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Strategic Planning and Organization Performance: A Review on Conceptual and Practice Perspectives

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ABSTRACT
Strategic planning has been an integral part of organizations while its impact on organization performance has been debated for many years. There are mixed (positive and negative) results for strategic planning and performance relationship whist most of the studies were done in organizations in developed countries. However recent research studies argue that it is equally important to identify internal and external factors affecting strategic planning and performance relationship as previous researches were limited to finding directional relationship. Researchers argue that future research should shift from a focus on "does planning lead to performance?" to "how, when, and why does strategic planning lead to performance?" Since there are limited strategic planning research studies in Sri Lankan context, paper concludes propositions for future research in line with empirical justifications.

Keywords: Strategic planning, performance, resource based view, contingency theory

INTRODUCTION

The word "strategy" is derived from Greek word "strategos" which means "the roles of a general" (Mohamed et al., 2010). The term "planning" in management is a process of preparing ways to use resources more economically and efficiently so that the purpose of the company is achieved (Khan and Khalique, 2014). The benefits of strategic planning can be summarized as: enhancing co-ordination by bringing together all business unit strategies within an overall corporate strategy; controlling by reviewing performance and progress toward objectives; identifying and exploiting future marketing opportunities; enhancing internal communication between personnel and encouraging personnel in a favourable attitude to change (Aldehayyat and Twaissi, 2011).

Purpose of the study

The results on strategic planning and performance have been inconclusive. As Baker (2003) stated, majority of studies have reported a positive relationship between strategic planning and firm performance (Sapp and Seiler, 1981). In contrast, several studies found no relationship (Robinson and Pearce, 1983), and a few reported a negative relationship (Fulmer and Rue, 1974). The prior literature on formal strategic planning and performance has been criticized for placing little or no emphasis on examining organizational or contextual influences (Glaister et al, 2008).

The planning performance research effort has slowed down considerably over the past decade but practicing managers consistently identify strategic planning as the most widely used management tool (Ghobadian et al, 2008).

Therefore this paper attempts to investigate how strategic planning is connected to performance in empirical studies. Further it contributes to existing knowledge as a conceptual review to identify relevant contingency factors. Thus identification of strategic planning and performance relationship and moderating factors will lead to higher firm performance which is vital for both research community and senior management.

Methodology

This paper follows deductive approach as it is supported by empirical evidences. Literature review is the main research tool used whilst numerous journal articles and publications are referred. Paper is organized as a concept paper as arguments were empirically supported.

THEORETICAL REVIEW ON STRATEGIC PLANNING AND PERFORMANCE

Strategic planning and performance concepts are based on several theoretical backgrounds i.e. *Resource Based View (RBV)*, *organization theory* and *contingency theory*.

Strategists are interested in those resources and capabilities that can earn surplus of revenue over cost. These are collectively known as strategic assets or core competences and are a subset of, but distinct from those other resources and capabilities that do not distinctively support the competitive advantage. RBV focuses on the resources and capabilities of the firm, asserting that it is the distinctiveness of these which enables performance growth and sustainability (McGee, 2015). Madhani (2010) claims that formal planning is an organizational capability under resource-based view.

The formality of strategic planning processes are drawn largely from organizational theory. Since Burns and Stalker (1961) there has been a wide agreement that more formal, written, procedures as part of a strategy for control are more appropriate in stable than in turbulent environments (as cited by Grinyer et al., 1986). Accordingly they stated that positive correlations were found between variables measuring the formality of the strategic planning process and those indicating a need for corporate co-ordination and control.

Contingency theory claims that there is no best way to organize and lead a firm as the optimal course of action is contingent upon the internal and external factors. Hence, it articulates that relationship between strategic planning and performance is moderated by environmental and other factors. Schendel and Hofer (1979) and Jauch and Osbom (1981) have called for contingency-theory research that identifies variables affecting the planning-performance relationship in specific situations (Shrader, Taylor and Dalton, 1984). Further Shrader et al. (1984) concluded that there was no clear systematic relationship between formal strategic planning and firm performance. They mentioned that there are many moderating variables affecting the relationship between formal strategic planning and organization performance.

EMPIRICAL REVIEW ON RELATIONSHIP BETWEEN STRATEGIC PLANNING AND PERFORMANCE

Empirical review on strategic planning and performance

As cited by Shrader et al. (1984) there are many aspects of financial performance were associated with long-range planning (Baker and Thompson, 1956; Warren, 1966; Henry, 1967; Stagner, 1969; Gunness, 1971). Some researchers found that growth in terms of size and assets was influenced by strategic planning (Steiner, 1969; Eastlack and McDonald, 1970; Guth, 1972; Sheehan, 1975).

Phillips (2000) showed that there is a positive relationship between planning sophistication and performance in UK hotel industry. In the study Phillips used strategic planning sophistication as independent variable while performance was used as the dependent variable. Baker (2003) found that formal strategic planning is a tool that may be used to enhance financial performance for a broad range of food processors. 1,000 CEOs in five different food processing industries were surveyed regarding their firm's strategic planning practices and financial performance. The five industry categories are: baked goods; confectionery; dairy (fresh milk); jams, jellies and spreads; and canned and frozen vegetables. The extent of the firm's use of formal strategic planning was made using the measurement instrument developed by Boyd and Reuning-Elliott as in many other studies. The seven strategic planning tools were mission statement, trend analysis, competitor analysis, long-term goals, annual goals, short-term action plans and ongoing evaluation. Financial performance was measured as the average pretax return on assets (ROA) for the previous 3-year period for the business unit to which the survey was addressed. The ROA measure was chosen over other indicators, such as return on equity or sales growth, because it is a commonly used, comprehensive financial performance measure.

Aldehayyat and Twaissi (2011) found a strong positive relationship between strategic planning and corporate performance in Jordanian small industrial publicly quoted firms. Key findings provided empirical evidence about the involvement of top and line management in planning, the use of environmental screening, and the use of strategy tools and techniques.

Karel, Adam and Radomir (2013) in a study carried out in micro, small and medium-sized enterprises in Czech and Slovak Republic, stated that strategic planning is definitely reasonable activity of any company, since enterprises who did prepare detailed strategic document proved in 80 % of observed performance parameters better results than enterprises without written business plan. Further they stated that enterprises who did prepare brief, partial, concise strategic document proved only in 40 % of observed performance parameters better results than enterprises without written business plan, so there is necessary to put impact on proper strategic planning in all significant business areas.

Sandada, Pooe and Dhurup (2014) confirmed that strategic planning has a positive association and predictive relationship with the performance of SMEs. Factor analysis, correlations, and regression techniques were used in order to extract the dimensions of strategic planning and their relationships with business performance. Environmental scanning, business mission and vision, formality of strategic plans, evaluation and control, informing sourcing, strategy implementation incentives, employee participation, and time horizons emerged as strategic planning dimensions. Data were analyzed from 200 useable questionnaires that were distributed to SME owners and managers.

Wijetunge and Pushpakumari (2014) in a study of manufacturing SMEs in Western Province in Sri Lanka found that SMEs are moderately engaged in strategic planning process and there is a positive relationship between strategic planning and business performance. Data were collected through personally attended structured questionnaire distributed among 275 owner and managers of SMEs in Western province. They have used both descriptive and inferential statistics techniques to analyze the collected data. Strategic planning construct was measured in vision, mission, goals and objectives, internal analysis, external analysis, strategy formulation, strategy selection, strategy implementation, strategy control and review. Business performance was measured in annual sales, annual profit, number of employees, market share and investment to the business.

Table 1 summarizes previous studies of strategic planning and performance discussed above.

Table 1: Summary of previous studies on Strategic Planning and Performance

Author	Method	Conclusions
Mintzberg (1973)	Literature study	Planning applies to stable environments and emergent strategy to dynamic industries
Wood and LaForge (1976)	Questionnaire	Strategic planning has a positive performance effect
Sapp and Seiler (1981)	Questionnaire	Strategic planning has a positive performance effect
Fredrickson (1984)	Scenario analysis	Comprehensiveness has positive performance relationship in stable industries
Rhyne (1986)	Questionnaire	Planning openness has positive association with performance
Fredrickson and Acquinto (1989)	Scenario analysis	Comprehensiveness has positive performance relationship in stable industries and negative in dynamic industries
Kukalis (1991)	Questionnaire	Planning flexibility has a positive performance association
Miller and Cardinal (1994)	Meta-study	Strategic planning has a positive relationship to performance, particularly in dynamic industries
Hopkins and Hopkins (1998)	Questionnaire	Planning intensity has a positive relationship to performance in the banking industry
Phillips (2000)	Questionnaire	positive relationship between planning sophistication and performance in UK hotel industry
Baker (2003)	Questionnaire	Strategic planning tools has a positive impact on financial performance in food processing industry
Aldehayyat and Twaissi (2011)	Questionnaire	Strong positive relationship between strategic planning and corporate performance in Jordanian small industrial firms
Karel, Adam and Radomir (2013)	Questionnaire	SMEs with high strategic clarity will outperform those with moderate strategic clarity, but SMEs with low strategic clarity outperformed those with moderate strategic clarity in the Czech and Slovak Republic
Sandada, Pooe and Dhurup (2014)	Questionnaire	Strategic planning has a positive association and predictive relationship with the performance of SMEs
Wijetunge and Pushpakumari (2014)	Questionnaire	SMEs are moderately engaged in strategic planning process and there is a positive relationship between strategic planning and business performance

Critical Discussion

Vancil (1970) reported no relationship of planning accuracy and sales revenue projections to return on investment for large firms. Rhenman (1973) and Grinyer and Norbum (1975) argued that long-range planning and financial performance are not related in a survey of 21 companies in United Kingdom. They credit environmental phenomena and information processing with more impact on performance than formal planning (as cited in Shrader et al., 1984).

Rue's (1973) study found no consistent differences between planners and non-planners in non-durable industries while finding that non-planners outperformed planners in service industries (as cited in Robinson and Pearce, 1983).

Sheehan (1975) found no conclusive performance differences in a longitudinal study of Canadian firms categorized as low, medium, and high formal planners. Kallman and Shapiro (1978) in a study of motor-carrier firms, also found that long-range planning was no guarantee of high financial performance. They concluded that managerial skill and short-run strategies were of more importance to these firms than were long-run strategies (as cited in Shrader et al., 1984).

Kudla (1980) examined the relationship of formal planning to stockholder returns in a survey of 328 Fortune 500 companies and found no performance differences among non-planners, incomplete planners and complete planners. It was mentioned that previous studies lacked control of extraneous, independent variables such as economic conditions and government factors that could have influenced performance. Leontiades and Tezel (1980) investigated the perceived planning importance and performance relationship for 61 Fortune 1000 firms in a longitudinal study. Using Chief Executive Officers' (CEOs) and Chief Planning Officers' (CPOs) perceptions of planning salience to operationally define planning quality and hard financial measures as indicators of success, they concluded that there was no relationship between planning salience and financial performance (as cited in Robinson and Pearce, 1983).

Robinson and Pearce (1983) found that small U.S. banks did not financially benefit from formal strategic planning in a longitudinal study. Small banks without formal planning systems performed equally with formal planners. Further they found that formal planners placed significant emphasis on formulating goals and objectives while there was no emphasis difference on scanning the environment, identifying distinct competencies, aligning organizational structure, deploying internal resources, monitoring and controlling implementation between formal and non-formal planners. The results suggested that managers responsible for strategic planning activity in smaller organizations do not appear to benefit from a highly formalized planning process, extensive written documentation or the use of mission and goal identification as the beginning of a strategic planning process.

French, Kelly and Harrison (2004) in a study on small, professional service firms in New South Wales, Australia, found mix results on strategic planning and performance relationship. While no significant relationship between the performance measures and factors was identified, a significant relationship between net profit and informal planning emerged. Constructs measuring vision, mission, latent abilities, competitor orientation and market orientation are identified using exploratory factor analysis and respondents categorized as non-planners, informal planners, formal planners and sophisticated planners. Multiple performance measures such as historical sales growth, forecast sales growth, historical growth in net profit after tax and forecast growth in net profit after tax were used to assess the relationship between strategic planning and firm performance. Standard multiple regression was used to examine relationships but none of the regressions were significant, indicating no significant relationship between strategic planning and performance.

Hopkins and Hopkins (1997) in a study of strategic planning and financial performance in banks found that the intensity with which banks engage in the strategic planning process has a direct, positive effect on banks' financial performance and mediates the effects of managerial and organizational factors on banks' performance. They also found a reciprocal relationship between strategic planning intensity and performance where strategic planning intensity causes better performance and in turn, better performance causes greater strategic planning intensity. They indicated that financial performance is higher when there are small differences existed between the amount of intensity placed on various components contributing to strategic planning effort.

Moderating factors affecting Strategic Planning and Firm Performance relationship

Traditionally the basic premise is that the more formal and comprehensive the plan, the better the performance. However, researchers found that formal planning's impact on organizational performance could possibly be mitigated by many factors.

Mahoney and Frost (1974) found that formal planning contributed greatly to the performance of firms with long-linked technologies but lesser to the performance of intensive technology firms. As sited by Shrader et al. (1984), formal planning's impact on organizational performance could possibly be decoupled or mitigated *by environment or externalities* (Ford and Schellenberg, 1982; Lindsay & Rue, 1980), *by stage of organization life cycle* (Aplin and Cosier, 1980; Van de Ven, 1980), *by managerial skill and ability to assess the environment and make decisions* (Bobbitt & Ford, 1980; Fulmer & Rue, 1974; Khandwalla, 1977), *by time horizon and time spent on planning* (Lenz, 1981; Leontiades & Tezel, 1980), *by quality of planning and quality of strategy* (Burt, 1978), *by quality of implementation effort* (Rogers, 1983), *by the organization's ability to monitor activities and foster commitment for the strategy* (Van de Ven, 1980), *by organization structure* (Ford and Schellenberg, 1982) and *by type of organization technology* (Mahoney & Frost, 1974; Woodward, 1965). Variables for consideration in determining the efficiency of formal planning may include *technology and control systems* (Mahoney & Frost, 1974), *strategic capability and corporate culture* (Lenz, 1981), *organization structure* (Miles & Snow, 1978) and *environment* (Jauch et al, 1980). In addition to competitor strategies, it is required to consider *industry and market structure* (Porter, 1980), *initial resources and experience with planning* (Lenz, 1981), *size* (Robinson, 1982), and *government regulation* (Kallman & Shapiro, 1978). Greenley and Foxall (1997) stated that orientation to the diverse interests of stakeholder groups is central to strategic planning and failure to address the interests of multiple stakeholder groups may be unfavorable to company performance.

Falshaw, Glaister and Tatoglu (2006) found that there was no relationship between formal planning process and subjective company performance in a non-US context study while considering the important contingency variables identified by previous researchers of organizational size, environmental turbulence and industry. Further they found that organizational size (turnover) and environmental turbulence both lead to more formalized planning systems and organization's industry also has an effect on the formality of its planning process. Organization size was measured by logarithm of the three-year average annual turnover. The logarithmic transformation is generally used to normalize the size variable, which might otherwise be badly skewed. Environment turbulence was measured by degree of change and unpredictability on market-related and technology dimensions.

Ghobadian, O'Regan, Thomas and Liu (2008) in a study of UK's manufacturing SMEs found that firms with written strategic plans, performed better than firms without a written strategic plan. Furthermore, firms deploying high level formal strategic plans performed better than the firms deploying low or medium level formal strategic plans, but the relationship between strategic planning and performance is weak. In common with a number of prior studies, the presence or absence of a written strategic plan was used to dichotomize firms into planners and non-planners. The elements contributing to the formality of plans were identified by analyzing the definitions of strategic planning put forward by scholars i.e. covers a number of years in the future, specifies objectives and goals, develops alternative strategies, develops short-term plans for major functional areas of the firm, identifies future resource requirements, ongoing monitoring and modification, and attempts to scan environment. These seven dimensions were used to categorize firms as low (up to two characteristics), medium (three to five characteristic) or high (six or seven characteristics) sophistication planners. Performance was measured based on financial performance, market performance and organizational effectiveness. Further it was found that environmental turbulence and munificence influence the level of planning formality, however organizational size and sector did not appear to influence the level of planning formality. They concluded that strategic planning is perceived to enhance a firm's survival chances, but not necessarily its short-term performance

Glaister, Dincer, Tatoglu, Demirbag and Zaim (2008) found a strong and positive relationship between formal strategic planning and firm performance in a study of Turkish manufacturing companies. They found that positive effect of formal strategic planning on firm performance is greater when environmental turbulence is high than when environmental turbulence is low. The positive effect of formal strategic planning on firm performance is greater when the firm's organization structure is more organic than mechanistic. Also it was concluded that formal strategic planning-performance link becomes stronger as the firm size increases.

Klatt, Schlaefke and Moeller (2011) stated that analytical tools such as decision support systems, expert systems, and data mining systems provide increasingly valuable support to strategic planning and performance management of companies. They identified that high performing companies use more objective data by means of analytical tools and less subjective judgmental inference by decision makers. Hence business analytics enhance the relationship between strategic planning and organization performance. Further, they claimed that strategic planning process is considered less bureaucratic in better performing firms.

Ouakouak and Ouedraogo found that (2013) rational strategic planning has no direct effect on firm performance, but has a positive indirect effect on financial and non-financial firm performance through the full mediation of employee strategic alignment. The responses were collected from 372 firms in 33 European countries. Strategic planning was measured in formalization, comprehensiveness, and strategic control. Employee strategic alignment which is the alignment of employees' behaviours and objectives with the strategic orientation of the organization was measured in two-item scales. The first item is related to the alignment of the employees' behaviours with the strategic orientation of the organization. The second item refers to the alignment of employees' objectives with strategic orientation of the organization.

Donkor, Donkor and Kwarteng (2018) found that consistent application of strategic planning methodologies contribute to the advancement of SME performance in Ghana. It was ascertained that market dynamism has a significant positive relationship with firm performance, although its effect is not significant. The study revealed that market dynamism only influences SME performance when there is strategic planning. This study has used quantitative approach with a sample of 200 small- and medium-sized manufacturing and service firms in Ghana. Hypotheses testing was done using hierarchical multiple regression analysis.

In a study by Njoroge (2018), it was found that strategic planning is the foundation that improves the business processes and ultimately reduces the internal costs of operation. It was also mentioned that strategic planning in event planning firms is an important instrument for forecasting and planning which enables the firm to meet customers' demands and changes which might crop up while discharging its duties. Further it was alluded that it would be a useful contribution to investigate the use of planning techniques and the pervasiveness of the process in service organizations. The study concluded that there is a definite strategic fit between the needs of the environment and what the business offers, as well as what the business needs against what the environment can provide. It was also concluded that there is a need for firms to analyze the external environment pertaining what they do.

CASE REVIEWS ON STRATEGIC PLANNING AND FIRM PERFORMANCE

Sophia and Owuor (2015) in their case study of Kenya Medical Research Institute (KEMRI), indicated that strategic planning exist at KEMRI and helped the organization evaluate its business by identifying its long term goals, objectives, organized workforce, monitor performance and allocating resources thus enhancing performance in terms of growth. KEMRI is a state corporation with its vision to be a leading centre of excellence in research for health.

Flamholtz and Kurland (2006) argued that Countrywide Financial Corporation (CFC) has used strategic planning as a key lever for change and benefited greatly through the process despite there were many case studies of minimal success due to strategic planning. CFC is a consumer financial services business which has grown to a very large (Fortune 200) company from a small entrepreneurial venture in 1969. The company took several steps to modify the planning process such as: 1. Strategic planning process was set as a corporate priority 2. Dedicated the proper level of resources to strategic planning 3. Restructured the planning process throughout the company 4. Redefined the participation of various organizational players in the process 5. Developed a methodology for staying focused on priority objectives. The change in strategic planning process has shifted the strategic direction and mindset which, in turn contributed to overall financial performance. As a result Barron's Magazine listed Countrywide as number 2 on their list of the 500 largest companies in terms of their returns to stockholders in 2004 (Flamholtz and Kurland, 2006).

Family and Children's Association was created in 1998 as the result of a merger between the Family Service Association of Nassau County (FSA) and Children's House (CH) in New York. Subsequently the strategic plan was developed which provided a set of targets for the organization to strive for over a three-year period. It was identified that strategic planning in the nonprofit sector must take its direction from dynamic and changing environments, and organizational leaders must develop strategies for keeping the organization focused on its mission and goals (Giffords and Dina, 2004).

Lauenstein (1985) in a study of Japanese and American firms found that Japanese strategic management approach appears to be superior in two respects. First the Japanese articulate a clearer vision of what the company is and where it is headed. This helps to integrate plans of operating units into a more coherent whole. Next, the Japanese procedures provide for more extensive interaction between staff and line executives, and between the corporate office and lower-level operating managers. Hence the resulting plans appear to reflect a better balance between conceptual and practical considerations.

Cerpa and Verner (1998) in a longitudinal study of information systems strategic planning process within a large Australian organization found that the adoption of strategic planning process methodologies has had numerous benefits such as means to set up a planning framework, support for the linkage of information systems with business goals, aid in assessing the risk of information systems strategy, and allowed the evaluation and review of information systems strategy. They stated that information systems strategic planning process is a learning experience is still very young in that organization

CONCLUSIONS AND FURTHER RESEARCH DIRECTIONS

Strategic planning and performance relationship is drawn from multiple theoretical domains i.e. resourced based view, organization theory and contingency theory. The results on strategic planning and performance relationship have mixed outcomes. While many past studies have shown either positive, negative or no relationship between strategic planning and performance, most of the studies have not considered the impact of contingency variables on this relationship. Thus future research works are encouraged to investigate contingency factors affecting strategic planning and performance relationship. Paper reveals how strategic planning affects organizational performance along with moderating and mediating factors. Finally new research studies should focus on developing countries especially Asian countries as limited research has been carried out in this context.

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