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The Relationship between Strategic Planning, Strategic Flexibility and Firm Performance in SMES of Saudi Arabia: Mediating Role of Strategic Flexibility

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Abstract
The small and medium enterprises (SMEs) sector plays a significant role in any economy, particularly in a competitive global business environment. However, the SMEs sector could achieve its targets only if it embraced proven strategic management practices. Therefore, this study investigates the mediating role of strategic flexibility on the relationship between strategic planning and firm performance within the context of SMEs in Saudi Arabia. The resource-based view and contingency theories support the study’s framework and conclusions. A cross-sectional survey was used to collect the primary data from a sample of 400 owners and managers of medium-sized enterprises in Saudi Arabia. Hypotheses were tested using the Structural Equation Modeling (SEM) method. The study tested the correlation and mediation analysis using PLS-SEM. The study found a significant relationship between strategic planning and firm performance. Also, there is a relationship between strategic planning and strategic flexibility. The association between strategic flexibility and firm performance is also significant for medium enterprises in Saudi Arabia. The results also revealed that strategic flexibility mediates the relationship between strategic planning and firm performance. The study’s finding contributes to the planning-
performance literature. The study provides helpful recommendations for SMEs that they can use to improve the overall systems of their organizations.

**Keywords**: Strategic Planning, Strategic Flexibility, Firm Performance, SMEs, Saudi Arabia

**Introduction**

In the literature on strategic management, firm performance is one of the most significant and extensively researched criterion variables (Lindow, 2013). SMEs have been acknowledged as the breeding grounds for huge corporations and entrepreneurship (Rahman & Ramli, 2016). Saudi Arabia is a recent example of a nation that actively uses SMEs as instruments for economic transformation. Owner/managers of SMEs, which frequently lack formal boards, play a crucial role in determining the strategic directions of their companies (Kearney et al., 2018). When owners/managers exhibit a lukewarm commitment to strategic planning, the company in their care responds poorly to opportunities and, more frequently, fails in the face of threats.

Furthermore, the key personnel of Saudi manufacturing companies lack a culture of strategic planning and innovation orientation. When they do, it only pertains to internal operations with little connection to the realities of the operating environment. The alarming lack of succession planning in Saudi SMEs (the majority of which are sole proprietorships) was also noted by Alrubaishi (2017), placing the likelihood of their long-term survival and viability at high risk.

Saudi SMEs face several issues, including a lack of strategic planning and difficulties conducting business, particularly those owned and managed by non-Saudis. Saudi SMEs find it challenging to hire even marginally interested Saudis (Al-Ghamdi, 2019). Saudi SMEs must be adaptable enough to navigate the regulatory environment's constraints successfully and align their human resource practices with the demands of the operating environment. Therefore, if Saudi SMEs are to maintain their performance to survive, thrive, and grow by following best practices in strategic management. Considering the discussion above, the proposed study in the Kingdom of Saudi Arabia will examine the mediating effects of strategic flexibility in the relationship between strategic planning and performance.

The poor performance of SMEs in Saudi Arabia has been linked to a lack of effective strategic planning. Therefore, SMEs in Saudi Arabia struggle with a lack of funding and a productive strategy-making process (Eraqi & Tayachi, 2021). The current study argues that implementing proper strategic plans may easily handle these issues. Despite the potential advantages of strategic planning, SMEs in Saudi Arabia do not use it (Alenzy, 2018). According to recent research, these problems can be easily resolved by implementing good strategic plans. Strategic planning can be used to address these problems and boost performance. Along with the mediators, strategic flexibility and alignment also give people a chance to respond to situations as they arise and make decisions consistent with the organisation's overall objectives and performance improvement. With strategic flexibility potential mediator, this study explores the connection between strategic planning and performance.

The study is essential for academic purposes because it offers former researchers a fresh and instructive approach for conducting future research on the same concept by filling in the gaps in this study. This study will develop hypotheses based on the causal relationships between variables that previous researchers have not discovered. The research model used in this study will also gather an in-depth analysis of how Saudi Arabian SMEs will operate while implementing
strategic planning, working on strategic flexibility, and their overall impact on the firm's performance. The study may also serve academic purposes in this way. A framework was proposed to help managers understand the value of planning and flexibility for improved performance.

Research Objectives
The study's primary goal is to develop a model that incorporates the mediating role of strategic flexibility between the relationship of strategic planning and firm performance in SMEs of Saudi Arabia. The following are the research objectives:

a) To investigate the influence of strategic planning on firm performance
b) To study the effect of strategic planning on strategic flexibility
c) To examine the impact of strategic flexibility on firm performance
d) To test the mediating effect of strategic flexibility between the relationship between strategic planning and firm performance

Research Questions
The study's objectives focused on the relationship between variables and the mediating role of strategic flexibility. The following questions were formed and answered to fulfill the study objectives:

a) What is the effect of strategic planning on firm performance?
b) What is the impact of strategic planning on strategic flexibility?
c) What is the influence of strategic flexibility on firm performance?
d) What is the mediating effect of strategic flexibility between strategic planning and firm performance?

Literature Review
Strategic Planning and Firm Performance
The first goal examines the impact of strategic planning on business performance. The present study's independent variable is strategic planning, and its dependent variable is firm performance. The data analysis demonstrated that a firm's performance would undoubtedly be impacted by its strategic planning in some way. Employee perception of the company served as the basis for our findings because employees are an organization's most valuable resource and human asset. An organization's performance is significantly impacted by its strategic plan, which provides a roadmap for achieving organizational goals and success (Arasa & Obonyo, 2012; Ida et al., 2015). Organizations of all sizes have a significant relationship between the dimensions of strategic planning like management participation, functional integration, strategic orientation, and strategic control (ALI, 2017). A meta-analysis of 26 studies conducted in another study (Miller & Cardinal, 1994) that summarized two decades of research concluded that strategic planning positively and significantly impacts firm performance. A 35-year strategic planning and firm performance study by Fossen et al. (2006) revealed a relationship between the two, but that firm size affects it. Data from 2500 developed and developing nations revealed that contextual factors are not as effective at explaining firm performance as strategic planning (Kylaheiko et al., 2016). Thus, we hypothesize
There is a relationship between strategic planning and firm performance.

Strategic Planning and Strategic Flexibility
If a company can be strategically flexible, it will have a better chance of expanding quickly and adapting to change for risk management. As they have already foreseen the risks in the future, the company will be able to influence and adapt to the environment actively. Employees will experience less hassle and have more time to produce more productivity and innovation. In a dynamic environment, it is challenging to anticipate every potential risk, but flexibility in planning aids managers in making more accurate plans. To adapt to the shifting dynamics of the business environment, SMEs must incorporate strategic flexibility into developing and implementing their strategic plans. This allows SMEs to alter their strategic plans proactively or reactively in response to new commercial opportunities and threats, particularly those brought on by technological advancement (Asikhia, 2011). When a company can alter its strategic course in response to pressing needs, it can always use its limited resources to gain a distinct competitive advantage (Sumiati et al., 2019). We hypothesize

There is a relationship between strategic planning and strategic flexibility.

Strategic Flexibility and Firm Performance
In general, researchers believe that strategic flexibility can improve firm performance by helping businesses monitor their operating environments (Kamasak et al., 2017), reduce inactivity and the resulting waste of resources (Zhou & Wu, 2009), foster innovation (Ibrahim et al., 2018), and generally coordinate the best possible exploitation of scarce resources (Bamel & Bamel, 2018). In the empirical literature, these strategic advantages of strategic flexibility have been extensively documented (Li et al., 2018). The benefits that accrue when a company is strategically flexible are felt most strongly in the bottom line. Chaudhary (2019) provides recent evidence that indicates how significantly and favorably strategic flexibility impacts firm performance. The flexibility of the strategies and the impact on the performance of the SMEs will be logically explained by starting an argument that the company's performance is always positively impacted by flexible system operation. More productivity and better performance were always the results of a flexible environment. Therefore, in today's disruptive and unstable operating environment, where speed and flexibility in meeting the market need better than competitors could become the basis of wielding a superior advantage in the marketplace, strategic flexibility is a more immediate antecedent of firm performance (Dobrzykowski et al., 2015). We hypothesize

There is a relationship between strategic flexibility and firm performance.

Mediation of Strategic Flexibility
Organizations with a strong emphasis on strategic flexibility are more likely to adopt innovative HR practices that center on employee productivity and company performance; in this study, flexibility is the mediator (Xiu et al., 2017). Strategic flexibility catalyzes dynamic environments, facilitating the development of competitive advantages and bridging the gap between a firm's performance and design (Thomas, 2014). By focusing on the mediating role of strategic flexibility and the spirit of cooperation, another study by Yang and Gan (2021) investigated the dynamic
capability of firms. Competition is encouraged among the workforce to promote dynamic capabilities. Equally controversial is the position of the empirical literature on the role of strategic flexibility as a mediator in the connections between strategic planning and firm performance. According to Rudd et al. (2008), operational flexibility and financial flexibility mediate the relationship between strategic planning and financial performance. While the relationship between strategic planning and non-financial performance is mediated by structural flexibility and technological flexibility. According to Dibrell et al. (2014), strategic flexibility and planning both significantly impact a firm's performance. We hypothesize

\[ H_3: \text{Strategic flexibility mediates the relationship between strategic planning and firm performance.} \]

Theoretical Consideration

The study has two theoretical approaches for strengthening the tested hypotheses: resource-based view theory (RBV) and contingency theory. The resource-based view (RBV) theory, developed by Barney (1991), explains why certain organizations do better than others and what causes this improved performance. Resources refer to “stocks of available factors that are owned or controlled by a firm” (Amit & Schoemaker, 1993). An organization's capabilities and resources are rooted in strategic management (Mishra et al., 2018). Employees are given a more specific goal this way, and the manager inspires them to perform to their full potential. At SMEs, human resources strategically align the plans. Due to the unstable and constantly changing environment, SMEs must anticipate problems before they arise to maintain a competitive advantage. Due to its strategic flexibility, the company can respond quickly to any challenge and avoid stumbling toward decline. Because a firm resource directly affects performance, thus RBV and firm performance are connected. RBV thus provides the theoretical justification for the relationships found in this study and supports the influence of the variables on one another.

A firm's performance can constantly be improved by using the VRIN resources, which will positively and significantly impact that performance (Adnan et al., 2018). Since the theoretical model is based on an RBV story, we can better explain the RBV, one factor that affects a company's success. According to RBV, alignment is a factor in performance because it is an asset for a company. The SMEs in this study used all financial, physical, human, and organizational resources. In RBV, internal resources are the main area of emphasis, and management is responsible for creating and implementing the strategic planning process. Setting attainable goals and focusing on them is essential.

According to contingency theory, an organization's performance depends on how well its structure, people, strategy, culture, and technology fit together (Tosi & Slocum, 1984). We can infer from the study's findings, as explained by the contingency fit approach, that the relationship between strategic variables affects how well a firm performs. In other words, strategic planning, alignment, and flexibility contribute to better business performance. The study's strategic variables serve as backup plans for achieving firm performance. The theory's basic premise is that one variable affects another, dependent on a third variable. In this situation, strategic planning impacts business performance through strategic alignment and flexibility. These connections can lead to improved organizational performance. The contingency theory in this study explains the theoretical model because it goes against conventional wisdom and offers a more systematic
understanding of cause and effect. The theory explains the alignment of more factors than just a direct relationship between two variables. The contingency approach appears to be the holy grail, but there is no right way to run or organize a business for success. The current study has focused on the dynamic environment.

Methodology

Population and Sample
Strategic planning significantly affects firm performance across international settings in the private and public sectors (George et al., 2019). Therefore, the target population consisted of 7,806 employees working at medium-sized enterprises in various cities in Saudi Arabia (GAStat, 2017). Using stratified random sampling, there were four strata: Riyadh, Makkah, Eastern, and Madinah regions. Stratified sampling was adopted to ensure that the sample represents all Saudi employees working at medium-sized SMEs. Based on the total population, the study determined the sample size using the table recommended by Krejcie and Morgan (1970), which is 367.

Data Collection Procedure
The study uses a quantitative research design, and for hypothesis testing, the employees filled out a structured questionnaire. The researcher floated 500 questionnaires to the respondents of Saudi owners and managers of medium-sized enterprises in various cities of Saudi Arabia. The period for collecting data was three months; 400 (80%) questionnaires were returned, out of which 20 were incomplete and were unfit to include in the data for analysis. Therefore, the effective response rate for this study is 76%, with 380 completed questionnaires. The response rate for a survey should be more than 30% to be considered acceptable (Sekaran & Bougie, 2016). Out of 380 respondents, 259 responded early, and 121 responded late. The study was cross-sectional, and the measurement model was reliable for the hypothesis testing.
Table 1

**Descriptive statistics of demographics**

<table>
<thead>
<tr>
<th>Demography</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>269</td>
<td>70.8</td>
</tr>
<tr>
<td>Female</td>
<td>111</td>
<td>29.2</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary school or less</td>
<td>144</td>
<td>37.9</td>
</tr>
<tr>
<td>Diploma</td>
<td>16</td>
<td>4.2</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>168</td>
<td>44.2</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>50</td>
<td>13.2</td>
</tr>
<tr>
<td>PhD</td>
<td>2</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner of the business</td>
<td>4</td>
<td>1.1</td>
</tr>
<tr>
<td>Chief executive officer</td>
<td>24</td>
<td>6.3</td>
</tr>
<tr>
<td>Senior manager</td>
<td>61</td>
<td>16.1</td>
</tr>
<tr>
<td>Middle manager</td>
<td>157</td>
<td>41.3</td>
</tr>
<tr>
<td>Frontline manager</td>
<td>134</td>
<td>35.3</td>
</tr>
<tr>
<td><strong>Years in business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-5</td>
<td>176</td>
<td>45.3</td>
</tr>
<tr>
<td>6-10</td>
<td>127</td>
<td>33.4</td>
</tr>
<tr>
<td>11-15</td>
<td>56</td>
<td>14.7</td>
</tr>
<tr>
<td>16-20</td>
<td>18</td>
<td>4.7</td>
</tr>
<tr>
<td>21 and above</td>
<td>3</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Area</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Al-Bahah</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Al-Hudud Ash-Shamaliyah</td>
<td>26</td>
<td>7.8</td>
</tr>
<tr>
<td>Al-Jawf</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Al-Madinah</td>
<td>39</td>
<td>10.3</td>
</tr>
<tr>
<td>Al-Qasim</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Ar-Riyadh</td>
<td>27</td>
<td>7.1</td>
</tr>
<tr>
<td>Ash-Sharqiyyah</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Asir</td>
<td>27</td>
<td>7.1</td>
</tr>
<tr>
<td>Ha’il</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Jizan</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Makkah</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Najran</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Tabuk</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>No. of employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50-75</td>
<td>4</td>
<td>1.1</td>
</tr>
<tr>
<td>76-100</td>
<td>14</td>
<td>3.7</td>
</tr>
<tr>
<td>101-125</td>
<td>70</td>
<td>18.4</td>
</tr>
</tbody>
</table>
Numerous methods exist for learning more about the studied population and using demographic research data to guide decisions. Table 1 shows the demographic characteristics of the respondents. The demographics include participant age, education level, business status, years in business, business location, number of workers, and whether or not the company has strategic planning. To better understand respondents in any study, it is crucial to examine their demographic details. For companies to understand the market, demographic analysis, which collects various characteristics about different groups of individuals in a population, is beneficial.

Only 29.2% of respondents, who worked for medium-sized businesses in Saudi Arabia, were women, whereas 70.8% of respondents were men. Regarding education, 44.2% of respondents had a bachelor's degree, 37.9% had completed secondary education, 13.2% had a master's degree, 4.2% had a diploma, and only 0.5% had a PhD. The respondents appeared to be well-educated to work in a medium-sized SME. 157 and 134 respondents, or 41.3 and 35.3 percent of the respondents, respectively, worked as middle and frontline managers. The remaining responses were 61 senior managers, 24 CEOs, and 4 firm owners.

Regarding their position inside the company, managers made up the majority of respondents. In terms of years in business, it was found that 45.3% of respondents had 1 to 5 years of experience. 127 respondents had experience ranging from 6 to 10 years, while 56 had experienced between 11 and 15 years. 21 responders who were still responding have been in the company for at least 16 years. Consequently, most responders had a maximum of 5 years of work experience.

The data was gathered from 13 places, and the distribution of replies there was quite similar. This survey had about 30 respondents from each region. Al-Madinah contributed 10.3% of the sample's responses, the majority. When asked to discuss the number of employees at their company because the study is based on medium-sized businesses, the respondents most frequently selected the 126–150 range, which accounted for 41.6% of the replies. In 134 answers, it was indicated that there were 151 or more employees. In 70 responses, it was said that there are 101–125 people; in 18 replies, it was stated that there are 50–100 employees. The 50–100 was split into two distinct ranges, 50–75 and 76–100. The majority of the businesses from which the data was gathered had between 126 and 150 employees. The final demographics question asked the responder if their employer used strategic planning. 56 respondents opted out, while 85.3% replied "yes." It can be argued that most firms in the current study are investigated have strategic planning.

**Instruments and Pilot Testing**

The study uses a 7-point Likert scale (1=strongly disagree to 7=strongly agree), and the instruments used for measuring strategic planning were adapted by (Ouakouak and Ouedraogo, 2013). Zahra et al. measured strategic flexibility utilizing the scale. A scale was adapted from Covin et al (1990); Ouakouak and Ouedraogo (2013) to measure firm performance. Owners and managers of Saudi Arabian SMEs served as the study's pilot study participants. The SMEs were
chosen randomly from each of the Saudi Arabian regions listed in the demographic section right above the scales. Only 34 surveys were considered for analysis out of the total of 38 that were distributed. Four questionnaires were collected but never returned. The pilot study's primary goal is to evaluate the accuracy of the measurements. The dependability of the internal consistency is the first standard to be assessed, and the conventional method for determining internal consistency is Cronbach's alpha (Hair Jr et al., 2014). The pilot test confirmed the constructs' reliability through the Cronbach’s Alpha values.

Analysis and Results
Descriptive statistics were used for analysis after the data-collecting stage. This gives us the sample demographics. SPSS version 25 was used for data coding and descriptive analysis. Hypotheses were tested using the Structural Equation Modeling (SEM) method. We conducted correlation and mediation analysis on PLS-SEM. PLS-SEM structural modelling includes covariance-based and partial least squares structural modelling, which is the holy grail for analyzing cause-effect relationships, according to (Hair et al., 2011). PLS-SEM aids in measuring the direction of correlation between variables understudied because this study aims to forecast correlations among constructs.

Descriptive and Correlation Analysis
To explain the data, we used descriptive statistics, as seen in table 2. The table consists of the variables' mean values, standard deviations, and correlation coefficients. The four variables' mean values fall between 3.90 and 4.11. The majority of respondents had a good awareness of their company's success over the last three years, including profit, sales, competitiveness, etc., according to the standard deviation and mean for firm performance, which are 0.68324 and 4.1127, respectively. Strategic planning and flexibility had standard deviations and means of 0.62863, 4.0284, and 0.73048, 3.9864, respectively. This indicates that participants comprehend strategic planning and flexibility to a considerable extent. The correlations between variables are significant and positive, with SF having the greatest correlation with FP (r=0.737, p<.01).

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>SP</th>
<th>SF</th>
<th>FP</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP</td>
<td>4.0284</td>
<td>0.62863</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SF</td>
<td>3.9864</td>
<td>0.73048</td>
<td>0.527*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>FP</td>
<td>4.1127</td>
<td>0.68324</td>
<td>0.659*</td>
<td>0.737*</td>
<td>1</td>
</tr>
</tbody>
</table>

Where SP=Strategic Planning, SF= Strategic Flexibility, FP= Firm Performance, *p<.01

Validity and Reliability
Two assessment models, the measurement model (outer model) and the structural model, both employ PLS-SEM (inner model). Compared to first-generation multivariant analysis, SEM is a second-generation approach that aids in model explanation (Henseler et al., 2015; Richter et al., 2016). Testing the hypotheses comes after determining the model's reliability and validity. Bootstrapping (5000 resample) was used to achieve this (Hair Jr et al., 2014). The study's
framework comprises 34 items for assessing four reflecting factors and 7 items for gauging the respondents' demographics. The independent variable is strategic planning, and the dependent variable is firm performance. Strategic Flexibility is a mediator in the relationship between strategic planning and firm performance.

Examining the measuring model's convergent validity is the first stage in its evaluation (Hair et al., 2010). We obtained the values of the outer loadings of the indicators and the average variance extracted (AVE) to determine convergent validity. The acceptable outer loading value criteria is 0.70 or above (Hair Jr et al., 2014). Table 3 shows loadings values, Cronbach’s alpha, composite reliability and AVE. The study omitted 11 items namely SP1, SP2, SP3, SP4, SP5, SP9, SP10, SP12, SF1, SF2, and FP3 due to poor loadings. All of the variables in this study’s variables have acceptable AVE values, with SP having 0.612, SF having 0.770, and FP having 0.601 values. The acceptable range for Cronbach’s alpha is 0.7 which means that the items of a construct with this value are reliable (Bland & Altman, 1997). Cronbach’s alpha value ranges from 0.836 to 0.905, and composite reliability shows values from 0.882 to 0.930. The values for both tests are acceptable, and we can say that the constructs are reliable. Figure 2 shows the measurement model of the study.

Table 3
Confirmatory Factor Analysis

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Loadings</th>
<th>Alpha</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Planning</td>
<td>SP6</td>
<td>0.779</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP7</td>
<td>0.765</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP8</td>
<td>0.750</td>
<td>0.894</td>
<td>0.917</td>
<td>0.612</td>
</tr>
<tr>
<td></td>
<td>SP11</td>
<td>0.759</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP13</td>
<td>0.801</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP14</td>
<td>0.841</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SP15</td>
<td>0.776</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Flexibility</td>
<td>SF3</td>
<td>0.851</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF4</td>
<td>0.885</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF5</td>
<td>0.891</td>
<td>0.900</td>
<td>0.930</td>
<td>0.770</td>
</tr>
<tr>
<td></td>
<td>SF6</td>
<td>0.882</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FP1</td>
<td>0.708</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FP2</td>
<td>0.780</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Performance</td>
<td>FP4</td>
<td>0.763</td>
<td>0.836</td>
<td>0.882</td>
<td>0.600</td>
</tr>
<tr>
<td></td>
<td>FP5</td>
<td>0.808</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FP6</td>
<td>0.810</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The most advanced method of determining discriminant validity is the Heterotrait Monotrait Ratio (HTMT) proposed by (Henseler et al., 2015). The other methods, such as the Fornell-Larcker criterion and cross-loadings, tend to perform poorly in identifying discriminant problems. HTMT is a comparatively more rigorous criterion, and a value closer to 1 shows a lack of discriminant validity between variables. Table 4 shows the values of HTMT ratio and concludes that the discriminant validity has been established.

**Assessment of Structural Model**
The following indicators comprise a structural model: the path coefficient, coefficient of determination $R^2$, effect size $f^2$, and predictive relevance $Q^2$. The PLS-SEM two-stage approach requires structural model assessment, and the study applied a 5000-sample bootstrapping procedure to acquire values for the indicators. It is possible to accept or reject the suggested hypotheses using the statistical evidence found via this method (Hair Jr et al., 2014). Using PLS-SEM, three essential criteria must be attained to assess the structural model: i) path coefficients, ii) coefficient of determination ($R^2$), and iii) effect size ($f^2$) (Hair et al., 2014; Urbach & Ahlemann, 2010). Firm performance and strategic flexibility have weak results of 0.278, as per (Chin, 2010). SP has a medium of 0.16, and SF has a significant effect size of 0.50, as per (Cohen, 1992). Table 5 shows the values for $R^2$ and $f^2$ while Table 6 shows the path coefficient of the research hypotheses. Figure 3 shows the structural model of the study. A two-tailed test has been used to
calculate the significance of path coefficients which helps test the hypotheses. The t-values must be greater than 1.645 to be significant at a p-value of 0.05, and table 6 shows the hypotheses testing. The first hypothesis is significant (β= 0.373, t= 6.613, p < .01), so we can say the hypothesis is supported. There is a relationship between strategic planning and firm performance in SMEs under study. The second hypothesis states that there is a relationship between strategic planning and strategic flexibility. The hypothesis is supported as the values show a significant relationship (β= 0.528, t= 10.299, p < .01). The third direct relationship is concerned with strategic flexibility and firm performance; the findings show significant values (β= 0.542, t= 7.924, p < .01) supporting the hypothesis. There is one indirect effect in the model where the mediating role of strategic flexibility is studied. By using the similar method of bootstrapping introduced by Preacher and Hayes (2008) to measure the indirect effects of a mediator, we find the results to be significant (β= 0.286, t= 6.015, p < .01). We can conclude that strategic flexibility mediates the relationship between strategic planning and firm performance. Statistical findings support the final hypothesis.

Table 5
**R square and F square**

<table>
<thead>
<tr>
<th>Constructs</th>
<th>$R^2$</th>
<th>$f^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Performance</td>
<td>0.646</td>
<td></td>
</tr>
<tr>
<td>Strategic Flexibility</td>
<td>0.279</td>
<td>0.600</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td></td>
<td>0.283</td>
</tr>
</tbody>
</table>

Table 6
**Path Coefficient of the Research Hypotheses**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Std. beta</th>
<th>t-values</th>
<th>p-values</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>SP $\rightarrow$ FP</td>
<td>.373</td>
<td>6.613</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H2</td>
<td>SP $\rightarrow$ SF</td>
<td>.528</td>
<td>10.299</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H3</td>
<td>SF $\rightarrow$ FP</td>
<td>.542</td>
<td>7.924</td>
<td>.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H4</td>
<td>SP $\rightarrow$ SF $\rightarrow$ FP</td>
<td>.286</td>
<td>6.015</td>
<td>.000</td>
<td>Supported</td>
</tr>
</tbody>
</table>
All the hypothesized direct and indirect relationships are significant at less than 1% significance level (p<.01)

Figure 3: Structural Model

Discussion and Conclusion
The first hypothesis testing (H1) result revealed a direct correlation between SP and FP. The results indicated that SP directly and substantially impacts Saudi employees' FP in SMEs (β= 0.315, t= 5.510, p< .01). As a result, hypothesis H1 is accepted, confirming that there is a connection between the performance of the companies and strategic planning. The fact that the company's executives have a clear vision and the staff members comprehend it well speaks to its effective management. The effectiveness of Saudi SMEs is impacted by strategic planning. Strategic planning significantly affects organizational performance in both the public and commercial sectors internationally, according to the meta-analysis of George et al (2019), and it also improves the performance and effectiveness of the organization. Therefore, the findings of this study are consistent with the 30 papers that George et al (2019) included in their meta-analysis. Because it aids in achieving organizational goals and enhances performance, the study supports using strategic planning. Organizational success and, in the long run, survival are both significantly impacted by strategic planning. A company's success is affected by strategic planning in various ways, including better customer management, more sales, more profitable goods, and more (Nan Su La Pyi, 2019). The findings support a wealth of research on the connection between strategic planning and corporate success, which addresses the study's primary goal.

Hypothesis 2 is accepted based on the findings (β= 0.528, t= 10.299, p< .01), and the research's second objective is the relationship between strategic planning and strategic flexibility. Strategic flexibility has many benefits because each company should be able to react and adapt to the quickly changing environment. It enhances innovations and gives the company a tactical advantage in a fast-paced market (Cingöz & Akdoğan, 2013). The significance of this relationship can be explained by saying that only planning cannot achieve any goals but that organizations must be adaptable to change and educate themselves on it to survive in a dynamic environment.
Therefore, SMEs demonstrate a significant relationship between strategic planning and flexibility. The findings are supported by earlier research that showed the importance of the link between strategic planning and flexibility (Dibrell et al., 2007). A company that opts for strategic planning gains strategic flexibility for improved performance. Industries are finding it difficult to compete in the increasingly competitive global market, so managers continuously strive to develop the most effective strategic plans while remaining adaptable. Knowing the potential changes and difficulties the organization may face is necessary for future planning. It can be challenging to be flexible consistently because the firms in our study are of medium size. However, the findings show that SMEs have both strategic planning and flexibility. They understand that survival requires adapting and acting strategically (Eppink, 1978). One way to deal with issues brought on by the environment's shifting trends is by being flexible.

Understanding how strategic flexibility affects business success is the third study goal. Strategic flexibility is the independent variable in this connection since firm performance is the dependent variable in the current study. The association between strategic flexibility and company performance is significant, which confirms the hypothesis that it exists, according to the statistical analysis for H3 on PLS (β = 0.510, t = 6.929, p < .01). The changing environment makes it necessary for an organization with strategic flexibility as a key attribute to execute successfully. The performance of the employees and the organization will improve with such a company. Cross-functional cooperation and product flexibility are two aspects of strategic flexibility that impact performance (Zhang, 2005).

To maintain an organization's competitive advantage, strategic flexibility, according to Zhang (2005) has been more and more valued in recent years. Strategic flexibility and business performance were found to be correlated in a study of the highly dynamic fashion sector (Uمام & Sommanawat, 2019). Additional research adds to the body of literature by examining the strategic flexibility dimensions' (proactive and reactive) substantial effects on firm performance (Karri, 2001). The results of the current study are backed by literature demonstrating the relationship between strategic flexibility and business performance (Chen et al., 2017; Shalender & Yadav, 2019). The association between strategic flexibility and company success is supported by several research performance (Mariadoss et al., 2014; Rajala et al., 2012). Due to the effect on the performance of the firms, the SMEs in this research are flexible. We may infer that strategic flexibility impacts SMEs' performance, which satisfies the study's third aim.

Strategic flexibility is the variable that mediates, and hypothesis 4 was put out to investigate this. The results that support this assumption (β = 00.269, t = 5.654, p < .01) and the objective is fulfilled. Strategic flexibility is the mediator in this study because organizations with a high emphasis on strategic flexibility are more likely to embrace innovative HR practices that center on employee productivity and company performance (Xiu et al., 2017). It has been noted that mediation plays a vital role in Bangladeshi firms since the manager or leader is accountable for making the company flexible (Dhar et al., 2022). Strategic flexibility catalyzes dynamic contexts, facilitating the development of competitive advantages and bridging the gap between a firm's performance and design (Thomas, 2014). A company capable of strategic flexibility has a higher chance of expanding its clientele swiftly and adapting to risk management changes. The company can actively impact the environment and adjust since they have already foreseen the threats. Employees will have less bother and time to produce greater creativity and productivity. Although it is challenging to anticipate every potential risk in a changing environment, flexibility
in planning aids managers in making more accurate plans. Another research by Yang and Gan (2021) focused on the mediating effect of strategic flexibility and the spirit of cooperation while promoting workforce competitiveness to examine organizations' dynamic capability. According to the current study's findings, SMEs are exhibiting strategic flexibility, which has mediated the connection between strategic planning and company performance.

**Theoretical and Practical Implications**

The study has two theoretical approaches for strengthening the tested hypotheses: resource-based view theory (RBV) and contingency theory. The resource-based view (RBV) theory, developed by Barney (1991), explains why certain organizations do better than others and what causes this improved performance. There are many studies on RBV's effects on competitive advantage and organizational performance (Anwar et al., 2018). The theory states that resources should be VIRN, which stands for valuable, imperfectly imitable, rare, and non-substitutable, to gain a competitive edge in the market (David et al., 2017). The businesses' management of VRIN resources will give them an advantage over rivals, improving the firm's overall performance. It is clear from how the employees completed the surveys that they had the proper level of acquaintance with strategic management ideas. Therefore, the performance of SMEs is significantly influenced by human resources in this context. Each resource—financial, physical, human, and organizational—is used by the SMEs under consideration. Internal resources are the focus of RBV, and management there develops and executes the strategic planning process with an eye toward the organization's objectives. Achieving your goals should be your main priority. To accomplish this, the manager or leader must create a plan of action for accomplishing short-term goals supporting long-term objectives. The objectives for both the business and the projects are aligned when the strategic plan is created following corporate policies. Additionally, they are in line with each person's personal goals.

The fit between a group of contingencies, including structure, people, strategy, culture, and technology, determines an organization's performance, according to the contingency theory, which is the other supporting theory to RBV (Tosi & Slocum, 1984). Here, strategic planning affects business performance by fostering tactical flexibility. Such connections can lead to improved organizational performance. The study's strategic variables serve as backup plans for achieving firm performance. We can conclude from the study's findings, as explained by the contingency fit approach, that the relationship between strategic variables affects how well a firm performs. In other words, strategic planning and flexibility contribute to better business performance. The relationships inferred from the data analysis are supported by contingency theory, which contends that strategic planning should be based on the opportunities and threats a dynamic environment presents. This approach's strategic flexibility is much more reactive than RBV, where flexibility is not always certain. Considering the contingency theory, the manager or leader must modify their strategy as necessary. The company reaches an equilibrium point where the manager can better grasp what can occur and what needs to be done. In these circumstances, thinking creatively is essential because the difficulties encountered may not always be those that have previously occurred.

When SMEs perform strategic planning and align it with the management components, they can alter their strategy when a problem arises in the dynamic environment, significantly improving the company's performance. A dynamic environment's drawback constantly changes; good
management will approach situational issues differently. RBV theory and contingency theory are thus related to the study’s variables and provide a thorough explanation. The findings broaden the research and body of literature on the relationship between planning and performance in medium-sized SMEs.

Entrepreneurs are renowned for their ability to spot opportunities and build goals around them. To a certain extent, such a person can predict the future through planning. When SMEs consider the changing environment and modify their objectives accordingly, they are more innovative (Vanderstraeten et al., 2020). According to this study, strategic planning and flexibility are essential for a firm's performance. The current study may have managerial ramifications for SMEs worldwide and academicians who wish to investigate the framework using various theoretical frameworks and variables. Managers can be taught to think more critically and gain a keen understanding of the potential situations that may arise when the environment changes quickly. Even though no one can completely predict the future, even a hazy idea can help formulate a strategy to deal with a situation like this. Since a strategy is useless without proper implementation, SMEs must engage in strategic planning and carefully match the components of strategic management with their objectives.

Additionally, it’s critical to be adaptable to changes in the environment. Because of the technological revolution, which has kept everyone on their toes, businesses need access to the best tools and the most recent information. Similarly, business owners or managers in this situation need to think creatively.

The findings of this study on medium-sized SMEs are very instructive for smaller SMEs. According to the results, strategic planning and firm performance are related, meaning that SME plans can impact performance. These factors have established a relationship, resulting in improved firm performance, as the strategic plan must be flexible and aligned with the environment. The SMEs created a strategic plan aligned with the objectives, and the company was also eager to adapt to changes. The workers are also confident, motivated, and productive if we look at it this way. There is less likelihood of confusion about what is expected of the workforce when the goals and objectives are openly shared. When workers are happy and productive, a company's performance automatically improves. After all, the foundation of any organization is its workforce. The SMEs should train their managers or leaders to follow strategic management practices and better understand potential changes that could be a threat or an opportunity for the company. Extreme changes are welcomed, the firm is adaptable, and the leader must have patience. The staff members are keen observers who frequently mimic actions. The study results have clarified that the relationships between SME variables are well-defined. To improve their firm performance, businesses should continue to develop their strategic practices expertise. All Saudi SMEs' organizational departments and divisions can benefit from the findings and update their strategic approach to environmental changes to gain a competitive advantage.

Since it can be difficult for SMEs to develop into stable, financially sound businesses, the competition can be fierce. Academics and practitioners can use the findings of this study to change how they approach problems. Employees will learn and practice this if the leaders know business dynamics and the need for strategic perspectives in decision-making.
Limitations and Future Directions

First, the data was only gathered from Saudi workers who SMEs employed in various regions of Saudi Arabia. The instruments were valid and reliable, and there was no problem with common method bias. However, the data was gathered based on perception and was cross-sectional in design. Second, although this study was intended to gather 500 responses, only 400 questionnaires were received, 20 of which had to be eliminated due to data screening. Thirdly, although this study includes an even number of responses from various locations, they appear to be few when viewed as a whole.

In some regions, SMEs refused to cooperate with data collection efforts, arrange meetings, or provide assistance. The study was conducted in a developed nation with findings that can be generalized to other nations of that type, but developing nations have different experiences due to dynamic environments. The respondents share the same culture and beliefs, and in a developing country, the perceptions may vary.

Future research should target participants from various ethnic backgrounds and collect data using a longitudinal design to produce diverse results. Second, further investigation should focus on the model's alignment and planning dimensions. This will add to the literature on planning and performance. Data was only gathered from Saudi Arabia so future research could repeat the findings in cultures or nations with established SMEs. Last but not least, because the information was collected from employees in front of their supervisor, it's possible that they felt pressured to answer the questionnaire honestly so that the supervisor would be aware of their opinions. Although confidentiality is guaranteed in this situation, some respondents may experience anxiety and may find it upsetting to be around their

Conclusion

Strategic planning, flexibility, and SMEs' performance are all significantly correlated. The relationship between planning and performance has also been mediated by strategic flexibility. The study used a quantitative survey approach, providing a detailed explanation of the data analysis, followed by a demonstration of the model’s excellent fit. Statistical findings supported all of the proposed hypotheses. The resource-based view theory and contingency theory, two theories that support the study's framework and findings, have also been clarified by the study. Organizational resources significantly impact performance, and when two other variables or factors are present, the third one—the mediator in this study—improves the firm's performance. In this study, a manager or leader’s role is crucial in developing strategic plans and conveying them to the human capital. As a result of the employee's productivity, creativity, and motivation, their work quality increases. The outcome of this is an improvement in the firm's performance. The current study first includes strategic flexibility in the same model as strategic planning and firm performance. The planning-performance literature has benefited greatly theoretically from this. The study offers valuable suggestions for SMEs that they can use to enhance their organizations’ overall systems. The study's limitations and potential future directions are also discussed.
References


