

MAPPING EMPIRICAL RESEARCH ON STRATEGIC PLANNING AND PERFORMANCE IN SAUDI SMES

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ABSTRACT - This study highlights the existence of strategic planning in Saudi SMEs through a selective review of existing empirical studies. The results show that strategic planning is useful for Saudi SMEs. However, strategic planning in Saudi SMEs is incomplete, unstructured, irregular, sporadic, rather reactive and informal. Further, the effect of strategic planning on the performance of Saudi SMEs as evinced in the reviewed empirics remains controversial: it was supported by some and denied by others. While the existence of strategic planning in Saudi SMEs is undoubtful, this does not guarantee performance improvement unless SME owners and managers are qualitatively involved in the process. The study also looked for the existence of operational planning in SMEs generally. Because of its close connection with daily business operations, SMEs are more predisposed towards using operational planning than strategic planning. In general, strategic planning is linked to performance, mainly when it is structured and imbedded in the various functions of SMEs. Operational planning has a better performance effect when combined with high managerial competence and employee alignment. Implications with regards to the use of SMEs in achieving the objectives of Vision 2030 were discussed.

Keywords: Strategic planning, Operational planning, SMEs, Performance, Saudi Arabia.

1. INTRODUCTION

One of the three cardinal themes underpinning the Saudi Vision 2030 is to make Saudi Arabia a thriving economy that provides the Saudis and their families with rewarding economic opportunities [1]. Fittingly, the Vision seeks to pursue this economic direction through the agency of small and medium enterprises (SMEs). The Vision 2030 document reasons that SMEs "are among the most important agents of economic growth; they create jobs, support innovation and boost exports" [2]. However, the current contribution of Saudi SMEs to the economy is around 20%, which falls far behind the benchmark 70% obtainable in developed economies [2]. Thus, the Vision reserved "a bigger role for small and medium-sized enterprises" [2] in nurturing and supporting entrepreneurship, innovation, and productive family businesses [3]. Specifically, the Vision seeks to use SMEs "to lower the rate of unemployment from 11.6% to 7%; to increase SME contribution to GDP from 20% to 35%; and to increase women's participation in the workforce from 22% to 30%" [2].

A vision is a strategic plan [4], and achieving some of the SME-related objectives of Vision 2030 demands Saudi SMEs engage in strategic planning [5, 6]. This implies that managing Saudi SMEs must henceforth be grounded in strong strategic planning that aligns SME long-term goals with the future reality as encapsulated in Vision 2030. In this vein, therefore, several questions must be addressed with strategic planning in Saudi SMEs. Is strategic planning beneficial to Saudi SMEs? Do Saudi SMEs owners and executives engage in strategic planning? Is the strategic planning process formal or informal? Does strategic planning in Saudi SMEs relate to their performance? Despite the interest of researchers on strategic planning, the topic has been most researched from the perspectives of large corporations and not SMEs. Further, the few available studies on SME strategic planning poorly cover Saudi cases. Therefore, this study presents the case for strategic planning in Saudi SMEs based on a selective review of empirical studies.

2. SMEs AND STRATEGIC PLANNING

It is germane here to identify an SME. Several criteria have been used by researchers, government agencies and international bodies in defining SMEs, each using a specific criterion most suited to its immediate purpose. Thus, there is no universally applicable definition of SME. However, the criteria commonly employed in defining SMEs include the number of employees, turnover, and balance sheet total, ownership, partnerships and linkages [7-11]. However, the Saudi conception of SMEs include microenterprises with 1-5 fulltime employees and annual revenues SR 0-3 million; small enterprises with 6-49 fulltime employees and annual revenues between SR 3-40 million; and medium enterprises with 50-249 fulltime employees and annual revenues between SR 40-200 million. Saudi SMEs control relatively small share of their markets are managed by their owners (single person, a family, or a clan) with a formalized management structure, and investment and financing decisions are closely interrelated. Some of these characteristics have significant implications on the ability of SMEs to engage in strategic planning activities.

Steiner [12], an early scholar in the field of strategic planning, observed over half a century ago that "the great majority of small businesses do little if any, long-range planning" [12]. This observation remains valid with regard to Saudi SMEs [13]. Steiner [14] refers to strategic planning as the process of structured choices about the future course of actions based on sound intellectual thought processes. It is the process of demining a firm's future direction along with the strategy needed to create the condition necessary for realizing the future end. Strategic planning has also been seen as "the art and science of formulating plans to align resources, overcome challenges, and achieve stated objectives" [15]. It is the creation of a pathway to substantially higher performance through the identification of critical obstacles to forward progress and the concomitant development of a coherent approach to overcoming the obstacles in the light of the resources and realities by which and within which the SME operates. Thus, researchers are always more predispose

to link SME survival, growth and performance with the existence of a formal strategic planning system. For example, Skokan, et al. [16] note interdependence between the level of strategic planning (existence of strategy in the form of a written document and its extent) and several SME performance criteria (turnover, costs, profit).

Alotaibi [17] shows that strategic planning is vital for Saudi SMEs and that its existence (or lack thereof) conditions their survival. Similarly, Abdalkrim and Khrais [18] and Alwafi [19] prove the existence of strategic planning in Saudi SMEs. However, despite the overwhelming evidence attesting to strategic planning practices in Saudi SMEs, researchers have also observed the incomplete, unstructured, irregular, sporadic, rather reactive and informal practices that characterize the process [13, 20]. As of 2013, only about 33% of Saudi SMEs are practicing strategic planning in response to changing market dynamics [21], indicating low regard for this long-term stabilizing influence. This low figure is corroborated by Alrubaishi's [13] report that owners/CEOs of Saudi family SMEs accorded very low priority to "strategic planning skills/experience" (which they ranked 13th in the list of SME/owner attributes).

Some of the reasons that could be abstracted from the general literature on the informal and irregular practice of strategic planning in SMEs include the complexity and sophistication associated with the process [22-25]. The resources of SMEs are relatively limited, and their opportunities for strategic choices are fewer [26]. The poor return on investments associated with strategic planning also discouraged its use in some companies [27]. Furthermore, some executives could not see or understand any connection between strategic planning and the performance of their SMEs, hence their skepticism about the value of the entire strategic planning process [25, 28]. Finally, Ali's [29], Ebner's [30] and Williams *et al.*'s [31] reviews highlight the inconclusive and controversial findings on the strategic planning-performance relationship, showing that some studies supported it while others denied it. However, Boyd [32], and other meta-analytic researchers that follow them [e.g., 29, 33, 34-38], insisted that the relationship subsists, and all other caveats advanced to hedge it are mere products of measurement errors or method factors. Nevertheless, Ali [29] points out that the strategic planning-performance relationship is affected by firm size, with small businesses recording the absence of the association. Can we assume that strategic planning has no benefit for Saudi SMEs?

SMEs make up over 96% of all economic establishments in Saudi Arabia [39], most of them from the wholesale, retail, and service sectors of the economy. However, the Saudi SMEs collectively contribute only 20% to Saudi GDP [40]. There is, therefore, the need to promote SME growth and diversification in Saudi Arabia in line with the objectives of Vision 2030 to lower the rate of unemployment, to increase SME contribution to GDP and to increase women's participation in the economic life of the country [2]. The achievement of these objectives could be assured only when Saudi SMEs begin to look far into the foreseeable future and beyond the Saudi economy when making a fundamental business decision. This means that Saudi SMEs must

embrace strategic planning if they are to survive, perform, and grow.

As at the end of the second quarter of 2018, there are 1,007,269 Saudi business entities, of which 46.92% (472,594) are from the wholesale and retail trade, repair of motor vehicles (ISIC4, International Standard Industrial Classification) group [41]. The wholesale and retail trade, repair of motor vehicles trade group is an SME dominated and employs 1,740,699, of which only 24.40% (424,653) are Saudis [41]. Oxford Economics [21] survey shows that 26% of Saudi SMEs are in the wholesale business, 25% in retail, 19% in professional services, 16% in discrete manufacturing, and 14% in consumer products. Most of the firms are relatively young (with about 57% > 7 years old; < 7% 3 years old). This has not changed much, according to Alrubaishi [13], with about 52% of Saudi SMEs 5-10 years old. A vast majority of Saudi SMEs are family enterprises. This is consistent with the tribal organization of the Saudi society where the tribe is the core of economic, social and political mobilization. Thus, the Saudi SME sector still has many potentials to satisfy the objective of Vision 2030 of employment, contributor to the GDP, and gender empowerment, provided they plan their activities well into the foreseeable future.

Strategic planning is important for Saudi SMEs because of its determining influence on the survival and growth of SMEs in general [42-44]. The challenges of the digital economy [45] are also pushing Saudi SMEs to embrace strategic planning as a transformation tool. Oxford Economics [21] reported that about 63% of Saudi SMEs have either completed, are in the process of, or are about to begin a significant business transformation that entails entering new geographical markets or to investing in new technologies. This study reviewed selected empirics that investigated the relationship between planning activities and performance in Saudi SMEs.

3. METHODOLOGY

The selective literature review paradigm was followed. This paradigm entails [46]. According, several articles were selected that show results in evidencing relationships (positive or negative) between strategic planning and performance of Saudi SMEs. We include studies that meet four specific yardsticks: namely, they must be empirics with exclusively SME sample and must have investigated the relationship between strategic planning and SME performance. Lastly, the studies must have been published from 2016 onwards. 2016 was the year Vision 2030 was launched [47]. We used the criteria d'Amboise and Bakanibona [48] used classifying their selected literature into three groups: namely, studies that investigated strategic planning-performance relationships; those that studied operational planning-performance relationships, and studies that looked into the specific aspects of planning-performance relationships. It should be noted that whereas strategic plans define the big picture and long-term goals for SMEs, operational strategies set out the specific inputs and activities necessary to achieve the ends of the strategic plans.

4. RESULTS AND DISCUSSIONS

We selectively scoured the extant literature for empirics on strategic planning and performance in Saudi SMEs. Due to the controversial nature of the empirical finding, we also looked into the probable moderating factors in the strategic planning–performance association. A sample of papers reviewed is given in Table 1.

4.1 *Strategic Planning Practices in Saudi SMEs*

Owners/managers of SMEs, often lacking formal boards, play an important role in setting strategic directions for their firms [49]. However, Alrubaishi [13] report that owners/CEOs of Saudi SMEs accorded very low priority to “strategic planning skills/experience” (which they ranked 13th in the list of SME/owner attributes). Similarly, Alotaibi [50] reported a lack of strategic planning culture and innovation orientation among the key staff of Saudi manufacturing companies, and where it exists, it relates only to internal operations without any significant linkage to the realities of the operating environment. Further, Alrubaishi [13] reported an alarming lack of succession planning in Saudi SMEs (most of which are sole proprietorships); this exposes the long-term survival and viability of Saudi SMEs to grave danger.

In contrast to the foregoing negative reports, several other studies attested to the presence and practice of strategic planning in Saudi SMEs. For example, Alotaibi [20] surveyed 211 Saudi SME owners and senior managers about their use of strategic planning tools. She found out that 81.15% use human resource planning tools, 71.23% employ SWOT analysis, 70.16% deploy TQM tools, 64.38% had mission and vision statements, 59.38% use CRM tools, and 58.55% vailed themselves of Porter's Five Forces, among other tools. In an earlier study, Alotaibi [17] also detailed the strategic planning practices of Saudi SMEs from the health insurance industry. Assessed based on Mazzarol's strategic management framework for SMEs, the five SMEs she studied evinced comfortable use of strategic planning with regards to entrepreneurship, innovation, strategic networking, growth and balance. It is noteworthy that the type of planning tool used by SME owners/managers largely depends on contextual factors and the issue they handle [51]. For instance, strategic planning is strongly practiced in SMEs within the financial services industry more than is the case with their counterparts from other sectors of the economy [18, 52]. This notwithstanding, the fact that strategic planning, though practiced in pockets of Saudi SMEs, is not yet an industry-wide culture may not augur well for the sector, especially at this time when Vision 2030 clearly marks SMEs as vehicles for orchestrating economic diversification and social regeneration in Saudi Arabia.

Does the poor state of strategic planning practices in Saudi SMEs indicate non-importance of strategic planning to these firms? The answer may not be in the affirmative. Sahni [53] reports that Saudi SME executives are keenly aware of the importance of long-term planning, and the value of developing and implementing budgets, market plans, and financial projections. However, they are somewhat handicapped from showing evidence of strategic planning

practices largely because of skill shortages but not due to total absence strategy. This finding reflects Hauser, Eggers, and Guldenberg's [54] comment that because some SME owners and managers rarely employ strategic planning does not mean they run their businesses in haphazard and unplanned manner but that they may be operating on “an alternative heuristic of effectuation” [54].

4.2 *Strategic Planning and Performance of Saudi SMEs*

Scholars have spoken about two levels of planning: strategic planning and operational planning [55]. These two distinct but interrelated aspects of planning have important implications when determining the influence of either on the performance of SMEs [56]. Furthermore, different aspects of strategic planning (e.g., the existence of strategic planning, formalization, and level of sophistication) can influence the level of SME performance [57].

4.2.1 *Existence of Strategic Planning and Performance*

We have seen in the preceding section that some Saudi SMEs engage in strategic planning while some do not. However, not doing strategic planning does not mean the absence of strategy altogether. The perceived importance of strategic planning termed planning salience, beyond its mere presence has been noted [58]. Also, the bigger the firm in terms of the workforce, the more likely the existence of strategic planning practices in such firms. Mueller and Naffziger [59] have shown in their study that the number of employees in an SME significantly determines the existence of strategic planning. In other words, the larger the number of employees in an SME, the more likely such a large-workforce SME will have a strategic planning system. Alrubaishi [13] reported that 78% of the SMEs she studied were sole proprietorships.

Interpreting Mueller and Naffziger's [59] thesis based on the preponderance of sole proprietorships in the Saudi SME sector, we can infer that there is widespread nonexistence of strategic planning activities in the Saudi SME sector. Indeed, Al-Ghamdi [61] has empirically verified that about half of Saudi SMEs do not have any verifiable strategic planning system in place. Going by the preponderance of proprietorships in the Saudi SME sector, Al Hajjar and Presley's [60] finding, that 95.9% of the 1,617 SMEs surveyed do not have any plan before, during or after their establishment. Nevertheless, Kohzadi and Hafezi [58] found no relationship between the intensity of strategic planning and the number of staff.

Studies in non-Saudi climes [e.g., 23, 62] have established that the performance of successful SMEs is significantly influenced by the existence of strategic planning activities in such firms. Specifically, Ackelsberg and Arlow [63] found that sales and profits of the firm that planned increase proportionally more than those that do not. Further, Sexton and Van Auken [64], in a longitudinal study in a longitudinal study, report that 20% of firms that did not plan at the time of the first research meeting had disappeared, suggesting that "strategy planning ... help many firms to survive in a competitive market" [64].

Table 1. Sample of Empirical Studies on Strategic Planning in Saudi SMEs

Author	Study Objectives	Findings	Comments
Alotaibi [20]	To ascertain the attitudes of Saudi SME executives towards the selection and use of strategic planning tools and techniques	The results show that Saudi SME executives utilise the following strategic planning tools, in order of frequency of use: Human resource analysis, SWOT analysis, TQM, Mission/vision statements, CRM, Porter's Five Forces, and Financial Analyses.	This study shows that Saudi SMEs use both strategic and operational planning systems. Surprisingly, operational planning tools (financial analysis) seem to be the least used tool.
Alotaibi [17]	To unravel how managers of Saudi SMEs deal with strategic planning relating to growth, finance, marketing, competition, and service quality.	The results show that evidence of long-term strategic planning in two of the five health insurance SMEs studied with regards to entrepreneurship, innovation, strategic networking, growth vector, and the strategic triangle.	Findings of this result evince divergence from the widely theorized position that Saudi SMEs, predominantly sole proprietorships, lack enough motivation to engage in strategic planning.
Alotaibi [50]	To identify the role of SME staff responsible for innovation in the strategic planning process in Saudi manufacturing SMEs	The findings revealed that only 11 of the 20 SMEs have personnel dedicated to innovation and that only none of this personnel showed evidence of strategic commitment.	Commitment to strategic planning in Saudi manufacturing SMEs is very low.
Alrubaishi [13]	To describe the strategic planning practices in Saudi family SMEs with regards to management succession.	Findings show that owners/CEOs of Saudi family SMEs accorded very low priority to "strategic planning skills/experience."	Strategic planning is not considered a high priority among owners and managers of Saudi family businesses.
Al Hajjar and Presley [60]	To determine the constraints hamstringing the development of small businesses in Saudi Arabia.	Findings show that that 95.9% of the 1,617 SMEs surveyed do not have any plan before, during or after their establishment.	There is almost a total lack of strategic planning among Saudi SMEs of the sole proprietorship type.

4.2.2 *The formalization of Strategic Planning and SME Performance*

Formalization is one of the factors that affect strategic decision-making in an organization [65] and refers to the degree to which decision-making powers and processes are reduced to written documents and structures (like a board) created to effectuate them. Formalization makes strategic planning a regular and required activity in firms. However, SMEs are generally characterized by low degrees of formalization [66]. Accordingly, consultants have always advised SMEs to develop and deploy formal structures of decision-making to boost their performance [67]. However, the literature on the relationship between the formalization of strategic planning and SME performance is replete with controversy. Some studies report that formalization of strategic planning improves firm performance while others deny the relationship. For example, Robinson and Pearce [68] report that SME managers "do not appear to benefit from a highly formalized planning process, extensive written documentation, or the use of mission and goal identification as the beginning of a strategic planning process" [68]. On the contrary, Makinde, et al. [69] note that strategic planning accounts for about 36.5% in SME performance. Similarly, Pearce, et al. [70], in a study of 97 manufacturing SMEs, report a positive and significant relationship between strategic planning and sales performance and therefore concluded that formalization of strategic planning appears to benefit SMEs systematically. Also, Ebner's [30] study concludes that a high degree of formalization in strategic

planning, compared to the situation, has a positive and significant impact on firm performance.

This divergence in the results of the non-Saudi studies on the relationship between the formalization of planning and firm performance suggests that the mere formalization of strategic planning does not guarantee the value of planning. But how about the situation in Saudi SMEs? The scattered references to the formalization of strategic planning in the Saudi SME sector give a picture of deep and embedded informality. This is less surprising seeing that most Saudi SMEs are family businesses governed by deference to unwritten patriarchal authority. It should also be borne in mind that a high degree of formalization in a small business may negatively impact performance, as the flexibility afforded in some measure by informality gets smothered [30, 71]. Given nature, size, structure and ownership of many Saudi SMEs, one may well ask: Is formalized strategic planning needed in Saudi SMEs?

4.2.3 *Planning Sophistication and Performance of Saudi SMEs*

Beyond the simple formalization, the level of sophistication of the strategic planning system in SMEs seems more revealing. Capon, et al. [72] "greater the degree of sophistication of the planning process, the better the performance". Their reasoning was informed by the inherent focus of strategic planning on SWOT while prioritizing scarce resource usage. The empirical literature also suggests that management competence and sophistication play a determining role in SME performance. In a study to determine the development constraints of small businesses based on data collected from a sample of 1,617 Saudi SMEs,

Al Hajjar and Presley [60] found that “lack of managerial sophistication, inadequate managerial skills and inefficient management” hinder the development of Saudi SMEs even when such businesses manage to survive the inclement gestation period. Similarly, Levy and Powell [73] note that most SMEs evinced limited sophistication in the use of ICT for planning.

The lack of sophistication in use of strategic planning in Saudi SMEs may be attributed to the complexity of the dominant strategic planning models extant in the literature and marketed by consultants. For example, the balanced scorecard planning methodology assumes the existence of established decision processes and clear growth objectives which tend to be lacking or nebulous in most SMEs [5]. In general, the managerial acumen and sophistication invested in strategic planning impacts positively on the performance of SMEs. With regard to Saudi SMEs, only a modicum of this positive influence is available to drive SME performance.

4.2.4 Moderating and Mediating Influences in the Strategic Planning–Performance Relationship

Previous discussions have alluded to the intervening influence of some variables that may explain the divergence of conclusions reached with regards to the strategic planning–performance relationships. The literature suggests several such variables, including owner characteristics, workforce size, and managerial experience, industry type, etc. [74]. Using data collected from 520 SMEs from Lagos, the commercial hub of Nigeria, Makinde and Asikhia [75] note that managerial attitude and owner/managers’ entrepreneurial orientation moderate the strategic planning–performance relationship. In other words, the right managerial attitude and entrepreneurial orientation will cause an SME to boost its performance by embracing strategic planning. However, market orientation (another term for entrepreneurial orientation), was observed to partially mediate in the relationship [76]. Another study notes the moderating influence of industry, suggesting that the more there are changes within a particular industry, the more need for strategic planning by firms in order to maintain performance [77].

The behaviors of SME owner/managers (as well as those of employees) play significant interaction effects in the strategic planning–performance relationships. Kohtamäki, et al. [78] have shown that the opportunity exploration and resource exploitation behaviors of 153 Finnish SME owner-managers mediate the relationship between strategic planning and small business performance. On employee behavior, Ouakouak and Ouedraogo [79] found that employee strategic alignment, defined as a fit between employees’ behaviors and the firm’s formal planning system, is a full mediator in the rational strategic planning–firm performance relationship. Also, Cheng, et al. [80] establish that environmental scanning in the form of acquisition and utilization of information about SMEs and their operating environment mediates the relationship between strategic planning and financial performance.

4.3 Operational Planning and Performance of Saudi SMEs

Operational planning covers the functional activities of SMEs, including marketing, production, finance, and human

resource activities. The objective of operational planning is to achieve control over business activities. However, this aspect of planning also determines SME performance but in the short run. Researchers are generally inclined to credit operational planning with significant influence over the performance of SMEs they have studied. However, tier 1 literature on operational planning in Saudi SMEs is almost zilch. Thus, we can only infer the state of operational planning in Saudi SMEs from reports in similar industries elsewhere. An example in this regard is the research of Yusuf and Saffu [81] who studied 95 SMEs (by their low staff strength, < 250). They reported that over half of the sample were prospectors and analyzers, firms that base their planning on opportunities immediately available. The preferred planning paradigm of prospectors and analyzers is primarily operational [82]. Another instance of operational planning in SMEs is giving in Rue and Ibrahim [83]. They surveyed 128 smaller family-owned businesses from Georgia in the US and found that SMEs from retail, wholesale, manufacturing and service sectors engage in financial, operational planning using such tools as projected income statements, balance sheets, and cash flow analysis.

It can be surmised from the foregoing studies that SME tends to perform better by adhering to the operational planning paradigm rather than its grandiose strategic counterpart. This is because most SME owners and managers are more concerned with direct control over their activities and the profits that will be generated in the short run to meet business and personal obligations. Thus, they are generally are doubtful of the utility in strategic planning; hence, they are wont to opt for operational planning. However, the fast-changing nature of the business environment is increasingly forcing the SME owner and managers to look beyond the daily operational requirements of their firms. Moreover, so, an increasing number of SME owners and managers are embracing innovations, especially in industries where the use of e-commerce technology is paramount. This they often do through delegation but also the use of strategic planning. A longer-term vision is always needed at the time of change and transformation. In managing day-by-day business activities, however, owners and managers of SMEs focus primarily on operational activities of their firms.

5. CONCLUSIONS

The purpose of this study was to ascertain the nature of the existence of strategic planning in Saudi SMEs through a selective review of extant empirics. The review has shown that strategic planning is useful for Saudi SMEs. However, strategic planning in Saudi SMEs is incomplete, unstructured, irregular, sporadic, rather reactive and informal. Further, the effect of strategic planning on the performance of Saudi SMEs as evinced in the reviewed empirics remains controversial: it was supported by some and denied by others. While the existence of strategic planning in Saudi SMEs is undoubtful, its mere existence does not guarantee performance improvement, unless the SME owners and managers are qualitatively involved in the process. These nuances may explain the divergence in empirical results on the relationship between strategic planning and SME performance. Hence, the study searched for explanations in

the form of intervening factors from the general literature, as there is virtually no research on the mediating or moderating influences in the relationship between strategic planning and Saudi SME performance.

The study also looked for the existence of operational planning in SMEs generally. Because of its close connection with daily business operations, SMEs are more predisposed towards using operational planning than strategic planning. In general, strategic planning is linked to performance, mainly when it is structured and imbedded in the various functions of SMEs. Operational planning has a better performance effect when combined with high managerial competence and employee alignment.

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