

# The Strategy Implementation of Saudi Enterprises: Case Study of Manufacturing Industry in Riyadh

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## Abstract

There is no doubt that the significant role of strategy played in every company, whether it is a small business or a large corporation. However, the strategy implementation of enterprises in Saudi Arabia has received less attention. Owing to growing public demands and government's initiatives, manufacturing industry in Saudi Arabia has been regarded as a key sector in strengthening the Kingdom's economic position. Therefore, this paper looks at the strategies adopted by Saudi firms in the manufacturing sector, detailing their corporate-level strategy and business-level strategy. Given an explanation of such strategies, this study aims to evaluate their strategy implementation in terms of success or failure. 62 enterprises from different manufacturing fields in Riyadh are randomly selected as research sample. The data is collected through both structured questionnaires and semi-structured interviews.

**Keywords:** Corporate-level strategy, Business-level strategy, Manufacturing industry, Saudi Arabia

## 1. Introduction

Saudi Arabia is the largest economy in the Gulf cooperating countries (GCC) and the world's largest exporter of oil. Enrich with oil, oil revenues account for more than forty percent of national Gross Domestic Product (GDP) and over seventy percent of Saudi Arabian fiscal revenue. In response to falling oil prices recently, the government of Saudi Arabia has initiated many economic plans to encourage the development of manufacturing industry and enhance its participation in the growth process (Khurshid et al., 2016). Firms operating at manufacturing sectors have played increasingly important role in economic diversification of the kingdom. On the other hand, a successful strategy is crucial for all companies to accelerate their business expansions and create more profits. However, only a small number of scholars have paid close attention on the strategy of Saudi enterprises. Therefore, this research pioneers in evaluating the strategy implementation, using different firms from

manufacturing industry in Riyadh as a case study.

Three main questions that need to be addressed in this study:

Research question 1: What kind of corporate-level and business-level strategies implemented by enterprise of manufacturing industry in Riyadh? To understand this study context, the explanation of corporate-level strategy by Ansoff matrix and business-level strategy by Porter generic strategic options is provided.

Research question 2: How successful are their strategy implementation? To answer this question, sixty-two different companies from manufacturing field in Riyadh are investigated by questionnaires. What seemed to be particularly noteworthy is that ten of them are selected for interview to acquire more insights. Based on research data, this study will examine their strategy implementation in the aspects of success or failure.

Research question 3: What recommendations can be made to improve their future strategy implementation? According to the problems of strategy implementation, several proper recommendations for Saudi enterprises are provided.

## **2. Literature Review**

### *2.1 Explanations of Manufacturing Industry in Saudi Arabia*

The development of manufacturing industry helps to enhance national productivity and competitiveness. Manufacturing industry across the Kingdom has been developed rapidly during the past decades. Among the GCC countries, Saudi Arabia is the nation investing the most in manufacturing industry, accounting for 53% of total investments. Until the end of 2015, there are 6871 factories in the kingdom, providing 992 billion SAR (around 264.5 billion USD) of assets and nearly 1 million job opportunities. The number of Saudi factories represents 41.8% of total factories in GCC (SAMA, 2015). However, because of the dependency on petroleum industry, the contribution of manufacturing sector to GDP was only 12.6% in 2011 (Attar, 2014).

The “Saudi Vision 2030” was launched in 2016, designed to stimulate non-oil sectors and speed up the diversification of national economy. The focus is given to the manufacturing industry as a driving engine of economic growth. Based on “Saudi Vision 2030”, the number of manufacturing factories and the contribution of manufacturing sector to national GDP will significantly increase in the future (Ministry of Economic and Planning, 2016).

### *2.2 Main Theories for Evaluating the Strategy Implementation*

To evaluate the strategy implementation, corporate-level strategy and business-level strategy are taken into consideration by Ansoff matrix and Porter generic strategies.

Corporate-level strategy is concerned with the overall scope of an enterprise and how value will be added to different parts of this enterprise. Ansoff matrix is useful to analyze the corporate-level strategy for a particular firm, according to market penetration and consolidation; market development; product development; diversification. Market penetration and consolidation is enterprises concentrate defensively on their current markets with existing

product range. Market development means delivering current products to new markets, while product development refers to provide existing markets with modified or new products. Regarding diversification, it takes place when a firm launches several new products in new markets (Johnson et al., 2009).

Business-level strategy is about how an enterprise to compete and achieve its strategic competitiveness (Johnson et al., 2009). Accordingly, Michael Porter puts forward generic strategic options, which is cost-leadership, differentiation and focus strategy (Lynch, 2012). The cost leadership could be achieved by cost control, price cutting, minimization production costs and marketing conservatism (Van Den Bosch & de Man, 1997). Differentiation is defined as offering unique products for customers and satisfying their special needs simultaneously (Sharp & Dawes, 2001). On the other hand, the focus strategy consists of cost focus and differentiation focus. The focus strategy could be examined by using some variables, including number of production lines and degree of similarity between lines (Van Den Bosch & de Man, 1997; Miller, 1988).

### **3. Research Methodology**

#### *3.1 Research Approach*

Both quantitative study method and qualitative study method are adopted in this research. Concerning the quantitative study method, data from sixty-two enterprises at manufacturing industry in Riyadh is investigated by questionnaires. Regarding the qualitative study method, ten of them are selected as multiple case studies by interviews.

#### *3.2 Data Collection*

174 firms operating at different manufacturing sectors in Riyadh were randomly chosen from the Chamber of Commerce database. Only 101 responses were received from these 174 questionnaires distributed after three months. However, there were 62 questionnaires reliable. The rate of valid replies was around 35.63%. The background information of this survey sample is explained in Table 1 below.

Table 1. Background of survey sample

<b>Characteristics</b>	<b>Number of Enterprises</b>	<b>Percent (%)</b>
<b>Form of Enterprises</b>		
Stated-Owned Enterprises	4	6.45%
Private Enterprises	25	40.32%
Partnership	22	35.48%
Foreign Invested Enterprises	3	4.84%
Others	8	12.90%
Total	62	100%
<b>Manufacturing Sectors</b>		
Food Manufacturing	13	20.97%
Garment Industry	3	4.84%
Plastic Products	11	17.74%
Cement Industry	12	19.35%
Petrochemical Products	15	24.19%
Paper Making and Paper Products	8	12.90%
Total	62	100%
<b>Number of Full-Time Employees</b>		
< 20	5	8.07%
21-50	36	58.06%
51-100	13	20.97%
>100	8	12.90%
Total	62	100%
<b>Founding Years</b>		
>10	7	11.29%
6-10	28	45.16%
3-5	24	38.17%
<3	3	4.84%
Total	62	100%
<b>Annual Turnover</b>		
<1 Million SAR	2	3.23%
1-5 Million SAR	6	9.68%
6-10 Million SAR	29	46.77%
>10 Million SAR	10	16.13%
Not Willing to Disclose	15	24.19%
Total	62	100%

Source: Summarization from 62 firms

From Table 1, we can see that the largest representation of this survey sample consists of private enterprises and partnership. Furthermore, 6 different business sections from

manufacturing industry are identified, where the section of petrochemical products, accounting for 24.19%. Food manufacturing and cement industry represent 20.97% and 19.35% of all firms respectively. Moreover, 58.06% of firms hire full-time employees from 21 to 50, and 20.97% of enterprises employ staff from 51 to 100. Concerning the founding years, 11.29% of companies establish over 10 years. However, 83.87% of their founding time is from 3 to 10 years, including 38.71% of firms established from 3 to 5 years and 45.16% of firms established from 6 to 10 years. Only three enterprises set up less than 3 years. Regarding annual turnover, many companies possess an annual turnover from 6 million SAR (1.6 million USD) to 10 million SAR (2.67 million USD), accounting for 46.77% in totality. Conducting semi-structured interview for in-depth understanding, the interviewees on behalf of their enterprises are required to be in management positions and provide the years of their working experiences (see Table 2 below). Each interview was around fifteen minutes.

Table 2. Background of interviewees

<b>Firm Code</b>	<b>Business Field</b>	<b>Position of Interviewee</b>	<b>Working Years</b>
A	Garment Industry	Sales Manager	5 Years
B	Food Manufacturing	Assistant of General Manager	2 Years
C	Plastic Products	Human Recourse Manager	2 Years
D	Cement Industry	Marketing Manager	3 Years
E	Paper Making and Paper Products	Executive Manager	7 Years
F	Garment Industry	General Director	4 Years
G	Cement Industry	Business Director	3 Years
H	Food Manufacturing	Vice-general Manager	5 Years
I	Petrochemical Products	Business Manager	4 Years
J	Beverage Producing Industry	Assistant of General Manager	6 Years

Source: Summarization from 10 firms

## 4. Data Results and Findings

### 4.1 Corporate-level Strategy

Ansoff matrix is adopted to analyze the corporate-level strategy of Saudi enterprises in terms of market penetration and consolidation, market development, product development and diversification.

Figure 1 below describes the main approach for enterprises in Saudi Arabia to consolidate their existing market(s). Many firms distribute discount coupons to further enhance their presences, accounting for 40.32%. For example, the executive manager of company E said: “our company distributes coupons with 10% off for any registered customer and provide high-value coupons (up to 35% off) to corporate clients. The distribution of coupons, particularly with high discount, results in a high repurchase rate.” Furthermore, 20.97% of enterprises reinforce the existing market(s) by improving the quality of their products. The business director of Company G said: “our products are manufactured from quality raw

materials. Quality first is the guideline of our production. This also becomes a source of repeat consumers and business.” The implementation of membership systems is adopted by 16.13% of overall companies. The human resource manager of Company C mentioned that its membership system has dramatically increased the loyalty of customers. Moreover, only 12.90% of enterprises add new functions or features to their products, aiming to strengthen their current markets.

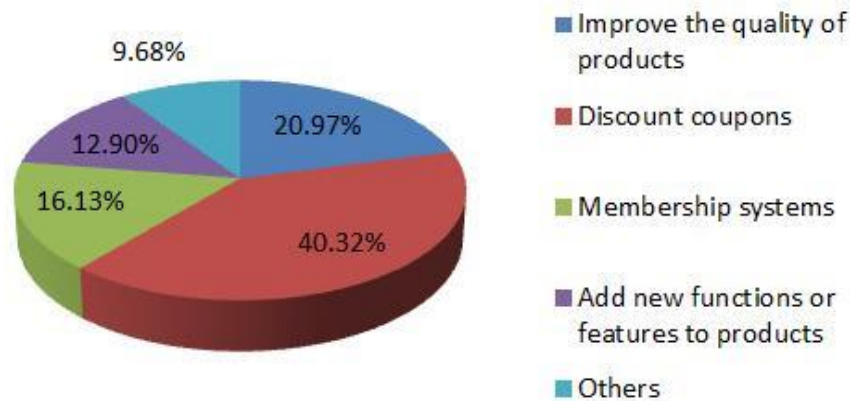


Figure 1. The main approach to consolidate the existing market(s)

Source: Summarization from 62 firms

As for the market development, Figure 2 shows the key method to expand new markets.

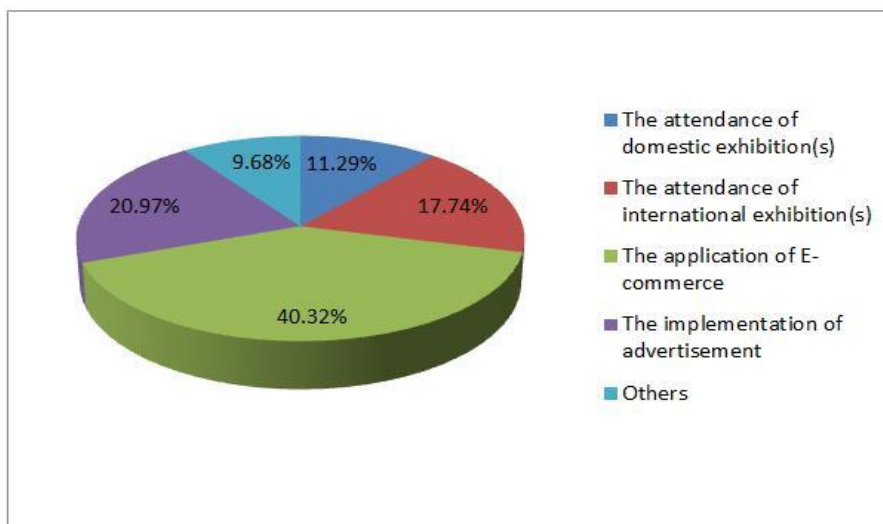


Figure 2. The key method to expand new market(s)

Source: Summarization from 62 firms

E-commerce provides a convenient and quick platform to explore new markets, which is adopted by 40.32% of firms in this research. The general director of Company F explained: “our clothes are sold online to seek potential markets, including SOUQ, BASICXX, VOGACLOSET and Wadi. Nearly half of new sales are from online business. Compared with physical stores, there is no rent for the online shop. It has greatly saved our costs as well.” In addition, 20.97% of enterprises advertise their goods for sale. “A certain amount of annual income is allocated for our advertising campaigns. Normally, our advertisements are posted on popular social software such as WhatsApp and Snap Chat. This helps us to successfully attract the attention of young customers” described by the sales manager of Company A. The marketing manager of Company D mentioned: “owing to the capital scarcity, we choose the economical way of advertising by outdoor advertisements and radio advertisements.” On the other hand, the international exhibition and domestic exhibition are attended by 17.74% and 11.29% of total firms respectively. The business director of Company G said: “we usually take part in some important international exhibitions around the world, including International Trade Fair for Building and Construction Technology in Berlin, China International Building Decorations and Building Materials Exposition in Beijing and Canton Fair in Guangzhou. Therefore, our company is well-informed about what is going on abroad and has the access to more business opportunities overseas. However, except Saudi Building & Interiors Exhibition in Jeddah, there is no large-scale and influential trade shows across the kingdom.”

In terms of the product development, Figure 3 below illustrates the number of new product(s) developed by Saudi enterprises in manufacturing sectors last year. Out of expectation, around 61.29% of enterprises did not produce any new product in 2021. “As a small-sized family business, the development of our firm has been constrained by capital shortage. We are trying to sell more existing products by sale promotion” explained by the executive manager of company E. Furthermore, more than half of interviewees agreed that the innovative and high-qualified employees are lacked most in Saudi Arabia. On the other hand, 33.87% of firms developed one to three new product(s). For instance, the assistant of general manager of Company J said: “as a juice producer of fresh fruits, we expanded our production lines to manufacture walnut juice last year.” There are only three companies developed four to six new products, whereas none of them manufactured more than six new products in 2021.

Regarding the diversification, only 5 enterprises launched new product(s) in new market(s) last year. “It is very hard for us to locate and analyze new markets without experienced marketing professionals” described by the marketing manager of Company D. The human resource manager of Company C said: “due to the lack of advanced technology and enough capital, we are not able to develop new products. We also cannot easily enter new markets.”



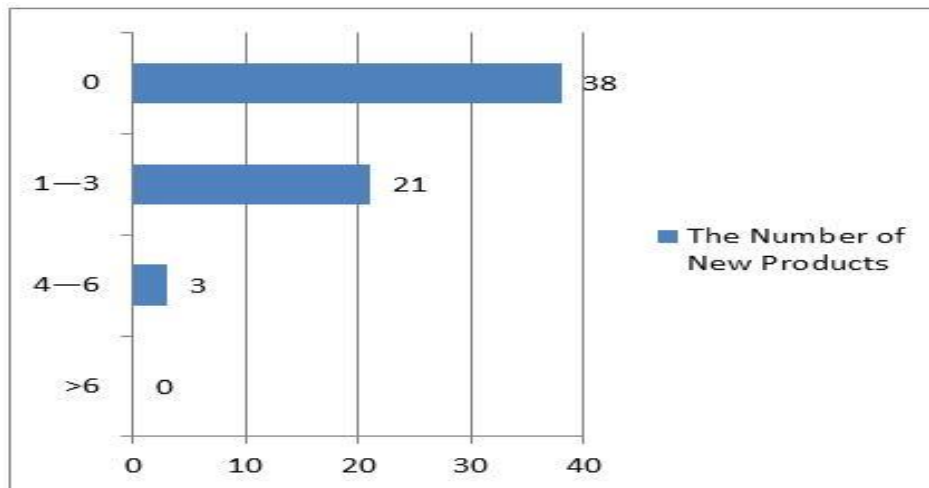


Figure 3. The number of new product(s) developed by Saudi firms in 2021

Source: Summarization from 62 firms

#### 4.2 Business-level Strategy

Low cost strategy, differentiation strategy and focus strategy are fully considered to analyze the business-level strategy. The majority of Saudi enterprises adopt low cost strategy, occupying around 54.84% in totality (see Figure 4 below). For example, the assistant of general manager of Company B said: “because of the decline in oil price, the Saudi government cut social welfare spending. People in Saudi Arabia have paid growing attention to the price recently. To win by price, our company prefers to hire more cheap foreign labors from India and Bangladesh. This helps us to decrease our labor costs and provide our products (dried sweet dates) with lower price.” We always insist on the principle of low prices. To keep this principle, our factory is moved from Riyadh to Al-Kharj City in Al-Qassim Region, where the rent is much cheaper than Capital” described by the human resource manager of Company C.

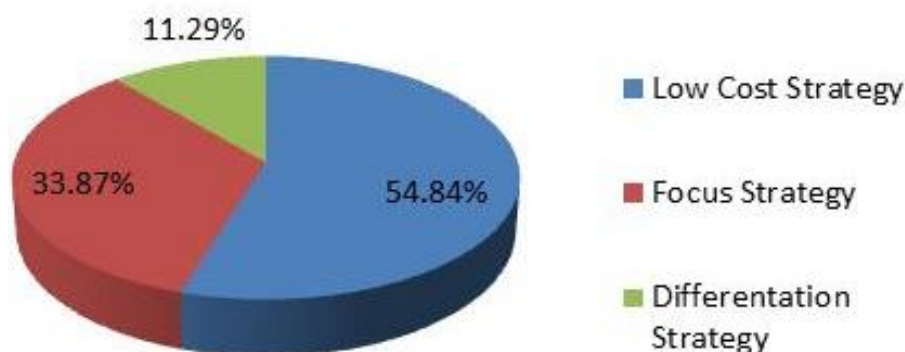


Figure 4. The main business strategy implemented by Saudi firms

Source: Summarization from 62 firms



On the other hand, the implementation of focus strategy accounts for 33.87% of total firms. The business manager of Company I explained: “rich in oil resources enable our firm to focus on petrochemicals production with very low cost. As an export-oriented enterprise, East-Asian markets are more concentrated than domestic markets. All our products are sold to China, Japan, and South Korea.”

However, only 11.29% of companies use the differentiation strategy in this research. For instance, the vice-general manager of Company H said: “due to the growing obesity, Saudi people are attaching more and more importance to their health. Our factory involves in producing klijh. We use xylitol as a safe sweetener and low-fat ingredients (such as a combination of veggies and beans). Therefore, our klijh is different from traditional cakes without high-calorie and high-sugar. Our klijh is highly salable in males and females of all ages.” “We produce high-end Thawb and Ebbaya (traditional Arab garb) with 100% silk instead of cotton that widely used by other firms. We hire senior designers and import all silk fabrics from Italy. Our factory cares and controls every production process from fabrics procurement, dress design, clothes dying to tailoring. We make sure that our garments feel more comfortable, light and great than others. Of course, the price cannot afford for the masses. Hence, the rich Gulf countries are our focus, in particular United Arab Emirates, Qatar and Saudi Arabia” mentioned by the sales manager of Company A. What is noteworthy is that the insufficient financial and technological support hinders the implementation of differentiation strategy. This is agreed by 70% of respondents.

## **5. Analysis and Discussions**

With respect to the corporate-level strategy, 40.32% of enterprises consolidate their existing markets by the distribution of discount coupons and develop new markets by the application of e-commerce. These are viewed as the success of corporate-level strategy implemented by Saudi enterprises. On the other hand, 61.29% of enterprises did not produce any new product, while only 5 firms delivery new products to new markets in 2021. The weak ability of product development and diversification is regarded as the failure of their corporate-level strategy.

In terms of the business-level strategy, the low cost strategy is in a dominant position. 54.84% of firms provide cheap products to compete with rivals. Moreover, Saudi companies usually take advantage of abundant natural resources to focus on resource-intensive products with low production cost. Additionally, only 11.29% of enterprises implement the differentiation strategy. The shortage of differentiated products makes difficult to keep the loyalty of customers and leads to the intensified competition.

## **6. Recommendations**

From what have been learned through all respondents, the lack of capable employees, enough capital and high technology is restricting the successful implementation of corporate-level and business-level strategies for enterprises of manufacturing industry in Saudi Arabia. To solve these problems, several recommendations are provided as follows.

Firstly, Saudi enterprises would attract talents through a competitive pay and a fair promotion

mechanism. Attractive fringe benefits should be provided to retain talents and generous bonus schemes should be offered to encourage innovation of their staff. Furthermore, excellent job training is important to improve the quality of workers and keep their skills spike. All employees must understand how to perform the required work. For example, old employees can teach and guide new workers on job training. Company also could offer off-job training and career development opportunities to all staff who desire to pursue a successful career life.

Secondly, a full range of technological support for enterprises should be provided through the ministry of communication & information technology. For example, the government could help to establish a technology collaborative platform between universities and enterprises. Saudi firms are encouraged to set up their own research and development centers by cash reward from the government.

Thirdly, the adequate financial support could help firms to make their project possible. For example, the qualified small and medium-sized enterprises can get loans with free interests from Bank of Credit and Savings Saudi. In accordance with the research results, the common barrier for most firms is a lack of money needed for their further development. Therefore, the financial channels should be extended. Banks and financial institutions in Saudi Arabia have to offer loans with low-interests to promote the development of national manufacturing industry.

## **7. Conclusion**

This research presents a study of strategies adopted by enterprises in Saudi Arabia from corporate-level and business-level. Sixty-two different firms of manufacturing industry in Riyadh are investigated by questionnaires. Furthermore, ten companies from this survey sample are considered as multiple case studies by semi-structured interviews. The findings of this study indicate Saudi enterprises are poor in product development, diversification, and differentiation strategy. Accordingly, three suggestions are provided to enhance their future strategy implementation.

There are only sixty-two companies from one industry in one city identified for this study. The limited survey sample would influence the research results. Hence, the research areas and samples should be extended in future studies.

*Note.* Pursuant to confidentiality policy, the author is not allowed to disclose the names involved in the research sample.

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