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Strategic Planning Process in Developing Countries: The Case of United Arab Emirates Business Firms

Fuad N. Al-Shaikh

Department of Business Administration, U.A.E. University

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Abstract

While research on strategic planning process has proliferated over the past two decades or so, little is known about this issue in the context of developing countries. The aim of this study was to investigate strategic planning process in the context of developing countries, with special reference to the case of United Arab Emirates business firms. A survey was designed to collect data from business firms in the Emirates.

Findings indicate that prevalence of strategic planning in United Arab Emirates business firms is still in its infancy. Only 10% of the surveyed companies use strategic planning. Furthermore, some companies seem to have a poor understanding of the practices of strategic planning. For instance, strategic planning in some companies is merely restricted to having plans without documentation. Although some companies do document their plans, the vast majority of these companies fail to have specific and measurable objectives.

Based on the results, recommendations were made. Companies in Emirates, regardless of their type, should take strategic planning seriously. Given the business environment that is expected to have dramatic changes over the years to come, and if the company is to survive in the future and to have a good standing in the market place, it should craft its strategic plan and be ready to deal with these changes.

Introduction

Management scholars have long addressed the significance of planning, in general, and strategic planning in particular (hereafter referred to as SP) (Stoner, 1983; Ackelsberg and Arlow, 1985; Bracker, Keats and Pearson, 1988; Khan and Al-Buarki, 1992; Schwenk and Shrader, 1993). Chief among the benefits that are often highlighted by planning adherents are: generating information, ensuring thorough consideration of all feasible options, forcing the company to evaluate its environment, stimulating new ideas, increasing motivation and enhancing internal communication and interaction.

During the years to come the need for strategic planning will be much more crucial than ever before. Significant changes have taken place over the past decade and their imprint on many aspects of life is very clear. Furthermore, the momentum of these changes and their implications are expected to last for some more years in the future. This situation will make SP significant for survival and competitiveness of companies. Unfortunately, a detached observer can easily see that strategic planning beyond the scope of the Western/Developed World is not taken seriously.

Some scholars might claim that in economic environments where competition is less intense, and where firms are more likely to be smaller and family-owned, strategic planning is hardly practiced. Therefore, it is not an important issue. This assessment does not apply to the United Arab Emirates. The country has a multicultural business environment. The workforce in the country comes almost from every corner in the world. Economic and business policies are liberal. People purchasing power is very high. Lucrative business opportunities are available in most sectors of the economy. For instance, Dubai, the commercial capital of the country is growing at a very fast rate. Because the business environment is attractive many multinational companies are locating and having their regional offices in Emirates. Recently an internet city

has opened in Dubai. This project is expected to receive many more companies operating in the information technology and its related industries. The country is stable, return on investment is relatively high, government restrictions on businesses are minimal, and the infrastructure is highly developed.

Theoretical Background

This section of the paper intends to shed light on some of the leading works in the field of strategic planning. Such an attempt should be helpful to understand the concept of SP and therefore, lay foundation for illuminating the need for the study and its objectives.

Over the past two decades or so, a substantial amount of research has been conducted on strategic planning. However, the emphasis of these studies varied. While some concentrated on prevalence of SP (Sexton and Auken, 1982; Stoner, 1983; and Waalewign and Seegar, 1993), others have stressed the links between SP and financial performance. Unfortunately, results of the latter studies are somewhat controversial. While some studies have indicated positive links between financial performance and SP (Boyd, 1991; Shwenk and Shrader, 1993; and Capon and Farley, 1994), others have failed to prove this link (Kudla, 1980; Robinson and Pearce 1983; and Robinson, Logan and Salem; 1986).

Despite the above observation regarding the controversial links between SP and performance, some scholars (Armstrong, 1986; and Capon, Farley and Hulbert, 1994) have attempted to conduct extensive reviews on this topic and found that positive planning-performance relationships outnumbered negative ones.

Consequently, one can argue that empirical evidence about the merits of SP supports the view that companies must make use of this practice. However, the bulk of such evidence emerged mainly from Western countries and the United States in particular. Hence, research conducted on this issue beyond Western countries seems to be meagre. This assessment does not apply only to the link between performance and strategic planning, but to prevalence of strategic planning as well.

The present study seeks to address this issue in a developing country, the United Arab Emirates. To the best of the author's knowledge little research has been conducted on this topic in the context of the developing countries in general, and the Arab countries in particular. Although Al-Shaikh and Hamame's study (1994) addressed SP in Jordanian business firms, this investigation dealt mainly with the units involved in SP, and the components of SP. Furthermore, the sample was restricted only to large business firms in Jordan.

In the Gulf countries, research on this area is rather more anaemic. The only exception was Khan and Al-Buraki's investigation (1992) on Bahraini firms, which only emphasised planners' familiarity and awareness of selected strategic planning tools.

Research Objectives

The purpose of the research can be divided as follows:

1. To confirm empirically the presence or absence of SP in the United Arab Emirates business firms.
2. To test whether SP practices have relationships with features of the firm or with characteristics of those in charge of the firms.
3. To investigate who is involved in setting SP in United Arab Emirates business firms.

Achieving the aforementioned objectives should be helpful to fill a gap in the literature. Furthermore, research results can also be useful for managers of business organisations, stakeholders who are interested in developing planning practices of business organisations, and training and educational institutions.

Definition and Operationalisation of SP

The concept of SP has been defined in different ways. Some scholars have emphasised formality or the extent to which planning documents exist (Stoner, 1983; Baker, Addams, and Davis, 1993), others have concentrated on sophistication, meaning whether the plan is structured or not (Kudla, 1980; Shrader, Mulford and Blackburn, 1989; Waalewijn and Segaar, 1993). Larsen and Ito have adopted another definition for SP. That is, *"a formal review of the company's strength and weaknesses and future prospects leading to decision aimed at the company's growth."* (1998,P.57). Sexton and Auken (1982) operationalised SP by the availability of written quantitative objectives in different areas of operations such as sales, and profit.

The present study attempted to combine more than one dimension of SP in the definition of the concept. Hence, SP is defined as follows:

"a long-term written plan that covers more than one year and contains information about projected earnings, rate of return on investment, breakeven point, projected sales, target growth rate, costs and expenses, and pro-forma financial statements for more than one year."

Respondents were asked about a series of questions that address the degree to which the company is involved in strategic planning. The degree of a company's involvement was classified into one of the following three categories:

1. the firm has no documented plan covering more than one year in the future. This category means that the company has no strategic planning.
2. the firm has a documented plan for more than one year. Firms in this category are engaged in some strategic planning.
3. the firm has a documented plan for more than one year which contains information about projected earnings, rate of return on investment, breakeven point, projected sales, target growth rate, costs and expenses, and pro-forma financial statements.

Firms here are considered to have sophisticated strategic plans.

The above definition and approach was adopted because it was thought that it is more comprehensive than other definitions. It incorporates the most widely used dimension of SP, namely the extent to which planning documents exist and some other dimensions such as the availability of quantified objectives and pro forma financial statements for more than one year. Furthermore, it is consistent with the definition used by many other studies (Wood and La Forge, 1981; and Shrader, Mulford, and Blackburn, 1989).

Some scholars might not agree with certain parts of the definition. For instance, they may not consider a less than 3-year plan to be a long-term plan. However, this issue is debatable. While, Shrader, Mulford, and Blackburn (1989), and Mathews and Scott (1991) agree with such definition, Robinson and Pears (1983) do not. The author believes that in the developing world more than one year can be viewed as long-term orientation given the fact that proliferation of SP in these countries is not as much as in the developed world. In other words, strategic and long-term orientation is a recent arrival in these countries in general and in the Arab countries in particular.

Furthermore, companies in this part of the world are much younger in age than their counterparts in the Western countries.

Research Design

Bearing in mind the research objectives and nature of the study, the research design was selected. It is well known that research designs can be classified on the bases of many criteria. Emory and Cooper (1991) identify some of these, such as degree of problem crystallisation, time dimension of the research, and method of data collection. As for the present research, and based on degree of problem crystallisation it is thought that the research is exploratory, as it is the first of its kind in the region. This may also explain why the research did not formulate hypotheses to be tested. However, the author does not claim that the present research is 100% exploratory in nature.

A survey was designed based on review of the literature and objectives of the research. Data was collected from companies in all 7 Emirates, which constitute the United Arab Emirates. Unfortunately, lack of a sampling frame made it difficult to draw a random sample. However, the sample consisted of firms in the manufacturing, services and commercial sectors. The total number of organisations that were approached were 282. Out of this number, only 131 firms agreed to cooperate. This represents, a response rate of 45%. All the firms that did not respond after the initial call were contacted for the second or the third time. These subsequent contacts helped to raise greatly the response rate which was only about 20% after the first call. Responses of four firms were unusable or incomplete. Hence, the analysis was based on 127 firms.

Limitations of the Study

The fact that this study relied on a nonprobability sample could inhibit us from making generalisations as not every population element had the same chance to be included in the study. Therefore, interpretation of the results should be done with care.

The robust criteria used by the study to classify firms in terms of their level of involvement in SP resulted in reducing the number of companies that were subjected to the analysis. This also complicated the matter because some statistical tests and

techniques were not possible to use especially on the variables that had many possible values.

Results

The responding companies were asked to indicate whether they prepare long-term plans covering more than one year or not. Table (1) provides a summary of the results. It can be seen from table (1) that the responding firms are almost split into two halves. One half prepares long-term plans, while the other half does not. At first glance, one may conclude that SP is practised by almost half of the responding companies. However, a clear idea can be obtained by considering the extent to which these firms document their plans. Many planning scholars regard documentation as the yardstick for availability of plans in a given company. Table (2) provides a summary of the extent to which the plans are documented. The table shows that documented plans are only found in 44 companies (70%) out of the 62 companies that reported to have long-term plans, which is almost two thirds of these companies. Therefore, one third of the firms that report to have long-range plans do not document these plans. Thus, it appears that long-range planning in such companies is not taken seriously or practised properly.

Table (1) Do companies have long-term plans?

	Number	Percent
Yes	62	49
No	65	51
Total	127	100

Table (2) Are plans documented?

	Frequency	Percent
Yes	44	70
No	18	30

Further analysis is needed to have a clearer picture about the availability of strategic plans. That is, the extent to which the companies that document plans have quantified objectives or long-range plans for the following areas: earning projections; return on investment; break-even point analysis; sales forecast; growth forecast; cost forecast, and financial statements. This analysis takes care of the third level of involvement in SP. Namely, the availability of quantified objectives. Only ten companies were found to meet this requirement. This group represents about (23%) of the companies that document plans and only about (8 %) of the entire sample.

Table (3) Reasons for not having long-range plans

Reason	Frequency	Percent
nature of the company/product	20	30.5
planning will not make things better	10	15.5
market conditions/ instability	9	13.5
size of the company is small	3	5.0
lack of financial and human resources	5	7.5
competition	2	3.5
other factors	6	9.0
no response	10	15.5
Total	65	100%

The aforementioned result is unequivocal. If the definition of SP is used, as adopted in the present research, it can be said that prevalence of SP in United Arab Emirates companies is rare. However, the question needs to be addressed as to why these companies do not seem to take SP seriously. Table (3) addresses this issue based on a question that was posed to the companies that reported not to have long-range plans.

Table (3) shows that 20 companies (30.5%) viewed nature of the company or the product as the main cause for not having long-range plans. The second most popular reason mentioned by the respondents is the view that planning will not improve the company's performance. This point of view was shared by 10 companies (15.5%). Such a result highlights an important issue. That is, a substantial percentage of companies do not believe in the merits of planning. In fact, one respondent has put it bluntly by saying: *"everything is in the hand of the God. I don't think that planning will change God's wills. No matter whether we plan or not."*

Table (3) also indicates that 5 (7.5%) firms do not take planning seriously because it is costly and requires human resources that the company does not have or is unable to afford. Furthermore, 2 respondents (3.5%) thought competition as an inhibiting factor that makes planning difficult. However, it is difficult to find a reason, which supports this idea. On the contrary, intense competition should make it much more important to plan. Another rather more interesting reason for not having long-range plans is a response by a company, which is the exclusive dealer of a foreign-made product. The manager in this company argued: *"we don't have to bother about SP. We are the exclusive dealer in the Emirates."*

The mean length of long-range plans is 3.3 years for all companies. This finding is consistent with results of previous studies (Larsen, Tongo, and Ito 1998). To compare whether the means differ between small companies and large companies, the means for small firms and large firms were calculated. This tests the hypothesis that is often made about lack of willingness among small businesses to plan. The mean of plans in small companies is 3.13 years, while the mean for large companies is 3.48 years. It is clear that the mean length of plans is longer in large firms than in small firms. However, a premature conclusion should not be made by these observations. Further analysis is required. Therefore, a t-test was used to clarify this issue. Table (4) presents a summary of the results. It is evident from the table that there are no significant differences between length of plans in small and large firms. This result is not consistent with previous studies, which indicate that the companies selecting short planning horizons are more likely to be small companies rather than large ones (Larsen, 1998).

Table (4) T-test for equality of means

Group	Means	t-value	Sig.
Small	3.13	1.108	n.s.
Large	3.48		

Are there links between length of the plans and characteristics of the responding firms or those in charge of these firms? The size of the company (measured by number of employees), its age (measured by years in business), and qualifications of the top manager in the organisation (measured in number of years in formal education) were regressed on the planning horizon of the firm.

Table 5 shows that R square is only .015 and the result of the model is not significant. This means that these variables do not explain the planning horizon of the responding firms. Such a result reinforces (at least partially) the results in table 3, which indicate that there are no significant differences between the mean lengths of plans in both groups (small and large firms). In other words, the planning horizon may be explained by other factors such as the product or the service the company produces, economic cyclical swings, and type of the business (Larsen, 1998). Houlden (1996) emphasizes the impact that economic conditions have on planning horizon. He gives an example from Britain and indicates that in the early 1990 when Britain had a recession businesses were more inclined to have short-term planning horizons, and they were driven by immediate survival which encouraged a degree of "short termism".

It is felt that there might be another possible explanatory factor for the planning horizon. That is, the culture or the environment in which the business operates. However, one cannot be definite about that without empirical investigation. To what extent does the environment/culture in the Emirates influence the planning horizon of firms is an issue that is worthy of investigation. In fact, empirical evidence from other countries has triggered this point of view. For instance, Japanese managers were found to be more long-term oriented than their American counterparts (Beldona, Inkpen and Phatak, 1998).

Table (5) Regression of company characteristics on planning horizon

predictors	R Square	F	Sig.
Size, company age and qualifications of the top man	.015	.217	n.s.

To investigate the differences between types of companies in terms of their planning horizon, an anova test was conducted. Table (6) shows that there are no significant differences between means of plans in the different types of companies. In other words, the length of the plan is independent of the type of company.

Table (6) Anova test for differences between type of company and its planning horizon

	Sum of Squares	F	Sig.
Length between	3.104	1.313	n.s.
Groups within	53.208		
Groups Total	56.313		

Table (7) presents a summary of the parties that are usually involved in setting SP. The table is based on responses of the 44 companies that indicated to have long range and documented plans. In 19 (43%) companies, the top management team is usually involved in setting strategic plans. Such a relatively large percentage of top management involvement is understandable, as SP is one of its main functions. Table (7) also indicates that the general manager in 12 companies (a little more than 1/4 of the companies) is the person who sets strategic plans. Although the top person in the hierarchy is expected to formulate strategic plans, the fact is that the top man solely prepares the plan by himself, which is worth questioning. Participation of other managers is very important, as it is likely to make the planning process more realistic. Furthermore, implementation of plans will be easier as managers will be more committed to the goals.

Table (7) Who is involved in strategic planning?

	Frequency	Percent
Top management team	19	43
Manager (General manager)	12	27
General manager + sales manager + finance manager	3	7
Planning department	2	4.5
All main departments	3	7
Accountants	2	4.5
Others	3	7
Total	44	100

Discussion and Implications for Future Research

Findings of the study highlight several points that are worth tackling. Prevalence of strategic planning in Emirates is low. It is true that some companies have reported that they make use of strategic planning, but this practice often falls short of documentation or quantified objectives. Added to that, some respondents believe that planning will not improve the company's performance. This means that not all companies are true believers in the value of SP. Therefore, it is interesting to wonder why it is so in the Arab countries and Gulf countries in particular. The impact of cultural and environmental factors may provide the answer to this query. However, to be certain, an empirical investigation must be carried out. But, an observer of the Arab culture can easily detect that the average person in the street is usually not concerned about the long run. This is not to say that all managers should be similar to the average person. However, some managers are like that. Earlier in this research it has been highlighted that some respondents (though not many) feel that the future can only be known by God. While this assessment is true, it should not be a reason for ignoring the value of planning for the long run. According to Islam, religion of the vast majority in this part of the world, the God urges people to plan first of all and then submit to his willing.

Lack of significant differences between small and large companies regarding planning orientations urges one to question the assumption that is often made about small business. This assumption states that small companies tend to have little concern about planning and to have shorter planning orientation than large firms. Again the cultural and environmental variables might be an explanatory factor. Unfortunately, it is hard to confirm that without empirical investigation. Hence, this issue could be a promising topic for future research.

The results have also shown that planning horizons seem to be independent of some variables such as company age, its size and qualifications of the top man in charge of the company. This finding is not consistent with the wide spread assumption that the larger the company and the older it is, the longer will be its planning horizon. Furthermore, it refutes the argument that large and old firms are likely to be established and therefore, have a clearer sense of vision for the future more than small and young firms. Logically speaking, it seems that this factor should have some impact on future orientations of the firm. However, the fact that most companies in the Emirates are new should not be ignored. In other words, it would be unfair to compare these companies with their counterparts in other countries that have been in business for tens or even hundreds of years. In fact, about 42% of the companies included in the study were 10 years old or less. This should be true for the entire population, as the Emirates itself is a new state.

Quite a few respondents have indicated that SP will not make things better. Managers' awareness of the value of SP should be enhanced. They should feel that it is worth carrying out SP. Business schools and training institutions can play significant roles in this field. More emphasis must be placed on training programs that address the value of strategic planning and its merits, with special reference to its consequences. A substantial amount of evidence has emerged from the developed world, which indicates that strategic planning is associated positively with financial performance and negatively with failure rates. To what extent is this valid in the developing countries in general and in the Gulf countries in particular? An attempt to answer this query offers an interesting avenue for future research.

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