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Critical success factors of small and medium-sized enterprises in Palestine

Small and medium-sized enterprises

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Abstract

Purpose – The purpose of this paper is to investigate the success of small and medium enterprises (SMEs) in Palestine, and thus to contribute to the existing knowledge on the critical success factors (CSFs) of SMEs in the Palestinian context, especially in the West Bank.

Design/methodology/approach – The study is comprised a survey of a convenience sample of 370 SMEs operating in the West Bank, Palestine. It uses a multiple regression analysis to examine the effect of a set of CSFs, namely, reputation of the brand, excellence of customer services, reliable delivery and product innovation on the success of SMEs.

Findings – The results show that brand reputation, excellence of customer of services and reliable delivery strongly influence SME success, while innovation is weakly associated with SME success. These results imply that success is tied to customers and competition more than to production, structures or finance. That is, reputable brands, excellent customer service and reliable delivery are means to success according to the results of this research.

Practical implications – The study emphasizes the need for Palestinian SMEs to maintain and develop their brand reputation, institutionalize customer service and develop its logistical systems and practices. Generally, the study suggests that there are specific investment areas for SMEs that can contribute to achieving success. Specifically, excellence in customer service was found to be the factor most linked to the success of SMEs, followed by reliable delivery and then by brand reputation and innovation.

Originality/value – While plenty of research has been done on what contributes to the failure or success of SMEs, research on CSFs for SMEs is limited. The study combines four CSFs not previously used in combination to model the successful performance of SMEs in general and in the Palestinian context in particular. Only some specific factors are critical to the success of SMEs and should be the focal point of SMEs' efforts as long as they are consistent with their nature as small economic entities competing with big companies in small markets. Thus, instead of using general factors of SME success, the study explains how success becomes more possible through specifying areas for decision-making or activities for the entrepreneurs to undertake, keeping in mind that there is a mechanism by which these factors work together toward the success of the SME.

Keywords Product innovation, Critical success factors, Brand reputation, Reliable delivery, Success of SMEs

Paper type Research paper

Introduction

It is generally accepted that small and medium enterprises (SMEs) play a significant role in economies around the world (Naser, 1999). Small companies are competing with big businesses in whole new ways (Mele, 2015). They are thinking and acting globally, competing with rivals of all sizes and investing aggressively in technology to improve operations and make themselves more nimble (Oxford Economics, 2013).



Furthermore, SMEs are being considered as engines of economic growth worldwide (Ardic *et al.*, 2011; Caner, 2010). One of the most important roles of SMEs in this context includes poverty alleviation through job creation (Jasra *et al.*, 2011). In developing countries, SMEs are a major source of income, a breeding ground for entrepreneurs and a provider of employment (UNIDO, 2000).

In Palestine in particular, SMEs are considered to be among the most important pillars of socio-economic development as these businesses serve as a basis for improving production capacity as well as contributing to the decrease of poverty and unemployment problems (MAS, 2014). According to the results of the general census conducted by the Palestinian Central Bureau of Statistics (PCBS) (2012), the total number of private business entities was 131,618 entities out of 135,401 (91,203 in the West Bank and 44,198 in the Gaza Strip using 262,825 and 121,953 workers, respectively), which represents around 95 per cent of working organizations in Palestine. These SMEs are working in various business fields including manufacturing, trading, services, small women-headed projects, agriculture and some industries which produce highly developed products in the fields of engineering, commerce and information technology. However, in spite of the fact that SMEs are an essential element of the Palestinian economy, there is no clear-cut classification for small and medium-sized enterprises and neither are there accurate or reliable statistics about the number of small and medium-sized enterprises existing in Palestine. Besides, a great portion of small firms are operating within the informal sector (not registered officially) and not included in any statistical survey.

Considering their contribution to economic growth and overall development of a country, research on critical factors for building and maintaining a successful SME is increasingly pertinent and necessary. However, most of the previous work and research on SMEs has focused on failure factors, that if avoided will become success factors. However, whether they are failure or success factors, they are not specific, holistic and coherent enough to constitute critical success factors (CSFs) of SMEs (Laguna *et al.*, 2012; Jasra *et al.*, 2011; Ihua, 2009; Mbonyane, 2006; Bradley and Cowdery, 2004; Everett and Watson, 1998). Thus, the knowledge base on CSFs for SMEs is lacking. In addition, most prior research, especially in Palestinian context, has narratively investigated SMEs without modeling successful performances of such businesses.

Key success factors can be understood as an activity, skill or resource that a business can invest in, in the market that business is operating in, that can explain a major part of the observable differences in perceived value and/or relative costs. Key or CSFs imply a causal relationship between a skill or resource and perceived value and/or relative costs. They are small in number but can explain a major part of the variance in perceived value and/or relative costs (Grunert and Ellegaard, 1992). This research aims at contributing to knowledge on the CSFs of SMEs in the Palestinian context, specifically in the West Bank.

The next part of the study presents the research theoretical framework.

The third part presents the research methodology, and the fourth part presents the research findings, discussion and conclusion.

Literature review

In a general sense, almost all scientific research in business administration is concerned with understanding what makes some businesses more successful than others (Grunert and Ellegaard, 1992). It is true that for all businesses to be successful, they require ever-demanding efforts in all areas that affect the business' success (Jasra *et al.*, 2011). However, problems arise when SMEs try to concentrate on everything at the same time, in an effort to either achieve success or avoid failure which results in a lack of focus. The researcher argues

that only some specific factors are critical to the success of SMEs and should be the focal point of SMEs' efforts as long as they are consistent with their nature as small economic entities competing with big companies in small markets.

To date, much research has been done on what contributes to the failure or success of SMEs, while research on specific CSFs for SMEs is limited and the findings are still inconclusive. Previous research efforts, on what contributes to failure of SMEs, were attempting to discover factors which contribute to the failure of SMEs, and discussed how avoidance of these factors will decrease the risk of SMEs failure, which can be segmented as the individual characteristics of the entrepreneur or non-individual characteristics, such as organizational and environmental forces of the SMEs (CF. [Mihajlović et al., 2015](#); [Arasti et al., 2012](#)). It can be concluded that factors such as lack of entrepreneurial skills or financial resources are general factors, and working at the threshold level of success as their absence may lead to success, but their presence will not guarantee success of SMEs. The same logic applies to research efforts that were focusing on factors contributing to success of SMEs.

Thus, research is needed on how certain critical factors affect the success of SMEs. Additionally, SME successes have been assessed using different approaches; prior studies have mainly used surveys and case studies ([Forsman, 2008](#); [Naser, 1999](#)). Previous studies on SME success attempted to capture a large number of broad factors explaining SME success. For instance, [Jasra et al. \(2011\)](#) investigated the effect of financial resources, marketing strategy, technological resources, government support, information access, business plan and entrepreneur skill on business success. [Chow and Cao \(2008\)](#) considered organizational, people, process and technical factors as success factors.

[Chittithaworn et al. \(2011\)](#) considered the effect of a broad set of factors on the success of SMEs, including: SMEs characteristics, management of know-how, products and services, customers and markets, the way of doing business and cooperation, resources strategy and the external environment. It must be noted here that there is an overlap between what contributes to the success of SMEs and the success itself.

Success of small and medium enterprises

Success is defined with both traditional criteria such as profit and growth; and also with intrinsic factors such as personal satisfaction and the sense of achievement ([Chong, 2012](#)). More specifically, success is defined as the growth and financial performance of a firm measured in volume growth, relative change in net turnover, value growth and relative change in equity ([Lingegård and Sandström, 2008](#)).

There is a considerable variation in criteria used to assess success of SMEs in previous studies ([Chittithaworn et al., 2011](#)). That is, determining the success of firms can be a problematic and complex issue ([Jennings and Beaver, 1997](#)), and many researchers are in agreement that there is no single agreed-upon definition of business success ([Stefanovic et al., 2010](#)). However, because of the nature and content of the concept itself, which reflects the different evaluation criteria and perceptions, business type and environmental contexts, there is no common dominator for success ([Hussain and Yaqub, 2010](#); [Pasanen, 2003](#)). However, success is one intended aspect of enterprise performance. Thus, performance measurement is essential in ensuring enterprise success and its benefits to the sponsoring organization ([Forsman, 2008](#)). Success criteria consist of the measures by which the success or failure of the enterprise will be judged ([Cooke-Davies, 2002](#)).

The simplest way of defining success would be to measure whether the goals set for the enterprise are met, but it does not take into account the possibility of ill-defined goals ([Forsman, 2008](#)).

It can be concluded that success is a multidimensional construct covering different concepts including survival (Ganyaupfu, 2013), technical efficiency, impact on customer, business success and future potentiality (Forsman, 2008).

Hypotheses development

Numerous empirical studies on factors influencing the success of SMEs can generally be grouped into two approaches/categories either by focusing on a quite limited set of variables at the firm level or by incorporating a broader framework that covers the external environment (Ganyaupfu, 2013). Previous research has used different combinations of factors, such as good management skills and other environmental and sample demographic variables (Chong, 2012); good customer service and product quality (Coy *et al.*, 2007); location, employees, management quality and customer care (Melia, 2010); and entrepreneur and firm characteristics (Ganyaupfu, 2013).

Mwangi *et al.* (2013) identified eight leadership construct characteristics of successful SME leaders in Kenya and Uganda. Lingegård and Sandström (2008) found that vision and strategy, core competences and customer interaction were identified as the factors that have the greatest impact on success.

Islam and Siengthai (2010) indicated that most of the core human resource management practice has significant impact on the success of SMEs. Cacciolatti and Fearné (2011) indicate that SMEs that make good use of structural marketing information in conjunction with good marketing strategies present a higher chance for growth. McLaren (2011) explored and identified several factors critical for the successful marketing of rural tourism routes, including the establishment of a strong identity and brand, providing a unique experience, balancing the route production mix, promotion of the route by all stakeholders and effective use of electronic media. However, few of these studies have investigated CSFs. This discussion shows that many of the factors used in explaining SMEs success were standard organizational internal and or external factors. However, the literature gap was not a result of the factors themselves, it resulted from the inexact consistency between such factors and success as the latter depends on activities, not on static factors or resource availability and that's what makes the current research unique and significantly contributes to the existing literature in that CSFs are representing few areas of activity in which favorable results are absolutely necessary to achieve for a particular business to reach its goals (Bullen and Rockhart, 1981).

CSFs are defined as a group of indispensable activities or elements that enable an organization to achieve its stated objectives (Rothberg and Morrison, 2012), and they are factors or activities required for ensuring the success of business (Raynus, 2016). They are few and are necessary conditions for superior performance (Grunert and Ellegaard, 1992). Such factors are not judged in their magnitude, they are about activities and should be evaluated against their uniqueness to the competitors and their contribution to SMEs success. Thus, they are those factors capable of providing the greatest competitive level range upon which resources should be focused (Brotherton, 2004a; Brotherton, 2004b). Therefore, it is essential to identify these factors at the organizational level to compete effectively and ensure that they are incorporated into one's strategies and planning (Baker and Cameron, 2008).

This discussion shows that there is no consensus among researchers on one set of factors that contribute to the success of SMEs (Chong, 2012). And it is evident that there is an overlap between CSFs and factors that may contribute to success.

This research focuses on a specific set of CSFs of SMEs instead of using either a broad or overly narrow mix set of factors that can influence the success of SMEs. Moreover, it focuses

on selected CSFs consistent with the Palestinian SME context as perceived and expected to be strong contributors to the success of SMEs. Using large sets of factors does not, as previous research shows, facilitate the exploration and understanding of the effect of CSFs and does not significantly contribute to the explanation of SME success because CSFs are and should be rare, few and unique to the success. This research explores the effects of a specific set of CSFs by which satisfactory results will ensure successful competitive performance for the individual department or organization (Bullen and Rockhart, 1981).

Olszak and Ziemia (2012) for example, have identified, based on an extensive literature review, four primary sources of CSFs, which are industry factors, competitive strategy, environmental factors and temporal factors. Whereas, the current research takes a more consistent and theoretically established view of CSFs in that they are “those product features that are particularly valued by a group of customers and, therefore, where the organization must excel to outperform competition” (Johnson and Scholes, 2002, p. 151). CSFs should account for the properties, terms or variables that can, in an important way, influence the success of an enterprise in establishing its position in a particular industry (Leidecker and Bruno, 1987). That is, “customers will use a smaller ‘list’ of features to distinguish amongst producer organizations that all meet the threshold requirements” (Johnson and Scholes, 2002, p. 151). Since different customer groups value different product features, organizations will need to compete on different bases and through different resources (e.g. location, the market knowledge of the owner, product range and innovation) and competences (e.g. the personal style and customer relationships sustained by the owner).

CSFs can be different aspects of service (e.g. personal services, extended opening hours, informal credit and home deliveries).

This makes it clear that CSFs are specific areas of activities reflected in different aspects of the product and or overall enterprise’s performance as they are built on organizations’ resources and core competences which are difficult for competitors to imitate.

Johnson and Scholes (2002) summarize that the CSFs with main customers are reputation of the brand, excellence of customer service, reliable delivery and product innovation. They argue that success can be understood better by being more specific as to what these CSFs actually mean.

The framework and hypotheses for this study have been developed based on the literature discussed above, and although CSFs as independent variables in this research are adopted from the work of Johnson and Scholes (2002), the measurement and relationship of these variables with SMEs success have been theoretically supported based on the literature review and will be discussed further in the following pages. From a practical perspective, these factors are thought to be relevant CSFs to Palestinian SMEs in particular as they are consistent with the composition and nature of Palestinian SMEs in that most are working in the fields of trading and services, which are marketing and market dominated activities. From a theoretical perspective, these factors are uniquely combined as CSFs relative to previous research efforts while maintaining their consistency with existing literature on the topic. Overall, CSFs should not be large as they are eventually representing an area(s) of business investment. The research framework is presented in Figure 1.

Reputation of the brand and small and medium enterprises success

Brand reputation is a favorable and public estimation of a product or service (Ngwese and Zhang, 2007). It corresponds to the customers’ posterior beliefs regarding firm quality (Cabral, 2000). Brand reputation serves as a source of demand and lasting attractiveness; the

image of superior quality and added value justifies a premium price (Ngwese and Zhang, 2007).

To have become successful and hence profitable, brands must have developed appositve reputation as buyers tend to use brand names as signals of quality and value and often gravitate to products with brand names they have come to associate with quality and value (Herbig and Milewicz, 1997). That is, the competitive brand with reputation is a crucial factor for market share growth (Ngwese and Zhang, 2007). And they are concepts that better explain specific immutable factors that should be part of SMEs cannons in their quest for market success (Abimbola and Kocak, 2007). Thus, the first hypothesis can be formulated as follows:

H1. Reputation of the brand will have a positive effect on the success of SMEs.

Excellence of customer service and small and medium enterprises success

Much research has been done on customer service excellence with various approaches reflecting the context and business type.

Doane and Sloat (2003) have identified 50 activities for achieving excellent customer services through the resources manual they have developed. The basis for a strong customer service foundation can be formed by combining a favorable first impression, courteous treatment, a positive attitude and ethical behaviors (doing the right thing) (Evenson, 2011). Excellence of customer service is a critical factor to business success now more than ever (Bettencourt, 2012). Improved service drives customer loyalty and willingness to pay, which, in turn, drive improved sales and profit stability (Homburg *et al.*, 2009). Thus, achieving business success and excelling in the market place on a sustained basis is impossible without excelling in service delivery (Parasuraman, 2000).

That is, to remain and prosper over the long-term will require a genuine commitment to serve customers well (Parasuraman, 2000). Customer service interactions are increasingly seen as opportunities for engaging more intensely with customers, gaining better customer insights and leveraging service propositions for revenue growth (Hölbling *et al.*, 2009). The second hypothesis is formulated as:

H2. Excellence of customer service will have a positive effect on the success of SMEs.

Reliable delivery and small and medium enterprises success

Procurement, manufacturing, distribution, warehousing, inventory and information systems are important logistic functions among which distribution is a key function in the

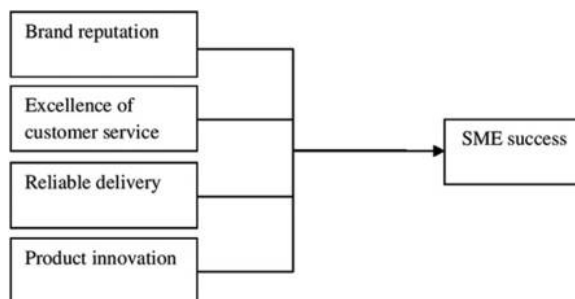


Figure 1.
Research model and hypotheses

entire logistics system and the key link between manufactures and customers in a supply chain (Yang, 2013). Weiss and Gershon (1989) noted that distribution describes all the logistics involved in delivering a company's products or services to the right place, at the right time, for the lowest cost.

Logistics and supply chain performance is key to a company's success (Robinson *et al.*, 1993). That is, logistics satisfy market needs through distribution processes (Blaik, 2010). The subject of distribution has been receiving a wider conceptual treatment under the phrase "marketing logistics" than had been afforded to it earlier by operational researchers searching for optimum, rather than acceptable solutions (Cunningham and Hardy, 1974).

Decisions made in the distribution area are about the form of distribution channels, which involve not only a way for products' delivery to stores but also a choice of stores' type, their location and forms of sales, which influences the way a product is delivered to consumers (Barcik and Jakubiec, 2013).

Numerous definitions of distribution can be found in pertinent literature reflecting the complexities and multi-tasking included in this function. Yang (2013) defines distribution as a sequence of activities involving the transfer of products directly from supply points to demand points or via transshipment points and warehouses. Bowersox (1969) defines it as business activities pertaining to the transportation of finished inventory and/or raw materials in a way that they arrive at the designated places when needed and in usable condition.

The business-oriented approach determines the correct performance of logistic systems in terms of a 7R formula implementation, which is: the right product, right quantity, right quality, right place, right time, right customer and right price (Ballou, 2004). In this context, reliability of the delivery process is regarded as the most important of the logistics processes considering the potential losses associated with it (Nowakowski, 2006).

Managers have come to realize that not only can substantial cost savings be achieved in the physical distribution area but also that the distribution function complements the selling activity at the interface between the company and its customers (Cunningham and Hardy, 1974). Distribution plays a key role within the marketing mix, and the key to success is its successful integration within the mix, ensuring that the customers get their products at the right place and at the right time. For any organization to be effective, there should be an effective distribution management process to convey finished products from the manufacturer to the final consumer (Yeboah *et al.*, 2013). In this way, distribution is seen as a major driver of profitability in a company, because it has a direct impact on both the logistics costs and the customer experiences (Chopra, 2003). However, in this competitive world, the dimensions of costs, quality, efficiency and customer service are not trade-offs for a company anymore. They have to be considered simultaneously (Yang, 2013). Companies, in looking to obtain another competitive advantage in the marketplace, turned to speed and reliability of delivery as a means of differentiating themselves from the rest of the pack (Davis *et al.*, 2005).

The firm's ability to provide consistent and fast delivery allows it to charge a premium price for its products (Davis *et al.*, 2005). A similar association has been suggested by Stalk (1993), in that both profits and market share are directly linked to the speed with which a company can deliver its products relative to its competition. In addition to fast delivery, the reliability of the delivery is also important. In other words, products should be delivered to customers with minimum variance in delivery times (Davis *et al.*, 2005). The third hypothesis is formulated as:

H3. Reliable delivery will have a positive effect on the success of SMEs.

Innovation and small and medium enterprises success

Innovation can be defined as the application of new ideas to the products, process or any other aspect of a firm's activities (Rogers, 1998).

Product innovation refers to the whole process of bringing a new product or service to the market and includes product commercialization, design and development, production or operationalization, marketing, distribution and selling, and it also ranges from incremental to radical development (Dougherty, 1992). A literature review conducted by Warren *et al.* (2004) defined innovation as the use of new technological knowledge, market knowledge and business models that can deliver a new product or service or product/service combinations to customers who will purchase at prices that will provide profits. The key output measure of innovative activity is the success of the firm's success, which can be proxied by profits, revenue growth, share performance, market capitalization or productivity, among other indicators (Rogers, 1998).

However, Rogers (1998) summarizes approaches to measuring the innovation output and input approach, including introductions of new or improved product (s) or process (es), percentage of sales from those products, intellectual property statistics and firm performance. The second approach of 'input' includes R&D, intellectual property, acquisition of new technology and marketing expenditure for new products.

The measurement of innovation activities is also problematic; input measures are suffering from draw backs that make their application questionable (Kleinknecht and Donald, 1993), while innovative output measures have become a valuable alternative for coping with such drawbacks (Corsino and Gabriele, 2011). Small and medium-sized firms have gained increasing attention in the innovation literature; exactly how innovation occurs in the firms is still rather unknown (Chittithaworn *et al.*, 2011). Innovation activities, especially product-related innovations, can be then related to the success of an enterprise in that innovative product, quality, cost, reliability and services are the key strategic dimensions in business success (Philip, 2011).

Although the research on innovation tends to focus primarily on large firms, innovation is at least as important for small firms and firms need to innovate, at least on occasion, to gain competitive advantage (Vermeulen *et al.*, 2003). The final hypothesis is formulated as:

H4. Innovation will have a positive effect on the success of SMEs.

Method

This study included a survey of 370 SMEs operating in Palestine (West Bank only). A convenience sample was chosen for the survey purposes as a probability sample was impossible because of the huge number of SMEs in Palestine, as well as the lack of accurate or reliable statistics about the number of small and medium-sized enterprises with no clear-cut classification for these enterprises. However, for statistical purposes, PCBS uses the following classifications of enterprises, according to number of employees, including the owner (Ministry of National Economy, 2005) (Table I):

Of the 370 questionnaires distributed, 342 questionnaires were returned to the researcher. Questionnaires were administered to the managers or owners or legal representatives of

Table I.

Classification criteria of enterprises in Palestine by number of employees

	Micro	Small	Medium	Large
	1-4	5-19	20-49	50-over

SMEs in the West Bank using two types of interviewing methods consisting of a face-to-face approach and where possible, online questionnaires.

The questionnaire was translated into Arabic to fit with the respondents' native language and then translated back into English. The survey instrument contained a short introduction which briefed respondents on the overall purpose of the study and some guiding instructions to enhance valid responses.

Upon the completion of the questionnaire collection process, data analysis was conducted using different statistical techniques including multiple regression to test the effect of IV's on the DV by regression equations. Also, other descriptive statistics have been used to describe the demographics of the research sample.

Measures

All of the research independent and dependent variables were measured by a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree) with 3 (neutral point), while demographic variables were measured using dichotomous scales to describe the sample elements. Independent and dependent variables were measured through sets of items as presented in [Appendix 1](#), which have been identified from the pertinent literature. The scale response items for the dependent variable, success of SMEs, was adapted from [Chowdhury et al. \(2013\)](#); [Laguna et al. \(2012\)](#); and [Wiklund and Shepherd \(2005\)](#). It comprised five items. It was measured through subjective perception of the entrepreneurs. This is consistent with previous research (C.f. [Perez and Canino, 2009](#); [Chowdhury et al., 2013](#); [Laguna et al., 2012](#)). Subjective measures may reliably assess the success of business and may become the best way to obtain information that would otherwise be very difficult to gather ([Perez and Canino, 2009](#)).

Independent variables

A brand reputation scale of measurement was first initiated by [Lau and Lee \(1999\)](#) and modified later by [Afzal et al. \(2010\)](#). It was used as a basis for measuring this variable. It consists of five items that measure the brand goodness, reliability and what people have said about the brand goodness and reliability from the entrepreneurs' perspectives.

The scale for excellence in customer service was operationalized from [Evenson \(2011\)](#) and [Ford \(1997\)](#), and it included six items covering courteous treatment, positive attitudes and ethical behaviors (doing right thing).

The scale response items for the distribution variable comprised four items; the first three items were adapted from the work of [Li et al. \(2006\)](#), while the fourth item was adapted from the work of [Wiess and Gershon \(1989\)](#).

Finally, measurement of the innovation variable was adapted and extended based on the work of [Dougherty \(1992\)](#); [Rogers \(1998\)](#); [Warren et al. \(2004\)](#); and [Li et al. \(2006\)](#) and comprised four items.

Results

Respondents and small and medium enterprises demographic profile

A total of 342 out of 370 usable questionnaires were collected and subjected to statistical analysis using SPSS. The results of the survey indicate that a vast majority (93.6 per cent) of respondents were males (320 out of 342), while only 6.4 per cent were females, reflecting the tradition in Palestinian society as well as the low proportion of women participation in overall work in Palestine.

In regard to the respondent's job status, most of them were found to be "owners" (88 per cent) versus only 12 per cent that were CEOs, reflecting the traditional family-based

characteristic of SMEs in Palestine. In terms of respondent entrepreneurs' age, almost half of them (45.9 per cent) were between 45 and 55, followed by respondents over 55 (26.9 per cent). This is consistent with the family-based nature of SMEs, too. On the hand, SME size was measured by the size of the workforce, which indicated that most of the surveyed businesses (60.5 per cent) are employing 1-4 employees, 29.5 per cent are employing 5-19, and the least were businesses employing 20-49 employees, which is consistent with the categorization adopted by the PCBS. Business with more than 49 employees have been either avoided or the questionnaire was removed for the analysis, as they are considered large businesses, which are out of the scope of this study.

In terms of SME type of business or sector, results were relatively consistent with the sectoral composition of Palestinian SMEs in that 42.1 per cent of the surveyed businesses are working in trading, such as retailing and wholesaling, services (33.9 per cent), manufacturing (52 per cent), and the least were agriculture and women-based businesses.

In terms of SME experience, which was measured by years of work for this study, the survey showed that most business (67 per cent) have been working for less than 15 years, reflecting how investment is linked with the stability of the political situation in Palestine.

Reliability test

To test the reliability of the measures, Cranach's Alpha test was conducted. All of the research constructs have been subjected to this consistency reliability test individually for each construct item and totally for all of the constructs items. Results are shown in [Appendix 1](#). Alpha coefficients were above the acceptable level (60 per cent). These results indicate that the measurement scale used in this study is internally consistent.

Validity test

A factors analysis was conducted to test the study construct validity. All of the study construct items were subjected to principal component analysis to come up with the research factors, testing the unidimensionality of the constructs and eliminating poorly loaded items subsequently. Two items were excluded from the scale as they were loaded on more than one dimension at once. [Table II](#) shows results of descriptive statistics and factors identified by the principle component factor analysis and eigenvalues for scale items. The rotated component matrix showed that construct items loaded smoothly on factors, as multidimensionality had been eliminated by excluding some items from the analysis.

Convergent validity was noticed as construct items were loaded on factors; percentages of factor loadings were above 50 per cent.

Discriminant validity was assessed through a factor transformation matrix, which showed that collation coefficient for any pair of factors was less than 80 per cent.

Regression analysis results

Regression analysis was conducted with SME success as the dependent variable and CSFs (reputation of the brand, excellence of customer service, reliable delivery and product innovation) as independent variables.

Multiple regression analysis, as appears in [Table III](#), shows that the research model is significant at $p < 0.05$ level, and the adjusted coefficient of determination $R^2 = 0.795$. Beta values are also included in the table, indicating the explanatory power variables. The variance inflation factors (VIFs) were computed to assess whether multicollinearity exists in the study sample. Collinearly testing indicated that VIF statistics were below the cutoff value of 10, and the tolerance statistics were all well above 0.2; therefore, the data were free from multicollinearity, as they were within the normal level.

Small and medium-sized enterprises

Variables	No. of items	Mean	SD	Factor loadings	Eigen-value	(%) of variance explained
SME success	5	4.3140	0.75782	0.949 0.949 0.816 0.739 0.739	2.128	24.182
Reputation of the brand	5	4.1351	0.40014	0.755 0.760 0.764 0.737 0.604	2.782	14.323
Excellence of customer service	6	4.3509	0.57027	0.777 0.717 0.690 0.632 0.778 0.764	2.160	10.008
Reliable delivery	4	4.3341	0.65550	0.778 0.764 0.707 0.863	1.885	8.512
Product innovation	5	3.2351	0.63370	0.690 0.632 0.616 0.540 0.584	1.33	8.512

Note: Cumulative percentage rotation sums of squared loadings = 65.537

Table II.
Descriptive statistics and results of FA

Independent variables	Beta	<i>t</i>	Significance	VIF	Pearson correlation
Reputation of the brand	0.175	3.510	0.001	1.151	0.366**
Excellence of customer service	0.674	15.853	0.000	1.702	0.811**
Reliable delivery	0.510	13.165	0.000	1.862	0.798**
Product innovation	0.031	1.047	0.296	1.007	0.008

$F = 331.219$; $p = 0.000$ ($p < 0.05$)
 $R = 0.893$
 $R^2 = 0.797$
Adjusted $R^2 = 0.795$

Notes: Dependent variable: SME success; **correlation is significant at the 0.01 level (two-tailed)

Table III.
Results of multiple linear regression analysis for linking CSFs to the success of SMEs, VIF values and coefficients of Pearson correlation

Results of regression for the research hypotheses show the results of the hypotheses tested, as summarized in [Appendix 2](#), that three out of four constructs were significant at P -value ≤ 0.05 in explaining success of SMEs.

That is, p -value of the brand reputation ($p = 0.001$) is less than $\alpha = 0.05$. Therefore, the first hypothesis is supported in that brand reputation is positively influencing success of SMEs. Excellence in customer service is positively influencing success of SMEs as well ($p = 0.001, \leq 0.05$). Thus, the second hypothesis is supported. Reliable delivery is also positively

influencing success of SMEs ($p = 0.001, \leq 0.05$). Thus, the third hypothesis is supported. On the other hand, analysis results show that product innovation was not significantly associated with success of SMEs as $P = 0.296 > \alpha = 0.05$, even though the multiple regression equation of the research model is significant with the four variables together.

Discussion

The results of this research support the conception that success of SMEs is contingent on some few unique factors, identified as CSFs, which are brand reputation, excellence in customer service and reliable delivery, while innovation solely was not found to contribute to the success of SMEs. Beyond such empirical support for the CSFs, this research confirms that there are specific investment areas for SMEs to focus on to achieve success by considering the entire research model.

Taking a closer look at the research model, an interesting result can be noticed, which is that excellence in customer service is the highest contributor to the success of SMEs, followed by reliable delivery and then by brand reputation and innovation.

Excellence in customer service as the highest contributor to the success of SMEs in Palestine goes beyond merely designing and implementing activities of customer service, it refers to way these activities are performed. Such excellence stems from SMEs ability to localize the way they serve their customers with “personal care” taking a priority in servicing customers which includes empathy, consideration, listening and respect given to customers. This result is theoretically consistent too, in that customer service is linked to business success through its influence on customers’ satisfaction and loyalty (CF. [Ogunnaike et al., 2014](#)).

In regard to reliable delivery, the result indicates that Palestinian SMEs reliably deliver their products to customers. Providing such convenience for customers with no excessive costs reveals that dependability and punctuality of making needed products available for customers has contributed to success of SMEs. This result is consistent with prior literature ([Davis et al., 2005](#); [Stalk, 1993](#)).

The results show that brand reputation is contributing to SMEs success in Palestine, this indicates that these enterprises are building, maintaining and promoting their brand’s reputation, and despite their limited international presence, they could locally develop brands reputation. It is worth noting that among the drivers for developing and maintaining such reputation is the overlap occurring between owners’ family name and brand name, as many SMEs are named after the owners’ family name.

Consistent with pertinent literature, the effect of brand reputation can be better understood by looking at the role brand plays in consumers’ purchase decision-making process, in that branding and reputation are significant realities that influence customer decision-making ([Abimbola and Kocak, 2007](#)). They serve as a source of product information, signaling its value and quality making purchase decisions less risky. And thus, demand on highly reputable products will increase the market share. This result is consistent with existing literature in that branding and reputation building are key resources, which allow an organization to be successful over an extended period of time ([Abimbola and Kocak, 2007](#)).

In regard to innovation, it can be concluded, based on the research results, that CSFs are more customer-focused activities than product or innovation-focused activities in their contribution to the success of SMEs in the Palestinian context. This result is relatively consistent with what [Corsino and Gabriele \(2011\)](#) concluded: that applied research on growth and innovation seems to suggest that successful innovations do not significantly enhance firm growth. However, that does not mean that innovation is not important, but it

has to be linked to the customer needs in the market, providing them with a real and cost-efficient solution to their daily life problems. Literature strongly supports the role of innovation in achieving SMEs success in that logic dictates that innovation is a powerful factor behind differences in firms' performance, with companies that innovate successfully prospering at the expense of their competitors (Corsino, 2008). While this research finding does not completely confirm the findings of these studies, this can be explained by looking at contextual variables of innovation in the Palestinian context. The Palestinian economy is deteriorated, and SMEs make up around 95 per cent of this economy. They are suffering from countless external factors such as inflation, unemployment and restrictions on the movement of people and products, which all hinder SMEs from providing customized products, altering product offerings, adding new features to existing products and relying on IT to use market knowledge, all of which makes product innovations perceived by SMEs as a cost-ineffective undertaking rather than as a source of success.

In earlier literature, whether about CSFs or general factors of SMEs success, the dominant trend was development of lists of factors contributing to success to make success become more possible. On the contrary, this research findings suggest that there is a need to think about the costs of success through specifying specific areas of decision-making or activities for the entrepreneurs. Such specific areas are critical to success, and furthermore, the content of these factors (brand reputation, excellence of customer service, reliable delivery, product innovation) come in line with this analysis in that there is a mechanism by which these factors work together toward the success of SMEs. Also, there are specific actions that need to be undertaken to achieve such success.

Although this research has determined a set of specific CSFs for the success of SMEs, these factors should not be seen as a final and fixed formula for success. They might differ in degree and substance either over time or from one enterprise to another. Thus, success and the search for success should be an ongoing process and a challenge. Unlike failure, these success factors should be difficult to achieve and difficult for competitors to imitate.

Conclusion

This study has investigated the effect of a unique set of CSFs on the success of SMEs in Palestine. The results show that brand reputation, excellence of customer service and reliable delivery are strongly influencing SMEs success, while innovation is weakly associated with SMEs success. These results imply that success is tied to the activities of customers' service, branding and competition more than to production capacity, structures or finance. That is, reputable brands, excellent customer service and reliable delivery are means to success according to the results of this research. This emulates the need for SMEs to maintain and develop their brand reputation, institutionalize customer service and develop their logistical systems and practices. That means that Palestinian SMEs should not stand still with this level of performance, rather they should continually upgrade their products, methods of marketing and keep up with the changing requirements of customer as international competition intensifies.

It is true that product innovation does not necessarily require an abundance of resources or huge investments. Innovation happens naturally to overcome scarcity of resources and to solve chronic problems. Of course this does not occur in a vacuum, it occurs in an environment which has a strong influence on innovation. Among the important forces of this environment is the government, which should work indirectly as a motivating force for innovation and development of SMEs performance through regulations that protect proprietary rights, facilitate investments and foster healthy competition. Other environmental forces are also important including the SMEs themselves and other governing bodies such as municipalities

and the Palestinian Food Industries Union. Cooperation among these bodies in terms of joint marketing programs, new product development, marketing research and information sharing are central to innovation and success.

On the other hand, there are some research limitations and future research suggestions. Research data were collected through subjective measures representing owners' or managers' points of view. Additionally, the use of a convenience sample has limited the ability to generalize the research findings. The research is based on data about SMEs located in the West Bank only. This geographic limitation affects the generalizability of the research findings as well. SMEs working in East Jerusalem and Gaza strip should be taken into account for future research.

Suggestions for future research include testing the moderating effect of SME characteristics on the relationship between CSFs and success, which would provide a deeper view of why and how some SMEs are more successful than others. Further research could also use more specific constructs to explain success such as market vs. product orientation.

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Appendix 1

Small and
medium-sized
enterprises

Scale	Statement/response item
SMEs success $\alpha = 0.883$	1. I consider my business successful 2. I consider my business growing 3. My business achieves its market targets 4. My business achieves its financial goal 5. My business outperforms competitors
Reputation of the brand $\alpha = 0.643$	6. My business brand has a reputation for being good 7. My business brand has a reputation for being reliable 8. People have told me that this brand is good 9. This brand is reputed to perform well 10. I have heard positive comments about this brand
Excellence of customer service $\alpha = 0.745$	11. My business has clear service goals, i.e. targets to reduce complaints, increase repeat business volumes, raise customer satisfaction levels and so on 12. Above the norm customer service performance is rewarded 13. Service quality is discussed at every meeting or briefing we have 14. Employees' positive customer attitude is developed, fostered and practiced with our customers 15. My employees are good in communication skills with customers 16. We do all of our best to have the right things done when dealing with our customers
Reliable delivery $\alpha = 0.684$	17. We deliver the kind of needed products 18. We deliver customer orders on time 19. We provide dependable delivery 20. We make our products available to customers without excessive costs
Product innovation $\alpha = 0.635$	21. We provide customized products 22. We alter our product offerings to meet client needs 23. We respond well to customer demand for "new features" 24. We make sure that our market knowledge is used in the production process 25. We keep updated with technology advances in our field

Note: Total scale reliability coefficient: 0.859

Table AI.
Reliability test of
measurement scale

Appendix 2

Hypothesis	Description	Outcome
$H1$ ($p < 0.05$)	Reputation of the brand positively influences success of SMEs	Supported
$H2$ ($p < 0.05$)	Excellence of customer service positively influences success of SMEs	Supported
$H3$ ($p < 0.05$)	Reliable delivery positively influences success of SMEs	Supported
$H4$ ($p > 0.05$)	Product innovation positively influences success of SMEs	Not supported

Table AII.
Results of the
hypotheses tested

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