

Factors Influencing Financial Performance of Saudi Arabian Firms

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Abstract

The main objective of this research is to determine factors that could improve the financial performance of firms in Saudi Arabia. We examine the relationship between organizational culture, knowledge sharing and the use of technology on the one hand and the financial performance of Saudi firms on the other hand. Data were collected through online questionnaires and telephone interviews conducted with more than ten different companies in Saudi Arabia. First, factor analysis was used to select the questions that provided the most pertinent information about attitudes. Second, a bivariate analysis was performed to study the extent to which the financial performance of Saudi firms is driven by global factors. The results show that organizational culture, knowledge-sharing, and the use of technology are of great significance towards the improved financial performance in Saudi Arabia's enterprise.

Keywords: Financial performance, Organizational culture, Knowledge sharing, Technology, Firm, Saudi Arabia

JEL: M100, M150, M160,

1. Introduction

This proposal sets out a plan for conducting a mixed methods investigation into a single holistic case study organization. The research will focus on the effective use of knowledge management, such as organization culture, knowledge sharing and the use of technologies within the case study organization that results improved the financial performance of the firm. The chief participants of interest in the research will be that staffs who was the finance department in the company. A sequential explanatory mixed-methods design will be used to (1) measure, using a cross-sectional survey, a range of staff opinions about the organization culture, knowledge sharing and the use of technologies and (2) use in-depth qualitative interviews to explore individual perspectives about the knowledge management and improved financial performance of the firm. The survey component of the research design will be guiding by positivist assumptions, whereas the qualitative interview component will be guided by Interpretivist assumptions.

Economies are increasingly based on knowledge, which is now recognized in Saudi firms, rising into a knowledge-based economy, which provides a focus on the role of information, technology and learning in economic performance. Saudi Arabia is the largest economy in the Middle East and the world's leading oil exporter, with one-fourth of the world's proven oil reserves and 25 per cent of the gross domestic product of the Arab world (Alnatheer 2012). The discovery of these huge oil resources has meant oil prices have had an enormous impact on Saudi Arabia's fiscal health and nearly 90 per cent of state revenues come from the petroleum industry (Samba 2008).

However, the presence of these natural resources has created a heavy reliance on oil production and export in the Saudi Arabian economy (Niblock 2013). There is also a strong reliance on the role of developed countries experience in Saudi Arabia. Having the financial resources to recruit foreign professional services has gone hand in hand with a lack of incentive for Saudi citizens, a predominantly young population, to strive to keep pace with global professional and educational standards.

The significance of the organization culture is increasingly essential for managers to understand the Saudi context, which is most problematic (Adlan and Have, 2012). In addition, information systems are increasingly imperative for the organization (Liu et al. 2007). Organizations around the world have been able to gain a substantial amount of independence, due to the information systems that can transport a competitive advantage for the organization. An organization needs to be grounded in a way that can continually grow and increase their efficiency and effectiveness, they need to ensure the most robust system in place, which can ensure the long-term survival of the competitiveness of the organization. Today, information systems have become a fundamental enhancement for storing employee's information as well as other aspects of the company. The utilization of information systems has completely transformed the performance of responsibilities within the work environment into a digital manner (Alhaqbani 2013). In an emerging climate of globalization, knowledge economies have developed to add to and even replace industrial economies in Western countries (Easton 2007). Knowledge economy is an economy that relies on the creation, distribution, and implementation of knowledge as a key engine of growth and wealth production (Martiradonna, 2014). Therefore, it would be of interest to determine the impact of the different factors on the financial performance of company in Saudi context.

This research aims to explore the impact of new technology, organization culture on accounting information system towards improved financial performance in Saudi firms. Following the aim, the research question is: How does the use of technology, knowledge sharing, and organisation culture influence improved financial performance in Saudi firms?

2. Previous Research

According to Green (2004), successful organizational performance measurement needs a methodology and system that enables managers to identify knowledge, document knowledge, and value knowledge. Knowledge assets are the prime factors of production in the 21st century economy, whether their origin is in the services, manufacturing, or agricultural sectors. Examples of knowledge assets are ideas, processes, technologies, intellectual property, skills, competencies, education, customer relationships, professional networks, lessons learned, best practices, methodologies, and techniques (Beames 2003). Tangible assets of labor, physical capital, and raw materials are far less indicative of company's value. In this knowledge era, intangible assets like innovation, relationships, and expertise are far more indicative of a company's value. (Green 2004). The term 'intellectual capital' is analogous for knowledge assets (Castro et al. 2013), Intellectual capital is a two-level concept, such as human capital (knowledge created by and stored in a firm's employees-human resource) and structural capital (the embodiment, empowerment, and supportive infrastructure of human capital) (Castro et al. 2013).

Saudi Arabia's economic goals are outlined in the form of Five-Year Plans (MEP, 2005). The Ministry of the Economy and Planning first outlined the strategic target of transforming Saudi Arabia into a knowledge-based society in 2005 (Shin et al. 2012). The eighth Five Year Plan (2006-2010) called for a greater emphasis on education as well as the inclusion of Saudi women in society. It planned for the construction of new technological and research institutions, with explicit reference to the government's resolve to realize a vision of Saudi Arabia as a developed country, leapfrogging the Western pattern of industrial economy progression to knowledge economy (Easton, 2007).

Various financial institutions operating in the Saudi Arab have been forced to learn the social dynamics in the society Baamir (2010). According to the Shariah law in the country, men are not

supposed to have body contact with women who are not their wives and family (Belanger 2011). This forced many women to avoid banking; in the banking sector it may not be easy to avoid body contact (Kent & Thompson, 2005). And this reduced the number of clients who visited the banks, reducing their profitability As Lippman (2012) observes. Few banks were forced to create separate banking portion to attract both male and female customer (Lippman, 2004).

Due to its abundant natural and financial resources, the Kingdom of Saudi Arabia is in an enviable position in comparison with developing countries in general. To consider options for future development beyond dependence on natural resources, an economy based on manufacturing would be very problematic. Global manufacturing is highly competitive and tied to a pool of skills and experience. It is also generally dependent on plentiful resources of cheap labor that do not exist in Saudi Arabia.

2.1. Organisation Culture

The issues of organizational culture have been highlighted in several research areas. The importance of organizational culture, to believe the metaphors, is used in communication and business channels, and is important for organization to consider (Mathew et al. 2012; Mauno 2010). This is especially important, as the organizations need to ensure they have the most robust system in place, which is according to the traditional values of the culture of organizations. Examples can be found in the study conducted by McDonald et al. (2007) who concluded the importance of understanding the culture, rituals, and stories of an organization. The success of the company financial performance and the literature related to this identifies there is a need for organizations to continually improve their efficiency and effectiveness, which can lead to the development and improvement of organizations. The cultural setting of Saudis is Arab and Muslim. It is widely known that the Saudi setting has a unique culture and heritage, which has been preserved since the inception of the culture (Eid, 2011). Visitors to Saudi Arabia will experience the same strict Islamic law as the Saudis. Consequently, many Saudi enterprises are ultimately influenced by the cultural aspects of the Saudi community. Furthermore, Saudis and non-Saudis employees are properly subjected in their work by such policies or directives issued from their enterprises, namely, they follow any instructions to do with this, that their superiors give to them. This is influenced by the religion that is followed in Saudi, which is Islam (Al Mizjali 2001, p.6). The Muslim life thus plays a big role in influencing the business community in Saudi. Organizational culture is considered as a relevant determinant involving collaboration between staff, in particular knowledge sharing (Shao et al. 2012). Based on Competing Values Framework (CVF) introduced by McDermott and Stock (1999), organization culture is reviewed to identify four dimensions of organization culture, namely group culture, development culture, hierarchy culture and rational culture.

2.2. Technology

According to Kemp (2010), The right information technology (IT) systems can be essential enablers of the critical insights necessary to keep enterprise viable and successful. These systems inform and remind decision makers of what the enterprise organization is, where it is in the world, and how prepared it is to cope with expected and unexpected challenges. Company information systems have become fundamental in enhancing the storage of information regarding employees as well as other aspects of the companies. One of the factors, which need to be considered, is that organizational factors must ensure they have the best systems in place (Jun and Kim 2010). The arrival of the Internet and the World Wide Web has made unconstrained sources of knowledge accessible for people. Experts are indicating the rise of the Knowledge Age succeeding the industrial Era. Within organizations, employees can share knowledge (information and intelligence) electronically and access to share practices becomes available to all other members of the staff (Khorsheed and Al-Fawzan, 2013).

The organization should focus on information system usefulness which staff productivity should be obtained (Chan and Ngai, 2007). The staff would not acknowledge the technology unless they are interested of its associated benefits (Kanellou and Spathis, 2013). In the usefulness of accounting information system would result into improved productivity of the firm (Chan and Ngai, 2007). The management accounting information system should be easy to use, accessible and reliable (Chen and Liu, 2008). Accounting information system is used to integrate and share finance across functional areas of the company in real-time. Moreover, Accounting information system helps accounting to provide useful information that reflects the real financial position of company. Brazel and Dang (2005) present that accounting information system result in increasing relevance of information and reducing information reliability. In addition, Attayah and Sweiti (2014) clarify that accounting information system leads to enhancing the process of decision making by improving relevance of accounting information in all aspects, timeliness, feedback value and predictive value.

2.3. Knowledge Sharing

Collaboration both within the organization and with other organizations is often considered to represent a crucial aspect affecting the overall performance of a company (Boehm 2012). Such as knowledge sharing, which remains an essential element in the establishment of knowledge-based working environments within a company. Knowledge sharing within a working environment remains essential as it enables employees to increase their working skills (Bock et al. 2005). Teamwork is also critical to knowledge sharing. The nature of problem solving today is structured in a way where teamwork will enable the organization to gain the level of support and help as part of the organizational culture; therefore, delivering the best possible services (Ke and Wei 2008). Knowledge sharing is further into explicit knowledge sharing and tacit knowledge sharing (Shao et al. 2012).

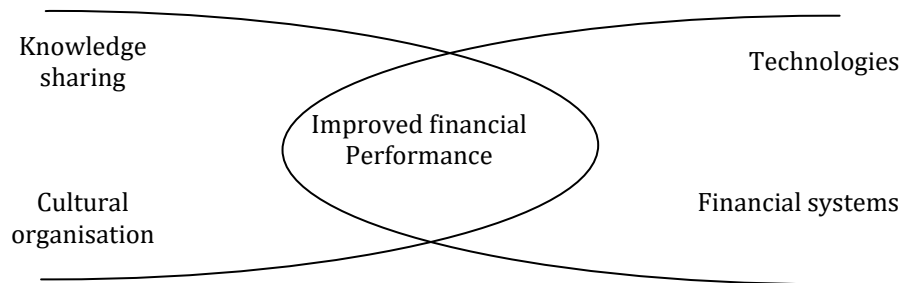
2.4. Improved Financial Performance

The success or failure of any firm can be easily foreseen by reviewing its financial performance. Therefore, there is a need to evaluate key benefits involved with the use of information system (Ittner et al., 2002). The benefits should be represented in such a manner that the staff and other key stakeholders can understand the benefits associated with changes in their business procedures (Hunton et al., 2002). On the other hand, the resistive firm would not be able to enjoy the financial benefits associated with implementation of the information system (Webb, 2004). Therefore, there should be a clear intention to enhance financial performance of a firm that could result into an overall benefit to the firm.

3. Research Method

3.1. Conceptual Model

The conceptual model is built upon the previous validated theories and models, as discussed in the literature review. Knowledge is the foundation of a firm's competitive advantage, and, ultimately, the primary driver of a firm's value (Kraaijenbrink, 2010). Organizational culture is considered as a critical factor promoting collaboration, in particular knowledge sharing (Shao et al. 2012). (Škerlavaj et al., 2010) described organizational learning culture is a complex process that refers to the development of new knowledge and has the potential to change individual and organizational behavior. According to (Škerlavaj et al., 2010) Within the competing values framework (CVF) (McDermott & Stock, 1999), organization learning culture has four different types of cultures: group, developmental, hierarchical, and rational. Based on the related theories and previous studies discussed in above section, a conceptual framework is developed, as outlined in Figure 1.

Figure 1: Conceptual Model

The theoretical foundations for the research model need to be evaluated based on the relationship between the variables, which will help in improving financial performance of Saudi firms.

3.1. Methodology

This research applied quantitative method to answer the research question and test the hypothesis. Quantitative method will focus collected data from a questionnaire targeting all other staff. The population of this study is employees at selected six firms in Saudi. The sample consists of employees who are the users of financial systems. Closed-ended questionnaire is used for survey. Previous validated questionnaire is used for survey. The staff numbers in the selected firms comprise of 8000 employees. Total of 1000 participants were contacted, 450 participated in the survey. After removing incomplete responses, in total 350 responses were collected. Therefore, these responses were taken for further study by making use of descriptive statistical analysis approach. The quantitative data is analyzed using SPSS software. Mean, standard deviation and the reliability of all items using Cronbach's reliability will be evaluated.

4. Empirical results

4.1. Organisational Culture

This measure of organizational culture is formed of five different questions as shown in Table 1. Cronbach's Alpha for each of the item was found to be above 0.7 threshold suggesting that their reliability is quite acceptable. 43% of the participant strongly agreed "our company focus on group culture", followed by 37.8% of the respondents strongly agreed "our company focus on rules and regulation". However, 3.9% strongly disagreed that the company is organized place.

4.2. Knowledge Sharing

This factor consisted of four questions, as presented in Table 2. Cronbach's alpha was above 0.7 for all the questions. This is the reason 43.7% of the respondents strongly agreed "I like to share my work reports with other employees" followed by "teamwork is important for knowledge sharing" Overall, it seems worthwhile to consider the importance attached with the practice of knowledge sharing.

4.3. Technology

This factor tested through three different items as can be viewed in Table 3. The reliability test Cronbach's alpha was above 0.7 and acceptable for all the items. 60.8% of the respondents had agreed "our financial system satisfies end-user requirements", followed by 57.8% agreed "Our systems enable the firm to respond more quickly to change".

4.4. Financial Systems

This factor tested through three different items as can be viewed in Table 4. The reliability test Cronbach's alpha was above 0.7 and acceptable for all the items. 52.2% of the respondents had agreed “The results of financial systems are attained through strong organization culture”, followed by 46.6% agreed “The results of financial systems are attained through strong use of latest technology”.

5. Conclusion

Economies are increasingly based on knowledge, which is now recognized in Saudi firms, rising into a knowledge-based economy, which provides a focus on the role of knowledge sharing, technology, and culture in economic performance. To achieve it, the financial sector must recognize the main drivers of knowledge economy. This research is specifically looking at Saudi Arabia, a developing country that should adopt a knowledge-based economy to boost financial economy. The results of this study contribute to improving financial performance (such as organisation culture, knowledge-sharing, and the use of technology) in Saudi Arabia’s enterprise. This research adds to existing knowledge and will be beneficial to firms in Saudi Arab, who could use the insights analyzed in this study to generate better outcomes.

Table 1: Reliability and validity empirical results

Factors	Cronbach's Alpha α	Mean	SD	SD %	D %	N %	A %	SA %
				1	2	3	4	5
Organisational Culture								
Our company focuses on group culture for business success.	0.77	4.2	0.84	1.0	3.5	10.5	42.0	43.0
Employees spend time building trust with each other at this firm.	0.75	3.8	0.81	1.5	4.9	18.3	39.9	35.4
Our company is a very organized place	0.75	3.9	1.19	3.9	6.6	19.7	40.8	29.1
Our company focuses on rules and regulations.	0.72	4.1	0.85	1.7	2.7	15.6	42.2	37.8
Our company focuses on goal accomplishment.	0.71	3.5	0.71	1.0	7.4	27.2	61.8	2.7
Knowledge sharing								
I like to share my work reports with other employees.	0.72	4.1	0.93	1.7	3	17.9	33.7	43.7
I like to provide my expertise on financial system use.	0.77	4.0	0.86	1.8	4.4	12.8	52.2	28.8
I think knowledge sharing is a key success of financial systems.	0.79	3.9	0.81	3.7	6.7	16.5	46.6	25.5
Teamwork is important for knowledge sharing.	0.78	4.1	0.85	2.7	1.7	15.6	42.2	37.8
Technology								
Our financial system satisfies end-user requirements.	0.75	3.5	0.91	2.0	7.4	25.2	60.8	4.7
Our firm establishes and maintains latest systems.	0.76	3.5	0.70	3.0	6.3	31.1	50.5	9.2
Our systems enable the firm to respond more quickly to change.	0.73	3.6	0.67	1.0	3.6	30.4	57.8	7.2
Financial Systems								
Our firm ensures that financial systems provide accuracy and quality.	0.81	3.4	0.70	3.0	5.5	44.1	42.6	3.8
The results of financial systems are attained through focus on the process of knowledge sharing.	0.82	3.9	1.19	3.9	6.6	19.7	40.8	29.1
The results of financial systems	0.77	4.0	0.86	1.8	4.4	12.8	52.2	28.8

Factors	Cronbach's Alpha α	Mean	SD	SD %	D %	N %	A %	SA %
				1	2	3	4	5
are attained through strong organisation culture.								
The results of financial systems are attained through strong use of latest technology.	0.79	3.9	0.81	3.7	6.7	16.5	46.6	25.5
SD = Strongly disagree D = Disagree N = Neutral, A = Agree SA = Strongly agree SD = Standard Deviation								

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