

The Role of Strategic Planning in Performance Management

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Abstract

In this article we propose to test the role played by strategic planning in performance management. To do this we have put forward any quantitative research methodology which is based on a questionnaire conducted among 120 companies users strategic planning. A series of analyzes by structural equations allowed us to confirm the decisive role of strategic planning in performance management

Keys words: strategic, planning, management, performance, business

1. Introduction

Strategic planning is the basis of every common-interest community. The primary objective is to determine whether or not there is a relationship between the use of strategic planning and performance management. In addition, this research seeks to explore the factors that influence performance management. The findings indicate that the level of strategic planning is positively associated with the performance management. This conclusion is very significant because it shows the usefulness and benefits of practicing strategic planning. Strategic planning (SP) is an effective way of improving management. This, at least, has been the general perception in the strategic management literature to date.

Strategic planning is an ongoing and regular process where a member of the leaders in the organization has to take decisions for the future of that organization and its development as well as procedures and process required for achieving the desired future and for determining how they are measured at the level of success achieved.

This study determines the effectiveness of strategic planning as an effective tool of a successful management. The findings indicate that the level of strategic planning is positively associated with the growth and the success of the company. This conclusion is very significant because it shows the usefulness and benefits of practicing strategic planning and creating an environment that recognizes strategic planning as a tool of successful management. Finally, this article finds that the strategic planning process of an organization must be responsive to environmental changes and challenges.

2. The research problem

Planning is critical to the performance management in meeting its goals and objectives. The relationship between the planning function and the performance management is uncertain. It is because of this uncertainty that this research project was undertaken.

The objective of this study was not to analyze the significance of factors but to determine if strategic planning might play a role in the long-term survival of business, again assuming that by planning the attainment of organizational goals may be enhanced.

A number of studies such as those by Ansoff (1988) showed that a formal strategic planning was crucial for the performance management. The objective of this research project was to provide a quantifiable analysis of the planning / performance relationship, taking into consideration the potential influences of managerial, organizational, and environmental characteristics

3. Relationship between strategic planning and performance of management

This study was undertaken to determine if there was a relationship between the level of planning and performance management. The concept for this study was based upon the management premise that planning, specifically strategic planning is an important part of the management function. The strategic planning process can assist in this environment as it involves taking information from the environment and deciding on organizational mission, objectives, strategies, and portfolio plan.

This study is segmented into two basic areas: Strategic Planning, and Strategic Planning as related to performance management.

The purpose was to obtain a broad base of knowledge on strategic planning and to review the aspects of performance management.

3.1. Strategic planning

The strategic plan establishes the basic nature and direction of the organization. As the major writers indicated, planning is an important factor of corporate success. Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action.

In many organizations, this is viewed as a process for determining where an organization is going over the next year or more typically three or five years (long term), although some extend their vision to twenty years.

Strategic planning is a process whereby an organization looks at its resources and the environment, and tries to determine where the organization should be going in the near future. This management function is primarily carried out by the top level or senior management of the organization, but should have some input from all levels of the organization, as it impacts the entire organization at all levels.

Little information can be found in the literature that denies the importance of planning as an overall function of management in any organization. But the question is, is there a relationship between the planning conducted by an organization and the successful management? That is the question to be reviewed in the next section of this study.

3.2. Strategic planning and Performance Management

The purpose of strategic planning is to set overall goals for your business and to develop a plan to achieve them. It involves stepping back from your day-to-day operations and asking where your business is headed and what its priorities should be.

Taking the decision to grow a business and achieve the success of the management means embracing the risks that come with growth. Spending time on identifying exactly where you want to take your business and how you will get there, should help you to reduce and to manage those risks.

As your business becomes larger and more complex, strategy formulation will need to become more sophisticated. To do this, you will also need to start collecting and analyzing a wider range of information about your business, both about how it operates and about how conditions are developing in your potential markets.

Michael Porter (1987) argued that strategic planning has fallen out of fashion in today's business community has other concerns such as corporate culture, quality, and implementation are viewed as the new tickets to success. The basic questions that good planning seeks to answer the future direction of competition, the needs of the consumer, and how to gain a competitive advantage will never lose their relevance. The solution is to improve strategic planning, not to abolish it.

It is in light of this background that this study was undertaken. Questions which were examined are:

- 1.) Is there a correlation between the planning activity and performance management?
- 2.) Are there any similar managerial characteristics of those firms that have a high level of organizational planning and those that do not?

4. Model & Hypotheses

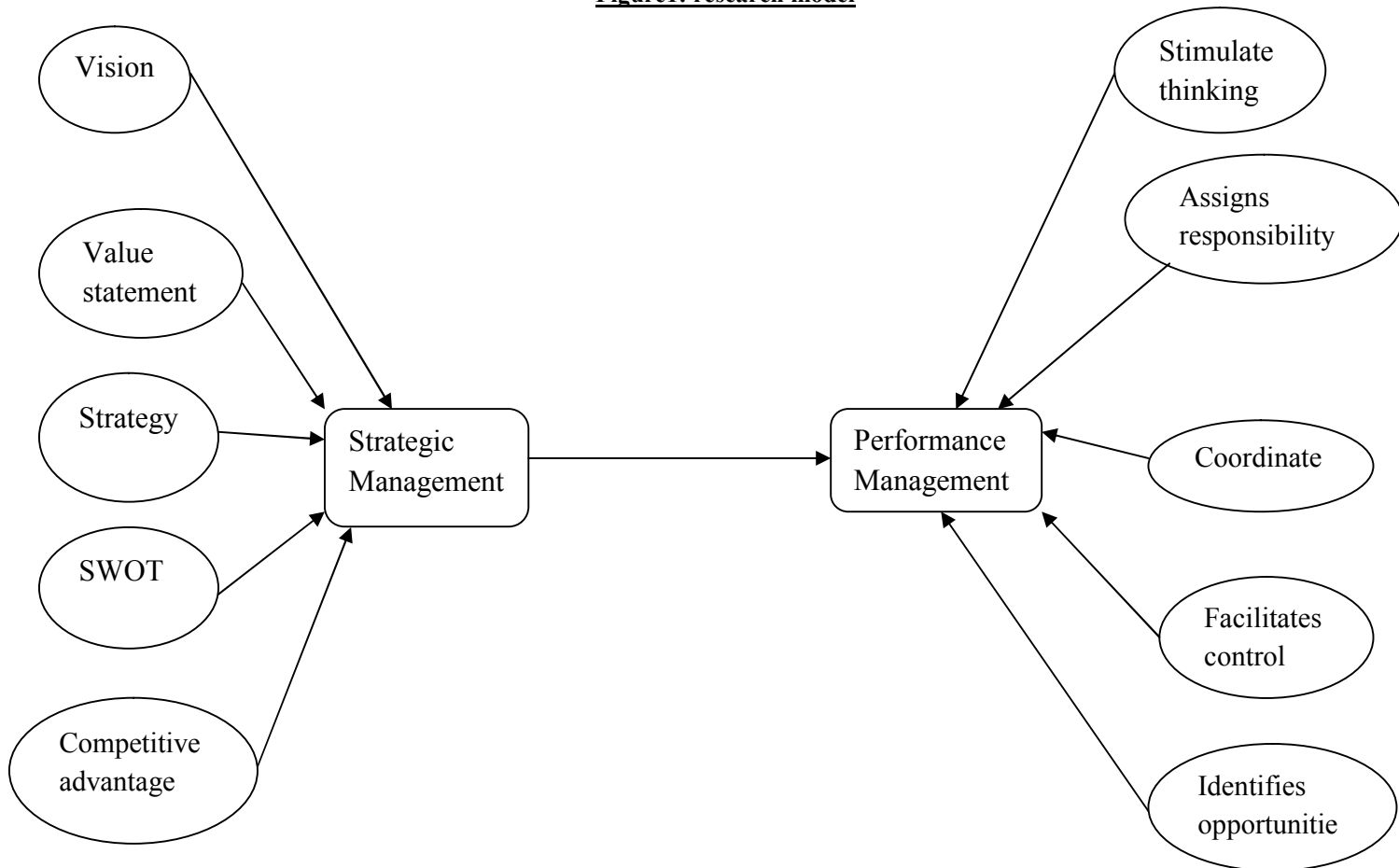
The research model used in this study is presented in Figure 1. It has two parts, each addressing one of the research objectives stated earlier in the paper. The first part, consisting of Hypotheses 1 through 6, addresses the factors that may have an impact on the use of strategic planning. The second part, consisting of Hypotheses 7 until 12, examines the relationship between the extent and duration of strategic planning and performance management.

In this study, performance management is defined by the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as

needed. . A total of five indicators were employed to measure performance management success:

- (1) Stimulates thinking to make better use of the association’s resources,
- (2) Assigns responsibility and schedules work,
- (3) Coordinates and unifies efforts,
- (4) Identifies opportunities and
- (5) Facilitates control and evaluation of the association’s activities.

Figure1: research model



4.1. Actions items of strategic planning

The key components of strategic planning include an understanding of the firm’s vision, mission, values, strategies, SWOT and competitive advantage.

1. Major Components of a Strategic Plan

Strategic plans can come in many different shapes and sizes, but they all have the following components. The list below describes each piece of a strategic plan in the order that they’re typically developed.

- Mission statement: The mission statement defines the fundamental purpose of an

organization or an enterprise, succinctly describing why it exists and what it does to achieve its vision

- Vision statement: outlines what the organization wants to be, or how it wants the world in which it operates to be and it answers the question of what the company will look like in five or more years.
- Values statement or guiding principles: These statements are enduring, passionate, and distinctive core beliefs. They're guiding principles that never change and are part of your strategic foundation.
- SWOT: A SWOT is a summarized view of your current position, specifically your strengths, weaknesses, opportunities, and threats.
- Competitive advantage: Your competitive advantage includes what you're best at compared to the competition.
- Long-term strategic objectives: These long-term strategic focus areas span a three-year (or more) time horizon. They answer the question of what you must focus on to achieve your vision.
- Strategies: Strategies are the general, umbrella methods you intend to use to reach your vision.
- Short-term goals/priorities/initiatives: These items convert the strategic objectives into specific performance targets that fall within the one- to two-year time horizon. They state what, when, and who and are measurable.
- Action items/plans: These specific statements explain how a goal will be accomplished. They're the areas that move the strategy to operations and are generally executed by teams or individuals within one to two years.
- Scorecard: You use a scorecard to report the data of your key performance indicators (KPIs) and track your performance against the monthly targets.
- Financial assessment: Based on historical record and future projections, this assessment helps plan and predict the future, allowing you to gain much better control over your organization's financial performance.

4.2. Actions items of performance management

Performance management is the systematic process by which an agency involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of agency mission and goals. A group of researchers have defined success in financial terms and considered indicators such as return on investment, sales, and increased revenue. Also, in a research conducted by Gorgievski, et al (2011), the studies were reviewed in the field of management, business, entrepreneurship, and psychological literature to identify a comprehensive list of possible performance management criteria. In addition,

more than 119 papers from valid journals and magazines were studied and conducted in-depth interviews with five business owners

The art of project management takes a special type of person to deliver excellent results. In no particular order, here are our top five characteristics of a successful project manager:

1. **Strong Time Management Skills:** This is an obvious one. Without time management skills, a project manager is doomed from the start. Given that a huge part of their mandate is to keep a project on schedule, managing not only their own time but their team's time is critical. Within this skill, project managers also have to be able to prioritize tasks to determine how the team's time is spent on a regular basis. Without prioritization, the project manager will easily get lost in a list of to-do items.
2. **Ridiculously Organized:** Project managers need to be able to remember deadlines and project changes on a daily (and sometimes hourly) basis. Having an efficient project management organizational system will benefit you in a big way.
3. **Writing and Presentation Skills:** Every project manager needs to be able to write clearly and effectively to convey both project plans and communication pieces (both internal and external). Without strong writing skills, a lot will be lost in translation. A project manager has to be able to describe upcoming projects with reasonable deadlines give clear instructions with detailed notes and communicate problems effectively without being an alarmist. The same is true for presentation skills. A project manager who can easily organize a project but can't present that information is doing a disservice to the project and the rest of the implementation team.
4. **Adaptable and Flexible:** Without a doubt, this is critical for project management success. Project plans very rarely stay in their original form and are constantly being updated with change requests, scope adjustments and deadline refinements. The ability to take an existing project and quickly and easily adapt it to fit new needs as they come up can make or break a project manager.
5. **Compassion:** This one may surprise you but a good project manager needs to have compassion. Yes, being able to focus on the business aspect of a project is well and good, but a great project manager has compassion for their team and all the stakeholders involved in the project. They have to know the personalities of everyone involved and be able to adjust communication styles to address the personal needs as well. They need to be able to adjust expectations due to outside forces and work with team members who are trying their best but just can't seem to keep up in a delicate but effective matter.

4.3 Research Hypotheses

Main Hypothesis

Strategic Planning have a significant impact on performance management.

Secondary Hypotheses

- ✓ Vision has meaningful positive impact on strategic planning.
- ✓ Value statement has meaningful positive impact on strategic planning.
- ✓ Strategy has meaningful positive impact on strategic planning.
- ✓ SWOT has meaningful positive impact on strategic planning.
- ✓ Competitive advantage has meaningful positive impact on strategic planning.
- ✓ Strategic planning has meaningful positive impact on strategic management.

5. Review of the theoretical framework

Interest in the relationship between planning and organizational performance began in the late 1960s. Although a large body of this research has concentrated on large firms, numerous articles in academic publications as well as practitioner-oriented journals have recognized the importance of planning for small businesses. The articles can be classified in two main streams: the first contends that planning improves profitability (Aram and Cowen 1990), and the second stream recognizes that good planning is a key to success (Branch 1991; Brokaw 1992; Hillidge 1990; Knight 1993).

The literature strongly supports the argument that, in small business, planning is a key issue. Planning not only increases the success rate (Jones 1982), but it also affects the level of performance (Schwenk and Shrader 1993). This idea was also supported by Bracker and Pearson (1986), who identified different levels of performance associated with different levels of planning. In parallel with those findings, the results of a meta-analysis conducted by Schwenk and Shrader (1993) identified the presence of moderating variables on the effect of strategic planning on performance in small firms.

Over the past 35 years, much of the research on the relationship between planning and organizational performance has been examined by two separate streams of research. One stream investigated the relationship between performance and the content of plans, and another examined the relationship between the planning process and performance. Both have led to equivocal results (Schwenk and Shrader 1993).

In reviewing the literature, some studies have addressed the role of the strategic planning in performance management. Some study regarding the importance and usefulness of the performance management as a holistic process bringing together many of the elements that make up the successful practice of people management including, in particular, learning and development. But for this very reason, it is complex and capable of being misunderstood.

Bernard Steiner, (1986) determine some benefits for the strategic planning witch assure

the success of management.

- Stimulates thinking to make better use of the association's resources.
- Assigns responsibility and schedules work.
- Coordinates and unifies efforts.
- Facilitates control and evaluation of the association's activities (accountability).
- Creates awareness of obstacles to overcome.
- Identifies opportunities.
- Avoids the trap of linear thinking.
- Facilitates progressive advancement of the association's goals.

6. Methodology

This study used the quantitative method. The population of the research consisted of the executives responsible for strategic planning. 120 companies operating under the strategic planning were selected. The data was collected using a questionnaire. The questionnaire consists of three parts. In the first part, some questions were asked regarding gender, marital status, education level, and age of entrepreneur's current business. The second part asked questions about strategic management skills of entrepreneurship and they were surveyed about the extent to which these skills affected their performance, using a Likert scale systems. And in the third part, there are 24 questions related to the extent to which companies achieve performance management in the Likert scale measure. In this study, 120 questionnaires distributed and 80 completed questionnaires were collected. Finally, in order to verify the effectiveness of strategic management in performance of management, structural equation modeling was used. To calculate the reliability of the measurement instrument of this research, the technique of Cronbach's alpha was used. It was estimated at 0.89. The composite reliability was calculated as 0.91. Consequently, the high coefficient of 0.7 confirmed there liability of the research constructs. Results from the estimation of the convergent validity of the main variable showed that the resulting number for the mean extracted variance was greater than 0.4 that indicates a very good convergent validity. The results of calculating divergent validity, also, showed that the square root of the mean extracted variance for the independent variable namely strategic management of business rates as 0.64 and for the dependent variable, that is performance management, it was 0.91. These numbers were higher than the correlation number of that construct with the other constructs of the research and thus, the divergent validity was proved for all constructs of the research. The data analysis was conducted using structural equation modeling. Given that, the analysis of covariance structures, or structural equation modeling, is one of the main methods of analyzing complex data structure and a new

technique for examining the causal relationship .The data were analyzed using Smart PLS software.

7. Research finding

In order to collect the research data, 120 questionnaires were distributed among company and as a result 80 people responded to the questions. Out of 80 participants, 55 percent were male and 45 percent female and 86.2 percent were married. More than 60 percent had a bachelor's degree or higher and more than 50 percent of them had more than three and a half years of experience in the current business. Table I shows the full description of the demo graphic characteristics of the respondents:

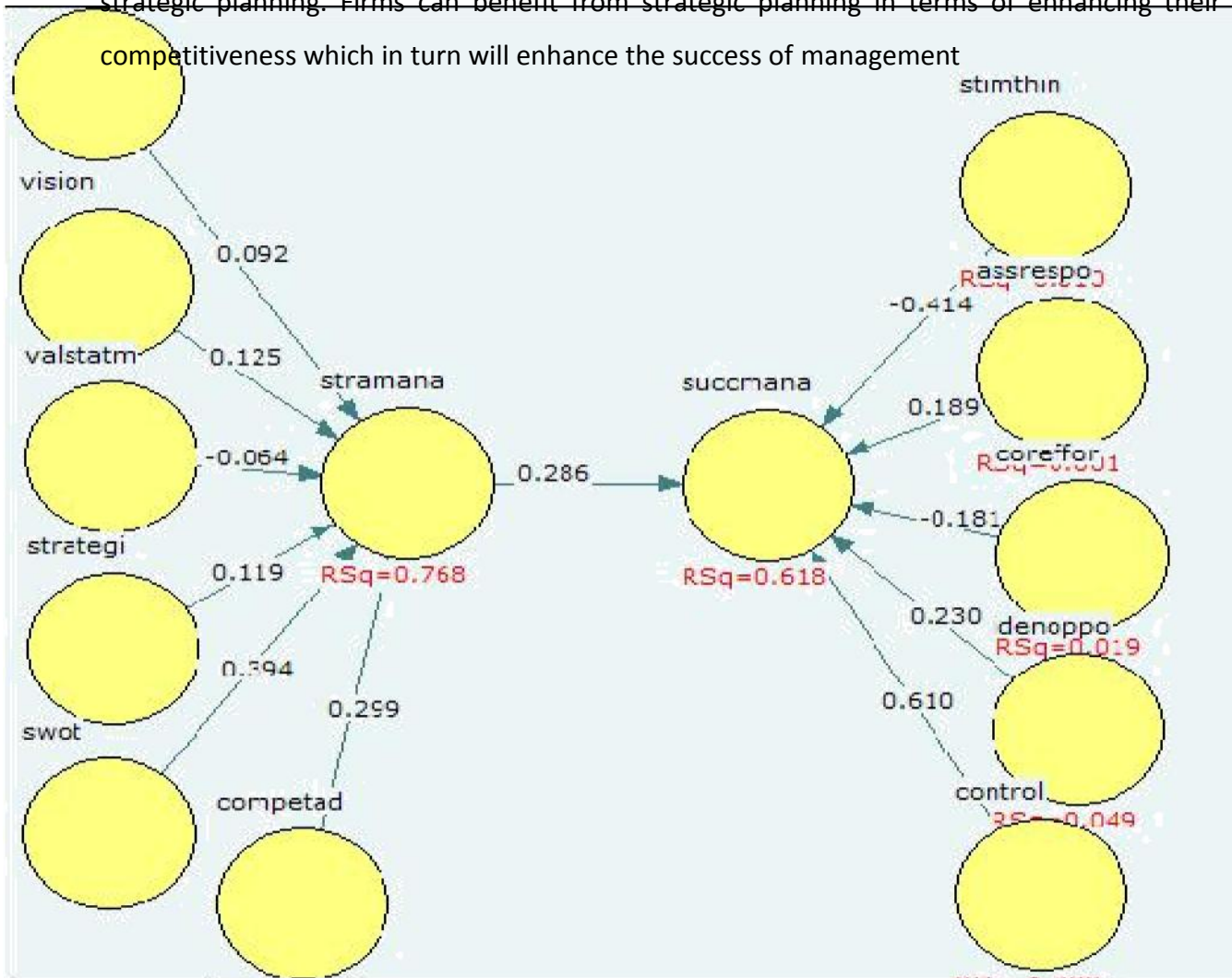
Table 1: Descriptive Statistics Percent

Gender	Frequency	percent	Level of education	Frequency	percent	Age of business	frequency	percent
Male	44	55	Under high school diploma	2	2.5	Under 3 months	8	10
Female	36	45	High school diploma	30	37.5	3-42 months	16	20
			BA	48	60	More than 42 months	56	70
Total	80	100	total	80	100	total	80	100

With regard to firm variables, the results show that mission, vision, strategies, SWOT and competitive advantage are positively correlated with the strategic planning ($p < 0.05$). Hence H1, H2, H4, H5 and H6 are supported. However, the findings reveal that value statement is not related to strategic planning. Therefore, H3 is not supported. Further analysis using ANOVA shows that vision and SWOT has the strongest influence on strategic planning, while strategies and competitive advantages are also a significant factors

With respect to successful management, the findings reveal that there is a significant positive

correlation ($p < 0.05$) between the extent of successful management and all the four successful management variables. In other words, H8, H9, H10, H11 are supported. This finding is very significant because it shows us the benefits and usefulness of practicing strategic planning. Firms can benefit from strategic planning in terms of enhancing their competitiveness which in turn will enhance the success of management



The results of the data analysis, consistent with the main hypothesis of this study, shows that the significant coefficient of path between Strategic Planning and performance management indicators (28.6) is greater than 1.96. In other word, it shows the impact of Strategic Planning on management success in confidence level of 95%. In addition, the standardized coefficient of the path between the variables of Strategic Planning and management success index (0.768), indicates that Strategic Planning explain as much as 76 percent of variations of variables of

management success. The study also examined the sub-variables, the results obtained in accordance with the following table:

Independent variable	Dependent variable	AVE	Composite reliability	Crombach alpha	Hypothesis Accept/reject
Vision	Performance management	0.843397	0.915045	0.779419	accept
Value statement	Performance management	0.470811	0.647782	-0.003444	accept
Strategy	Performance management	0.769597	0.909237	0.841107	accept
Swot	Performance management	0.885354	0.939191	0.869272	accept
Competitive advantage	Performance management	0.724907	0.839290	0.640994	accept

Conclusion

The answer to hypothesis as to whether there is a relationship between strategic planning and successful management would be affirmative. The result showed that there is a positive relationship between strategic planning and successful management. However, it also showed that the relationship is very weak.

Even though the relationship exists and is positive, it is definitely not as strong as the strategic management literature would suggest.

Strategic planning is to think in the long run. This thinking includes practical studies and evaluation of the internal organization and the development of the external environment so as to draw and identify the objectives of long and medium or short term and to develop appropriate policies and strategies to achieve their goals and to get a successful management of their organization

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