STRATEGIC PLANNING AND FIRM PERFORMANCE

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Declaration

This independent study paper is my original work and has not been presented for a degree in any other University.

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This independent Study Paper has been submitted for examination with my approval as the University Supervisor.

Prof. Evans Aosa Signature ---------------------- Date 7/6/2011

Abstract

The relationship between strategic planning and firm performance has often been examined based on unidimensional measures such as the presence or absence of planning and or its degree of formality. The effectiveness of strategic planning has also been examined through unidimensional treatments usually financial indicators to determine organizational performance. These conceptualizations of explaining variations in organizational performance are inconsistent with most of the current literature which view strategic planning and its effectiveness in multidimensional terms. Since strategic planning is multifaceted and integral to an organization, this paper seeks to study a multi-dimensional treatment of strategic planning. It looks at the characteristics of strategic planning and the dimensions of planning effectiveness (performance). Following the works of Ramanujam &Venkatraman (1987) and McLarney (2003), six characteristics of planning and three effectiveness dimensions are adopted.

The six dimensions of planning are external facets, internal facets, use of planning techniques, functional integration, resistance to planning and resources provided for strategic planning. The process effectiveness dimensions are fulfilment of planning objectives, performance relative to competition and system capability. Functional integration was found to be the most influential characteristic on process effectiveness followed by attention to external facets. Between the contextual elements, planning resources was found to be having the greatest influence on planning effectiveness. Resistance to planning was found to have a negative effect. Formal strategic planning that includes the six dimensions of planning may lead to superior firm performance.

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1. Introduction

Various authors and researchers advocate for strategic planning by organizations because they argue that it leads to better performance. Armstrong (1982) and Ansoff (1991) have argued that an explicit planning process leads to the collection and interpretation of data that is critical in maintaining organization and environment alignment and better financial results than trial and error learning. This argument is supported by Studies done on the United States of America's large manufacturing firms during the period 1947 to 1966 which indicated that planners significantly outperformed the non planners and also performed more predictably than non planners. (Ansoff & McDonald, 1990; Pearce & Robinson, 2002). Hopkins and Hopkins (1997) found that banks that planned with greater intensity, regardless of whether their strategic planning process was formal or informal outperformed those banks that planned with less intensity.

Research on the relationship between strategic planning and organizational performance has however been inconclusive. Studies by Thune and House (1970) suggested that strategic planning enhanced performance while later studies indicated that there was no clear systematic relationship between strategic planning and firm performance. Some researchers have argued that formal strategic planning may introduce rigidity and encourage excessive bureaucracy in organizations while others have suggested that it is irrelevant (Miller, 1994). This position has been supported by Mintzberg (1991) who argued that explicit strategies are blinders designed to focus direction and block out peripheral vision. Falshaw & Glaister (2006) found that there was no relationship between formal planning and subjective company performance. Andersen (2000) reported that there has been no conclusive evidence to unequivocally demonstrate performance effects from strategic planning.

Though the relationship between formal strategic planning and firm performance is still a subject of much debate, Greenlay (1986) points out that there may be non financial consequences of strategic planning which provides benefits to an organization. The differing views on the relationship between strategic planning and performance necessitates that further studies on this relationship be done. This paper reviews the literature on concepts of strategy and proceeds to review literature on strategic management, strategic planning, and firm performance before ending with a review on strategic planning and firm performance.

2. Concept of Strategy

Strategy originated from the military discipline and is derived from the Greek term 'strategia' which means art of war. Military strategy according to the Greeks was taken as more important than war in the battlefield (Bhattacharya, 1998). In the Far East, in China during the 4th Century BC, the writings of Sun Tzu which means the art of war, were adopted at the court of Ho Lu. The concept of strategy has continued to be applied in the military and the more recent examples are during the Gulf invasion 'operation desert storm' and the eleven lessons cited by Robert McNamara in the film , the fog of war in 2003 (Gratten, 2006). The military strategies have been translated and applied in business activities and Grantten (2006) aims at drawing a parallel between the military grand strategy formulation and similar activity in business. The concept of strategy developed beyond the military with the advent of political institutions like governments and churches.

Strategy has evolved over the centuries from its origin in military to business with the formal strategic planning being adopted in the United States of America in 1950s. Drucker (1954) started by addressing strategy and strategy formulation with emphasis on defining the business domain of the firm. Chandler (1962) gave a definition and process of strategy formulation. He came up with the relationship between structure, strategy and the external environment. The works of Ansoff (1965) and Andrews (1971) further developed Chandler (1962) works hence refining strategy to a level that it could be adopted and implemented by organizations as a tool to enhance their performance.

Various authors have defined the concept of strategy differently but all however seem to agree that strategy is important for organizational survival. Andrews (1987, p13) defines strategy as "the pattern of decisions in a company that determines and reveals its objectives, purposes, goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non economic contribution it intends to make to its shareholders, employees, customers and communities". He explains the essence of his definition as interdependence of purposes, policies, and organized action. He argued that the unity, coherence and internal consistency of a company's strategic decisions position the company in its environment and gives the firm identity, power to mobilize its resources and likelihood of success. According to him, the term strategy "suggests that pattern among goals is more important than any array of separate purposes" (Andrews, 1987, p15). This is a broad definition that provides objectives and means of achieving the goals.

Porter (1998) describes competitive strategy as the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs and further explains that competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition." Ansoff (1988) has defined strategy as the "rules and guidelines which guide the process of development of an organization" (Ansoff 1988, p100). According to Ansoff, strategy consists of the yardsticks by which the present and future performance of the firm is measured and rules for developing the firm's relationship with its external environment. It also consists of rules for establishing the internal relations and processes within the organization and rules by which the firm conducts its major operating policies. This definition focuses more on how to achieve the goals.

Thomson and Strickland (1989, p6) has defined it as "a blueprint of all the important organizational moves and managerial approaches that are to be taken to achieve organizational objectives and to carry out the organization's mission". The aim is to achieve 'goodness of fit' between strategy and external environment as it achieves competitive advantage and enhance firm performance.

Johnson, Scholes and Whittington (2006, p9) define strategy as "the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations". The strategic decisions in this definition are likely to be complex and made at times of uncertainty. They are also likely to affect operational decisions and require an integrated approach as they involve considerable change. This definition encompasses most of the elements contained in all the other definitions.

Hax & Majluf (1996) views strategy as a multidimensional concept that embraces all the critical activities of the firm hence providing a sense of unity, direction and purpose as it facilitates the necessary changes induced by a firm's environment. They have combined the critical dimension of strategy and come up with a unified, integrative and comprehensive definition that defines strategy as "determines and reveals the organizational purpose in terms of long term objectives, action programs, and resource allocation priorities; selects the business the organization is in, or is to be in; attempts to achieve a long term, sustainable advantage in each of its business by responding appropriately to the opportunities and threats in the firm's environment, and the strengths and weaknesses of the organization; identifies the distinct managerial tasks at the corporate, business, and functional levels; a coherent, unifying, and integrative pattern of decisions; defines the nature of the economic and non economic contributions it intends to make to its shareholders; an expression of the strategic intent of the organization; aimed at developing and nurturing the core competencies of the firm; a means for investing selectively in tangible and intangible resources to develop the capabilities that assure a sustainable competitive advantage"(Hax & Majluf, 1996, p14). This definition encompasses all the elements of the other definitions and provides a fundamental framework through which an organization can simultaneously assert its vital continuity and facilitate its adaptation to a changing environment which is the essence of successful management change.

Decision making and strategy development in organizations are in three dimensions: corporate level, business level and functional level (Hax & Majluf, 1996; Pearce & Robinson, 2002). Corporate level is composed of the Board of Directors, Chief Executive and administrative officers (Pearce & Robinson, 2002). The focus of analysis at this level is the firm as a whole. Tasks addressed at this level include environmental scan which leads to identification of threats and opportunities and internal environment scrutiny which deals with the mission, the segmentation of the business and integration through horizontal and vertical strategies and definition of the corporate philosophy and assessment of the strengths and weaknesses (Hax & Majluf, 1996).

The business level is composed of business and corporate managers (Pearce & Robinson, 2002). Their main tasks include translating the general statements of direction and intent generated at the corporate level into concrete, functional objectives and strategies for individual business units of the firm. They formulate and implement strategic decisions that are congruent with the general corporate directions and constrained by resources allocated (Hax & Majluf, 1996). They determine how the firm can compete in the selected market as they aim to secure the most profitable and promising market segment,

The functional level is composed of product, geographic and functional areas managers and their main responsibility is to develop annual objectives and short term strategies. Their main tasks however are to implement or execute the firm's strategic plans (Pearce & Robinson, 2002).

3. Strategic management

The concept of strategic management has been described by various authors differently. Wheelen and Hunger (2008) describes it as a set of managerial decisions and actions that determines the long run performance of an organization. This definition considers the actions of management that would lead to the attainment of the desired performance in the long term. Jemison (2006) define strategic management as the process by which general managers of complex organizations develop and use a strategy to co-align their organization's competencies and opportunities and constraints in the environment. This definition considers organizational resources in crafting strategies that match environmental challenges. Johnson, Scholes & Whittington (2006) state that strategic management includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action. The strategic position is concerned with the impact on strategy of the external environment and strategic action is concerned with ensuring that strategies are working as desired in practice. Strategic management process is centered on the belief that a firm's mission can best be achieved through a systematic and comprehensive assessment of internal capabilities and its external environment (Pearce & Robinson, 1997). It aims at attaining an appropriate match or fit between an organization's environment and its strategy, structure and process for positive effect on an organization's performance (Wheelen and Hunger, 2008). Though there are differences in the definition of strategic management process, the authors seem to agree that it should consider organizational resources and competencies as it attempts to address environmental challenges with the aim of achieving long term desired performance.

According to wheelen and Hunger (2008), the strategic management process consists of four elements; environmental scanning, strategy formulation, strategy implementation and evaluation and control. Hax and Majluf (1996) points out that environmental scanning has an impact on the design and outcome of the strategy at all levels in an organization. Wheelen and Hunger (2008) divide environmental scanning process into two separate components. External environmental scanning which concentrates on assessing the impact of industry factors on the organization and identifies opportunities and threats and the internal environmental scanning which identifies strengths and weaknesses and serves the purpose of allocating resources and resolving organizational structure and culture issues. Wheelen and Hunger (2008) is of the opinion that environmental scanning is to identify an early opportunity for seeking new directions for the organization as well as identifying threats to corporate strategic decisions. This supports Jorge (1995) who points out that the main functions of environmental scanning are to learn about events and trends in the environment, establish relationships between them, make sense of data and extract the main implications for decision making and strategy development. This, he adds, improves an organization's abilities to deal with a rapidly changing environment.

The strategic management process is a process that involves the designing and implementation of strategy and is undertaken at three levels in an organization, the corporate level, business level and functional level (Polard & Hotho, 2006). Thomson and Martin (2005) indicate that the strategic process is divided into three main areas of activity that involve strategic formulation, strategic implementation and strategic evaluation. They point out that the strategic formulation includes the setting of mission, goals and objectives, analysis of the external and internal environments and choice of strategic alternatives. Pearce & Robinson (1997) add that strategy formulation combines a future oriented perspective with concern for the firm's internal and external environment. Strategic implementation is concerned with putting the strategy into practice and involves a degree of change (Thomson & Martin, 2005). It is the stage where strategic thought is translated into organizational action (Pearce & Robinson, 1997). Strategic evaluation is concerned with performance and performance measures. It involves tracking strategy in order to ensure that the organization is moving in the proper direction towards achieving the desired performance (Pearce & Robinson, 1997; Thomson & Martin, 2005).

4. Strategic Planning

Though there have been numerous studies, there is no commonly accepted universal definition of strategic planning. Definitions include terms such as strategic thrust, corporate focus and strategic intent (Minztberg, 1993). The generally common aspects of most definitions are concerned with the long term direction of the organization, defining the business of the organization, and matching the organization business activities and resources available to the environment in order to minimize threats and maximize opportunities (McDonald, 1996). Strategic planning focuses on the direction of the organization and activities that are necessary for the improvement of performance. It is the process of developing a strategy in anticipation and in response to the changing dynamic environment in which a firm operates (Hewlett, 1999).

Strategic planning in organizations is a deliberate process that is often expected to lead to the intended strategy being realized (Johnson, et al. 2006). The formal strategic planning, which involves a set of chronological procedures, may however lead to the intended strategy being unrealized. The strategy that is realized is emergent as a result of activities and processes in an organization (Johnson, et al. 2006). The debate on the nature of strategy formulation in organizations has been on design versus process which concerns the differences between deliberate and emergent strategies (Falshaw & Glaister, 2006). Some authors advocate for deliberate strategy which involves a formal, systematic, rational, strategic planning process (Ansoff, 1991) while others support the emergent process (Mintzberg, 1991). Grant (2003) has argued that debate between strategy as rational design and strategy as emergent process has been based on misconceptions of how strategic planning works. He avers that strategic planning systems could best be described as 'planned emergence'. This is supported by Harrington, et al. (2004) who noted that the debate between Ansoff (1991) and Mintzberg (1991) highlights the view that strategy formulation process in organizations is either deliberate or emergent and argues that it should be treated as a continuum so as to appreciate the idea that both approaches can be present in organizations. It is however generally agreed that the two strategy making modes are complementary in strategic planning and enhance organizational performance (Andersen, 2004).

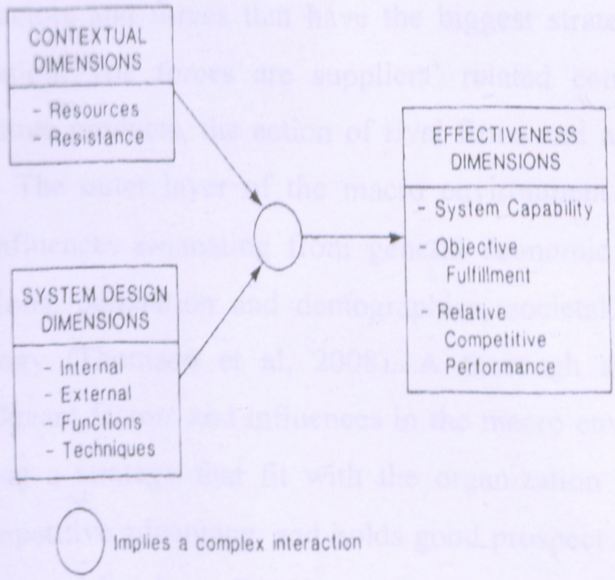
4.1. A Multidimensional View of Strategic Planning

Strategic planning researchers are generally in agreement that there are three major components of strategic planning process: Formulation, Implementation, and Control (Hopkins and Hopkins, 1997). Formulation includes developing a mission, setting major objectives, assessing the external and internal environments, and evaluating and selecting strategy alternatives (Falshaw, Glaister & Tatoglu, 2006). The first step of formulation in the planning process is a thorough analysis of the organization's mission and vision statements (Fidellow and Hogan, 1998). The mission and vision serve as a foundation of all planning activities. It is important to ascertain that the mission statement reflects what the organization desires to do or achieve in actual practice (Schraeder, 2002). The organization should also evaluate the mission or vision statement in the context of its external environment to determine if the statement still reflects the challenges from the external environment. If there is a gap between the mission statement and the environmental challenges, then necessary adjustments should be made (Schraeder, 2002). Fidellow and Hogan (1998) suggested that the next step in strategy formulation should be to evaluate the internal and external environments. This is done by carrying out a strategic analysis. The strategic analysis is quite effective in identifying the driving forces that the organization needs to consider (Schraeder, 2002). Once the forces are identified, strategies can be developed to counter the forces. Strategies are developed in consideration of the organization's priorities, resources and timelines (Schraeder, 2002). Organizational resource capabilities are matched with environmental challenges as strategies are developed.

Researchers have advanced various independent characteristics to delineate the strategic planning process and its effectiveness on firm performance (Ramanujam

& Venkatraman, 1987; Kargar & Parnell 1996). These researchers advocate for a multidimensional view of planning practice rather than employing a single dimension measure such as the presence or absence of planning or its degree of formality to explain the variations in organizational performance. Six characteristics are adopted in this study in line with the researchers' view to describe the strategic planning process effectiveness. Four of the elements namely the external facets, internal facets, functional integration and the use of analytical tools and techniques are system design dimensions. Two of the planning system dimensions pertain to the organizational context of planning namely resources for the strategic planning process, and the level of organizational resistance to planning (Ramanujam & Venkatranam, 1987; O'Regan and Ghobadian, 2002; McLarney, 2003). These dimensions influence the effectiveness of planning which is viewed here in multiple criteria. First as the extent of fulfillment with key planning objectives, second as the organization's economic performance and thirdly satisfaction with a planning system i.e. systems capability (Ramanujam & Venkatraman, 1987). An examination of the strategic planning characteristics and the dimensions of planning effectiveness reveal the relationship between strategic planning and firm performance. The relationship between the planning system characteristics and planning system effectiveness dimensions are depicted in figure 1.

Fig 1. A schematic model of the relationship between planning system dimensions and planning effectiveness.



Source: Ramanujam & Venkatraman (1987). Planning System Characteristics and Planning effectiveness. *Strategic Management Journal,* Vol 8. No.5. pp 453 – 68.

4.1.1. External facets

Porter (1980) argues that an organization's external environment is dynamic and for survival, an organization must continually realign itself to the external environment. He contends that the essence of formulating a competitive strategy is to relate the organization to its environment. The rate of environmental change and the level of unpredictability of that change cause environmental uncertainty for organizations (McLarney, 2003). Difficulty in planning increase as the level of turbulence in the environment increases. Reliable and timely recognition of opportunities and threats therefore requires a strong external orientation (Ramanujam & Venkatraman, 1987).

All organizations operate in a macro environment that is shaped by influences from the economy at large. Thomson, Strickland & Gamble (2008) view the macro environment as consisting of two layers or rings, the inner layer and the outer layer. The inner ring consists of the immediate industry and competitive environment that has factors and forces that have the biggest strategy shaping impact on an organization. The forces are suppliers' related considerations, buyers' behavior, substitute products, the action of rival firms and new entrants (Thomson et al 2008). The outer layer of the macro environment consists of strategically relevant influences emanating from general economic conditions, legislation and regulations, population and demographics, societal values and lifestyles, and technology (Thomson et al, 2008). A thorough analysis and understanding of the relevant factors and influences in the macro environment is necessary for developing a strategy that fit with the organization situation, is capable of building competitive advantage, and holds good prospect for boosting organizational performance. Mintzberg (2003) supports this view and adds that different organizations view their environment differently depending on an organization's domain and how policy makers choose to navigate the domain. The importance of scanning the environment and realigning organizational resources to match its turbulence has been reinforced by Grant (2003) who has indicated that changes in the business environment reinforced the case against formal strategic planning. A lack of environmental surveillance and proactive organizational culture could lead to an organization's failure.

4.1.2. Internal facets

Formal planning begins with an assessment of an organization's recent history and current situation, past performance, and analysis of strength and weaknesses (Ramanujam, Venkatraman & Camillus 1986; Kargar & Parnell, 1996). Thompson, et al, (2008) further indicates that the performance of a company's strategy is seen in its competitive approach, competitive scope within the industry, and whether the company has made recent moves to improve its competitive position and performance. They add that a company's strategy is further characterized by functional strategies in research and development, production, marketing, finance, human resource, and information technology.

Organizations are viewed as organic structures that respond to environmental challenges in order to survive. Mintzberg (1979) has suggested that an organic structure that has a low degree of formality and a high degree of information sharing and decentralization enhances an organization's ability and flexibility to adapt to environmental change continuously. In a study of 69 U.S. Commercial banks in North Carolina, Kargar and Parnell (1996) measured internal orientation through the perceived degree of attention devoted to customer services, efficiency of operating process, attracting and retaining high quality employees and analysis of financial strengths and weaknesses and found out that internal orientation and other planning system dimensions were positively and significantly correlated with finance and organization effectiveness which were used to measure planning satisfaction. This supports an earlier study by Ramanujam and Venkatraman (1987) that studied 600 companies from fortune 500 manufacturing and fortune 500 service directories and found internal orientation to be an important influence in planning system effectiveness.

4.1.3. Use of Planning Techniques

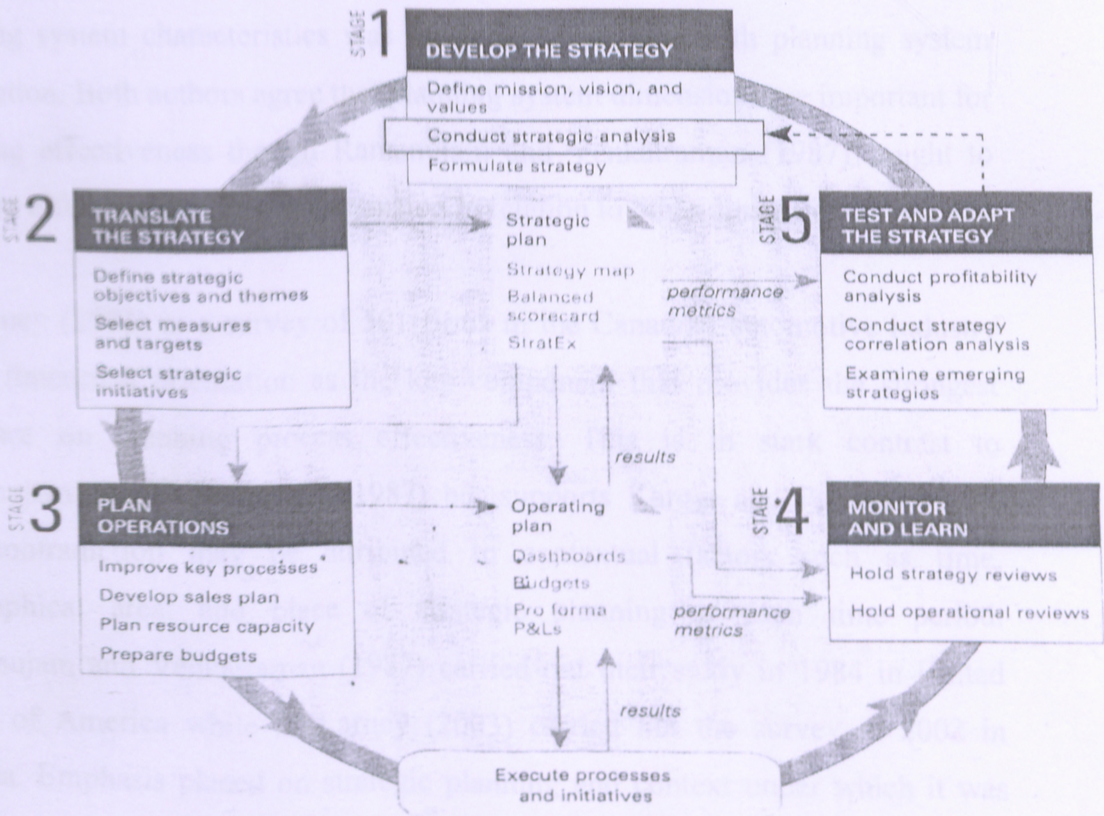
Strategy development is a process of solving ill-structured problems hence techniques that permit decision-makers to counter environmental turbulence and complexity have a major role in the design of a formal planning system (Ramanujam & Venkatraman, 1987). Kaplan and Norton (2008) have argued that the integrated set of processes and tools that a company applies to develop strategy, translate it into operational actions and monitor and improve effectiveness, is what causes an organization to perform or under perform. They contend that underperformance in an organization is as a result of a breakdown in a company's management system and not management's lack of ability or effort.

Kaplan & Norton (2008) have proposed the creation of a closed-loop management system which links strategy and operations in order to avoid shortfalls in the success predicted from new strategies. The management system consists of five stages and involves the application of tools, processes and concepts at each stage. Figure 2 depicts the stages.

According to Kaplan and Norton (2008), the strategy development stage involves use of tools, processes and concepts such as mission, vision and value statements, SWOT analysis, shareholder value management, competitive positioning, and core competencies. The translation of strategy into specific objectives and initiatives involve use of tools and processes such as strategy maps and balanced scorecards. At the implementation stage, tools and processes such as quality and process management, reengineering, process dashboards, rolling forecasts, activity based costing, resource capacity planning, and dynamic budgeting are used to link strategy to operations. Continuous review of internal operational data and external data on competitors and business environment is undertaken as implementation progresses.

Other authors who have developed analytical techniques used in strategic planning include Porter (1980) who developed the five forces model which comprises threat of new entrants, bargaining powers of buyers and suppliers, intensity of rivalry and threat of substitutes. Another technique is the PESTEL analysis which is used to analyze the external environment and consists of political, economic, social, technological, environmental and legal factors. McLarney (2003) suggested that organizations should invest and utilize such planning techniques as scenario development, financial modeling, and stakeholder analysis to improve effectiveness of their strategic planning process. Kaplan and Norton (2008) have also argued for use of financial analysis models which they argued is one of the most important tools for assessing the strength of a firm in an industry.

Fig 2. Closed – Loop management system linking strategy and operations.



Source: Kaplan and Norton (2008).Mastering the management system. *Harvard Business Review*, January, 2008.

4.1.4. Functional Integration

This term refers to the extent of coverage given to different functional areas with a view to integrating different functional requirements into a general management perspective (Ramanujam and Venkatraman, 1987; Kargar and Parnell 1996). The functional areas include market function, Finance function, Personnel function and operations function.

Ramanujam and venkatraman (1987) in a study of 600 companies from the fortune 500 manufacturing and fortune 500 service directories found functional orientation to be the least important among the four design dimensions as far as planning effectiveness is concerned. Kargar and Parnell (1996) in a study of 69 U.S commercial banks in North Carolina found out that emphasis on each of the planning system characteristics was positively associated with planning system satisfaction. Both authors agree that planning system dimensions are important for planning effectiveness though Ramanujam and Venkatraman (1987) sought to measure effectiveness of each dimension in relation to other dimensions.

McLarney (2003) in a survey of 301 firms in the Canadian automotive industry found functional orientation as the key component that provides the strongest influence on planning process effectiveness. This is in stark contrast to Ramanujam and Venkatraman (1987) but supports Kargar and Parnell (1996). The contradiction may be attributed to contextual factors such as time, geographical area, and place of strategic planning at each time period. Ramanujam and Venkatraman (1987) carried out their study in 1984 in United States of America while McLarney (2003) carried out the survey in 2002 in Canada. Emphasis placed on strategic planning and context under which it was taking place in both periods are different. It is however agreed by the three authors that functional orientation plays a role in planning effectiveness and has influence on firm performance depending on emphasis placed on it.

4.1.5. Resources provided for strategic Planning

This is one of contextual dimensions that refer to the degree of organizational support to strategic planning. Resources provided for planning may be tangible or intangible. The tangible resources include the existence of a separate planning staff, and number of planners and facilities provided to them. Intangible resources include the time spent by the Chief executive officer and other senior staff in formal planning activities (Ramanujam and Venkatraman, 1987). The resources dimension reflects management's commitment to the concept of planning and this is emphasized by Ramanujam et al (1986) who pointed out that organizations who expect benefits from planning must be willing to incur commensurate levels of tangible and intangible costs of doing effective planning for planning is not a cost less activity.

Ramanujam and Venkatraman (1987) in a study of 600 companies from fortune 500 manufacturing and fortune 500 service directories found resources to be the most important contributor to planning effectiveness. McLarney (2003) in a survey of 301 Canadian automotive Industry found planning resources as a major influence on planning effectiveness. It is therefore important for organizations to match organizational capabilities and resources with strategy development as quality and success of the strategies depends on resources availed for planning and implementation.

4.1.6. Resistance to Planning

This contextual dimension refers to the need to anticipate and overcome resistance to planning and create a favorable climate for effective planning. According to Ramanujam et al (1986) organizational members may show resistance in ways such as lack of acceptance of the strategies developed, withdrawal or nominal participation in planning activities and gaming behaviors.

Planning resistance emerged as the most critical element of the planning process contributing to planning effectiveness in a survey of 600 fortune 500 manufacturing and service directories by Ramanujam and Venkatraman (1987). McLarney (2003) in a survey on 301 Canadian automotive firms found it to be the least important. This once again is a stark contrast in the findings of the two studies which is attributed to context. Both authors however found resistance to planning to have a negative influence as predicted. McLarney (2003) has attributed the contrasting views of the studies to the importance attached to context in which planning was taking place when Ramanujam and Venkatraman (1987) undertook their study. He indicated that at the time, researchers were stressing the softer elements of the strategic planning process such as planning climate and planning culture and concentrated more on quality of planning and the importance of creating a proper planning culture if planning was to be successful. Whereas there are differences on the dimensions of strategic planning, researchers are in agreement that use of planning techniques is important to the effectiveness of the planning process. Planning managers should therefore make use of a variety of planning models and techniques (McLarney, 2003).

5. Firm Performance

The measurement of firm performance has been a controversial issue that has generated debate amongst many authors (Chakravarthy, 1986; Venkatraman & Ramanujam, 1986). The major problem has been the choice of appropriate yardstick to use in determining firm performance (Falshaw & Glaister, 2006). The indicators of performance are not universally defined and various measures have been proposed from different disciplines such as accounting, psychology, sociology, economics, and operations management. The debate concerns the appropriateness of traditional financial measures such as Return on Investment which are viewed as providing unique measure of performance versus the relevance of other indicators such as maximizing shareholder's wealth and customer service. Shraeder (1984) has however indicated that firm performance in various literatures has been measured in sales, profit, productivity, revenue, dividends, growth, stock price, capital, cash flow, return on assets, return on capital, return on equity, return on investment, earnings per share and other financial ratios. He points out further that some performance variables may be more susceptible than others to strategic planning intervention. It is generally recognized that it is difficult to select a single measure of firm performance because performance is a multidimensional construct and therefore requires multiple indicators.

The goal of business organizations is to succeed in their chosen fields and organizational performance management and control is increasingly being viewed as key organizational activity (O'Regan, Sims & Gallear, 2008). O'Regan, et al (2008) has defined performance as the ability of an object to produce results in a dimension determined a priori, in relation to a target. This suggests that performance measurement is used to allocate resources and chart the way towards achievement of strategic goals. This according to O'Regan et al (2008) indicates that performance is linked to actions emanating from strategic planning. Strategic planning has been found to have a positive relationship to firm performance. Kargar and Parnell (1996) have argued that there are two dimensions to firm performance. Performance with concrete and financial outcomes, which is believed to be associated with the planning process, and performance relating to overall organizational effectiveness with the contribution of strategic planning efforts. Kargar, et al (1996) in their study viewed financial performance as prediction of future trends, improving long term and short term performance and direct impact on financial performance and viewed organizational effectiveness as improving the ability to evaluate alternatives and avoid mistakes, and improving the budget process. Measures of performance adopted by most researchers have tended to focus on financial related measures such as profitability. Profitability is measured in quantitative measures such as Return on Investment, Return on Sales, Growth in revenues, cash flow/investment, market share, market share gain, product quality relative to competitors, new product activities relative to competitors, direct cost relative to competitors, product research and development, process research and development, variations in return on investment, percentage point change in return on investment, and percentage point change in cash flow/investment (Chakravarthy, 1986). According to O'Regan, et al (2008), there is a trend of moving away from reliance on financial oriented measures towards stronger emphasis on a more comprehensive performance measurement system comprising both financial and non financial measures. They further argue that when financial and non financial measures are incorporated in the same model, it enables managers to survey performance in several areas simultaneously.

Chakravarthy (1986) in a study of 14 companies in the computer industry found that conventional measures of performance such as profitability and financial market measures are unsatisfactory discriminants of excellence. He suggests that other measures such as stockholder and stakeholder satisfaction should be included in the set of necessary conditions and in addition, a firm should be able to transform itself in response to changes in its environment as a necessary condition of excellence. This view is supported by Wheelen and Hunger (2008) who pointed out stakeholder measures, shareholder value and the balanced scorecard approach as some of the methods used to assess overall corporate performance. Organizations with a focus on being world class have adopted some ten performance measures of business which have a customer orientation (Presscott, 1999). These include operational measures such as environmental and safety standards, quality delivery and service standards, winning and retention of skilled staff, cycle times and waste elimination, and company wide measures such as customer, community and employee satisfaction in addition to productivity and flexibility. The business measures which focus on investor satisfaction include market and financial performance measures. Daft (1995) additionally indicates that firm size in terms of staff, sales and assets, technology, environment, firm strategy and culture are basis for firm measurement and analysis. In the various measurements of firm performance that have been applied, the underlying implication is that organizational performance relates to the efficiency and effectiveness of the firm.

6. Strategic Planning and Firm Performance

Research on the relationship between strategic planning and firm performance has been inconclusive. Early studies done on manufacturing firms (Thune & House 1970) indicate that strategic planning leads to superior performance. Thune and House (1970) who were the first to conduct empirical studies on the relationship and Armstrong (1982) reported better economic performance by planners compared to non planners. Studies done on the United States of America's large manufacturing firms during the period 1947 to 1966 indicated that planners significantly outperformed the non planners and also performed more predictably than non planners hence indicating that strategic planning can aid in realizing significant improvements in performance (Ansoff & McDonald, 1990, Pearce & Robinson, 2002).

Andersen (2000) reports that sixteen empirical studies done from 1962 to 1998 mainly in the manufacturing companies and banks have shown that strategic planners outperform non- planners while other analyses revealed no association between strategic planning and higher performance. Falshaw & Glaister (2006) in an empirical study of 113 United Kingdom companies found that there was no relationship between formal planning and subjective company performance. Mintzberg (1990) and Greenley (1986) have also contradicted the relationship between strategic planning and superior performance. Miller & Cardinal (1994) however provide convincing evidence that strategic planning does result in superior performance.

Mintzberg (1994) and Thomson & Strickland (1987) have tended to portray strategic planning as having no value in and of itself but that it takes value when managers engage in the process with some intensity. This also gets support from Miller and Cardinal (1994) who says that the amount of strategic planning (intensity) a firm conducts positively affects its financial performance. It is the contention of Miller & Cardinal (1994) that strategic planning is strongly and positively related to growth and is very positively related to profitability. Their study found that strategic planning positively affect firm performance particularly in dynamic industries. Hopkins and Hopkins (1997) also supports Mintzberg (1994) and Thomson and Strickland (1987) with their finding that banks that planned with greater intensity, regardless of whether their strategic planning process was formal or informal outperformed those banks that planned with less intensity. It is Andersen (2000)'s contention that there has been no conclusive evidence to unequivocally demonstrate performance effects from strategic planning because strategic planning measures have lacked precision and consistency, for example comprehensiveness and formality are not synonymous with strategic planning process.

Debate on the relationship between strategic planning and firm performance remains open with the main question being whether there exists a link between strategic planning and firm performance. Some factors may however explain the lack of consensus in the strategic planning – superior performance relationship. One of the reasons is that early research tended to view strategic planning in terms of formal planners versus informal planners (Thune & House, 1970, Armstrong, 1982). It has however been argued that planning is a multifaceted management system and should be treated as multidimensional in empirical research (Lorange & Vancil 1977). This view is shared by Ramanujan and Venktraman (1987) who have argued against viewing strategic planning in dichotomous classification of formal planner and informal planner. Another issue arises from the treatment of performance measurement of strategic planning in generally accepted financial measures and market share only (Thune & House 1970, Hopkins & Hopkins 1997).There are other measures or benefits of planning that are tangible or intangible which could be applied (Hax & Majluf, 1996). The methodology used by different researchers in testing the relationship between strategic planning and performance are also different and may result in different results. There are no accepted statistical significance levels. Andersen (2000) has also argued that strategic planning measures have lacked precision and consistency and may say little about the effectiveness of the planning process.

Formal strategic planning process and firm performance is moderated by factors such as environmental turbulence, firm size and structure (Glaister, Dincer, Tatoglu, Demirbag & Zaim, 2008). Each of these factors has an impact on the relationship between strategic planning and firm performance. According to Slevin and Covin (1997) and Andersen (2004), the external environment has a high probability that it may influence the relationship between planning and performance. Shraeder, et al (1984) argues that if one of the purposes of strategic planning is to guide the organization in its relationships with the environment, then firms who project and anticipate environmental changes accurately should achieve a distinctive level of performance. This according to Miller and Cardinal (1994) would lead to strategic planning being useful in a turbulent environment than a placid one. This is supported by (Boyd, 1991) who asserts that the correlation between planning and performance may be stronger in a turbulent environment and weaker in a placid environment. Counter arguments to this view include that strategic planning is more likely to have a positive impact on firm performance in less turbulent environments where future conditions are easier to anticipate (Daft,1992). It is however generally believed that strategic planning leads to positive impact when the turbulence in the environment is less and hence future conditions can be accurately projected and anticipated.

A firm's organization structure has a significant influence on the context and nature of human interactions and information processing capability. Organizations' structures may be mechanistic or organic. Gibbons and O'Conner (2005) in a study found that firms with organic structures tended to adopt a strategy formation process that is incremental and emergent while firms with mechanistic structures were more likely to adopt a strategy formation process that is formal and comprehensive. The external environment has influence on the organization structure adopted by a firm. In a turbulent and dynamic environment, most effective structure is organic while in stable and more certain environment, mechanistic structures are adopted (Glaister, et al 2008). Uncertainties in the external environment influence organization structure where flexible mechanisms are developed to cope with the environmental instability. Glaister, et al (2008) in a study found that formal strategic planning is more effective for firms relying on relatively more organic structures than those relying on mechanistic structures.

The influence that the size of a firm has on the planning – performance relationship is identified by Pearce, Freeman & Robinson (1987) as of major concern. In large organizations, the strategic planning system acts as a coordination mechanism to integrate and control various parts of a firm. Miller and Cardinal (1994) argue that as large firms are more complex and require more control and integration, strategic planning may affect their performance relatively more. Small firms tend to relinquish formal strategic planning since they operate in less complex environments and their internal operations are highly manageable without the need to engage in comprehensive planning (Mintzberg, 1979). According to Miller and Cardinal (1994), the usefulness of strategic planning in smaller size firms lies more in developing adaptive thinking rather than being a control mechanism. Robinson and Pearce (1983) in a study on planning – performance relationship among small firms found that the organization size is a critical contingency variable. Miller and Cardinal (1994) however found that size was not a significant predictor of the planning – performance relationship. Hopkins and Hopkins (1997) also found a negative direct relationship between bank's size and strategic planning intensity. It is however generally agreed that formal strategic planning – performance relationship becomes stronger as the size of the firm increases (Glaister, et al 2008).

7. Conclusion

Strategic planning has evolved from its origin in the military to an important business tool currently. Through its evolution, it has undergone periods of great achievements for organizations when the environmental turbulence was low in the 1960s and through periods of dissatisfaction and disenchantment when there emerged great turbulence from 1973. Strategic planning could not provide answers to what was being witnessed in the turbulent environment. The problem was diagnosed by some researchers as emanating from the design and implementation of planning systems. It was pointed out that planning systems did not place emphasis on strategy implementation by failing to link planning to resource allocation. There was need to focus on both planning and implementation.

Strategic planning formulation and implementation have been linked by various researchers as seen in the literature in this study but the relationship between strategic planning and firm performance remains a subject of debate. A lack of accepted measurement criteria was found to be the major cause of the debate. Researchers use different methodologies in testing the relationship which may lead to different results. There are no accepted statistical significance levels and most often, measurement is based on unidimensional criteria usually financial measures.

The studies reviewed presented mixed findings regarding the relationship between strategic planning and firm performance. While some authors found positive relationship, others found negative relationships. One possible explanation for this is the contextual factors that may not have been captured by the models applied. Planning resistance was found to be the most critical element of the planning process contributing to planning effectiveness by Ramanujam and Venkatraman (1987) while McLarney (2003) found it to be the least important. Time context and geographical context may have contributed to the difference in findings.

Various authors have considered external environment, organization structure and firm size (Glaister et al 2008; Andersen, 2004; Gibbons et al, 2005; Pearce et al, 1987) as having impact on the relationship between strategic planning and firm performance. None of the authors considered the role of organizational leadership in the strategic planning and firm performance relationship. Upper echelons in organizations have influence on the direction of the firm hence the need to study the impact of leadership on the relationship between strategic planning and firm performance.

Resources were found to be the most important contributor to planning effectiveness (Ramanujam & Venkatraman, 1987; McLarney 2003). The authors however failed to consider an organization's strategic capabilities like management, technology and marketing, and strategic flexibility of the firm. There is need to study the linkages among an organization's strategic capabilities, strategy, environment and firm performance.

Measurement of the relationship between strategic planning and firm performance was found to be a challenge because there are no universally accepted measures of performance. In most of the literature, the measure of effectiveness has often been based on unidimensional measures usually financial. Non financial measures have been explored by some researchers but there is need for more studies on non financial measures such as cultural performance measures on the relationship.

The characteristics of planning process and firm performance are examined and a relationship found between the inner workings of the planning process and performance but the role of an organization's external environment in the relationship is not explored. There is need to study the role of external environment on the planning process characteristics and firm performance relationship.

From the literature, strategic planning is viewed as leading to superior performance. Organizations that undertake formal strategic planning with greater or less intensity perform better than non planners. The inclusion of the six dimensions of planning in formal strategic planning may lead to better performance.

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