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# The Impact of Strategic Planning on Innovation in Saudi SMEs

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### Abstract:

Strategic planning may assist in new product development through innovation making strategic planning linked to innovation, but it can also restrict innovation and creativity. This suggested the need to study the relationship between strategic planning and innovation, and mediating factors. Strategic planning was examined as a possible determinant of innovation in Saudi SMEs, and the two mediating factors considered were commitment to learning and structural flexibility, which were examined for their interaction effects on strategic planning. The methodology involved administering a survey questionnaire to 230 Saudi SMEs across a range of sectors, and 20 SME founders were subsequently interviewed. The results show that strategic planning impacts significantly and positively on innovation in the case of Saudi SMEs, and there is a significant positive interaction effect of commitment to learning but not structural flexibility in this relationship, which establishes the mediating potential of commitment to learning. Implications are drawn for learning-oriented planning, and for low-resource SMEs to gain sustainable competitive advantage.

**Keywords:** strategic planning, Saudi SME, innovation, commitment to learning

### المخلص:

كما ان التخطيط الاستراتيجي يساعد في تطوير المنتجات الجديدة من خلال ارتباط التخطيط الاستراتيجي بعملية الابتكار، إلا أنه قد يعيق عملية الإبداع والابتكار وهذا يقود إلى الحاجة إلى دراسة العلاقة بين التخطيط الاستراتيجي والابتكار والعوامل الوسيطة في ذلك. في هذه الدراسة تم اختبار التخطيط الاستراتيجي كمحدد للابتكار في الشركات المتوسطة والصغيرة السعودية، وتم اعتبار عاملين وسيطين هما الالتزام بالتعلم التنظيمي والمرونة الهيكلية، حيث تم اختبار تأثيرهما التفاعلي على التخطيط الاستراتيجي. تضمنت منهجية البحث عمل استقصاء ميداني على 230 شركة متوسطة وصغيرة سعودية ومن قطاعات مختلفة كما تم لاحقاً عمل مقابلات مع مؤسسي 20 شركة متوسطة وصغيرة. أظهرت النتائج بأن التخطيط الاستراتيجي يؤثر بصورة مهمة على الابتكار إيجابياً وأن هناك تأثير تفاعل إيجابي هام للالتزام بالتعلم التنظيمي وليس هناك تأثير للمرونة الهيكلية، وهذا يؤدي إلى اعتبار التعلم التنظيمي كوسيط محتمل لذلك. اشتملت الدراسة كذلك على مناقشة التأثيرات للتخطيط الموجه للتعلم وللشركات المتوسطة والصغيرة محدودة الموارد للحصول على فوائد تنافسية مستدامة.

كلمات مفتاحية: التخطيط الاستراتيجي، الشركات المتوسطة والصغيرة السعودية، الابتكار، الالتزام بالتعلم.

## INTRODUCTION

Strategic planning can aid in various organisational activities and processes to make the organisation suited for the environment in which it operates (Lindsay & Rue, 1980). The strategic planning practices provide important processes and artefacts for ordering and sense-making “to relationally constitute the web of heterogeneous elements” (Bryson et al., 2009: 201). However, the relationship between strategic planning and firm performance can be complicated (Sinha, 1990). In addition to potentially impacting positively and directly on performance, strategic planning also allows for strategic decision-making and developing or enhancing organisational flexibility (Ocasio & Joseph, 2008).

The current study centres on the relationship between strategic planning and the very important outcome of innovation. It is argued that this relationship is dependent on the context, and that strategic planning is very helpful in frequently changing and volatile environments, as is the case in Saudi Arabia. Specifically, the study is focused on strategic planning in SMEs (small and medium enterprises). It was noted in a previous study by the researcher (Alotaibi, 2014) that innovation can help SMEs overcome issues such as lack of funding or other resources and technological incompetence (Mazzarol & Reboud, 2011), and in entering new markets or devising new business models (Johnson et al., 2008).

SMEs in emerging economies often lack in institutional resources (Wan, 2005), but it is not clear how strategic planning within certain contexts affect performance through shaping the process of innovation (Child & Tsai, 2005). Allocation of scarce resources is only one of four pivotal aspects of strategic planning, the other three being adaptation, integration, and strategic management (Lorange, 1993). By focusing more on the other three, SMEs can still leverage their ability to innovate, and thereby make a positive impact on their own performance. The importance of innovation in SMEs through managing strategic planning, and its positive impact on organisational performance, has been highlighted previously, for example, by Hilmi et al. (2010) in the context of Malaysia; Rhee et al. (2010) for SMEs in South Korea, and Veskaisri et al. (2007) in Thailand.

It may be observed that innovation is uncommon among SMEs due to such problems faced by them. However, some studies have shown otherwise. For example, Peacock (2004) reported SMEs in Australia contribute 54% of all expenditure on technological innovation considered significant. A study by Mazzarol et al. (2013) showed that these SMEs in Australia are recognised as important innovators and that entrepreneurs of SMEs are willing to embrace innovation to leverage strategic networks.

Saudi Arabia provides a suitable context for studying this relationship because it is presently undergoing a phase that makes it very dynamic, turbulent and uncertain (AP, 2016; Alotaibi, 2019). It may be argued that the goals of reducing oil dependency and attempting to achieve Vision 2030 are in themselves encouraging greater innovation and creativity. This makes the present study important to understand how strategic planning can aid this outcome of encouraging innovation. Promoting innovation can be a way of planning strategically to cope with economic uncertainty.

### **SMEs in Saudi Arabia**

In Saudi Arabia, SMEs constitute a very large proportion of the total number of firms. According to a report by the Jeddah Chamber (2015), they account for as much as 90% of all businesses in the kingdom, and contribute around a third (33%) to GDP, which is relatively higher than any other economy in the GCC (Gulf Cooperation Council), and 25% to the labour force (Sfakianakis, 2014). Saudi SMEs are playing an important role in improving productivity and diversifying the Saudi economy. Given this vital importance of SMEs in Saudi Arabia, the government has been supporting them as part of its plans to stimulate and develop the economy. Moreover, innovation is also specifically recognised as one of the key benefits being derived from the SME sector, others being employment, entrepreneurial opportunities, economic activity, curbing monopolies, and absorbing fluctuations in the economy. At the WITC (Women’s Incubator and Training Center) for

example, particular emphasis is given to development the capability for innovation as well as entrepreneurship strategies.

### THEORETICAL DEVELOPMENT

Contrasting perspectives on the linkages between these two variables were examined in this study based on ten previous studies. Seven of them establish positive associations and two establish negative associations.

*Table 1: Associations between strategic planning and innovation*

Study /Association /Type of study	Key point or finding regarding strategic planning and innovation
Taylor, 1976 - Positive, Conceptual	Planning is considered as a framework for innovation, and it can function as a stimulus for progressive adaptation and self-renewal due to new ideas and products. Innovation may be institutionalised as a series of planned breakthroughs.
Venkatraman & Ramanujam, 1987 - Positive, Empirical	The capability to enhance innovation is desirable for effective planning.
Sinha, 1990 - Positive, Empirical	Strategic planning facilitates crucial decision-making relating to new products.
Simon, 1993 - Positive, Conceptual	Strategic planning facilitates the generation of new ideas that assist the organisation to adapt to the external environment.
Mintzberg, 1994 - Negative, Conceptual	Strategic planning restricts innovation and creativity, and it discourages change and organisations' vision.
Andersen, 2004 - Positive, Empirical	Strategic planning facilitates various economic, innovation-related and organisational outcomes.
Song et al., 2011 - Negative, Empirical	Strategic planning is associated negatively with number of new product projects, and it prevents organisations from deviating from norms. New products need improvisation and experiential learning more than planning.
Al-Awawdeh, 2017 - Positive, Empirical	Strategic planning has a strong positive impact on innovation.
Batra et al., 2018 - Positive, Empirical	There is a significant positive relationship between strategic planning and innovation, which is mediated by commitment to learning.
Saputra et al., 2019 - Positive, Empirical	Strategic planning has a direct and significant relation on innovation, which in turn strongly influences performance.

### Strategic planning and innovation

Planned approaches to forming strategy typically assess the external environment and devise expected scenarios and plan for each of them. These planned approaches necessitate constructing and integrating plans over the long-term combined with preparing for alternate courses of action and continuous operational and tactical frameworks (Boyd, 1991). Strategic planning empowers organisations to operate in dynamic and volatile environments for handling contingencies in an attempt to make them more adaptable, in spite of also making them less flexible in responding to uncertain environments (Al-Shammari & Hussein, 2007).

Strategic planning makes organisations able to respond effectively in an uncertain environment, and thereby helps to reduce the uncertainty as well because comprehensive strategies help the managers of those organisations to assess the environment and prepare detailed information (Lindsay & Rue, 1980). As in the case of Saudi Arabia, as it is vital for SMEs to develop the capacity to respond quickly to persistent fluctuations in the external environment (Zhou & Li, 2010), they engage in strategic planning in order to be more successful at innovating. Therefore, by undertaking strategic planning as a comprehensive and integrated mechanism, the potential for innovation is facilitated (Ocasio & Joseph, 2008).

Organisations that choose to engage in strategic planning thoroughly improve their chances of being successful in innovating, but successful innovation also requires that they establish policies and practices essential for making themselves conducive to innovative ideas and their implementation (Kanter, 1985). Crossan & Apaydin (2010) undertook an extensive literature review in which they suggested strategies formed by organisations rely on one of five managerial levers that facilitate innovation. These levers are: (1) mission, goal and strategy, (2) resource allocation, (3) structure and system factors, (4) learning and knowledge management, and (5) organisational culture. According to Miller & Friesen (1982: 17): "...the determinants of product innovation in firms are to a very great extent a function of the strategy that is being pursued." Therefore, for innovation to be more likely to succeed, organisations should devise their strategy in a way that takes account of the uncertainty and complexity of the external environment (Tidd, 2001).

Based on the information given above, the following impact hypothesis was devised:

*H1: Strategic planning has a significantly positive impact on innovation in organisations.*

### Organisational learning

Strategic planning involves generating the thought process necessary for preparing or identifying a clear visions, and is not therefore about specifying rigid actions (Jelinek, 1979). In practice however, organisation make mistakes in spite of their detailed strategic planning, although they also have the opportunity to learn from these mistakes by being more involved in the process of planning (Tilles, 1972).

Organisational learning takes place as a result of several individual experiences and due to the organisation's proclivity to learn and make necessary adaptations according to its external environment (Mavondo et al., 2005). This organisational learning process involves acquiring, assimilating, sharing and then applying information to achieve its objectives (Garvin, 1993). The learning can be supported by questioning the way things are done and with the help of the management (Sinkula et al., 1997). Outcomes of organisational learning recognised in the literature include the capability to innovate (Cohen & Levinthal, 1990), performance (Slater & Narver, 1995), and greater capacity for adapting to the external environment (Jimenez-Jimenez et al., 2008). Importantly, for an organisation to learn quicker than its competitors, the potential is created for gaining a sustained competitive advantage to cope with the environmental changes (Batra, 2016). Moreover, an organisation that becomes learning-oriented recognises and emphasises its learning potential and strives to make arrangements to institutionalise the learning (Amy, 2008).

Having a commitment to learn usually gives organisations several benefits. For example, it gives them an ability to tailor their resources in line with demands of the external environment; provides them with a shared sense of purpose (Baker & Sinkula, 1999), and helps them in assimilating new ideas and knowledge (Hurley & Hult, 1998). Furthermore, a learning orientation improves the organisation's communicative ability at all levels, and it enables its employees to experiment with new ways of doing things, which in turn grants the employees greater familiarity and understanding of their firm's strategic priorities and makes them more inclined and committed to its initiatives.

Innovation takes place if there is sufficient learning and experience (Cohen & Levinthal, 1990), and if the learning orientation is exhibited to a high degree, there is greater likelihood of making the innovation successful (Baker & Sinkula, 1999). They also tend to arrange for the acquisition, assimilation and dissemination of knowledge for assisting in the implementation of their strategies (Hurley & Hult, 1998). Organisations therefore focus on institutionalising learning and the creation of knowledge as important dimensions of their strategic planning, which significantly enhances their capability for innovation (Jelinek, 1979).

Different learning processes enrich organisations' store or 'stock of knowledge' (Malerba, 1992). By institutionalising learning, an organisation can share new and useful knowledge between its units (Schulz, 2001). The effective utilisation of existing knowledge resources by organisations

enhances their capability for innovation (Subramaniam & Youndt, 2005). Notably, institutionalisation of learning does not necessarily involve codifying knowledge; rather, it means developing 'a culture of emphasis on learning' as an important aspect of organisational processes (Shrivastava, 1983).

In view of the above information from the literature, the following second correlation hypothesis was developed to test for the possible moderating role of commitment to learning in the relationship between strategic planning and innovation:

*H2: The positive effect of strategic planning on innovation is higher for organisations with greater commitment to learning relative to those with a lower level of commitment to learning.*

### Structural flexibility

When innovation is treated as a vital part of an organisation's strategy, structures are developed by the organisation that are necessary for supporting organisational creativity (Utterback, 1994). A culture of innovation can be sustained by reducing the degree of formalisation among the organisation's employees working at different levels and by broadening the control span (Cummings et al., 1975). Over-formalisation however, may restrict the organisation's ability in dealing with uncertainty.

Cummings et al. (1975) conducted an experiment in which participants in their study were tasked to meet set objectives through thinking creatively without compromising with the controls imposed on them. It was found that the rigid structures hindered the participants severely for innovating in terms of their thinking and behaviour. Organisations successful in innovation tend to be ones that operate on the basis of mutual adjustment instead of the managerial principle of commanding (Kanter, 1985). It is therefore essential for organisations to show their support for innovation among their employees, but in a way that does not impose rigidly or 'non-controlling behaviour' (Cummings et al., 1975).

Rigidity may also be present in structures due to centralisation. According to Cardinal (2001), communication tends to be deficient in the system when there are centralised decision making processes in place. In a strictly hierarchical organisation where decision-making is concentrated at the top, informal communication tends to be limited, and the reduced informal communication obstructs the ability of employees to share knowledge and participate in the decision-making. Knowledge-sharing and participation by employees are both important for innovation. Another tendency under centralised decision-making is the prohibitions on employees engaging in 'out-of-the-box thinking' (Schepers & Berg, 2007) because it compels them to think only in a particular approved way. This situation hinders innovative thinking significantly (Amabile, 1998). Centralised decisions aid managers in meeting strict timelines, but this creates difficulties for employees in offering innovative solutions (Amabile, 1998). One solution to this dilemma offered by Catmull (2008) allows creative teams are given charge to manage their time and work. This is in line with the general consensus that structural flexibility makes organisations more capable of innovating.

There are also studies in the literature that indicate no negative relationship between structural rigidity or structural controls and innovation. For example, Adler & Borys (1996) suggested that if there is a perception among members of an organisation of their personal goals being aligned with those of their organisation, they become inclined to work in formalised processes. If there is congruence or overlap between the two, then are likely to comply, and to accept the mechanisms of control imposed by their organisation (Spitzmuller & Stanton, 2006). Moreover, if the employees value creativity, and they perceive that their organisation is supportive of innovation, then they are likely to appreciate and understand its need for imposing discipline in order to support innovation (Larson & Callahan, 1990).

From the review of literature, it is noted that some researchers emphasise complete freedom (Ocasio & Joseph, 2008) and flexibility, whereas others claim structural controls pose no problem for



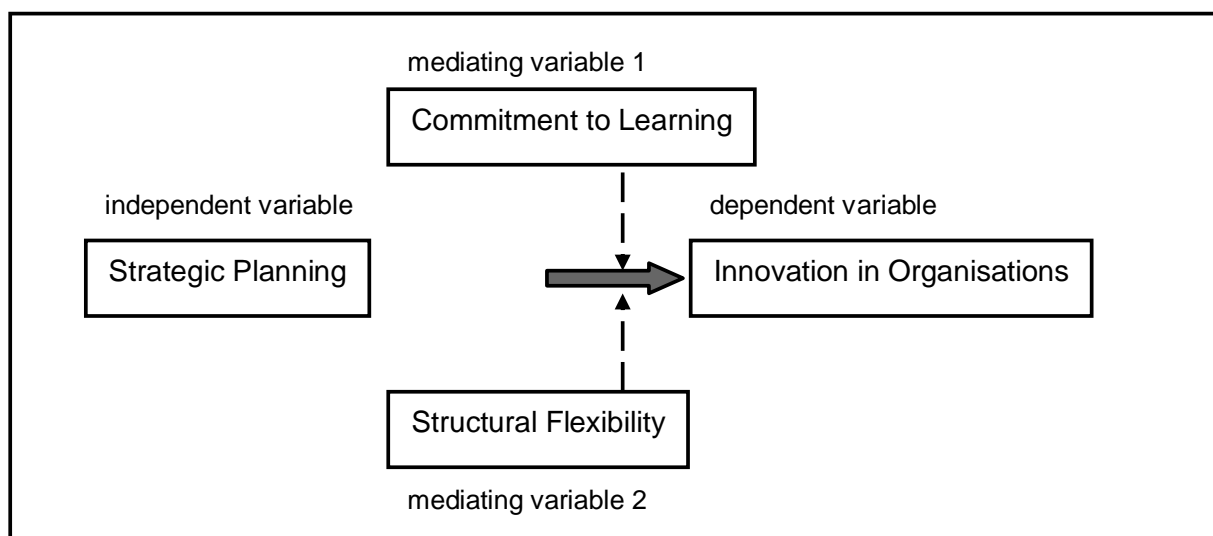
innovation (Cummings et al., 1975). This raises the question as to what organisational structure would be suitable for supporting innovation. The difficulty is that the exact deliverables from innovation are not clear or precise, so structural rigidity can constrain creativity (Mumford, 2000). It would require every single member of an organisation to be granted autonomy so that they can decide their best course of action to achieve the targeted expectation. Regardless, coherent innovation typically occurs in stages as an outcome of different organisational members possessing various skills, which makes it essential for these members to be clear on what is expected from them. The creative members may not be controllable beyond a certain point, so organisations need to establish structural controls optimally for supporting creative freedom whilst also justifying its commercial imperatives (Lampel et al., 2000). It could be that this is the optimum balance for effective innovation. That is, structural controls can either support or obstruct creativity depending on how they are utilised (Woodman et al., 1993). The need for a right balance means that flexibility can be detrimental for innovation if it is either too little or too much.

As long as the structural flexibility is moderate, being neither too little nor too much, if there is also a high degree of planning, it could lead to clear objectives and high autonomy, both of which are essential for innovation. Although creativity can thrive in this situation, innovation itself is a different matter. Even if planning is adequate, deficiency in structural flexibility can restrict employees' creativity. When strategic planning coexists with decentralised decision-making, several complementary benefits ensue in the attempt to innovate (Andersen, 2004).

Based on the above information from the literature review, the following third correlation hypothesis was constructed, for the possible moderating role of structural flexibility in the relationship between strategic planning and innovation, and the framework proposed is presented in below:

*H3: The positive impact of strategic planning on innovation is greater for organisations in which structural flexibility is moderate relative to those in which structural flexibility is either very low or high.*

Figure 1: Framework proposed in this study



## METHODOLOGY

### Sampling and data collection

The data for this study was collected by means of administering a survey to 230 SMEs across all provinces of the kingdom during the four-month period from September to December, 2019. This excludes 21 questionnaires which were inadequately completed, 6 where the firms did not fulfil the criteria of an SME, and 43 that were not returned. The original list of 300 SMEs was prepared from information from several industry associations. Since entrepreneurs or founders of SMEs themselves tend to have most or all of the strategic planning related information, the questionnaires were sent directly to them.

An enterprise was considered as an SME according to the criteria by the Saudi Arabian General Investment Authority, which specifies the limits of 100 employees and 20 million Saudi Riyals in capital (Alotaibi, 2014). Table 2 below presents the profile of the sample of 230 Saudi SMEs surveyed from the population of SMEs throughout the kingdom. In Saudi Arabia, these are enterprises with less than 100 employees and under 20 million Saudi riyals in capital, as defined by the Saudi Arabian General Investment Authority. The mean size of firms in terms of number of employees was 62, the firms existed for a mean age of 16 years, 38.7% were from the construction sector, and 48.7% were sole proprietorships. Representations from other sectors and ownership types are as mentioned.

*Table 2: Sample demographics*

Size of firm in terms of number of employees (mean; standard deviation)	Age in years	Industry type (n=230)	Ownership type (n=230)
Mean 62 (sd 81)	Mean 16 (sd 13)	Construction: 89 Real estate: 24 Oil and gas: 10 Automotive: 13 IT: 26 Telecommunications: 34 Finance: 30 Other: 4	Sole proprietorship: 112 Partnership: 73 Private/Limited: 33 Other: 12

### Constructs

The constructs applied in this study were captured at the level of the organisation using current scales after first conducting a comparative analysis of different scales suitable for strategic planning and innovation. This involved carrying out interviews with 20 Saudi SME founders, and required adopting a scale that emphasised innovation in both services and processes. The scale was comprehensive, evaluated important aspects, and also focused on the language used to make it easy to understand and apply.

This instrument, presented in Table 3, assesses four constructs (strategic planning, commitment to learning, structural flexibility, and innovation) and comprises of six items for capturing innovation: product innovation, process innovation, innovation in methods of organising, market innovations, supplier innovation, and administrative innovations. It was originally devised by Johannessen et al. (2001) for capturing innovation in organisations who reported a Cronbach's alpha of 0.86 for this scale. The responses were made on a 5—point Likert scale ranging from “no extent” to “a large extent”.

*Table 3: Scales adopted in this study*

Construct	Item
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Strategic planning	Kindly indicate the emphasis in your organization on the following parameters: Number of planners in your firm Time spent by the CEO in strategic planning Involvement of staff managers in strategic planning Resources provided by strategic planning Emphasis during strategic planning on purchasing/procurement function Emphasis during strategic planning on personnel function Emphasis during strategic planning on finance function Emphasis during strategic planning on marketing function Emphasis on past performance Emphasis on reasons of past failure Attention to supplier trends Attention to customer/end user preferences Attention to general economic and business conditions Involvement of line managers in strategic planning Acceptance of the output of strategic planning by top management
Commitment to learning	Managers basically agree that our business unit's ability to learn is the key to our competitive advantage. The basic values of this business unit include learning as key to improvement. The sense around here is that employee learning is an investment, not an expense. Learning in my organization is seen as a key commodity necessary to guarantee organizational survival. Our culture is one that does not make employee learning a top priority. The collective wisdom in this enterprise is that once we quit learning, we endanger our future.
Structural flexibility	In our organization, tasks and functions can easily be modified. Our organizational structure is not fixed and can easily be modified. Control systems are modified often in our organization. People in our organization don't have a fixed position, but often carry out various jobs.
Innovation	Has your company made changes that were perceived to be new for the company, within the following areas? New products New services New methods of production Opening new markets New sources of supply New ways of organizing

### Strategic planning

For measuring strategic planning, the researcher used the conceptualisation of Venkatraman & Ramanujam (1987). It was considered suitable because it is based on examining several dimensions of strategic planning in an integrated manner, which allows for testing the importance of these dimensions with respect to outcomes of organisational innovation.

The same was also operationalised as a second-order construct so that deeper insight could be gained during the analysis. The scale was able to capture six critical sub-elements of strategic planning: provided resources, resistance, internal emphasis, external emphasis, functional coverage, tools and techniques used. Venkatraman & Ramanujam (1987) obtained a reliability coefficient alpha that ranged between 0.54 and 0.87 for the different dimensions. The responses were indicated



on a 5-point Likert scale ranging between “significantly low” to “significantly high”. A low score on this scale indicated low emphasis on strategic planning overall, and a high score indicated higher emphasis.

### **Commitment to learning**

For measuring commitment to learning, Baker & Sinkula’s (1999) scale of commitment toward learning was used. This is a 6-point scale with a sub-dimension of 18 items related to learning orientation. The researchers reported a reliability coefficient alpha of 0.72. The responses were gathered using a 5-point Likert scale ranging between “strongly disagree” to “strongly agree”.

### **Structural flexibility**

For structural flexibility, the 4-item scale of Van Der Weerd (2009) was adopted for which its authors reported a Cronbach’s alpha of 0.69 and AVE (average variance extracted) of 0.52. The responses were gathered on a 5-point Likert scale ranging between “strongly disagree” and “strongly agree”.

### **Controls**

In line with previous research, a number of firm and industry or sector-level controls were included in order to filter their potential effects. The firm-level controls included size and age of the firm, which were controlled by number of employees and age respectively (Gupta & Batra, 2016), and the sector-level controls were technological change, market growth and dynamism in the market, which were controlled and operationalised using single-item scales by Baker & Sinkula (1999).

### **Screening of the data**

Before testing the hypotheses, median values were substituted for all the missing values for all of the variables since median imputation is considered to be more effective (Gmel, 2001). In the cases of size and age of the firm, the missing values were replaced by the series mean. Multiple steps were then applied for screening the data stringently. This involved conducting tests for normality, linearity and multi-collinearity. The findings from these tests showed the data gathered to fulfil the assumptions underlying SEM (structural equation modelling).

### **Confirmatory factor analysis**

A number of CFA (confirmatory factor analyses) was conducted using SEM on each measure individually in order to establish their fitness. The reliability statistics for all constructs are presented in Table 4 below.

*Table 4: Reliability statistics*

	<b>mean</b>	<b>SD</b>	<b>items</b>	<b>alpha</b>	<b>CR</b>
Strategic planning	2.85	0.81	15	0.93	0.95
Commitment to learning	2.63	1.07	5	0.92	0.94
Structural flexibility	2.94	0.88	4	0.96	0.96
Innovation	2.96	0.90	6	0.92	0.91

The conceptualisation of strategic planning was done as a second-order construct comprising of six dimensions, as proposed by Venkatraman & Ramanujam (1987). The analysis led to devising a five-factor model based on a total of 15 items. With one exception, the items subjected to analysis had a loading over 0.5, treated as the standard cut-off level for retaining items (DiStefano, 2002). The composite reliability for this scale was 0.95, and the Cronbach’s alpha was 0.93. This indicated a good degree of reliability. The AVE value found to be 0.80 was above the 0.5 threshold (Fornell & Larcker, 1981), which indicated convergent validity. The model was then compared to a first-order model where items were made to load on strategic planning directly. The original second-order conceptualisations were kept since the fit indices worsened.

After running the six items in the commitment to learning scale through the CFA, one reverse-coded item did not suggest acceptable factor loading. This item was therefore removed, and only the five remaining ones were subjected to the analysis. Of these, two sets (1-2 and 3-6) showed very

high levels of modification indices, and further inspection showed them to have very similar wording. The two pairs were therefore permitted to co-vary. Notably, all item loadings exceeded the 0.5 threshold (DiStefano, 2002). The composite reliability for this scale was 0.94, Cronbach's alpha was 0.92, and AVE was 0.82. Since this was greater than the threshold, it indicated convergent validity (Fornell & Larcker, 1981).

For structural flexibility, the four-item scale was tested for fitness. The factor loadings were above the 0.5 threshold (DiStefano, 2002), Cronbach's alpha was 0.96, composite reliability was also 0.96, and AVE was 0.85. Since this was greater than the threshold, it indicated convergent validity (Fornell & Larcker, 1981).

All six items in the measure used for innovation showed acceptable factor loadings, but a very high correlation of error terms after reviewing the modification indices for both product and service innovation. It may be that the firms faced difficulty in differentiating between the two although most of them were found to be focused on products relative to services. The item for service innovation was therefore permitted to vary in line with that for product innovation. Factor loadings were greater than 0.5 based on standard regression weights (DiStefano, 2002), Cronbach's alpha was 0.92 for the scale, composite reliability was 0.91, and AVE was 0.57. Since the latter was above the threshold of 0.5, it indicated convergent validity (Fornell & Larcker, 1981).

Finally, discriminant validity was established in the study. If the square root of the AVE value was found to be greater for a construct relative to its correlation with other constructs, it was treated as being distinct (Fornell & Larcker, 1981). Table 5 below gives details of the AVEs for the different constructs. The square roots of the AVEs are in the diagonal matrix, and the correlations are shown in the lower left matrix. All the constructs satisfy the condition for discriminant validity, and therefore all of them were accepted as being sufficiently distinctive.

*Table 5: Discriminant validity*

	<b>SP</b>	<b>Structure</b>	<b>Learning</b>	<b>Innovation</b>
Strategic planning	0.91			
Structure	-0.12	0.94		
Learning	0.09	-0.05	0.86	
Innovation	0.62	-0.17	0.58	0.87

### Mediation models

The framework presented earlier in shows the main relationship being tested is the impact of strategic planning (as the independent variable) on innovation in organisations (as the dependent variable). Additionally, two further variables, namely commitment to learning and structural flexibility, were tested for their possible mediating role in this relationship. The extended mediation model (see and below) suggests that one or both of the mediating variables might clarify the nature of the main relationship. That is, strategic planning affects either or both mediating variables, which in turn impacts on the outcome of innovation. The whole analysis, including testing for mediation, was done using SPSS software.

Figure 2: Extended mediation model incorporating commitment to learning

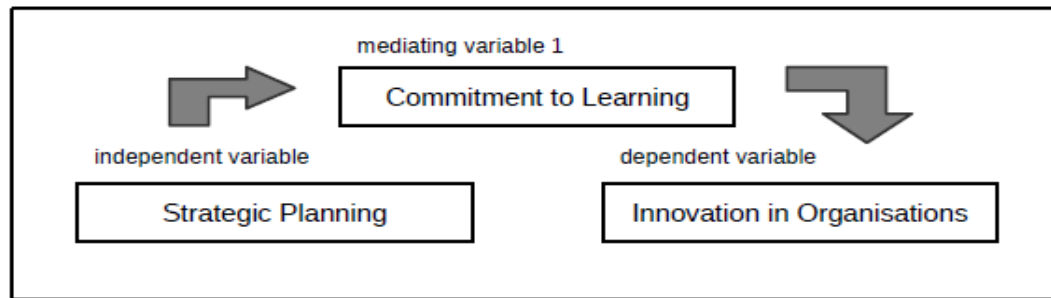
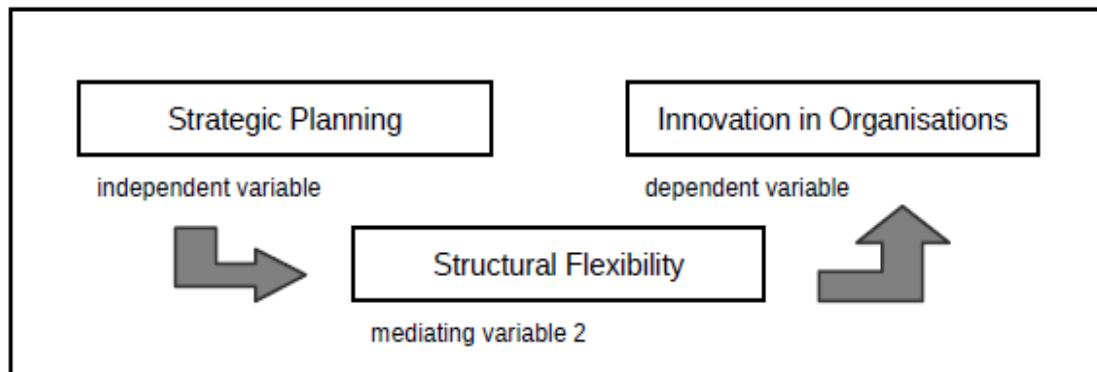


Figure 3: Extended mediation model incorporating structural flexibility



### Model of complete measurement

Having evaluated the constructs to test for individual fit, the constructs were then placed into the model for complete measurement in order to establish whether the model proposed in this study fits the data gathered. For this purpose, all four constructs (i.e. strategic planning, commitment to learning, structural flexibility, and innovation) were permitted to freely co-vary. The CFI (comparative fit index) was calculated to be greater than the 0.9 threshold (or CFI=0.94 precisely) for the proposed model, and the RMSEA (root mean square error of approximation) value was found to equal the 0.6 limit considered as acceptable (DiStefano, 2002) (see Table 6). The standardised loadings were also well over the cut-off limit of 0.5 for all the items.

Table 6: Confirmatory factor analysis for the scales used

	CMIN /DF	CMIN /DF	NFI	CFI	TLI	RMSEA
	Chi-Square/Degre e of Freedom	Chi-Square/Degre e of Freedom	Normal Fit Index	Comparative Fit Index	Tucker-Lewis Index	Root Mean Square Error of Approximatio n
Resources for SP	2.71, 2	2.15	0.99	0.98	0.98	0.05
Resistance to SP	49.1, 4	9.98	0.85	0.88	0.61	0.24
External analysis	105.2, 8	12.73	0.69	0.79	0.68	0.21
Functional coverage	70.3, 12	5.03	0.77	0.83	0.70	0.19
Strategic planning	212, 73	2.72	0.90	1.00	0.92	0.16

Innovation	9.11, 9	1.28	0.97	1.00	1.00	0.07
Structural flexibility	0.83, 5	0.36	0.94	0.94	0.99	0.02
Learning orientation	0.39, 4	0.14	0.89	0.89	0.93	0.01
Whole model	713, 375	1.73	0.87	0.91	0.95	0.09

### Test for common method variance

Since dependent and independent variable related data were given by the same respondent, it is possible there is some common method variance. Tests were therefore conducted for common method bias using Harman's single-factor test (Podsakoff et al., 2013) in which items of each variable were entered for conducting principal component factor analysis. Barlett's test is recommended for checking sufficient correlations prior to carrying out the factor analysis (Cheng & Krumwiede, 2012). The index obtained for Bartlett's test was significant, which allowed for factor analysis to be performed. When the items for all four constructs were entered for conducting this analysis, it emerged that none of the components were dominant. The common method variance was not therefore of concern.

The common latent factor was then entered into the measurement model so that all the items could be loaded on this factor from each construct. No enhancement was applied after the latent factor was added. The values obtained were as follows: CMIN/DF=1.68; CFI=0.91; TLI=0.95; RMSEA=0.08. The change in factor loadings prior to and after adding the latent factor was found to be insignificant. In view of these results, it was concluded that the common method variance is not of concern.

### Test for non-response bias

In order to test for non-response bias, the procedure of Armstrong & Overton (1977) was applied by comparing the responses of one set of 30 firms selected from the beginning of the list to another set of 30 firms selected from the end of the list. The first group submitted their responses on the spot, and the second group gave their responses when they were revisited. All the parameters in this study were tested. No significant differences were found between the two groups. This established that non-response bias was not a major concern.

### Test for inter-rater reliability

For testing whether the data and analysis suffered from any single-informant bias, the firms were asked to complete another response by another senior executive for two of the four constructs, namely strategic planning and innovation. These dual responses were requested and returned by 50 firms in the whole sample, of which 47 were accepted for inclusion in the analysis. Some values were missing in the other three responses.

In order to evaluate informant bias, the intra-class correlation coefficients were calculated. For innovation, this was 0.68, and for strategic planning, it was 0.87. Since both are above 0.6 as the cut-off value (Bliese, 1998), the results confirm the presence of good inter-rater reliability from which it is concluded that the key informants in this study have given responses that can be considered as reliable.

## FINDINGS

### Interview findings

The interviews with 20 SME founders revealed information about innovation in a variety of Saudi SMEs. Besides confirming that Saudi firms undertake innovative practices, they also revealed strategic planners engage in a range of activities that necessitate time, resources and motivation. However, a common concern expressed during the interviews was being restricted by how much time and resources they were able to assign to strategic planning. Motivation alone is insufficient when time and other resources are limited. A few interviewees also pointed out that small enterprises like theirs are not well-prepared for the new direction being taken by Saudi Arabia toward a knowledge-based economy for the same reasons. They expressed willingness to embrace

innovation, but sought more support from the government, especially in terms of finances and technology.

As with motivation toward strategic planning, and willingness to innovate, there was no indication of any lacking in commitment to learning except for being restricted by how much they could dedicate themselves and their employees to be more learning-oriented. On the other hand, it was apparent from the interviews that SMEs enjoy greater structural flexibility relative to larger enterprises. Examples were given of how the founders managed to arrange not only minor but complete restructuring in ways that would not be possible in large organisations within a small period of time.

### Correlational analysis

The results of the correlation analysis among the different constructs considered in this study are presented in Table 7 below. Notably, none of the correlation values are greater than the cut-off value of 0.65 (Tabachnik & Fidell, 1996). This shows there is no presence of multi-collinearity.

Table 7: Results of the correlation analysis

Variable		Age	Size	MG	TC	MD	CI	REG	SP	LEARN	SF
-	Age	-	-	-	-	-	-	-	-	-	-
-	Size	0.30**	-	-	-	-	-	-	-	-	-
MG	Market Growth	0.01	0.08	-	-	-	-	-	-	-	-
TC	Technological Changes	-0.17*	0.02	0.35***	-	-	-	-	-	-	-
MD	Market Dynamism	0.08	0.20*	0.44***	0.41***	-	-	-	-	-	-
CI	Competitive intensity	0.12	-0.03	0.24*	0.17*	0.23**	-	-	-	-	-
REG	Regulations	-0.09	0.34	0.18	0.21	0.15	0.13	-	-	-	-
SP	Strategic Planning	0.10	0.31***	0.12	0.19	0.23*	0.11	0.18	-	-	-
LEARN	Commitment to Learning	-0.15*	0.18	0.05	0.09	0.12	-0.08	0.14*	0.10	-	-
SF	Structural Flexibility	0.13	-0.05	0.02	0.04	0.03	0.01	-0.06	-0.20**	0.01	-
INNO	Innovation	-0.08	0.33***	0.20	0.18	0.31**	-0.08	0.21	0.58***	0.49***	-0.08

\*p<0.05; \*\*p<0.01; \*\*\*p<0.001

### Hypotheses

The results of the regression analysis are presented in Table 8. To multi-collinearity effects, standardised values were used prior to calculating the effects of the interaction (Aiken & West, 1991). Only the controls were entered into the first model, and strategic planning was entered as the independent variable in the second model.

The results show that strategic planning has a positive impact on innovation to a significant degree, which validates the first hypothesis. Additionally, commitment to learning was found to have a highly significant interaction effect on strategic planning, which validated the second hypothesis. The innovation relationship model is shown in Model 4. Although the level of structural flexibility was hypothesised to moderate the relationship between the two constructs of strategic planning and

innovation, the coefficient was found to be not significant with respect to the interaction term. This result therefore invalidated the third hypothesis.

Table 8: Results of the regression analysis

Dependent Variable: Innovation		Model			
		1	2	3	4
-	Age	-0.19**	-0.16**	-0.10	-0.13
-	Size	0.27***	0.15*	0.08	0.07
MG	Market Growth	0.06	0.08	0.09	0.04
TC	Technological Changes	0.09	-0.02	0.00	-0.01
MD	Market Dynamism	0.15	0.13	0.10	0.07
CI	Competitive intensity	-0.03	-0.07	-0.03	0.00
REG	Regulations	0.17	0.11	0.05	0.01
SP	Strategic Planning	-	0.57***	0.61***	0.41***
LEARN	Commitment to Learning	-	-	0.41***	0.38***
SF	Structural Flexibility	-	-	0.07	0.07
	SF x SF	-	-	-0.02	-0.01
	SP x Learn	-	-	-	0.21***
	SP x SF	-	-	-	0.09
	SP x SF x SF	-	-	-	0.12
	R <sup>2</sup>	0.18	0.37	0.58	0.70
	Model F	4.96***	14.46***	23.25***	19.84***

\*p<0.05; \*\*p<0.01; \*\*\*p<0.001

## DISCUSSION

### Theoretical contributions

The association between strategic planning and innovation has been unclear and inconclusive in previous literature. The present study has shed light by pointing out that this association is dependent on the context, and it therefore explored the relationship further in the specific context of Saudi SMEs.

The role of strategic planning was first explored in terms of facilitating innovation in organisations. For innovation to be successful, there must be commitment and deliberate resource planning. It is usually thought that emphasising key resources heavily can create inflexibility due to the over-emphasis on those resources, and that this makes it difficult for the firm to undergo transitions to utilise other resources (Zhou & Li, 2010). Organisations that plan properly however, do manage to overcome the inclination of emphasising only key resources besides investing in them. They achieve this by creating the ability to use resources in distinctive ways (Griffith et al., 2006), or by reconfiguring their resources in order to respond more effectively to the changing environment (Zahra et al., 2006), or by developing new resources.

Suitable and effective planning increases the likelihood of gaining competitive advantage. Smaller SMEs in particular can take advantage of this opportunity since they tend to face the problem of resource constraints, especially lack of finances (Alotaibi, 2014). In these cases and also for SME startups, the ability to integrate the resources they do have is essential so that they can apply those limited resources in various ways (Wu, 2007; Batra et al., 2015).

Another important contribution of the present study is the demonstration of how the interaction of strategic planning and commitment to learning can play a useful role in strengthening outcomes for innovation. The findings showed that this learning moderates the relationship between the two constructs of strategic planning and innovation positively.



A number of implications of this finding can be made. Firstly, learning-oriented planning serves as a pivotal means for directing the innovation (Taylor, 1984). Secondly, it may not be possible for a strategic plan to be made and implemented in a rigid manner because organisations need to monitor the environment continuously in which they operate, then amend their plans to become more adaptable and responsive to their environment, and also to continue learning and evolving along. Naveh et al. (2006: 282) described the exploratory aspect of innovation as involving “skilful enquiry and [providing] the facility to gain insights, challenge assumptions, step beyond existing frames, and create new and more comprehensive models”. The innovation is more likely to lead to a successful outcome if this learning becomes an integral part of the strategic plan.

Additionally, structural flexibility was considered as capable of enhancing strategic planning effectiveness in terms of making the innovation successful. Previous studies suggest structural flexibility is related to organisational innovation positively (Andersen, 2004; Schepers & Berg, 2007). There is no support in this study for structural flexibility moderating the association between the two main constructs (strategic planning and innovation). A possible explanation for this is that the positive effects for structural flexibility were found in the context of larger firms, not SMEs. The situation for SMEs is different, as structural flexibility and freedom in performing tasks are not as important as for the larger firms (Cokpekin Knudsen, 2012). In the case of smaller firms or SMEs, employees need more systemic intervention.

Furthermore, structural flexibility has only “minimal direct impact of organizational structural variables [that] can be explained based on the typically low levels of formalization, control systems, and coordination systems in small business” (Pelham & Wilson, 1996: 35). Given that SMEs in developing and emerging economies typically operate in dynamic and volatile environments, as is the case in Saudi Arabia, the findings of this study strengthen those findings in other studies which found strategic flexibility does not play a major role. It would be advisable to conduct further research as far as the mediating impact of structural flexibility is concerned.

### **Practical implications**

The present study gives valuable insight into owners or entrepreneurs of SMEs in Saudi Arabia, which tend to have few resources than larger firms. Based on the interview findings, as may be expected, the main constraints identified on the extent of strategic planning they were able to engage in were lack of finances and other resources, and deficiencies in technological expertise. This is the same situation that was highlighted by Alotaibi (2014) for which innovation was suggested as a way to overcome these constraints. However, the path to innovating is more challenging for smaller enterprises compared to larger organisations with ample finances, other resources and access to greater technological expertise.

Due to their resource constraints, SMEs are often unable to endure the risks that would be necessary for conducting a deep strategy of exploration (Cao et al., 2009). For such firms, even a minor complication can be fatal, which means they have ‘lower margins for error’ as compared to larger firms (Wright et al., 2005: 14). On the other hand, smaller firms also have potential advantages over larger firms with greater access to resources by gaining a sustainable competitive advantage if they adopt the right strategies (Simon & Hitt, 2003).

A number of strategic actions can be helpful for Saudi SME owners or managers to gain this sustainable competitive advantage. For successful innovation, the managers should construct a coherent organisational structure and develop appropriate strategies that together support innovation and creativity. Furthermore, since high levels of market orientation are linked to high levels of innovation and performance (Salavou & Lioukas, 2003; Mavondo et al., 2005), they should give attention to understanding their external environment whilst undertaking the planning.

Under a condition of rapid changes in the market, market-oriented firms tend to be better equipped generally for adapting to the pace of those changes because they are able to make ‘superior innovations’ (Cheng & Krumwiede, 2012). The strong market-orientation allows the firms to

transfer their resources from competitor-emphasis to customer-emphasis according to market conditions and organisational needs (Slater & Narver, 1995). With smaller SMEs in developing economies, this focus on external conditions could help to create more successful dynamic capabilities (Zhou & Li, 2010).

Schindehutte et al. (2008: 5) stated that “firms attempt to achieve sustainable advantage by responding to the market, fundamentally modifying the market, or attempting to create a new market”. If the firm fails to carry out strategic planning thoroughly enough, it can hardly respond to the market, whereas firms that do carry out strategic planning extensively are more likely to be able to develop new markets through innovative practices and processes.

For developing countries like Saudi Arabia, the extent of environmental uncertainty makes it necessary for its SMEs to develop new resources and capabilities, as suggested by Wright et al. (2005) for SMEs in general. The choice of resources available to an organisation has an impact on its knowledge base (Zahra et al., 2006), and therefore on its potential for innovation. In addition, those firms which allocate their limited resources to exploit the environmental opportunities presented to them tend to exhibit better performance (Griffith et al., 2006).

### Limitations of the study

The present study was conducted under some limitations. All the variables analysed were measured at the same time using cross-sectional data. It was inferred from this that strategic planning is associated with innovation positively, which is the most that can be inferred. As with correlational analysis in general, it is not possible to make a claim of causality between the variables. Furthermore, since the data for both sets of variables (dependent and independent) were gathered from the same firms, there is a possibility of some common method bias. Despite the statistical test for checking the presence of this form of bias and confirmation that it is not an issue, it would be preferable to design further research in a way whereby responses for strategic planning and innovation can be collected from a variety of individuals.

Another limitation was the adoption of subjective measures for innovation. This was done because of the difficulty of comparing innovation among firms in different sectors using objective data. Relying on subjective data instead for comparing among sectors can be advantageous (Wang & Ang, 2004), although there is a risk of introducing bias (Khazanchi et al., 2007). More studies are needed to include objective data besides subjective data.

Although the firms in this study are located from all regions of the Saudi kingdom, there are concentrations in major cities, especially Riyadh and Jeddah. These cities are therefore over-represented, which means there is an issue with how generalisable the results and findings are for the context of Saudi Arabia. Issues may also be raised for applying these findings to SMEs in other countries with different cultural contexts.

### Scope for further research

The relationship between strategic planning and performance in organisations is complex, as there are other possible implications of planning strategically as well (Ramanujam & Venkatraman, 1987). More empirical research is needed to investigate these implications, especially in terms of strategy and performance.

One contribution of the present study has been to examine these implications for innovation in SMEs, but there are also other strategies, outcomes of processes and dimensions of performance that can be explored. More research in this area could shed light on the implications of strategic planning on performance, which has been in dispute for quite some time.

Scope for further research can also be directed in view of the limitations in this study. It was not possible to examine the causal relationship between strategic planning and innovation because the data could only be collected during a short period. Conducting a longitudinal study may help to better understand this possible causality. Additionally, besides including firms from more areas of the kingdom, a broader sample can be obtained by including more service-oriented firms, or the

study can be extended to include SMEs from other developing countries or larger firms. The enquiry may be enriched further by using archival data or applying mixed methods.

As per the literature on strategic planning and innovation, only two moderators were included, namely structural flexibility and commitment to learning. Other potential moderators that may also impact on the effectiveness of strategic planning, such as organisational culture and the environment, should also be examined, which along with globalisation and leadership are intangible aspects of strategic planning (Katsioloudes, 2012).

Moreover, further research may be directed to validate the operationalisation of strategic planning as a multi-dimensional construct of the second order. This may then lead to better understanding of the implications of planning strategically on a number of organisational outcomes. If the operationalisation can be made extensively and in a uniform manner, this could also make it easy to compare between the results from different studies.

## CONCLUSION

This study on strategic planning as a determinant of innovation in Saudi SMEs was conducted to examine this form of planning as a comprehensive means for supporting the innovation. Furthermore, two contingencies were explored to analyse their moderating impact on this relationship, namely structural flexibility and commitment to learning. It was suggested that strategic planning by SMEs improves their capability for innovating, since it is thought that the planning integrates the different innovation determinants in several ways.

The findings in this study show that the two main constructs of strategic planning and innovation are correlated positively, and that the relationship between them is strengthened if the SME has commitment to learning. This upholds the validity of as a representative model for Saudi SMEs relative to the alternative model in . By learning, it is thought that an organisation's capabilities in understanding the needs of the market improves, and when this understanding is fed into the strategic planning process, the SMEs become capable of generating new ideas and implementing them in ways that satisfy those needs.

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