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Strategic Planning and Firm Performance: A Proposed Framework

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Article Information

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Abstract

Organizational performance still becomes an important concept in the strategic management studies. Many researchers have used it as a focus of study and try to determine what are the factors that might contribute to the performance. Strategic planning is believed to be able to drive organization to achieve better performance. The aim of this study is to examine whether strategic planning will assist business firms to uplift its performance. The literature suggests some dimensions of strategic planning to be tested, namely: formality, tools of strategic planning, employee participation, strategic implementation, time horizon and control.

INTRODUCTION

In the strategic management field, performance of the organizations has been studied repeatedly and the importance of assessing the performance has been widely recognized (Venkatraman & Ramanujam, 1986). There are many factors that can influence the performance of the organization. Evidence from the literatures suggested that strategic planning is one of the factors that can improve the performance of the organization.

The effective role of strategic planning in order to improve organizational performance is well documented in the strategic management literature (McIlquham-Schmid, 2010). It is believed that, through proper strategic planning, organizations will achieve better performance (Signhvi, 2000; Miller & Cardinal, 1994; Wang, Walker & Redmond, 2007). The relationship between strategic planning and firms' performance has been broadly studied in the previous researches (Suklev & Debarliev, 2012; Aldehayyat & Twaissi, 2011; Gică & Negrusa, 2011; O'Regan, Sims & Galleary, 2008; Efendioglu & Karabulut, 2010; Glaister, Dincer, Tatoglu, Demirbag & Zaim, 2008; Boyd, 1991; Ghobadian, O'Regan, Thomas & Liu, 2008; Falshaw, Glaister & Tatoglu, 2006; Yusuf & Saffu, 2005). However, it can be said that, the findings are still inconclusive. Some of these studies have proven that strategic planning have a relationship with firms performance. For instance, Aldehayyat and Twaissi (2011); Miller and Cardinal (1994); Brews and Hunt (1999); Suklev and Debarliev (2012), while other researchers concluded the opposite, where there is no relationship exist between the two (Yusuf & Saffu, 2005; Falshaw, Glaister & Tatoglu, 2006; Ghobadian, O'Regan, Thomas & Liu, 2008; Gică and Negrusa, 2011).

In order to explain the inconclusive findings from the previous studies, some scholars stated that, the possible reasons contributing to this inadequate findings are probably due to some studies have given more attention on the formality of planning (Lyles, Baird, Orris & Kuratko, 1993; Kraus et al., 2006) while some other studies may have overlook on other dimension of strategic planning such as the implementation of planning itself

(Hutzschenreuter & Kleindienst, 2006). Although some earlier studies have investigated multi dimensions of strategic planning (e.g. Kargar & Pranell, 1996; Phillips & Moutinho; 1999, Kraus, et al., 2006; Elbanna, 2010; Gică & Balint, 2012; Suclev & Debarliev, 2012; Aldehayyat & Khattab, 2013), however, as claimed by Flores, Catalanello, Rao, and Saxena (2008, p.570) there are still “lack of uniformity among strategic planning variables”. Its absence of uniformity among the previous scholars on strategic planning dimensions might influence the inconsistencies in the findings on the relationship between strategic planning and firms performance.

For that reason, this study prompt to investigate the strategic planning (formality, tools of strategic planning, employee participation, implementation, time horizon and control) and its effect on firms performance, since it is still limited in the prior studies especially in the Indonesian context. By investigating multidimension of strategic planning, it is hoped that the findings of this study will be able to give contribution in extending the boundaries of the body of knowledge since there is limited study that have tried to examine strategic planning through the dimensions of formality, tools of strategic planning, employee participation, implementation, time horizon and control in one frame toward firms performance.

This article is segregated within three sections. The first section is the introduction to the study; the second section is the discussion on firm performance, strategic planning and strategic planning and its relationship with firm performance; and the last section is the conclusion.

Literature Review

Firm Performance

Daft (2010), defined organizational performance as the ability of an organization to utilize its resources (e.g knowledge, people, and raw materials) to achieve organizational goals in effective and efficient way. Subsequently, Flapper, Fortuin and Stoop (1996), stated that performance can be defined as “the way the organization carries its objectives into effect”. To date, in order to measure organizational performance, it can be seen from two perspectives, either financial or non-financial performance (Venkatraman and Ramanujam, 1986). Therefore, most of the studies have focused on financial measures alone, such as profitability (Murphy, Trailer, & Hill, 1996; O’Regan, Sims, & Galleary, 2008). Although, measurement of financial performance of the organization has long been recognized, but it is insufficient to measure the overall performance of the organization. So that non-financial measurements will be worth enough to be incorporated (Murphy, et al., 1996).

In term of financial performance, previous studies have measured various dimensions ranging from profitability, market value and also growth of organization. While, satisfaction of customer, employee satisfaction, innovation, quality and reputation are some aspects to measure non-financial performance (Santos & Brito, 2012). Another perspective to measure organizational performance, is the so-called objective measurement, which is based on financial measures, and subjective measurement, which based on self-reported measures (Haber & Reichel, 2005; Dess & Robinson, 1984).

As discussed above, firms’ performance will able to be examined from either objective or subjective perspective. It is as suggested by Wall, Michie, Patterson, Wood, Sheehan, Clegg & West (2004), where the study highlighted that both objective or subjective measures have been treated equivalent. By far, as argued by Inmyxia and Takahashi (2009), “financial data is preferable, but firms are not often willing to disclose the confidential data unless the laws require them to disclose it to public”. However, some prior studies stated that, it is somehow challenging to find financial record in public domain. In this case, subjective measures is claimed to be a fruitful choice to be employed in order to measure organizational performance (Dess & Robinson, 1984). In line with the above discussion, therefore within this study, both financial measures and non-financial measures will be tested subjectively by asking the owners/managers of the organization.

Strategic Planning

Strategic planning has been more important for the organization to deal with the changing of so many aspects of life which make strategic planning more crucial for a longer business life and competitiveness (Al-Shaikh, 2001). Strategic planning is considered as an important tool of management (Aldehayyat, 2011). Stonehouse and Pemberton (2002, p. 854), state that strategic planning is a “center on the setting of long-term organizational objectives and the development and implementation of plans designed to achieve them”. Daft (2012, p. 180),

describes that planning is “the act of determining goals and defining the means for achieving them and planning helps managers think toward the future rather than thinking merely in terms of day-to day activities”. Thus, it can be concluded that strategic planning is the process to determine the long-term goals and the objectives of the organization and determine the guidelines and procedures to attain them.

Al-Shaikh (2001), argued that the benefits of strategic planning are highlighted from various perspectives. Among others are generating information, ensuring thorough consideration of all feasible options, forcing the company to evaluate its environment, stimulating new ideas, increasing motivation and enhancing internal communication and interaction. Long-term planning is important not only for small businesses but also for large businesses. There are no reasons for organization to ignore doing it, because the strategic planning enables them to capitalize the opportunities that lie in the future and be able to prevent the threats it contains (Steiner, 1967, p. 4). Drucker (1985), additionally points out that every business needs a strategy and to be develop firms, even smaller business as well.

The study by Kraus et al., (2009, p. 3), illustrated that “strategic planning is the attempt to prepare for future contingencies and thus to account for environmental dynamics and complexity”. In this regard, Miller and Cardinal (1994), claimed that strategic planning is equally beneficial in the SMEs and large companies in term of encouraging for a better performance. Previous studies have also shown that strategic planning has a strong relation to the firms financial success (Katz and Green, 2007; Wheelen and Hunger, 2008). The similar finding is also proposed by Sexton and Auken (1985), who believed that firms with lower levels of strategic planning have a higher percentage of failure as compared to those with higher levels of strategic planning. This implies that strategic planning assists firm to survive. Furthermore, the importance of strategic planning for the business is also shown by Singhvi (2000), who highlighted that the key success of firms is by having proper strategic planning.

Moving further, when discussing on strategic planning, and its ability to enhance the organizations performance, some previous scholars have tried to explain the relationship between strategic planning and organizational performance. Some of them have focus on a unidimension of strategic planning, such as formality (Veskaisri, 2007; O’Regan & Ghobadian, 2007; McKiernan & Morris, 1994); time horizon (e.g. Rhyne, 1986). On the other hand, some other scholars have tried to investigate the multidimension of strategic planning. However, the dimensions involved varied between scholars (Suklev & Debarliev, 2012).

Kraus et al., (2006), for instance, has analysed on four dimensions of strategic planning namely, formalization, time horizon, frequency of control and strategic instruments, on firm performance. Suklev and Debarliev (2012), in the same manner, investigated the relationship between formality, tools of strategic planning, management participation, employee participation, barriers of implement of strategic planning toward strategic planning effectiveness and organization performance. The study by Aldehayyat and Khattab (2013), examined the dimensions of strategic planning, participation and involvement in strategic planning, time horizon, environmental ecanning, planning techniques and functional coverage. Gică nad Balint (2012), on the other hand, investigated strategic activities of firms by measuring multi dimensions of strategic planning, e.g: formality, time span, frequency of plan revision, and tools of planning. Elbanna (2010), examined four dimensions of planning (involvement, written strategics plans, time horizon, techniques of strategic plans. There still many more studies that have been conducted in the prior studies, however for this study will limit the dimensions to be investigated as stated in the following Table 1.

TABLE 1
PRIOR STUDIES ON DIMENSIONS OF STRATEGIC PLANNING

Dimensions of strategic planning	Previous Studies
Formality	Kraus et al., (2006); O’Regan and Ghobadian (2002); Dibrel, Craig and Neubaum (2014); Veskaisri (2007); Suklev and Debarliev (2012); Al-Shammari & Hussein (2008); Amstrong (1982).
Tools of planning	Suklev and Debarliev (2012); Aldehayyat (2011); Stonehouse and Pemberton (2002); Miller and Cardinal (1994); Kraus et al., (2006).
Employee participation	Suklev and Debarliev (2012); Kargar and Parnell (1996)
Implementation of planning	Veettil (2008); Abdalkrim (2013)
Time horizon	Elbanna (2010); Veskaisri (2007); Gică & Balint (2012); Aldehayyat and Khattab (2013); Kraus et al., (2006)
Control	Wijewardena et al., (2004); Kraus et al., (2006); Miller and Cardinal (1994)

Strategic Planning and Firm Performance

As discussed earlier, previous studies have identified the important of strategic planning on performance. There were seminal work on strategic planning and its contribution for better performance of organization, whether by testing unidimension or multidimension. For example, Aldehayyat and Twaissi (2011), has proven that the relationship between strategic planning and firms performance is positive and significant in the Middle East context. Schwenk and Shrader (1993), through their meta-analysis study, found that, there were positive relationship between strategic planning and firm performance. Evidences from previous research has showed that that there are other dimensions of strategic planning that have been found to have positive relationship with the firms performance. Firstly, the formality of the strategic planning. Formality of strategic planning is one of the most frequently studied by previous scholars. Studies proved that formality of planning has positive relationship with firms' performance (Glaister, Dincer, Tatoglu, Demirbag & Zaim, 2008; Kraus et al., 2006; Suclev & Debarliev, 2012).

Secondly is the tools of strategic planning, where this is one of the dimension, believes to be able to increase the efficiency and effectiveness of organization planning (Rue & Ibrahim, 1998; Kraus et al., 2006). Previous scholars believed that by employing tools of strategic planning, it would be able to achieve better performance (Aldehayyat & Khattab, 2013).

Thirdly, based on the evidence of previous research, there is also positive relationship between employee participation and firms performance (Suclev & Debarliev, 2012). It is believed that employee's participation on strategic planning will be able to contribute to the effectiveness of the development of strategy and will in return, lead for better effectiveness of implementation (Collier, Fishwick, Floyd, 2004).

The implementation of strategic planning is also another dimension claimed to be one of the most important part in strategic planning process. It is as suggested by Veliyath and Shortekkk (1993), and Sinha (1990), that a successful strategic planning can explain whether it has been implemented properly. Veettil (2008), proved that by implementing strategic planning properly, it would be able to assist firms to achieve better performance. Subsequently, time horizon is also considered as the key dimension of strategic planning which is able to improve the performance of the organization. Smith (1998), proved that there is a positive relationship between time horizon and organizational performance. Mitchelmore and Rowley (2013), through their study, has recommend firms to lengthen their time horizon of strategic planning in order to gain better performance. Another dimension of strategic planning is the control of planning (Kraus, et la., 2006). Wijewardena, Zoysa, Fonseka and Perera (2004) suggested that by engaging control mechanism to the strategic planning, firms are able to achieve better performance.

Based on studies by previous scholars, dimensions of strategic planning (formality, tools of strategic planning, employee participation, implementation of planning, time horizon and control of strategic planning) have proven their important contribution for achieving better performance.

CONCEPTUAL FRAMEWORK

The literature review indicates that each dimensions of strategic planning contribute to the study of firms performance. In accordance with these relationships, this conceptual framework is proposed in order to investigate the relationship between formality, tools of strategic planning, employee participation, implementation of planning, time horizon and control of strategic planning and firms performance. The proposed framework can be seen in the Appendix 1.

CONCLUSION

Based on the literature review and above discussion on strategic planning and organizational performance, it can be concluded that, strategic planning have important contributions in order to achieve a better organizations performance. Therefore, the relationship of each dimensions of strategic planning will be tested toward performance of the organization. It is hoped that the findings of this study will be able to help the organization to understand how the strategic planning can help to make better decision in the future.

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APPENDIX

Proposed Conceptual Framework

