

## Strategic Management and Firm Performance - Evidence from Saudi Arabia

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### Abstract:

*This study seeks to test the association among strategic management and organizational performance in Saudi Arabia. This study concentrates to build association among strategic management and organizational performance in Saudi Arabia. The researcher used descriptive analysis ad correlation in order to determine the nature of the associations. However, to analyze the research data, the researcher employ the spearman correlation statistical in order to establishing the association between the study variables. This shaped the basis of study analysis, conclusions and recommendations. This study found a positive and statistically relationship between strategic management and organizational performance. Moreover, this study found a positive and statistically moderate relationship between strategic management and organizational performance on the basis of the findings. The researcher found that the firms should provide good strategic management to their organizations that will develop the employee's performance. Furthermore, the firms should take in account the internal and external factors that can effects organizational performance.*

**Key words:** Strategic Management, Manufacturing firms, Firm Performance, SPSS.

## **1. INTRODUCTION**

Previously organizational development and management strategy was interested with providing assistance to the firms which faced bankruptcy in order to manage new ideas to survive. However, the strategic management concept developed with time especially with financial collapses and change in internal and external environment. Moreover, the researchers on the strategic management concentrate on determining the features of strategies which support the firms to attain their goals and get the competitive advantage. Some researchers found that increase in the firm profitability don't come from the adopting of strategic management. Furthermore, the management researches recently found a positive relationship between strategic management system and profitability. Empirical studies provide a strong evidence that most of firms which use plan are more profitable form firm's don't use. Moreover, the firms which own good strategic planning systems match the management theory were show better financial performance in the long-run. Even today, literature found the strategic management supported from management and corporate performance hypothesis. However, the increase of the SMEs financial performance measured by profit before tax, return in working capital, earning per share, net asset, and different profit ratios increase the importance of apply the strategic management in the firms (Akingbade, 2007).

This study investigate how the applying of the strategic management help the firms to creates plans used to improve and develop the firm's performance (Ilesanmi, 2011). Because of long period of dispute, the control systems had collapse. however, the actual management is try to do the best in order to rebuild the internal control systems, consequently the private firms don't make studies and there is an improvement in strategic management firms due to obligation to the control systems. (Farah, 2012) argue that there is need more effort to

support the internal control systems. Hence, this study comes to test the effect of strategic management on organizational performance in Saudi Arabia firms.

David, (2005) identified the Strategic management as a process and method to determining the firms goals, improving the plans and policies to attain these goals, and allocate the firms resources in order to implement the plans and policies. Moreover, (Griffin, 2006) identified the Organizational performance as the firm's ability to earn and employ its resources to attain its purposes. Recently, the strategic management and the firm performance research has been concentrated deeply on economic environment which characterized by: globalization phenomena, customer demand, investor demand, product market competition, performance improvement and reducing cost, innovation products, improving quality, productivity and speed to market. Strategic management assume as continues process aims to controls and evaluates the firms works, evaluate the current and competitors and impose objectives and strategies to meet the firm competitors, evaluate all the firm strategy; annually, semi-annual, quarterly or monthly to decide the current strategy work well or need for adjustment to meet the current situation, new competitors, new technology, new social environment, economic environment, financial environment or political environment in order to attain a competitive advantage situation and support the firm performance compared with their competitors are the essential goals that firms seeks to achieve(Raduan, 2009). This study aimed to:

1. Investigate the effect of strategic management on organizational performance in Saudi Arabia industrial firms.
2. Detect the association among strategic management and organizational performance in Saudi Arabia industrial firms.

## **2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

Strategic management consider as the process and method of determining the firms aims, improving policies and developing plans in order to attain its goals, allocate its resources and applying the plans and policies (David, 2005). Strategic management assume as process to test the internal environments, external environments, drafting the firms goals, apply and monitor the management t decisions which concentrate on attain the firms goals in the current and future environments (Adeleke, 2008). (Adeleke, 2008) investigates the association among the strategic management and organizational performance in SMEs industrial firms, he test the strategic management which adopted by SMEs firms, and test the effect of different managerial variables on the extent to which the strategic management are adopted which specified the association among level of competition and adoption of strategic management and test the effect of managerial variables on the firms performance.

Firms performance is define as the firm's ability to earn and use its scarce resources to attain its goals (Griffin, 2006). The culture has deep effect on the firm's performance, the firms which have recognized and understand its significant fully granted value to their employees and reward for knowledge participation and generating an environment which is useful for effective knowledge. Management systems are responsible for analytical valuation variables in applying of knowledge management systems to effective.

Classical theory is founded and developed by Chandler, 1962, Sloan, 1963 and Ansoff, 1965 Oyedijo, 2004. This theory depend on the rational planning to attain profit maximization. The classical theory in strategy includes three characteristics: firstly, existence of rational analysis. Secondly, separation of strategy concept from strategy execution. Finally, commitment to profit maximization. Classical theory in strategy depends on

the rational planning and profitability systems which are assumed as Semitic aim. The classical school thought that strategy should be characterized by explicit and formal, rely on the organization structure for profit maximization. Thus, success or failure is internally specified, rely on the existence and the strategic issue management activities quality internal the firms (Sloan, 1963).

Researchers thought that organizations are affected by the environment which is changed piecemeal and the success and effective firms that conform closely to environmental requirements. However, the firms which cannot adapt to piecemeal finally find themselves outpaced by their competitors and forced out of business. Moreover, (Schumpeter, 1950) disagrees with this point of view, he suggests that the environmental change is not piecemeal but comes in revolutionary and abrupt forms. However, the point of view against revolutionary change is more moderate, which suggests that many firms are able to adapt to the abrupt environmental change. The adaptive firms allow the innovative firms to absorb the costs and risks of creating new products and services and then initiate successful innovations. Schumpeter (1950) suggests that some existing firms could survive revolutionary change. He also thinks that the survival comes reactively through initiating the revolutionary products and services of newer enterprises or proactively by originating new products or services.

David, (2005) suggests that Strategic management is the method and way of determining an organization's aims, improving policies and plans to attain and reach these aims, and allocating resources so as to implement the policies and plans. However, Organizational performance is defined as an organization's ability to earn and use its scarce resources and valuables or expeditiously as possible in the pursuit of its operational goals (Griffin, 2006). Lawal, Elizabeth, & Oludayo (2012). Investigate the effect of strategic issue management on

organizational performance. The main goal for this study is to test the relationship between strategic issue management activities and organizational performance. Moreover, they developed a survey to collect the research data. The study found some evidence that issues management is indeed a strategic organizational functions in the sense that the adoption of issues management techniques can improve the performance and relative standing of organization that are with different societal and political issues.

Ajao and Grace (2012) investigate the effects of strategic planning on corporate performance. The main goal of this study is to test the effect of Strategic Planning on Corporate Performance and how this has impacted on the management efficiency and effectiveness as strategic planning is essential in corporate organizations. The researcher developed survey to collect the research data. This study found that the effective strategic planning indeed has a positive impact on performance. Moreover, formal planning only will not bring about better performance, effective implementation will enough. Smith and Golden (1989) investigate the strategic planning and organizational performance. The main aim for this study is to test the relationship between strategic planning and organizational performance. The researcher developed a survey to collect the study data. This study found that matching the extent of planning in a major business policy game and the performance (results) of this effort. The difference between this study and earlier studies is that in this study teams had the choice as to the extent of planning they would do.

Dauda, Akingbade and Akinlabi (2010) investigate the strategic management practice and corporate performance of selected small business enterprises. The main aims for this study is to test the influence of strategic management on corporate performance in selected small scale enterprises and how strategy could be used for improved performance of small scale enterprise. The researchers rely on the survey to collect

study data. This study found that strategic management has an effect on the market share of SBEs. Moreover, implementation of strategic management has a positive relationship with organizational profitability. Muogbo (2013) investigate the impact of strategic management on organizational growth and development. The main aim for this study is to test the impact of strategic management on organizational growth and development. The researchers rely on the survey to collect study data. This study found that strategic management is not yet a common business practice among manufacturing firms. Moreover, it has been identified as veritable tool for improving the competitiveness, performance levels, and structural development of manufacturing firms. Gichunge (2006) investigate the effect of formal strategic management on organizational performance. The main aim for this study is to test the effect of formal strategic management on organizational performance. The researcher developed a survey to collect the study data. The study found that the majority tested firms have adopted some formal strategic management. This result is inconsistent with current literature and empirical studies that suggest that the firms have not adopted any formal strategic management. It is consistent with past studies that administrative/legal factors affect both adoption of formal strategic management and organizational performance.

### **3. METHODOLOGY**

This study relies on the descriptive analysis and the correlations. The correlation is assumed as a research design which the researcher can determine the extent of the relationship found between two or more variable and measure the variables (Oso & Onen, 2008). The major idea is to clarify the association among two variables, customer retention and employee satisfaction (Oso & Onen, 2008). The correlation is deem to be fit for due to define weather and to what degree the

association exist among quantifiable variables. Hence, this study uses the questionnaire method to collecting the study data.

### **Study population, sample, Sample procedure and Study instrument**

The study population include all listed industrial firms in Saudi Arabia which are 6431 firms, the study sample include 10% of the population. This study uses the random sampling. The researcher was able to develop a questionnaire that runs from the previous studies on the subject of the study, it developed according to the Likert scale Quintet. Furthermore, Validity tool confirmed through the presentation the questioner to a number of experienced arbitrators in this field, we have made modifications made by the arbitrators in their remarks.

## **4. EMPIRICAL RESULTS AND DISCUSSION**

This part of the study shows the background information of the respondents of the study. Table 1 shows the respondents of this study according to the gender. Relying on the table (1) we found that all of the respondents were male due to the Saudi Arabia culture.

Gender	Frequencies	Percentage
Male	651	100%
Female	0	0%
Total	651	100%

**Table 1 Shows the Respondents According to the Gender**

According to the table (2), we found that the respondents between 41-60 come in the first place with percentage (37.5%), while the respondents between 20-40 come in the second place with percentage (33.5%), and finally the respondents above 61 year come at the last stage with percent (28%).



Age	Frequencies	Percentage
20-40	218	33.5%
41-60	244	37.5%
More than 60	189	29%
Total	651	100%

**Table 2 Shows the Respondents According to the Age**

According to the Table (3) we found that the majority of the respondent (589) are married with percentage (90.5%). while, only (62) respondent are single with percentage (9.5%).

Marital Status	Frequencies	Percentage
Single	62	9.5%
Married	589	90.5%
Total	651	100%

**Table 3 Shows the Respondents According to Marital Status**

Table (4) shows the respondents according to education level, we found that the most of the respondent's education level were Less than bachelor (187) (54.8%) followed by bachelor education level (71) (51.8%). while the master level for the respondents were (14) (2.2%). finally the PHD were (2) (0.30%).

Education	Frequencies	Percentage
Less than bachelor	187	54.8%
bachelor	171	51.8%
Master	14	2.2%
PHD	2	0.3%
Total	651	100%

**Table 4 Shows the Respondents According to Education Level**

Table (5) shows the respondents according to employment type. Managers were (467)(71.7%), while the employment were (184)(28.3%).

Employment Type	Frequencies	Percentage
Manager	467	71.7%
Employee	184	28.3%
Total	651	100%

**Table (5) Shows the Respondents According to Employment Type**

## **Descriptive and Correlation Analysis**

Variable	Mean	STDV.	1	2
Strategic Management	3.19	0.488	1	
Organizational	3.08	0.483	0.543**	1

**Table (6) shows the Descriptive and Correlation Analysis**

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table (6) shows the Descriptive and Correlation Analysis of the study variables. This study found that the mean and the standard deviation for the strategic management are (3.19; 0.488) respectively. While the mean and the standard deviation for the organizational performance are (3.08; 0.483) which indicates a good level for both strategic management and organizational performance. Rely on the table (6) this study found a positive and significant association among Strategic Management and the firm Performance with (0.543) correlation index. Moreover, this study found a positive and significant association among Strategic Management and organizational performance for the study sample and firm performance in Saudi Arabia.

This study aims to investigate the association among the strategic management and organizational performance in Saudi Arabia. However, this study found that the mean and the standard deviation for Strategic Management variable are (3.19; 0.488) respectively, which indicates a good level. While the mean and the standard deviation for the second variable Organizational Performance are (3.08; 0.483) which indicates a good level too.

## **5. CONCLUSIONS**

This study investigates different thoughts related to strategic management and organizational performance literature in Saudi Arabia. Moreover, this study present various studies related to this study from different countries. Most literature

related to this study is held in developed countries, while the studies held in developing countries still few. According to the researcher knowledge this study assume as the first study related to the strategic management and organizational performance in Saudi Arabia. This study tests the association among the strategic management and organizational performance in Saudi Arabia. Furthermore, this study is come to fill the gap in the strategic management and organizational performance in Saudi Arabia. However, this study found that there is a positive and significant association among Strategic Management and organizational performance for the study sample and firm performance in Saudi Arabia.

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