

Factors Influencing the SME Performance in The United Arab Emirates

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Abstract

Small and Medium-Sized Enterprises (SMEs) are considered the backbone of any successful and thriving economy. Therefore, this study examines on factors influencing the SMEs performance in the UAE. In this quantitative research work, a structured questionnaire with a 5-point Likert scale was used as the instrument for data collection. The validity and reliability of the measurement and structural models were ascertained. The Partial Least Square Structural Equation Modeling (PLS-SEM) was used to test the hypotheses. Findings of this research revealed. The results revealed that technological, organizational and environmental factor affecting the SMEs performance in the UAE.

Keywords:

Technological, organizational, environmental, SMEs performance, UAE

1. Introduction

Small and Medium-Sized Enterprises (SMEs) are considered the backbone of any successful and thriving economy (Ali Qalati et al., 2021). In fact, in the words of Ali Qalati et al. (2021), SMEs have become a vibrant and dynamic sector of the world economy. Also, SMEs are instrumental in job creation and contribute enormously to the stability of a country's economy. They are hence viewed as a critical component of modern industrialized economies (Rahayu & Day, 2015). In the age of globalization where businesses strive to maximize and optimize resources to create value, they are often met with a highly volatile and competitive business environment (Moy et al., 2020; Olanrewaju et al., 2020). This business environment is often characterized by constant technological change which further exacerbates the competitiveness experienced in operating businesses (Olanrewaju et al., 2020). SMEs operate in a similar business environment characterized by rapid technological changes and competition (Effendi et al., 2020). Thus, also making the SME business environment highly competitive. Given the challenges and difficulties encountered in order to successfully operate and thrive in an SME business environment, entrepreneurs are now employing information and communication tools in improving the productivity and competitiveness of their businesses (Ali Qalati et al., 2021). Unlike large corporations which have a large range of scope in ICT investment, SMEs can only afford to invest in ICT tools that are relatively cheap and accessible for the sustainability of their businesses. SMEs rely on ICT tools such as social media to maximize value for their enterprises (Ali Qalati et al., 2021). Social media now represents a new and inexpensive way of doing business and can revolutionize the way SMEs operate their businesses. According to Almotairy et al. (2020), social media is a set of "virtual communities" that allows users to sign up for a public profile and establish a network of relationships with people of similar interest.

In today's business environment, social media has become a new marketing tool that is available to all businesses, which helps to instantly develop relationships with potential customers. Traditionally, large organizations had the power of reaching their markets through the massive advertising budget, which small companies cannot afford to compete against (Shilpa, 2014). Hence, social media, today, is among the best opportunities available to businesses for connecting with prospective consumers. Social media is beneficial to SMEs and business enterprises as it helps unlock the trust of consumers for particular brands by connecting with them on a deeper level. Social media marketing has become the new mantra for several businesses today, however, research literature (Ahmad et al., 2019; Pan & Crotts, 2012; Siamagka et al., 2015; White et al., 2016) shows that its adoption in SMEs is still slow paced despite its perceived and recognized benefits. Studies regarding the usage level, barriers and metrics of social media in SMEs

context are evident in the literature, but there are limited studies examining social media adoption and its impact on business performance. Therefore, given the recognized benefits of social media and its impact on businesses, it is important to examine and understand SMEs choose and deploy social media channels to improve their business performance.

The issue as Ahmad et al. (2019) explains it is that many UAE SMEs do not have the skills to promote their products or services efficiently or to gather enough customers to grow and be sustainable. Additionally, these SMEs also do not have adequate resources to deploy external support for marketing. Hence effective use of social media may help to improve productivity and upscale SME business performance. Today the penetration of social media network is huge in UAE. However, it is not being used for marketing purposes (The global information technology report WEF, 2016). Even though, the UAE is among the top countries in the world, with high percent smartphone penetration (78%) and more social media adoption even higher than the United States (Nielsen, 2014). The report indicates that UAE citizen do not take full advantages of the social media network especially with broad coverage more extensive penetration for the online user, persuade them to become online buyers.

Ahmad et al. (2019) notes that although social media use in the UAE has increased rapidly, there was still issues surrounding online privacy concerns which has led the government in enacting protective actions such as censorship/restriction and government regulations. These actions are reflective of a cultural antecedent/ previous that may help explain the impact of social mediation adoption on SME business performance vis-a-vis the organizational culture of SMEs in the UAE. Ali Qalati et al. (2021) notes that despite notable strides (large move) in research on social media adoption in SMEs, few studies have investigated the use of social media to advance business practices and their effect on organizational performance. Given that some of the antecedents of social media adoption are technological, organizational, environmental and cultural factors, this study aims to extend the previous work of the technological, organizational and environmental (TOE) framework of social media adoption by investigating the direct effect of the TOE characteristics on SME performance in the UAE as well as the mediating and moderating role of social media adoption and organizational culture.

Small and medium-sized enterprises play an important and vital role in the economy of the UAE, it was estimated that SMEs contributed 60% of the GDP in 2015 and the government is aiming to boost the share to 70 percent by 2021 (Ahmad et al., 2018; Ahmad et al., 2019; Ali Qalati et al., 2021). According to Digital Marketing Community (2018) there are about 9.38 million active social media users in the United Arab Emirates, representing 99.26% of the population, compared to an average of 64% of all companies that used social media (Digital Marketing Community, 2018). This reflects a huge social media market that could further contribute to more economic development for the nation and the region. Therefore, investigating factors influencing the SMEs performance in the United Arab Emirates is crucial for promoting the further development of SMEs in the UAE.

2. Technology-Organization-Environment (TOE) Characteristic

The technology-organization-environment or also known as TOE framework was created by Tornatzky and Fleisher (1990). It describes factors that influence technology adoption and its likelihood. TOE characteristic describes the process by which a company adopts and implements technological innovations is influenced by the technological context, the organizational context, and the environmental context (Tornatzky and Fleisher 1990); thus, these three dimensions influence the way a company sees the need for, searches for, and adopts new technology.

The technological context includes all of the technologies that are relevant to the company. Both technologies that are already in use in the company as well as those that are available in the marketplace but not currently in use (Erind, 2015). Hence, a company's existing technologies are important in the adoption process because they set a comprehensive perimeter on the scope and pace of technological change that a company can undertake (Hall, 2013). Innovations that exist but are not yet in use at the company also influence innovation; by defining the limits of what is possible as well as by showing companies ways in which technology can enable them to develop and adapt new tools (Sinica, 2013).

The organizational context on the other hand refers to the characteristics and resources of the company, including the company's size, degree of centralization, degree of formalization, managerial structure, human resources, number of slack resources, and connections among employees also culture (Angeles, 2013). Frequent lateral communication,

decentralization of leadership and control, and active networking both within and outside the firm are hallmarks of the organic system of the organization (Stalker, 1994). Next, The last dimension of the TOE framework is the environmental context, it includes the size and structure of the business, the company’s competitors, the macroeconomic context, and the regulatory environment (Jung & Shim, 2013). Hence, the environmental factor is the field surrounding a company, consisting of multiple stakeholders such as organizational members, competitors, suppliers, customers, the government, the community, and so on (Angeles, 2013). Thus, these factors highly influence how an enterprise interprets the needs for innovation, its ability to acquire the resources for pursuing innovation, and its capability for actually deploying it. These stakeholders could either support or block technological innovation (Chatterjee & Kumar Kar, 2020). Furthermore, changing market and competitive conditions prod companies to use various forms of innovation.

3. Methodology

This research used a quantitative approach was used; with a survey questionnaire comprises of five sections: section A the demographic background information of the participants. While section B consist of the independent variables technological, organizational and environmental factor as adopted from Ahmad et al (2019) and Qalati et al. (2021) which incorporate 23 items. C comprises of the dependent variable (SMEs performance) as adopted from Ahmad et al (2019) and Qalati et al. (2021). Therefore, all of the related items were examined with the aid of the 5-item scale ranging from 1= strongly disagree to 5= strongly agree as the instrument for data collection. In this study the sample used was randomly selected from the UAE directory of Small and medium-sized enterprises (SMEs). This lists all the SMEs operating in the country, across the seven main emirates. Thus, in this research, the researcher used both face-to-face questionnaire and online (www.docs.google.com/forms) survey. From total of 600 distributed questionnaire a total of 423 was returned. The validity and reliability of the measurement and structural models were established using PLS-SEM to test the hypotheses of the study.

4. Results

Constructs Reliability and Validity

Reliability is the extent to which an assessment tool produces stable and consistent results. While validity refers to the extent to which the construct measures what it is supposed to measure (Valle & Assaker, 2016). Hence, convergent validity is the extent to which the indicators of a specific construct converge or share a high proportion of the variance for that construct (Hair, Ringle, & Sarstedt, 2011). Therefore, Table 1 presents the constructs reliability and validity.

Table 1: Constructs Reliability and Validity

	Code	Factor loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Technological factor			0.949	0.956	0.505
Relative advantage	TRA1 TRA2 TRA3 TRA4 TRA5 TRA6	0.879 0.869 0.870 0.872 0.846 0.726	0.919	0.937	0.715
Complexity	TCX1 TCX2 TCX3 TCX4 TCX5	0.828 0.869 0.888 0.851 0.873	0.914	0.935	0.743
Compatibility	TC1 TC2 TC3 TC4 TC5	0.870 0.882 0.856 0.862 0.884	0.920	0.940	0.759

Trialability	TT1	0.872	0.890	0.924	0.752
	TT2	0.868			
	TT3	0.865			
	TT4	0.865			
Visibility	TV1	0.803	0.898	0.928	0.764
	TV2	0.919			
	TV3	0.898			
	TV4	0.871			
Organizational factor	OF1	0.735	0.914	0.938	0.791
	OF2	0.932			
	OF3	0.934			
	OF4	0.940			
Environmental factor			0.904	0.924	0.605
Bandwagon effect	EBE1	0.895	0.887	0.930	0.816
	EBE2	0.920			
	EBE3	0.894			
Competitive intensity	ECI1	0.787	0.865	0.918	0.789
	ECI2	0.875			
Competitive Pressure	ECP1	0.927	0.798	0.859	0.618
	ECP2	0.913			
	ECP3	0.820			
SMEs Performance			0.560	0.817	0.692
	SMEP4	0.439			
	SMEP5	0.917			
	SMEP6	0.904			
	SMEP7	0.789			

As shows from the results the composite reliability indicated values greater than 0.7, indicating that the measurement scale used in this study had high internal consistency more than 0.5. Therefore, with such results, these further illustrate that the instrument employed in this study has met the acceptable standards of validity and reliability analyses.

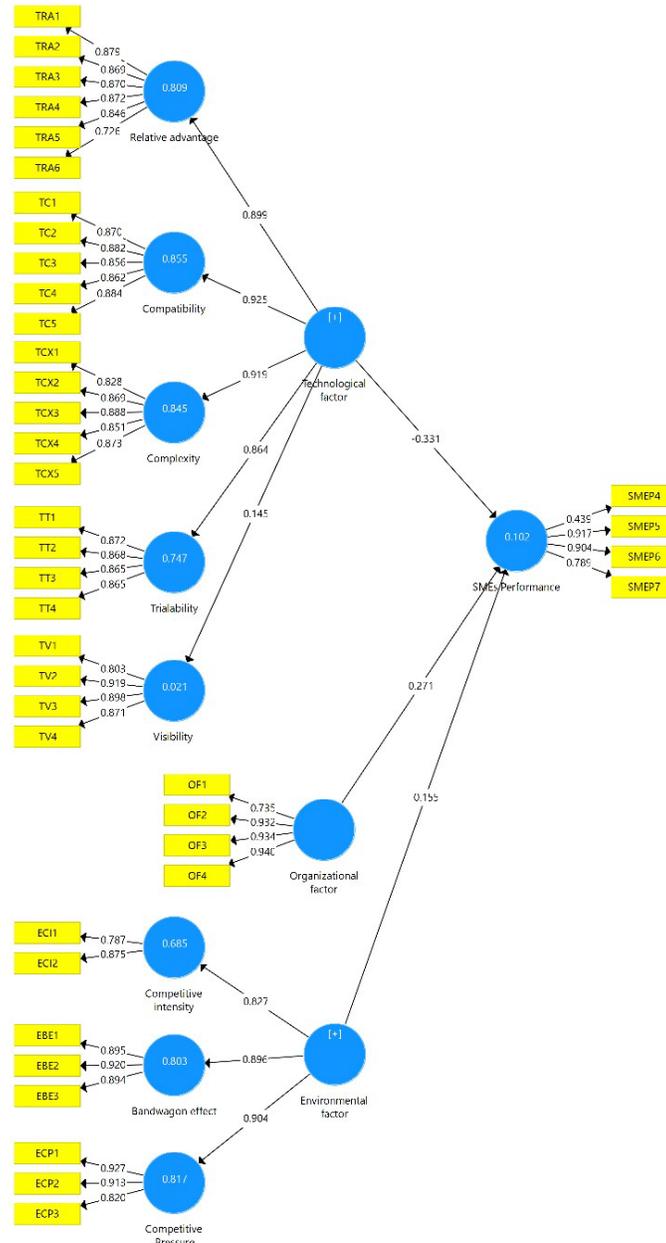


Figure 1: Measurement model of the study

The measurement and structural models of this study were assessed using the Smart-PLS3 software, which according to Hair *et al.*, (2016) is one of the recommended software tools for Partial Least Squares Structural Equation Modelling (PLS-SEM). Figure 1 illustrates the measurement model of the study.

Discriminant Validity

Discriminant validity is one of the key building blocks of model evaluation (Henseler et al., 2015). Henseler et al (2015) stated that discriminant validity analysis ensures that a construct measure is empirically unique and represents phenomena of interest that other measures in a structural equation model do not capture (Hair et al., 2010).

Table 2: Discriminant Validity based on Fornell-Lacker criterion

	EBE	TCI	ECP	ECI	TCX	TRA	SMEP	TT	TV
Bandwagon effect	0.903								
Compatibility	0.701	0.871							
Competitive Pressure	0.670	0.709	0.888						
Competitive intensity	0.635	0.757	0.678	0.832					
Complexity	0.537	0.827	0.698	0.742	0.862				
Relative advantage	0.456	0.773	0.596	0.763	0.736	0.845			
SMEs Performance	0.166	-0.023	0.008	-0.007	-0.056	-0.130	0.786		
Trialability	0.421	0.717	0.568	0.611	0.771	0.702	-0.097	0.867	
Visibility	0.036	0.156	-0.017	0.037	0.035	0.112	-0.154	0.079	0.874

Therefore, discriminant validity was established from the Fornell and Lacker criterion since the square root of the AVEs for the constructs Bandwagon effect, compatibility, competitive pressure competitive intensity, complexity, relative advantage, SMES performance, trialability and visibility were higher than their respective highest correlation as shown in each column in Table 2.

Structural model analysis

The structural model is an essential instrument for evaluating the significance level of the path coefficients since the measurement of structural using PLS-SEM requires the application of bootstrapping analysis. According to Hair et al., (2014), the level of strength of a relationship is measured by the magnitude and significance of the estimates. Therefore, Table 3 shows the results of the significance test for the structural model path coefficient, t-statistics and p-values.

Table 3: Significance test for the structural model path coefficient, t-statistics and p-values

Hypothesis	Std β	T Statistics	P Values	Decision
Environmental factor -> SMEs Performance	0.155	2.163	0.031	Supported
Organizational factor -> SMEs Performance	0.271	4.796	0.000	Supported
Technological factor -> SMEs Performance	-0.331	5.527	0.000	Supported

Path coefficients that are close to +1 represent strong positive relationships while those that tend towards -1 represent strong negative relationships (Hair et al., 2014). Thus, the above results indicates that all the three variables (technology-organization-environment factors) are significantly influence SMEs performance in the UAE as presented in Table 3 above.

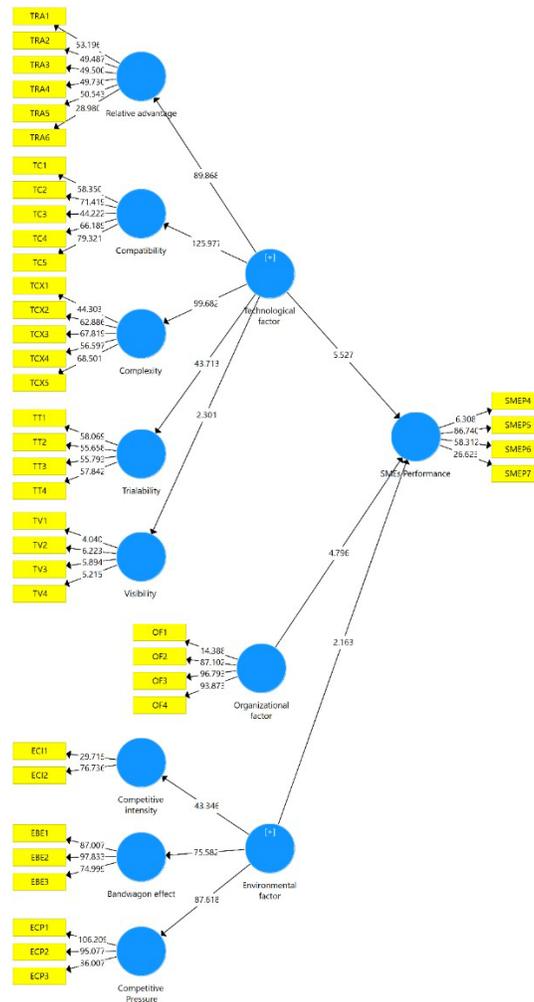


Figure 2: Final model of the study

5. Discussion and Conclusion

The main objective of this study is to identify the factor influencing the SMEs performance in the UAE. Therefore, the results revealed that technological, organizational and environmental factor affecting the SMEs performance in the UAE. Thus, this findings in line with the results of Qalati *et al* (2021) who study examined the factors affecting SME Performance: the mediating role of social media adoption. The results showed that the study indicate that technology, organization, and the environment play effective roles for SME performance. Also, the present study's results supported by Eze *et al* (2020) and Ahmad *et al* (2019).

Therefore, this study would provide an update on the present condition, that is, this research serves as knowledge gap bridge to small and medium enterprise and policymakers. This research is of great significance to SMEs in which it bridged the gap and serve as a research reference for academicians, it will also provide the future areas of research as regards to factors effecting SMEs performance. Similarly, this research serves as a policy guide to policymakers not only in SMEs but in all other industries, this means, this study has the relevant contents that would help the policymakers in decision making as regards to not only SMEs in UAE but all the other sectors. This research if properly employed would undoubtedly help the policymakers in decision making as regards technological, organizational and environmental factors and SMEs performance in UAE. This study would be of great benefit to SMEs as it provided an avenue through which SMEs in UAE understand greatly the factors that play and important and vital role in the overall business performance.

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