Organisational Structure and the Strategic Planning Process in Almarai Company of Saudi Arabia

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Abstract
Almarai company of Saudi Arabia has been analysed in this paper as an example of a complex organisation with respect to its organisational structure and strategic planning process. The research was conducted by relying on documents and interviews. It is noted that elements of the organisational structure and the strategic planning process mutually affect each other, and the similarities between development of stages and implementation of the strategic process and elements of the organisational structure, and their impacts, are also examined.

Introduction
In investigating the relationship between organisational structure and strategic planning, this paper analyses Almarai company located in Saudi Arabia. It was chosen because it satisfied the requirements to analyse an organisation with a complex organisational structure and a strategic orientation operating in a dynamic economic environment.

A few researchers have previously advocated for the strategic planning process to be aligned with organisational structure (Brenes et al., 2008; Spee & Jarzabkowski, 2009; Kich & Pereira, 2011; Neis et al., 2015). Some have suggested that organisational structure should be arranged based on the strategy (Homburg et al., 2004; Hrebiniak, 2006), while others have recommended for strategy to arise from the organisational structure (Galan & Sanchez-Bueno, 2009; Kich & Pereira, 2011). Moreover, organisational structure must be arranged according to the environment (Volberda, 2004) because the environment changes in ways that require adjusting the structure, for example, in terms of re-arranging the hierarchy, team composition, focus on particular practices and processes, exploiting the skills and abilities of employees and use of technologies. In a highly dynamic environment, this need is greater in order to remain competitive and maintain a desirable strategic orientation.

Theoretical Framework
Strategy and structure form a strategic triangle along with resources, as recognised by Mazzarol (2005). His theoretical framework views a need for the management of organisations to balance this strategic triangle. Larger organisations tend to be highly structured and have a defined strategy, whereas resource constraints often restrict smaller ones from maintaining this balance and hence impede their ability to develop appropriate structures and implement their intended strategy. Within this wider theoretical framework, the focus in this study is on the relationship between structure and strategy without regard to the related dimension of resources as either a facilitator or constraint.

The thesis that structure follows strategy was put forward by Alfred Chandler (1962) in ‘Strategy and Structure’. He also emphasised the importance of maintaining a harmonious relationship between the two. Since then, this theory has been discussed widely in the literature. The sequence of structure following strategy is evident in cases where organisations adopt a ‘vertical integration’ strategy. This is probably because an organisation tends to reorganise its organisational structure when it is engaged in early stages of devising a strategy. That is, appropriate organisational settings and other structural arrangements are usually decided sequentially after and based on the decided strategy (Hrebiniak, 2006). Other situations in which this sequence is seen is when firms undergo restructuring in response to a changed strategy of downsizing, rationalising, outsourcing and exporting of jobs by
shedding jobs, as usually occurs when economies weaken. Major restructuring in Saudi Arabia can be seen in many organisations in response to the national strategy of reducing reliance on oil, as part of the Vision 2030. This is taking the form of increasing privatisation, expansion of manufacturing activities in particular, and increasing employment.

In contrast to the above sequence, other researchers have suggested that the relationship is the other way round, that is, that strategy follows structure (Hall, 2004; Certo & Peter, 2005; Pereira, 2010; Amitabh & Gupta, 2010; Kich & Pereira, 2011). For example, Amitabh & Gupta (2010) consider structure a key factor for implementing a successful strategy because it is the structure of organisational activities that directly impact on organisational performance. According to Brenes et al. (2008), the implementation of a successful strategy is thus related directly with how well structure and strategy are aligned with each other, as well as with organisational culture. Similarly, Pereira (2010) identified structure as critical for managing the implementation of a strategy, and that it must be aligned with the structure, and Hall (2004) suggested structure determines the selection of participants in strategy formation and implementation. In investigating the strategic planning process, Kich & Pereira (2011) came to the conclusion that it is influenced by the structure of organisations given that most decisions in them are made by certain individuals responsible for devising organisational strategies. They also suggest other factors contribute to influencing the implementation of the strategic planning process, namely leadership, communication and culture.

Another position would be to view a more cyclic relationship as both strategy and structure being mutually influential on each other. Hofer & Schendel (1978) presented a definition of strategic planning in line with this view, as a managerial response to changes in the business environment involving a transition from having a set internal structure as well as achievement in production efficiency to a condition where strategy and structure are integrated that then leads to expansion and diversification of the organisation. This suggests an integration of strategy and structure is both preceded by and precedes structural changes.

That there is a close and mutual relationship between organisational structure and strategic planning is clear from the above-mentioned studies, including those that indicate structure after strategy and vice-versa. What is unclear however, is the mechanism behind how the two influence or impact each other. This is the focus of this study; to determine the nature of the relationship and examine exactly how each affects the other based on a case study of the Saudi Almarai company.

Methodology

An evaluative case study was arranged for analysing Almarai company with respect to its strategic planning and organisational structure over time. This method is suited for closely examining people, in this case an organisation, the context and change over time (Paltridge & Phakiti, 2010), and when the phenomenon under investigation is difficult to study outside its natural setting and when the concepts and variables are difficult to quantify (Ghauri & Gronhaug, 2002).

The categories defined during the analysis were divided into those relating to organisational structure and those related to strategic planning in order to facilitate identification of influences. For analysing strategic planning, processes focused on the formulation phase and those related to the implementation phase were analysed separately, and for analysing organisational structure, the following three dimensions were distinguished: organisational form, organisational planning, regulation and control. These dimensions are similar to those used for analysis by Volberda (1998). The analysis involved evaluating the relationship between elements of the organisational structure and the two formulation and implementation phases of the process of strategic planning.

Findings
Almarai’s core business is dairy products, and its other product lines are juices, poultry, bakery and infant nutrition. The company claims to be committed to quality, which it considers as “the cornerstone for growth and overcoming its attendant challenges” (p.12). This is especially ensured, for example, in arranging for animal feed, applying international occupational safety and health standards.

Almarai’s strategic planning is centred on two key processes. One is on innovation as a growth strategy for which the company has structured a ‘continuous improvement and innovation’ cycle, which involves or engages the following stages: strategic leadership, planning, processes, products and services, results and business results, and performance evaluation (see Illustration 1 below). The company strives to innovate in terms of making improvements to operations, introducing new products and opening new markets. Besides achieving growth through innovating, its other growth strategies are by means of organic growth through diversification and development of new products, and by geographic expansion.

Another key dimension of Almarai’s strategic planning is the focus on supporting education, training and research, both within the company and in the kingdom as well. The company recruits skilled and experienced people and invests in technology for advancing its own production facilities. In terms of research and development, the company engages in testing experimental products, continuously analysing consumer demand and studying potential choices to ensure consumer satisfaction, and searching for healthy products with high nutritional value.

With respect to organisational structure, Almarai underwent a major restructuring during the early 1990s when it moved away from having a decentralised one to having a centralised structure with the aim of establishing itself as a low-cost producer for the benefit of its consumers so that they can avail high-quality products at more affordable prices. As part of this process, the company replaced five decentralised plants with its first central processing plant, and ten other smaller decentralised dairy farms with four larger ones. In the mid-2000s when it transitioned from being a privately owned company to a publicly listed company, it commissioned an additional large central processing plant and two new super-farms. A few years later, Almarai diversified its product lines to include bakery and poultry products in 2007 and 2009 respectively, which was accompanied by the construction of new facilities, and in infant nutrition in 2010.

The above measures alone are indicative of strategy preceding structural changes because the centralisation and establishment of new facilities and plants followed after the company’s strategic plan to become a low-cost producer and to diversify its product range. At the same time, Almarai also engaged in further strategic planning initiatives in subsequent years after its restructuring had taken place. In 2017, Almarai undertook a full strategic review in addition to its five year plan. This plan is currently targeted as Almarai 2025, and it sets out a “broader vision for the future that identifies specific, quantifiable and measurable goals” (Almarai, 2017, p.26). The company describes this as “a new business-oriented operating model with clear reporting lines as well as defined responsibilities and accountabilities” (ibid). Additionally, the company is also working with the government to identify ways in which it can contribute towards the National Transformation Plan 2020 and Saudi Vision 2030. In response to this advance strategic planning with defined goals to be achieved by 2025, Almarai undertook some restructuring in October 2017 to make sure that it is aligned with specific business rather than with business functions. This shows that structure may follow on from strategy as well, whereas previously the company was noted for arranging strategy after structuring.
Illustration 1: The strategic planning cycle of Almarai company

The interviews in this study were defined intentionally keeping the research objectives in consideration. These were conducted with members of the company involved in its strategic planning. They were useful in identifying conditions and behaviours relevant to understanding the relationship between organisational structure and strategic planning, and in triangulating the original data. The responses were subjected to content analysis, and led to obtaining one hundred and eighty different responses that were then placed into 62 categories for analysis that helped to examine the aforementioned relationship.

The implementation of the company’s strategic planning is handled by its administration, in particular its Strategic Planning Committee, and the company makes use of tools such as SWOT analysis and the balanced scorecard. That there is a relationship between organisational structure and strategic planning was evident from the responses, but the interviews helped to understand particular influences of each aspect on the other. In particular, it gave insight into the formulation and implementation of strategies, and into organisational form, the company’s planning arrangements and its regulatory control related processes. These findings confirmed the information found earlier through document analysis but shed more light on the details.

After its initial structuring, major organisational restructuring of the company occurred at two particular moments of its history: in the early 1990s and then a decade and a half later in 2005. The first of these two major restructurings, characterised mostly by centralisation, was in response to an entirely new strategy of becoming a low-cost producer for its customers, and the second major restructuring was also strategically oriented but preceded its new strategy of diversification over subsequent years. The next restructurings, which occurred in 2017, were made in response to its latest and current strategic reorientation to align with certain business processes over functions and in response to the changed economic environment in Saudi Arabia. The first phase of restructuring was concentrated on the company itself to give it more centralised control and a strengthened hierarchy, the second on the needs of the market and which involved functional grouping for separation of product lines, and the current third phase of restructuring has a more regional and nationwide focus.

Organisational Form and Formulation and Implementation of Strategic Planning

The hierarchical structure of Almarai was strengthened during the first phase in the 1990s. During this formulation phase, there was a major process of centralisation of the company whose management was previously scattered across several processing plants. The initial motivation for this was to become more economical in production by reducing costs, and so that the new strategy of producing more economically and at lower prices could be implemented. The strategic planning process thus contributed to the formation of a stronger organisational arrangement. In order to facilitate the achievement of this goal, the company underwent a transformation of its organisational
form, which in turn led to a reorganisation of its functions and hierarchy. These changes inevitably took the form of creating new departments, merging existing ones, and appointing new positions, which are all structural changes. At the same time, the hierarchical structuring impacted on strategy by limiting the management to the particular strategy of the single centralised management. Although this arrangement provides for potentially greater uniformity in strategic orientation, it limits the strategic planning to the restricted organisational structure and its hierarchies and departments.

Organisational Planning and Control and the Formulation and Implementation of Strategic Planning

Organisational planning involves such activities as setting priorities and objectives, which relate to the formulation phase, and progress evaluation, which relates to the implementation phase of strategic planning. As for control and regulation, these are influenced by the strategic planning process to enable all elements, particularly workers, to fall in line with the demands and expectations of the management. At Almarai, there was little evidence of employee participation during the formulation stages, but some indications of greater involvement in later stages, especially in more recent years. The same is the case for cooperation with external organisations, also in recent years, to provide a role for the company in contributing towards two major national plans, namely the National Transformation Plan 2020 and Saudi Vision 2030.

Almarai’s focus on education and training is further evidence of its new strategic orientation. It involves both organisational planning and control. The company recognises the importance of these in addition to research and development to secure its continued future progress. This strategy thus involves advance organisational planning, and it also provides greater control for the company to acquire the knowledge, skills and technologies that satisfy its needs. The aim is so that the knowledge and skills gained by the employees can be utilised and exploited to meet its strategic needs. In turn, from the very moment that these knowledge and skills are acquired, the company is affected in terms of potentially improved decision-making, which can also lead to modifications in organisational structure and further planning. Structure and planning can therefore both lead to each other and influence the same.

Conclusion

This study analysed organisational structure and strategic planning in a selected Saudi company, namely Almarai, originally a dairy company that has since diversified into other related product lines. The purpose was to examine the relationship between these two in terms of cause and effect or the influence or impact of one on the other. Data was obtained through document analysis combined with interviews. Usually, it is related that one affects or leads to the other, particularly, it is maintained that strategy is followed by structure. As expected however, the two bear a mutual relationship, as each is impacted by and yet influences the other.

This study therefore supports both sets of other studies in the literature examined earlier; those that suggest structure follows strategy and vice versa, but establishes that the cause and effect relationship is mutual. It corroborates all those studies that suggest a strategy-structure sequence, as proposed by Chandler (1962), Hrebiniak (2006) and others; those that suggest a structure-strategy sequence (Certo & Peter, 2005; Amitabh & Gupta, 2010 et al.), and particularly, that of Hofer & Schendel (1978), which also suggested both affect each other. Furthermore, strategic planning is influenced by and also influences elements of organisational structure, and at the same time, the implementation of strategic planning is influenced by and also influences elements of organisational structure.

Due to this being a case study, it is not possible to generalise the above findings. It is therefore recommended to extend the research to more organisations that are operating in the same economic environment and under similar circumstances involving strategic planning and implementation. It was
noted that Kich & Pereira (2011) also identified other factors that can affect strategic planning with respect to its implementation. A thorough study could explore these other factors of leadership, communication and culture in terms of their role in the strategic planning process as well, so that a more comprehensive model can be devised to explain the organisational structure and strategic planning relationship. A simple schematic illustration of the relationship between strategic planning and organisational structure of Almarai company is presented in 

References