

# Examining the Interrelationships between Strategies, Capabilities, Uncertainties and Performance of Tourism and Other SMEs in Oman

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**Abstract**—With every new SME venture, there is always a level of risk involved. With SMEs playing such a crucial role in Oman's economy, it is necessary to understand the success factors behind high performing SMEs. SMEs exist in different sectors within an economy. The purpose of this research is to examine two categories of SMEs: tourism SMEs, and other, non-tourism SMEs.

As a sustainable source of revenue and an alternative to oil production, tourism contributes largely to country of Oman's GDP. The Omani government is currently trying to grow tourism through its support of tourism SMEs. Our primary research was therefore conducted in Oman where we interviewed business owners and managers about their SMEs.

Specifically, our paper examines the interrelationships between strategy, capability, uncertainty and performance of both tourism and other SMEs in Oman. More broadly, this study will help define the way that key performance indicators of SMEs interact with each other. It is hoped that this study will contribute to the specification and categorization of SMEs revealing the predictors of success within the unpredictable market of SMEs.

**Keywords**—Interrelationships; Capabilities; Strategies; SMEs; Tourism, Oman

## I. INTRODUCTION

Small and Medium Sized Enterprises (SMEs) are categorized in order to isolate the factors contributing to their success. Scholars have grouped businesses based upon their strategy (Miles, Snow, Meyer, & Coleman, 1978). Building upon this work, scholars such as DeSarbo have quantified aspects of businesses performance in order to refine the categories of business units (DeSarbo, Anthony Di Benedetto, Song, & Sinha, 2005). Further building upon this we now aim to define the relationships between strategies, capabilities, uncertainties, and performance of SMEs. Our research is specifically on SMEs in Oman. We study two groups of SMEs: tourism SMEs and other, non-tourism SMEs.

## II. TOURISM IN OMAN

In Oman, tourism accounted for 3.0% of total GDP in 2013,

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a number which is predicted to continue to rise. However while SMEs employ reasonably high percentage of the workforce in Oman, SMEs in the accommodation and tourism sector only account for 2.1% of SME business activities. Herein lays the potential for SMEs in Oman to get more involved with the tourism sector. As such, Oman is an appropriate context to study the interrelationships between strategies, capabilities, uncertainties, and performance. This paper will investigate the different types of SMEs and their performance in Oman both within the tourism sector and outside of tourism.

## III. THEORETICAL BACKGROUND

The most popular classification of the strategy of business units was done by Miles and Snow (Miles, Snow, Meyer, & Coleman, 1978). They classified the strategy in four groups, namely the Prospectors, Analyzers, Defenders and the Reactors. The first group, the Prospectors are considered as the innovators and risk takers who are oriented towards learning. Prospectors use decentralized structure and initiate change in the market by bringing about new products and finding new business prospects. As the name suggests, the Defenders are the ones who try to defend the business by making efforts of keeping the business stable using a centralized authority focused on efficiency and cost control. The product range of Defenders is kept limited to avoid overheads and risks. The Analyzers use a hybrid strategy derived from the Prospectors and Defenders. Analyzers maintain a balance between learning and efficiency using research and innovation. Based on the situation of the market, Analyzers may perform as a Defender or as a Prospector but necessitate extensive amount of resources, research and analysis to perform the tasks effectively. The Reactors are loosely strategized businesses that do not have any specific or clear organization. The characteristics of the Reactors change abruptly based on the situation and the demands.

The paper by DeSarbo et al. (DeSarbo, et al., 2005), provides a method to obtain quantitative data of businesses so that the businesses can be analyzed and studied. They introduced the capability items, which have shown to have influence on

business performance (Parnell, Long, & Lester, 2015)(Parnell et al., 2015). The items relating to environmental uncertainties were also studied by DeSarbo et al (DeSarbo, et al., 2005). The strategic capabilities as defined in (Day, 1990), are considered as a complex combination of knowledge and skills that facilitate a firm to create economic value that can sustain a competitive edge. The environmental uncertainties are the changes that are prone to the environment. Some of the environmental uncertainties discussed by (DeSarbo, et al., 2005) are the government regulations and interventions, stability of the markets, activities by the competitors and suppliers etc. These items offer a major influence on the strategies of the firm and thus on its performance.

SMEs have been studied using these components by various researchers in the recent times. The influence of the strategies and the uncertainties on the performance of SMEs studied by (Parnell, et al., 2015) showed support for the Miles and Snow topology. The paper compared the SMEs in China and USA based on the four categories of firm strategies. The link between strategic flexibility and performance of SMEs was studied by (Guo & Cao, 2014) by surveying 166 Chinese SMEs. The study found that the relationship is moderated by the competitive intensity, environmental uncertainties, combinational strategies and managerial ties (Guo & Cao, 2014). The research by (Raymond, St-Pierre, Fabi, & Lacoursiere, 2010) divided the SMEs into three groups to identify the configuration for growth. The main focus of the study was on the manufacturing firms and it was found that among the 292 Canadian and French firms, the SMEs that were identified as entrepreneurial SMEs, were the best configured towards growth. The other article by the same authors also found that among the 205 Canadian manufacturing firms, the entrepreneurial SMEs were equipped with best R&D capabilities and product innovation. The doctoral thesis by (Chu, 2015) was based on finding the relationship between the capabilities of the firm and its performance. The moderating impact of the environmental uncertainties over this relationship was also studied using the responses from 177 SMEs in Hong Kong. It was found that family businesses that are small are more flexible and agile therefore they are more able to cope up with environmental uncertainties. It is observed that there has been no study conducted so far on the performance, strategies and uncertainties of SMEs in Oman and in particular, the SMEs that are concerned with tourism. Taking this as the motivation, we have applied the methodology implemented by DeSarbo et al. (2005) to study the tourism and general SME performance in Oman.

#### IV. RESEARCH DESIGN

The instrument used in this survey was based on the techniques used by DeSarbo et al (2005). The items used for each capability type were reviewed by keeping the context of SME and tourism businesses in mind. The items were then refined using interviews and inputs from various other faculty

members who have experience in surveys and analysis. To avoid a too long scale (of 11 points) that may become inconvenient for the respondents or a too short scale (of 5 points) that may become less feasible for analyses, we decided to use a 7 point scale. This scale was then validated with the insight of senior professionals in this field. The scale was then assigned terms for each numerical value. The value 1 meant 'Strongly disagree', 2 meant 'Moderately disagree', 3 meant 'Slightly disagree', 4 meant 'Unsure', 5 meant 'Slightly agree', 6 meant 'Moderately agree', 7 meant 'Strongly agree'. The value 0 was used for the questions that the respondent had marked as 'Not Applicable'.

The placement of the items and their organization into groups was initially based on the order used in DeSarbo et al. (2005). The complete questionnaire was then revised and many questions were added, deleted and edited based on the context of the target population. The questionnaire was then pre-tested among the faculty members and research assistants in the college. This helped to calculate the average time required to complete the questionnaire and also to find various errors or issues in the questionnaire. To cater to the comfort of the local people, the questionnaire was translated to the local language, Arabic. Utmost care was taken so as to avoid change in meanings and obtain maximum accuracy in the questions. After all the rigorous tests and validations, the final questionnaire was prepared, which could measure the various areas of concern in this research. The components that were measures are strategy, capabilities, uncertainties and performance. These measures are discussed below:

1. *Strategy*: The Strategy section consists of items related to cost, product/service uniqueness and marketing. To study the cost strategy, the respondents were asked about the emphasis on cost and price competition in their firm. The uniqueness was understood using various questions relating to the uniqueness of their products/services, the tailored products/services and improvements. The promotion and brand image related questions helped obtain the marketing strategy.
2. *Capabilities*: The capabilities measured consisted of marketing, market linking, IT and management related items. Marketing capabilities were measured using the firm's ability to gather knowledge about its customers and competitors, which they implement in promotion and pricing. Market-Linking capabilities are related to the focus on market sensing and linking abilities. This would help study the ability of the firm to maintain durable relationships with customer and suppliers. The IT capabilities were used to understand the level of information technologies used in the firm to facilitate functions like new product/service development, cross functional & cross-firm communication. Lastly, the management capabilities measured the abilities and skills of the firm to manage the functions like cost, finance, human resource, revenue and market.

3. *Uncertainties*: Market environment and competition create uncertainties. The Market environment provides insight into a firm's understanding of the customer preferences and changes in the market. The competition uncertainties give an idea of how the firm feels about the competition and promotion wars in the industry.
4. *Organization and Performance*: This is an important section, which helps the researcher to understand the organization of the firm and its performance in the business. This section consists of internal communication, business network, profitability, customer satisfaction and effectiveness. The internal communication shows how well knit the various individuals and departments are in the firm. The business network gives the various partnerships that the firm is involved in, to create a network of its business in the market and society. The profitability is a major measure of the performance as it measures the return on investment, return on sales and achievement of financial goals. The customer satisfaction shows how well the firm is able to keep the customers happy and loyal to their products/services. The effectiveness gives a measure of the success of the firm's business by quantifying its growth in sales and customer base.

#### V. DATA COLLECTION

The data for this survey was obtained by conducting personal interviews with the owners and managers of the various SMEs in Oman. As the two main focus of our research is the SMEs and the tourism industry, we have divided the SMEs into two groups, one being related to Tourism and other being the remaining SMEs. The government organization known as the 'Public Authority for SMEs Development (Riyada)' was used as the venue to meet the target population. For the ease of the local population, the questionnaire was translated into Arabic. The people were given the choice of both English and Arabic questionnaire to choose from.

The sampling done was of two types based on the type of the SME. In case of the tourism SMEs, the owners and managers were called to the venue at specific times to attend the personal interviews. The other SMEs were interviewed based on the purposive sampling method. The SME owners and managers coming to the venue for governmental purposes were invited to answer the questionnaires. The sample included a wide range of SMEs: construction companies, water tankers, beauty parlors, aluminum workshops, glass workshops, clothing shops, electronic repair shops, bookshops, used car lots, flower shops, chocolate shops, event management services, print shops, beauty parlors, transportation companies, real estate agencies, medical centers, nurseries, skin care centers, catering

companies, cleaning services, oil and gas stations, coffee shops, car garages, car rental shops, office equipment stores, and schools.

The survey resulted in a total of 129 completed responses, out of which 33 were from the tourism SMEs and 96 were other SMEs. There were also 5 incomplete responses that were not considered for analysis.

A few initial observations can be made on the demographics of respondents to the survey. These demographics are important in understanding the make-up of the sample. The businesses that the respondents represented are different in the tourism sample and in the other sample. The SMEs in this study range in age from less than a year old to above 11 years old. The SMEs in the tourism sector were less spread out with nearly half of the businesses in the firm age category of 5 - 10 years old. The firm sizes for other SMEs and in tourism differ greatly. While half of the businesses have between 6 and 25 employees, in the tourism sector two-thirds of the SMEs have 5 or less employees. This means that SMEs in tourism in Oman are really more like small businesses or start-ups rather than medium-sized enterprises. Respondents from tourism related businesses were very heavily concentrated in Muscat, with 84.8% of businesses located in Muscat. Other SMEs are only 59.4% located in Muscat with percentages larger than 10% from Batinah and Dakhiliya as well.

Likewise, the participants themselves in this study are different in the sample representing tourism SMEs and other SMEs. Respondents are overwhelmingly male. There is only one female respondent in the tourism sector. This may be representative of the market or it may be a survey bias. While the respondents in the tourism SMEs are mostly 31 - 40 years old (54.5%), the majority of the other respondents were nearly equally divided between 18 - 30 (43.8%) and 31 - 40 (40.6%). The participants in tourism SMEs are overall more educated. The most popular education level for respondents from SMEs in general is High School. The most popular education level for respondents from SMEs in tourism is Bachelor's Degree. Every participant with a Master's Degree was from a tourism business. The majority of respondents both in tourism and other are Owners of the businesses (93.8% and 87.9% respectively). The respondents in general and in tourism had a similar breakdown of answers when asked about their experience. However, a larger number of respondents reported an experience of "1 or less" in general than in tourism and a larger number of respondents reported an experience of "11 and above" in tourism than in other SMEs.

VI. EMPRICAL RESULTS

TABLE I: MEANS OF THE ITEMS USED IN THE QUESTIONNAIRE.

Component	Item	SME Type	
<i>Strategy</i>	<i>Cost</i>	<i>Other</i>	<i>Tourism</i>
	We emphasize reducing our service/product costs.	5.000	4.606
	We emphasize price competition.	5.698	5.697
	<i>Product Uniqueness</i>		
	Our services/products are very unique.	5.823	5.758
	Our services/products are more suitable for high-income customers.	4.219	3.364
	Our services/products are tailored to a particular group of customers.	4.500	2.879
	We emphasize continuous service/product improvements.	6.073	6.545
	<i>Marketing</i>		
	We are focused on promotion and marketing communications.	5.542	5.727
We emphasize building strong brand image.	5.833	6.061	
<i>Capabilities</i>	<i>Marketing Capabilities</i>		
	We have excellent knowledge of customers.	5.698	6.303
	We have an excellent knowledge of our competitors	5.448	5.394
	Our promotional activities are completely aligned/linked with our product strategy, pricing policies, and distribution plans.	4.604	5.152
	Our choice of which customer group(s) to serve is very specific and carefully planned.	5.010	4.879
	Our pricing programs are excellent	5.333	5.364
	Our promotional programs are excellent	5.094	5.364
	<i>Market linking capabilities</i>		
	We have excellent market sensing skills	5.260	6.061
	We have excellent customer bonding skills	5.938	6.242
	We have excellent supplier bonding skills	5.198	5.727
	Our ability to retain our customers is great.	5.708	6.333
	<i>IT Capabilities</i>		
	We have excellent IT systems for new service/product development	4.219	5.242
	We have excellent IT systems for facilitating cross-functional communication and cooperation	3.958	5.545
	We have excellent IT systems for facilitating communications with suppliers and customers	4.354	5.485
	<i>Management Capabilities</i>		
	We have excellent cost control abilities	5.521	5.606
	We have excellent financial management skills	5.500	6.030
	We have excellent human resource management skills	5.333	5.879
Our ability to forecast profits and revenues is excellent	5.094	5.212	
We use excellent marketing planning processes	5.104	5.455	
<i>Uncertainties</i>	<i>Market Environment</i>		
	In our kind of business, customers' service preferences change significantly over time.	5.448	6.152
	Our customers tend to look for new products/services all the time.	5.705	6.121
	Sometimes our customers are very price-sensitive.	5.406	5.455
	New customers tend to have product/service needs that are different from those of our existing customers.	5.074	5.727
	We serve many of the same customers that we used to serve in the past.	5.562	6.212
	It is very difficult to predict any changes in the marketplace we serve.	5.177	5.606
	<i>Competition</i>		
	Competition in our industry is very tough.	5.219	5.455
	There are many 'promotion wars' in our industry	5.093	5.152
	Anything new that one organization offers, others can easily match.	5.177	5.818
	Price competition is a hallmark of our industry.	5.177	5.727
	One hears of a new competitive move almost every day.	5.073	5.212
Our competitors are relatively strong.	5.385	5.848	
<i>Organization and Performance</i>	<i>Internal communication</i>		
	In our organization, we have regular meetings for every project.	5.031	5.091
	In our organization, employees develop informal contacts among themselves.	5.073	5.788
	In our organization, communication is often made across different projects and departments.	4.604	5.090
	In our organization, managers and employees give intensive feedback to each other.	5.125	5.788
	In our organization, information is often spontaneously exchanged.	5.219	5.182
	<i>Business Network</i>		
	We have good design and R&D partnerships	4.240	4.970
	We have good partnerships related to the services we provide	4.323	5.789
	We have good marketing and promotion partnerships.	3.927	4.515
	<i>Profitability</i>		
	Our organization's return on investment is excellent	4.927	4.818
	Our organization's return on sales is excellent	4.938	4.636
	Our organization's ability to reach the financial goals is excellent.	5.010	5.303
<i>Customer Satisfaction</i>			

Our customer satisfaction level is very high.	5.969	6.333
Our organization's delivery of value to our customers is excellent	5.792	5.909
Our organization's delivery of what our customers want is excellent.	5.760	6.121
<i>Effectiveness</i>		
Our organization's growth in sales/revenues is excellent.	5.146	5.333
Our organization's acquisition/attraction of new customers is excellent.	5.500	5.848
Our organization's sales/revenues from existing customers is excellent.	5.406	5.667

Participants in this study responded to a series of clauses with a score using the Likert Scale from. Respondents could give scores on a sliding scale from 1 to 7 with 1 meaning "Strongly Disagree" and 7 meaning "Strongly Agree". The score of 0 was given as N/A. The mean scores for each variable were calculated for both tourism specific respondents and general.

The first component the survey measures is *Strategy*; which is broken down into three sub-components. The first variable is Cost Strategy and here the scores for other SMEs and tourism SMEs were very similar. The range is small as all scores lay between 4.60 and 5.70. While the other SMEs have scores above 4.00 for every statement, tourism SME respondents have average scores below 4 for half of the statements relating to Product Uniqueness. As far as Marketing, the final sub-component of Strategy, both tourism and other SMEs have relatively high scores; all above 5.50.

The second component we are measuring is *Capabilities*. Specifically we measure the Marketing, Market linking, Information Technology, and Management Capabilities. In regards to the Marketing Capabilities, respondents from the tourism SMEs reported higher scores on average than respondents from the other SMEs. The same trend exists for Market linking Capabilities. Respondents from tourism SMEs also reported greater averages for IT Capabilities. Furthermore Management Capabilities had higher averages in tourism SMEs than in other SMEs. It is worth noticing that although the difference between tourism and general SMEs Capability scores are always less than one point, they're difference is consistent. The tourism SME's are more capable in every measurement.

The third component measured in this survey is *Uncertainties*. In the sub-component of Market Environment Uncertainties, tourism SMEs had average scores slightly higher than other SMEs. In fact in four out of the six clauses, tourism SMEs scores are 0.60 - 0.70 greater than those of general SMEs meaning that they are more certain businesses.

As this paper is exploring the interrelations of strategy, capabilities, and uncertainties with performance of SMEs the next rows of data are performance indicators for businesses. The five performance indicators chosen to measure are Internal Communication, Business Network, Profitability, Customer Satisfaction, and Effectiveness. Tourism SMEs perform better in every category except for Profitability.

In the measurements of Internal Communication almost every score was above a 5.00 but the scores for both tourism and other SMEs were between 5 and 6 so they were moderately high. The performance indicator of Business Network had lower scores than Internal Communication

meaning that these businesses are better at intra-business relationships than inter-business relationships. The lowest score in the performance category is other SME's score of 3.927 for "We have good marketing and promotion partnerships." Profitability scores for other SMEs are slightly higher than for tourism SMEs. For example other SMEs on average have a 4.938 for "Our organization's return on sales is excellent" while tourism SMEs have a 4.363. The tourism SMEs have very high Customer Satisfaction with scores above 6.00 in two out of three clauses. Tourism SMEs appear to be slightly more effective as their scores in Effectiveness are 0.20 - 0.30 points higher than those of other SMEs.

## VII. DISCUSSION

Miles and Snow (Miles, et al., 1978) have grouped SMEs into the following four strategic types: Prospectors, Defenders, Analyzers and Reactors. DeSarbo et al (DeSarbo, et al., 2005) challenged these four categories by empirically calculating the scores of criteria within three batteries of variables. Each variable was given a score on the Likert Scale to find its influence on the performance of the business. DeSarbo et al (DeSarbo, et al., 2005) found that one of the batteries, capabilities, does interrelate with strategic type. Including the three batteries, strategic capabilities, environmental uncertainty, and performance DeSarbo derived a second-order derivative of the Miles and Snow grouping. DeSarbo's work does not negate Miles and Snow's strategic types; rather it builds upon and refines them.

DeSarbo's article "Revisiting Miles and Snow" ends with suggestions for future research on strategic types in different business environments. This is exactly where our research fits in. The interrelationships between four batteries of SMEs in Oman both generally and specifically in the tourism sector is exactly what DeSarbo was referring to. Our research methodology was hence modelled after DeSarbo's study as a continuation of his findings.

The most general observation that can be made is that tourism SMEs have better Strategy, better Capabilities, and more Uncertainties. Tourism SMEs also outperform other SMEs. This leads to the conclusion that SMEs that prioritize strategy, are highly capable, and work within a highly uncertain context, perform well.

## VIII. CONCLUSION

There is evidently a difference between the nature of tourism SMEs and other SMEs in Oman. However regardless of the industry the SME is involved in there is a defined relationship between aspects of the firm and its performance. We see that strategy, capability, and uncertainty affect

performance. These interrelationships specify the nature of the SME beyond its category: prospector, reactor, analyzer, or defender. While performance of tourism SMEs and other SMEs are different in Oman, this research proves that the SMEs themselves are different in their strategies, capabilities, and uncertainties.

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