Strategic Planning in Saudi SMEs: Case Studies in the Private Health Insurance Sector

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Abstract—
SME’s usually make a significant contribution to the host economy, but they tend to face many obstacles and challenges, especially related to finance and marketing. Recently, the Saudi government is giving a renewed attention to promoting SME’s, as well as the insurance sector, which faces additional challenges of stiff competition, and the need to satisfy customers’ high standards and expectations. This study sought to provide insight into how SME managers in the Saudi health insurance sector deal strategically with the issues they face. Five case studies were made, and the selected firms were analysed based on Mazzarol’s strategic management framework, which involved identifying characteristics pertaining to entrepreneurship, innovation, strategic networking, growth vector, and the strategic triangle. All of the firms are exhibiting growth, the newer ones had relatively more dynamic entrepreneurship and innovation, and there is evidence of more long-term strategic planning in two of the latter. None of the selected firms appear to be struggling in the way that is commonly described for SME’s generally, as they were found to be strategically prepared to cope with the challenges.

Index Terms—Strategic planning, Strategic implementation, SME, health insurance.

INTRODUCTION

This study examined the private health insurance sector in the Kingdom of Saudi Arabia with a focus on SME’s operating in this sector and the way they conduct strategic planning. Some background details are provided on SME’s in Saudi Arabia, their definition and challenges, further characteristics of the Saudi insurance sector, and in particular health insurance companies and the market characteristics. A brief literature review is then made of strategic management in SME’s in general. This is followed by details of the aims and methodology of the primary research to provide more insight into strategic management in the Saudi health insurance sector, details of the framework used for analysis, the findings and the analysis itself. These findings are then discussed in light of the literature review.

BACKGROUND

SMEs in Saudi Arabia

An SME is a small to medium sized enterprise having a small number of employees compared to larger enterprises although it may also be defined in terms of annual turnover and assets. The size threshold varies between countries, but for Saudi Arabia, this is 60 for small and 100 for medium according to the Saudi Arabian General Investment Authority. In terms of capital, it is 5 million Saudi Riyals for small and 20 million for medium.

SME’s often make a significant contribution to the growth and development of the host economy. In Saudi Arabia, their contribution is around 33% to GDP, and 25% to the labour force [1]. This percentage is usually much higher in other countries, but in Saudi Arabia the main catalysts for economic activity are the oil and public sectors with larger enterprises. However, it is projected to increase to 37%, and the number of licensed SME’s to rise to 2.5 million by the end of 2015 [2]. Currently, SME’s account for over 90% of all businesses (King, 2015), and employ over 80% of the workforce, so their role is also important in terms of generating employment.

However, findings from a survey by the Council of Saudi Chamber of Commerce and Industry (CSCCI) in Riyadh reveal that besides bureaucracy, major obstacles faced by SME’s relate to financing and marketing among others. In addition, common challenges faced by SME’s globally are globalisation and international trade integration. Recently, the Saudi government has been making some strides in reducing bureaucracy and improving access to finance for SME’s [3]. However, plans to implement a much needed nationally coordinated effort have still not been implemented, and SME’s remain challenged by the other issues as well.

The Saudi insurance sector

With the passing of the Cooperative Insurance Companies Control Law over a decade ago in 2004 (by Royal Decree M/32), the Saudi insurance industry underwent major regulatory reforms. Since then, the industry has transformed to having a “high standard of clear, transparent, and customer focused regulatory framework, with clear objectives of developing the Insurance Industry, promoting healthy competition, and protecting the interests of the policyholders” [4]. It has also grown rapidly, and there are now a large number of indigenous companies.

The insurance market is characterised by cut-throat competition, customers perceive a need to reduce payout delays, and there is potential for expanding in the wider Gulf region [5]. Even within the Saudi kingdom, there is still potential for growth, especially for health insurance, which has low penetration [6]. SME’s in the insurance sector face further problems of their own. Many firms have been suffering losses, especially due to fraud, and are struggling to survive in a saturated market [5]. Although the situation may have improved in recent years, there is insufficient research on firms operating in this sector.

Private health insurance companies

The private health insurance sector in Saudi Arabia came into existence following the Health Insurance Act in 1999. It is additionally regulated by the Council of Cooperative Health Insurance (CCHI).

The sector is dominated by three main players: Tawuniya, Medgulf and Bupa Arabia. Their combined market share stood at 49.91% as of 2011 [7]. In total, there are 26 health insurance companies based on those listed on the Tadawul Stock Exchange. Notably, many of these are concentrated in large cities, especially Riyadh and Jeddah. Other well known health insurance providers include Allied Cooperative Insurance...
Group, United Cooperative Insurance Company, AXA, and AMANA. A complete list is maintained by CCHI. Many of the smaller firms that satisfy the criteria of being an SME tend to have been established only in recent years.

Of particular importance in this sector are the service quality factors of information and communication technology, and gaining customer loyalty [8]. Customers nowadays expect high standards of service, and have high expectations [9]. With information and communication tools at their disposal, they are also more easily able to make comparisons between different insurance providers. Other important factors are growth, finance, marketing, and strong competition, as highlighted earlier for SME’s in general.

Strategic management in SME’s

Strategic management can help a firm to understand the current situation it faces and the context in which it operates, assess its strengths and weaknesses, have a clear sense of vision and mission, set goals and objectives, and so on [10]. These provide a clear sense of direction, and can also aid in managerial decision making. Strategic planning may take the form of closely monitoring and carefully analysing the current sector and markets, and developments therein, as well as wider related contexts and stakeholders, the actions of competitors, and so on. In an extensive study by [11], it has been shown that together with marketing, performance management and teamwork, strategic planning practices are essential for SME’s to survive in the long term.

Firms that engage in strategic planning tend to be those that are innovative, introduce new products, employ new processes, utilise new technologies, and achieve growth [12]. Consequently, they are also those that experience higher sales growth, greater returns on their assets, and higher margins on profit [13]. Moreover, small firms have an advantage over larger firms in terms of operational and strategic flexibility, which they can take advantage of in implementing their strategic plans [14].

In spite of the potential benefits of strategic management, many SME’s do not engage in strategic planning at all [15, 16]. Even in cases where strategic planning does take place in SME’s, it tends to be more focused on survival issues and short-term performance compared to larger firms [17]. This makes many SME’s ‘strategically myopic’ and lacking in long-term vision [18].

The reasons for not planning or insufficient planning are often attributed to there being barriers to planning, such as lack of knowledge, time or expertise [19], and environmental uncertainty [20]. However, understanding of the situation is also not achieved by regarding SME’s as being solely in pursuit of profit and growth maximisation [21], and not taking into account the role of owner motivation and other managerial characteristics at the individual level [22]. Motivations are important to take into account because the running of SME’s are often tied to the personal and family lives of managers.

These individual level characteristics can be in the form of either ‘pull’ or ‘push’ factors relating to strong desires. Common pull factors are to desire independence and be one’s own boss, having flexibility, achieving job satisfaction, and the desire to apply personal knowledge and experience, and common push factors are frustration in regular employment, such as due to low pay, lack of opportunities, loss of a job, and so on [22]. Entrepreneurial characteristics among other factors, are therefore critical to success [23], as is having a clear strategic vision focused on finding and maintaining a competitive advantage [24].

STUDY

Aim and methodology

The aim of this study was to provide some insight into how Saudi SME managers in the health insurance sector deal strategically with the issues outlined earlier, particularly in relation to growth, finance, marketing, stiff competition, and providing a quality service. It explored how strategic planning is taking place for strategically dealing with the aforementioned challenges in selected firms. The analysis was guided by the strategic management framework for SME’s first proposed by Mazzarol [25], which is detailed further below.

Mazzarol’s strategic management framework

Mazzarol’s strategic management framework (Figure 1) for small firms is based on the following components [25]:

(i) Entrepreneurship - entrepreneurial character of firm’s leadership team;
(ii) Innovation - use of innovative practices for growth;
(iii) Strategic Networking - use of strategic networking for securing access to resources and markets;
(iv) Growth Vector - identification of product-market growth sector; and
(v) Balance - ability to balance the ‘strategic triangle’ (strategy – structure – resources).

Each of these components is described briefly below together with pertinent points from the literature.
Entrepreneurship

The entrepreneur is at the core of the entrepreneurial venture and process, and thus, the key agent of change and innovation. More than simply being an owner-manager, an entrepreneur has vision and goals, and engages in organising and managing with a strategic approach.

SME’s with an entrepreneurial orientation tend to experience employment growth at a faster rate compared to firms with a low or decreasing orientation [26]. In particular, firms with limited access to finance can benefit from entrepreneurship that is proactive, innovative and which encourages risky new initiatives [27].

Innovation

Innovation is necessary for growth and differentiation from competitors. It often involves making effective use of new technologies and enhancing customer value or experience, and is more likely to take place if innovative practices are encouraged and supported.

If there is collaboration in the innovation, this could help SME’s overcome some of the barriers they face, such as lack of funding and other resources or technological incompetence [28]. Radical innovation that disrupts technological norms has the potential to help enter new markets or devise new business models [29].

Strategic Networking

Resources impose a constraint on entrepreneurship and innovative practices, which small firms may lack. Consequently, strategic networking with external stakeholders is also important for securing access to additional resources, especially financial resources.

An SME entrepreneur can take advantage of strategic networks for securing resources in order to gain competitive advantages [30], and for gaining assistance to support the firm's survival, growth and development [31]. In addition, this can also be aided by the entrepreneur's own personal social network, which could be a valuable source of knowledge and ideas [32].

Growth Vector

A growth vector is essential for an entrepreneurial venture to grow in terms of produce-market expansion [33]. It requires that a competitive advantage is gained “by assembling unique assets and resources, and developing synergy by finding a complimentary fit between new and existing product-market activities” [34]. This in turn requires a good understanding of the market and its needs.

When launching a new product in a new market for example, the adopted strategy may be one of diversification, or through product-market development. The potential risk and resources required are greater in the former and less in the latter. Diversification also requires a thorough understanding of what customers need, the technology, as well as competitor analysis. For successful growth in general, it is also necessary to know beforehand whether the growth strategy would be feasible, and to avoid overstretching resources.

Balance

The strategic triangle highlights the importance of maintaining a harmonious relationship between its components, as well as the importance of forming a strategy based on the available resources. Small firms tend to lack a proper organisational structure, so the development of a structure could help them to make more optimum use of their scarce resources and enhance their strategy.

A key step in the strategy process is identifying potential sources of superior performance and opportunities for gaining competitive advantage [35]. Although resource constraints may hamper a firm's ability to achieve its strategic goals, revisiting the strategic triangle and conducting strategic analysis as the firm grows could also help it with making more optimum decisions for allocating scarce resources. Similarly, such analysis could also help with knowing when it would be appropriate to make structural changes to support the firm's growth.

DATA COLLECTION

Based on Mazzarol's strategic management framework for small firms, data was collected to identify the chief characteristics of the entrepreneurs, their innovative practices, strategic networking features, key pathways adopted for growth, and the pattern of strategic management with reference to the strategic triangle.

Five case studies were selected for the analysis. Each of
them is described briefly in Table 1. Their names have been substituted by the labels H1 to H5 for the sake of their anonymity. Suffice it to say that the selected firms were those satisfying the criteria of an SME, and none of the major firms identified earlier were therefore included. A more balanced approach can provide both Table 1 provides a brief introduction of the five selected companies.

Table 1: Brief introduction of the five companies

<table>
<thead>
<tr>
<th>Brief introduction</th>
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<td><strong>H1</strong></td>
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<td><strong>H2</strong></td>
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<td><strong>H3</strong></td>
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<tr>
<td><strong>H4</strong></td>
</tr>
<tr>
<td><strong>H5</strong></td>
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</table>

The five selected firms

**H1**

The management team of this company meets regularly to review its products and services. It renewed its planning and strategy in 2004 to provide greater transparency, more timely services, and overall improved customer service. New products have been introduced in recent years, and the company has also made improvements to the working environment for its own employees. The company's structure and imaging has also undergone definite changes, as the management is trying to portray it as a trustworthy brand. Their own literature describes the company as having become more “vibrant and appealing”, and claims it to have one of the leading positions in the market.

**H2**

The atmosphere in this company appeared to be rather conservative with employees strictly following established methods and procedures. The innovation here can best be described as incremental rather than radical. However, this company has diversified to provide other forms of insurance as well. It excels in providing customers with tailor made solutions instead of standard packages. It claims to have a healthy financial status, a good reputation in the market, a lot of experience in dealing with insurance, and that it is expanding.

**H3**

The management appeared to be very ethically minded, and also creative in their ideas and strategy. This company offers a range of health insurance cover for different categories of individuals and organisations. It claims to provide one of the best healthcare facilities in the kingdom on par with the larger providers, and that it has strong links with various healthcare service providers. The management also lays stress on social responsibility and engages in programs that promote public health and hygiene. It also takes a long-term approach to strategic planning, and was prepared for the current changes that are facilitating the provision of health insurance in the kingdom.

**H4**

The entrepreneur was very friendly and gave the impression of knowing every intricate detail about his company. The managerial strategy can be described as being very clear, and the company is said to be meeting customer expectations for insurance. Besides health insurance, the company also provides general insurance cover. However, the range of products and services are not as diversified as the other companies, as the innovation is more focused on processes and relations. The company claims to be financially strong, and as having established a reputation and credibility. In recent years, the company has expanded its products, and also opened a branch in Jeddah.

**H5**

The fifth firm was the youngest of the five cases, but it presented itself as a very dynamic and innovative firm. This was evident from the adoption of advanced technologies, the visionary spirit of its manager, the forward looking approach, and positive atmosphere. The manager said they were always on the lookout for improving their products and services, and their business operations. Innovation was apparent from the highly technical setup.

The firm offers a diverse range of insurance packages to provide medical cover for both individuals and other companies. This company has defined objectives for both its mid-term and long-term strategies, and states that it is striving hard to fulfil their vision and satisfy their customers' needs and aspirations. These objectives include ensuring speed and quality of service, diversification of products, having highly qualified staff, exceeding customer expectations, and maintaining constant communication with its customers. The managers also claimed it has a team of advanced medical specialists, and that it offers the highest quality services to its customers.

Application of the strategic management framework

**Entrepreneurship**

H1 and H2 are characterised by more traditional managerial styles compared to entrepreneurship in the other companies, which may be as expected since these two companies have been in existence for much longer. In H1, the regular meetings involve reviews of their products and services besides matters relating to general operations of the business. In H2, the atmosphere was perceived as being even more conservative with reluctance to share any thoughts and strictly accepting the managerial directives. This is in contrast to the characteristics observed at the newer firms (H3-5) although they differed among each other in other ways. At H3, the leadership demonstrated that they were not only interested in the financial side of the business, but also in promoting health. At H4, there was a greater focus on social relations among employees and also with customers, and the entrepreneurship at
H5 can best be described as being the most dynamic with the most vivid visionary spirit and supportive working atmosphere.

Table 2: Entrepreneurship in the five companies

<table>
<thead>
<tr>
<th>Main Focus of Entrepreneurship</th>
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<tr>
<td>H1 Regular meetings; product/service reviews; general operations</td>
</tr>
<tr>
<td>H2 Conservative atmosphere; strict managerial directives</td>
</tr>
<tr>
<td>H3 Both business and health promotion</td>
</tr>
<tr>
<td>H4 Social relations among employees and with customers</td>
</tr>
<tr>
<td>H5 Dynamic; visionary spirit; supportive working atmosphere</td>
</tr>
</tbody>
</table>

Innovation

The characteristics of innovation somewhat reflect those of entrepreneurship in the five firms, as innovation was more pronounced in the last three compared to the first two in terms of products. In H1, new products were only introduced in recent years, and at H2 the innovation was more incremental. The range of products and services are more diverse at H3 and H5, and innovation at H4 was more in the form of processes and relations instead, which H5 has also focused on. In addition, H5 is striving hard to satisfy customers’ needs and aspirations, especially through improving its speed and quality of service. However, recently H1 has also given renewed attention to its structure and image, and H2 stood out as innovating by offering tailor made solutions. As far as change is concerned then, none of the firms are in a state of stagnation.

Table 3: Innovation in the five companies

<table>
<thead>
<tr>
<th>Main Focus of Innovation</th>
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<tbody>
<tr>
<td>H1 New products introduced in recent years</td>
</tr>
<tr>
<td>H2 Incremental approach (not radical)</td>
</tr>
<tr>
<td>H3 Diverse range of products and services</td>
</tr>
<tr>
<td>H4 Processes and relations</td>
</tr>
<tr>
<td>H5 As for H4, also customer needs/aspirations through improving service speed/quality</td>
</tr>
</tbody>
</table>

Networking

Having been in existence for the longest, the first two firms (H1-2) have entrenched themselves well in the insurance market. H1 claims to have one of the leading positions in the market, which is possible due to its longest existence. It projects itself as being trustworthy by its connections with other trusted names in the wider health industry. Similarly, H2 also prides itself on its "good reputation". In line with the more ethical approach at H3, the company's strategic networking is with various healthcare service providers, and H5 is also networked with medical specialists. Although H4 is a relatively recent entrant, it has already started expanding to other cities. In terms of access to financial resources, H2 and H4 appeared to have secured the most, as evident from their strong financial positions.

Table 4: Strategic networking in the five companies

<table>
<thead>
<tr>
<th>Main Focus of Strategic Networking</th>
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<tbody>
<tr>
<td>H1 Well established in the industry; connections with other trusted organisations</td>
</tr>
<tr>
<td>H2 Enjoys a good reputation; secure financial resources</td>
</tr>
<tr>
<td>H3 Networked with various healthcare service providers</td>
</tr>
<tr>
<td>H4 Expanded to other cities; secure financial resources</td>
</tr>
<tr>
<td>H5 Networked with healthcare service providers and medical specialists</td>
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</tbody>
</table>

Growth

All five of the firms show evidence of a healthy growth vector, and this reflects the general expansion in the insurance industry in the kingdom, especially in recent years. This takes the form of introducing new products and services, as at H1 and H5, opening new branches, as with H4, and expansion in general, as with H2 and H3. All of them are therefore taking advantage of the current vibrant market atmosphere.

Table 5: Growth in the five companies

<table>
<thead>
<tr>
<th>Main Direction of Growth Vector</th>
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</thead>
<tbody>
<tr>
<td>H1 New products and services</td>
</tr>
<tr>
<td>H2 General expansion</td>
</tr>
<tr>
<td>H3 General expansion</td>
</tr>
<tr>
<td>H4 Opening of new branches</td>
</tr>
<tr>
<td>H5 New products and services</td>
</tr>
</tbody>
</table>

Strategic triangle

H1, having been in the market the longest, is giving renewed attention to restructuring lately. It is also implementing its renewed strategy that was introduced a decade ago, and appears to be well established in the kingdom. H3 and H5 however, seem to have the most forward-looking strategic planning, and appear to be the most well prepared to take advantage of the current changes in the industry. In comparison, a renewed strategy in response to the recent changes in the insurance industry was not so apparent at H2, which suggests greater complacency with their existing arrangements. H4 seems to be midway in terms of strategic planning between H3 and H5 on one hand and H2 on the other, but it does show evidence of a strong financial position.
which customers can now make comparisons between different providers. This innovation is a good sign because through innovation, SME's have the potential to overcome any barriers they may face, such as relating to lack of resources or technological incompetence [28].

All of the selected firms also enjoyed strong strategic networking in the industry, and with the exception of H2, have engaged in considerable strategic planning. In particular, H3 and H5 have the most forward-looking planning in place to take advantage of the current market conditions, cope with the competition, and prepare for possible future scenarios. H3 stands out for its main focus on social responsibility, and H5 for striving the most for gaining customer satisfaction. Attention on both of these aspects could be the most important for any firm in the Saudi health insurance sector. The strong strategic networking overall is another indication of the firms securing access to avenues for support to assist in their growth and development [31].

With respect to the strategic triangle, H2 may have justifiable reasons for retaining its present state instead of seeking a new equilibrium, but the cases of the other firms show that at the present time, there are potential new sources and opportunities in the health insurance market. Seasonal health insurance and cooperative health insurance were pointed out earlier. These firms are therefore seeking to gain competitive advantage, which is also evidence of strategic planning [35]. For H1, this is in the form of structural changes; H3 and H5 are giving greater attention to strategy, and H4 appears to have a strong position in the area of resources, which it is using to its advantage by opening new branches and enjoying improved relations with employees and customers.

Another positive finding in this study is that there was no evidence of the concern of the CSCCI of SME's facing obstacles relating to finance and marketing, at least not among the five selected firms. This could be indicative of the success of the recent initiative made by the Saudi government for reducing bureaucracy and improving access to finance [3].

Implications of the research

This research has shown that as far as the selected firms is concerned, there is no evidence of major problems being faced, as are seen to be common among SME's in general. Rather, they seem overall to be doing well, and are strategically prepared to cope with the challenges, and to take advantage of the government support and recent initiatives in their favour. However, further research involving a much larger sample would be necessary to confirm the impact of this initiative, and the reality for insurance companies, and in general SME's in Saudi Arabia. A large scale survey would be necessary for this purpose combined with further case studies to examine the strategic management processes in more depth.

REFERENCES


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