fundamental paradigms that have emerged as the most influential in the last two decades. First, the Resource-Based View[50] of the firm that evolved during the 1990's and second, competitive positioning as proposed by Michael Porter[51] from Harvard Business School in the 1980's and in the 1990's.

Porter's arguments are drawn from the work of organizational economists who place the industry as the central focus of strategic attention. According to Porter's framework, structural characteristics of a firm's industry best explain variations in firm performance. In other words, Porter sees good industries, such as pharmaceuticals, where most players enjoy margins; he also sees bad industries, such as trucking, where most participants suffer from low profitability.

Using the language of economics, a successful firm is one that appropriates monopolistic rents. In other words, in the industry as a whole or in a segment of the industry, the firm establishes itself as the dominant (or sole) competitor. Porter's logical conclusion from this perspective is that there are only two ways to compete: through low cost or product differentiation. Most managers in the 1980s became familiar with porter's taxonomy. Cost leadership is achieved through the aggressive pursuit of economies of scale, product and process simplification and significant product market share that allows companies to exploit experience and learning effects. Differentiation calls for creating a product that the customer perceives as highly valuable and unique. Approaches to differentiation can take many forms: design of brand image, technology, features, customer services and dealer networks.

Instead of looking at the industry as the source of profitability, the RBV of the firm argues that the attention should turn to the firm. Instead of seeking profitability at the intersection of the

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[50] The seeds for this view originated in the work by E. Penrose, *The Theory of the Growth of the Firm*, Basil Blackwell, 1959. This approach was substantially developed among others by B. Wernerfelt, "A Resource-Based View of the firm", *Strategic Management Journal*, Vol. 5, pp. 171-180, 1984: Barney, J. "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17. pp. 99-120, 1991: Peteraf, M. "The Cornerstones of Competitive Advantage: A Resource-Based View", *Strategic Management Journal*, Vol. 14, No. 3, pp. 179-192, March 1993. Prahalad C. & Gary Hamel popularised the approach in their now classic paper, "The Core Competence of the Corporation", *Harvard Business Review*, May-June, 1990, pp. 71-91.

[51] Michael E. Porter's primary works in Competitive positioning are in his books, *Competitive Strategy* (New York: The Free Press, 1980) and *Competitive Advantage* (New York: The Free Press, 1985, 1990, 1998).

products and markets, the Resource-Based View (RBV) looks for value derived from resources, capabilities and competencies. Instead of relying on monopoly rents, premium returns depend upon what economists refer to as "Ricardian rents". What makes one firm different from another is its ability to appropriate resources that are valuable, rare and difficult to substitute or imitate. The roots of this perspective go back to David Ricardo[52], a British economist who lived in the early 1800's. Ricardo tried to explain variations in farm profitability by pointing to differences in the supply of fertile land. Proponents of the RBV had the insight to recognise that management skills, information capabilities and administrative processes can also be regarded as scarce factors able to generate Ricardian rents.

Porter's framework and the RBV of the firm basically perceived the primary role of strategy as achieving a unique CA. In this sense, the objective of strategy becomes beating your competitor either by excelling in the activities of your value chain that allows you to establish a dominant position in your industry, or through the mobilisation of unique resources and capabilities. Although these frameworks have often been presented as conflicting views, we feel they can contribute greatly to the development of a strong business strategy. Since they emphasise different dimensions of strategy, they can richly complement each other.

Competitive Advantage (CA) is the result of a firm's planned strategy. The strategic direction is realized through the ability of producing greater profits than the competitors. Many factors are equally important in producing a position of success. Some of these are industrial factors; others are resources and competencies of the single firm. The sum of all these forces results in creating and sustaining a successful position, in other words a competitive advantage.

This Chapter focuses on the evolution of the concept of CA from the study of the industrial environment to the analysis of inner resources such as knowledge and specific competencies embedded in firms. Moving from the study of CA theory, the work tries to define this concept identifying its constitutive factors. The study of the mechanisms responsible of creating a sustainable CA is useful for the management itself and provides many interesting opportunities to investigate the causes of the firm's competitive success.

In this Chapter two types of qualitative case studies will be presented. The first case studies of three successful and three less successful firms use triangulation techniques to identify the CAs existent in SMEs in Palestine and how these factors determine success. The methodology utilized

[52] A. Hax & D. Wilde, *The Delta Project* (Palgrave, 2001).

is based on in-depth personal interviews, observation of businesses premises and the utilisation of data files from the analysed firms. To increase objectivity, interviews are implemented not only with the owners/managers, but also the data collected includes archival information with employees and accountants to increase validity and reliability.

The second empirical evidence from six pairs of two small, two medium and two large firms in the WBGS will be analysed using Porter's Competitive Advantage model, which reveals that small and medium size firms within this industry do not apply the determinants of Porter's (1990) model to a strategic analysis of their businesses. More importantly, the implementation of strategies designed to strengthen these determinants would create an environment for sustainable CA for firms within this channel.

7.2 Results and Analysis of the First Six Cases

What follows is the description of each case analysis in a case-by-case format. Findings are divided by sector (successful and less successful). In addition, each case describes the history, interview analysis and the application of the competitive audit test. Further, the cases presented are summarised in table format. Conclusions and recommendations appear at the end.

7.2.1 Successful Firms

Firm 1: Was founded 28 years ago (1977) with $3,000 though it was not until a year after that the owner formally initiated the business on a weekend basis. Respondent is the firm owner, the business started operating with 13 employees, currently there are 54 employees and three more will join the company in the year 2006. Sales revenue for 2004 was $12 million while one fiscal year ago it was $10 million. In the year 2006 sales are expected to increase by 10%.

The business is oriented 60% to wholesale activities and 40% to retail. Customer service, satisfaction and a good accounting system are a consistent focus of this firm's operations. The firm is customer driven and consultation with customers regarding new needs is constantly done. Human resources, though apparently not high in skills seem to be satisfactory.

The owner/founder of the firm is a textile engineer who graduated from Polytechnic School in Jordan. He managed to sell and install 3 spinning production lines in different factories over 10 years. Later, he shifted to production and established his own spinning factory in Ramallah 10 years ago in 1995. After 4 years, he established his second spinning factory in Nablus, which produces the same products but is well equipped. Finally, he established the third factory in

Hebron in 2002. This factory produces synthetic fibres from polypropylene, polyester and also non-woven textile that is a new branch of the world textile industry with a rate of growth higher than that of the electronics industry. Non-woven textiles do not have warp and woof; therefore, they are very economical and have very many different uses such as wipers, synthetic suede, diapers, table clothes, cleaning clothes, in the construction industry, etc. This industry is capital-intensive, with a very high rate of innovation. None of their domestic competitors has invested in this industry because investment costs are too high, and without exportation, projects are not economically feasible. The firm does not have any competitor in non-woven textiles in the WB.

Firm's activity, development and current situation: The idea for forming this company came from the founder's hard work and his desire to succeed and to help his family and because of his drive and determination to seek better opportunities. He initially worked as an engineer at well-known T&G factories for ten years in Amman. His job provided him guaranteed pay and encouraged this entrepreneur to try out his luck. This opportunity has been his inspiration and action for which he has been forever grateful. At the outset and to sound out the market, the owner talked to buyers in the field who expressed their frustration at the quality of materials available.

Soon after he decided to serve their needs; he started and began to deliver his product to the retailers in different cities and villages in the area. Beyond the wildest expectations of the owner, in four months of hard work, he had recovered his investment and made more money than he earned in salary in one year (salary was $110 per week). Coming from a family of 9 brothers and sisters, this entrepreneur has achieved a remarkable success in a relatively short time. He is the only brother in business and outdid by far his parents' small neighbourhood factory.

The location of the firm was situated at another site in the same street but has been moved twice, until five years ago when the premises were located at the current site, where it remains. This firm became the first to have an air-conditioned showroom in the WB. Most of the firm's clients are wholesalers, small retailers and institutions; sales are both cash and credit. However, 40% of sales come from small consumers.

The entrepreneur had established an excellent commercial relationship with all sectors. Additionally, the firm has a high recognition level and is an industry leader. Though decisions are centralised, employee's opinions are considered relevant. Previously, the oldest son was the controller and right hand person, even though he came to the business when it was an established firm.

Interestingly, the founder believes his success is due to credibility, reputation, good relationship to customers, suppliers, employees and in his serving his clients well with added value. Advertising is mostly in-house and location is excellent with high visibility. Main competition is incoming from local firms and an Israeli giant chain and imported clothes from Turkey and Italy. The entrepreneur believes that his firm has a very effective competitive strategy and that having his competitors located closely has helped more than threatened him. The competitive scenario has changed amply now compared to the one which existed when the firm was initiated. This entrepreneur added that, ten years ago he saw in an industry show what would be the showroom store of the future, yet he already had the system installed at his premises, average earning per year are $12 million, currently the firm is establishing a computer inventory system.

Analysis of firm 1: This firm has an enormous reputation in the community, both among clients and colleagues. The owner keeps control and is the centre of activity. To ensure that competition does not get out of hand, he helps other storeowners by subletting products on consignment. Though his business was initiated with scarce resources, trust in his abilities, his capacity and a strong motivation, backed up by son and family, and inspired him further. His training in the army, a large family and studies prepared him for a life of discipline, hard work and dedication. All these factors combined, provided him with capacity to develop resources and obtain and project CAs over well-established firms. Advertising wise, since the firm's starting point and this still goes on, including matching competitors' prices if clients bring a written validated note. Special and customised services are offered even to the client's doorstep as well as supplying requested labour is predominant tools. Supervision and making sure customers are treated promptly is well emphasised. A good product mix, trendy merchandise and obtaining via catalogue have proved to be a successful strategy. Trusts have positioned the firm to an advantageous situation.

During the last two years, the firm has developed more areas of strength, economies of scale in buying and sales and in his supplying government and major Israeli subcontractors. Supplier-vendor relationships are excellent; all sectors are informed of offers and take advantage of them, in addition to being enabled to using cash discounts. To keep informed, the administrations attend fairs, a knowledge base that is later transferred on to customer improvement. Technology is being used now by establishing a computerised inventory system. Currently new services like broadening the showroom and improving training programs will be installed. Delegation and less centralised decision-making plans are underway. Applying the competitiveness audit test to this firm derives significant results. In a scale of 100 the firm obtained a 90% score, an excellent performance. The model source and base of the 12 competitiveness factor dimensions (Ahlbrandt & Slevin, 1992); it was initially applied to established new ventures that showed investment potential. Minimum rating should be eight out of 12. Basis for individual answers: indicating positive performance on a factor. Scores can be converted to %s and averaged (Slevin & Covin, 1995).

Firm 2: Was founded 25 years ago (1980) with $15.000. Respondent is the manager of the firm, the business started operating with 7 employees, currently there are 32 employees and the number is expected to increase by 10% yearly. Sales revenue for 2004 was $4 million with an expected increment of about 10% yearly.

Business unit activity, business is oriented 30% to wholesale activities and 70% to retail. Most employees are long-term employees many of whom worked for the firm owner's defunct father's factory. Only three employees are new hires and mostly students, relatives of workers. Emphasis is on customer's service and satisfaction, management assures that cost control and strict accounting systems are the main reasons for success. Physically, the firm does not look attractive and is overcrowded in space distribution. Employees appear knowledgeable and seem to participate in some level of decision-making, yet not fully.

Firm's activity, development and current situation: This firm started as a corporation since its beginning. Before locating where it is 8 years ago, premises were at three previous sites. The business specialisation, price range, high value and reputation is excellent, a fact well recognised by most specialised buyers around the area who recognise the firm's quality offer and prestige. Wedding dress, shirts, jeans, underwear, and accessories are sold as complementary line items. The owner stresses that his main advantage is being in a unique sector; he deals mostly with knowledgeable clients. He entered this niche because of his knowledge and love of design and new styles of cloth, and his exposure to his father's business of quality wedding dressmaking.

Contrary to his father, he states, he knew early that manufacturing small quantities was not profitable. Decision-making is centralised but the owner appreciates his workers' honest opinions. An apparent drawback is that no succession is planned which might be a growth deterrent. No external management been implemented nor is there a plan to use it, except for a highly reputable local accounting firm, which also handles all governmental responsibilities and affairs. In terms of decision-making, the entrepreneur considers himself conservative in decision-making and is quite satisfied with his business.

Knowledge of the market and his suppliers is apparent. Regarding suppliers, the firm does not use one single supplier, the owner quickly points out the hindrances of this process if difficulties arise. Therefore, he has alternative suppliers and also multiple tasks employees. To be informed about the environment, he attends fairs; he often travels to become acquainted with his suppliers, many of whom are from Turkey, Jordan, Egypt, Italy and sometimes France. Some of the products offered are imported directly from Turkey and Italy. Service is the key to his market position, a trait he ensures by providing his clients with optimum service, counselling, competitive prices and managerial efficiency. Cost control and growth restraints are emphasised. Even though the firm has some competitors, this does not worry him. Moreover no growth plans exist yet, nor does the owner consider them probable since he enjoys the position, size and solvency the firm has always had. Regarding business plans, no business plans were ever done; however, he does prepare advance orders and has budgets. Average yearly sales are $4 millions dollars. Similarly, the firm takes advantage and saves by paying suppliers early on a cash basis.

Analysis of firm 2: This firm's CA resides in its specialised niche market of high quality wedding dresses. Expertise and knowledge from both the owner and its employees of their client's wishes and market has been a sustained advantage for over two decades. Resources were obtained early in the business life, the owner's and his team capabilities and drive has turned the business into a reputable institution. In spite of the premises not being attractive or comfortable by local standards, this firm operates in a recognised niche. Success to them rests on their market knowledge, hard work, reputation and smallness of size.

The entrepreneur states that they do not offer only products supply but high quality products, he also aims to always have the best and latest fashion in the market and to maintain good collaboration with all, a fact he considers also key to success. Location is an area of strength as well as his administrative system and cost control. The firm shows financial soundness and increases its soundness by establishing excellent supplier, client and bank relationships while taking advantage of discount and good credit offers. Financial planning is stressed constantly. However, a few apparent disadvantages were observed or perceived by this analyst. It is this researcher's belief that his unwillingness to expand operations and his centralised decision making will instil competition. Likewise, not offering better incentives to his employees and just following industry standards is negative and provokes exodus. Rating for this firm on the competitiveness audit test places the business at a 95% performance. This is well above the minimum 80% efficiency factor.

Firm 3: It started in 1981 with $25,000 dollars. Respondent is the owner/manager of the firm. The business started operating with 19 employees. Currently there are 59 employees and plans exist to increase them to 68 in the year 2006. Sales revenue for 2004 is $12 million; expectations are to increase sales by 10% yearly at minimum. Moreover, employees are very knowledgeable and actively participate in decision-making.

Business unit activity: the firm is oriented to selling cloth of typical store; emphasis is on prompt service competitive prices and delivery. A major focus is the design and sale of all type of old-fashioned Palestinian dresses with modern design. Sales are oriented to both wholesale and retail customers. The firm operates in a rather competitive market and is a well-recognised competitor in the area. Growth, high level home based competition as well as vendor relationship is central to the firm's growth and positioning.

The firm offers a credit system which is quite responsive to customer needs and believes in employees' involvement and development. Administratively, this is the most technologically advanced firm and a manual of rules is currently under consideration. Competition to them is basic for growth and efficiency. A good cash base, cost control and strict accounting system are implemented, in addition to offering good quality products. The firm premises and the location factor are predominant aspects for their success. A program of customer satisfaction and continuous consultation is implemented and revised often. Especially this service is offered to customers whom live in villages and they are still making home made dresses in traditional style.

Firm activity: information and current situation, this firm started when the owner and founder saw a for sale ad for a small showroom store in his hometown for £25,000. He borrowed money from relatives and bought it. Before buying the business and during the first two years of founding, he has a high university education (Master in business administration) and worked at a relative's cloth factory as a marketing manager. Later on, he raised additional money to buy a bigger and well located lot that he saw for sale. The main business premise and central office at that location and this remains the main site today. After leaving his jobs, he devoted himself to operate this business. The business expanded operation in 1993 by opening a second business unit. Thus, in 1995 another business unit was opened, this was followed by a third business unit, which was opened in 1998 and a forth business unit was opened in 2003. Plans for a fifth unit are underway; these premises should be in operation by the end of April 2006. This will make a total of five business sites. In 2005 the four sites are operating successfully.

This entrepreneur/founder expressed that he never visualised growing, but realized that to obtain profits and to be successful he needed to grow in order to obtain economies of scale, competition to him is growth. Success is due to a well-organised structure and hard work, with some delegation of authority. In spite his very apparent success, no plans were ever done. However, he stresses and it is the opinion of some of his assistants, that he mentally structured everything he wanted to do and explained the concept to his employees accordingly. He considers himself a risk taker. Currently and since five years ago, the firm prepares forecasts and budgets and exhibits good financial and sales structure. To provide soundness of operations, the firm offers its own credit card, services clients at home and delivers merchandise free of charge the same day.

Employees' loyalty and satisfaction is a goal. Likewise, many of his employees started with him and know the business as well as the owner. Even though most employees are long-term employment, the firm is constantly updating its database and employs new groups in summer time so as to attract and recruit new employees. Employees' participation is sought after even though final decisions rest on the owner. Historically, though the firm started with 5 employees it currently has 78 including part-time employees. Financing which originally was obtained from friends and family is now provided and constantly offered by banks. The owner belongs to professional and local civic associations. The owner believes his firm has a niche which consists in offering merchandise oriented to new residents who came from abroad; specifically new modern design. A strong belief exists in offering differentiated services, home delivery and of developing their line of business in his hometown area, where his friends and family roots are a solid advantage.

Analysis of firm 3: All of this firm's four-business units are managed from central office in Nablus, and they have locally based managers at every site. Decision-making, accountability and empowerment are given to all. Major decisions are in accordance to plans, which are discussed in a weekly staff meeting rotated throughout the units. Resources of all nature are ample now. Physical location is well chosen and sits are placed in prominent areas in main road between the biggest two cities in the WB (Nablus and Ramallah). Financially, the organization is sound and human resources are creative, active and loyal. To the owner, his best resources are his human assets. Professional development and flexi-time is encouraged creating, thus, participative management. Remuneration and a happy atmosphere pervade though more in some units than others. The core competence for them is their uniqueness; same day delivery, credit card system and customised well-priced offers. Capabilities are developed around the clock.

A community base and relations are nurtured as well as supplier's relationships. There is an apparent strong market orientation and advertising is implemented via all media, an added focus to their growth. Additionally, technology is implemented in a computerised system for personnel, inventory and including procedure manuals which was recently implanted. The firm is ahead of its competition and has a solid field of middle class to lower class customers. This SME has outgrown its competitors and the competitiveness audit test has proved to be an additional measurement. On a 10-point scale of the twelve factors applied, this firm has rated the highest at 95.8%. Improvement needs to be in establishing either a benefit system or health improvement program as an incentive measure.

7.2.2 Analysis of Results and Observations among Successful Firms

Among the successful firms interviewed, their owner's founders manage most of their firms and two out of three founders achieved higher level of education, with the exception of firm 2. Their profile shows that all are locally born, raised and extract from humble origins. Common trait is that all have at least a B.A. in business administration focusing in accounting except firm 3, whose owner possesses a master in business administration. A strong belief exists in the need to encompass strong societal and business ties and in the strength that strong family ties provide them. All entrepreneurs are ambitious, have an intense desire to do well and are happy to have out-done their elders. Further, commitment to work and prospering is a further commonality. None of the firms under analysis prepared any formal plans at founding time.

Currently all these firms implement budgets and forecasts, and as such are able to plan. No strategy exists still, financing the business premises at founding time in all cases, came initially from family borrowing. Only the funds from one firm came from banks in the form of a loan guarantee backed-up by certificate of deposits. Currently these firms are all financed via credit lines extended by banks. Financial soundness proliferates among all firms. On average the number of employees by factory and store unit is 48.3 persons and firms have been founded an average 22.3 years. Income by unit is about $5 million dollars in the independent sole units and 3 million in the multiple unit business (Firm 3). Starting capital was on the average $14,333 dollars including firm 1, which initiated formally with $3.000 dollars. Table (7.1) shows the profile of the three successful firms.

Table 7.1

Profile of Three Successful Firms

Firms profile	Firm 1	Firm 2	Firm 3	Average
founding	1977	1980	1981	22.3 years
Original employees	13	7	19	13 employees
Current employees	54	32	59	49.3 employees
capital	$3,000	$15,000	$25,000	$14.333
Sales in 2004	$12,000,000	$4,000,000	$12,000,000	$9,333,333

Source: Personally Administrated Survey, July 2005.

Across the board, all firm's founders believe in knowledge of the market, customers' loyalty and in the strength and quality of the human resources base as their source of strength. A further source of strength and CA is the constant search for new products and complementary lines at the right prices in order to guarantee customers loyalty. Offering the latest trends in the market and servicing promptly, they believe adds to their success base and customer added value. Key to success is their strong capability for hard work, costs constraints and their credibility and reputation for honesty. Excellent organization and a good cash base, so as to take advantage of sales offers and cash discounts is another source of CA. Additionally, the back-up and support received from family and friends have become key to them, since most all their time is devoted to the business.

Research per se is not done by any of the firms. However, all firm's founders attend business fairs, association meetings and through these networks, their supplier's magazines and word of mouth communication, they become aware of the latest trends. To publicise and keep their firms competitive, inside the firm and/or on the spot advertising is done; radio ads and word of mouth communication works strongly for all firms. Throughout the years and via extension of personal credit, these firms have been able to keep certain trusting customers. Loyalty is rewarded with good product offers and pricing strategies. While decision-making at most firms is centralised and rather dictatorial, owners consult their employees. Moreover, employees are treated fairly and are very loyal. In addition, the majority of firms have had the same employees throughout the business life. Across the board, new techniques are being devised to retain employees and customers' loyalty: cash bonuses, a common industry practice, larger store and loyal client discounts, extension of limited credit plus prompt services. In general, well-known clients mostly order by phone and pay upon receipt and premises are visited when in doubt. Customer traffic is relevant and influential.

Performance measurement of informal plans is done mostly via end of year sales, tracking sales and securing customers orders constantly, so as to make sure goals are achieved. In addition, continued reputation is a visible signs of continued success. Entrepreneurs believe that to achieve success firms need: location factor, parking space and to attract consumers with varied and trendy merchandise at the right prices. Alternatively, all believe in the importance of service delivery, collaborating and attending the right civic and social events belonging to the networks and continue to prosper.

Even though all these firms expect to continue doing well in the future, they know quite well that their success is tied to the economy and to the economic cycles that determine the stability and relative success in the T&G industry. Most firms additionally recognise and make excellent usage of their resources and need to take care about their finances, having good cash flow and supplier relationships and to keep premises attractive. To avoid interest charges, they pay most accounts in cash within 30 to 45 days, an excellent profit incentive. To most firms, if payment is received within 15 to 30 days they will obtain savings of 10 to 15% of the billing. Another relevant commodity is the location and visibility factor and having good inventory. None of the firms has an adequate system of delegation; only one firm has an established succession, proper employee accountability and participative decision-making among subordinates. This lack of managerial strength could backfire in case of sudden sickness or accidents.

Regarding the overall expectation for the next five years and growth, two out of three firms are satisfied with the size they have attained and their income, which is believed to be higher than expected in the industry. Two out of three firms do not confront the idea posited by some researchers who insist that no growth is dangerous. During the next five years and in the future, all firms analysed expect to consolidate their position by: solidifying further their cash base, improving customer service and obtaining further clients loyalty via improvement in products offer and providing better trained employees. Furthermore, competition is seen as healthy by forcing them to be better not just surviving. It is also their belief that the large number of small cloth firms that emerged in the last two years will fail since they do not possess the capability to compete. For these firms, to compete better nowadays a need exists to recognise and continue tracking the economy and to increase overall sales volume by about 10% yearly. In spite of the influx of foreign firms, local firms believe that they have profited more from competition than lost.

On a negative side, these firms' disadvantages reside in the owners' realisation that, if they do not often supervise and remind employees of their duties and the need to offer courteous service to clients, business will suffer. The same occurs with sales deliveries that are a key to competition in this market; they need to make sure it occurs as planned. They also believe, contrary to some research, that delegation can create problems if employees are not well supervised and closely monitored. A need was expressed to have stronger backing from associations and government. To them, most government-offered plans and even privately rendered conferences were not appropriate and timely. Their consultants like accountants, it was expressed, offer counselling though mostly unrealistic.

All firms acknowledged the need to urgently increase employees training, to establish proper job definition, delegation and to create organizational charts so as to continue to operate and compete efficiently in the future. Regarding investing in R&D, not much exists. In addition, no firm has ever accessed government assistance or consulting. The only time assistance is sought after is to file proposals for government projects. Moreover, two of the owners admit to weak credit collection policy, the exception is firm 3 which has a credit card system managed by a local bank. Growth is anathema to most. Only one of the firms cares to grow, the other firms are comfortable with the market position achieved and the financial position attained.

7.2.3 Less-Successful Firms

Firm 4: Was founded in 1929 with about $5,000 in capital; it was located in a family owned lot. A respondent is the manager of the firm. The current owner started in 1989 as one of the new co-owners. A new administrator is in power, but because of a family split in the firm between brothers and sisters after the head of the family (the father) died, all refused direct participation, but they agreed to obtain the data through the current manager who used to work with the father for ten years. There are currently 18 employees; and there are existent plans to diminish the number. Income for 2004 was $300,000 down from a $1.1 million made in the 1990's. Income is expected to decrease slightly in the year 2005.

Business unit activity: the firm is oriented now to selling shirts, T shirts and business uniforms imported from Turkey, typical of cloth store and some remnants of their previous jeans and uniforms stock. Sales are oriented to both wholesale and retail customers. The firm operates in a rather competitive market and though they are known in the area as "friendly people" the local is not the place to look for either variety or trendy products. Four of the original 40 employees' remain and three others are relatives and the other 11 employees are part-time workers who have been for a long time with the firm.

Firm activity, information and current situation: The firm analysed originated from the traditional corporation when the succession was implemented, in its time this was a unique firm. The original business was established based on a perceived need for food industry workers destined to supply the needs of restaurants hotels and hospitals. At founding time, this was the only business of this nature in the area; it offered custom-made and contract services that including products for school-uniforms, a privilege for a town company.

The former business was started by a visionary man, not formally educated and of humble origin who used to work for tobacco factory as a sales assistant. The company from the beginning operated as a corporation owned totally by the founder and his family; the founder was married and had two sons and four daughters who according to tradition did not work outside. Five years later an administrative partner was invited in, with 10% ownership; the intention was to obtain and improve managerial skills.

The firm's peak successful period was reached from 1989 to 1994, at which point the firm sold $1.1 million. Yet, never during that period did break-even occur. Sales were about 40% jeans and 60% uniforms. Employees on the payroll were 35-40 at peak time. Cost structure was about 48%, considered by them, to be high by industry standards. Decisions were centralised and made by the owners; no plans were written nor was a succession planned. The managerial association formed by the early 1960's worked for some time. The business grew and soon became renowned for what it offered. Being unique, an almost monopolistic system of services, the firm grew while existence was recognised as a monopoly for some time. Moreover, products were mostly custom-made, providing a unique niche. By the 1970's, the owner, contrary to tradition, brought in his four daughters and their husbands to work with him.

During the 1970's and early 1980's the firm solidified but other competitive firms entered the market in the main cities in the WB (Nablus and Ramallah), creating as such competition. Even though new entrants did not directly compete with them, their customer base was eroding. Business kept apparently well, accounts were covered and respect was broad. A written plan never existed nor was forecasting done or used as a planning tool. However, accounting records were precise. In general, orders were mostly well implemented yet; often delivery was late, losing some important clients. The uniform sector provided over 60% of the income but, numerically speaking, the number of clients was larger in the cloth sector. Since orders were custom made and contracts were based on personal word, some products orders were often not collected.

Company strength derived from producing quality and unique products oriented to the industrial market.

By the mid 1990's business was slowly deteriorating without being noticed by owners. Still, existent funds covered debts and allowed the firm to have a minimum return. Private money covered the rest of the debts and saved face. By 1997 a third generation came in; this is formed by an administration of newly emerging college graduates though inexperienced. A new managerial mode was attempted and the elders resisted the imposition and scrutiny. An outside expert audit was called for by the new managers/administrators as a diagnostic step, to determine the business situation and to avoid being blamed for failures. Financial reports presented by the auditors were not encouraging.

A new plant strike started in 2000 and as a result, because of the firm's lack of capacity to meet the demands of strikers either managerially or financially (nor to supply the unreasonable benefits desired), the company decided to fold and re-establish and entrench itself. By then, the remaining founder had now remarried to one of the daughters, who was widow. This new family now possessed a majority or 50% of the firm from the wife and the partner's 10%. As a result of this new composition, the firm was reorganised and divided between the two families. One part, the jeans group was assigned to one family, this group totally folded two years later. The jeans sector inventory was sold mostly below market prices. The wedding dresses group was assigned to another group and still remains and lingers performing minimum operations. This sector is led by an engineer university graduate who started his career at the firm and has been with the company since 1994. The new wedding dresses management has struggled to keep afloat to no avail since competition is too strong and a cash shortage in the firm is pervasive. The firm has not ever met minimum income or break-even but still survives. No location costs exist; the premises are owned and paid for and some family money sustains it. As it appears, this could be the firm's last year in operation, though this is unconfirmed. Income is below $300,000 per year. Now in 2005 the firm remains in business and continues to be weak.

Analysis of firm 4: The firm premises and the location factor are still good. Employee's knowledge of the business is good; service potential remains limited and slow while delivery is weak. No major sales emphasis exists and responsiveness to customer needs in non-existent. This firm initiated in a specialised market, had ample resources and competences; the level of creativity, technology and capability of the group was unseen in those days. As such, the firm served in a niche and unserviceable market.

Though lacking in education, the founder made his firm a highly prestigious one. Just establishing a business of this nature was a milestone. Financial soundness, an excellent location for a factory, a good clientele and exclusive markets were main sources of competition. However, as competition intensified and the environment changed, the firm lost the advantages attained and has not been able to recuperate still. The economic transition from agricultural to industrial society of Palestine slowly eroded business orders and sales while the firm was unable to counterattack. After sustaining the leadership in the field for so many years, the firm initiated a downturn in the 80's. By the late 90's all apparent solvency went down the drain. Currently the firm is the last place to obtain a product and most people believe it is non-existent economically and their owners remain and retain the business out of pride.

In the competitive audit factors scale this firm rates very low in performance, (57%) and currently no competences exist in any area. The firm is located at the same site, has an erratic and obsolete product line mostly made up of old inventories, has reduced its client base significantly and suffers from recurrent cash crunches. Sales continue downward.

Firm 5: This firm presents some similarities to firm 4. It was founded in 1995 with a combined inventory of $50,000, a name buyout (for $140,000) for a total capital mix of $190,000 US dollars. After 10 years, in 1995, he established the present firm on the basis of his more than 10 years of work and experience. The founder is the owner and the managing director. The main products are different types of garments that are produced according to the order. The firm has subcontracted nearly all its products since its establishment. Entering the international market has been the main and primary objective of the firm.

Respondent is the managing director/owner. Employees currently are 22 from a total 39 at founding time. Sales were $300,000 in 2004 and expectations are to liquidate in the year 2005. Business unit activity: the firm sells typical products characteristics of any cloth store. Neither distinctive advantages nor qualities are identified. Customers are mostly restaurants and small number of minor hotels and schools buying on credit. The firm operates in a rather competitive market and has not been able to keep up with major competitors. Operations are kept with minimum personnel. Cost control and strict accounting systems are in operation. Location is not good for the target market aimed at. Employees are average in knowledge and service skills. Rents are high and an increasing cost contract diminishes income potential specially because of diminishing sales.

Firm's activity, development and current situation: This Company was founded after the firm under the same name folded. As part of the liquidation package, the owner (an accountant and product buyer, who had stock-sharing for the original firm) decided to establish his own firm in the same type of business. The name and some of the inventory for $140,000 to be paid in instalments were brought from the original firm. Some extra inventory was added and credit was obtained from suppliers.

This owner, though educated, had never owned a business previously. His related business experience was obtained only at the original main company. The former firm, whose name was bought, used to sell on average $12 million per year and had about 60 employees; their product offer was also basically the same as that of any other cloth store and geared mostly to small consumers. However, they were renowned for low prices and as "the worker's house". The firm under analysis operates on the same terms, except that no price advantage exists, a competes in a more difficult environment and has no customer identification.

The firm is oriented mostly to the small retailer; sales are both on cash and credit. Services and relationship to other competitors are known as excellent but product offer is limited because of lack of existing cash. In addition, some customers/clients have folded without paying debts of about $20,000, leaving thus the firm in a worse financial situation. According to owners account, the first four years of operation were excellent and financing came from private funding and guaranteed bank loans. Their problems started during the firm's fifth year due to the outbreak of *intifada* in 2000 and high rent, which coincided with the beginning of the renovation and closing of the main road access and Israeli check points (plans the owner never foresaw). As a result, sales declined.

As a preventive measure and to cut costs, after assets were re-evaluated by the government and huge debts accumulated, the owner reduced his sales force and cut down in inventory. Product offer is not big and net sales are at their lower point in the sixth year. As in 2003, the owner has not been able to cover costs, pay government debts nor sustain it at least breaking-even. A decision to file for bankruptcy was made and the firm was supposed to close down by end of December 2003. Currently, as of July 2005, an administrative partner was invited in, with 30% ownership; the intention was to pay government debts and to start a new line of products but the firm is still in limbo and has not folded its operation.

Analysis of firm 5: This firm is an exception since the owner acknowledges failure yet cannot change his situation because a lack of capital and advanced age. On average, most textile and garment factories tend to gravitate to a mixed offer of clients made up of subcontracts and small customers. This firm's problem is typical of a company that does not do its research and establishes a business without knowledgeable assistance. The problems faced are not totally on the managerial side, since the owner is quite capable, knows its numbers, is realistic and has accepted the fact that he can not recuperate lost image neither in this type of business nor at the present location.

When the locale was leased, the planned construction and access closing by the government was established much earlier. Therefore, the mistake was in not accessing government plans, which proved to be his downfall. Using the name of a firm that had already failed, no matter how much recognition the name had, was another mistake. Of course, entering the market in traditional products without distinctive traits complicates the spectrum in a high competitive industry. The business location is at a traditional site for cars, niche products and for cloth wholesale supplies. Nevertheless, there are also two other large business of this kind in the neighbourhood and not enough client bases. Additionally, the business possesses no distinguishable characteristics and is just like any other business that also happens to have a non-distinctive facade. Resources, which were partly tied down to a name and a rather high rent of $2,500 dollars per month is a too high fixed cost for such place; this worsened the firm economic position.

Neither CAs nor areas of strength exist in this business in spite of the owner's apparent administrative capacity. In addition, it appears that the owner is not able to acknowledge any responsibility for his demise; he just blames and rests responsibility for his demise on competition and governmental decisions. However, he is trying not to close the business by inviting a new middle age partner and introducing new product line, this may give him another chance to recuperate from this loss and establish another business. The problem faced today by this firm was not unforeseen. The audit competitiveness test assigns this firm a 63.75% rating, a very low classification.

Firm 6: Was founded in 1996 with 23 employees and $75, 000 dollars in a locale owned by the founder and adjacent to the original factory, which was owned by his family. Originally the founder used to be chief buyer and was the engineer who built the premises. Respondent is the owner/manger of the firm. Currently the firm has 14 employees including the owner's son and a part-time secretary and employees have been with the family business all their life. They started subcontracting with Israeli firms in 1997 and after two years in 1999 subcontracting more than 80% of their products (70,000 pullovers per year). The other 20% goes to the domestic market and is distributed through a famous chain of clothiers. Income, which reached a maximum of about $500,000 the first two years, went down to $300,000 the third year. During 2004 personnel was reduced to two employees; son, owner and part time secretary, sales went down to $200,000.

Expectation is to go downward in the year 2006. Business unit activity: the firm specialised in the production of pullovers. The production line includes the complete process: spinning, dyeing, weaving, and sewing. The factory is old and is equipped with 8 sets of knitting machines. The firm has internalised the production process from spinning to sewing, which from the managing director's point of view, is a big CA.

The firm was the biggest pullover producer in the Palestinian market and subcontracts more than 80% of its products to Israel. Due to the age of the equipment, efficiency and productivity are not very high, they attempt to make up for this weakness by training the labour force and implementing very strict quality control processes. But the main problem is how to provide cash to replace the old equipment, while the firm still owes the bank large amount of money since start of the business.

The number of customers keeps decreasing throughout the years; however, the owner expects to recuperate some customers. Clients are mostly small businesses and retailer businesses. Sometimes restaurants and hotel contracts in the winter season appear, nevertheless, these contracts are mostly on credit. Small sales are cash and operations are kept at a minimum. Location currently is not the best since traffic is heavy and to reach their private parking takes a long time. The locale is physical appearance is not attractive in design nor colours and atmosphere.

Firm activity, development and current situation: This firm was initiated after the founder picked up proceeds from the liquidation of a family owned the factory. The former firm was one of the leading innovating cloth factories of its kind with a high reputation in the community. It had the reputation of being rather expensive even though some of the lines carried were excellent. As population and competition from incoming businesses increased the advantageous position, the firm had declined. However, the owners and their family were leading society members and kept up the pretence of success for some long years. At failing and dissolution time, the business was managed by the third generation.

The current business operates in the same line of business followed by its predecessor, yet with extremely lower glamour, smaller location and a bad beginning from its founding. The owner is basic reason for forming the same type of business was that he had experience in the sector and an obligation to provide employment for his four children, just like the generation before him did. When the firm initiated operation, all the family including the wife worked at the business. As of July 2005, only two family members operated the factory and the business exists only by pride.

One of the founder's early decisions was to change the firm name. Only the family's name was tied to the firm. As a result, and as soon as suppliers on whom this founder was counting to supply him with a line of credit, realized and knew that this was a different corporation and business, credit was severed. After two years of founding, the economic situation deteriorated badly. No large capital existed, no supplier line of credit and meagre bank reserves. Net income was low from the beginning, most inventories acquired from the family business were not saleable; neither wholesale nor retail clientele materialised. After suppliers retired their line of credit, the owner was forced to go to expensive commercial and personal credit lines, creating as such a deeper cash crunch.

The product offered by the firm was not typical of the industry since it tried to specialise in pullovers, also the firm had high levels of obsolete inventory, typical of the times and clientele for whom they were intended, in addition to being over priced and not in the style range of consumers who could pay for the brands. Large amounts of money were tied in and there appears to be not a high possibility to sell the stock. Regardless of ads and sales announcement, the owner has not been able to liquidate his inventory.

Currently sales rest mostly in sales of some of the stock to small business with lower prices; and since the location for the factory is a bad one, in addition to offering outdated merchandise and style; sales continue to go down drastically. The situation in the year 2005 has deteriorated even more, though pride keeps the owner's hanging on. There is also an apparent lack of managerial capacity. Though the owners personal reputation is good, business-wise the firm is non-existent in competitive terms. Adding to the firm's malady is the owner's debt to the government's social security system and property and inventory tax system. Both debts are punishable with high interest rates.

Future prospects for the factory are almost non-existent, financial expectations are lower for this year. The owner acknowledges that he expects to sell one of his properties to pay government debt to clear his name and later will decide what to do. The audit competitive test places this firm at 57.5% level of efficiency, a very low rating.

Analyses for firm 6: This firm does not appear to possess any distinct advantages, qualities nor identified area of strengths. It is apparent that at founding, the firm was able to obtain some sales because of loyal friends and family backing, but as the lack of product-mix, the support evaporated. This firm lacks the managerial skills required for survival. No distinct CAs exists nor were competencies found anywhere. Though this company founder possessed ample experience in the industry, he started off on the wrong foot when all signal the firm should have survived. Even though physical resources and reputation did exist, the mix of variables was negative from the start. The product-mix and service orientation in addition to lack of managerial skills and a bad location were negative factors from the beginning. Plans were never made nor did any customer base ever exist. Financially, the firm was weak from the beginning. Currently the owner owes money to all and is incapable to turn the tide. Moreover, no realisation of the real problems accumulated exists. Even in July, during the last interview, the owner expected to improve.

This firm initiated by possessing more resources than most, yet the capabilities of the founder and his employees/family did not help to develop the firm. Neither name nor reputation adds to improve the firm's precarious situation and image because it lacked the right mix of product and customers. From the beginning not even the owner, it is the researcher's belief, had a clear idea of what he planned to do. In general, the pullover inventory was incorporated not noticing that the style and prices did not match the taste of customers in the price range he aimed to target. As a result, sales did not materialise. Adding erratic product items did not make a difference since the product/service mix and advertising could not improve a poor product service selection. Lack of cash reserves deteriorated even further an already poor situation.

To add misery to the malady, not having enough cash to support operational decision and the inability to cover costs and government responsibility created chaos. There is no apparent possibility for this entrepreneur to continue and compete in the market, as it is. On the contrary, he will continue bleeding his precarious finances. This firm's future remains very uncertain. The only salvation is to fold by filing for bankruptcy protection and saving whatever remains. Taking his share of blame and preparing a payment plan will diminish slightly the firm's losses. However, family pride and name prevents the owner making these decisions. Regarding the competitive audit test, this founder comes out in a rather poor situation. He does not even reach a 64% point in scale of 10 in the 12 point factor scale. Indecision to change the product mix, to make efforts to advertise via personalised ads, its wholesale bidding deteriorated the firms' capacity and the only opportunity it initially had. As such, the firm touched bottom and has not been able to even cover operational costs. He will be better off by liquidating his inventory and subletting the premises than to continue in a dead-end business.

7.2.4 Analysis of Results and Observations among Less-Successful Firms

These firms are all managed by their owners/founders. Two of the founders received higher-level education, and committed to hard work. None of these firms prepared any formal plan nor do they today, yet budgets are prepared generally in house and none of the firms access external consultants or administrators. Two firms have received government-backed loans via the Small Business Administration, a guaranteed bank loan program.

On the average, the number of employees is 18 and the firms have been founded for about 11.6 years, including last founder of firm 4. Average income by unit is about $266,666 dollars per year and no firm appears to be able to increase either income or employees. Two out of three of these firms started with higher capital than the successful firms in the study. In addition, the firms' owners had a certain level of experience in the industry, they are Palestinian natives, mostly of humble background, with the exception of F6, which comes from successful Lebanese businessmen and is well placed socially. Owners in this sector also believe in the need to have society and business ties and in the strength that strong family ties provide them. Some feel very bitter about society and government's role in their demise. These firms also believe that their human resource is a strong loyal motivator. A motivation to form their company was emulating parents, economic need and firm desire to prospect beyond family expectations. The following Table (7.2) shows the profile of the three less-successful firms.

Table 7.2

Profile of Three Less-Successful Firms

Firms profile	Firm 4	Firm 5	Firm 6	Average
founding	1989	1995	1996	11.6 years
Original employees	40	39	23	34 employees
Current employees	18	22	14	18 employees
capital	$5,000	$190,000	$75,000	$90.000
Sales in 2004	$3,00,000	$3,00,000	$2,00,000	$266,666

Source: Personally Administrated Survey, July 2005

Less-successful firms agree in their position that the market is saturated and the government has pushed them down the drain with property taxes and high cost per employee. Neither of these firms foresees positive changes in the next five years nor do they visualise being able to remain much longer in business, one firm expects a kind of miracle to turnover his business. All these firms agreed that at some point their reputation and location was a positive factor, not anymore for all. Even though market research was not ever done, however, they attend fairs, read industry brochures and attend associations meetings (Chambers of Commerce) as source of information. Most industry knowledge is, however, acquired via contacts, via visits to competitive businesses locally and abroad and through client's relationships.

These firms have several things in common with successful firms, most of them did relatively well in their beginnings, they also realize and reaffirm that to succeed, you need to work hard, establish cost constraints and have an excellent client product mix. Another commonality is that firm's owners are happy at being self-employed and making their own decision, though some at major costs. However, with one exception, firm 5, none did more than break-even and thought this was fine. Thus, however, they have not been able to achieve nor retain these factors/qualities that gave them an initial positive position. Nowadays, satisfaction to these firms comes from covering debts and supporting themselves and families. Usage of resources by the less-successful firm is weak. Atmosphere and appearances are somewhat gloomy, as is visibility; merchandise organization, music, ambiance, friendliness and decor. In addition, workers appear busy, halls and illuminations are unattractive.

Some of these firms believe government is to blame for their maladies, that competition is too strong and taxes too high and in addition, that the high cost of benefits per employees is killing them. None believes they should include better technologies, employees, comply with employee benefits nor training since they do not possess the economic means. Mostly, these firms have employees of 20-25 years who are ready to retire and are uncovered by benefits. One problem that surfaced throughput the dialogue with government employees and bankers is that, with the exception of one firm, these firms are being fined by the government for non-compliance with the law, specifically the non payment for social service and employees' benefits like social security or unemployment tax, a breach to the law and a terrible negligence that affect deeply employees retirement and benefits. While competences and areas of strength were immediately seen and highlighted in successful firms, in this group neither outstanding nor relevant competences are seen; these firms exhibit market myopia and lack of competitive and managerial skills.

7.3 Cases Analysed Under the Competitiveness Audit Test (CAT)

As was expressed earlier, this method of analysis was devised with the sole purpose of equating qualitative aspects and having a common comparative tool.

Table 7.3

Successful Firms

Competitiveness Factors	Firm 1	Firm 2	Firm 3
1. Strategy dimension, long-term goals and decisions concerning means to reach goals. Probe that plans of some nature exist.	No formal plans or written strategy existent. Only accounting. (7 points)	No written strategy. Accounting and mental plans always. (7 points)	No written strategy. Accounting and budgets exist. (9 points)
2. Human resource policies that support business performance, including planning, training and development, etc.	Do exist. Neither formal organigram nor training practices. Seminars are given. (8 points)	All exist. No formal appraisal. On the job training. (8 points)	All exist. No formal appraisal and on the job training and development. (9 points)
3. Intra-business unit communications. Effective flow of inf. Horizontally and vertical, within the unit. Cross-sharing.	Communications exist and are good. Can be improved. (9 points)	Communications flow can be improved. (8.5 points)	Good open communication. Cross sharing still is needed. (9 points)
4. Total quality management emphasis on improving customer satisfaction. Quality improvements.	Continuously sought after. Will increase training. (9.5 points)	Observed all the time by employees and owner. (10 points)	Observed all time by all sectors. (10 points)
5. Product/service development and improvement. innovation	Very innovative in all. Space in service area small. Will increase line. (9.5 points)	Very innovative but can improve. (9 points)	Most innovative in all aspects. (10 points)
6. Marketing and sales response/ customer needs. Tracking and improve responses to customers requirements.	Follow up is given. Suggestions boxes. Employees need to be supervised often. (9 points)	Constant follow and good personalised services. Limited customers' space. (9 points)	Excellent follow up. Personal and prompt service. Ambiance and suggestions boxes. Raffles. (10 points)
7. Vender relationships. Involvements and development	Very good with most. Pay timely. (9 points)	Quite good in all respects. Needs to develop and improve vender relationships. (8.5 points)	Participative development and improvement. (10 points)
8. Process improvements. Degree at which service improvements is valued	Very valuable. Employees need to see it more. (9 points)	Very valuable. (9.5 points)	Highly valuable. (10 points)
9. Type of management: participated, empowerment	Almost centralised decision-making. Needs improvement. (9 points)	Rather centralised decision-making. (8.5 points)	Participative. Major decisions made by owner. (9.5 points)
10. Organization structure. Role definitions, formal reporting allocation, groupings, coordination and integration	Most functions exist, no organization chart. Simple structure. (8.5 points)	Functions exist but no formal chart. (8.5 points)	Charts exist to show system. (10 points)
11. Business unit culture. Shared norms, values, attitudes and culture.	Some norms are shared, apparently. Religion strong. (9 points)	Shared norms exist. Cohesiveness obvious. (9.5 points)	Shared norms and culture. Other not obvious. (9.5 points)
12. Recognition of need to function with international competitors	All are very aware. No expansion. (9 points)	All are very aware of it. (9 points)	All are very aware. (9 points)
Total accumulated points: 1-10 rating per category among 12	107/120= 89.16%	105/120= 87.5%	114/120= 95%

Source and base of the 12 competitiveness factor dimensions: Ahlbrandt & Slevin, (1992) in Slevin & Covin (1995). The model was initially applied to established new ventures that showed investment potential. Minimum rating should be eight out of 12. Basis for individual answers: indicating positive performance on a factor. Scores can be converted to %s and averaged.

Table 7.4

Less-Successful Firms

Competitiveness Factors	Firm 4	Firm 5	Firm 6
1. Strategy dimensions, long-term goals and decisions concerning means to reach goals	Neither formal plans nor strategy. No long term goals. Dubious plans. (6.5 points)	Specific goals exist. Financial analysis. Neither formal plans nor strategy.(7.5 points)	Erratic plans. No strategy. Weak usage of accounting. (5 points)
2. Human resource policies that support business performance, including planning, staffing, compensation, etc.	Planning non-existent. Emergent approach. Salaries by law. Weak. (7 points)	Compensation ok. Planning, staff and training is weak (7 points)	All aspects weak. Salaries by law. No formal training. Benefits unpaid. (5 points)
3. Intra-business unit communications. Effective flow of inf. Within the unit. Cross-sharing	No cross sharing only order top-down. (6 points)	Top down approach, ok. Process of inf. (7 points)	Weak in instructions yet relaxed flow of communication. (7 points)
4. Total quality management, how it emphasises customer satisfaction. Improving customer satisfaction	CST. Satisfaction good before, bad now. No improvement (6 points)	Customer satisfaction weak because of products scarcity. Basic service ok. (8 points)	Service of existent product ok. Variety is problem. (7 points)
5. product/service development and improvement. innovation	No service improvement. (6.5 points)	No foreseen service improvement. (7 points)	Service weaker. No improvement. (6.5 points)
6. marketing and sales response/ customer needs	None existent. (6 points)	Some exist. (6 points)	Some exist. (6 points)
7. vender relationships	Rather weak. (7 points)	Ok. Still. (7.5 points)	None almost. (5.5 points)
8. Process improvements. Degree of continuous improvements achieved in products and services	No improvement only deterioration. (6 points)	No improvements. Basic services. Bankrupt. (7 points)	No improvement anywhere. (6 points)
9. type of management: participative, empowerment	Centralised though now a bit less. (7.5 points)	Semi centralised. (9 points)	Centralised decisions. (8 points)
10. Organization structure. Charts delineate reporting, allocation and communications systems	None. (0 points)	None. (0 points)	None. (0 points)
11. Business unit culture. Shared norms, values, attitudes, beliefs, culture and assumption guides to behaviour	Few norms are apparently shared. Culture Ok. (8 points)	Apparently loyalty exist and beliefs. Cohesiveness too. (9 points)	Shared norms and culture. Owner did not pay SS and employed benefits. (8.5 points)
12. recognition of need to function with international competitors	Aware. None seen. (9 points)	Very aware. (9 points)	Very aware. (9 points)
Total competitive factors points	68.5/120= 57.08%	76.5/120= 63.75%	69/120=57.5%

Source and base of the 12 competitiveness factor dimensions: Ahlbrandt & Slevin, (1992) in Slevin & Covin (1995). The model was initially applied to established new ventures that showed investment potential. Minimum rating should be eight out of 12. Basis for individual answers: indicating positive performance on a factor. Scores can be converted to %s and averaged.

7.4 Tables Highlight and Comparing Successful versus Less-Successful Firms

The following tables summarise those aspects which throughout the six cases were either common criteria or diverse.

Table 7.5

Common Elements and Differences of Strategy: Successful and Less Successful Firms

	Successful Firms	**Less-Successful Firms**
Which factors have made your firm successful or could have made it successful?	- Knowledge of the industry, having quality products & strong focus on clients. Human resources & employees development and close supervision -Care for all department, dedication with emphasis in organizational development, strong management with good accounting and financial soundness -Location, having cost control -Network, trust and economies of scale	-Before they had knowledge of market -Failed because of lack of innovative product line -Too much focus in custom order -Lack of adaptable technology and god product and cash position -Weak price strategy -Weak financial situation and loss of clients
How do you evaluate if your strategy is successful?	-Sales obtained vs. sales planned -Customers opinions -Cash base versus plans done -Regular customers -Accounting reports	-Sales obtained -Repeated orders and debt coverage -Number of customers
What is your company's mission in terms of future growth?	-Expect 10% overall growth and improved sales -Establish new outlets, increase personal services and keep informed -Increase customers loyalty	-Survival, makes enough to break-even -No future growth expected -Pay debts, liquidate, survive
Any changes are expected in the next five years? Any changes seen the last five years?	-No changes seen or foreseen, need exist to track the economy and trends better, increase employees -More competitors and client mix changes are expected	-Liquidate obsolete inventory -Try pick up new customers -Aim to break even and improve contacts with small retailers
What are your company main areas of strength(s)?	-Credibility, reputation and good community relationship -Customer orientation priority and obtaining direct purchases and good prices offered -Dedication, family, respect for clients, cost controls -Advantage in cash, distribution, nets and clients' loyalty and service, client counselling	-Location -No cost/owns site -Before: clients and good location -Personnel -Owned premises
Your main weaknesses?	-Credit policy, train employees, need to implement more social action for employees and improve health plan -Instil better service for clients	-Outdated, not having access to main technology and unable to sell right products. -Obsolete merchandise and high inventory -Not right market involve, cash problems
Which challenges affect overall business performance and future?	-No challenges expected if they keep working hard to satisfy clients	-All type of problems, cash scarcity, heavy competition, lower sales -Need to associate, buy cheaper and eliminate tax debts
Changes in environment might affect plans? Competitor, societal analysis, strength and weaknesses?	-Yes, changes in government, laws and clients -But they can face them	-Lots of them, just to survive -Strong competition from large firms and high government demands -Competition and lack of capital
Is your firm successful?	Yes	Was, but it is not anymore

Source: Personally Administrated Survey, July 2005.

Table 7.6

Distinctive Competencies and Competitive Advantage

	Successful Firms	Less-Successful Firms
Which is your company's main potential?	-Continue right product offer to clients and being unique in offer to clients -Continue to grow and develop niche market	-None, right now -Penetrate new market -Just continue holding by
Which are your main competences(s) and or advantages?	-Location and quality of personnel -Cost/controls, knowledge of market and being in niche areas -Discipline, being cautious with prices and customer service/varied products	-Before knowledge of market, not anymore -Owned location and reputation
Are there any advantages unique to your firm?	-Knowledge of market and clients -Quality products and employees	-None specially, just like any other firm
Which sector should you emphasise to stay competitive?	-Continue service quality -Improve training	-Sell old inventories and collect debts -Increase cash and more clients
Areas of strength in five years?	-More sales and financial soundness -Economy of cost and better resources	-Unknown
Any change utilising main resources in the future?	-None foreseen, keep improving	-None planned -Improve cash position
Which are the most relevant areas to develop?	-All areas need constant reviewing	-All, most urgent is financial and to buy at better prices, get more cash
The least relevant areas?	-All relevant	-All important
What is needed to continue being competitive?	-Improve all sectors and cash -Get more clients, products including marketing.	-Get cash and keep customers happy
What is success to you?	-Sell well, obtain respect and ROI	-Get good sales and cover debt
How is decision-making implemented?	-Decision made by the owner, opinions is sought. -Partial participative management.	-Was and continues centralised in decision-making.

Source: Personally Administrated Survey, July 2005.

7.5 Conclusions, Implications and Linkages to other Studies

The qualitative research described in this study, examined the role CAs and distinctive competences play in determining success for Palestinian SMEs. This research involved three successful and three less-successful cases, as well as 3 pairs of small, medium and large firms examined by the Porter model (section 7.6), which for some might be considered relatively a small number, however, they are considered more than adequate for diverse reasons. The T&G industry was selected because it is highly representative of significant economic sector in Palestinian economy not just in terms of growth and income, but also because it represents the second position, percentile speaking, in terms of firms failing during the first three years of life.

The conclusions pertaining to this research address not only some of the most relevant concerns in this study, but also how research findings relate to significant literature and empirical research, which is on a limited basis. Conclusions presented involve the most significant findings, some of a more general nature and others more specific. The conclusions reached and how they relate to research findings and studies are as follows:

First, demographic similarities and general findings across successful and less successful firms showed that: initial analysis showed that demographics of both sectors owners/founders are mostly similar in terms of marital status, backgrounds, motivations and goals. Age of founding happened to differ. Successful firm's owners in this study initiated their businesses earlier than less-successful owners/ founders and also became more successful. Goals in business ownership present similarities in terms of the achievement and independence sought across groups. Most owners have university degrees in business with focus in accounting, except one owner who did not complete higher education. In all firms studied, the main motive to found their business was seeking independence and success was done with an average investment of $14,333. Income for a typical firm in this industry is $4 millions US dollars. Founders are all Palestinian native (except F6) of humble origins that tried to outdo their elders and acquaintances.

These study findings positively suggest that ingrained motivation to establish their businesses, risk factor and youth increase success expectations. Therefore, it appears that founders who started younger, as is the case of the successful firms studied, tend to perform better than founders who started later, thus tying empirical findings to literature regarding risk and age of business founding. Moreover, in the case of the firms analysed, most had specific reasons to succeed, either because the parents were unable to solve the economic situation of the family, others because of the need for status. What can be inferred from this research is that the stronger the motive the higher the level of success entrepreneurs has reached.

Of the firms analysed, the first three are performing excellent and growing (successful firms), the second three firms (less-successful firms), one filed for bankruptcy, another is financially and managerially null and the other is agonising as to what to do in the immediate future. Business skills, knowledge of the market, personnel, clientele and offering quality products and differentiated services, were the most highly rated skills among all respondents, even the less-successful firms, however different the results. How the firms analysed deals with customers, employees and governmental responsibilities and how the resources found were used provided a highly different perspective.

Second, firms interviewed, in general, concur that the primary sources of CAs and the most desired to possess, which they have in this industry (qualities that in general coincide, with most areas of strength) are: loyal and trusted employees, excellent and loyal customers, location, financial soundness and budgeting, strong organised management stressing cost control and a varied up to date product line. Of lesser importance, to them are accounts collection systems and supplier relationships as sources of CAs. However arguably, the less-successful firms, though they speak of budgetary control, might not understand it, since two of the firms interviewed have repeatedly failed to comply with governmental benefit retention and compromises, to mention a few. Doyle & Wong (1998) found a commonality when they asserted, that successful firms are those that achieve a sustainable CA that is founded in customer satisfaction and financial performance. Results also support the researcher assumptions that entrepreneurs with the greatest competencies and capabilities tend to choose the best avenues (strategies) and then use these competencies to achieve success.

Third, competences and capabilities: Competences are firm specific skills that empower business to adapt quickly to changing opportunities while capabilities is the result of what firms can do using their team of resources. To most successful firms examined, their competencies reside mostly in their knowledge of the market and customers, on selecting and developing excellent personnel and on having established strong cost controls, on having a good location, on being alert to changes and reacting quickly to pressures. To a lesser extent, competences also reside in having a good community base, business and family networks, inventory planning, supplier/customer relationship and experience. Education, price competition and other fiscal and tax pressures are not considered as relevant. On the other hand, the managerial capacity to do the most with the resources possessed, abundant or not, is what to them differentiates one firm from another. They are assertive in expressing that whichever relationship they possess, has taken years to attain.

Less-successful firms, on the other hand, believe that they do not possess any competencies and that they are just like all firms and offer services like everyone else. However, some of these firms, at some point in time did appear to have possessed competencies. Their loss of competencies might have occurred because of their incapacity to face competition, which then were non-existent but as soon as more firms came into the market environment, they lost their edge. The T&G industry is to everyone's opinion a highly competitive, aggressive sector and requires prompt reaction that to most interviewed, only comes with competent management. Success in this sector is thus rather difficult and volatile.

Studies infer that firms obtain income, not just because they have better resources but also because their distinctive competence relies on making better use of their resources, Penrose (1959). Regarding less-successful firms, evidence suggest an explanation as to why firms which were successful. Accordingly, it is reported that, sometimes unanticipated changes in the economic structure of an industry may cause that which once was advantageous to the firm to become longer valuable. Therefore, the CA previously existent ceases to exist. The process of losing CAs is called "Schumpeterian Shocks" by authors like (Barney, 1991 and Schumpeter, 1934, 1950).

Fourth, success to firms studied is due to various factors. Most successful firms identified that their success is due mainly to precise market identification, having strong customer orientation based on respect and trust, on providing good quality products based on their capability in managing existent resources. Well responsive human capital and prompt, efficient and personalised customer service as well as on the owner managerial expertise rate equally. Having the right location is to them important but not a priority. The success achieved by these firms has been attained because of their way of doing business, their credibility and reputation for honesty developed throughout many years in business.

To a lesser degree, success is tied to perceiving and knowing trends in the market, competing well with others and communicating to sales growth, good relationship among all, cooperation across industry groups and having a sound financial position. Contrary to other opinions, firms, especially those in a niche market believe that regardless of wherever they are and the financial position attained, their customers will come to them wherever they are located in the market. Marketing usage appears also to be a strong indicator of success and is used as a tool for its capacity to attract consumers and stimulate traffic. However, most firms acknowledged they have not changed much their attitudes on how to invest and implement marketing practices to any significant level. That their reputation and levels of exposure are strong in the community and in nearby areas is an additional source of strength.

It is assumed that hard working and innovative entrepreneurs who exhibit a capacity to create and innovate are more successful; in these firms it is paramount. Studies by Doyle & Wong (1998: p. 531) address the idea that companies with strong marketing and planning have a strong correlation with performance. Less-successful firms, on the other hand, could not express clearly what success meant for them. Mostly, success to them means remaining in business and surviving for a few more years. Neither of these firms appears to be clear either into what services they should exactly perform in business or on how they can not achieve any goal, nor are they clear on how to respond appropriately to the high levels of competition and on how to acquire the required managerial readiness to continue in business. Industry experts agree on most factors mentioned by successful firms. However, they contradict the marketing emphasis, which to them is not a relevant factor. Compliance with orders, offer of quality products at the right price and time and quantity are the main requisites for success in the T&G industry.

To this researcher, the apparent discrepancies are not so striking; they just vary according to the client served, small and large consumers. Literature reviewed also posits a further commonalty with these findings, as Castrogiovanni (1996), Shonesy & Gulbro (1998), Lussier (1996) found out. They report that small business owners should among others be concerned with information about the economy and with knowing that success and failure are bound together, even though at opposite ends of the continuum.

Fifth, performance and growth expectations in most successful firms appear to be specifically related to financial soundness and customer retention. Growth is measured mostly quantitatively not by the size of the firm. These firms express the need to have quantitative and qualitative performance measures to compare; the most relevant are growth in sales, return on investment, break-even analysis and number of returning clients. There is also an apparent level of size (smallness) acceptable to survive in the industry. Apparently firms with higher levels of sales of more than $300,000 can handle future challenges well, but are not considered successful in this industry.

Sixth, planning and growth: All firms across sector expressed that they never executed any formal written plans at any point, yet some of these firms are very successful. They achieved their goals by having a clear mental frame work of what they expected to accomplish and maybe, also some luck. Currently some of the successful firms do plan via budgets and exert ample control measures. Owners emphasised that their mental plans always existed based on what they expected to achieve in the future. Planning, per se, to these firms does not appear to be a strong indicator of success. Admittedly their budgets and informal plans vary quite often and are just a tool for them.

The literature reinforces various arguments regarding planning realities in SMEs, Timmons (1990) argues that one of the most striking characteristics of the successful entrepreneurs is his or her attitude towards and use of planning and that in practice, however, it is very rare to see structured plans in SFs. Other studies express the view that there is no consistent association between the strategic planning process and performance (Kargar & Parnell, 1996: p. 6). Naffziger & Kuratko (1991) and also refer to in Naffziger & Mueller (1999: p. 1), who on the contrary, reaffirmed in a study that 71 out of 188 small business had planning processes that included written plans for at least three years into the future. From this researcher's standpoint, the successful firms interviewed have shown after a long endurance in the market a high capacity of adaptation and have remained on top. Less-successful firms expressed similar attitudes as to what success is, regardless of their situation.

In terms of growth plans, none of the successful companies did foresee any growth plans. On the contrary, most firms replied that they were happy to keep their status quo. Growing further, to them means losing control. Only one firm grew to create four business units and the owner explains he did it as "part of its natural process". Most successful firms in the WBGS, observed and studied by this researcher appear to be happy with the size and performance obtained and with their cash flows and client base. Empirical results reaffirm the assumption that not all firms wish to grow and some are rather complacent with the positioning obtained. Most firms refer this to the political and economic uncertainty situation.

Seventh, relationship between planning and performance: It seems evident that the relationship between planning and performance in SFs bears significance for strategy and managerial decisions. Results from firms analysed suggest that while formal plans were never executed, some type of informal and accounting plans did exist. Therefore, guidelines to future actions apparently existed; moreover, not possessing formal plans did not inhibit success or growth in successful firms. It might be that in these specific cases, other factors made the difference. Planning literature associated with this study suggests two key issues should be addressed: planning should be an integral part of strategic management and the benefits outweigh the costs. Additionally, effective planning not the process itself appears to be positively associated with success (Karger & Parnell, 1996).

Eighth, the measurement and evaluating of firms applying the utilisation of competitive audit tests proved to be an excellent and additional performance evaluator. The application of this test to each firm reaffirms research findings in regard to successful firms and their need to be performing efficiently on many aspects. Under this test twelve sectors are rated. Consequently, F1 exhibits a competitive rating of 90%, ten percent above the expected 80% for good performing firms. F2 has an 88.3% rating, while F3 shows the highest rating 95.8%. The opposite occurs with the less-successful firms, none of the firms analysed was able to perform near the 80% competitive mark. Likewise, their responses did not appropriately match nor compared in any aspects to the answers given in the interviews by the former sector.

7.6 Applicability of the Competitive Advantage Methodology for the Second Six Cases

In order to provide further support for the research strategy adopted (case studies), and get a picture of SMEs sector in Palestine, a second attempt is being made to use CA methodologies, to assess the performance of industrial sector activities in Palestine. These methodologies are at various stages of application and are fast coming to practical recommendations in a T&G sector. The methodology associated with Professor Michael Porter of Harvard is being applied for Palestine.

The following sections presents case studies on the application of CA approaches in assessing the performance of selected industrial branch in the WBGS region. Examples of 6 cases from T&G industry are chosen to assess the applicability of the Porter methodologies. The cases are reviewed, analysing the potential for the promotion of sustainable industrial development and offering conclusions regarding the application of CA models in Palestine.

7.6.1 Significance of this Approach

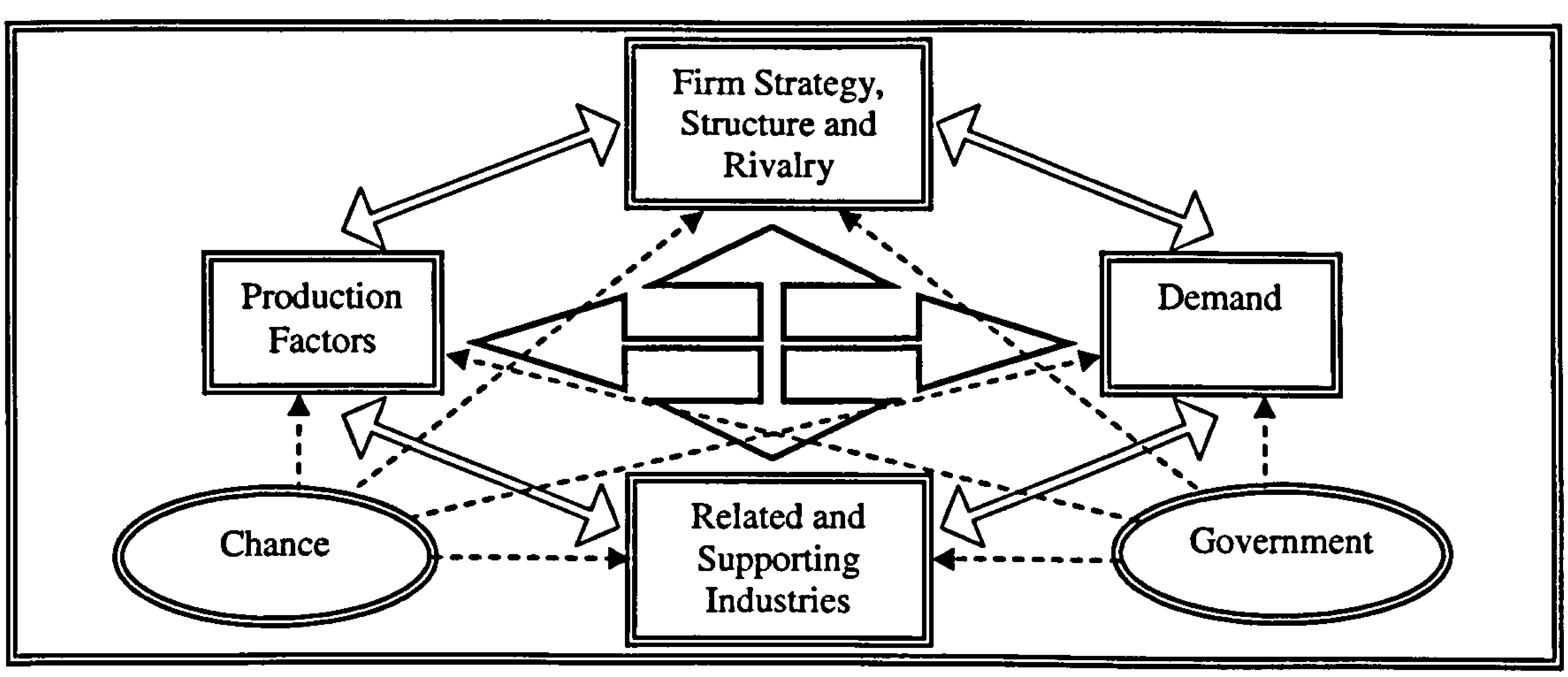
This study will test the theoretical perspectives advanced by Porter (1990) and supported by a number of researchers, including Yetton, et al. (1992), Grant (1991), Rugman (1991), Rugman & D'Cruz (1993) and Rugman & Verbeke (1993). Although a number of these authors have been critical of the model in its ability to determine international competitiveness, they have maintained its relevance in advancing strategic analysis within the domestic context. The model also advances an analytical paradigm through which SMEs can create a sustainable CA. This advantage can be achieved in an environment where national and international investment is placing the participants within this channel at financial risk.

Porter (1990) has developed an innovative approach to strategic management. He argues that the essence of strategy lies in creating tomorrow's CA, based on strategic capabilities, faster than competitors. This is derived from the role that innovation and change play in a firm's performance (Lewis, Morkel & Hubbard, 1993). Some of the key objectives are to upgrade constantly through innovative practice, to improve the quality of the product or service, increase product development, drive down costs and improve service. These strategies then become a source of CA, whereby other companies are forced to improve or to withdraw from the market. Overall, Porter's (1990) Diamond of Competitive Advantage model is a method of analysing the degree of advantage a firm holds in the market place.

The diamond model proposes four interrelated facets, each of which representing a determinant of regional advantage. "Government" and the "Chance" are two factors that influence these four determinants, but are not determinants themselves. Together these six factors form a system that differs from location to location, thus explaining why some firms (or industries) succeed in a particular location. Not all six factors need to be optimal for firms or industries to be successful. This "diamond", is replicated in Figure (7.1).

Figure 7.1

Porter's Diamond Model



Source: Porter (1998: p. 127).

Yetton, et al. (1992) suggests that the framework is a theory about the CA of firms and industries within a nation. Yet, Grant (1991) also recognises that the diamond model makes an important contribution to business strategy analysis. These views are significant when it is considered that, in conjunction with Rugman (1991, 1993), the authors constitute the main body of criticism of the theory within an international context.

It is evident that the T&G industry is changing rapidly. It is therefore critical for firms within the industry to constantly review the effects of these changes, in order to adjust their strategies to withstand the competitive pressures. It is within this context that the main question has been developed: *How can SMEs in Palestine create a Sustainable Competitive Advantage within the T&G Industry, an industry moving from fragmentation to consolidation?*

In order for firms to develop a sustainable CA, this approach contends that it is necessary for them to address the very factors associated with the determinants of Porter's (1990) Diamond of Competitive Advantage model. Each determinant has interdependency with other factors of the model. The determinants also reinforce each other and advance positive effects from improved interrelationships, resulting in a sustainable competitive position for the firm (Porter, 1990). It is also acknowledged that the lack of application of the determinants may have a detrimental effect on their ability to create a sustainable advantage.

7.6.2 Methodology of the Case Studies

In order to validate arguments within the case study, and to minimise the effects of possible bias, information has been gathered from a number of different sources. These include case interviews, observation at the interview locations, and information gathered from an open forum on the industry where a number of invited speakers answered incisive questions as to the future of the industry. Response bias has been minimised through the use of a case study protocol. Within-case and cross-case analyses are used to assess the relevance of the determinants of Porter's (1990) "Diamond" to these organizations. The determinants are seen as fundamental in establishing a means of creating a sustainable CA.

7.6.3 Use of Cases Research

In more recent years, there has been a growing support, in the social sciences, for the use of qualitative methods (Patton, 1987; Marshall & Rossman, 1989; Yin, 1989, 1994 and Parkhe, 1993). Yin (1994) also contends that qualitative methods are preferred strategies when 'how' and 'why' questions are proposed. Qualitative methods also allow in-depth investigation of a small number of issues or cases, which generates significant detail for the evaluator to analyse.

Qualitative methods also include the triangulation effects of a combination of open-ended interviews, observation over time, and an assessment of written documentation (Patton, 1987; Yin, 1994). This limits the argument of evaluator bias and adds validity to the overall approach of the research design methodology (Parkhe, 1993).

7.6.4 Rigour in Case Studies Methodology

There has been significant methodology developed to overcome the perceptions of a lack of rigour and scientific generalisation in case study research (Yin, 1994).

Construct validity: the strategies applied in this research to satisfy construct validity involve open-ended interviews with the managing director or senior state manager of each of the firms interviewed; observation by the two professionals interviewers while at the location; and previous knowledge as a participant in the industry. In addition, a significant amount of documentation has been gathered on the industry, and where possible, on the major participants driving the changes.

Internal validity: pattern matching in the form of a within-case analysis, as well as a cross-case analysis, is provided to support internal validity for this research.

External validity: analytic generalisation is claimed in this research through the use of the theory of Porter's (1990) model, which is used as a template with which to compare the empirical results of the case study within the T&G industry.

Reliability: strategies employed to help satisfy this criterion include the development of a case study data base, in the form of records of interview, and include comprehensive industry data.

7.6.5 Criteria for Case Selection

As we mention at the beginning of this Chapter, the research involved a multiple case study approach comprising of six in-depth interviews with various companies within the T&G industry. With respect to the definition adopted for SME, the organizations under study include two small enterprises, two medium size enterprises and two large enterprises. The cases were specifically selected as a representative sample, covering the broad spectrum of the industry in terms of size and traditional distribution channels in the WBGS.

A small enterprise is represented as one with an annual turnover of less than $3 million a medium size enterprise is one with an annual turnover of between $3 and $10 million, and a large enterprise has a turnover of more than $10 million annually. The cases also represent the traditional channels which are most affected by the consolidation process, such as large enterprise/contract and SMEs.

This section provides details about the cases involved in the field research. Secondly, a within-case analysis, illustrated in diagrammatic form in Table (7.7) compares each case to the focus of the determinants of Porter's (1990) Diamond of Competitive Advantage model. Discussion on how the individual cases have addressed the key issues follows each case synopsis. Finally, in order to provide a basis for validation as described by Yin (1994), a cross-case analysis is undertaken, with the primary objective of establishing similarities and differences within the data collected (Eisenhardt, 1989).

7.6.6 Cases Synopsis

Case 1: This business is classified as a small operator within the SME channel. It typically includes retail sales through a shop front, and a commercial delivery service. The business has a trading income per person of approximately $133,000 per annum. There is evidence to suggest that the focus of management attention on the development of service and customer relations is seen as a core competence for the company. Of concern with this case is the lack of industry-wide knowledge, the lack of knowledge of major competitors, and the belief that the industry's competitive nature has not changed.

Case 2: Although this business is in the medium enterprise size, the target market is still small to medium business. This particular company operates at a higher level than Case 1, with an average annual turnover of $219,500 per person employed. Growth appears to be substantial, with an expectation of a 20% increase in income in the 2006/07 fiscal year. The demographics of this organization suggest differing logistical problems than for Case 1, as the location of the business is in a regional centre. This business has a greater knowledge of the industry, and in particular, of the changes in the competitive environment than Case 1. The development of an effective service strategy is again the predominant goal.

Case 3: This case is the first of the larger enterprises considered in the study. There appears to be a significant increase in all aspects of management practice compared with the previous two businesses. The target market for this operation is medium to large business, with an accent on the development of total outsourcing contracts. A reliance on advanced technology in all aspects of the business, from sophisticated warehouse systems to computer linked order entry systems, is evident. Industry knowledge is wide and deep, and combined with programs for development; the company appears to be well aware of competitor activities. The average annual income per employee is approximately $305,000.

Case 4: This small enterprise aligns itself well with the other SMEs under study, having developed a retail and commercial environment in combination, as opposed to a commercial/contract channel development as in Case 3. Although the two primary categories represent 90% of the business, there has been a conscious decision to develop an art supply market, with a view to offering a slightly different range. The annual average income per person is $189.500. There is some indication of the development of advanced human resource factors, with the implementation of a Quality Assurance accreditation. However, a perceived lack of appreciation of the need for specialised knowledge resources, physical resources and infrastructure policies would seem to inhibit the development of a sustainable CA for this organization.

Case 5: Within this company, there has been a deliberate strategy to increase the product range, indicated by the broad product mix available. This is a medium size enterprise which has employed technology to improve efficiencies. The annual average income per person is $245,000. This company experiences competition from larger enterprises in the large enterprise/contract channel, as well as new entrants into the small and medium business market segment. An alignment with a national enterprise group ensures the company maintains a competitive pricing strategy. Once again customer service is held as the core competence of the business, as illustrated by the service ethic and culture which prevails in the organization. The increase in the competitive nature of the industry is acknowledged. This organization focuses strongly on factor conditions, in particular human resources and knowledge resources, to strengthen their perceived core competence. As with other cases, little has been accomplished in developing a strong link to the related and supporting industries determinant.

Case 6: This case is the second of the larger companies studied in the research. It is a stationery division of a large company, and has national divisional revenue of $18m annually. This company branch under study has experienced continual disruption, with changes to management personnel, changes in location and local infrastructure. National strategic direction is seen to be incompatible with the practical application at branch level. The company has an awareness of the internationally based competition, and appears to have made strategic moves pre-empting their entry. However, a recent change in focus to include a wholesaling operation is seen to have confused its potential customers. It is not seen to be addressing any of the focal points presented in Porter's (1990) model, although at branch level there are indications for the need to make changes. The apparent hierarchical organizational structure impairs vertical communication, ensuring any changes would be difficult to make.

In summary, each of the cases present a diverse range of strategies commensurate with their relative size and when compared with Porter's (1990) model. The final section of this research now develops a cross-case analysis matrix, and compares the foci of the determinants of Porter's (1990) Diamond of Competitive Advantage Model with the case findings. A discussion on the analysis now follows.

7.6.7 Cross-Case Analysis

This analysis will draw comparisons and similarities between the cases studied in order to establish patterns which may validate or disprove the original hypotheses as well as address the research questions. In conducting this analysis, a rating scale has been applied to each determinant of Porter's (1990) model. The scale also analyses the role of government influence in creating the conditions necessary for the determinants and the role that chance plays in business success. The matrix for the cross-case analysis appears in Table (7.7).

Table 7.7

Cross-Case Analysis

Focus	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
1. Factor Conditions	Not at all	To some extent	Very Extensive	To some extent	Extensive	Very Little
2. Demand Conditions	To some extent	Extensive	Very Extensive	Extensive	Extensive	To some extent
3. Related & Supporting Industries	Very Little	To some extent	To some extent	To some extent	To some extent	Not known
4. Firm Strategy, Structure & Rivalry	Very Little	To some extent	Extensive	To some extent	Extensive	Very Little
5. Government. Influence	Very Little	Very Little	Extensive	To some extent	Extensive	Very Little
6. The Role of Chance	To some extent	Very Little	To some extent	Very Little	Very Little	Not at all
7. Overall	Very Little	To some extent	Very Extensive	To some extent	Extensive	Very Little

Source: Case Analysis.

Factor Conditions: Porter (1990) contends that factor conditions may be grouped into the broader categories of human resources, physical resources, knowledge resources, capital resources and infrastructure. The study reveals that closeness to suppliers is seen as only of minor importance, even when the enterprise is in a regional centre. A concern is that unless there is a close working relationship with the supplier, a result of distant suppliers can be either out of stocks or increased inventory levels. A trade-off may be the provision of interim supplies at higher costs from the wholesale channel. Closeness to the market is of concern to retail enterprises, but it is of little consequence to contract enterprises. In Case 3 it was advocated that contract enterprise distribution centres could be in regional cities and towns, thus benefiting from lower infrastructure costs, for this to occur other physical resources would need to be available. There would need to be partnership arrangements with supporting industries, and cost savings through rebates and incentives provided by the local authority in these centres.

The categories which are seen to have more importance to the organizations in the study are human resources, knowledge resources and infrastructure. Neither Case 1 nor Case 6 focuses on these categories to gain a CA. However, the reasons for the absence of these elements differ. Case 1 is seen to incorporate a typical small business structure where the owner is the primary decision-maker, and all employees report to that owner. Case 6, however, represents an organization which is hierarchical in structure, and where communication is constrained by the numerous levels of management.

Organizations in Cases 3 and 5 contend that significant advantages can accrue by focusing particularly on specialised human resource factors and by developing sophisticated and advanced technological systems. The organization in Case 3 focuses strongly on all categories of factor conditions, and has developed strong practices in the human resources and knowledge resource categories. It is evident that sustained CA emulates from these policies.

One area of concern for most participants is the lack of alternate and competitive sources of finance. This problem is inherent in most small business practice, but is also evident in a large/contract enterprise organization (Case 3).

Demand Conditions: Porter (1990) maintains that nations gain advantage if home buyers pressure local firms to innovate faster and achieve more sophisticated CAs compared with foreign rivals. Furthermore, he suggests that it is not the pressure which buyers exhibit on the companies, but it is how these companies react which establishes the advantage. Porter (1990) specifically uses the words 'innovate' and 'sophisticated' to denote advanced and specialised responses from the firms.

Generally, each case organization reacted positively to demand conditions acknowledging the importance of satisfying that pressure. However, the typical response to such pressure has allowed sophisticated entry strategies by the large international and national corporations to evolve. These entry strategies have included the development of new distribution channels, such as mail order and super store channels. Innovative marketing approaches including catalogue marketing and large extensively ranged self service stores in high volume traffic areas have also been utilized. These channels have gained significant success in a relatively short period. Although the local industry has reacted to these competitive strategies by value adding their own services, there has been a lack of innovation and sophistication in their responses. Case 3 has been able to achieve some efficiency gains through the introduction of management information systems in both the marketing and warehousing departments.

Related and Supporting Industries: the interrelatedness of the various Palestinian industries is weak. Most of the raw materials and other requirements of production are imported from Israel or from the rest of the world and few of these are produced in the WBGS. The lack of support facilities can be attributed to the absence of government support for the sector, particularly during the occupation period. The PA has so far been unable to create support institutions that could assist Palestinian garment factories by providing information services, research and development services and so fourth.

The Palestinian firms realize that the outcome of the peace process would require them to reconsider their production and marketing strategies. The T&G industry in Palestine currently is supported by suppliers from varied backgrounds. There are attempts to establish large joint ventures with foreign partners for economic reasons that have to do with division of labour. Currently for example, there is a joint venture between a Palestinian firm (Badran of Tulkarm City), an American firm and an Israeli firm (New Horizon) to produce sweaters.

More joint ventures with partners from other countries are expected by industry leaders, (Al Akkad Company in Nablus) specializes in the manufacture of jeans and is among the very few companies in Palestine that are able to undertake the complex washing process required for the product, especially in the light of the preferential trade agreements between the PNA and the

USA, the EU, Canada and the European Free Trade Association. These agreements give the Palestinian industry a CA in the markets of these countries by offering a stimulating incentive for foreign firms to establish joint ventures with the Palestinian to benefit from the preferential treatments given to Palestinian products. Some of the garment business leaders expressed high expectations about establishing joint ventures with European firms attracted to these projects and who may provide the European designs, the European new materials, and the international trade names.

Finally, there are also a number of Palestinian distributors for globally marketed products, such as Badran Company and Al Akkad Company. This supporting industry is therefore exposed to the efficiencies created from the globalisation process. The Palestinian industry, and ultimately the consumer, benefits from this global market influence. Notwithstanding, recent rationalisation of the supplier market has reduced the exposure of these firms throughout Palestine. Centralised distribution strategies have been introduced, with other efficiency measures reducing representation at enterprise level.

The effects of this strategic change have been felt by a number of the case organizations. These organizations either find great difficulty in establishing long-term alliances and supply partnerships, or have not attempted such an approach. Four companies have made some partnerships through various Israeli and Arabic subcontractor groups to which they belong. These alliances are directed at promotional and subcontract arrangements. Some case studies, notably Cases 3 and 4 have arranged alliances with logistics companies to link their service strategies with their customers' needs for an increased delivery frequency.

Firm Strategy, Structure and Rivalry: The strength and vigour of an industry is determined by the strategy and structure of the companies within the industry and by the domestic rivalry created by those firms (Porter, 1990). The T&G industry in Palestine has generally been myopic in nature, being tied to traditional practices, and unable to perceive opportunities for change (Porter, 1980). This has resulted in a fragmented industry developing, with no one or number of businesses large enough to influence changes in the industry.

The introduction of international competitors, commencing pre last *intifada* in 2000, has also seen the infrastructure of the industry change. The degree to which traditional enterprises in the industry have effectively implemented changes as the industry moves to a nationally competitive and vigorous environment is questionable.

The small enterprises in the study, Case 1 and Case 4, appear to have been unproductive in their strategies in response to the changes in the competitive nature of the T&G industry. There is little evidence to suggest any change has occurred to the methods they have historically used in their business practice. Both organizations believed they were insulated from the changes occurring elsewhere. The organization in Case 4 indicated that a reactionary strategy would be undertaken if any influence was felt. Case 1 has discounted any proposition that the new entrants would change the industry across all channels. Case 2, a medium size enterprise, recognises that changes are occurring, and accepts that strategy adjustments need to be made. Strategies that would be implemented include the strengthening of the core traditional service to the customer. Case 3 has developed specific policies and strengthened the market position of the company, realising that foreign based entrant would take advantage of opportunities available in the Palestinian market. This company has developed strategies to enable it to compete effectively with the new entrants.

Government Influence: The case responses to government influence centred predominantly on tax regulations, unfair dismissal laws, and union-government relations. The broader issues of educational policies, safety standards, capital market adjustments, and other policy developments designed to reinforce an environment in which organizations within the industry can compete. Nor are the influences which business has on the development of those policies directly affecting the T&G industry.

There may be two reasons for this. Firstly, the industry has had no voice as a lobby group, having only token representation from its national association on policy matters. Secondly, it is perceived to be part of the broader retail industry, and as such, has no large conglomerates or multinational organizations to influence policy recommendations to government. The retail industry lobby is significant, but generally represents a different, wider business group.

The Role of Chance: Although most case organizations accept that chance has played some role in the development of their businesses, this focus is not seen as significant. Perhaps the chance factor would have more impact for new entrants in the industry. Overall: The results from the analysis vary widely according to the foci of Porter's (1990) model. The smaller enterprises, Case 1 and Case 4, have focussed less on the determinants in developing a sustainable CA than have the medium size enterprises - Cases 2 and 5. The result of this is the development of basic and generalised factors, rather than advanced and specialised factors. Not only does this preclude the attainment of sustained advantage, the reinforcing effect of the diamond becomes ineffective.

Of the large enterprises, Case 3 has developed a strong focus on most determinants, but sees little positive influence from government in the development or reinforcement of this focus. In Case 6 there appears intent at branch level to address the determinants. However, there is also a perception that this is unsupported at the corporate enterprises. The organization in Case 6 is a division of a highly successful and progressive company, which would suggest a communication breakdown, rather than a corporate philosophy problem.

In summary, it is clear that the larger organizations in the study place greater emphasis on the determinants of Porter's (1990) model, than do the small to medium enterprises.

7.7 Discussion and Case Implications

The case studies empirically justified Porter's (1990) Diamond of Competitive Advantage model as an additional strategic tool in the analysis of firms within the T&Gs industry in Palestine. In particular, the study revealed that the SME channel within this industry focused less on developing advantage by strengthening the determinants of Porter's (1990) model than did larger enterprises.

The research revealed that only one case, Case 3, has made a conscious effort to utilize the determinants of the model, realising better results in the concentration areas of factor conditions, demand conditions and strategy, structure and rivalry. There is an absolute commitment to the development of these areas, and a belief that this concentration has contributed to a sustainable CA for the firm. The other larger enterprise, Case 6, has acknowledged the benefits of addressing Porter's (1990) determinants, although at this time none have been used to examine the weaknesses in the organization.

Although each case varies to some degree with each focus, the general outcome of the research is that the small and medium enterprise channel in the T&G industry does not adequately address the determinants of Porter's (1990) model. An analysis of each case and a cross-case comparison reveals that some enterprises within this channel concentrate on some of the determinants, or on some issues within the determinants. There appears to be no focus on a definite strategy to develop strengths through innovation and sophistication. Investment, particularly in technology, is not seen as a means of creating advantage in the marketplace, but is seen more as a means of overcoming labour intensive administrative tasks. Within the channel under review, each case proffered customer service as a means of gaining advantage over the newer entrants into the industry. The fact that the new competitors promote a change in the perception of service to suit their method of operation significantly reduces the effect of the traditional methods of customer service.

Rivalry is seen to be beneficial in terms of creating change and increasing efficiencies. However, there is a level of comfort beyond which all enterprises in the study maintain there would be detrimental effects to their businesses and the industry. It is believed that the inadequacies revealed in addressing Porter's (1990) model has not allowed these enterprises the capacity to cope with open market competition. A further area of concern revealed in the findings is the lack of development of the human resource focus within the SME channel. At best, there is specific product knowledge training, but the development of infrastructure designed to build on this potential source of sustainable CA is very limited.

In summary, an overall assessment of the findings of these cases suggests that the SME channel within the T&G industry has displayed significant weaknesses in the development of strategies to create a sustainable CA. Survival in this highly competitive and changing environment will be dependent upon strategies different from those which have historically been acceptable to this channel. The use of Porter's (1990) Diamond of Competitive Advantage model to highlight the weaknesses within a firm will give clear indications on the strategies required to create CA. Success, however, is not assured. Rapid innovation and the constant upgrading of facilities and efficiencies are essential requirements. The constant assessment of the factors of the determinants of Porter's (1990) model, and utilising these determinants as a self reinforcing system for constant improvement, will provide the organizations within this channel with the opportunity to develop a sustainable CA.

7.8 Comparison of Findings across Case Studies

Based on the findings from within-case analysis, the selected cases were divided into two clusters. The first cluster (successful and less-successful firms) included the SMEs that were founded on the basis of entrepreneurs' knowledge of domestic market opportunities, while the second cluster (small, medium size and large firms) included the SMEs that were established based on the entrepreneurs' international outlook and knowledge of international market opportunities. Analysis of empirical study has distinguished similarities and dissimilarities between the processes of competition in two clusters of SMEs.

Findings indicate that the two clusters of entrepreneurs are consistent in their perceptions regarding the impact of entrepreneurs' characteristics on selection of entry mode and market. This means that variability in perception score regarding the "technical" and "business management skills" is the same. They are also consistent in their perceptions regarding their preference for new markets and new customers, as well as in selection of marketing competitiveness practices. However, despite these consistencies, the two clusters differ significantly in terms of their mean perception for impact of "business management skills" on entry mode. This means that Cluster 1 consider business management skills more influential in selection of the entry mode and market than Cluster 2.

Analysis of qualitative data indicates that entrepreneurs in both clusters have very good knowledge and experience of the industry in which they are active. Although both are consistent in their perception regarding the impact of "technical" and "business management skills" on selection of entry mode, Cluster 1 consider "business management skills" significantly more influential than Cluster 2.

In addition to "direct and indirect exports" that are the dominant entry strategy, several firms are also co-operating either as "sub-supplier" or in "strategic alliances" with other firms. In order to be competitive in international markets they use different policies. Almost all firms are focused on "quality of the products and services". In order to achieve these goals, not only do they try to obtain international standard certification of products but also of the firms.

However, "product development" is the most common competitive policy between two clusters and is followed by either "product innovation" or "product modification according to customers' orders" by Cluster 1 or Cluster 2. In addition to "product policies", they use "marketing policies" to increase their competitiveness in the market. "Price modification" is the most common marketing policy among the respondents. With respect to target market, differences are distinguishable between the two clusters of entrepreneurs. While the Cluster 1 is mainly focused on national market, the Cluster 2 is focused on exporting to international market.

7.8.1 Cross-Clusters Analysis

Apart from "product quality", which is identified as a competitive advantage by entrepreneurs in both clusters, frequency of other characteristics of the firms differs between the two clusters. While a majority of the Cluster 2 distinguishes "competitive prices" as the competitive advantage of the firm, Cluster 1 focused more on the quality of their products. Similar to the Cluster 1, Cluster 2 distinguishes "product diversity" as a competitive advantage. "Qualified management", "high efficiency" and high production capacity through "networking" are other competitive advantages identified by the Cluster 1.

However, the main discrepancy between the characteristics of the two clusters concerns the entrepreneurs' objectives in establishment of the firms. In fact, for Cluster 2, establishment of the firm on the basis of knowledge of international market opportunities has resulted in consistency between the firms' goal and their international activities. Generally speaking, Cluster 2 is devoting all of their resources (human, financial, etc.) to international market activities, while in Cluster 1 the priority is given to domestic market demand.

According to cross-cases analysis, "product quality", "competitive prices" and "product diversity" are the main competitive advantages of the firms in the national and international market. The main significant difference between characteristics of the firms in the clusters reflects differences between the entrepreneurs' objectives in establishment of the firms. Therefore, "coordination between the firms' goals nationals and international activities" is the main characteristic that distinguishes the Cluster 1 from Cluster 2.

The other significant variables between the characteristics of the firms in the two clusters indicates that Cluster 1 consider "firm's experience" and "employees' support" more influential in their national activities than Cluster 2 type entrepreneurs. However, both types of entrepreneurs are consistent in their perceptions regarding: impact of "firm's experience" on selection of entry mode and market, "employees' support" for international activities, "access to resources", "qualified products", and "adaptation of international operations and firm's objectives".

Generally speaking, the respondents in both clusters believe that entry into the domestic market is free and a majority of them know their competitors in the domestic markets. The general condition of competition is mostly very intensive in the related industries. With respect to domestic market influential factors, although several respondents believe that there is no serious problem in the domestic market, a majority of them believe that the "national infrastructure" is not appropriate for export development, particularly with respect to "transportation" and "banking system". In addition to these issues, interviewees consider "instability and uncertainly of general national condition" or in other words, the "country's image abroad" as the most influential factor for their international activities.

However, regarding the other domestic environment influential factors, while Cluster 2 consider "fiscal burden of the government" more influential in their international activities, Cluster 1 consider "price control" and "administrative condition for starting new business" more influential. However, both clusters are consistent regarding the impact of variables that distinguish the economic freedom in domestic environment except for the impact of "foreign investment". Inconsistency also exists between the two clusters regarding the importance of "knowing competitors" and having a competitive policy. They are also inconsistent regarding freedom of entry into the domestic market.

7.8.2 Discussion and Interpretation of Results

Analysis of findings distinguishes two patterns in the process of competition among the SMEs in Palestine. In fact, entrepreneurs' perceptions and knowledge of their domestic environment (Nasr, 1997) pressured entrepreneurs to initiate strategic action (Dess, Ireland & Hill, 1990), either through starting a new business, a new business organization or the expansion of an existing business by the entrepreneur. In response to this knowledge, based on their perception of market opportunities and willingness and intention towards international market, Cluster 2 had established a firm to grasp international market opportunities.

In contrast to this group, Cluster 1, based on their knowledge and experience, has focused their activities on opportunities in the domestic market. Dissimilarities between the two clusters start when they initiate their business. While the Cluster 2 is motivated through perceived international market opportunities, Cluster 1 is motivated by their position in the domestic market. In fact, in Cluster 2, the entrepreneurs' perceptions of the domestic market, along with their alertness to international opportunities and willingness and intentions to internationalise, influence entrepreneurs' attitudes on the viability of international operations. The time gap regarding initiation of the international operations contributes to the differences between SMEs in the two clusters such that we are almost dealing with two processes of competition and different influential factors. However, despite the time factor, some similarities between the two clusters indicate that the two clusters of entrepreneurs have similar behaviour.

However, the general conditions in Cluster 2 indicate that development of international activities in these firms depends on critical changes in the firm. Either they have to run development projects in order to meet both domestic and international market demand or they have to use innovative policies to identify the international market opportunities and to realize them.

However, the overall findings of this study indicate that the CA of SMEs in Palestine is an entrepreneurial action based on entrepreneurial discovery of international market opportunities, motivated by entrepreneurial alertness and boldness, indicating the receptiveness of the entrepreneur to available opportunities overlooked by others that result in entrepreneurial action (innovation and pro-activeness) in entering the international market from the inception. Meanwhile, the findings also indicate that in order to seize the opportunities, entrepreneurs must have capacity (skills and experience) in converting the opportunities to action.

7.8.3 The Overall Findings

The comparative analysis of the empirical studies in the two clusters has distinguished similarities and dissimilarities between entrepreneurs' impact on the competitive advantage of the SMEs. Consistent with the findings of competitive advantage studies in other countries, analysis of the empirical studies indicated that the entrepreneurs had the key role in the competitive advantage of SMEs. This confirms that in order to "gain a better understanding of the competitive advantage of SMEs in Palestine" we need to investigate the role and the impact of the entrepreneurs on the process.

The findings indicated that despite differences, in both clusters, entrepreneurs' perceptions of the domestic environment had pressured or energized entrepreneurs to initiate a strategic action (Nasr., 1997). In fact, findings confirmed that the domestic environment was very important when we were dealing with the international market of the SMEs, because the entrepreneurs' perceptions of the domestic environment explained the decisions and actions above and beyond that explained by the firms. The findings confirmed that despite rapid globalisation of competition, the firm's domestic environment remained a key frame of reference in determining strategic moves (Porter, 1990, 1998) and internationalisation of the firms. It was an important factor to which both clusters were exposed in their pre-international activities (Wiedersheim-Paul et al., 1978). Although the entrepreneurs' perceptions of the domestic environment had influenced the entrepreneurs' attitudes on the viability of international activities (Cavusgil & Zou, 1994; Kedia & Chhokar, 1985), the findings confirmed that internationalisation was also wanted and triggered by the entrepreneurs (Andersson, 2000).

In short, consistent with Aharoni (1966), the findings confirmed the importance of the initiating forces and distinguished two sets of factors: 1) those stemming from the domestic environment such as uncertainty and instability, strong competition, lack of foreign exchange, etc., and 2) strong interest and willingness of the entrepreneur towards international market.

With respect to the entrepreneurs' sources of information of international market opportunities, findings indicated that entrepreneurs in both clusters consistently identified the firms' business network (agents, customers, and business partners) as their main sources of information. They also consistently confirmed that trustworthiness and legitimacy of information was very important for them. However, due to confidentiality, entrepreneurs were not disposed to provide more detailed information in this field.

Meanwhile, the findings indicated that in Cluster 2, the initiating forces and knowledge of international market opportunities resulted in the receptiveness of the entrepreneurs to available international opportunities (Kirzner, 1997). Meanwhile, since the realization of the opportunities depended on the entrepreneurs' skills and experience, findings indicated that entrepreneurs in Cluster 1, due to their knowledge, experience and their capabilities of providing financial resources, managed to start new businesses that were international from inception.

However, the entrepreneurs' impact was not limited to the initiation of international activities but also continued during the process through realization of the market opportunities and selection of appropriate entry mode and market. Entrepreneurs in Cluster 2, due to their skills, experience, knowledge and based on international standards devised established "ways of doing things" in their firms according to agreed-upon goals for being international. In fact, coordination of the firm's goals and international operations (Aharoni, 1966) resulted in establishment of entrepreneurial firms that were using all their competencies (human resources, know-how, machinery and organization) to develop new products, new production methods, new markets and new structures to develop and compete in the international market.

Consistent with Cluster 1, findings indicated that in some of the SMEs in the second cluster, which started their international activities after success in the domestic market, durability and continuity of the internationalisation process was dependent upon changes and innovation in the current situation. Therefore, due to knowledge of international market opportunities, entrepreneurs initiated or planned to initiate development projects that reflect the alertness and receptive attitude of the founder or managers to international market opportunities. This means that some of the Cluster 2 entrepreneurs came to the conclusion that in order to take advantage of opportunities and to realize them they needed to launch development projects to be able to meet both domestic and international market demand. However, the findings also indicated that in these cases realization of the international market opportunities through development projects was mainly dependent upon the entrepreneurs' competency to see and develop new combinations of resources and the ability to provide financial resources for the entrepreneurial project (Schumpeter, 1934).

In short, findings indicated that similar to Cluster 1, for those firms in Cluster 2 that passed the irregular export activities stage (Johanson & Vahlne, 1977), durability and continuity of international activities was not spontaneous, but depended upon the intention and willingness of the entrepreneur to be international and also on their competency and capability in providing the financial resources for development projects that finally resulted in growth of the firm, either through establishment of a new production line or increase in production capacity. Except for some of the Cluster 2 who started entrepreneurial changes in their firms for extension of international activities, for other entrepreneurs, the international activities of the firm were dependent upon the firm's position in the domestic market. For these entrepreneurs, even though external motives such as lack of foreign exchange and fortuitous orders also led entrepreneurs to more involvement in the international market, profit and growth were distinguished as the main motives for development of international activities. In these cases, due to limited resources, internationalisation was a dilemma for the SMEs. On one hand, they knew that in order to be competitive and to grow, they should enter international markets, but on the other hand, due to limited resources, lack of public promotion policies for exporters and infrastructure problems, they were not able to develop their international activities. In these cases, due to the fixed-exchange-rate policy and high inflation in the domestic market, not only was export not profitable, but sometimes also a loss-making venture. Therefore, these SMEs generally met international market demand through their extra production capacity, and their international activities were not long-lasting. The durability (and duration) of international activities depended upon the position of the firm in the domestic market and the fortuitous orders.

In summary, grouping of the firms in two clusters enabled us to distinguish the significant differences between two groups of SMEs that were active in international markets. These significant characteristics that clarified the entrepreneurs' impact on the CA of SMEs enabled us to distinguish "international SMEs" from "domestic SMEs".

Therefore, we concluded with some confidence that the competitive advantage of SMEs in Palestine were an entrepreneurial and opportunity-based process. In this process, due to the initiating forces (either external or internal) (Wiedersheim-Paul et al., 1978; Aharoni, 1966) and entrepreneurs' alertness, entrepreneurs perceived and subsequently, due to their skills and experiences, realized and took advantage of international opportunities (Kirzner, 1997). This was reflected in the receptive attitude (Kirzner, 1997; Miesenbock, 1988), entrepreneurial orientation (Yli-Renko et al., 2002; Miesenbock, 1988), proactive behaviour of the entrepreneurs (Ibeh & Young, 2001) and the strategic orientation of the firm (coordination of the firm's goal and international operations) (Wiedersheim-Paul et al., 1978; Aharoni, 1966). In this situation, not only could the environment supply the firm with opportunities that had been overlooked by the others (Kirzner, 1997), it could also provide conditions that facilitated the process. Therefore, entrepreneurs who were alert and bold (innovative and creative) had managed to realize information about international market opportunities through starting new business or initiating changes and innovation in their firms.

7.9 Summary

In conclusion, it is useful to review how the notion of CA has evolved, from the initial approaches up to the most recent ones. This Chapter identifies two positions: The RBV and Porter model, which the focuses on the analysis of the industrial environment. Firms operating in the same industry have identical opportunities and can gain the same results in terms of competitive position, and, profit earnings. Porter's contribution continues to focus on industrial environment. Nevertheless, he does give some room to the capability of the single firm in finding a distinctive successful position. The opportunities from which firms can chose their strategy are limited to only three options, but firms are given more freedom to decide the best strategy depending on the specific industry in, which they operate. The firm and its strategy receive greater attention and the results are satisfactory because of the greater knowledge gained in studying the firm.

The starting point in applying the RBV is to consider how resources may be encapsulated within firms, and how firms may generate either Ricardian or Schumpeterian rents from this bundling. By Ricardian rents, the researcher means the extraction of profits from the rareness and superiority of a firm's resources, and the distinctiveness of the routines built to exploit these resources. This is the conventional perspective of the RBV. By Schumpeterian rents, it is meant the entrepreneurial profits extracted by a firm from a bundle of resources assembled from a variety of sources, through the capture of synergies between these resources[53].

[53] On Schumpeterian vs. Ricardian rents, in the context of the RBV, see Winter (1995) or Mahoney & Pandian (1992). Resource synergies correspond in the resource realm to complementarity's assets, or co-specialised assets, leading to economies of scope, in the activities realm.

The RBV of the firm perspective was chosen as the theoretical framework underlying this analysis; especially because this theory explains in a precise manner the conditions that determine firm performance and closely relates performance to core competences and CAs. This view stresses how the CA of firms relies on the valuable resources the firm possesses and additionally, explores the relationship between resources, competition and profitability and how to sustain CAs. One of the propositions of this view, expresses that environmental change is relentless and that firms need to be innovative in order to compete and succeed, which confirmed even further the adequacy of this theory as the best suitable for this research. Thus, the focus on the firm's internal strengths increased the unchallenged selection for this view as focus for this empirical analysis.

CHAPTER EIGHT

Results from the Empirical Study

8.1 Introduction

Quantitative research results and analysis for this thesis are presented in several parts: first, general results are presented in a descriptive format under general results heading. Next, most significant results are presented and analysed under a statistical package specifically designed for nonparametric studies. Statistics most commonly used are run under SPSS. Analyses are geared to probe the formulated hypothesis and are as such analysed under Chi-Square test. Some of the results are presented in general context, across place and across sector. Variables are analysed only in terms of those that probed to be significant to some extent. The remaining variables were described only in general aspects. Further along, other answers not forcefully related to the main subject are analysed also; the intention being to use such findings for either policy recommendations or to answer issues.

While productivity is the internal competence of an organization, competitiveness is an organization's relative competitive position compared to its competitors (Moon & Peery, 1995). Therefore, in order to find the fundamental relationship between the WB and GS, we need to analyse the business competitiveness of the two regions and to understand the relative position of the regions from the viewpoint of each other. For this, Chi-Square analysis is used to analyse the characteristics of objects with distance between them.

In this study, we define the relationship between the WB and GS as competitive in a certain sub-factor, if the result of Chi-Square analysis shows that the WB and GS are in the same category in the sub-factor. If not, they are in a cooperative relationship. To perform a statistical test on the overall relationship between the WB and GS using the results from the Chi-Square analysis, we use the cross-tabulation analysis. The cross-tabulation analysis shows the overall relationship between the two regions by calculating the number of sub-factors in which the two regions are in a cooperative or competitive relationship, respectively.

In addition and further ahead, a comparison of certain key questions posited to both successful and less-successful firms' owners is completed. Lastly, significant research findings are used to test the formulated and findings are compared to literature and to other empirical studies in order to derive conclusions and offer recommendations.

In general, for most variables these are crossed-analysed against place of work in the WB and GS firms. However, when considerations call for, statistics are also crossed across sectors and line of business (retail, wholesale, service and manufacture) and according to research aims. Results were analysed under statistics recognised as the most adequate for nonparametric test, Chi-Square test with its corresponding P-value is used. Results are mostly presented in tables and figures in the form of descriptive and analytic statistics. Data is presented according to variables grouping and following literature findings as studied by a majority of research regarding success determinants. Accordingly, findings are presented in terms of three main groupings: owners/entrepreneurs traits, demographic traits of business and the strategic tools used by the business. Likewise, according with research objectives, CAs, capabilities and potential problems and barriers are also analysed.

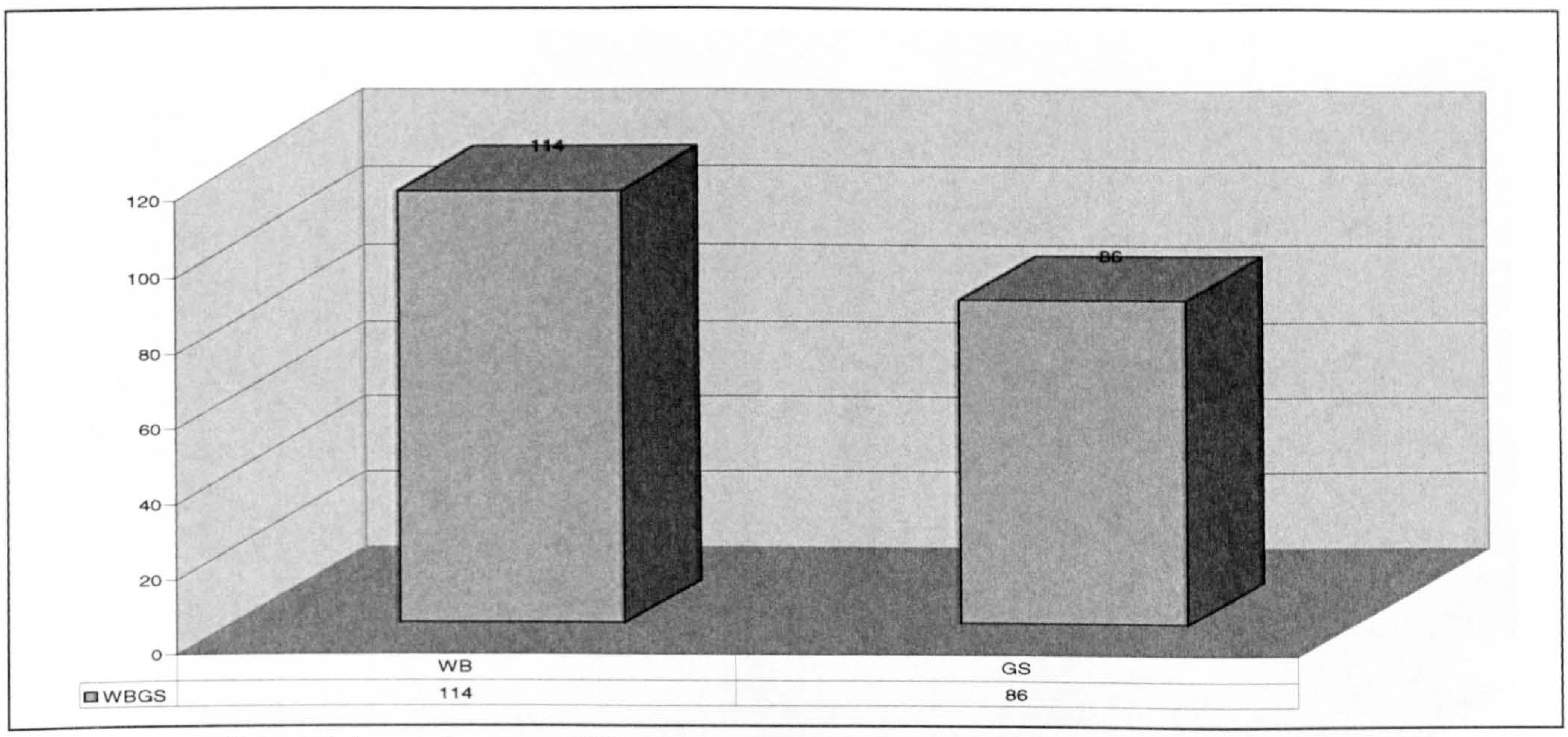
Similarly, this Chapter centres and illustrates results from the survey questionnaires and structured questions to successful and less-successful entrepreneurs as well as results from the interviews to six pairs of (small, medium and large) firms. Likewise, significant results have a sign (S), the non-significant (NS). Moreover, all analysis is place of work crossed and only when convenience called for cross tabs are done across business line or sector. Furthermore, all variables of significant results crossed against place of work, line of business and sectors are presented in table format.

8.2 General Findings

Overall, responses for the study stem from the representative sample of 200 firms located in the WB 114 firms and GS main cities 86 firms (Figure 8.1), in the WB manufacturing enterprises are mainly located in Nablus, Ramallah and Hebron, while in GS manufacturing have a strong presence in Khan-Younis and Gaza city. However, only 24% of the surveyed SMEs are located in industrial zones. The majority (around 50%) operates from residential areas located on heavily trafficked roads, particularly those involved in the manufacturing of wearing apparel products activities. The remaining enterprises are located in commercial areas.

Figure 8.1

Place of Work

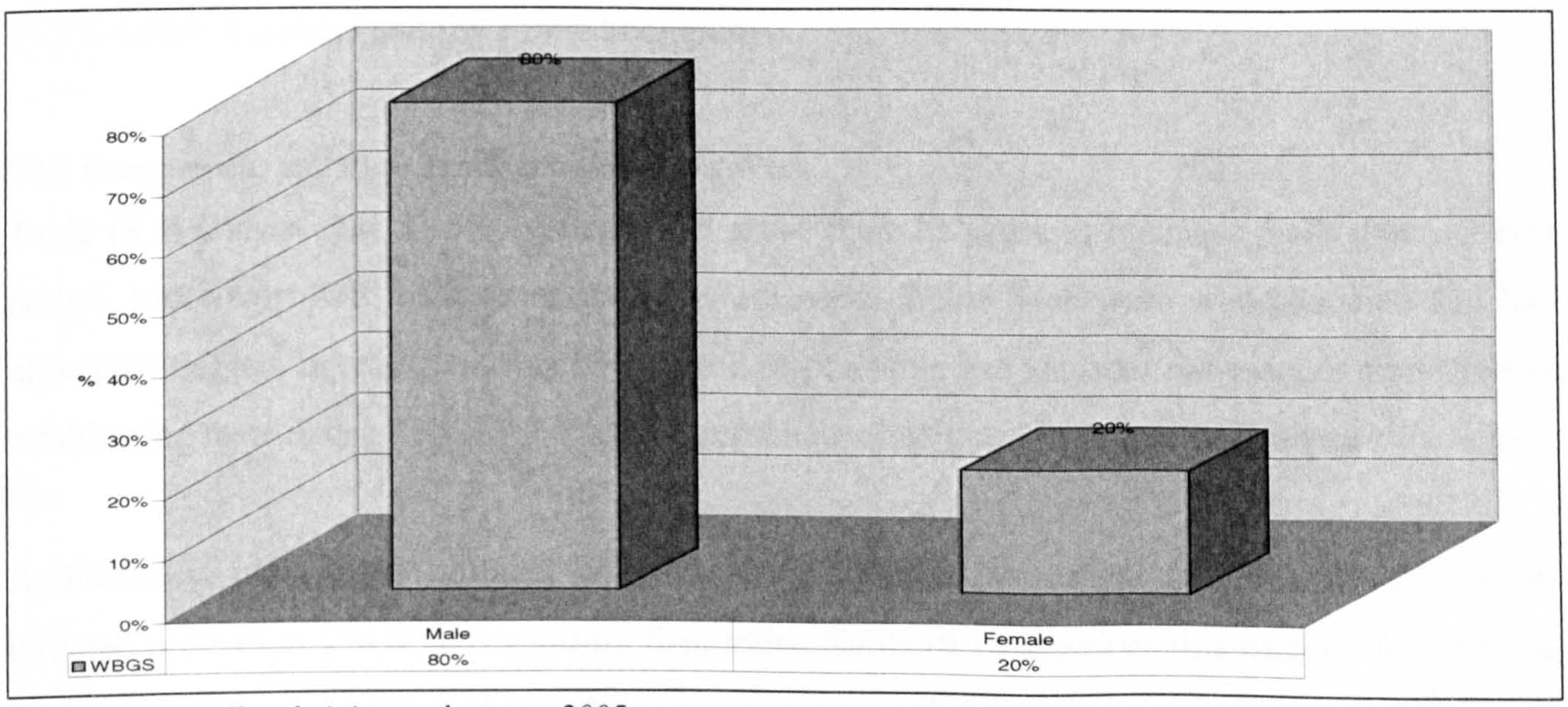


Source: Personally administrated survey, 2005.

This study main sample shows that, across sectors, only 20% of the sample is female versus 80% male-owned businesses (Figure 8.2).

Figure 8.2

Owner/Manager's Gender

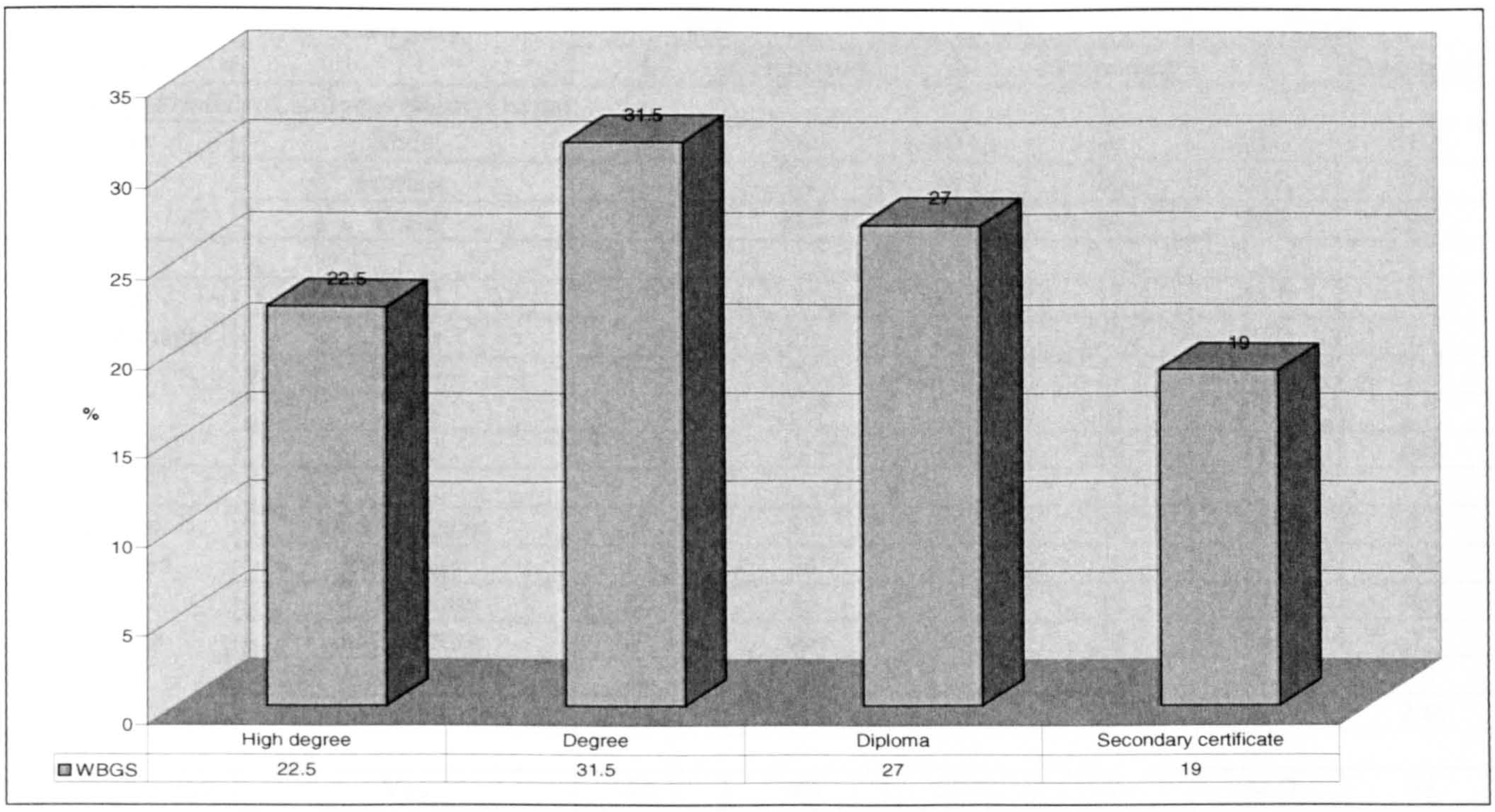


Source: Personally administrated survey, 2005.

Furthermore and profiling, 52.5% of the businesses sampled had more than 10 years established; 22.5% of the owners had high degrees and 31.5% had university degrees, even 27% of the owners had diploma and only 19% had secondary certificate (Figure 8.3).

Figure 8.3

Owner/Manager's Qualification in the WBGS



Source: Personally administrated survey, 2005.

In general the educational levels reached by the entrepreneur were very high. Results show that 86.5% of the respondents were between 20-50 years of age. Only 13.5% of the respondents were over 50 years of age. In terms of the form organization, 48.5% were sole trader, 28% partnership, 14.5% family business and 9% limited company.

8.2.1 Entrepreneur and Firm Traits across Place of Work

Table (8.1) shows, that 51.5% of firms had more than 10 years in business, well past survival period. Moreover, 80% of respondent firms are male. While 54% were well educated and had university degree. In addition, over 63% of the respondents had less than 40 years of ages. Before establishing their firms, only 44% of the entrepreneurs had previous experience about their trade.

Additionally, most firms initiated with less than $50,000 investment 89.5%, only just 10.5% initiated more than $50,000. Regarding firm traits, Table (8.1) describes this pattern. These firms all were small and 71.5% had less than 20 employees, 23.5% were in retail, 15% in Wholesale and 30% in service, the manufacturing received the highest number 31% were in multiple types of businesses: sewing, tailoring, textile and home made dressing, etc. on the average respondent firms were old; some had been in business as family firms for over 20 years. The legal form of organization most common is individual firm by 48.5% and partner by 28%. Forming firms as individual family firms is a pattern that also occurred in case studies firms.

Table 8.1

Entrepreneur/Owner and Firms Characteristics

Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Characteristics of Entrepreneur/Owner							
Gender (a1)	Male	78.9	90	81.4	70	80.0	160
	Female	21.1	24	18.6	16	20.0	40
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Age of Owner/Manager (a4)	21-30	32.5	37	12.8	11	24.0	48
	31-40	43.0	49	33.7	29	39.0	78
	41-50	21.9	25	25.6	22	23.5	47
	51-65	02.6	03	27.9	24	13.5	27
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Years in Operation (Q1)	Under 5 years	28.1	32	10.5	09	20.5	41
	5-9 years	29.8	34	23.3	20	27.0	54
	10-19 years	20.2	23	30.2	26	24.5	49
	20-29 years	05.2	06	36.0	31	18.5	37
	30 years and over	16.7	19	00.0	00	09.5	19
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Have Experience before Starting (Q5)	Yes	42.1	48	46.5	40	44.0	88
	No	57.9	66	53.5	46	56.0	112
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Manager's Qualification (Q18)	High degree	32.5	37	09.3	08	22.5	45
	Degree	20.2	23	46.5	40	31.5	63
	Diploma	38.6	44	11.6	10	27.0	54
	Secondary certificate	08.7	10	32.6	28	19.0	38
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Firms Characteristics							
Legal Status Of the business (Q3)	Sole trader	43.9	50	54.7	47	48.5	97
	Partnership	24.6	28	32.5	28	28.0	56
	Family business	21.9	25	04.7	04	14.5	29
	Limited company	09.6	11	08.1	07	09.0	18
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Line of the Business (Q11)	Retail	22.8	26	24.4	21	23.5	47
	Wholesale	15.8	18	14.0	12	15.0	30
	Service	33.3	38	25.6	22	30.0	60
	Manufacturing	28.1	32	36.0	31	31.5	63
	Total	**100**	**114**	**100**	**86**	**100**	**200**

Source: Personally administrated survey, 2005.

8.2.2 Firm's Strategy or Plans Followed

Table (8.2) ahead encompasses whichever strategy was followed by firms and seeks to answer why some firms fail where others succeed. Overall, most firms initiated with a substantial investment, financed initially with family funds yet the larger firms borrowed from banks and government subsidised loans.

Table 8.2

Strategy Used by Firms

Variables classified	Category	WB %	WB Frequency	GS %	GS Frequency	Total %	Total Frequency
Draft a formal plan (Q10)	Yes	40.4	46	38.4	33	39.5	79
	No	59.6	68	61.6	53	60.5	121
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Source of Professional Counseling (Q22)	PCBS	20.2	23	19.8	17	20.0	40
	SBA	39.4	45	40.7	35	40.0	80
	Family	21.1	24	18.6	16	20.0	40
	Others	19.3	22	20.9	18	20.0	40
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Break-even expected (Q25)	One year	20.2	23	18.6	16	19.5	39
	2-3 years	46.5	53	44.2	38	45.5	91
	5 years	27.2	31	33.7	29	30.0	60
	More than 5 years	06.1	07	03.5	03	05.0	10
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Ensure plans materialised (Q31)	Projections products	26.3	30	37.2	32	31	62
	Sales goal	11.4	13	14.0	12	12.5	25
	Work hard	19.3	22	18.6	16	19	38
	Quality/Service	33.3	38	20.9	18	28	56
	Others	09.7	11	09.3	08	09.5	19
	Total	**100**	**114**	**100**	**86**	**100**	**200**

Source: Personally administrated survey, 2005.

Most firms did use professional counsel, especially from government sources. Moreover, break-even expectations varied amply across firms and the majority did not prepare business plans at founding (60.5%) and 31% of business finance source is personal and family funds (11% and 20% respectively).

In order to determine how managerial decision influenced somewhat the firm's performance, certain specific questions were drafted (Q8, Q10, Q26, Q28, Q37, Q39). Responses show in Table (8.3) that over 33% was SFs (10 or less employees), remarkably over 63.5% were medium sized and only just 3.5% were large (over 51 employees). The number of part-time employees was limited. Interestingly, Table (8.3) also shows that 91% of the firms consider their business successful.

Table 8.3

Strategy of Growth Plans and Decision Making Activities

Variables classified	**Category**	**WB**		**GS**		**Total**	
		%	Frequency	%	Frequency	%	Frequency
Current Employees (Q14)	1-5	09.6	11	02.3	02	06.5	13
	6-10	25.4	29	27.9	24	26.5	53
	11-20	44.0	50	31.4	27	38.5	77
	21-50	17.5	20	34.9	30	25.0	50
	51-100	03.5	04	03.5	03	03.5	07
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Area of Strength (Q41)	Credibility	21.1	24	12.8	11	17.5	35
	Quality of employees	08.8	10	17.4	15	12.5	25
	Client orientation	21.9	25	18.6	16	20.5	41
	Quality product	19.3	22	14.0	12	17.0	34
	Perseverance	08.8	10	17.4	15	12.5	25
	Problems solving	14.0	16	16.3	14	15.0	30
	Others	06.1	07	03.5	03	05.0	10
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Area of Weaknesses (Q42)	Responsibility	05.3	06	03.5	03	04.5	09
	Quality of employees	15.8	18	10.5	09	13.5	27
	Client orientation	08.8	10	18.6	16	13.0	26
	Quality of products	05.3	06	09.3	08	07.0	14
	Perseverance	64.9	74	58.1	50	62.0	124
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Consider your Business Successful (Q44)	Yes	92.1	105	89.5	77	91.0	182
	No	07.9	09	10.5	09	09.0	18
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Average Sales Level this Year (Q50)	Less than $100.000	11.4	13	24.4	21	17.0	34
	$100,001-250,000	17.5	20	16.3	14	17.0	34
	$250,001-500,000	19.3	22	14.0	12	17.0	34
	$500,001-750,000	16.7	19	17.4	15	17.0	34
	$750,001-1,000,000	16.7	19	15.1	13	16.0	32
	More than $1,000,000	18.4	21	12.8	11	16.0	32
	Total	**100**	**114**	**100**	**86**	**100**	**200**

Source: Personally administrated survey, 2005.

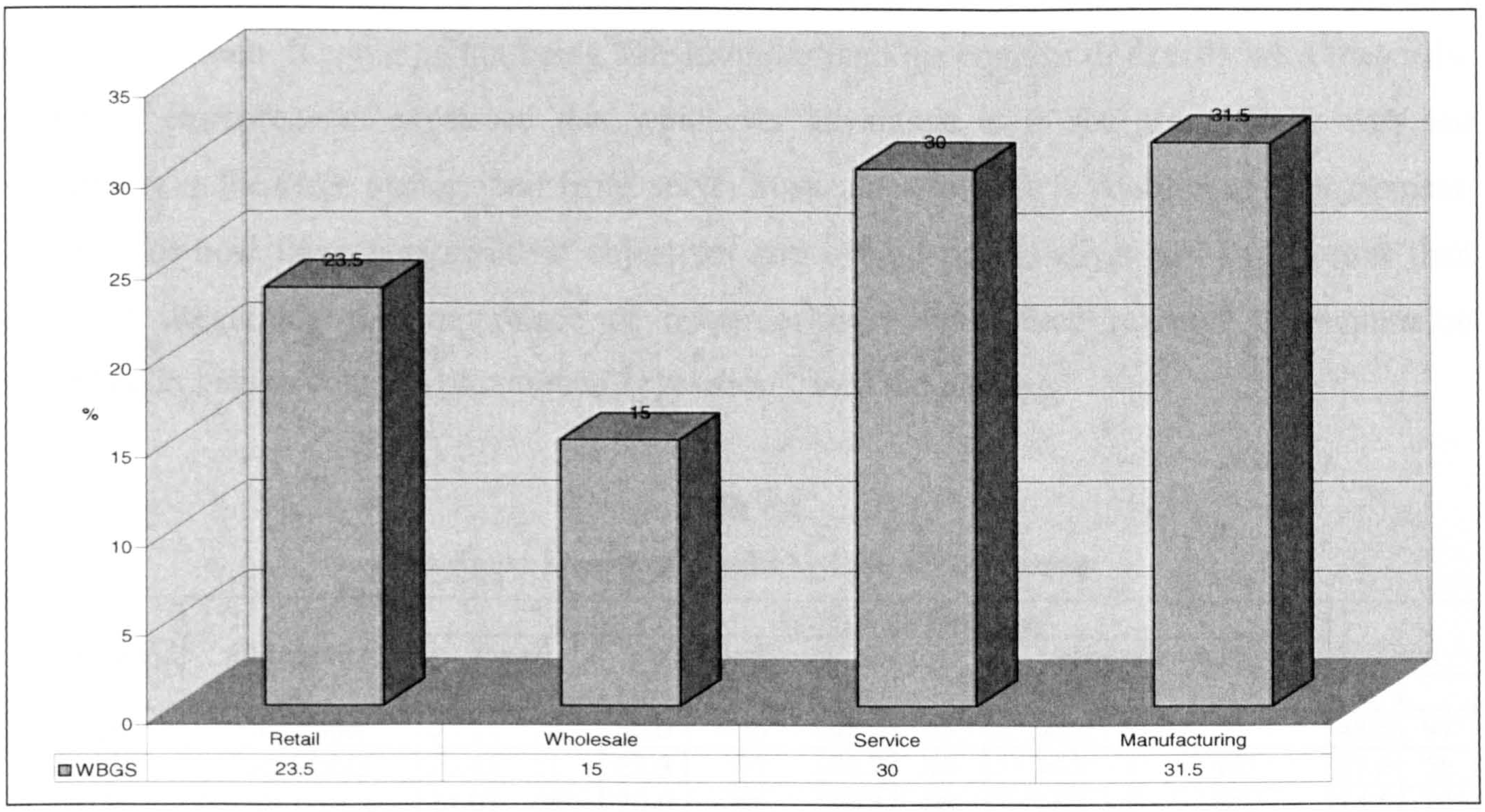
Overall performance measures in sales show that firms' sales are diminishing. Except some firms, all were selling less and blame this malady on several aspects. Sales were exhibited in totality because of its limited number. It is interesting to notice that some firms' sales level though lowering had reached a respectable number for SMEs in trouble. No differences are perceived in performance responses across firms as such, a potential explanation for demise is inadequate management or ownership decisions.

8.2.3 Performance Measures across Line of Business

The various industry sectors are well represented with 23.5% in retail, 15% in wholesale, 30% in service and 31.5% in manufacturing (Figure 8.4).

Figure 8.4

Line of Business in the WBGS



Source: Personally administrated survey, 2005.

The firms in manufacturing and service appear as the most successful, compared to those in the wholesale sector (success as defined by sales). Similarly, most firm owners replied that the size of their firm was determined by choice. Results and the analysis pertaining to each question are addressed mainly on question by question basis. Table (8.4) presents general results of firms' performance across sectors and describes only the descriptive aspects of results by sectors.

Overall, finding by general area of business, pinpoint to the fact that firms in the Manufacturing, service for Palestinian SMEs appear better than the Wholesale and retail sector. Break even for most firms are expected within 2-3 years. Legally, the corporations system is clearly not the preferred form of organization, retailers who seem to prefer individual business more. Most firms did not draft a business plan and wholesalers in particular less practice at such endeavour. Firms ensured that their plans materialised mostly via projections. however all sectors analysed did design and updated a business strategy. Most entrepreneurs designed their strategy on the marketing and sales sector. Financial considerations were higher for the wholesalers sector.

In relation to the CAs across area of business, wholesalers, manufacturing saw them as residing on their actual market and quality of products and services, while retailers saw them as residing on their quality of products and exclusive services. The service sector expressed that their CA rests mostly on offering quality, client orientation and exclusive service and on reviewing their offer continuously. Updating plans was not a subject considered much since to them all is an automatic process. Regarding the existence of sustained CAs, there is no clear sustained advantage is seen. It could be not being able to understand the concept or exactly what they said, or firm's entrepreneurs expressed that whichever advantage is in the areas where they are working or in the same market their firms serve. Sustenance to them is continuous improvement. In terms of how firms performed to objectives and overall profit, all groups were better than expected. Regarding the importance of resources were considered relevant but reputation described in human contacts or community relations rated the highest.

Table 8.4

Descriptive Statistical Results by Line of the Business

Variable	Categories	Line of the Business								Total	
		Retail		Wholesale		Service		Manufacturing			
		%		%		%		%		%	
Legal Status (Q3)	Sole trader	53.2	25	50.0	15	41.7	25	50.8	32	48.5	97
	Partnership	23.4	11	23.3	07	31.7	19	30.2	19	27.0	56
	Family business	17.0	08	20.0	06	13.3	08	11.1	07	14.5	29
	Limited company	06.4	03	06.7	02	13.3	08	07.9	05	09.0	18
	Total	**100**	**47**	**100**	**30**	**100**	**60**	**100**	**63**	**100**	**200**
Break-Even Expected (Q25)	One year	19.1	09	20.0	06	18.3	11	20.6	13	19.5	39
	2-3 years	36.2	17	40.0	12	48.3	29	52.4	33	45.5	91
	4-6 years	38.3	18	30.0	09	30.0	18	23.8	15	30.0	60
	5-10 years	06.4	03	10.0	03	03.3	02	03.2	02	05.0	10
	Total	**100**	**47**	**100**	**30**	**100**	**60**	**100**	**63**	**100**	**200**
Often Update your Plan (Q29)	Every 2-3 years	46.8	22	46.7	14	56.7	34	52.4	33	51.5	103
	Never	27.7	13	13.3	04	05.0	03	20.6	13	16.5	33
	All the time	25.5	12	40.0	12	38.3	23	27.0	17	32.0	64
	Total	**100**	**47**	**100**	**30**	**100**	**60**	**100**	**63**	**100**	**200**
Sustain Competitive Advantage (Q37)	Actual market	02.1	01	06.7	02	05.0	03	07.9	05	05.5	11
	Competitive prices	14.9	07	03.3	01	21.7	13	09.5	06	13.5	27
	Technical services	08.5	04	16.7	05	05.0	03	06.3	04	08.0	16
	Exclusive service	14.9	07	23.3	07	15.0	09	20.6	13	18.0	36
	Quality products/services	19.1	09	13.3	04	26.7	16	12.7	08	18.5	37
	Client orientation	19.1	09	16.7	05	13.3	08	15.9	10	16.0	32
	Others	21.3	10	20.0	06	13.3	08	27.0	17	20.5	41
	Total	**100**	**47**	**100**	**30**	**100**	**60**	**100**	**63**	**100**	**200**
Performance Last Year Overall Profit (Q55a)	Better	53.2	25	53.3	16	48.3	29	47.6	30	50.0	100
	As planned	25.5	12	16.7	05	18.3	11	28.6	18	23.0	46
	Worse	00.0	00	10.0	03	08.3	05	07.9	05	06.5	13
	Do not know	21.3	10	20.0	06	25.0	15	15.9	10	20.5	41
	Total	**100**	**47**	**100**	**30**	**100**	**60**	**100**	**63**	**100**	**200**

Source: Personally administrated survey, 2005.

8.3 Performance Measures and Analysis across Sectors

8.3.1 Owner Entrepreneur Traits

The variables appearing in Table (8.5) were analysed in general and in specific terms, in terms of how they relate to entrepreneur demographics. Thus, the traits that identify the successful entrepreneur include level of education, origin, previous experience to founding business and business related experience. This table and most tables present general and specific results and are classified and analysed by place of work. Whenever other measures are presented they are identified as such. In relation to traits, gender, age of the owner, experience years in business, probed to be a significant measure. For clarification, significant measures are highlighted and specified accordingly.

Table 8.5

Owner/Entrepreneur Traits

Variables Classified	Category	WB %	WB Frequency	GS %	GS Frequency	Total %	Total Frequency
Gender (a1)	Male	78.9	90	81.4	70	80.0	160
	Female	21.1	24	18.6	16	20.0	40
	Total	**100**	**114**	**100**	**86**	**100.0**	**200**
Chi-Square	**P. 32.452**	**Df 3**	**S .000**				
Age (a4)	20-30	32.5	37	12.8	11	24.0	48
	31-40	43.0	49	33.7	29	39.0	78
	41-50	21.9	25	25.6	22	23.5	47
	51-65	02.6	03	27.9	24	13.5	27
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 32.452**	**Df 3**	**S.000**				
Type of the Business (a6)	Textile	21.9	25	05.8	05	15.0	30
	Garment	78.1	89	94.2	81	85.0	170
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 9.986**	**Df 1**	**S .002**				
Years in business (Q1)	1-5	28.1	32	10.5	09	20.5	41
	5-9	29.8	34	23.3	20	27.0	54
	10-19	20.2	23	30.2	26	24.5	49
	20-29	05.3	06	36.0	31	18.5	37
	30+	16.7	19	00.0	00	09.5	19
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 49.661**	**Df 4**	**S .000**				
Owner/Manager Qualification (Q18)	High degree	32.5	37	09.3	08	22.5	45
	Degree	20.2	23	46.5	40	31.5	63
	Diploma	38.6	44	11.6	10	27.0	54
	Certificate	08.8	10	32.6	28	19.0	38
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 50.275**	**Df 3**	**S .000**				

Source: Personally administrated survey, 2005.

Analysis from Table (8.5) shows that in terms of level of education across the board GS firms entrepreneurs attained higher level of education than the WB; in addition, the level of education reached correlates with the level of success, Comparing across WBGS, the majority of respondents are OPT born, not many were born abroad or came back from the Diaspora after the Oslo agreement 1993, also most are under 50 years of age. Chi-Square test exhibited that gender, age of the owner, the level of education and experience attained is a strong determinant of success for firms.

However, referring to the self-rated market positioning, while the variable did not show significance, it does show that observing firms in general, there are significant differences in the positioning of firms of different size (measured by the number of employees and place of work). In general, results show that the WB firms appear to be better positioned than GS, although, the GS firms appear much larger than WB. Regarding self-reported success, most entrepreneurs believe their firms are successful and consider themselves leaders in their field and/or challengers. Nevertheless, a significant percentage of owners believe that they are just trying to survive in their field of work. Other variables describing the traits of entrepreneur were not significantly related to performance.

8.3.2 Business Characteristics

In general, Table (8.6) that follows pinpoints to the fact that within respondents, the WB own a much higher percentage of firms than GS, but GS seems to have larger firms if measured by the size of employees, in the opposite side WB appear to have reached much more success, if measured in sales.

Table 8.6

Business Characteristics

Variables classified	**Category**	**WB**		**GS**		**Total**	
		%	**Frequency**	**%**	**Frequency**	**%**	**Frequency**
Legal form of business (Q3)	Sole trader	43.9	50	54.7	47	48.5	97
	Partnership	24.6	28	32.6	28	28.0	56
	Family	21.9	25	04.7	04	14.5	29
	Limited Co	09.6	11	08.1	07	09.0	18
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 12.514**	**Df 3**	**S .006**				
Lin of business (Q11)	Retail	22.8	26	24.4	21	23.5	47
	Wholesale	15.8	18	14.0	12	15.0	30
	Service	33.3	38	25.6	22	30.0	60
	Manufacturing	28.1	32	36.0	31	31.5	63
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Current Employees (Q14)	1-5	09.6	11	02.3	02	06.5	13
	6-10	25.4	29	27.9	24	26.5	53
	11-20	44.0	50	31.4	27	38.5	77
	21-50	17.5	20	34.9	30	25.0	50
	51-100	03.5	04	03.5	03	03.5	07
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 12.031**	**Df 4**	**S .017**				

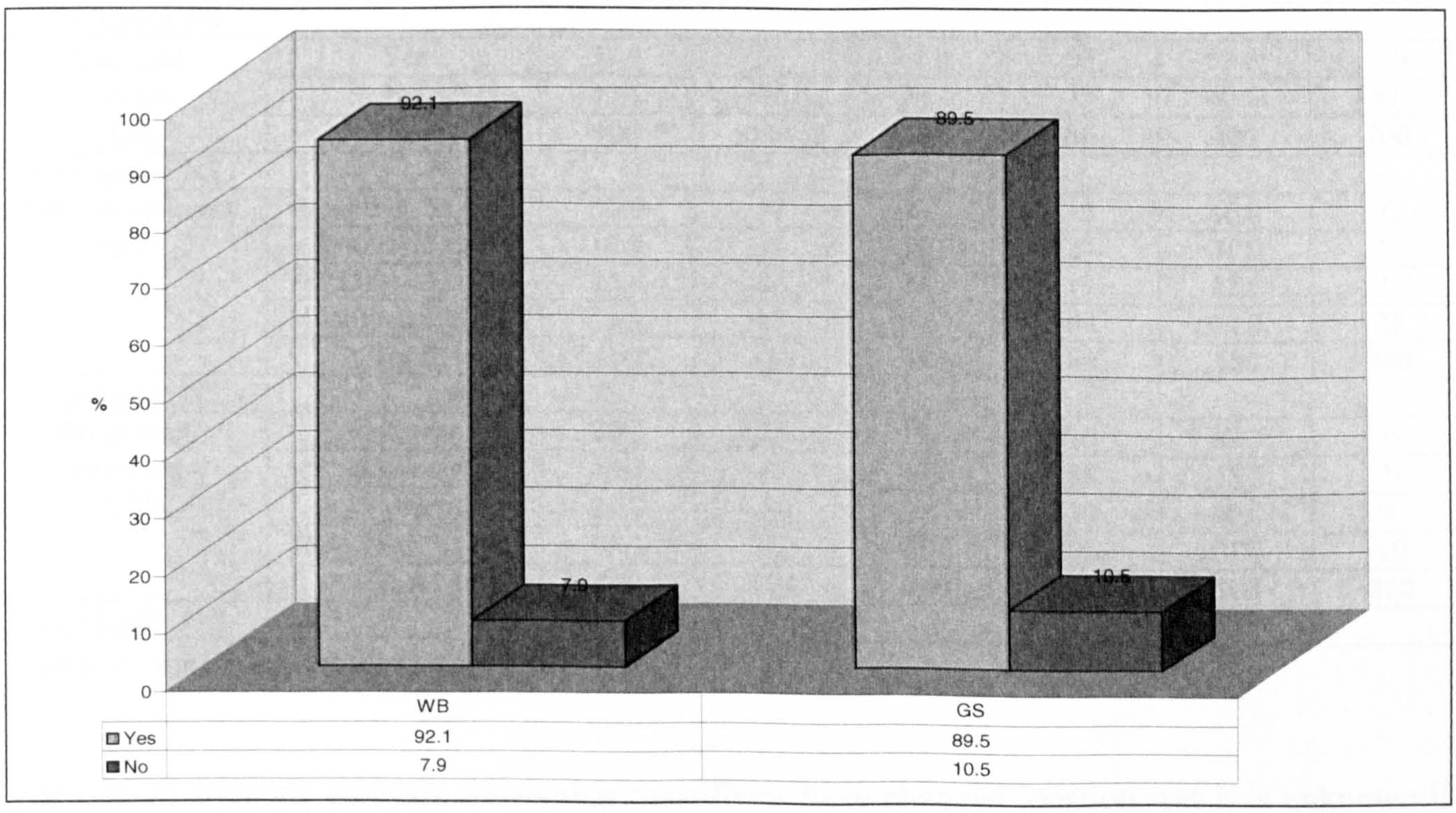
Source: Personally administrated survey, 2005.

This is corroborated by PCBS and MAS statistics in the WBGS as well as UNCTAD and World Bank reports. Regarding current employees beyond the 51 number, there are no more than 3.5% firms of the sample operating in the WB and GS, firms are mostly at equal or less than 50 employees. The majority of businesses considered themselves as "successful". Surprisingly, results seemed to be paired also on how the business was legally established. It appears that legal formation appears to be almost 48.5% sole trader and limited companies are less than 10%.

An analysis of the responses shows that success is not related to market position and line of business. Yet, only in the case of GS firms, there is a correlation which is almost meaningful between the line of business and the market position attained. Of interest is the legal form of organization. Typically, studies point out that WB firms are significantly more oriented to family business, making it difficult for all to access credit and venture capital. In this case percentages exhibit that, though more WBGS firms are formed as sole trader than other legal form of business, the difference is significant. No specific responses were obtained as to why one method was used versus the other, only choice. Regarding success in general, most firms rated themselves as successful; specifically WB owners who perceived themselves as more successful (Figure 8.5).

Figure 8.5

Consider your Business Successful



Source: Personally administrated survey, 2005.

8.3.3 Strategies Used by the Firms

Table (8.7) ahead describes the strategies delineated and the specific areas where the interviewed businesses concentrated their efforts to achieve effective or successful performance. As originally stated, strategy is measured in terms of the existence of business plans at founding and current strategies designed at founding time, as well as in reaching and updating goals. Most research specifies that successful firms are those that are innovative, research constantly and incorporate planning to their strategy. For this study specific questions were designed to determine the level of strategic planning implementation. Also, the strategic analysis is based on self-expressed perception of criteria, specifying how the strategy is implemented and if it is or not differentiated and its focus. Other aspects on which the strategy rests are based on consistent findings which state that organizations with clearly defined strategies perform better than those firms whose strategies are characterized by lack of clarity and emphasis (Miles & Snow, 1978). As such, measuring strategy for firms analysed provides the following results and subsequent analysis.

Table 8.7

General Strategy Used by Business

Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Source of business finance (Q2)	Personal funds	11.4	13	10.5	09	11.0	22
	Family funds	15.8	18	25.6	22	20.0	40
	Bank loan	11.4	13	16.3	14	13.5	27
	Others	61.4	70	47.6	41	45.5	111
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Changed location (Q8)	Yes	57.9	66	61.6	53	59.5	119
	No	42.1	48	38.4	33	40.5	81
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Initial investment (Q24)	Less than $5,000	50.0	57	40.7	35	46.0	92
	$5,001-15,000	15.8	18	27.9	24	21.0	42
	$15,001- 50,000	22.8	26	22.1	19	22.5	45
	More than $50,000	11.4	13	09.3	08	10.5	21
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Break-even expected (Q25)	One year	20.2	23	18.6	16	19.5	39
	2-3 years	46.5	53	44.2	38	45.5	91
	5 years	27.2	31	33.7	29	30.0	60
	More than 5 years	06.1	07	03.5	03	05.0	10
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

The overall strategic analysis shows that most firms have changed location, yet it is unknown if this was a set plan or just circumstantial. Consequently, measuring if respondents based the results of the strategy on original planning and how these goals were implemented shows that relative to the strategy used, 59.5% of the businesses had changed location, a decision which to them resulted in better positioning, but no significance recorded. Another measure is average initial investment, for WB firms it was $35,592 versus $22,136 for GS firms. Thus, GS firms started smaller. Meanwhile, the minimum investment for each firm was $500 and the maximum average was $190.000 for WB firms versus $100.000 for GS firms. This might signal that GS firms, by starting smaller, might not grow as much as WB firms.

In addition, Table (8.7) shows that most firms reported, expecting to break-even within 2-3 years. Even though break-even as a measure did not result as significant, we can interpret that if we look at firm whose operates in the WB, there is a significant difference across lines of business to those firms in how they expected to break even. This does not occur in the case of GS firms. Looking at all firms in conjunction however, shows no significance.

Moreover, results from Table (8.8) show that fewer WB owners' firms drafted a business plan at founding time than GS (40.4% to 38.4%). Thus, WB businesses ensured their plans materialised by complying and offering quality service and checking projections. No significant differences are seen across place of work on those issues. Indeed, most owners seem to have devised a strategy at founding time via budgets, thus ensuring financial soundness. It appears that the strategy device was first in the direction of the services to the rendered, second, in terms of the return on investment and third in terms of the marketing orientation.

Table 8.8

Continuation of Strategy Devised, Formal Plans

Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Draft a formal plan (Q10)	Yes	40.4	46	38.4	33	39.5	79
	No	59.6	68	61.6	53	60.5	121
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Was a strategy designed (Q26)	Yes	71.9	82	67.4	58	70.0	140
	No	28.1	32	32.6	28	30.0	60
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Updated strategy (Q28)	Yes	78.9	90	77.9	67	78.5	157
	No	21.1	24	22.1	19	21.5	43
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Ensure plans materialised (Q31)	Projections products	26.3	30	37.2	32	31	62
	Sales goal	11.4	13	14.0	12	12.5	25
	Work hard	19.3	22	18.6	16	19	38
	Quality/Service	33.3	38	20.9	18	28	56
	Others	09.7	11	09.3	08	09.5	19
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

In addition, updating plans was considered important and was implemented by the majority. Likewise, GS owners did not foresee changes in their plans and made less change to their business strategy than WB owners nor did they foresee changes in the environment that might have affected their plans.

In terms of growth, the one foreseen by most of the WBGS firms is in service, product expansion, not human resource per se; neither sector intended to grow in human resource but on sales and service improvement. The following variables shown on Table (8.9) proved to be non-significant.

Table 8.9

Continuation of Strategy Devised, Growth Strategy

Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Have growth plans (Q32)	Yes	86.0	98	84.9	73	85.5	171
	No	14.0	16	15.1	13	14.5	29
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Area of growth plan (Q33)	Products	29.8	34	22.1	19	26.5	53
	Size	17.5	20	26.7	23	21.5	43
	Services	44.7	51	39.5	34	42.5	85
	Quality	02.6	03	03.5	03	03.0	06
	Human R	03.5	04	04.7	04	04.0	08
	Others	01.8	02	03.5	03	02.5	05
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

To obtain further insights regarding the binomial contrasts, the results suggest that there is a significant relationship between strategic alignment and performance as shown in Table (8.10). This result rejects two of our hypotheses (H4 and H5) which suggests that a firm's strategy based in terms of the level of planning, competence in advertising and human resources as well as the development of intangible assets like reputation, does not affect positively the firm's direction and performance.

Firms that define their strategy based on the theory of resources and capabilities will obtain better and more positive results than those that do not use this focus. The findings for the two hypotheses indicate that planning strategy, human resources as well as the development of intangible assets like reputation could be aligned with the firm's corporate strategy and organizational structure to generate best performance levels.

Table 8.10

Firm Performance and Strategy

(q51) Average Sales Level Three Years Ago * (q26) Was a Strategy Designed Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	13.314	5	**.021**
Likelihood Ratio	13.801	5	.017
Linear-by-Linear Association	2.206	1	.137
N of Valid Cases	200		
a 0 cells (.0%) have expected count less than 5. The minimum expected count is 9.60.			
(q55b) Performance in Sale * (q26) Was a Strategy Designed Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	7.518	3	**.057**
Likelihood Ratio	7.901	3	.048
Linear-by-Linear Association	.856	1	.355
N of Valid Cases	200		
a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 3.60.			
(q55b) Performance in Sale * (q28) Updated Strategy Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	7.934	3	**.047**
Likelihood Ratio	8.455	3	.037
Linear-by-Linear Association	1.924	1	.165
N of Valid Cases	200		
a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 2.58.			
(q55c) Marketing Share * (q28) Updated Strategy Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	7.721	3	**.052**
Likelihood Ratio	7.620	3	.055
Linear-by-Linear Association	3.001	1	.083
N of Valid Cases	200		
a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 1.72.			
(q55c) Marketing Share * (q32) Have growth plans for Business Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	9.953	3	**.019**
Likelihood Ratio	8.961	3	.030
Linear-by-Linear Association	1.501	1	.221
N of Valid Cases	200		
a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 1.16.			
(q55g) Employees * (q32) Have growth plans for Business Cross tabulation			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	8.555	3	**.036**
Likelihood Ratio	9.028	3	.029
Linear-by-Linear Association	3.260	1	.071
N of Valid Cases	200		
a 1 cells (12.5%) have expected count less than 5. The minimum expected count is 2.17.			

Source: Chi-Square Significance Extracted from Personally administrated survey, 2005.

8.3.4 Competitive Advantages and Area of Strength

Table (8.11) addresses the Competitive Advantages (CAs) firms thought they possessed and the factors that originated them. It appears combining sectors there is a significant association between the main CA obtained during the three years researched and area of strength (Table

8.12). Evaluating aspects that have given the firm CA or resources usage shows that there are significant differences between areas of strength regarding the main CA. in addition, there is a significant correlation between the place of work and the principal CA in the years studied.

Table 8.11

Competitive Advantages, Core Competencies and Resources

Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
CA in the mean time (Q34)	Actual market	18.4	21	20.9	18	19.5	39
	Exclusive service	14.9	17	13.9	12	14.5	29
	Quality product	35.1	40	25.6	22	31.0	62
	Location Advantage	04.4	05	07.0	05	05.0	10
	Client orientation	15.8	18	18.6	16	17.0	34
	Others	11.4	13	15.1	13	13.0	26
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
CA 3 years ago (Q35)	Quality product	27.2	31	26.7	23	27.0	54
	Actual market	12.3	14	20.9	18	16.0	32
	Exclusive service	28.1	32	19.8	17	24.5	49
	Location	32.5	37	32.6	28	32.5	65
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Factors Given Firm CA (Q38)	Actual market	10.5	12	09.3	08	10.0	20
	Unique products	12.3	14	11.6	10	12.0	24
	Exclusive service	03.5	04	07.0	06	05.0	10
	Quality products	11.4	13	18.6	16	14.5	29
	Client orientation	19.3	22	14.0	12	17.0	34
	Others	43.0	49	39.5	34	41.5	83
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Important Factors or Resources to Success (q39)	Product mix	16.7	19	09.3	08	13.5	27
	Capacity to innovate	04.4	05	04.7	04	04.5	09
	Orientation services	07.0	08	10.5	09	08.5	17
	Competition	21.9	25	17.4	15	20.0	40
	Knowledge of business	07.9	09	34.9	30	19.5	39
	Financial soundness	18.4	21	14.0	12	16.5	33
	Knowledge of clients	17.5	20	05.8	05	12.5	25
	Others	06.1	07	03.5	03	05.0	10
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 28.145**	**Df 7**	**S .000**				

Source: Personally administrated survey, 2005.

Moreover, there is a similarity in the responses given as what has given their firms CA and those reported as areas of strength, but in the case of the WB owned firms of large size the strength and CA exist in having reached product differentiation. To most firms their main CA resides and will continue to be in their actual area of expertise and service. The same response was given regarding their sustained CA; there is no apparent visualisation of changes to other sector. Besides, in the latest case, the factor that provided CA is the quality of product and services and reputation (mostly explain in other) explains 100% of the CA.

In the case of general firms and those operating in GS, the significance seen in the WB firms' owners is not seen. On the factors that can and will make their firms succeed, across sector, answers signal that they reside on offering a good product or service mix first and on possessing knowledge and excellent understanding of their clientele. Regarding the factors that have given CA, there is significant association between the factor that has given them CA and seven other activity areas of the enterprise as shown in Table (8.12).

This coincides with Teece, et al's (1997) findings that denote that organizational capabilities include knowledge and skills of employees as well as efficiency in organizational structure, strategic planning procedures and ability to attract creative personnel. Among these capabilities are organizational, marketing and technical, all of which are considered in literature as sources of sustained CA, as Spanos & Lioukas (2001: p. 914) asserted, these variables will be source depending on the interconnectedness on their mutual dependence. These factors were also analysed in depth by Amit & Schoemaker, (1993) and Dierickx & Cool in 1989.

Since the focus of this thesis is determining the CAs existent in Palestinian SMEs and how they compare to other firms elsewhere, Table (8.13) focuses on the factors that across history have provided these advantages. Thus, market capabilities or measures include building special relationships with customers and suppliers, market knowledge, control over distribution, etc. in this study; several questions were drafted to determine market positioning.

Table (8.13) explains the factors that have given the firms CA, specifically seeking to highlight this and considering areas of strength. To clarify, areas of strength are also related and equated to the factors that have made the firms succeed. In the GS case, areas of strength appear to rest on the quality of their labour force while for the WB's strength gears toward their client orientation. Neither difference is significant. Areas of competence are totally related to the entrepreneur capability and decision-making across the board; reside on the owners' perseverance, hard work, financial soundness and dedication to their businesses.

Table 8.12

Factors Given Firm Competitive Advantage

(q12) Full Time Employees * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	32.823	20	**.035**
Likelihood Ratio	38.507	20	.008
Linear-by-Linear Association	.047	1	.829
N of Valid Cases	200		
a 18 cells (60.0%) have expected count less than 5. The minimum expected count is .55			

(q37) Sustain Competitive Advantage * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	210.360	30	**.000**
Likelihood Ratio	171.076	30	.000
Linear-by-Linear Association	17.784	1	.000
N of Valid Cases	200		
a 29 cells (69.0%) have expected count less than 5. The minimum expected count is .55.			

(q41) Area of Strength * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	118.523	30	**.000**
Likelihood Ratio	106.703	30	.000
Linear-by-Linear Association	8.417	1	.004
N of Valid Cases	200		
a 30 cells (71.4%) have expected count less than 5. The minimum expected count is .50.			

(q50) Average Sales Level this Year * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	56.005	25	**.000**
Likelihood Ratio	60.406	25	.000
Linear-by-Linear Association	.138	1	.711
N of Valid Cases	200		
a 24 cells (66.7%) have expected count less than 5. The minimum expected count is 1.60.			

(q51) Average Sales Level Three Years Ago * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	43.786	25	**.011**
Likelihood Ratio	47.099	25	.005
Linear-by-Linear Association	.263	1	.608
N of Valid Cases	200		
a 24 cells (66.7%) have expected count less than 5. The minimum expected count is 1.60.			

(q66c) Technological Resources Relevant to Succeed * (q38) Factors Given Firm Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	24.981	10	**.005**
Likelihood Ratio	24.296	10	.007
Linear-by-Linear Association	.059	1	.808
N of Valid Cases	200		
a 8 cells (44.4%) have expected count less than 5. The minimum expected count is 1.30.			

Source: Chi-Square Significance Extracted from Personally administrated survey, 2005.

The same answers were provided on the qualitative cases and interviews carried on for this research. Overall, when analysing the CA, there is a significant correlation between the factors reported as giving the firms CAs and the line of business. This significance is almost there in the case of firms operating in the WB but not in the case of firms operating in GS.

Table (8.13) shows that across sector, there is no significant common response as to what gives strength or success. This factor changes across size of firm and place of work. Considering all firms, there is no significant correlation between the areas of strength and the line of business the firm is in. However, among firms in the mid-size categories of grouped 21-50 employees the correlation is significant. As such for GS firm success depends on the line of business chosen.

When analysing weaknesses, areas of strength across place and size, there is no major difference. Across place, strength was reported as stressing clients' satisfaction and development of quality employees required to offer optimised service. Interestingly, the areas reported as those of strength in some firms are reported as those of weakness in others. This can be interpreted as necessary areas for improvement. Thus, this coincides with the qualitative results whereas many firms recognise the need to invest in better training of personnel and also perceived they had nice people yet all needed better training. Both studies report their understanding the need to invest more in human capital. A very specific question was asked as to what entrepreneurs/owners understood as success. In this respect, the variables were crossed by place and size (number of employees). Results show that many entrepreneurs believe that success for a firm is significantly associated with the size of the firm. Analysing the numbers of employees shows that smaller firms (0-21 employees) operate in all business sectors and do not point out to similar success determinants. Meanwhile, firms of employee's category (51-100 employees) believe their success is in production, in their reputation as a goal oriented firm and believe their strength is in the quality of their employees and constant planning.

In summary and observing results, Chi-Square test allows for potential implications. Results show that the WB firms are larger than those in GS, when measured by sales. Also, just 3.5% of the firms in GS and the WB had more than 51 current employees. Thus firms that considered themselves successful now, also considered themselves as successful three years ago, and expect to continue in the same pattern in the future. When analysing weaknesses, areas of strength across firm activities, Chi-Square results show there is a significant association between firm activities and area of strength (Table 8.14).

Table 8.13

Competitive Advantage, Relevant Areas of Strength

Variables Classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Area of strength (Q41)	Responsibility	21.1	24	12.8	11	17.5	35
	Quality of employees	08.8	10	17.4	15	12.5	25
	Client orientation	21.9	25	18.6	16	20.5	41
	Quality products	19.3	22	14.0	12	17.0	34
	Perseverance	08.8	10	17.4	15	12.5	25
	Solve problems	14.0	16	16.3	14	15.0	30
	Others	06.1	07	03.5	03	05.0	10
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Area of weaknesses (Q42)	Responsibility	05.3	06	03.5	03	04.5	09
	Quality of employees	15.8	18	10.5	09	13.5	27
	Client orientation	08.8	10	18.6	16	13.0	26
	Quality products	05.3	06	09.3	08	07.0	14
	Perseverance	64.9	74	58.1	50	62.0	124
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Consider your firm Successful (Q44)	Yes	92.1	105	89.5	77	91.0	182
	No	07.9	09	10.5	09	09.0	18
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Why consider your firm successful (Q45)	Product mix	23.7	27	09.3	08	17.5	35
	Size of employees	32.5	37	29.1	25	31.0	62
	Sales	20.2	23	31.4	27	25.0	50
	Customer service	19.3	22	19.8	17	19.5	39
	Financial soundness	04.4	05	10.4	09	07.0	14
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
What does success mean to you (Q49)	Perseverance	15.8	18	11.6	10	14.0	28
	Goal orientation	14.0	16	20.9	18	17.0	34
	Financial soundness	11.4	13	17.4	15	14.0	28
	Quality of service	07.0	08	10.5	09	08.5	17
	Quality of employees	12.3	14	10.5	09	11.5	23
	Reputation, etc.	07.0	08	04.7	04	06.0	12
	Others	32.5	37	24.4	21	29.0	58
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Compared to when you started (Q53)	Better	80.7	92	88.4	76	84.0	168
	As planned	14.0	16	07.0	06	11.0	22
	Worse	04.4	05	04.6	04	04.5	09
	Do not know	00.9	01	00.0	00	0.5	01
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

Furthermore, comparing areas of success, there is a positive association between what firms believe is their success and the size of the enterprise. Thus, across firms, responses vary as to what entrepreneur's consider their reason to succeed. Most firms base success first on their number of employees, second, on sales and third, on customer service. Interestingly, responses for both the WBGS are similar in giving importance to the same criteria of sales and customer service. However, while smaller firms replied this way, larger firms saw success in their chosen market and financial soundness that allowed them to seize opportunities. Another measure of success taken was comparing the firms to those in existence when they founded their firms. As such, significant differences were found with firms in different business areas; in general, significance is almost reached. This also means that firms in general are doing better than others.

Table 8.14

Area of Strength and Firm Activities

(q41) Area of Strength * (q34) Competitive Advantage in the mean Time			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	253.984	30	**.000**
Likelihood Ratio	225.651	30	.000
Linear-by-Linear Association	28.883	1	.000
N of Valid Cases	200		
a 25 cells (59.5%) have expected count less than 5. The minimum expected count is .50.			
(q41) Area of Strength * (q36) Competitive Advantage Next Three Years			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	129.480	30	**.000**
Likelihood Ratio	120.040	30	.000
Linear-by-Linear Association	3.552	1	.059
N of Valid Cases	200		
a 30 cells (71.4%) have expected count less than 5. The minimum expected count is .60.			
(q41) Area of Strength * (q37) Sustain Competitive Advantage			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	403.848	36	**.000**
Likelihood Ratio	332.291	36	.000
Linear-by-Linear Association	72.885	1	.000
N of Valid Cases	200		
a 31 cells (63.3%) have expected count less than 5. The minimum expected count is .55.			
(q41) Area of Strength * (q50) Average Sales Level last Year			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	63.054	30	**.000**
Likelihood Ratio	62.102	30	.001
Linear-by-Linear Association	.184	1	.668
N of Valid Cases	200		
a 20 cells (47.6%) have expected count less than 5. The minimum expected count is 1.60.			
(q41) Area of Strength * (q51) Average Sales Level Three Years Ago			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	47.418	30	**.023**
Likelihood Ratio	48.489	30	.018
Linear-by-Linear Association	.012	1	.914
N of Valid Cases	200		
a 20 cells (47.6%) have expected count less than 5. The minimum expected count is 1.60.			
(q41) Area of Strength * (q55d) Cash Flow			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	29.720	18	**.040**
Likelihood Ratio	30.033	18	.037
Linear-by-Linear Association	.598	1	.439
N of Valid Cases	200		
a 10 cells (35.7%) have expected count less than 5. The minimum expected count is .60.			

Source: Chi-Square Significance Extracted from Personally administrated survey, 2005.

8.3.5 Factors or Resources to Gain Competitive Advantages

In terms of which resources are important, Table (8.15) shows that these variables differ remarkably in some areas while in other areas differences were not significant. Since the majority of replies fell on the very important categories, other categories will not be addressed. Physical resources were considered very important by the WB firms 70.2% and by GS firms on 69.8%.

In addition, financial resources were considered very important by both 80% firm's entrepreneur, (GS 81.4% and the WB 78.9%) and 84.2% of GS and 83.7% by the WB firms considered human resources very important. On the relevance of technological resources, 64.9% in the WB considered them relevant against 61.6% in GS. Marketing resources were considered a bit important by WB owners than the GS respectively the percentage of responses were 80.2% in GS against 81.6% in the WB. An almost paired response rating was given to community relations 100% and reputation, a factor that each sector rated as terribly important by 100%.

In summary, no differences are seen in the resources possessed that might have caused CA and levels of success differences across firms. Recollecting and analysing by place of work and line of business no differences were found. As such, other factors might be what cause these differences. In addition to the existence and importance of resources, there are other factors that in literature are considered relevant resources: reputation, R&D, innovativeness and how firms scan and analyse internally and externally to compete among others.

However, for this study, reputation proved to be the most significant resources across place or size. Nevertheless, once again, the WB firms appeared to implement more analysis and plans more than GS firms, were apparently more successful. No resource priorities were expressed; all firms will continue to devote their efforts to the same market in which they operate.

Table 8.15

Importance of Factors or Resources to Gain Competitive Advantages

Variables Classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Importance of Physical Resources (Q23a)	Very important	70.2	80	69.8	60	70.0	140
	A bit important	21.9	25	19.8	17	21.0	42
	Not too important	01.7	02	02.3	02	02.0	04
	Not relevant	06.1	07	08.1	07	07.0	14
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Importance of Financial Resources (Q23b)	Very important	78.9	90	81.4	70	80.0	160
	A bit important	16.7	19	12.8	11	15.0	30
	Not too important	01.8	02	04.6	04	03.0	06
	Not relevant	02.6	03	01.2	01	02.0	04
	Total	**100**	**114**	**100**	**86**	**100.0**	**200**
Chi-Square NS							
Importance of Technological Resources (Q23d)	Very important	64.9	74	61.6	53	63.5	127
	A bit important	21.1	24	18.6	16	20.0	40
	Not too important	04.4	05	03.5	03	04.0	08
	Not relevant	09.6	11	16.3	14	12.5	25
	Total	**100**	**114**	**100**	**86**	**100.0**	**200**
Chi-Square NS							
Importance of Marketing Resource (Q23e)	Very important	82.5	94	80.2	69	81.5	163
	A bit important	13.2	15	14.0	12	13.5	27
	Not too important	02.6	03	03.5	03	03.0	06
	Not relevant	01.7	02	02.3	02	02.0	04
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Importance of Community Relations (Q23f)	Very important	100	114	100	86	100.0	200
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Importance of Reputation (Q23g)	Very important	100	114	100	86	100.0	200
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

8.3.6 Differences in Business across Place of Operation

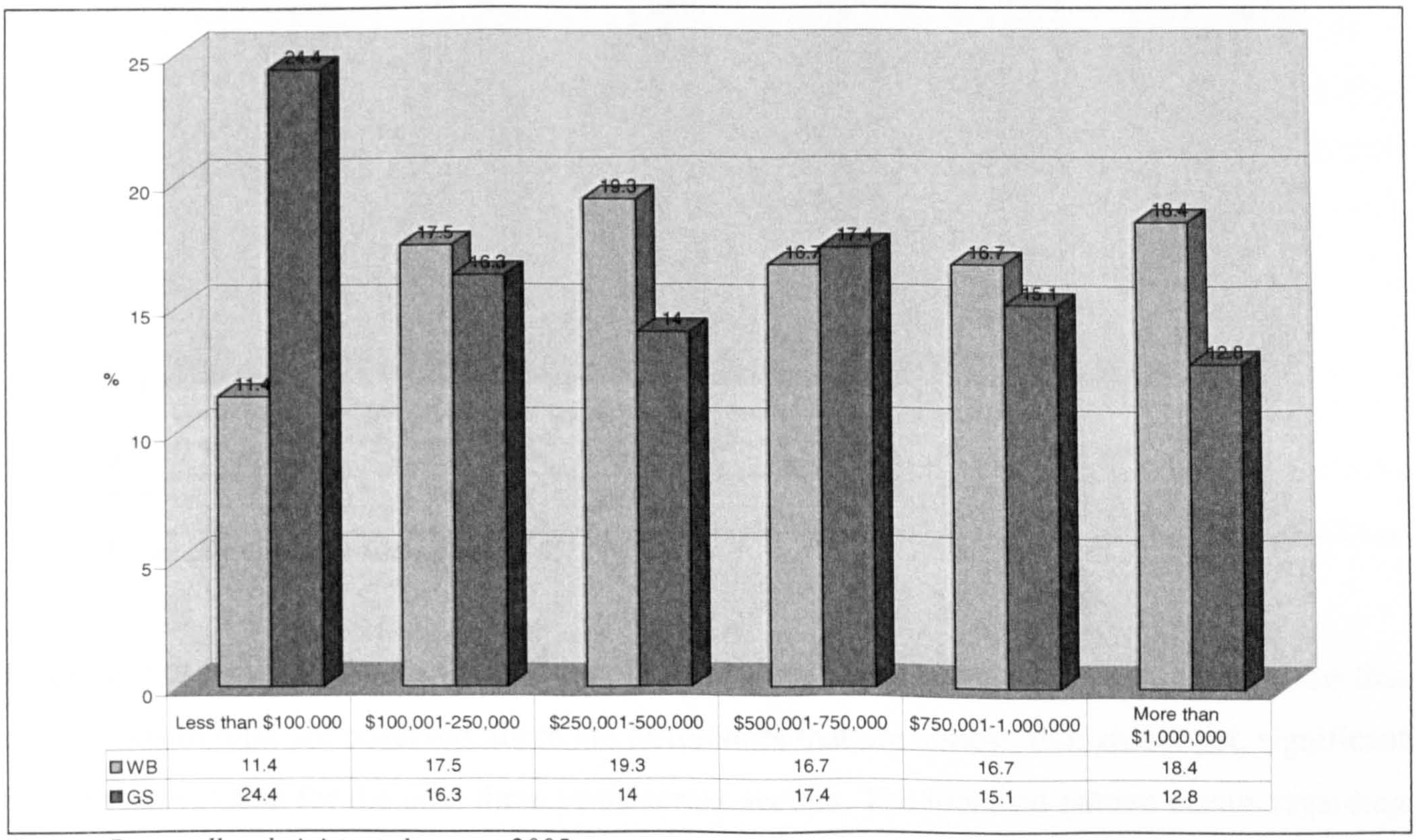
In order to determine if performance differences existed across place of operation, some questions were posed to all respondents. To this question both the WB and GS owners reported perceiving none. However, to contrast how firms across place of work performed, a series of questions were asked, including financial analysis and comparing firms' current performance to those firms that were founded or existed at the same time as theirs. These measures represent not only the strategy used to succeed, but also reflect managerial capability. The first measurement use was how firms operations resulted in terms of their set objectives; most firms seemed to be better for most across the board (68.5%). Comparing performance to plans, all firms seems to fare as planned; most firm' owners expressed that results were better than expected and planned. Furthermore, the most relevant performance indicator for any firm was sales and financial measures. In this case, sales will be addressed in a longitudinal fashion; sales three years ago, sales in the year analysed and three years into the future.

Overall, Figures (8.6, 8.7 & 8.8) show the trend; it appears that growth in sales occurred in all firms. Nonetheless, observing sales results across sector. There is a significant difference on the sales level attained by WB firms. Interestingly, if we look at the table on sales by levels and place of work, GS firms do not fare at disadvantage, when classified. On average sales this year results are close to each other. GS firms do exhibit higher numbers on sales on less than $100,000 level and at the $500,000 to $750,000 ranges while the WB firms showed significantly higher levels on 100,000 to 500,000 and higher level of sales at 750,000 to more than 1 million US dollars mark. On sales expectations over the next 3 years (Figure 8.8), the GS tends to expect higher growth in sales than WB.

Figure (8.6) shows the current average sales reached across sector. Likewise, there is an inherent and significant association between the lines of business chosen by WB firms; they appear larger and more successful in terms of sales. There is a significant difference in sales across sectors either if the firm operates in the WB or in GS. This means that some firms are associated with higher levels of sales.

Figure 8.6

Average Sales Level this Year



Source: Personally administrated survey, 2005.

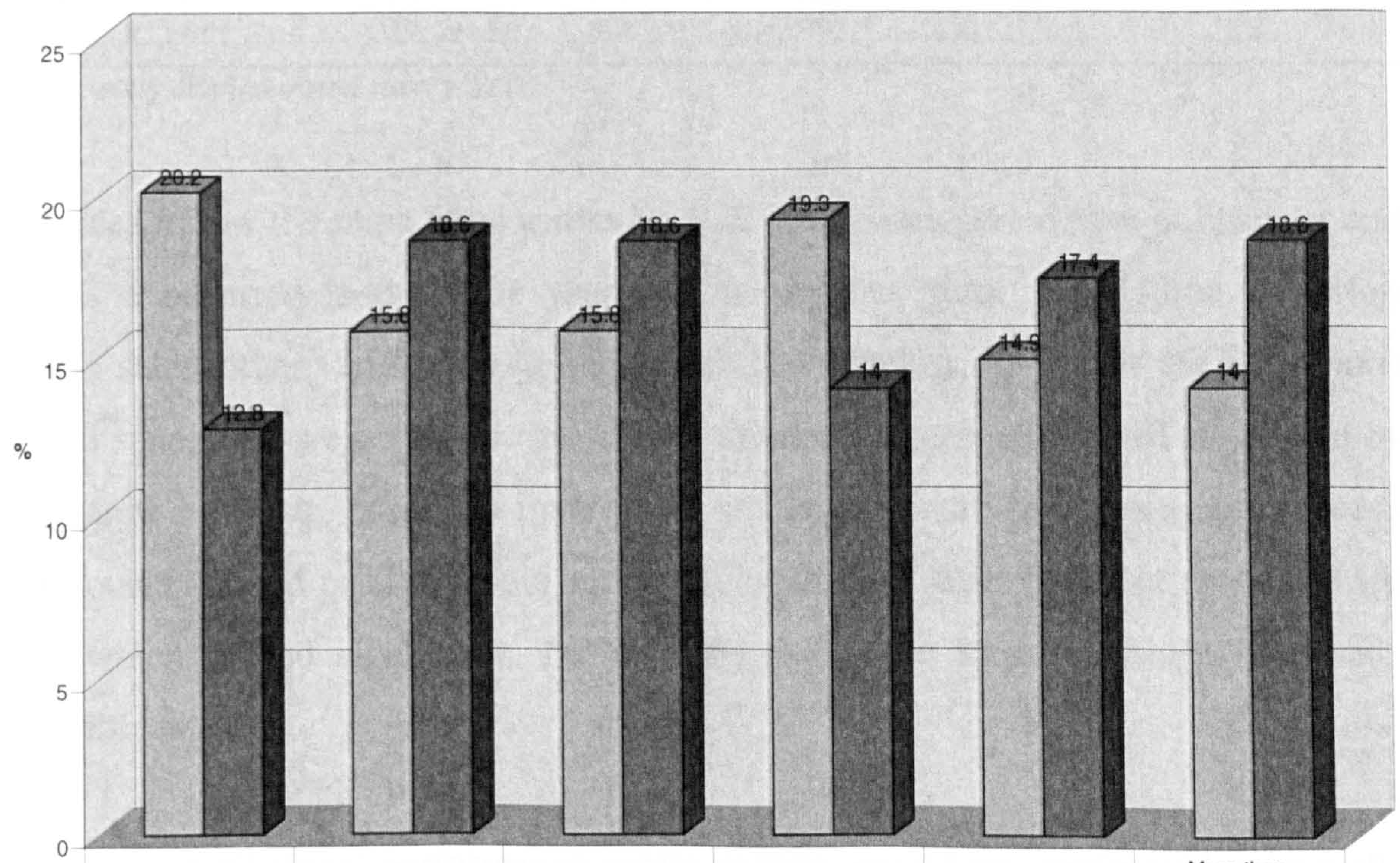
In addition to comparing sales by levels, which resulted in no significance, sales were also compared to firm performance in terms of the number of employees and the line of business.

Thus, average sales in the year the interviews were held (2005), were definitely associated with the line of business. Furthermore, there are significant differences across business sectors and sales are significantly correlated to the line of business the firm involve in.

For sales that occurred three years ago, Figure (8.7) shows that when all firms are analysed jointly, once again, sales are significantly associated to the size and line of business. There were significant differences between the different lines of business considered. Also, statistics show that there is a significant correlation between sales and business sector yet, the same correlation does not occur when firms are separated across place of work. Thus, the difference which exists across sector is not related to the place of operation, in other words, differences are cumulative.

Figure 8.7

Average Sales Level Three Years Ago



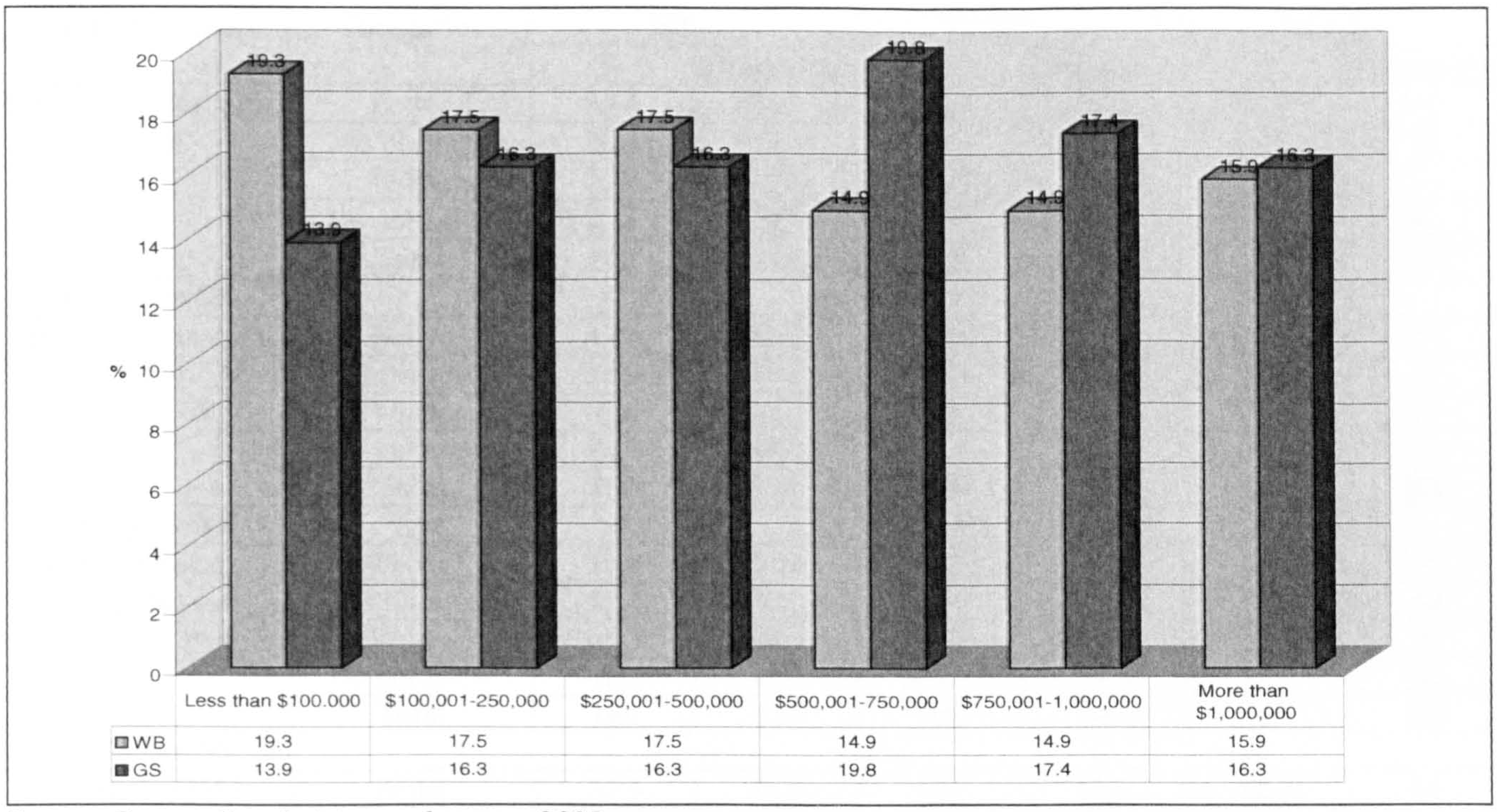
	Less than $100.000	$100,001-250,000	$250,001-500,000	$500,001-750,000	$750,001-1,000,000	More than $1,000,000
WB	20.2	15.8	15.8	19.3	14.9	14
GS	12.8	18.6	18.6	14	17.4	18.6

Source: Personally administrated survey, 2005.

Regarding expected or future sales, Figure (8.8) exhibits results across sector. Analysis show that when firms in total are observed, there are differences that are almost, though not yet, significant in sales expectation for the next three years across sectors. The identical pattern occurs regarding the correlation, which is almost significant. This does not happen across sector. In this case, differences are not even nearly significant.

Figure 8.8

Expected Sales Level Next Three Years



Source: Personally administrated survey, 2005.

Expected sales follow the same trend across level of sales, sales period, line of business and place of work, as it occurred in the same year and in previous years. In addition to performance measured in sales, other variables were measured. Nevertheless, all results are self-reported and no financial statements were revised. In general, neither of measures proved significant in terms of performance last year, return on investment, marketing share or in sales differences across sector. Associations and profiles found across sector through cash flow, net profit and technical assistance which proved significant. Table (8.16) shows the varied measures analysed which proved significant.

When considering all firms' performance across sectors, most firms performed quite well. When comparing firms objectives no differences exist within categories. To the question of how is your firm today compared to when your firm was founded, most firms performed better (84%) than expected, only 11% performed as expected and 4.5% did worse.

Table 8.16

Specific Performance across Sector

Firm Performance	Categories	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Performance last year (Q55a)	Better	54.4	62.0	44.3	38.0	50.0	100
	As planned	20.2	23.0	26.7	23.0	23.0	46
	Worse	05.2	06.0	08.1	07.0	06.5	13
	Do not know	20.2	23.0	20.9	18.0	20.5	41
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Performance in sales (Q55b)	Better	43.9	50.0	48.8	42.0	46.0	92
	As planned	28.9	33.0	29.1	25.0	29.0	58
	Worse	07.0	08.0	04.7	04.0	06.0	12
	Do not know	20.2	23.0	17.4	15.0	19.0	38
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Marketing share (Q55c)	Better	29.8	34.0	23.3	20.0	27.0	54
	As planned	22.8	26.0	27.9	24.0	25.0	50
	Worse	05.3	06.0	02.3	02.0	04.0	08
	Do not know	42.1	48.0	46.5	40.0	44.0	88
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Cash flow (Q55d)	Better	33.3	38.0	53.5	46.0	42.0	84
	As planned	26.3	30.0	23.3	20.0	25.0	50
	Worse	05.3	06.0	07.0	06.0	06.0	12
	Do not know	35.1	40.0	16.2	14.0	27.0	54
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square	**P. 11.588**	**Df 3**	**S .009**				
Return on Investment ROI (Q55e)	Better	27.2	31.0	31.4	27.0	29.0	58
	As planned	18.4	21.0	14.0	12.0	16.5	33
	Worse	04.4	05.0	08.1	07.0	06.0	12
	Do not know	50.0	57.0	46.5	40.0	48.5	97
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

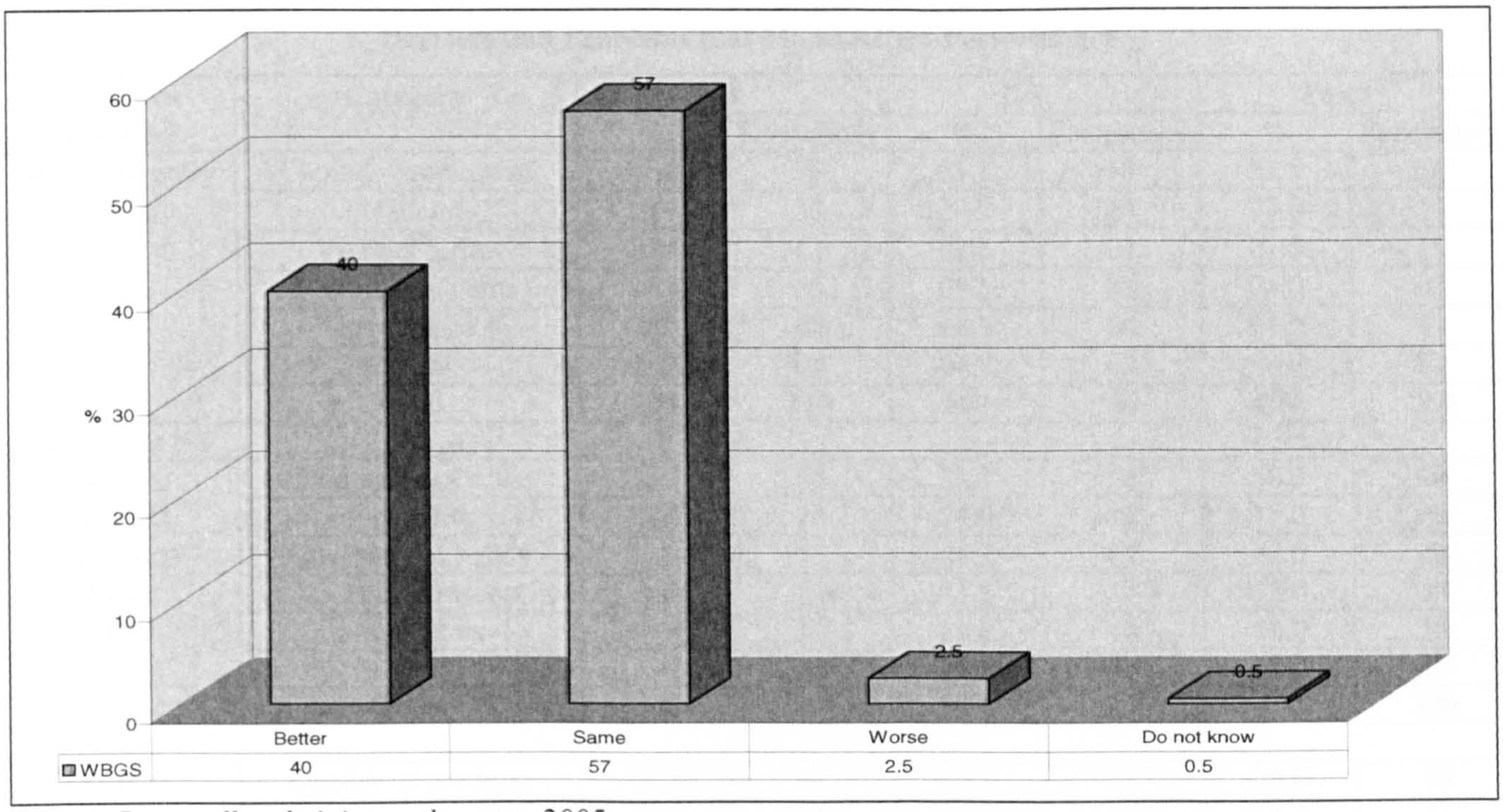
Source: Personally administrated survey, 2005.

Another performance indicator was comparing the firm to others founded at the same time, 68.5% of the firms felt they fared better, 10% did perform as expected and 19.5% did worse. Comparing financial performance to the previous years the entrepreneurs reported that 77.5% did better, 15.5% as expected and 7% performed lower than expected.

Two further questions were asked, have you reached planned sales level? Firms' responses were very positive: reached the expected levels 59%, did not reach 20.5% and surpassed goals 20.5%. Of course, since no firm performs in a vacuum and in our environment relationships are very important, owners were asked to compare themselves to their competitors' performance, results are promising, while the majority 57% felt things were ok or the same, while 40% felt things were improving and only a 2.5% felt things were worse (Figure 8.9).

Figure 8.9

Compare your Firm to Competitors



Source: Personally administrated survey, 2005.

Analysing performance in terms of overall profit reported, for firms whose owners are operate in the WB, there is a significant correlation between performance last year in relation to objectives and earnings. Firms of smaller size express very varied reasons while larger size firms are more specific in category. Before finalising the analysis and in consonance with the research goals and literature, results contend to the fact that firms that plan perform better than those that do not. Questions were asked on the subject of planning and on the hiring or not of technical assistance aiming at improving performance; no differences in replies were obtained. Results did show that larger firms used more technical assistance and plan in more specific and complex pattern, including ROI, etc. To the questions where do you expect your firm to be in 5 years replies were: the majority expected to be better by 88.5% worse only 4.5% and the same 7%. Overall, expectations for all firms are to obtain overall improvement.

8.4 General Problems and Barriers Encountered by Local Firms

The following table is an analysis on general problems considered to be of importance for firms and which might help to reach policy conclusions for this thesis. Throughout many years popular reports, business owners and government source have reported barriers and problems to development mostly stemming from multinationals, questions were asked on that respect. Replies, though affirmative, were not as significant as expected (Table 8.17).

Table 8.17

Barriers and Problems that Might Affect Performance

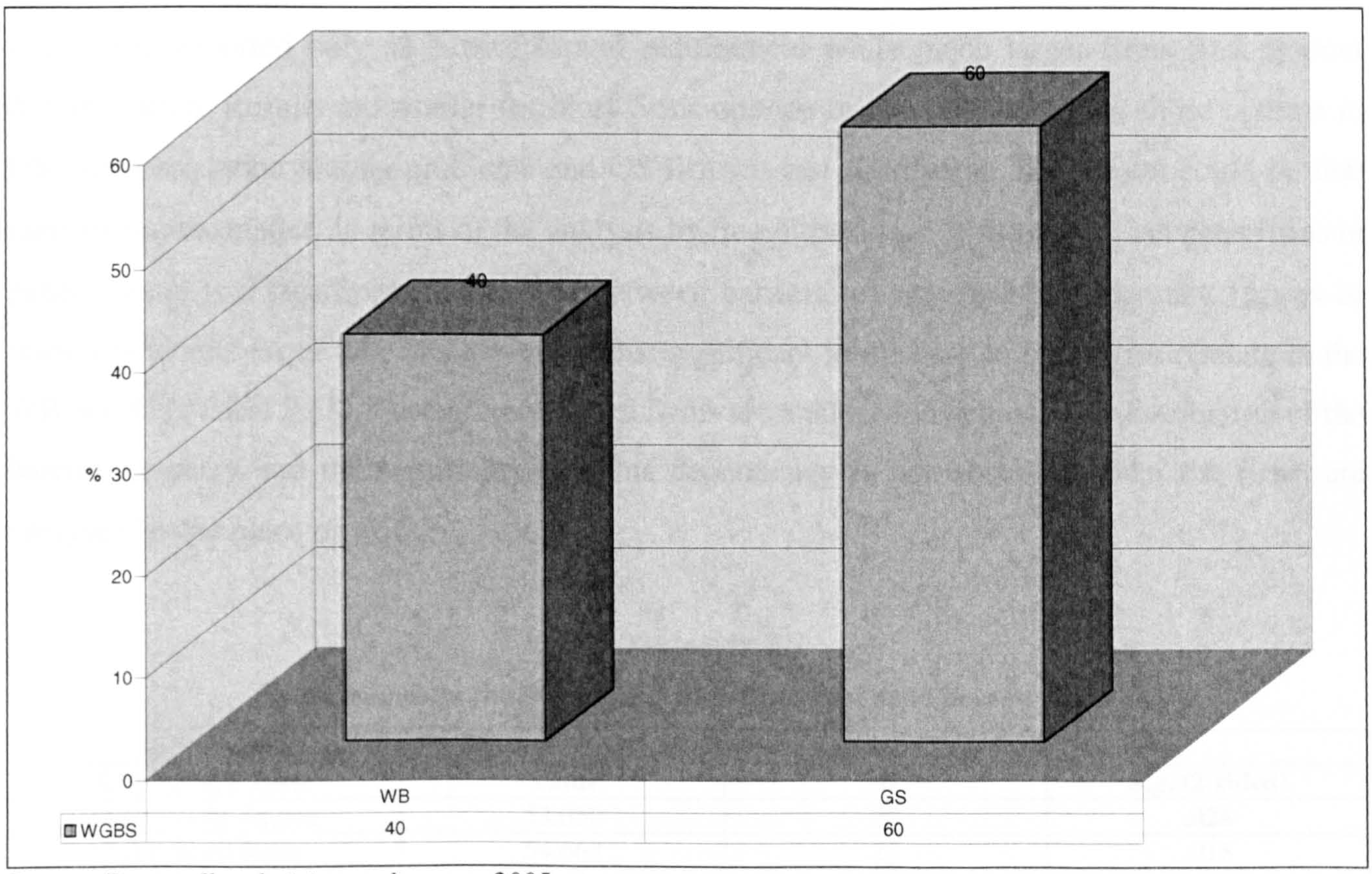
Variables classified	Category	WB		GS		Total	
		%	Frequency	%	Frequency	%	Frequency
Barriers to entry (Q17)	Capital requirement	51.8	59	55.8	48	53.5	107
	Financing	26.3	30	27.9	24	27.0	54
	Product differ	10.5	12	03.5	03	07.5	15
	Permits problems	04.4	05	03.5	03	04.0	08
	experience	03.5	04	04.7	04	04.0	08
	Others	03.5	04	04.7	04	04.0	08
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Factors affected firms entry Market (Q56)	Economics of scale	30.7	35	29.1	25	30.0	60
	Financing	15.8	18	14.0	12	15.0	30
	Government policy	11.4	13	08.1	07	10.0	20
	Location/low cost	14.9	17	15.1	13	15.0	30
	Large firms	14.9	17	15.1	13	15.0	30
	Others	12.3	14	18.6	16	15.0	30
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Factors any firms wanting to succeed needed to control before entering the Market (Q57)	Quality of products	29.8	34	25.6	22	28.0	56
	Capital requirement	13.2	15	18.6	16	15.5	31
	Prices	11.4	13	16.3	14	13.5	27
	Administrative capacity	11.4	13	09.3	08	10.5	21
	Education	02.6	03	02.3	02	02.5	05
	Economic of scale	01.8	02	03.5	03	02.5	05
	Product performance	14.9	17	15.1	13	15.0	30
	Research capability	04.4	05	05.8	05	05.0	10
	Reputation	10.5	12	03.5	03	07.5	15
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							
Why does business Fail (Q58)	Lack of administrative	19.3	22	20.9	18	20.0	40
	Competition	30.7	35	27.9	24	29.5	59
	Economic problems	13.2	15	14.0	12	13.5	27
	Lack of capital start	09.4	11	14.0	12	11.5	23
	Lack of market analysis	08.0	09	05.8	05	07.0	14
	Lack of cost control	06.1	07	08.1	07	07.0	14
	Lack of creativity	05.3	06	03.5	03	04.5	09
	Others	08.0	09	05.8	05	07.0	14
	Total	**100**	**114**	**100**	**86**	**100**	**200**
Chi-Square NS							

Source: Personally administrated survey, 2005.

Moreover, GS reported more problems and barriers than the WB. Factors affecting entry or market endurance for GS firms were: economies of scale and government policies, loan facilitation and location, as well as limited training and funding access. When the same complaints were analysed for statistical significance neither was of relevance. GS firms seemed to believe that more barriers exist than the WB firms (60% to 40%, respectively) as shown in Figure (8.10).

Figure 8.10

Barriers Exist More in the WBGS



Source: Personally administrated survey, 2005.

Regarding the factors that any firm entering the market needs to control to succeed, responses appear in Table (8.17) and in general are: Quality of product/service 28%, capital requirement 15.5% and ease to obtain credit/capital, prices 13.5%, general and administrative capacity received 10.5% responses, while market knowledge, education and economies of scale 2.5% response each and product performance obtained 15%. Contrary to expectation, as typically is said the market and in literature, reputation and research capability only obtained 5% and 7.5% of the replies, respectively.

Analysis of results point to significant differences respect to firms of different size as to what they need to control. Smaller firms diversify or spread their responses more than larger ones. These smaller firms differ from larger firms' responses; per example the need to offer better quality of products or services is needed by larger not smaller firms. Regarding place of work comparisons on the same subject, results are similar and have the same significance. When comparing firms in general for the same factor firms entering the field need to control across sector or line of business, differences are significant. Yet these differences are not significant when the difference is analysed by place of work.

When analysing barriers to entry across firm size there is a correlation almost significant between barriers to entry and size. As such the smaller firms find more barriers than larger firms. Medium sized firms reported only as barrier capital requirement while much larger firms find product differentiation. Results are similar for most firms operate in the WB yet not by those operate in GS. The correlation among problems and GS firms is not significant. The reason could be that their firms are smaller. In terms of the analysis by line of business, it shows that between firms in general there is a significant association between barriers to entry and the important factors or resources to success or fail, this dependence is significant in the case of both firms operate in the WB and GS (Table 8.18). Furthermore, when firms are analysed in general, the distribution of the barriers to entry and the significance of this dependency is not observed when the firms are analysed by the place of work.

Table 8.18

Barriers to enter the Market and Important Factors to Success or Fail

(q17) Barriers to enter the Market * (q39) Important Factors or Resources to Success			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	53.050	35	**.026**
Likelihood Ratio	54.668	35	.018
Linear-by-Linear Association	.015	1	.903
N of Valid Cases	200		
a 36 cells (75.0%) have expected count less than 5. The minimum expected count is .36.			
(q17) Barriers to enter the Market * (q58) Why does Business Fail			
Chi-Square Tests	**Value**	**df**	**Sig. (2-sided)**
Pearson Chi-Square	134.778	35	**.000**
Likelihood Ratio	115.520	35	.000
Linear-by-Linear Association	1.329	1	.249
N of Valid Cases	200		
a 37 cells (77.1%) have expected count less than 5. The minimum expected count is .36.			

Source: Chi-Square Significance Extracted from Personally administrated survey, 2005.

In reply to the question, are local firms felt threatened by foreign firms? 70% of the firms interviewed responded negatively while 30% was affirmative. Local firms believe they have advantages in flexibility of decision making and knowing the market as well as having business contact. To them, if planning and creativity as well as cost control is used correctly all firms should perform well. Explanations repeatedly pointed out those local firms that do not perform well mostly occur because they either are in the wrong market or because of excessive expenditure. To the question if the smallness of the local Palestinian market affected business, 38.5% of respondents replied negatively while 61.5% was affirmative.

Trying to specifically contrast both successful and less-successful firms' results, on the reasons why businesses fail, brought the following responses: those that less-successful is because of lack of cost, weak management and not adapting to changes, high competition levels and economic problems possessed by firms since they entered the market. In this respect both less-successful and successful firms found that improvement and success would come as managers become better prepared to face environmental changes. GS entrepreneurs do not mention lack of adequate market analysis or lack of cost control, a reason most often quoted by the WB entrepreneur as the first reason for failures. Regarding the same subject, GS owners do not mention lack of market analysis nor cost control, the reason most frequently cited by the WB firm owners. In general, analysis of results posits that there are almost significant differences between firms whose operate either in the WB or in GS in respect as to why firms fail. Thus, statistical test show only that there are differences that are significant across sector. Responses were more qualitative than of quantitative nature.

8.5 Comparison of Findings across Methods of Studies

Results from case studies reported in Chapter 7 informed of similar finding to those reported by the questionnaires. Findings shows that, in terms of strength, weaknesses, and problems found, replies differ from the surveyed firms responses only in terms of priorities. Reported areas of strength and resources were quite similar across groups. Nevertheless, problems and weaknesses reported emphasised in questionnaires replies tended more toward problems of competition and large firms than government regulations, as were the responses from owners in both the WB and GS.

Responses as to what made their firms succeed were hard work, perseverance, family support and self-satisfaction, across the board. However, surveyed firms predominantly emphasised cost controls. In all findings, having previous business experience and being educated, as well as initiating with a solid financial base was the route to success. The barriers encountered and difficulties are similar across studies and place of operation, but GS firms' owners reported facing more problems accessing funds and being taken seriously. Mostly the GS sector was in the majority of firms, financed by family funds and in most studies there were more large firms in the WB than GS. Mostly, many firms' owners did not access bank credit because they believe they would not get it and some owners believe is the risky environment related to the political situation in the OPT. Deeply, it could be because relatives are always ready to help. In terms of the problems found, these existed for most firms at the initial phase of the business and were tied, mostly to cash problems, once this stage was surpassed, operations progressed accordingly. In addition, most owners are married and the business tends to be a joint investment registered as a society. What is a paradox is that joint businesses though legally belonging to the partners are registered to the man's name; this legal formation makes accessing funds difficult, especially for females. Across the board and tracking sales, in all studies, firms operate in GS had lower sales level. In addition, they were more oriented to societies than corporation and initiated smaller.

Most of the successful firms' opinions provided similar responses to questionnaire, this opinion placed emphasis on the purported fact that they believe failure occurs mostly because of mismanagement and too much personal expenditure early in the life of the firm while not being backed by reinvestments. On the opposite end, the existence of adequate and controlled management and of expenses instils success. Similar responses were given in the cases analysed and reported in Chapter 7. To the question if there are differences in performance across place of work and type of business, none were reported. Statistical differences resulted in the case studies that some type of businesses grow larger and derive larger income than other types. However, all are seen as choices.

In addition, some owners believe their quality products and services were excellent and that the problem resided in a change of clients taste and preference. To these firms, the malls and multinationals with cheaper prices became client's preference and provoked their demise. Their weaknesses were reported to be loosing clients and the low level of responsibility of their employees. However, when interviews were implemented some successful firms owners mention, that these firms demise occurred because of unfocused vision, bad administration and being with the times.

While trying to understand if any specific reason caused these firms decline, a few other questions were asked, among them: if you had to start again which mistakes would you avoid?, did you carry out any analysis when sales started to slip by?, which were the main problems the firm confronted ever?. Responses varied, some entrepreneurs responded that they realize things were not going well, however they read of somebody else's problem and did not take it seriously until too late. Besides, owners expressed that they sought advice and loans to restart but found no help. Their main problem was always cash deficiency, which made it difficult to stock up properly. Some of the firms did believe financial analysis was important but only few firms did some.

Summarising, from these owners responses, it is difficult to assess what caused that firms that were successful or at least supported families at some point, to lose their competitiveness. Replies obtained by the majority of those who answered that competition caught them by surprise and they were unable to recuperate. In other cases, they did offer their services in the same manner and thus, consumers demanding more forced them to foreclose or restructure. From the responses obtained, no differences in responses were found as to what at some point were the resources and CAs possessed. But, as to what caused their demise; firms signal lack of capital, government problems and not enough clientele. Some did admit to not being able to update and satisfy consumers.

However, from the experience of some successful firms and their responses, there are no major discrepancies in responses across sector. Still, these firms can not make it and successful ones interviewed did so. As such, it remains unanswered as to which are the causes that makes some firms succeed while others do fail. The answer might be management diligence and expertise or the risky environment; conclusions from this variety of studies and samples shows answers that still are not conclusive. Thus, considering responses in all, it also appears that problems are tied to differences on the type of resources present and in the usage of these resources. Moreover, the CAs and or area of strength that provide those advantages differ significantly across firms, specifically the line of business appears to be significantly tied to the success level attained and the size of firms reached.

Across the board GS firms' owners appear to present more problems and are smaller than those in the WB and less successful, if measured by size level obtained, they appear to be more stable and less failure prone. Firms' owners, in general, expressed considerably that for a firm to succeed there has to be expense controls, reach a reasonable size, be financially sound and diversify their current markets. Furthermore, across successful and less-successful firms, no differences were perceived by firms managed in different place of work. In addition, empirical studies in the WBGS like the ones implemented by UNCTAD (2004) and MAS (2003) reports that firms do have problems to compete, yet this do not appear due to the Palestine's smallness, or inherent barriers as is usually said but to inability of the entrepreneurs to analyse, administer and respond to the challenges posited. Also while some firms finding trouble, many of the mid-sized and large firms are competing extremely well.

8.6 Hypothesis Testing

In line with the null hypothesis formulated, the following table exhibits results for each one and their acceptance or rejection areas. The criteria of acceptance are values equal or lower to the P-value of 0.05. While Table (8.19) illustrates these results, conclusions pertaining results will appear in the summary section.

Table 8.19

Hypothesis Testing

Hypothesis	Description of Hypothesis	Accept or Reject
H1	The traits of the entrepreneur/manager (i.e., level of education, his or her business related experience) the profile or traits of the firm (age, time of founding, initial investment, size and industry) and the strategy used do not affect significantly the level of success attained by the firm.	Reject
H2	The competitive advantages and core competencies existent in successful firms in Palestine as well as their performance are not significantly different across sectors (i.e., type of industry) and size.	Reject
H3	A) Firms success performance and/or failure do not depend on the competitive advantages attained by the firm or on how these are sustained. B) This sustainability does not arise from the indirect effects provided by the available resources and capabilities developed by the firms within the environment and industry in which the firm operates.	Reject (A) Accept (B)
H4	A firm's strategy based in terms of the level of planning, competence in advertising, R&D and human resources as well as the development of intangible assets like reputation, does not affect positively the firm's direction and performance.	Reject
H5	Firms that define their strategy based on the theory of resources and capabilities will obtain better and more positive results than those that do not use this focus.	Reject
H6	The factors that determine firm's success do not vary significantly across sector nor are there barriers inherent to owner/manager; the variance found across firms is only due to the size and growth patterns of firms.	Reject
H7	Business owner's performance is not correlated to the size and sector in which the firm is or to the firm's survival rate.	Reject
H8	A) Business operated in GS do not appear more likely to survive and succeed than those operated in the WB. B) Differences are due to external circumstance and not to personal attributes, like previous experience, product market characteristics and size of the firm, which automatically determines the level of success attained.	Reject both A and B
H9	The factors necessary for firms to succeed do not vary significantly across successful and less successful firms in terms of resources and core competencies.	Reject
H10	A) The difference between successful and less successful firms does not reside on the exploitation of resources, innovativeness in products and services and pro-activeness. B) Differences do not rest on the role and attitude of management, the level of sales reached and size attained.	Reject both A and B
H11	The problems inherent to firms in the WB are not due to inherent barriers like the GS smallness nor do they differ significantly from those possessed by firms elsewhere.	accept
H12	A) The problem is neither to create a sound domestic base for the national economy that is able to achieve a good quality and productivity level and to participate in some sector of the international division of labour. Nor the problem lies in the forced and systematic occupation-related economic distortion and in the financially risky environment that it creates for many Palestinian SMEs. B) The problem is rather to work out a self-centred development model based on import substitution and high protective barriers, or to create a strong export-led sector.	Reject both A and B

Source: Researcher's elaboration

In terms of the hypothesis formulated ten were totally rejected, one were rejected in part and one was accepted. Rejecting the formulated null hypothesis contends positively with this researcher position regarding that there are differences in performance across sector being they out of choice or other circumstances. Also, in the specific case of Palestine, education and innovation trigger success yet at the same time contrary to typical opinions failure is not due so much to competition from large businesses and multinationals, but also to mismanagement and of loosing CAs once held. Moreover, this failure could be due to external factors or environmental circumstances or the economic and political uncertainty. This led us back to Chapter two, which explained broadly the reality of the Palestinian economy and shows that the problem lie in the forced and systematic occupation-related economic distortion and in the financially risky environment that it creates for many Palestinian SMEs. Therefore, this Chapter has answered the H12 formulated hypotheses.

8.7 Summary and Finding

Quantitative research findings and the complementary information derived from different sources either questionnaires, structured questions and case studies (presented in Chapter 7) analysed and presented here, examined which are CAs existent in Palestinian SMEs, how this distinctive competences are formed and how these play a predominant role in determining success. Specifically, statistical and general analysis focused on investigating if differences on performance exist across sector, size and place of work. This research used triangulation methods and was based on the RBV of the firm as the underlying theory for this study.

Furthermore, the study was implemented Palestine wide (the WB and GS), included firms from service, retailing, wholesaling and manufacturing, as well as from small, medium and large size enterprises. Though respondent firms were 10% of the T&G sector in the WBGS, sample selection met the criteria necessary for a sample to be representative of the population. Results are validated via usage of combination of factors and gathering data mechanisms as well as replies matching, as previously specified, (questionnaire, structured questions and case studies. Moreover, results were matched to literature review and results from recognised empirical studies implemented elsewhere.

The RBV of the firm, the perspective chosen for this study was used because this theoretical framework explains precisely the conditions that determine firm performance, also because it closely relates performance to core competencies and CAs. Moreover, this view stresses how the CA of firms relies on the valuable resources the firm possesses and additionally, explores the relationship between resources, competition and profitability and how to sustain CAs. The focus on the relentless impact of the environment and the need for innovativeness was thoroughly scrutinised while emphasising the role of the decision-maker figure, the entrepreneur/owner.

In the other side, the Harvard School was used because this theoretical framework focuses on the analysis of the industrial environment. Firms operating in the same industry have identical opportunities and can gain the same results in terms of competitive position, and, profit earnings.

Porter's contribution continues to focus on the industrial environment. Nevertheless, he does give more room to the capability of the single firm in finding a distinctive successful position. The opportunities from which firms can chose their strategy are limited to only three options, but firms are given more freedom to decide the best strategy depending on the specific industry in which they operate. Therefore, Porter is still tied to industry analysis and represents a step forward in the analysis of the firm's strategy. Conclusions regarding the points addressed in this section and the significant finding appear forth in terms by sections:

1. In general, the study reveals that most entrepreneurs are well educated. In addition, most businesses are in the name of the husband, even if both husband and wife are manage the business; initial funding capital for SMEs mostly came from family and friends and is registered more as individual business than partnership or family and limited company. In addition, none of the firms in GS have been in business for more than 30 years and owners age of the all sample (63%) are between 20-40 years of age.

2. Analysing the different criteria that make up an entrepreneur profile including age of the owner, education, experiences, self rated market positioning and reasons to start their business, shows that between all the variables crossed only Age, qualification and experience related to business showed significant statistical significance. Chi-Square test exhibited that age of the owner, the level of education and experience attained is a strong determinant of success for firms. Moreover, results signal that the level of education attained for all entrepreneurs is high. Profiling one can tell that SMEs in the WBGS tend to be well educated; also firms whose owners had higher levels of education did better than those that had less education. In addition, profiling GS sector appears to have slightly lower levels of experience than firms in the WB. This presents another profile when looking at GS firms' owners you can identify them as possessing less experience.

3. Counterchecking the business characteristics shows that on average most firms interviewed were small and had less than 20 full-time employees (73%) and had 3.5% more than 50 employees in both the WB and GS. Most GS firms hired relatives and had few part-time employees, contrary to the WB. The line of business most predominant is small manufacture, service, retail and wholesale, respectively. Of these, GS firms tend to gravitate more towards small manufacturing and service, while the WB gravitate towards service first then manufacturing. Among the respondents, the majority thought their firm was successful (91%) and doing well after the Oslo agreement. The legal form of

organization most favoured is individual business (48.5%) followed by partnership (28%). In terms of statistical significance, probes show while profiling the traits of the firms that the number of employees is a significant trait and trends to determine the level of success across firms. Yet, in the case of GS, whose firms are smaller, it potentially shows why these do not appear to be successful as those operating in the WB. There is a correlation between the lines of business owned and the position or success the firm has reached, this correlation is meaningful only for the WB firms.

4. Regarding the strategies delineated, most firms changed location seeking to compete better; initial investment was less than \$5,000 for 46% of firms, the average for the WB \$35,592 while it was \$22,136 for GS firms. Most firms did reach break even earlier than planned (2-3 years) and started their firms out of family loans. Regarding business plans, the majority did not formally plan but no major differences appear across sector. Counterchecking if strategies were delineated and in which areas, none were delineated. Yet, a majority of firms did prepare budgets. Nevertheless, firms' entrepreneurs affirm that they did revise their plans and mostly geared those plans towards focusing on development of higher marketing skills and seeking financial soundness. Statistically, none of the analysis done showed any significance. It appears that firms that did plan performs better and reached their goals earlier attained higher levels of success. In addition, across sector the WB firms reached their goals earlier than GS firms.

5. Strategy for growth was set for 70% of the interviewed firms but this was delineated in terms of increased services of improving products lines. No specific expansion in terms of size was planned or foreseen, in neither the WBGS growth probed to be significant measure. Relating cases results, questionnaire and structured questions replies in the WBGS showed that a limited amount of them contemplated growth, those who did so developed their goals not from the beginning of business formation but as the progressed and as a natural pattern.

6. Regarding the CAs and areas of strength that provided firms with success, to most firms their advantage resided exactly in the provision of quality products or services, they were already offering and emphasis differed across sector. Moreover, no major differences were perceived across firm's CAs during the three years studied. Statistically, there was significant advantage for firms in their current markets. Specifically and comparing the WB and GS, it appears that success correlated in opposite direction, meaning that firms

that started out on a larger scale and had more employees required more advantages than those on the opposite side or smaller firms. Moreover, there is significant association between the main CA obtained throughout the firm's life and place of work.

7. Regarding the aspects that have given the firm CAs, these are reported to be in the areas of strength firm's owners affirmed to possess. All sectors replies did not centred on common areas, yet replies suggest these CA reside on quality of products offered (14.5%), exclusive service provided (5%), including knowledge of clients, areas of expertise in their current markets and financial soundness. Differences across sector were only significant in their actual market, measured by Chi-Square test. The areas of strength reported coincide with the firm' CAs and relate strongly to the firm's research objectives. In other words, CA depends on the interconnectedness of factors. This coincides with research by Teece, et al. (1997) where they relate organizational capabilities to knowledge of internal competencies and Spanos & Lioukas (2001) interconnectedness. Statistically, four areas were significant under Chi-Square <0.05 at 5% confidence level: the level of responsibility used to develop their firms, the self expressed levels of success, as reported by the entrepreneurs, is the firm a successful and why they are successful, as detailed on Table (8.13). Success and strength was found to be closely related to size and this significance occurs across sector with GS firms being satisfied as to their success, yet not as well satisfied as those firms in the WB.

8. Analysing weaknesses illustrates that firms' reported main weaknesses are not statistically significant. Yet, some of the reported areas of strength are related to areas of weaknesses, in the opposite end in terms of need to improve training, need to offer more quality service and improve research skills. A common reply also brought in weaknesses in financial soundness but only in a minority of successful firms. On the opposite spectrum, this was found to be the main weakness for less-successful firms, jointly to administrative skills and sales for the less-successful firms. Statistical significance was found in terms of manager's qualification and firm planning across sectors. Research showed that the WB firms possessed more experience at starting business, which proved to be a capability that helped them succeed. This factor probed a disadvantage to GS firms since typically they possessed less experience and had younger and smaller firms, thus they appear less successful.

9. Regarding which resources were relevant to succeed and provided CAs, neither was statistically significant. Yet, both the WB and GS firms considered very relevant, respectively: physical resources (73.7% to 72.1%), financial resources (74.6% to 81.4%), technological (67.5% to 67.4%), marketing (80.7% to 73.3%), community relation and reputation were strongly stressed (100% across sectors).

10. Establishing if differences in performance existed across sector was statistically significant in several respects. Nevertheless, to a direct question on the subject no significant replies were obtained. Yet, the data showed that the GS firm prefers family relations to profession. On sales and size, the levels reached by the WB firms compared to GS were significantly larger, tending towards the WB firms. Across the business sector chosen, this is a highly significance and associates more success to the WB firms of the type of sector chosen, sales levels reached and number of employees retained on a regular basis. While GS firms tend to operate in small manufacturing and service, the WB firms tend to choose larger size service and manufacturing, thus becoming more successful. The same occurs with number of employees, the WB firms have more employees, sell more and appear more successful in size and revenue related. Yet, the satisfaction level reached by GS firms is a good as those of the WB firms. Thus, it appears that differences occur out of choice. Likewise, a significant correlation was found between performances three years ago and earnings, in terms of the levels of sales reached at the time the questionnaires were implemented and for expected sales. In addition, in spite of political and economic problems, most successful firms expected to continue well. This opposite occurs to the less-successful firms.

11. Regarding the problems and barriers faced by local SMEs, only three aspects proved to be significant statistically, entrepreneurs reported that to succeed a certain size and the right sector as well as having the necessary capital was needed. Most problems centred on capital availability, problems with government policies and merchandise or inventory taxes, competition incoming from neighbouring countries (Jordan and Egypt) and from the large multinationals, though barriers were tied to problems areas, neither proved to be statistically significant. However, an overall analysis show that GS firms were found to encounter more problems accessing credits than the WB firms and also were found to have had certain social and economic discrimination, though not statistically significant.

12. Measuring general performance, did not offer any statistical differences across size or sector. Hence, the general conclusion can be summed up, when analysing CAs that determine success across size or sector for Palestinian firms; these are related to the experience possessed previous to starting their firms, to the capital held since the beginning of forming the firm, as well as the administrative skills and sector chosen by the entrepreneurs. Moreover, profiling firms with the same analytic departure conclusively shows that GS firms are smaller, appear less successful, sales less and are less prone to grow in size. These results compare well to literature and empirical studies on SMEs implemented elsewhere.

13. Analysing the less-successful firms, categorically it can be stated from all sources that exactly the reasons that cause success for local firms is what causes firm's demise. Firms fail for having initiated with lack of initial capital, administrative skills, limited experience, not being in the right sector, lacking innovations or losing the advantages held previously, either for not being innovative or just because of decadence.

14. Why do firms fail? Only having two SFs was statistically significant across sector in the WBGS. Yet, successful firms specified that failures were due exactly to the lack of factors that caused success, including lack of managerial skills. In addition, a majority of entrepreneurs expressed that demise is due to the lack of administrative capacity, of having adequate capital and too much competition that makes it difficult for firms because of their smallness. This reply coincides with answers specified by less-successful firms. Some of the successful firms pointed out, it is clear that what causes success is exactly what taken on the opposite side, causes failure: too much expenditure early in the life of the firm, lack of adequate cash and mismanagement. Moreover, replies obtained from the case studies provided similar responses.

Analysing firms in general, it can be inferred that for a firm to be successful; the more education the owner possesses the higher the chance of success. In addition, the higher the level of experience indicates more possibility of success. Moreover, firms that initiated with higher levels of investment and not cash strapped appear to have higher potential for success. In this specific aspect, initial investment and return on investment as well as sales performance appear to be closely related to success. Potentially, from the start a firm foundation, analysis and caution has to be taken to enter in an attractive market not just following fads or without analysing. Furthermore, certain industry appears to be closely tied to higher growth and sales prospect, as such planning of any nature appears to induce success. Extracting from the statistics data, a number of years firms reach certain levels of success and the higher the number the higher the success reached, other things being equal. As this data points out, actions taken by the owners from the beginning apparently are the most relevant determinant of success.

The results of descriptive statistics coincide with literature in several respects. Success according to findings by Cooper, Dunkelberg & Woo, (1989) is based on demographic factors such as age, gender and race and education, all of which are usually associated with success. Results also indicate that the older the firm the more likely to remain in business, especially once the firm surpasses the first three years of operations and the learning curve. Comparing the firms analysed for this thesis, that their CAs is closely tied to the sector of business in which the firm currently performs. Likewise, Duchesneau & Gartner (1990) evidenced that traits of owner/manager, the strategy of the firm and the way the business was approached since start-up were most relevant to success. Chawla, Pullig & Alexander (1997) implemented a similar study in the construction industry and obtained similar results. It appears in our study that firms perform the best either in rough performance measures (ratios) or by qualitative aspects initiated in a solid financial and experienced manner. Furthermore, with respect to the written answers provided by many of the entrepreneurs interviewed, success to them apparently is not necessarily a matter of size reached and performance attained, there are other qualitative aspects closely tied to success; the satisfaction derived, the help they can afford to provide to others and doing what they like best.

Results show that the most successful firms in this study are those that planned. Also this study related successful to less-successful firms and found no differences on resource usage; what firms entrepreneurs expressed was that the products or service areas they were into is what gave them their CAs or areas of success. Nonetheless, what this study did find is that firms that failed complained amply of having government and fiscal difficulties as well as financial and competitive problems from the beginning. This might be attributed as an indicator of lack of managerial capability. In these specific cases, though as Lussier (1995) found, firms that utilized counselling performed better. In addition, potentiality exists to infer what cause success in some firms and not in others. An explanation apparently resides on the education level, experience, type of business and expertise. This research, matching successful to less-successful firms did not provide the expected results, since as explained before there was considerable reluctance from less-successful firms to participate. However, this research points out that differences in levels and type of success obtained, does vary across sector. This variation becomes thus a profile and explains in a certain manner that if less-successful firms go into business to succeed owners should try to acquire experience and select sectors more prone to succeed. What varies and profiled is that the success level reached is significantly different across line of business. In addition, the determinant for these differences appears to rest on the manager and the decision taken. Taken all together, size is closely tied to the type of line chosen.

Conclusions regarding resource selection, two studies examined the importance of resources: Hart (1995) found that almost all entrepreneurs acknowledged the importance of resources in new venture creation, but focused instead on strategic choices and relegated resource decisions to a supporting role. Furthermore, a survey of Michigan IT University entrepreneurs revealed that in retrospect, they considered the initial resource choices to be far more important than they believed initially (Hart, Greene & Brush, 1997). These authors found that resource choices outweigh strategic choices in determining long-term success or failure. In the case of this study, successful firms appear to have utilized whichever resources they possessed to its maximum. In spite of these reviews and finding, statistically there is no significance was found.

However, in the case of firms that started financially solid, these entrepreneurs reported that the success determinant most identified with success on positive aspect are: traits, education, the right age and motivation, experience, risk prone, choosing growing business sector and initiating with solid cash base and possessing good financial control. Likewise, the existence of a medium size number of employees and being in sectors like wholesale, manufacturing and innovative capabilities on part of the entrepreneurs are partly tied to success. The highest the existence or number of these traits in any firm, the larger is the assurance that money lent or invested will be recovered adequately.

Studies implemented in other different countries by various authors regarding success or failure including those of Lussier (1995, 1999, 2000), Bruno & Leidecker (1987), Cooper, et al. (1991, 1994), Vesper (1990), Gaskill, et al. (1993) among others, coincide that the variables most identified with success or failures (Corman & Lussier 1991; Storey, et al. 1987) are mostly relating to possessing adequate capital, record keeping and financial control, having experience previous to forming business, education, timing at entrance and age of owner. Likewise, other traits such as parents owning a firm and usage of advisors did not show a significant relationship in Palestine's case. Moreover, the literature points out that when diagnosing the potentiality of success for any business, it is advisable to concentrate strongly on; firstly, the traits of the entrepreneurs, secondly on the feasibility study done and thirdly on the market analysis and on the background of the potential investors. A combination of these variables is what contribute and assisted bankers, policy makers and financiers to determine the potentiality of a venture. Thus, studies coincide with this research finding and relate that in the specific case of Palestine the attributes or variables related to success or failure in opposite ends coincide with those found in other countries. Therefore, differences are not unique or due only to smallness or the particularity of the Palestinian's entrepreneurs.

Chapter NINE

Discussion and Conclusions

9.1 Introduction

This concluding Chapter sums up the conclusions derived from this thesis' findings. It also makes some recommendations that can be suggested to businessmen, government sector and policymakers regarding actions that could induce success or deter demise for Small and Medium size Enterprises (SMEs) in general and local firms in particular. Likewise, limitations of this research as well as future research orientations will be suggested. Similarly, the wrapping up stage reinforces the selection and adoption of Resource-Based View of the firm as the model that could explain how resources can analysed as the source of Competitive Advantages (CAs) that will provide firms with the differences that, ultimately will position them in an advantageous position vis-à-vis competition.

Conclusions also aim at explaining the queries and objectives along which this thesis was delineated, investigating and examining what determines success and what makes some firms with similar resources grow and succeed where others do not. Furthermore, this Chapter presents and examines why so many multinationals and foreign firms become successful and grew where many local firms did not. In addition, the Chapter answers the fundamental premise established, that the decisions taken by entrepreneurs determine the level of success attained by the firm and positions the firm in advantageous position. This section includes and examines profoundly the resources and capabilities existent in local SMEs that could be conducive to develop sustained CAs while focusing attention on firm and their owner/manager. Moreover, a summary of the traits of the entrepreneurs, the profile that identifies successful firms as well as the strategies devised by their leaders/managers, which could ultimately lead to establish those sustained CAs aimed at, is also presented.

While summarising findings becomes paramount in this section, it is relevant to stress the predominant role of the RBV has held in studying SMEs since earlier times (Penrose, 1959; Barney, 1986, 1991, 2001; Wernerfelt, 1984, 1995; Prahalad & Hamel, 1990; Grant, 1991; Conner, 1991; Amit & Schoemaker, 1993; Peteraf, 1993). Conclusively, using this theory, though challenged by some authors, was found to possess consolidating points of views across firm's standpoints. Decisively, throughout this thesis it was found that though some differences were obvious among different points of view about the RBV, these were later considered challenges to the standpoints especially on the role of management (Learned, et al. 1969; Andrews, 1971; Nelson & Winter, 1982; Rumelt, Schendel & Teece, 1991; Fernandez & Suarez, 1996; Fahy, 2001), yet these differences were surmounted. Thus, choosing these concepts as predominant subjects for this thesis is just a natural circumstance, which from this researcher's standpoint, answers questions as to what determines success for SMEs and why some firms succeed where others fail. Moreover, findings are also presented both from a general perspective and within the context of the WBGS. Furthermore, this thesis also presents the analysis done on the internal environment of firms and the context of decision-making, based on the premise that focusing on these aspects comprises mostly what the firm's directors can do in view of the resources possessed. This can be interpreted as reviewing how firm resources can be brought together and exploited to create organizational capabilities, especially those that can be oriented to sustain CAs for the firms.

The previous steps of the RBV model process involving the industry structure and the competitive positioning map directly to Porter's framework but make it more relevant to a wider array of strategic options. The fundamental methodology proposed by Porter "the five forces and value chain" are greatly expanded in scope to include the customer and complementary dimensions and enriched by bonding as an economic force.

9.2 General Finding

The thesis findings established that being successful requires that firms; institute and sustain the CAs needed for profitability either in their areas of services or products or in seeing the big picture, as Grant (2002: p. 16) mentioned "appraising a firm strategy is viewing an interface between the firm and its environment as well as its concept of strategic fit". Thus, among the 200 firms analysed, successful firms were found to be those that devised plans and geared their actions to attain consistency with the firm's goals and values with its external environment, its resources and capabilities and with its organization and systems. As such, if any lack of consistency exists between the strategies or goals pursued by firms, its resources and capabilities as well as its environment, failure did result.

Hence, the goals established for this thesis tried to answer the queries posited from the onset and were geared at increasing the understanding as well as to identity the dynamic processes by which firms perceive, remain in the market and ultimately find the means to reach superior performance. Moreover, this thesis also analysed the determinants of success for SMEs and identified if success varies across sector. Conclusively, results did signal that differences in firm's performance existed across sector and further specified in which areas. In consequence, analysing these differences became relevant not just for GS firm's owner but for entrepreneurship.

On the one side, relevance is due because entrepreneur start more businesses than previously, have penetrated society not only in business but also in many other aspects. GS firms are currently being founded away from non-traditional sectors, thus requiring further analysis. Further, though this view has changed significantly, small entrepreneurial firms were considered weak and with limited contributions to the economy, this is not the case anymore. Currently SMEs contribute significantly to the economy and are vibrant, flexible and as experts argue, these not only appear to be growing but will contribute further with most new jobs created in the WBGS (World Bank, 2004).

9.3 Final Considerations According to the Objectives for this Study

Seeking to answer this thesis' queries and main objectives to present conclusions from an academic entrepreneurial as well as government policy, recommendations are also addressed. With this in mind, results are first presented according to (part A) the three main classifications examined: owners/entrepreneurs traits, traits of firms and the strategies delineated by the owners/managers. Further, (part B) presents findings related to the main objectives as well as considerations, recommendations and limitations.

9.3.1 Part A: Results in Terms of Owners' Traits, Traits of Firms and Strategies Delineated

A1) Results from the owners/entrepreneurs responses and initial analysis showed that demographics of the WB and GS entrepreneurs were similar in terms of age, education and material status. Goals in business ownership are also similar while most entrepreneurs sought independence, self support and self-satisfaction. Yet, GS firm's owners rated necessity and recognition as significantly more relevant than the WB counterparts. General results show that local firm's owners tend to be highly educated and that firms operating in GS tend to ascribe to higher levels of education. In addition, local firms prefer services and retail to manufacturing and other higher producing sectors. Totalling responses, mature firms especially those with over ten years in their sector have reached higher levels of success than those with fewer years. Additionally, firms are mostly created when their owners obtain a certain level of experience and founding was geared at seeking independence, self-employment and satisfaction. Entrepreneurs also stated that their satisfaction centred on following their chosen path and remaining the same size. Furthermore, not many owners expressed desire to grow beyond their current size, only in broader service range and more quality offer.

General statistics showed and can be interpreted as, firms' entrepreneurs are largely educated and a business factor that helps to succeed. Statistically, only education and experience before firm founding proved to be significant in this profile. However, referring to the self-expressed market positioning, while observing firms in general, there are significant differences in positioning of firms of different size (measured by number of employees) and sector.

A2) In terms of the demographic traits of the business, society is the predominant way of forming firms and ownership for local firms; even if the firm is a joint investment, it is placed mostly under the male's name. Firm's origin is mixed because of a mixed population. Initial investment for most firms, especially those in the service sector, tends to be a mix of personal capital, family and friends money. In the case of GS firms, their initial investment was lower than the WB firms, a trend that might trigger lower levels of success. Locally, most firms tended to be smaller, with few exceptions, a small percentage of local firms have 100 employees (about a 5% of the 54,000 existent small and micro enterprises are in this rank, as certified by PCBS, 2004).

Self-rating of business competencies varies; GS firms rated themselves higher in their perceived competencies to run a firm. Further, statistical tests illustrate that demographic traits of the firm are not significantly different across sector, except in size (represented by the number of employees). This means that most GS firms are small compared to the WB, tend to have fewer employees and as a result might achieve less success in quantitative terms or rough accounts. Regarding demographic traits, entrepreneurs perceive their firms' achievement much more than planned and their performance was better than other firms founded at the same time. In addition, they expect an improved performance in spite of economic problems.

Results also show that for profiling firms, GS enterprises can be identified as a sector that possesses less experience at firm founding than the WB enterprises, a factor that might considerably affect investment opportunities, also as firms of smaller size and level of success reached by the sector being lower. In general, results show that the WB firms appear to be better positioned than GS firms and that when evaluating size, the WB firms appear to have more employees and have reached a much larger size than GS firms. This indicates that when analysed, we can profile firms in the sense that GS firms could be identified as smaller, have well educated owners, possess fewer employees, tends to grow less and belongs more to retail, service and mix sectors than with sectors identified as larger, like T&G and wholesaling.

A3) In terms of the general strategies used, most successful firms tied their strategies to achieving success in the areas they initiated be it service or products sales. Clearly, most firms did not delineate strategies, what these firms entrepreneurs did was drafting business plans and preparing budgets rather than delineating strategies. Plans were oriented at providing customer value and services and choosing a competitive sector to operate. Break-even for most firms was reached between 2-3 years period. Overall, all firms did analyse the environment and ensured sustained advantage by updating plans. In terms of the strategy designed, though firms operating in GS cannot be identified as not performing well. The sector firms appear smaller, planned less and many operate in sectors without business plans. Nonetheless, lately and there is an increasing occurrence for family firms, to position women into top managerial positions, this is occurring in the WBGS and elsewhere. Unfortunately, for this thesis this group does not qualify since they are not registered as owners, mostly firms are registered to the name of their father or brothers.

Across the board, paradoxically, focus on human capital was not the most relevant spotlight for firms' improvement. It could be that by focusing on customer value all basic aspects required to succeed could change, i.e., human capital and quality of products and services. Statistically, no significant differences were found either on the strategy designed the sector or area. Neither statistical difference was found in the area of growth plans or, where those plans were focused. As such, the success found in the firms interviewed might be due to other circumstances.

9.3.2 Part B: Main Objectives and Findings

B1) regarding the factors that give CA, there is significant association between the factor that has given them CA and the size of the enterprise across sector. Across the board, all firms' owners expressed that resources possessed initially and those presently owned provided the CAs required succeeding. Specifically, the line of business where the firm currently serves appears to be significantly tied to the success level attained and the size of firms reached. It appears, when combining all sectors that there is a significant association between the main CA obtained during the three years researched and place of work. Moreover, tests showed that there are statistical differences among the CAs held across sector in the WBGS. The WB firms show higher advantages in their performance than GS firms. In sum, evaluating aspects that have given the firm CA or resources usage shows that also there are significant differences between the WB and GS firms regarding the main CA.

B2) furthermore, when analysing resource usage and CAs throughout all firms, findings show that the most appreciated resource was financial soundness, knowledge of the market and reputation; no other significant specific response came across. Answers on the subject varied broadly. Nevertheless, when analysing this aspects across sector, all entrepreneur perceived the exploitation of resources as terribly important. Statistically, a significant correlation exists and differences are shown on the usage of these resources. Yet, in the case of technological, financial and physical resources answers were almost unanimous in claiming their importance by large percentage differences. Summing up, statistically no significant differences were exhibited. What is clear is a correlation between available resources and the size of the firms reached. Thus, the CAs firms possessed were held in the chosen market(s). As such, continued success could have been due to continued development of innovation in services and quality product offer among others.

B3) the success determinants for local firms appear to be the same attributes that provided CAs. In terms of strategy, success is a main component and recompense to a well conceived strategy. For respondents, success is based on hard work, perseverance, reaching a solid financial stature and soundness, goal orientation and good management skills, while being client and/or customer oriented. That is success is achieving set goals, obtaining recognition and self-satisfaction. Thus, because of the competitive nature of business, it also based on offering excellent personalised services maintaining a reputation and remaining in business. Likewise, reaching a decent size, sustained performance and financial stature was more a measure of success for the WB firms was more significant than for GS firms. Furthermore, to firms oriented toward small manufacturing, market orientation, research and constant update was considered a necessary step to succeed.

Statistical analysis show that the level of success attained varied across the WBGS firms. Firms in service and wholesaling appear as the most successful compared to those in the retailing sector (measured by sales). Similarly, most firm owners replied that the size of their firm was determined by choice. In addition, in the case of GS firms, as statistics shows their firms seem less successful than the WB firms in monetary terms. Correspondingly, firms that considered themselves successful now were also successful three years ago and expect to continue in the same pattern in the immediate future. Furthermore, comparing areas of success, there is a positive association between what firms believe is their success and the size of the enterprise. Thus, also across firms, responses vary as to what entrepreneurs consider their reason to succeed. Most success is not only monetary but emotionally and ego satisfaction.

B4) weaknesses were perceived in the same manner across groups; most recognised that a need exists to improve the quality of their labour force and to improve training and incentives. Most employees are paid low wages and receive no medical insurance, as such when the opportunity arises, they shift employer. Additionally, most firms did foresee a need to improve their environmental scanning; in addition a perceived weakness in databases and innovativeness was reported, though in lower earning firms. The weaknesses reported by less-successful firms interviewed were the same, yet their answers emphasised other aspects. To these firms, their worst weakness is lack of cash, finances, government debt and problems with government. Likewise, owners also reported market problems and declining sales. This is a natural response since their firms are not doing well.

B5) regarding what caused success, case studies adduced the same reasons as the firms surveyed. Most entrepreneurs replied that successful firms in the WBGS are those that mange carefully, control expenses, constantly innovate and make sure to satisfy their clients and keep customers happy. Likewise, what cause success to them is exactly what on opposite extreme cause's demise. Summarising, success is highly associated with the line of business and size reached by the firms and is tied to self-perceived notion of success. Though this variable was not statistically significant, there is definitely a significant market positioning of firms different size. Results show that the WB firms appear to be better positioned than GS firms. In the case of GS firms, the non-significance is explained by the smaller size of their firms. In addition, there is abroad distribution in what firms owners perceive as success, which also appears to be related with the size of the firm. Furthermore, when considering all firms, no significant correlation was found between the line of business and the success attained though there is close association. Thus, place of work posits the most significant differences. No significant differences were found on how the WB and GS firms perceived success. Weaknesses did not show any statistical significance either.

B6) Measuring performance was done in quantitative terms expressed in sales across three years and in financial rough measures. This factor did show statistical significance, specifically when it referred to the line of business chosen. However, statistics did show special correlations. Thus, results show that firms operates in GS reached lower levels of sales and were in sectors that were less prone to high sales. Sales three years ago followed the same pattern; that is GS firms reached a lower sales level. Consequently, this allow for profiling, as explained before, that if you encountered a firm operating in GS it could be said that it would be less successful (size and monetary terms) than those firms in the WB, tend to sell less and tend to have less employees than one owned in the WB. Accordingly, this is partly explained by GS firms being mostly in small services. In addition, even though all firms did well, also the WB firms' rough performance was more solid, however, regarding failure, GS firms failed less.

Analysing performance in terms of overall profit shows that for firms operating in the WB there is a significant correlation between performances obtained both this year and last year in relation to objectives set and earnings. Analysing performance in terms of overall profit reported for firms which operate in the WB there is a significant correlation between performance last year in relation to objectives and earnings. Neither result occurred in the case of firms operating in GS.

B7) regarding what differentiates successful from less-successful firms, no statistical significance was found. However, replies to specific questions on the subject indicate that firms that were successful once lost their advantage because of lack of managerial vision, capacity to incorporate change, to innovate and mismanagement. Often managerial and operative events create a negative circle that inhibits decision-making. Case studies' opinion also provided these replies. Replies obtained across the different methodologies of this triangulation study centred on the same responses.

Replies on the subject from less-successful firms were about the same; these entrepreneurs blame their malady and demise on not finding help by government agencies mostly. About 60% of the owners expressed being in fields that was not competitive anymore, not having skills to cope with changes and to lack of managerial skills to cope with time. Furthermore, the entrance of multinationals and high levels of competition was a common response. As such management capacity appears to be a strong determinant for success and demise prevention. In general, success or less-success did not appear to be the firm's place of work; it occurred across sector and size. No direct statistical significance was found even though common problems and replies were given. In the same venue, successful entrepreneur's expressed that to prevent demise firms need to enter the market with sufficient resources so as not to hinder day-to-day operations with the constant worries of where to find financial resources. Controlling the above mentioned factors and selecting capable human capital as well as establishing measures to control expenses might render differences in performance.

B8) Problems and barriers faced by SMEs to succeed were equated with weaknesses, yet no statistically significant barriers or weaknesses were found for either the WB or GS firms. Of course, since the GS firms were smaller, this might be a potential reason for the non-statistical significance, adding together, three of GS firms are well established and reported none of the problems of smaller firms. Results definitely evidence the existence of barriers and it is acknowledged that it leans more towards GS firms. Specifically, GS firms found more barriers and problems accessing bank credit and with cost of credit than the WB firms. Across the board, all firms complained of high cost and difficulty of accessing capital as well as problems with government permits.

A lesser-reported barrier was tied to high levels of competition for a small market in the WBGS and the existence of too many businesses marketing imported products from Turkey and China. However, these barriers were expressed across size. Statistically, the answers were rather spread and the degrees of confidence too high for meaningfulness or significance. In addition, the complaints expressed decreased as the size of the firms became larger; thus smallness was determinant factor for the barrier perceptions, thus, though differences were expressed across sector, when asked directly if differences across sector existed on forming, running and making sure their firms performed, no statistical significance was found nor differences were expressed by the majority. The only significant statistic found was that GS firms assigned more importance to family relation than the WB firms.

When analysing barriers to entry across firms and size, there is an almost significant correlation between barriers to entry and size. As such, the smaller firms find more barriers than larger firms. Moreover, medium sized firms reported only as barrier capital requirement while much larger firms find product differentiation. Results are similar for most firms operate in the WB, yet not by those operate in GS. The correlation among problems and GS firms is not significant; the reason could be that their firms are smaller. In terms of the analysis by line of business, it shows that between firms in general; there is also a significant association between barriers to entry and the line of business the firm is in. this dependence is significant in the case of the WB firms not for those firms in GS.

9.4 Barriers to Business Success

Trying to specifically find out both respondents of the questionnaire and case studies on reasons why businesses fail, brought the following responses: there are differences that are almost significant across sector. GS firms do not mention lack of adequate market analysis or lack of cost control, a reason most often quoted by the WB firms as the first reason for failures. Failures are also attached to distribution of the barriers to entry and the significance of this dependency, yet these are not observed when the firms are analysed place of work. Mostly, and here this study coincides with the literature, failures are due to lack of planning, administrative skills, lack of adequate capital and innovative capabilities.

When analysing barriers to entry across firm size there is a correlation almost significant between barriers to entry and size. As such, the smaller firms find more barriers than larger firms. Medium sized firms reported only as barrier capital requirement while much larger firms find product differentiation. Results are similar for most firms in the WB yet not by those operating in GS. The correlations among problems and GS firms are not significant. The reason could be that their firms are smaller. In terms of the analysis by line of business, it shows that between firms in general, there is a significant association between barriers to entry and the line of business the firm is in. this dependence is significant in the case of firms operate in the WB not for those firms operate in GS.

9.4.1 Local Firms and Threat by Foreign Firms

70% of the firms interviewed responded negatively while 30% was affirmative. Thus, this reflects no perceived threat. Successful firms believe they have advantages in flexibility of decision-making of knowing the market as well as having business contacts. To them, if information is used correctly all firms should do well. Explanations repeatedly pointed out those firms that do not perform well are mostly because they are in the wrong market and because of excessive expenditures.

9.4.2 Smallness of the Local Market

Though 51.3% of respondents replied negatively to failure being due to the smallness of the Palestinian market, 48.7% was affirmative, meaning they do not tie failure to population density. In sum, neither aspects, if firms felt threatened nor the smallness of the WBGS appear to reduce demand nor gave statistically significant replies. Interestingly, private studies done previously in the WBGS by the Palestinian Central Bureau of Statistics (PCBS) in cooperation with UNCTAD, (2004) reported the same grievances of smallness though no statistical significance was found. Likewise, the same results were found in a study implemented in Lebanon by ESCWA & UNIDO (2003), in collaboration with Euro-Med World Trade Organization Unit (EWTOU) at the Federation of Lebanese Chambers of Commerce, Industry and Agriculture, and with the support of the Lebanese syndicates of Textiles and Owners of Apparel Manufacturing Factories.

No statistical significance was found about the problems inherent to firms in the WBGS. Apart from the political situation, since part of this thesis sought to determine if the problems found in the WB were due to inherent barriers like the GS smallness or if they differ significantly from those possessed by firms elsewhere, the answer is they are not inherent to the WB and these are found in SMEs located elsewhere. Regarding how firms respond to challenges, it appears that firms tend to be less proactive than is desirable. Also, changes are slow and firms tend to operate in a traditional manner. Yet, when facing the constant competition firms believe that their reputation and local base have allowed them to remain in business. Furthermore, in addition to the problems explained, problems are not related to place of work. Statistically, there is significance and correlation that shows that the smaller the firm the more abundant is the level of problems faced.

9.5 The RBV of the Firm and Success

No statistical significance was found, even though this perspective was found to provide a conceptually well grounded framework for studying strengths and weaknesses and how this can be criterion for sustained CAs. This view also provides value as well as durability of resulting advantages. Moreover, since the essence of the view is precisely on how firms utilize resources, assigns and exploits them to achieve CAs, then this view definitely contributes to success. An answer could be that the managerial role ascribes efficient allocation of resources and development of capabilities that provide efficient and valued outputs, though not statistically confirmed, especially for this study, when relating and comparing firm's actual position to those in existence at founding, differences in levels of success are found to exist. The only plausible response is the capability management or ownership has exerted in planning, executing and reaching goals.

9.6 Contribution to the Research Effort in Studying SMEs

Part of this thesis was the generation of empirical evidence that could assist in creating a guideline for those SMEs and policy-makers could used to induce success and deter failure. With respect to this objective, results were achieved on a limited basis. On the one hand, this study contributes to an understanding of how Palestinian SMEs are their problems and how they face the challenges posited by the environment on which they operate. On another hand, the role of management was definitely found to play a substantial and remarkable role that cannot be contested. Surely, firms were found to succeed not just because resources exist, but also because firm directors exploit them to its maximum. More than this, the results of this thesis, from this researcher's perspective, did provide the tool that can identify the traits of a potentially successful entrepreneur. Indeed, this could potentially be used as a failure preventive mechanism. This goal was accomplished within the limitation of a narrow but significant sample. Results from this research show that for firms to succeed in Palestine market, the most significant traits firms entrepreneurs and the firms need to possess are:

1. The more educated and innovative the entrepreneur the higher the performance;
2. Firms with less than 21 employees do not perform as well as those with larger numbers;
3. Firms that have reached 7 or more years of operation have a larger potential to succeed;
4. Previous experience in the sector and/or in other businesses is highly correlated to success;
5. Age of founder appears to contribute to success; thus owners with over 30 years appear to be more successful than younger ones. Likewise is the level of commitment and limited risk-taking, specially investing his or her own capital;
6. Preparing formal business plans; budgets or designing strategy contributes to success;
7. The existence of financial resources necessary to at least cover operations and take care of opportunities is a must;
8. Selection of the sector to operate and analysing the saturation level will increase chances of success; and
9. Self-confidence and entering in niches contributes immensely to potential success.

Thus, from the point of view of lenders and policy-makers this might be area of revision before granting loans or credit. Firms that possess most of these traits could reach higher levels of success than those firms that do not possess these traits. On the other hand, to increase firm's capability and ability to respond to challenges, policy makers can habilitate a database centre geared to provide information on issues concerning firms such as market information, trends, etc. likewise, training programs could be devised to strengthen analytic ability and opportunity seeking. Moreover, programs oriented at credit facilitating such as the small business administration can be programmed making sure that prospective borrowers possess as many as these traits before they establish their firms thus, reducing failure possibilities.

9.7 Contribution of this Thesis to the Scientific Debate

Most of the studies on Palestine's business strategy by UNCTAD, World Bank and MAS used single research methods. This thesis took a different approach by combining a quantitative survey with case studies. The multi-method adopted in this thesis provided an in-depth understanding of the problem context and at the same time offered high generalizing ability. This thesis confirms that multi-method is an effective method in strategic management research. Since there was no previous study using both RBV and Porter model in strategic management research in the Palestinian T&G industry, this thesis can be seen as the first step. It is hoped that readers would have a good understanding of the application of RBV and Porter model in formulating strategy for the Palestinian T&G industry. This thesis contributes to the study of RBV and Porter model by proving that it is not only valid in the free market economy but also in a transition economy like Palestine. The following aspects illustrate the contribution of this thesis to the scientific debate:

1. Entrepreneurship researchers generally state the non-existence of empirical studies geared to analyse SMEs and more than that to sample both successful and less successful firms jointly and the use of porter model. This study accomplishes all statements within limitations;
2. Research comparing information requesting the same data longitudinally is scarce. Typically, the studies that generate large samples are extracted from databases that often come from grant providers that are captive information. This study is a solo effort with freshly provided data gathered longitudinally;
3. No studies of the nature existed within the framework of Palestine, apart from oriented to understand potential differences existent across line of business, size and place of work;
4. This study provided a clear understanding of what triggers success and which factors are success inhibitors;
5. From this thesis it can be inferred that the problems posited by firms in the WBGS (apart of the political situation) are not isolated cases. These exist elsewhere as the literature and studies presented have shown. One of the similarities found is financing the businesses via family loans. However, this type of business formation does not attract investment and does not allow the income necessary to guarantee loans. The level of education appears to be higher in Palestine than in many other countries in the region, but business formation is not as high (PCBS, 2004 and World Bank, 1992, 2004);
6. Responses for this study combined a triangulation method not often seen in many studies. In addition, the Case studies, Survey, and structured questions as well as the additional case studies examined by porter diamond model provide a reliable source of information for this study. Moreover, this study contributes to literature with the richness of data obtained, the literature reviews offered as well as the understanding it exhibits regarding traits identifying Palestinian SMEs and their profile among others. The experiences obtained in consequence are immeasurable in term of the learning process, but mostly for the sharing obtained in gathering added qualitative and quantitative responses by the study participants. More importantly, reaching set goals provided added satisfaction;

7. Taken the word from the right source; the owners/managers, the entrepreneurs as well as from literature it can be expressed without doubt that success determinants for Palestinian firms are not different to those existent elsewhere. In addition, the way local Palestinian firms respond to challenges under occupation, plan and react to opportunities is quite similar to firms elsewhere. The study also provided a deep clarification of existence of the WB and GS firms' differences and a clear profile of Palestinian firms. Thus, it can be stated that within the constraints of the WBGS there are differences on businesses run across sector and differences existed in the level of experience, lower level of success, less income in the GS firms than firms in the WB, this differences appear to exist out of choice;
8. This investigation contributes to literature by bringing to light the current situation in entrepreneurship and the kind of problems that exist for firms' owners in the WBGS. A further contribution is the possibility of using these findings as counterbalance for problems found and to improve the understanding of the problems and gains entrepreneurs in the WB and GS have reached in businesses. Definitely, more research on the subject has to be implemented and financing studies of this nature is paramount. Moreover, creating a mechanism for stimulus to increase responses to studies is needed. Unquestionably, more research is needed on the attitudes toward business foundation, growth and business size, as well as on how the GS firms can overcome problems after the Israeli occupation ended in 2005. This study does suggest that differences across sector in the WB and GS are not so large, what does occur is that GS owned businesses deliberately choose to define their limit to growth as a trade off; and
9. The study provided the tool that can contributes substantially to this profile of what causes success and prevent failures. Thus, success as commonly said, is not just accidental or taught and this is similar to entrepreneurship, it comes from within dedication, commitment and hard work. Entrepreneurial and or managerial choices grasps opportunities at the right time and add value to customers increase the success attained.

9.7.1 Importance of Entrepreneur to Business Success

Linking the findings with literature shows that is no doubt that traits of successful firms as seen in public reports have efficient and dedicated owners/managers. The RBV of the firm has acknowledged the position taken by this researcher regarding the role of manager. This view also sees as crucial how resources are converted into positions of sustainable CAs, which ultimately lead to superior performance in the market place. Since as Penrose (1959), Porter (1980, 1990) and Day & Wensley (1988) expressed, not all resources are of equal importance in terms of achieving sustained CA, it is the managerial role, which is critical in the process of attainment. Thus, resources have value when well applied and brought to the market; the owner/manager converts them into value (Williams, 1992). Moreover, these research findings relate to literature and empirical studies on CAs and competencies or capabilities done elsewhere in different angles.

Regarding this resource selection and conversion, studies by Hart (1995) which examined the importance of resources found that almost all entrepreneurs acknowledged this importance in new venture creation, but focused instead on strategic choices and relegated resource decisions to a supporting role. Moreover, a survey of Michigan IT University entrepreneurs revealed that in retrospect, entrepreneurs considered the initial resource choices to be far more important than was believed initially (Hart, Greene & Brush, 1997). The same authors reported that resource choices outweigh strategic choices in determining long-term success or failure. Thus, findings reflect a similarity with research. Entrepreneur traits, firm traits and the strategy the firm delineated explained in terms of criterion like prior experience, education, age, years been founded, innovativeness, planning, long working hours, communication skills, customer service and risk reduction among others, has been found to be most important for success.

Since this thesis evaluates how the manager's role is determinant on the CAs attained, a concept that has been studied amply in strategic management and marketing literature, this study provided and sustained explanations as to how successful firms kept an advantageous position. Though some researchers assert that SFs do not plan, the growth of the sector and the economic impact SMEs provide worldwide is more than enough reason to believe some planning is done, even if it is mental and not shared as it mostly occurs in micro enterprise. Thus the managerial role is paramount in this planning and leadership role as well as in the position reached by the firm.

9.7.2 Relation of this Thesis to Literature

In reference to firm's success and performance, studies have shown that successful firms use among others: advisors, plan, choose non saturated market, scan the environment, have knowledgeable management, keep good records, have industry experience, economic timing, partners, which all combined become critical success factors (Lussier, 1995, 1999; Lussier & Corman, 1995). Studies on failure done by Lessier (1995, 1999) and Cochran (1981) recommended that to study failures it was better to implement small regional studies rather than large samples. The former found that reasons for success were about the same as those for failure, the difference being that failing firms lack the traits that successful firms possess, this is precisely the position taken by this researcher.

In addition, empirical studies reports show that firms in general, do have problems to compete. This is also observed in the Palestinian firms but does not appear to be due only to the Palestine smallness or inherent barriers as is usually said, but too many other factors, including inability of the owner/manager to analyse, administer and respond to the challenges posited as well as starting up of so many firms without planning. Also, while some firms are finding trouble, many of the medium-sized and large firms are competing extremely well. Studies by Sing & Lumsden (1990) have precisely studied liability of newness which refers to the propensity of new firms to fail and smallness which explains how the size of the organization influences mortality or success. Success or failure to most authors is triggered by many factors like the one found in this study, which includes lack of experience (Dyke, Fischer & Reuber, 1992) and saturated markets. These authors reinforce these researcher findings.

This study also suggests that differences across sector in the WBGS are not so large, what does occur is that GS firms' owners deliberately choose to define their limit to growth as a trade off. In sum, regarding the traits of entrepreneurs and analysing if GS entrepreneurs their goals and responses to challenges differ from those in the WB. Several conclusions can be inferred from this study: First, the traits that distinguish GS from WB firms do not differ. Second, the characteristics of entrepreneurs are similar in terms of level of education and work experience prior to founding business. Across firms' owners, businesses were established because of a desire to own their business, be their own boss and for self-satisfaction, thus confirming Hisrich (1997) findings. A second choice reported was flexibility and having had unpleasant relations in the workplace. Both T&G sector's in the WB and GS reported strong family support and founded their businesses from money loaned by relatives. Large firms did access and use bank loans.

Findings also support the idea purported by Aldrich, Brickman & Reese (1997) who point out that difference across sector exist in some diminutions. In this study small businesses focus in recruiting mostly relative and training quality employees and customer satisfaction while Medium-sized and large businesses focused toward customer orientation and marketing, this concurs with Kalleberg & Leitch (1991) studies. The problems and challenges SFs face the most are access to capital and financial structure, reducing the problems of credit financing and obtaining training and information at manageable costs thus reducing growth. Large firms attest to the same problem, but not on the same scale. This coincides also with studies presented by

Filion, et al. (2001) and Orser (2002) implemented in Canada with two different institution and interviewing minority owners of SMEs.

9.7.3 Relation of the Empirical Results to Theoretical Framework

The quantitative survey result indicates that "Managerial capabilities" is the most effective tool to improve long-term performance. This is then followed by "human resources capability", "marketing capabilities" and "new product development capabilities". "Manufacturing capability" as a whole is not regarded as effective in improving performance. The top four attributes among all the core capabilities are listed in descending order of importance:

1. Improve company performance
2. Strong cohesion, commitment and sense of responsibility among staff
3. Good customer service
4. Strong capability in market research and in-depth knowledge
5. Ability to produce high quality and reliable products

These attributes were also found to be highly important in the case studies. The following section will examine the effectiveness of each capability.

9.7.3.1 Managerial Capabilities

Manager's capabilities were found to be most important capabilities to improve company performance in this thesis. This highlights the moderating role played by managers in the process by which resources lead to sustainable competitive advantages. Resources, in and of themselves, do not confer a sustainable competitive advantage. As Kay (1993) puts it, a resource only becomes a competitive advantage when it is applied to an industry or brought to a market. When analysing the successful cases an important core capability was found. Firms' ability to integrate different resources within the company and direct those resources to a market segment that fits its resource configuration is a typical example of its strong management capabilities. It adopted an "analyser" strategic posture (Miles & Snow, 1978) in the new generation printing inks market and a skilful deployment of marketing strategy in the conventional ink market which bears strong characteristics of a "managerial firm" (Borch, et al., 1999). Hence, it can be stated that the quick turnaround in the firm's performance to a large extent is a result of its managerial capabilities.

Managerial capability that helps to improve company performance was first found in Penrose's study (1959) on the growth of a firm. Her seminal work concludes that managerial capability is the binding constraint that limits the growth of a firm (Penrose, 1959). Later this effect is commonly known as the "Penrose effect" (Kor & Mahoney, 2000). This strategic option supports

Hitt et al.'s (2001) argument that strategy has to be supported by appropriate resources and distinct competences. The findings from successful case studies concluded that the Palestinian government should prioritise in development the SME manager's managerial capabilities to improve performance of the state owned sector. It is the managers of the enterprise who direct the resources and capabilities of the firm to meet the market requirement. The importance of developing managerial capabilities warrants it to be put into the first priority in its economy reforms.

9.7.3.2 Human Resources Capabilities

Among the key attributes of human resources capabilities, corporate culture was found in our quantitative survey to be the second important capability to improve performance. This finding was further supported in the successful case studies. A Firm's success can be attributed to its strong corporate culture that is unique and difficult to imitate. Its unique corporate culture evolved from the way its employees and management work together. This finding further reinforces the argument put forth by Barney (1986) who stated that culture could be a source of competitive advantage especially if it cannot be managed in a planned way. Another human resources capability that makes firm successful is its speed of communication within and without the organisation. Strategy of the top management is well communicated to the front-line sales persons as well as to the shop floor level. Requirements from customers are quickly channelled to the company for action. Its intensive and efficient communication link helps the company to become agile and responsive to customers' needs. It has also made good use of various communication channels to ensure employees' involvement in business activities. The use of company magazines and sign-board are good examples. Mestre et al. (1999) found that Japanese companies had used visual communication to improve their productivity. This ability was also found in successful firms.

9.7.3.3 Marketing Capabilities

Marketing capabilities were found to be the third most important capability that improves a company's performance in this thesis. Product/brand positioning is a core strategic marketing activity (Ries & Trout, 1982) and firms can seek to adopt a number of distinct positions in the marketplace. These may involve positions based on price, premium quality, superior service and innovativeness (Hooley, 1998). The RBV focuses attention on the ability of the firm to deliver on its desired positioning strategy. For example, if the firm seeks to become a customer service leader in an industry, it needs to develop the resources that are necessary to enable it to try to attain such a position. For example, Marriott Hotel's renowned positioning as a customer service leader in the hotel business is closely related to the resources that it has accumulated through codification and practice over time. Among its distinctive capabilities are a customer-focused organisational culture and an obsession with detail at every level of the organisation (Stalk, Evans & Schulman, 1992). The case studies confirm that offering good customer service is the most important attribute among the marketing capabilities. Other important attributes, such as in-depth understanding of the market, also play an important role. However, it was rated to be marginally less important than offering good customer service in the quantitative survey.

It is interesting to find that reputation was not rated as a crucial element. Reputation has been generally regarded as one of the most important capabilities to do business in Palestine. However the questionnaire survey and case studies confirm that it is not so critical in the Palestinian T&G industry. One explanation could be that respondents are from indigenous companies who have close working relationships with their customers. Therefore it is not necessary for them to use reputation as a door opener.

9.7.3.4 Product Development Capabilities

Product development capabilities were viewed as the fourth most important capabilities in the questionnaire survey. Among different key attributes, the ability to develop a quality product and production process obtained a rather high important ranking. This underlines the importance of quality in the T&G industry. It is worth noticing that patent creating ability has the lowest importance score within the product development capabilities. This is in contrast to the common belief and the argument put forth by Rumelt (1984) who classified patent right as one of the major isolating mechanisms. There are two possible reasons that can explain this outcome. Firstly, the Palestinian T&G industry is still in its development stage, hence most respondents perceive that developing quality products is more important than creating new patents. Secondly, reinforcement of the protection of intellectual properties is relatively weak in Palestine. Without strong legal reinforcement the high cost of research cannot be compensated by its revenue as infringement of patent rights can be rampant. The isolating mechanism (Rumelt, 1984) in this case would not function.

9.7.3.5 Manufacturing Capabilities

Manufacturing capabilities were found to be less effective. Their average performance score does not show statistical significance compared to that of administrative measures. The low performance score for manufacturing capabilities recorded in the quantitative survey does not mean that Palestinian T&G manufacturers do not regard manufacturing capabilities as a source of competitive advantage. In fact the ability to produce high quality products was rated to be the third most important attribute. The ability to produce wide varieties of products had also obtained a high score. The overall low score for manufacturing capabilities is caused by the negative opinions on the ability to produce within a short lead-time and the skills for outsourcing non-strategic activities. The study on successful firms offers a good explanation of this phenomenon. Its attempt to outsource production has caused its contract manufacturers to acquire its production knowledge and to become its competitors. As Drejer & Sorensen (2002) pointed out, the most formidable obstacle in the sourcing process was the difficulty in analysing and understanding the corporation's competencies, which were often complex and contained large deposits of expertise.

In summary, the essential elements of the RBV are the firm's key resources and the role of management in converting these resources into positions of sustainable competitive advantage leading to superior performance in the marketplace. A basic resource-based model of sustainable competitive advantage which demonstrates these linkages and builds on of literature review and the work of Hitt & Ireland (2000); Fahy (2000) and Grant (1991), were presented in Chapter Five (Figure, 5.1). The findings prove that the Resource-Based View approach in strategic management is a valid framework in formulating sustainable competitive strategy for the Palestinian T&G industry. It highlights that not all resources are of equal importance in terms of achieving a sustainable CA and that management play a critical role in the process of its attainment.

9.8 Policy Implications for Developing SMEs

This study contributes to theory development by providing insights on the extent to which views apply in the context of entrepreneurship. Implications suggest that a through the statistics, which showed how the businesses in GS are smaller than those of the WB and sees growth from a different angle. The fact that most GS firms' line of business tend to gravitate towards service and retailing, rather than towards manufacturing suggests a potential answer.

For a further analytic and research perspective, it is the feeling of this researcher that analysing the context of GS businesses should be seen from their status and current preference. Finally, it is the expectation of this researcher that entrepreneurship itself and the WBGS firms will become more significant to the economy in present and future business environment.

Research findings suggest the need for the creation of remedial programs and policies conducting to create incentives that would increase the creation of well-analysed businesses in niche and higher added value areas like exports. Since SMEs and smallness of GS firms are characterized as less likely to either undertake growth or enter into collaborative relationships, such as joint venturing and exporting, creating specific programs would induce higher economic growth. Innovative managerial traits are identified mostly with high growth firms. The programs created should focus on the benefits and practices associated with internal and external development, mainly on the OPT where unemployment and business exodus is occurring, activities such as export management, joint venturing, angel investors and R&D not only have to be instilled but enforced. The case of the OPT is relatively different to other countries.

Moreover, general access programs and regional forums should be created to educate entrepreneurs towards structuring business plans and in approaching venture capitalists and establishing networks. Likewise, universities should create more programs oriented at reinforcing and training entrepreneur's capability through professional developments handing out certificates adapted to the sector needs. In addition, laws should be made clearer as to the obligation banks have to ease the process of accessing funds via loan guarantees. The programs still appear to be discriminating. Moreover, statistics and firm's census should be implemented and published so that programs for improvement enticements could be created.

Not least, more research on SMEs and statistics exhibiting the reality of their existence has to be conducted in a collaborative manner across the public and private sectors. Result from this thesis suggests that many SMEs have entered their sector because of family tradition and seeking self-satisfaction yet lacking experience. Other countries report similar findings. Canadian studies have shown that because women tend to bring less management experience to their enterprises, it makes sense for training agencies to use methods that focus on simulating experience. Besides, training materials and dissemination of existent programs should be made available at specific centres. These should also incorporate decision-making and strategies aimed at helping to alleviate the pressures from family and business obligations.

This study and publicly published research has documented systemic differences in the amount and types of experience, which the WB and GS firms bring to their enterprises. Thus, agencies and entrepreneur groups need to work on reinforcing these weaknesses. An avenue could be joint collaborations with universities and private donors on the creation of programs aimed at reinforcing these gaps and weaknesses. Also, banks, start-ups agencies and financiers need to encourage the type of business formation required for larger growth as well as accounting practices conducting to private investment.

The PNA needs to consider rationalising the number of industrial estates, free zones and internal estates. It is more appropriate to establish a few specialised industrial estates capable of withstanding the fierce competition from neighbouring estates, rather than spreading too thin. It is also more cost-effective to foster existing agglomerations rather than creating estates from scratch. The OPT has little to start with: there are significant frictions in physical and transaction costs that may hamper the relocation of enterprises into planned and existing estates, especially enterprises enjoying significant shares in local markets. Furthermore, there is a dearth of supporting industries, factors of production, and capable market support institutions. Moreover, Palestinian Industrial and Free Zones Authority and Palestine Industrial Estate Development and Management Company can consider promoting programmes to integrate enterprises with regional and international companies through subcontracting arrangements and strategic partnerships. In particular, such programmes need to encourage foreign companies to source some parts, components, indirect materials and services from Palestinian enterprises, as well as outsourcing the distribution of brand-name products to Palestinian enterprises.

Perhaps the most effective approach to developing SMEs, and towards achieving the sectoral objectives of the development strategy, would be to establish sector-specific business incubators. This would allow policy makers to catalyse the process of starting and developing companies, providing entrepreneurs with the expertise, networks and tools they need to make their ventures successful. The incubators could be hosted by industrial estates or by universities, depending on the nature of their services. However, they should be based on feasibility studies and need to be assessed to ensure that they cater to SMEs' needs within a development strategy. Moreover, they should be equipped with professional staff and linked with local and international market support institutions and universities in order to capitalise on and contribute to the development of existing resources and services targeting SMEs[54].

9.9 Limitation to the Research Approach

Limitation to inferences made by this study might be described in several aspects as follows:

1. External constraints were provided by the political and environmental situation prevailing during the data administration. This was a crucial diminishing factor in replies obtained.

[54] In 1994, two pilot incubators were designed to support Palestinian enterprises, in An-Najah University in Nablus and in Gaza. The first incubator was meant to stimulate technological entrepreneurship and commercialise the results of scientific research, while the Gaza-based facility focused on fostering innovative products and services, particularly in agribusiness, computer software, garments and artisan products, in addition to construction. However, the two projects have not been implemented for various reasons, particularly the lack of competent staff. See Julia Hawkins, (1997) "Incubating micro enterprise...".

2. Though richness of responses was obtained in some cases, when the owners did not want to provide the information or thought it too private, this added a further limitation for statistical analysis.
3. Several constraints did hamper the choice of data collection methods; the condition and daily confrontation between the Israeli and Palestinian and the current crises prevented the researcher from travelling to the Palestinian territory and collecting a primary data, especially under recent conditions of uncertainty. For these reasons, the researcher did employ an experiment agent (Sigma Centre for Statistics) to be part of the data collection and to help the researcher overcome this problem.

9.10 Suggestions for Further Research

It is suggested that further study along similar lines is both possible and desirable, viz: An extension of the present study to encompass different geographical area and industries would be complementary and would perhaps provide different results. Further research should ideally cover other economic sectors, i.e. Agriculture firms, tourism firms, construction firms and so on. With regard to finance, the role of the commercial banks in financing SFs is another area in need of research.

Although this research is specific in its analysis of a single industry in Palestine, and accepting that the change process in this industry is exacerbated by the fact that it is moving to consolidation from a fragmented base, there is sufficient evidence to suggest further study should be undertaken to generalise these research results across a range of industries.

Further research should be the avenue that needs to be done to resolve unsatisfactory results and unanswered issues on the reasons why some firms succeed where other fail and how to prevent failure. This of course will require a different mechanism to obtain responses. On the other hand, a need exist still to investigate further why so many business operate in GS do not venture to seek capital early and deter from less profitable trade or line of business.

Lastly, studies should also be oriented to why SMEs in general remain passive when giant firms enter their market, thus not even allowing firms to compete in their terrain. Potentially, maybe the answer to implement studies of this nature could be the utilisation of deep interviews and more case analysis, thus giving the participants the secrecy they apparently desire. More studies, stimulus and forcefulness should be used regarding public and private sectors. There is an increasing need to gather and disseminate information in terms of accurate statistics which might facilitate other researchers to analyse data banks, to know more profoundly trends and scenarios of different business and to possess statistics that could be used to seek funding and grants to assist entrepreneurs, regardless of size and sector.

The present study has naturally suffered from insufficient data, and interruptions caused by the tragic war in Palestine. This accounts for the absence of analysis of the detailed causes of failure of SFs. Such a gap can only be filled if the PNA takes serious steps to obtain relevant information on failed companies and the causes of their failure. In view of the information deficiencies, such as step is highly recommended as it may significantly contribute to a study of causes of business failure and other public interests. A study of these issues would be extremely useful. Furthermore, more collaborative efforts should be directed toward gathering information from other countries with similar cultural and economically similarities in order to create a system that could empower small and medium size firms into more networks to improve communication, cooperation and solidarity that could lead to profitable new market and niches.

Finally, in the view of the researcher, the research topics and issues suggested above are of considerable importance. These are among fundamental questions, which require adequate answers and there are many areas to be covered, which were beyond scope of the present work. In conclusion, this research is of major importance to competitors within the T&Gs industry in Palestine. It is believed that the study into the SME in different area will add value to the current dilemma facing competitors within this channel.

APPENDICES:

Appendix A1

Economic Reality

With the signing of the Oslo Agreements, it was hoped that this process could begin to be as a chance to improve the dire economic situation in which the Palestinians were living. Sovereignty over land and resources is undoubtedly a necessary condition for the economic viability of a Palestinian state. However, they are not sufficient and other conditions need to be met. These include human and financial resources, the institutional environment, and trade policies.

The Palestinian population is well endowed with human resources. The average years of schooling in the WBGS are around 8.1 years, which is significantly high by developing countries standards. The fact that 20% of the labour force had more than 13 years of schooling (PCBS 1999, Table 2) implies that the economy has the potential to specialize in service knowledge oriented sectors. Moreover, the financial abilities of the Palestinian population are also not negligible. Apart from the money, which the Diaspora can invest, local resources have grown. The local banking sector has expanded as local deposits grew to a total of $2.9 billion in 1999 (UNSCO, 2000b)[55]. A stock market has been established and the private sector has shown some dynamism in channelling resources to infrastructure as well as industrial projects such as the Gaza Industrial zone, the private Palestinian Telecommunications Company, and electricity in the Gaza Strip (GS) amongst others.

However, investment still remains small. The ratio of loans to deposits was at 34.5% in the West Bank and Gaza Strip (WBGS) (compared to 80% in Jordan) (Hamed 1996; UNSCO 2000b). This means that the economy is saving more than investing. Moreover the investment has not been directed towards domestic production but rather towards industrial zones (Samara, 2000). These suffer less from closures, but have few linkages with the rest of the economy and so far have not been able to function as an engine of growth. Meanwhile, the Palestinian economy has grown to be dependent on foreign aid for sustaining employment, a dependency that is costly both to donors and to receivers in the long term.

The possibility of transforming the WBGS from a developing to a developed economy, making them the "Singapore of the Middle East", is even considered as a possibility by some. Yet, in

[55] Up from $220million in 1993 (Hamed 1996).

spite of success achieved in some branches of Palestinian industry, the total performance of the industrial sector and its role in the Palestinian economy is still modest (MAS, 1997). Furthermore, the industrial sector suffers from structural problems that limit its competitiveness and impede its transformation into a leading sector (UNSCO, 2001). Some of these weaknesses result from the Israeli occupation but others are due to the absence of a well-defined Palestinian economic policy (UNSCO, 2000). There is also the problem of individual and family owned businesses with firms characterized by their small size and narrow marketing outlets (OXFAM, 2002). Some branches of industry depend heavily on subcontracting relationships with Israeli companies. In addition, industrial clusters have not been completed and there is an absence of forward and backward linkages (Abu-Eljedian, 1996). Another problem is the weak role played by supporting institutions and the generally poor investment environment in the Palestinian areas (UNSCO, 2003).

The Palestinian National authority (PNA) has made a number of attempts to improve the performance of industrial enterprises by introducing industrial and economic policies aimed at creating an environment conducive to investment. The PNA has adopted an industrialisation strategy aimed at achieving a balance between import substitution and export promotion (World Bank, 2003). It has also established more than one ministry, several institutions and government bodies necessary to support the private sector as well as issuing important economic legislation and initiating improvements in infrastructure services (Begley, et al. 1998). A number of industrial zones have been established. At international level, several preferential trade agreements have been signed. The PNA has also set up a development program to update Palestinian industry and has supported the establishment of numerous bodies to serve the industrial sector (PCBS, 1997). Yet, in spite of all these efforts, the PNA has been unable to motivate the private sector to create and improve the Competitive Advantage (CA) of the industrial sector. The lack of success can be attributed to objective circumstances: Israel's continued control of economic resources and border crossings, dramatic regional and international changes and the economic challenges they pose, the limited role played by newly-established government bodies, and the weak performance of the private sector (UNCTAD, 2004).

For an economy as small as the Palestinian economy, long term development depends crucially on the creation of strong linkages with external markets. Without expanding its foreign markets, the Palestinian economy will find it difficult to attract new investment, and to increase the worker productivity. Being constrained by the slow growth of its domestic demand, the rapid rise in labour supply will translate into decreasing real wages, increasing unemployment, and consequently, higher poverty rates. Potential creation of high-wage high-productivity jobs for the Palestinian lies in the development of an export-oriented private sector. Higher exports could directly benefit the poor who are probably already heavily represented in low wage occupations in the tradable goods sectors of agriculture and industry (World Bank, January 2001).

The lists of problems faced by the Palestinian SMEs are much different from that of other Less Developed Countries (LDCs). The problems must be seen from both the demand and the supply sides, but also on the infrastructure playground (Porter, 1990). On the demand side the factors identified are: the change in the consumption pattern of the population, the change in the requisite on the production imposed by the local norms, the weakening of the purchasing power of the population and the imposition of international standards. On the supply side, the problems are related to the quality of the products, the absence of continuous product innovation, the lack of raw material of good quality, the use of obsolete technology, as well as the poor design, poor packaging and presentation of the products. Looking at the supply side, little attention is generally paid to the fact that in the WBGS the owner of an SME is not necessarily a risk-taking entrepreneur, but is only a craftsman/producer, and thus is not prepared to grasp the opportunities offered by the market (Economic Research Forum, 1998). The obstacle presented by the lack of marketing capacities is overcome by using intermediaries. However, this reduces the margin of profit and easily results in creating a situation of dependency and exploitation. It emerged also that many of the problems faced by SMEs in their daily productive routine are related to a lack of infrastructure, roads and communications and provisions such as electricity, water and telephone, or to a lack of adequate spaces (UNCTAD, 1995). The concentration of all production phases in a limited place determines losses in the value added due to the difficulty in organising the production line in a more rational way. The lack of an internal division of labour is often linked to the lack of machinery, which in turn produces competition among workers paid on a piece by piece basis and thus a less friendly working environment. The absence of qualified manpower is another problem that is diffused especially in Textile and Garment (T&G) firms (ERF, 2000).

The gradual re-entry of Palestine into the world economy implies increasing competition at every level of economic activities. Even small producers operating in niches are facing the competition coming from international markets (Ramaseshan & Soutar, 1996). However, the common feature that links the region's industrial sectors is the large number of small enterprises (more than 90%) the many similarities in the systems of production and in the industrial sectors' structures, the predominance of traditional, low-technology branches, the family-ownership structure of the businesses (Begley, et al. 1998).

Appendix A2

Economic Profile

Between 1994 and 1998, real Gross Domestic Products (GDP) in WBGS is estimated to have increased by about 2% per year, well below the population growth rate; per capita income is estimated to have decreased by some 15% over this period, to about $1,600; in GS, it is estimated to be one half to two thirds that of the West Bank (WB)[56]. As closures decreased in 1998 and 1999, employment opportunities picked up again and economic growth resumed (Table, A2.1).

Table (A2.1)

Selected Economic Indicators, WBGS, 1994-99

	1994	1995	1996	1997	1998	1999
	(in%)					
Real GDP growth	8.5	-2.4	-3.2	4.8	7.0	6.0
Real GNI per capita growth	-4.9	-9.6	-9.0	3.5	7.7	3.5
Unemployment	15.0	18.1	24.2	19.6	14.5	11.8
	(in% of GDP)					
Fiscal, recurrent balance	-0.9	-1.9	-4.0	-1.0	2.5	1.3
Fiscal, overall balance	-6.8	-11.1	-10.7	-8.0	-5.4	-3.9
BOP, current account balance	4.6	-10.8	-21.9	-28.3	-32.0	-32.2

Source: Economic Policy Framework, Progress Report, May 2000, PA and IMF

The period after the Oslo accord has been characterized by intermittent economic crises brought on by closures, high and fluctuating unemployment, limited private investment, and a rapid expansion of the public sector (UNSCO, 2000). Governance remains at the heart of the challenges for the WBGS. In the early phase, the PNA needed to expand quickly to take on its new responsibilities for delivering public services and establishing security forces. But expansion continued rapidly thereafter, with employment more than doubling since the end of 1994, motivated by pressure to absorb the increase in the labour force and mitigate the shock of decreased employment opportunities. The continued growth both in the civil service and security forces severely undermines fiscal sustainability[57]. The economy continues to be extremely vulnerable; as it has in the recent past, the economy can quickly spiral downward. Progress in peace talks has been central to the economic development of the WBGS, but has proved elusive. Permanent status negotiations were not completed by May 1999, as had been hoped, and many issues remained unresolved even before the violent clashes starting in September/October 2000.

[56] Because of the high degree of integration with the Israeli economy, the price level in WBGS is close to that of a high income country; an estimate of per capita income in Purchasing Power Parity terms, which takes the price level into account, would place WBGS in the low income group, with countries such as Ghana, Nicaragua, or Vietnam.

[57] Employment in civilian central government as a proportion of the labour force and of the population is higher than in most MNA countries; the share of the central government payroll in current expenditures has been 55-60 per cent, compared to 45 per cent in MNA countries and 16 per cent in OECD countries. The Ministry of Finance has no control over the payroll in Gaza.

The Palestinian economy has lost all the growth it achieved in the preceding 15 years, with the estimated real GDP in 2002 below its 1986 level[58]. By the end of 2002, GDP had declined by more than 22%, adding to the 24% loss in 2001. The Palestinian economy remains severely depressed compared with the pre-*intifada* period. The World Bank estimates that GDP is 23% lower than in 1999. After accounting for population growth, real GDP per capita is some 35% below its pre-*intifada* level. An unemployment rate of about 25% in 2003 (compared with 10% at the eve of the *intifada*) underscores the fact that the Palestinian economy operates well below its potential. Young people are particularly hard hit by unemployment: 37% of young people were unemployed at the end of 2003 compared with 14% on the eve of the *intifada* in September 2000 (Table, A2.2).

Table (A2.2)

Recent Economic Indicators in the WBGS (1999-2003)

	1999	2000	2001	2002	2003
Gross Domestic Product (GDP), US$ million	4,179	4,116	3,329	2,831	3,144
GDP per capita, US$	1,493	1,409	1,087	879	925
Real GDP growth rate	8.8%	-5.6%	-14.8%	-10.1%	6.1%
Real GDP per capita growth rate	4.3%	-9.6%	-18.7%	-14.5%	0.6%
Cumulative Real GDP per capita change since 1999		-9.6%	-26.5%	-37.2%	-36.8%
GDI per capita US$	1,896	1,839	1,513	1,326	1,467
West Bank	2,113	2,035	1,662	1,452	1,621
Gaza Strip	1,555	1,532	1,282	1,130	1,227
Real GDI growth rate	8.5%	-2.9%	-9.1%	-2.6%	11.5%
Real GDI per capita growth rate	4.0%	-7.0%	-13.3%	-7.4%	5.7%
Cumulative Real GDI per capita change since 1999		-7.0%	-19.4%	-25.4%	-21.1%
Poverty Rate	20%	27%	37%	51%	47%
West Bank	13%	18%	27%	41%	37%
Gaza Strip	32%	42%	54%	68%	64%
Unemployment Rate	12%	14%	26%	31%	26%
West Bank	10%	12%	22%	28%	24%
Gaza Strip	17%	19%	34%	38%	29%
Population (million)	2.80	2.92	3.06	3.22	3.40
West Bank	1.71	1.78	1.87	1.96	2.06
Gaza Strip	1.09	1.14	1.20	1.26	1.33

Source: World Bank (2004)

[58] Based on the UNCTAD Palestinian integrated database, estimated real GDP in 2002 expressed in 1997 US dollars was $2,514 million, while that of 1986 was $2,930 million. UNCTAD (2003), "Report on UNCTAD's assistance to the Palestinian people" prepared by the UNCTAD secretariat for the Trade and Development Board, fiftieth session, Geneva, 6-17 October.

Numerous studies (UNCTAD, 1998; Alonso-Gamo, et al. 1999; European Commission, 1999) attribute less-than-anticipated Palestinian growth performance between 1993 and 1999 to an imperfect implementation of the PP, mainly as a result of Israeli restrictions on the movement of goods and people across borders and within WBGS.

Appendix A3

Effect of Closure

Is the reason behind this poor economic record the lack of control over territories? To a large extent, it is. More specifically, it is the result of unilateral Israeli control of territories and borders. Contrary to what the Economic Protocol predicted, borders and territorial definitions were not transcended in the interim period. The Interim Agreement in itself confirmed Israel's territorial claims and did nothing to diminish its ability to unilaterally close the borders whenever and for how long it deemed necessary[59]. The implementation of Oslo simply confirmed Israel's power and emphasized its ability to continuously impose its territorial control over the WBGS, often to the detriment of economic growth and continuity.

This reality is well captured by Israel's recurrent use of border closures and permits policy. Israel unilaterally closed borders with, and between, the WBGS for more than 443 days "between 1994-1999" (UNSCO, 2000). More recently, as a result of Al-Aqsa *Intifada* that erupted on September 28th 2000 t0 May 2001 over 50 days of closures have thus far been were imposed. Closures means that goods and people, be it managers or workers, could not access Israel or the world. At certain times, it also means that access between the various parts of the WB and links with the GS were severed. These closures were often unpredictable and implied that all economic activity came to a halt. Moreover, Israeli permits condition Palestinian economic life. Unlike the situation prior to 1993, access of goods and people to Israel or the world hinges on permits issued by the Israeli security services. These measures have increased transaction costs, enhanced unpredictability and brought a halt to all trade and investment. Between 1993-1996, the total cost of closure and permits was estimated at a total of $2.8 billion (Shaban & Diwan, 1999b: p. 6). This is equivalent to 80% of one year's GDP and double the amount disbursed in terms of aid over this period. The preliminary estimate cost of each day of closure in 2000 was reported at $9.4 million dollars (World Bank, 2000a).

[59] This is confirmed in the protocol on Redeployment and Security Arrangements, where article IX states that Israel alone controls entry of persons and goods into its area, and can close crossing points whenever deemed necessary. In article 7 of the Economic protocol, Israel also states that it can close borders whenever it wants. The Declaration of Principles specifies that Israel remains in control of external and internal security. It also states that relations to other neighbours are to be determined in the final status negotiations (article V).

Closure in many regards remains more severe[60]. The so-called "Separation Barrier", which involves confiscation of land and demolition of shops and homes, continues to be constructed with electrified fence, trenches, barbed wire, watchtowers and military patrols. As of September 2003, the Wall had been constructed along 171 km running through the WB cities (Jenin, Tulkarm, Qalqiliya, Salfit, and Jerusalem Governorates). Recently, residents of the Ramallah/Jerusalem/Bethlehem area have lost land for further construction[61]. The Wall prevents an increasing number of Palestinians from accessing schools, medical services, workplaces and markets. In addition to the Wall, a severe permit policy remains enforced with another series of trenches, fences, roadblocks and checkpoints, restricting Palestinian travel in and out of Palestinian Governorates, cities and towns.

Other losses are generated by the destruction of private and public infrastructure, including establishments, equipment and public utilities, estimated to have cost the economy at least $1.1 billion by the end of 2002[62]. To this must be added the indirect losses induced by enterprises' and households' coping strategies, which generate profound changes in the structure and functioning of the economy. Households' consumption dropped by 5% in 2001 and another 12% in 2002, as they reduced expenditure on basic needs and delayed the payment of bills, in addition to selling their assets[63]. This forced firms to scale down their production activities, generating a contraction in the average size of Palestinian enterprises and a shift towards subsistence and petty activities (FPCCIA, 2001). By 2003, private investment had declined by 90%, falling from $1.45 billion in 1999 to $150 million, and the number of jobs lost in the private sector was estimated at 11,000 in the WB and 14,000 in the GS. The share of the paid work force in the total labour force decreased from 68% in 1999 to 59% in 2002, while the participation rate decreased from 42% to 38%.

[60] Truckloads in and out of Gaza remain highly restricted: between January and August 2003, imported truckloads averaged 6,000 and outgoing truckloads 1,000 per month (compare to 13,000 and 2,000, observed before the crisis in the year 2000), according to data received by UNSCO from Gaza crossing authorities. In the West Bank, approximately 4,300 permits for work in Israel were issued monthly. The only mentionable improvements, therefore, aside from limited employment in Israel were, in Gaza, reductions of certain internal movement restrictions, and extended fishing distance; and in the West Bank, a reported eight roadblocks were removed, only to be replaced by manned or roaming checkpoints on nearby roads or later reinstated, according to OCHA. As of August, OCHA counted 388 roadblocks in the northern West Bank alone, some of them new. Nablus, for example, has seen new closure restrictions, including the creation of a new checkpoint at Awarta for transit of goods. External closure continues to restrict travel of goods and persons through borders with neighbouring countries.

[61] The PCBS reports that 165,000 dunums of land were confiscated in 76 localities, displacing 2300 persons and leaving 42,100 between the wall and the green line. OCHA reports that while 3,000 acres of land have been lost to the wall, an additional 40,000 acres of high yield agricultural land is also impacted. See also PENGO, and OCHA and Humanitarian and Emergency Policy Group of the LACC for analysis of the Wall.

[62] Palestinian National Information Centre, website: http://www.pnic.gov.ps. The World Bank has reported physical damage for the period October 2000-August 2002 of US$ 728 million. World Bank, (2003) "*Twenty seven months Intifada, closures and Palestinian economic crisis: An assessment*" West Bank and Gaza Strip Resident Mission, May.

[63] For a more detailed discussion of these measures, see UNCTAD, "Report on UNCTAD's assistance to the Palestinian people" 2003.

Meanwhile, the proportion of self-employed increased from 19% to 27% during the same period, reflecting a shift towards subsistence activities. These developments depleted the economy's supply capacity, with the manufacturing sector's contribution to the much smaller economy declining from 16% in 1999 to an estimated 14% in 2002. Construction lost half of its share in GDP, down to 6% by 2002. Commerce and tourism contracted at a rate in line with that of the economy and therefore maintained a share around 14% of GDP. Moreover, these enterprises are suffering from a serious liquidity crunch, with banks adopting more conservative lending policies. By September 2002, private sector credit had fallen by 24% from its 2000 level, from $242 million to $183 million. Bank credit by sector shows agriculture and industry receiving smaller shares of total credit in 2001-2002 than they had received prior to the crisis. The share of agriculture in total bank credit was 2% in 2002 and those of the services, industrial and construction sectors were 6%, 10% and 11% respectively. In contrast, trade accounted for 27% of total bank credit[64].

[64] Palestinian Monetary Authority (PMA), *Statistical Bulletin*, different issues, Ramallah.

Appendix A4

Competitiveness Enhancement Measures at Sector and Firm Levels

Table (A4.1)

Competitiveness Enhancement Measures at Sector and Firm Levels

Industry	Competitiveness Enhancement Measures
Stone and marble	- restore value chain between quarries and processing facilities - ensure timely supply of spare parts - improve finishing operations and strengthen design capabilities for finished goods - improve quality control and standards at firm level - strengthen marketing and promotion actions especially for smaller enterprises - develop a sector design and quality training centre - obtain ISO and product certifications - introduce environmental protection measures
Agriculture	- improve harvesting practices - develop market and distribution channels - improve packaging and storage facilities - develop/improve infrastructures - develop proper data recording system
Furniture	- develop design skills and product mix - increase productivity - develop quality control - diversify supply sources - develop market channels and marketing strategies especially for Arab countries
Pharmaceuticals	- strengthen ongoing penetration strategies in Central/Eastern Europe - obtain foreign product registration and GNP certification
Processed food	- develop product mix and technology innovation - improve packaging technology and systems - improve production management and maintenance - obtain ISO and product certification - establish a food processing and quality training centre
Textile and garments	- diversify raw material and fabric supply sources - develop sound marketing and promotion strategies - develop market channels especially in Arab countries - upgrade machinery and production processes - further develop sub-contracting arrangements with Israelis and other foreign Organizations.
Shoes and leather manufactures	- increase productivity - develop design skills and improve quality control - develop market channels
Handicraft	- develop design and quality control skills - develop market and distribution channels
Information technology	- expand ICT diffusion in other sector especially in education and national initiatives such as e-Government - strengthen marketing strategy and develop market channels especially for Arab countries - establish technical cooperation agreements with Israelis and other international specialized companies for third countries.

Source: European Commission and Paltrade (2004).

Appendix A5

Definition of Entrepreneur and Entrepreneurship

In Table (A5.1), we demonstrate the various variables used to describe the relative importance of SMEs in different countries. The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics.

Table (A5.1)

Official Country Definition of SME

Country	Official Definition of SME	Time Period of Data	Source
Argentina	200*	1993	Inter -American Development Bank-SME Observatory
Australia	100	1991	APEC, (1994): The APEC Survey on SMEs
Brazil	250	1994	IBGE-Census (1994)
Germany	500	1991, 1993-98	Globalisation and SME (1997), (OECD) Fourth European Conference paper
Hong Kong, China	100	1993, 2000	APEC Survey, Legislative Council 17 Jan (2005)
Indonesia	100	1993	OECD Paper, Speech of State Minister of Cooperatives and SME in Indonesia
Israel	100	1995	Israeli Centre Bureau of Statistics (ICBS)
Italy	200	1995	Russian SME Resource Centre, Eurostat Database
Japan	300	1991, 1994, 1996,1998, 1999	Globalisation and SME (1997), (OECD) SME Agency in Japan
Kenya	200	90s	Regional Program on Enterprise Development Paper (106, 109)
Korea, Rep.	300	1992-93, 1997,1999	APEC Survey, OECD, Paper titled "Bank Loans to Micro-enterprises, SMEs and Poor Households in Korea"
Norway	100	1990, 1994	European Industrial Relations Observatory
Philippines	200	1993-95	APEC Survey, Situation Analysis of SME in Laguna
Russian	250*	1996-97	United Nation Economic Commission for Europe
South Africa	100	1988	World Bank Report
Taiwan	200	1993	APEC Survey
Thailand	200	1991, 1993	APEC Survey
Turkey	200*	1992, 1997	SME in Turkey
United Kingdom	250*	1994, 1996-00	Department of Trade and Industry, UK
USAs	500	1990-1998	Statistics of US Businesses: Micro data and Tables
WBGS	50	2003, 2004	Palestinian Central Bureau of Statistics (PCBS); UNCTAD

Source: personally prepared table from various resources

* indicates either the country has no official definition of SME or we don't have data for the country's official cut

Despite the differences in criteria, objectives and degree of industrial superiority, there are still two basic elements in the definition, namely labour force and invested capital. Many industrially developed countries use these two elements in defining small businesses and tend to relate both of them to another determinant factor, namely economic activity (World Bank, 1998). The World Bank and International Labour Organisation define small and medium businesses as those enterprises that employ less than 50 employees in developing countries and less than 500 employees for developed countries.

Arab Countries and Definition of Small and Medium Businesses

In Arab countries, small and medium businesses are defined by size of activity (as per the deliberations of the specialized Arab experts held in Damascus in April 1993, sponsored by the Arab Fund for Economic and Social Development):

- Micro businesses: Enterprises employing less than 5 employees with invested capital below $5,000 (in addition to investments in building and fixed real estate);
- Small businesses: Enterprises employing 6-15 employees with invested capital less than $15,000 (in addition to investments in building and fixed real estate);
- Medium businesses: Enterprises employing 15-25 employees with invested capital of $15,000-25,000 (excluding investments in building and fixed real estate); Generally speaking, the criteria adopted in defining small businesses are capital and number of employees classified by sector. Japan is among the countries using such criteria.

Palestinian definition: The PCBS establishment census divides enterprises into the following five categories: (i) enterprises employing less than 4 persons; (ii) enterprises employing 5-9 persons; (iii) enterprises employing 10-19 persons; (iv) enterprises employing 50-99 persons; and (v) enterprises employing more than 100 persons (PCBS, 1998). UNCTAD (2004) regarded enterprises employing 5-19 persons in the WBGS as small, while those employing 20-50 persons are considered medium size, in this study we agree with UNCTAD definition. One aspect that might initially blur the concept of entrepreneurship is that it can be defined in a number of different ways. In the following section a selection of definitions by literature are presented and discussed.

Literature's Definition

Glancey & McQuaid (2000) mention five definitions of entrepreneurship, while Wennekers & Thurik (1999) mention thirteen. For example, entrepreneurship could imply an economic function, as a bearer of uncertainty, a resource allocator or an innovator. It could also refer to particular behaviour, intrinsic characteristics and the creation of new organisations or the role of an owner-manager of a company. Baumol (1993) and subsequently Dejardin (2000) stress that entrepreneurial activities can also range from being productive to society at large to searching for surplus profits with negative consequences, all depending on the structure of incentives and possibilities. The following tables (A5.2 & A5.3) illustrate deferent definition of Entrepreneur and Entrepreneurship by the researchers.

Table (A5.2)

Definitions of Entrepreneur

The study	Definition
Bird & Page West III (1998)	The word entrepreneur is usually applied to the creator of a new enterprise. 'Entre and preneur' are derived from French words which mean to take between.
Shane (2003)	Defines an entrepreneurial opportunity as "a situation in which a person can create a new means-ends framework for recombining resources that the entrepreneurs believe will yield a profit".
Kirzner (1973)	"The 'pure' entrepreneur observes the opportunity to sell something at a higher price than that at which he can buy it. It follows that anyone is a potential entrepreneur, since the purely entrepreneurial role presupposes no special good fortune in the form of valuable assets. ... The entrepreneur's activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process. Or, to put it the other way around, entrepreneurship is inherent in the competitive market process".
Drucher (1985)	Entrepreneurship is an act of innovation that involves endowing existing resources with new wealth producing capacity (in Bull & Willard, 1995).
Vosloo (1994)	Entrepreneur "as a person who has the ability to explore the environment, identify opportunities for improvement, mobilize resources and implement action to maximize those opportunities".
Idrus & Staunton (1991)	Entrepreneurs are important for enterprise development. To some extent entrepreneurs are similar to small business and enterprise owners, but entrepreneurs have special characteristics.
Raymond (1993)	Entrepreneur as a person who undertakes a wealth creating and value adding process through incubating ideas, assembling resources and "making things happen".
Rath (2000); Ndoen (2000)	Entrepreneurial activities have particular advantages in fostering entry and success in business and increasing profits as future business expansion in the region of migrant destination.
Casson (1982)	Defines an entrepreneur as "someone who specializes in making judgmental decisions about the coordination of scarce resources".
Busenitz et al. (2003)	Entrepreneurial, One way of conceptualising entrepreneurship is to consider it to be an intersection or nexus of individuals or teams, opportunity and modes of organizing.
Cantillon (1755)	Entrepreneurs are a distinctive social class formed of people who are willing to bear the risks shifted onto them by the rest of society. Entrepreneurs exercise business judgment in the face of uncertainty (in Bull & Willard, 1995).
Mises (1949)	The entrepreneur means an "acting man in regard to the changes occurring in the data of the market" Entrepreneurship is any human action inspired by uncertainty.
Kirzner (1985)	An entrepreneur is one who perceives profit opportunities and initiates action to fill currently unsatisfied needs or to improve inefficiencies. To act means to discover opportunity under uncertainty
Baumol (1993); Dejardin (2000)	Entrepreneurial activities can also range from being productive to society at large to searching for surplus profits with negative consequences, all depending on the structure of incentives and possibilities.
Cantillon (1755)	Claims that "Undertakers" are a class of economic agents, making decisions on market transactions in the face of uncertainty.
Schumpeter (1934)	Defined an entrepreneur as an innovator and one who develops untried technology. And describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as the undertaking of new ideas and new combinations, i.e. innovations.

Source: personally prepared table from various resources

Table (A5.3)

Definitions of Entrepreneurship and Small Firms

Entrepreneurship	
Christensen, Madsen & Peterson (1989)	Entrepreneurship is the recognition, evaluation and pursuit of opportunity in diverse contexts).
Shane &Venkataraman (2000)	Define the study of entrepreneurship as the "Examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited".
Knight (1921)	Defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot.
Runge (2000)	"Entrepreneurship involves inter alias exploitation of differences between market determined values and private value. Successful entrepreneurship involves demonstrating to someone else (the 'market') that the value attached to some private capital exceeds the value that has hitherto been appreciated."
Wennekers & Thurik (1999)	"Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organisations, to: - perceive and create new economic opportunities (new products, new production methods, new organisational schemes and new product-market combinations) and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions".
Mitchell (2002)	Entrepreneurship can be viewed in its essence to be individuals or teams, creating works, such as products and services, for other persons in a marketplace.
Stevenson & Jarillo (1990)	Entrepreneurship is about individuals who create opportunities where others do not, and who attempt to exploit those opportunities through various modes of organizing, without regard to resources currently controlled.
Timmons (1994)	"Entrepreneurship is the process of creating or seizing an opportunity and pursuing it regardless of the resources currently controlled".
Small Firms	
Bannock (1981)	Definition simplifies the main characteristics of small firms: A small firm (SF) is one that has a small share of its market, is managed in a personalised way by its owners or part-owners and not through the medium of an elaborate management structure and which is not sufficiently large to have access to the capital market.
Ray & Hutchinson (1986)	Define small business enterprise is one that is owner-managed and independent, the characteristics of which are: * Lack of individual market power * Lack of access to the stock market for funds * Undifferentiated management structure * Owner manager makes all the decisions
Little, Mazumdar & Page (1987)	Define small enterprises as those with fewer than fifty workers, enterprises with less than ten workers as 'very small' and those with less than five workers and who operate in the home or workshops as 'cottage shops'.
Bansal (1991)	Considers six factors as the basis of the definition. These factors are; number of persons employed, energy input, amount of investment, physical measure of production, nature of activities engaged in and size of the enterprise
Staley & Morse (1965)	Define SFs as "all manufacturing carried on in relatively small establishments". Then they consider that every establishment employing less than hundred persons is relatively small.
Neck (1979); Harper (1984).	Define SFs "One in which operational and administrative management lies in the hands of one or two people who are also responsible for the major decisions"
Rao (1967)	Identifies SFs in India as "those organised units in terms of the factories act which do not ordinarily employ more than 100 persons without power or 50 persons with power, and working capital of less than Rupees 5 Lakhs[65]".
Weiss (1998)	States that most definitions of SFs focus on number of workers employed in an enterprise, and then he gives a common set of distinction.
OECD (1999)	"Social enterprises are organisations which take different legal forms in different countries, which are organised in an entrepreneurial spirit and which pursue both social and economic goals".

Source: personally prepared table from various resources

[65] Lakh is a large number in India equal 100.000 rupees

The economic definition of entrepreneurship can be viewed from a theoretical and an operational context. Among the early theoretical definitions, Cantillon (1755) claims that "*Undertakers*" are a class of economic agents, making decisions on market transactions in the face of uncertainty. Knight (1921) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot. Schumpeter (1934) describes the entrepreneur as the bearer of the mechanism for change and economic development, and entrepreneurship as the undertaking of new ideas and new combinations, i.e. innovations. He makes the distinction between five different manifestations of entrepreneurship (Schumpeter 1934, p. 66), a new good, a new method of production, a new market, a new source of supply of intermediate goods and a new organisation. The role of the entrepreneur in a competitive market process is stressed by Kirzner (1973, pp. 16-17): "*The 'pure' entrepreneur observes the opportunity to sell something at a higher price than that at which he can buy it. It follows that anyone is a potential entrepreneur, since the purely entrepreneurial role presupposes no special good fortune in the form of valuable assets.* [...] *The entrepreneur's activity is essentially competitive. And thus competition is inherent in the nature of the entrepreneurial market process. Or, to put it the other way around, entrepreneurship is inherent in the competitive market process.*"

Yu (1997) argues that Schumpeter's entrepreneur, the creative destructor, prevents the economy from reaching a stationary equilibrium, while Kirzner's entrepreneur is the one bringing the economy into equilibrium by spotting and profiting from disequilibria[66]. Holcombe (1998) points out that the actions of the Kirznerian & Schumpeterian entrepreneurs are no different. Both take advantage of unexploited profit opportunities and the actions undertaken by any of them will alter the future market environment. One way of identifying unexploited profit opportunities is suggested by Runge (2000, p. 38): "*Entrepreneurship involves* inter alias *exploitation of differences between market determined values and private value. Successful entrepreneurship involves demonstrating to* someone else *(the 'market') that the value attached to some private capital exceeds the value that has hitherto been appreciated.*"

Vosloo (1994, p. 147) suggests that the entrepreneur might be an opportunity maximiser when defining an entrepreneur "*as a person who has the ability to explore the environment, identify opportunities for improvement, mobilize resources and implement action to maximize those opportunities.*"

[66] See also Kirzner, 1973, pp. 72-73.

In what appears as a synthesis of the previous suggested definitions, Wennekers & Thurik (1999, pp. 46-47) suggest the definition: "*Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations, to: - perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-market combinations) and to - introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions.*"

In a previous study (Wennekers et al, 1997, p. 5) a third aspect was included as well: "... *compete with others for a share of that market.*" This definition might include many of the aspects of entrepreneurship but it is not operationally applicable. Most of the aspects are hard to identify and isolate, leading to various functional definitions describing individual aspects of the concept. Quantitative studies of entrepreneurship often focus on business start-ups or innovation in small enterprises. Both these measures have several limitations.

Defining entrepreneurship as small-firm innovation might also be misleading. Once again, large firms might exhibit entrepreneurial behaviour. There might also be non-innovative start-ups which are entrepreneurial in the sense that they respond to disequilibria or profit opportunities. Another obstacle regarding the process of innovation is to define meaningful measures of innovative inputs and outputs, e.g. a measure using R&D expenditures cannot account for innovation in small firms (Acs & Audretsch, 1991, 2001).

Appendix A6

Interview Guide, Structured Questions and Questionnaire

Interview Guide

1. General information about the firm

a. Position in the firm
b. Owner, inherited, founded
c. Date of establishment
d. Number of employees
e. Decision makers
f. Line of business
g. Sales
h. Location
i. Reputation

2. Entrepreneur's characteristics

What are the characteristics of the board's members?

a. Education
b. Experience
c. Background

3. The present behaviour of the entrepreneur in the market

a. What is your educational background?
b. What is your professional background?
c. What is your program in realising the opportunities?
d. Are you focused on product development, Innovation, Diversification or Modification? Or,
e. Are you focused on marketing operation, Modification of customers' orders, Price modification or Distribution policy?
f. How is decision-making implemented?
g. How does your experience affect your decision-making?
h. Do you think your education influences your decisions? How?
i. How do you make decisions about the target market?
j. What factors influence your decisions?
k. Does domestic market have a priority over international market for you?
l. Who are your competitors in the domestic market?
m. How do you identify your competitors?
n. How do you get information about your competitors?
o. How do you classify your competitors?
p. How do you define your competitive policy?
q. How do you offer the best possibilities to your customers?

4. Firm's Characteristics & motivations

How does your perception of the following variables affect the firm's performance?

a. History of the firm
b. Goal of the firm
c. Firm demographic characteristics
d. Experiential knowledge
e. Type of management, process of decision making
f. Qualified employees

g. Market opportunities
h. Competition
i. Marketing variables
j. Production variables
k. R&D variables
l. Suppliers
m. Spare resources
n. Product line
o. Qualified product

5. Domestic Environment
What is your perception of the following factors/variables?

a. Trade policy,
b. Fiscal burden of government
c. Government intervention in the economy
d. Capital flows and foreign investment
e. Banking and finance
f. Wages
g. Prices
h. Property rights
i. Regulations
j. Black market.
k. Access to credit from private banks
l. Interest rate of bank deposits and loans
m. Unemployment benefits
n. Price controls
o. Administrative conditions and new businesses
p. Starting new business is easy

Structured Questions

1. What is your firm's main potential?

....

....

....

2. What are your main competences(s) and or advantages?

....

....

....

3. Are there any advantages unique to your firm?

....

....

....

4. What challenges affect overall business performance and the future?

....

....

....

5. What is needed to continue being competitive?

....

....

....

6. From your view, what is the core competency of the firm?

....

....

....

7. How do you evaluate if your strategy is successful?

....

....

....

8. What is your company's mission in terms of future growth?

....

....

....

9. How do you increase your product's domestic market share?

....

....

....

10. How do you improve/extend your existing product/service?

....

....

....

11. Has your business undertaken any new product development?

....
....
....

12. Have there been any changes seen in the last five years?

....
....
....

13. Do you expect any changes to your firm in the next five years?

....
....
....

14. Which were the main problems the firm confronted?

....
....
....

15. Why do so many firms still fail in the Palestinian territory?

....
....
....

16. Which sector should you emphasise to stay competitive?

....
....
....

17. Is there any change utilising main resources in the future?

....
....
....

18. If you had to start again which mistakes would you avoid?

....
....
....

Questionnaire

A1 Gender: a. Male b. Female	A2 Marital Status: a. Married b. Single	A3 Place of the business: a. The West Bank b. Gaza Strip
A4 Age: a. 21-30 b. 31 - 40 c. 41-50 d. 51-65	A5 Position: a. Owner/manager b. Partner c. Employee/manager	A6 Trade: a. Textile b. Garment

1. How many years has the business been in operation?
   a. Under 5 years
   b. 5-9 years
   c. 10-19 years
   d. 20-29
   e. 30 years and over

2. What are the sources of your business's finance?
   a. Personal funds
   b. Family
   c. Banks
   d. Others

3. **What is the legal status of your business?**
   a. Sole trader
   b. Partnership
   c. Family business
   d. Limited company
   e. Other (Please specify)

4. **Have you had a previous business?** Yes☐ No☐

5. **Did you have experience before starting your business?** Yes☐ No☐

6. **If yes, in what field?**
   a. Management
   b. Marketing
   c. Accounting
   d. Business creation
   e. In other business
   f. Others (please specify)

7. **What is the main reason that made you start the business?**
   a. Independence
   b. Be own boss
   c. Challenge
   d. Others (please specify)

8. **Has the business changed location since starting?** Yes☐ No☐

9. In which of the following years did you restructure your business?
   a. 2004
   b. 2003
   c. 2002

10. **Did you draft a formal plan when founding your business?** Yes☐ No☐

11. **What is the line of your business activities?**
    a. Retail
    b. Wholesale
    c. Service
    d. Manufacturing
    e. Others (please specify)

12. **How many full time employees have you had in the last three years?**
    a. 1-5
    b. 6-10
    c. 11-20
    d. 21-50
    e. 51-100

13. **How many part time employees have you had in the last three years?**
    a. 1-5
    b. 6-10
    c. 11-20
    d. 21-50
    e. 51-100

14. **How many employees do you have currently?**
    a. 1-5
    b. 6-10
    c. 11-20
    d. 21-50
    e. 51-100

15. Regarding your product(s), are you focused on:

a. Product development
b. Innovation
c. Diversification
d. Modification
e. Others (please specify)

16. Regarding marketing operations, are you focused on:

a. Modification on customers' orders
b. Price modification
c. Distribution policy
d. Others (please specify)

17. Which of the following factor(s) prohibit your decision about entering the market?

a. Capital requirement
b. Financing
c. Product differentiation
d. Permits/ government problems
e. Experience/ knowledge
f. Others (please specify)

18. What qualification(s) does the manager/owner have?

a. Higher degree
b. Degree
c. Diploma
d. Secondary certificate

19. Does your education affect the selection of target market? Yes☐ No☐

20. Does your experience affect the selection of target market? Yes☐ No☐

21. Have you had any professional counselling? Yes☐ No☐

22. If yes, from which source?

a. PCBS
b. Small business administration
c. Family
d. Others

23. How important are the following factors to your business?

	Very important	A bit important	Not too important	Not relevant
a. Physical resources	☐	☐	☐	☐
b. Financial resources	☐	☐	☐	☐
c. Human resources	☐	☐	☐	☐
d. Technological resources	☐	☐	☐	☐
e. Marketing resources	☐	☐	☐	☐
f. Community relations	☐	☐	☐	☐
g. Reputation	☐	☐	☐	☐

h. Business contacts ☐ ☐ ☐ ☐

24. What is the initial investment of your business? (please specify)
a. Less than $20,000 [$________]
b. $20,001-30,000 [$________]
c. $30,001-40,000 [$________]
d. $40,001-50,000 [$________]
e. $50,001-75,000 [$________]
f. $75,001-100,000 [$________]
g. More than $100,000 [$________]

25. How long do you expect before you break-even?
a. One year
b. 2-3 years
c. 4-6 years
d. 5-10 years
e. More than 10 years

26. Did your firm have a strategy designed at founding time? Yes☐ No☐

27. If yes, in which areas?
a. Production/Growth
b. Marketing/sales
c. Service
d. Financially sound
e. Others (please specify)

28. Have you updated your strategy throughout the years? Yes☐ No☐

29. How often do you update your plans?
a. Every 2-3 years
b. Never
c. All the time

30. Does a change in the environment affect your plans? Yes☐ No☐

31. How did you ensure plans materialised?
a. Projection products
b. Sales goal
c. Work hard
d. Quality/Service
e. Others (please specify)

32. Do you have any growth plans for your business? Yes☐ No☐

33. If yes, in which area?
a. Product expansion
b. Size
c. Services
d. Quality
e. Human resources
f. Others (please specify)

34. What is the main competitive advantage that your firm currently has?

a. Actual market
b. Exclusive service
c. Quality products/Services
d. Location advantage
e. Services/Client orientation
f. Others (please specify)

35. What was the main competitive advantage that your firm had three years ago?

a. Quality products/Services
b. Actual market
c. Exclusive service
d. Location
e. Others (please specify)

36. What competitive advantage do you expect the business to achieve in the next three years?

a. Quality products/Services
b. Exclusive services
c. Actual market
d. Unique products/innovativeness
e. Price
f. Others (please specify)

37. How do you sustain the competitive advantage of your business? (You may tick more than one answer)

a. Actual market
b. Competitive prices
c. Technical services
d. Exclusive service
e. Quality products/Services
f. Client orientation
g. Others (please specify)

38. What factor(s) have given your business competitive advantage?

a. Actual market
b. Unique products/Services
c. Exclusive service
d. Quality products
e. Client orientation
f. Others (please specify)

39. What factor(s) or resources have or could have made your firm successful?

a. Product mix/ Quality service
b. Capacity to innovate
c. Orientation services
d. Competition
e. Knowledge of business
f. Financial soundness
g. Knowledge of clients
h. Others (please specify)

40. How do you rate your business marketing?

a. With market niche
b. Follower
c. Copier
d. Challenger
e. Market leader

41. Which are your firm's main areas of strength?
a. Credibility
b. Quality of employees
c. Client orientation
d. Quality of product
e. Perseverance
f. Problems solving
g. Others (please specify)

42. Which are your firm's main areas of weakness?
a. Responsibility
b. Quality of employees
c. Client orientation
d. Quality of product
e. Perseverance
f. Others (please specify)

43. Is your firm threatened by foreign firms? Yes☐ No☐

44. Do you consider your business as being successful? Yes☐ No☐

45. If yes, why do you think your firm is successful?
a. Product mix
b. Size of employees
c. Sales
d. Customer service
e. Financial soundness
f. Others (please specify)

46. If no, did you carry out any analysis when sales started to slip? Yes☐ No☐

47. What are the most relevant areas in your firm that need to be developed?
a. Responsibility
b. Quality of employees
c. Client orientation
d. Quality of service/products
e. Perseverance/dedication
f. Productivity
g. Marketing
h. Others (please specify)

48. What are the least relevant areas in your firm that need to be developed?
a. Responsibility
b. Quality of employees
c. Client orientation
d. Quality of service/products
e. Perseverance/dedication

f. Productivity
g. Marketing
h. Others (please specify)

49. What does success mean to you? (You may tick more than one answer)
a. Perseverance
b. Goal orientation
c. Financial soundness
d. Quality of service
e. Quality of employees
f. Reputation
g. Others (please specify)

50. What is the average sales level your firm reached this year? (please specify)
a. Less than $100.000 [$________]
b. $100,001-250,000 [$________]
c. $250,001-500,000 [$________]
d. $500,001-750,000 [$________]
e. $750,001-1,000,000 [$________]
f. More than $1,000,000 [$________]

51. What is the average sales level your firm reached three years ago? (please specify)
a. Less than $100.000 [$________]
b. $100,001-250,000 [$________]
c. $250,001-500,000 [$________]
d. $500,001-750,000 [$________]
e. $750,001-1,000,000 [$________]
f. More than $1,000,000 [$________]

52. What is the average sales level you expect your firm to reach in the next three years? (please specify)
a. Less than $100.000 [$________]
b. $100,001-250,000 [$________]
c. $250,001-500,000 [$________]
d. $500,001-750,000 [$________]
e. $750,001-1,000,000 [$________]
f. More than $1,000,000 [$________]

53. How would you evaluate your business today compared to when your business was founded?
a. Better
b. As planned
c. Worse
d. Do not know

54. How would you evaluate your business financially today compared to last year's performance?
a. Better
b. As planned
c. Worse
d. Do not know

55. How would you evaluate your business performance regarding any of the following?

	Better	As planned	Worse	Do not know
a. Last year overall profit	☐	☐	☐	☐
b. Performance in sales	☐	☐	☐	☐
c. Marketing share	☐	☐	☐	☐
d. Cash flow	☐	☐	☐	☐
e. Return on investment	☐	☐	☐	☐
f. Net profit	☐	☐	☐	☐
g. Employees	☐	☐	☐	☐
h. Technical assistance	☐	☐	☐	☐
i. Planning	☐	☐	☐	☐

56. What factor(s) affect your business entry into the market?

a. Economics of scale
b. Financing
c. Government policies
d. Location
e. Large firms
f. Others (please specify)

57. What factor(s) does any firm entering the market need to control to succeed?

a. Quality of product/service
b. Capital requirement
c. Prices
d. General and administrative capacity
e. Education
f. Economies of scale
g. Product performance
h. Reputation
i. Research capability

58. From your view, why does business fail?

a. Lack of administrative capacity
b. Competition
c. Economic problems
d. Lack of capital start
e. Lack of market analysis
f. Lack of cost control
g. Lack of creativity
h. Others (please specify)

59. Is the smallness of the local market affecting your business? Yes☐ No☐

60. Do you think failure is related to the smallness of the local market? Yes☐ No☐

61. How do you compare your firm to others that have been founded?

a. Better
b. As planned
c. Worse
d. Do not know

62. Have you reached planned sales level?

a. Expected
b. Did not reach
c. Surpassed goals

63. How would you compare your firm to competitors?

a. Better
b. Same
c. Worse
d. Do not know

64. How do you expect your firm to be in five years?

a. Better
b. Same
c. Worse
d. Do not know

65. In which of the two regions do you believe more barriers exist?

a. The West Bank
b. Gaza Strip

66. How relevant are the following factors in the success and CA of your to business?

	Very relevant	A bit relevant	Not too relevant	Not relevant
a. Physical resources	☐	☐	☐	☐
b. Financial resources	☐	☐	☐	☐
c. Technological resources	☐	☐	☐	☐
d. Marketing resources	☐	☐	☐	☐
e. Community relations	☐	☐	☐	☐
f. Reputation	☐	☐	☐	☐

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