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Strategic Planning, Organisation Characteristics, and Firm Performance: A Review of the Literature

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Abstract:

The association between strategic planning, nature of organizations and performance of companies is the main primary objective of this paper. Main components of strategic planning like vision, mission, objective setting has been studied over here. Current studies from this field have been observed for reference. Other factors like years of operations, nature of the firm, size of the firm, ownership nature and other details have further studied. This study aims to capture the research gap present in this area. After referring to the numerous studies this study suggests the need of studying organizational characteristics as a moderator variable. This study has proposed a conceptual framework for carrying out research by academicians and interested researchers of this domain. All the propositions suggested here will be immensely beneficial for the managers to prepare strategies and managing their firms.

Keywords: Strategic planning, Organizational characteristics, Firm performance, Strategy

1. Introduction

This research paper is a review of the conceptual and empirical literature on strategic planning, organizational characteristics and firm performance. It brings out gaps in knowledge on the relationship. It forms the basis of developing the conceptual framework.

Strategy is the direction and scope of an organization which achieves advantage for the organization through configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations (Johnson and Scholes, 1999). Strategic planning enables an organization to clearly articulate its vision and mission, review internal strengths and weaknesses and take into account environmental opportunities and threats in defining the suitable strategic choices for the company.

O'Sullivan, Abela and Hutchinson (2009) note that a firm's characteristics include firm size (evaluated by the number of staff) and the age of the firm (evaluated by number of operational years). They note that other firm characteristics include ownership, management, customers, markets and sources of capital. Performance of the firm is vital as firms seek to gain advantage competitively within the industry. Performance in terms of the resources' utilization and the achievement of organization objectives is generally viewed in relation to firm efficiency and effectiveness. Performance indicators include financial e.g., return on investment and gross profit margin and non-financial indicators e.g., market growth, market position and technology efficiency.

Studies that have been done on the relationship between strategy and organization performance have resulted in different views on the nature of the relationship between strategy and performance. Greenley (1986) in his study of the relationship in relation to manufacturing companies concluded that data is far from conclusive on establishing a relationship. Arasa and K' Obonyo (2012) in their study reviewed the relationship between strategic planning and firm performance in relation to the strategic planning steps. From their study they concluded that correlation analysis results indicated the existence of a strong relationship between strategic planning and firm performance. This paper seeks to establish the current results of empirical studies in the relationship between strategic planning, organizational characteristics and firm performance.

The anchoring theories for this study are: stakeholder management theory, resource-based view and dynamic capabilities theory. The Stakeholder Management Theory notes that an organization is a social construct made of collaboration of different stakeholders. A corporation is the center of a network of stakeholders, a complex system of information and resources. (Mersland and Strom, 2009)

The Resource Based Theory (RBT), which is also referred to as the resource-based view of the company, provides a theoretical basis for understanding the competitive edge in companies and their long-term sustainability. Scholars have hypothesized that, if companies have valuable, rare and inimitable (VRIN) resources, they are able to attain competitive advantage by executing new value adding approaches that competitors cannot easily duplicate. Dynamic capacity shows organizational capacity to produce or modify the business resource base purposefully. Dynamic capabilities offer the company the ability to integrate internal and external capabilities and reshape them in order to address the ever-changing dynamic world.

From the extensive study of the literature a conceptual framework has been proposed. Here, the role of independent variable has been played by strategic planning and firm performance has acted as dependent variable. To

check the extraneous effect organizational characteristics has been kept as moderating variable. There are various components of strategic planning. Objectives and goals all come under it. The emerging views point to a need to ensure a close connection between strategic planning and performance monitoring and evaluation. This is with the aim of ensuring that the monitoring reviews result in concerted actions to align the strategy with the organizational intent. For organizations to be resilient and competitive there is a need for leaders to ensure that strategy is effectively implemented and monitored with a view of attaining expected results. The organizations should also be agile and readily realign their strategy to position themselves competitively in the market and to ensure that they are effectively delivering on their core mandate.

2. Theoretical Foundation

The anchoring theories for this paper are Stakeholder Management Theory (Freeman, 1984), Resource Based View (Wernefelt, 1984) and the Dynamic Capabilities theory (Teece&Pissano, 1994). These are discussed below.

2.1. Stakeholder Management Theory

This theory seeks to explain and identify what the nature of the firm stakeholder interactions should be. Harrison et al. (2010) notes that the organizational value is enhanced when it takes care of the interests of the major stakeholders not just the shareholders. Freeman (1984) noted that the interests of all the legitimate stakeholders are important and valuable. This therefore has a bearing on the firm's decision making which in turn affects its strategy and the firm performance.

2.2. Resource Based View

The resource-based view, provides an important theoretical basis for comprehending how competitive benefits within companies are accomplished and can be maintained over time. Scholars have hypothesized that if companies have valuable, rare and inimitable (VRIN) attributes, they can accomplish sustainable competitive advantage by introducing new value-making strategies which competitors cannot easily duplicate. Wernerfelt (1984) noted that there are a broad range of resources for the firm and these include in house technology, skilled personnel, capital, machinery and efficient processes. He pointed out that types of resources that could result to high profits can be identified. Wernerfelt (1984) was one of the earliest resource-based proponents in the strategic management field.

Barney (1986) suggested that a theory of persistently higher corporate performance could be developed based on the characteristics of companies. He noted that the resources controlled by companies would probably benefit the company more in its performance improvement efforts. The resource-based rationale emphasizes maximizing a company's value by pooling and using valuable resources. Companies therefore seek to find the optimal resource combination to maximize value. The argument is that the integration of resources can be achieved without regard to affiliation or industry (Hennart and Reddy, 1997). Resources are both tangible and intangible assets used by the firm to execute its strategies. (Barney and Arkan, 2001).

Miller and Shamsie (1996) advocate that all resources can be grouped in two broad categories, based on the notion of barriers to imitability: Legal property resources, including financial capital, natural resources and human resources, are properties owned by enterprises. The owners have clear rights of ownership of these resources or of resource use so that others cannot remove them without the consent of the owners. As a result, it is not easy to acquire property-based resources since they are legitimately secured by property rights in form of patents, contracts and property acts (Miller and Shamsie, 1996).

Resources based on knowledge, refer to intangible know-how and skills of a company. Due to knowledge and information barriers knowledge-based resources are not easily imitated. Others cannot replicate or imitate resources based on knowledge easily since they seem vague and ambiguous. The competitive advantage of sustainable development come from the possession of appropriate capabilities, which are non-tangible resources ranging from patent rights and licenses to reputation and expertise (Hall, 1992).

The strength of this theory is that firms are able to utilize their resources to gain competitive advantage and enhance the firm's performance. Firms are therefore able to utilize resources which are within their control for their advantage. This, therefore, enables firms to develop strategies that optimize on their utilization of their resources to enhance their performance. The weaknesses of the theory are that there exist other factors that impacts the performance of firm performance other than the resources. These other factors can have adverse effects on the firm performance e.g., environmental factors such as regulations. The resources by themselves have to be harnessed effectively to result in competitive advantage hence the need to also consider dynamic capabilities.

2.3. Dynamic Capability Theory

Ambrosini and Bowman (2009) noted that Teece et al. (1990) working paper was the first contribution in developing clearly the dynamic capabilities notion. They noted that Teece et al. (1990) working paper stated that, 'It is not only a set of resources that matters, but a mechanism by which businesses learn from and build up new skills and competencies.' They stressed that it is important to take into account altering external environments and therefore the role of strategy formulation, in which internal and external skills of an organization, its resources as well as competencies required are mainly reformed, incorporated and reconfigured into changing environments (Teece&Pissano, 2004). Teece et al. (2003) argued that the dynamic capability view would overcome the restrictions of the resource-based view.

Dynamic capabilities show the managerial capacity to deliberately develop and adjust the company's ability to incorporate, construct and reconfigure internal and external competencies in order to deal with swiftly varying

environments relative to dynamic capabilities theory. Since dynamic capacity functionality can be duplicated across companies.

Resource configurations help to create competitive advantage. The importance of dynamic capabilities has been highlighted by Wang and Ahmed (2007). They further suggest that RBV can be helpful to improve the dynamic capabilities. They noted that dynamic capacities are the behavioral orientation of a company to continuously integrate the company's resources and capabilities, reconfigure, review them and recreate them and most importantly to upgrade their core capabilities to meet the varying environment and uphold a competitive advantage. Dynamic capabilities can support management in increasingly demanding environments to gain competitive advantage (Teece et al., 1997).

3. Strategic Planning, Organizational Characteristics and Firm Performance

3.1. Strategic Planning and Firm Performance

The organizational mandates can be attained by the long-term plans aligned with the organization vision and development. Arasa and K'Obonyo (2012) highlighted the direct link between strategy and performance. They noted the positive links between all the strategic planning steps (identifying the company's corporate goals, inspecting the business environment, determining strategic issues of the company, strategic choices and setting up implementing, evaluating and controlling systems). Miller and Cardinal (1994) highlighted that the performance of the firms is getting positively impacted by the strategic planning.) Leitner and Goldenberg (2010) also emphasized on strategy by highlighting that firms can achieve higher financial performance and growth with strategy. Greenley (1986) indicated that no verifiable research that SMEs pursuing an economic-efficiency or a strategy for differentiation (pure strategy) outperform SMEs. Pearce and Robinson (1987) mentioned that strategic planning appears to be an effective way to improve financial performance.

3.2. Strategic Planning and Organizational Characteristics

As highlighted earlier, O'Sullivan et al. (2009) noted that a firm's characteristics include company size (assessed by the number of employees), the age of a firm (assessed by number of operational years), ownership structure, management, customers, markets and sources of capital. The starting point of setting up strategic planning is company vision (Steiner, 2010). According to Berry and Wechsler (1995), strategic planning is a measured process of management. It aims to measure the future direction of the company considering environment and external stakeholders' demands. The study noted that many state agencies have been encouraged by their desire to establish policies and programs and to emulate the practices of the private sector as well as to deal with financial and fiscal pressures in adopting strategic planning as a management tool. They also noted that in many governments agencies strategic planning has been implemented with the objective of addressing resource allocation priorities and symbolizing goal oriented and effective leadership.

Berry and Wechsler (1995) noted that strategic planning positively impacts leadership and setting of targets, policy and budget decisions, client and external relations, internal management and service delivery. From the preceding it can be seen that there are benefits that accrue to firms from implementation of strategic planning. These relate to areas such as budgetary allocation and enabling effective goal setting. Further gains are seen in aligning decision making to strategic choices and imperatives of the firms. Strategic planning also enables effective setting of the organizational direction and this in turn enables firms to attain their organizational goals.

3.3. Strategic Planning, Organizational Characteristics and Firm Performance

Hulland and Rouse (2007) noted that firm age and size are the most crucial elements that define firm characteristics. There are a number of approaches to the description of the firm size. Some researchers have assessed the number of staff (Fort, Haltiwanger, Jarmin, and Miranda, 2013). Others have approached it in terms of annual sales volume (Peterson, Galvin and Lange, 2012). As per Glaister, *et al.*, (2008) Strategic planning is often used as a more practical management tool for relatively large companies, but it is also used by small and medium-sized enterprises. Dibrell, Craig and Neubaum (2014) argue that 'larger firms are more complex and require more control and integration, therefore strategic planning may affect their performance relatively more. In relation to firm performance indicators, profitability and return on investment are included in financial indicators. Investment returns include current ratio which is computed by dividing current assets by current liabilities. It assesses the firms' ability to meet its short-term liabilities as they fall due. A value of 1 or above is positive as it means the firm is able to meet its short-term liabilities effectively. The other measure of liquidity is quick ratio that is calculated by deducting stock from current assets and dividing the result by the current liabilities. The interpretation of the result is similar to the current ratio. From the foregoing it can be seen that there are a broad range of financial performance measures that can be applied to assess the financial performance of an organization. Non-financial indicators of firm performance include market growth, market position and technology efficiency.

While profitability is the main concern, a positive strong association has been observed between strategic planning and organizational performance (Beard and Den, 1981).

4. Summary of Knowledge Gaps

Strategic planning is important for organizations. It should lead to enhanced performance to justify its use. Following research gaps are found through the literature:

- Relationship between strategic planning and firm performance (Greenley, G., 1986)

- The need to have a continuous linkage between strategic management and performance reviews (Poister T.H., 2010).

5. Conclusion

5.1. Conceptual Framework

The proposed conceptual framework has been proposed below:

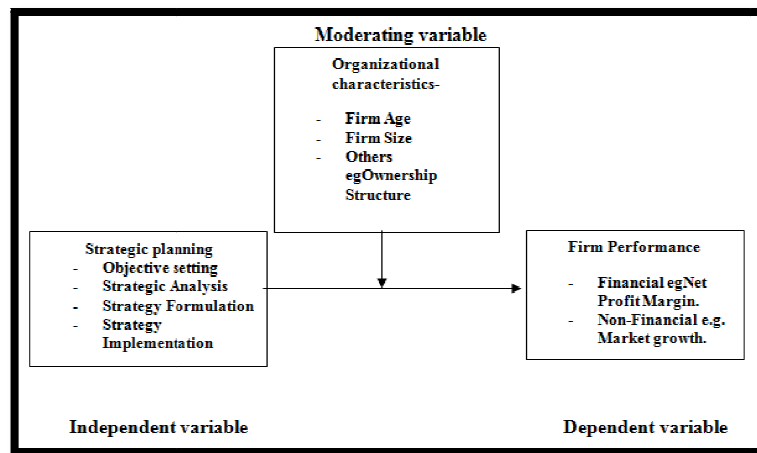


Figure 1: Conceptual Framework

5.2. Emerging Propositions and Areas for Further Research

Many emerging propositions have been found through the literature review. Poister TH (2010) highlighted the reason to move from strategic planning to the broader process. It is therefore crucial for business leaders to develop effective strategies which have strong visions and work cohesively through mobilization of their team members to attain the developed strategies. The business leaders should aim at being agile in order to entrench resilience in their operational activities and to reinvent themselves to attain optimal business performance.

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