



The Relationship between Strategic Planning and Organizational Performance

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Abstract

This study delved into strategic planning practices and their connection with an institution's context and performance. It aimed to establish the link between strategic management and an organization's success, emphasizing that effective strategic management significantly influences performance. Successful companies worldwide exhibit well-defined strategic choices and step-by-step goal setting, contributing to their achievements on local and global scales. Literature review highlights the central concern of strategic management in understanding performance disparities among competing organizations. The research outcomes hold significance not only for scholars of strategic management but also for practicing managers seeking competitiveness through strategic planning. The study aids managers in recognizing obstacles in strategic decision-making and offers insights into the impact of strategic planning on organizational performance. As there is a dearth of research in this area, the paper proposes avenues for future research grounded in empirical evidence. This research enriches our understanding of the critical relationship between strategic planning, institutional context, and organizational success.

Keywords

Strategic management, Organizational performance, Strategy implementation, Issues management

1. Introduction

Strategic planning (SP) is one of the most popular management approaches in contemporary organizations, and it is consistently ranked among the five most popular managerial approaches worldwide (George, Walker et al. 2019). The term "strategy" originates from the Greek word "strategos," which means "the responsibilities of a general." 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 (Jayawarna and Dissanayake 2019). Strategic planning can be defined as the process of using systematic criteria and rigorous investigation to formulate, implement and control strategy and formally document organizational expectations. Strategic planning is a process by which we can envision the future and develop the necessary procedures and operations to influence and achieve that future (Monye and Ibegbulem 2018).

Effective strategic management is pivotal for organizational success, as managers' focus on well-crafted strategies directly influences performance, with global examples showcasing the benefits of clear strategic decisions in achieving objectives (Khoshtaria 2018). Over the past 30 years, extensive research has explored the impact of formal strategic planning (FSP) on organizational performance. Initial studies suggested a positive relationship, but subsequent research found inconclusive results. Some argue FSP may introduce rigidity and bureaucracy, while acknowledging potential non-financial benefits to the organization (Glaister, Dincer et al. 2008). Organizational performance (OP) is a central concept of public management research and practice (George,

Walker et al. 2019). Recent studies of OP have stressed that OP is not a uni dimensional construct but includes many different dimensions (Hubbard 2009, Walker, Boyne et al. 2010, Andersen, Boesen et al. 2016). Scholars seek to understand how various dimensions, from efficiency to societal outcomes, are influenced by management, organizational factors, and the environment in organizational performance research (Fisk 2010).

Public management research often distinguishes between public and private organizations, with numerous studies exploring these distinctions (Boyne 2002) discovered that Public organizations are typically more bureaucratic, with lower managerial commitment. This can hinder the effectiveness of strategic planning (SP) as it relies on organizational commitment and can be further hindered by excessive procedures and regulations. Similarly, (Buelens and Van den Broeck 2007) argued that employees in the public sector are less driven by external rewards compared to their private sector counterparts, which could make it difficult to motivate public sector employees to actively engage in SP through external incentives. Alternatively, (Mazzucato 2011) debunked many of the myths underlying stereotypical public and private sector differences, implying that the impact of SP on OP could be the same in both sectors. The unresolved issue of SP effectiveness in public organizations introduces the public-private sector distinction as a moderating factor in this ongoing debate (George, Walker et al. 2019).

Strategic planning is a demanding process that requires patience, perseverance, and strong teamwork, breathes life into an organization's mission and vision. It enables the achievement of desired goals and objectives by facilitating effective decision-making, even in day-to-day operations, providing a comprehensive understanding of the organization's direction and purpose. Strategic planning gives you clarity about what actually you want to achieve so that strategic planning is a road map to lead an organization from its current position today to where it should be tomorrow. Therefore, many researchers have proven that strategic planning improves the success of an organization (Abdalkrim 2013).

2. Objectives

The main objective of the study is to re-evaluate the planning performance relationship in organizations and determine the extent to which strategic planning affects performance in an organization under study. The specific objectives include:

- I. To find out the relationship between strategic management and organizational performance.
- II. To investigate the impact of strategic management on organizational performance.
- III. To ascertain that strategic planning enhances better organizational performance and profitability.

3. Literature Review

Strategic planning is the systematic and organized process whereby an organization creates a document indicating the way it plans to progress from its current situation to the desired future situation. It is the set of decision-making criteria and the decisions taken and implemented by an organization to definitively and permanently guide its activities and structure (Perera and Peiró 2012).

Strategic planning has a positively moderate and notable influence on organizational performance, whether in private or public sectors and within various global contexts (George, Walker et al. 2019). There are many aspects of financial performance associated with long-range planning. Some researchers found that growth in terms of size and assets was influenced by strategic planning (Andersen 2004, Skokan, Pawliczek et al. 2013, Abosede, Obasan et al. 2016). (Baker 2003) found that formal strategic planning can serve as a tool applicable to various food processing companies to improve their financial performance. A survey of 1,000 CEOs across five food processing industries assessed their firms' strategic planning practices and financial performance using average pretax return on assets (ROA) as the measure.

In a study of Turkish manufacturing companies, (Glaister, Dincer et al. 2008) discovered a robust and positive correlation between formal strategic planning and company performance. They observed that the beneficial impact of formal strategic planning on performance is more pronounced when there is high environmental turbulence compared to low turbulence. Furthermore, the positive effect of formal strategic planning on performance is amplified in organizations with more organic structures rather than mechanistic ones. Additionally, the study concluded that the formal strategic planning-performance relationship becomes stronger as the firm's size increases.

(Aldehayyat and Twaissi 2011) identified a robust and positive correlation between strategic planning and the performance of small industrial publicly traded companies in Jordan. Results confirm senior and middle management involvement, environmental analysis, and strategic tool adoption. A study on micro, small, and medium-sized enterprises in the Czech and Slovak Republic found that detailed strategic planning significantly improved performance (Skokan, Pawliczek et al. 2013).

(Sandada, Poee et al. 2014) found a positive link between strategic planning and SME performance. They identified key components of strategic planning through factor analysis, correlation, and regression analysis. (Wijethunge 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. Information was gathered by means of structured questionnaires administered in person to 275 small and medium sized enterprise (SME) owners and managers in the Western province. Business performance was measured in annual sales, annual profit, number of employees, market share and investment to the business (Jayawarna and Dissanayake 2019).

4. Discussion

This research contributes to our comprehension of how organizations can leverage comprehensive strategic planning to effectively utilize surplus resources, leading to enhanced performance.

4.1 Strategy Implementation and Performance

Research on strategy implementation, the crucial link between strategy formulation and company performance, identifies eight influential factors divided into two groups. The first group includes factors rooted in prior experience, while the second group factors are based on readiness. The study suggests two viable approaches: deliberate and prioritized, with an integrated approach showing better performance results according to Hickson's research. (Khoshtaria 2018).

4.2 Organizational performance

Research studies typically assess performance using a variety of metrics, including financial (e.g., profit, return on investment) and non-financial indicators (e.g., innovation, market positioning). Success evaluation often considers factors like sales, profits, cash flow, return on equity, and growth, providing insight into how a firm compares to industry competitors. Understanding relative performance in different competitive environments is crucial for organizations from diverse industry sectors (Khoshtaria 2018).

4.3 Analysis

The connection between strategic planning and performance is derived from various theoretical perspectives, including the resource-based view, organization theory, and contingency theory. The findings regarding this relationship have been diverse. While numerous previous studies have indicated either a positive, negative, or no correlation between strategic planning and performance, the majority of these studies have not taken into account the influence of contingency variables on this association.

In a study in New South Wales, Australia, small professional service firms (French, Kelly et al. 2004) found mixed results regarding the link between strategic planning and performance. While no significant relationship was identified between various performance measures and factors, a significant connection emerged between net profit and informal planning. Factors such as vision, mission, latent abilities, competitor orientation, and market orientation were determined through exploratory factor analysis. Respondents were categorized as nonplanners, informal planners, formal planners, and sophisticated planners. Multiple performance measures were employed, but standard multiple regression analysis revealed no significant relationship between strategic planning and firm 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 and favourable impact on the financial performance of banks and acts as a mediator for the influences 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.

5. Conclusion

Strategic planning is a logical process aimed at bringing the future into focus, enabling us to both analyse and simulate future scenarios. This process can unveil opportunities or threats that were previously concealed, granting the ability to take early action. It establishes a clear and explicit framework with predefined criteria for everyday decision-making, helping to identify fragmented choices or personal biases, thereby simplifying managerial decisions. In this paper the researchers have presented and discussed many ideas that related to literature to the strategic management and organizational performance, its being highlighted and presented many studies across the world that are related to this study but a majority of them have been carried out in developed nations. Regrettably, there is a scarcity of research conducted in developing countries that explore strategic management and organizational performance to the best of our knowledge. 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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