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Effect of Strategic Planning on Organizational Performance and Profitability

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ABSTRACT
This paper analyzed the effect of strategic planning on organizational performance and profitability. The effectives of strategic planning can be measured in terms of the extent to which it influences organization performance, which affect its profitability. The main objective of this study is to re-evaluate the planning performance relationship in organization and determine the extent to which strategic planning affects performance in an organization, of which Zenith Bank plc Warri was used as case study. Based on the above objective, relevant literatures were thoroughly reviewed and three hypotheses were formulated and tested in this study. A survey technique was used with the administration of questionnaires to 100 respondents (of which 80 was retrieved) comprising of both the senior and junior staff in various Zenith Bank branches in Warri metropolis. The data collected were analyzed using the statistical package for social sciences (SPSS). Also, T-Test and Chi-square statistical methods were used in testing the hypothesis using the SPSS. The three hypotheses were confirmed, for the purpose of testing for reliability of the instrument. "The Split-Half Technique" from SPSS was used. The implication of this study is that strategic planning enhances better organizational performance, which in the long run has impact on its profitability and that strategic planning intensity is determined by managerial, environmental and organizational factors.
Keyword: Strategic planning, Performance, profitability, Organization, Influence

INTRODUCTION

Empirical research was carried out to ascertain the performance and consequences of formal strategies planning late 90s (Thune and House,1999; Ansoff, et al., 2000; Herold,2001) and over 40 planning- slowed to a trickle and with good reason: previous studies lacked theoretical grounding, produced a bewildering array of contradictory findings drew heavy criticism for inadequate methodologies and had little or no discernable net impact on strategic management research or practice (Shrader et al, 1984; Pearce et al, 1987a, b).

Nonetheless, it seems evident that the planning-performance relationship bears significantly on strategic management research and practice and that scholars should not abandon this line of enquiry altogether. This study re-evaluates the planning-performance research; the critical assessment of strategic planning and its impact on organizational performance which has effort on its profitability.

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 (Higgins and Vincze, 1993; Mintzberg, 1994; Pearce and Robinson, 1994). 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. As in many other fields, strategic planning professionals often cloak their work in pseudo scientific jargon designed to glorify their work and create client dependence. In reality, strategic planning processes are neither scientific nor complex. With modest, front-end assistance and the occasional services of an outside facilitator, organizations can develop and manage an on-going and effective planning program.

Strategic planning consists of a set of underlying processes that are intended to create or manipulate a situation to create a more favorable outcome for a company. This is quite different from traditional tactical planning that is more defensive based and depends on the move of competition to drive the company's move. In business, strategic planning provides overall direction for specific units such as financial focuses, projects, human resources and marketing. Strategic planning may be conducive to productivity improvement when there is consensus about mission and when most work procedures depend on technical or technological considerations. This study goes beyond the observation of some research that questioned the existence of direct casual relationships between the use of strategic planning and improved performance. This study draws from some of the many publications on the use of strategic planning in the private sector and from the growing number of those that deal with its uses and potential for the public sector. One of the major purposes of strategic planning is to promote the process of adaptive thinking or thinking about how to attain and maintain firm environment alignment (Ansofl 1991).

Firms, however, appear to gain more because they can derive considerable benefits not only from adaptive thinking, but also from integration and control. Small firms can derive considerable benefits from adaptive thinking but probably gain less than large firms from the integration and control aspects of strategic planning.

Evered (2000), suggested that the different uses of the term strategic planning vary from broad ones (which include the purposes of defining purpose, objectives and goals) to very narrow ones (namely, those that deal with the means for achieving given objectives). Given Evered's differentiation between broader and narrower definitions of strategy, Bozeman's definition is a narrow one; one that assumes an ultimate mission of the organization. Bozeman's definition assumes that the strategic planning/management process is triggered by changes in policies and priorities (Bozeman, 2003).

Hence, according to (Eadie, 2004), strategic planning may be defined broadly or narrowly. However, this formulation still does not help managers in the public sector, for now they need to decide not only whether they want to develop strategic plans but also whether they should approach such plans with a global perspective or with a narrower one. Thus, what seems to be a problem of semantics masks a fundamental question about the inclusion or exclusion of goal definition from the strategic planning process.

According to Berry (1997) Strategic planning is a tool for finding the best future for your organization and the best path to reach that destination. Quite often, an organization's strategic planners already know much of what will go into a strategic plan. However, development of the strategic plan greatly helps to clarify the organization's plans and ensure that key leaders are all on the same script but far more important than the strategic plan document is the strategic planning process itself. The strategic planning process begins with an assessment of the current economic situation. First, examining factors outside of the company that can affect the company's performance.

In most cases, it makes sense to focus on the national, local or regional and industry economic forecasts. This part of the analysis should begin early, at least a quarter or so before the formal planning process begins. Hence, it's been concluded that, strategic planning positively affects organizations' performance, or more specifically, tire amount of strategic planning an organization conducts positively affects its financial performance. Since the case study used for this research study is a bank, there is a need to understand strategic planning and financial performance relationships in banks.

The result from past researches suggested that the intensity with which banks engage in the strategic planning process has a direct positive effect on banks' financial performance and mediates the effect of managerial and organizational factors on bank's performance. Results also indicated a reciprocal relationship between strategic planning intensity and performance. That is, strategic planning intensity causes better performance and in turn, better performance causes greater strategic planning intensity (Hopkins and Hopkins, 1997).

There is a constant need for organizations, especially financial institutions like banks to think strategically about what is going on (Schmenner. 1995). This appears to be precisely what banks, in particular, have begun to do in recent years. In response to increasing complexity and change in the financial services industry, banks have turned to strategic planning. The relatively new trend towards strategic planning in banks is viewed as a move designed not only to help them negotiate their environment more effectively, but to improve their financial performance as well (Bettinger, 1996; Bird, 1991; Prasad, 1999). In consistent results of bank-related research, however, have not fully resolved the issue of whether strategic planning leads to improvements in banks financial performance.

The intensity with which managers engage in strategic planning depends on Managerial (e.g., strategic planning expertise and beliefs about planning-performance relationships), Environmental (e.g., complexity and change) and Organizational (e.g., size and structural complexity) factors. The effects of these factors on strategic planning intensity have been suggested by several studies Kallman and Shapiro, 1990; Unni, 1990; Robinson and Pearce, 1998, Robinson *et* al., 1998; Watts and Ormsby, 1990b).

Studies that have analyzed the relationship between strategic planning and financial performance proved that the intensity with which banks engage in the strategic planning process intervene-that is cause an indirectness and lack of one-to-one correspondence-between factors such as strategic planning expertise and beliefs about planning performance relationships (managerial factors), environmental complexity and change (environmental factors), bank size and structural complexity (organizational factors) and bank's financial performance. As suggested by the inconsistent research findings, past studies have misspecified the relationship between strategic planning and financial performance in banks. Misspecification of this relationship might be attributed to past studies' lack of attention to the relationship among these managerial, environmental, organizational factors and their potential impact on planning intensity and performance (Hopkins and Hopkins, 1997).

Subsequently, the consideration of such factors in the present study is viewed as a significant issue that holds implications for future research as well as for planning practices.

Statement of the Problem

Past and recent research studies have made it clear that there is an increased internal and external uncertainty due to emerging opportunities and threats, lack of the awareness of needs and of the facilities related issues and environment and lack of direction.

Many organizations spend most of their time realizing and reacting to unexpected changes and problems instead of anticipating and preparing for them. This is called crisis management organizations caught off guard may spend a great deal of time and energy playing catch up. They use up their energy coping with immediate problems with little energy left to anticipate and prepare for the next challenges. This vicious cycle locks many organizations into a reactive posture. This research study is to assess the effect of strategic planning on organizational performance, which at the long run enhances organizational profitability.

The first planning-performance studies emerged after the rapid expansion of formal strategic planning in the 1960s (Henry, 1999). Although the studies employed diverse methodologies and measures, they shared a common interest in exploring the financial performance consequences of the basic tools, techniques and activities of formal strategic planning, i.e., systematic intelligence-gathering, market research, SWOT analysis, portfolio analysis, mathematical and computer modeling, formal planning meetings and written long-range plans. The studies did not generally examine the relationship between performance and planning skill but rather the relationship between performance and the extent of formal planning; variously referred to as comprehensiveness, rationality, formality, or simply, strategic planning. However, Strategic planning is: a continuous and systematic process where people make decisions about intended future outcomes, how these outcomes are to be accomplished and how success is to be measured and evaluated. Strategic planning will help the organization capitalize on their strengths, overcome their weaknesses, take advantage of opportunities and defend against threats to the organization. Past studies of manufacturing firms (Ansoff et al., 2001; Eastlack and McDonald, 2002; Herold, 2001; Karger and MahIc, 2000; Thune and House, 1999) have indicated that strategic planning results in superior financial performance, measured in terms of generally accepted financial measures (e.g., sales, net income, ROI, ROE, ROS). Subsequent studies (Armstrong, 1999; Greenley, 1996; Mintzberg, 1990; Shrader *et al.,* 1994; Akinyele, 2007) have contradicted the notion of a strategic planning-superior performance relationship.

However, more recent studies (Miller and Cardinal, 1994; Schwenk and Shrader, 1993) provide convincing evidence that strategic planning does indeed result in superior financial performance. The fact that these studies accounted for factors responsible for past research contradictions (e.g., methodological flaws, nonrobust statistical methods) provides additional support for their conclusions. One seam of strategic planning research has raised the issue of whether the length of time a firm or organization has been involved in the strategic planning process has any impact on performance.

In their study of the banking industry (Gup and Whitehead, 2000; Burt, 1998; Kuala, 1996; Lenz, 1990; Leontiades and Tezel, 1994) tested the notion that strategic planning only pays off after a period of time. They found no statistically significant relationship between the lengths of time banks had been engaged in the strategic planning process and their financial performance.

With respect to firms in the banking industry, many have diversified into new markets in recent years. This has resulted in increased pressure for banks to offer new and better services to their customers, which has required them to become more focused on their market niche as well as their financial policies. Moreover, bank managers are focusing more intensively on their bank's external and internal environments, placing greater emphasis on setting direction (i.e., articulating a vision and a mission) and evaluating strategy alternatives more carefully (Hector, 1991; Robinson, 1994; Shepherd, 1997; Steiner, 1997;Thompson and Strickland, 1997; Armstrong, *1995).*

These activities correspond precisely with the strategic planning process components (i.e., formulating, implementing and controlling strategy). The fact that bank managers are becoming more intensively engaged in these activities implies that they acknowledge (either consciously or unconsciously) a relationship between strategic planning intensity and improved financial performance (Hunger, 1990; Johnson, 2002; Kallman and Shapiro, 1998; McCarthy, 1997; Paley, 2004; Porter, 1999). Indeed a recent study tested this relationship and 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 (Hopkins and Hopkins, 1994).

In support of this position recent research (Miller and Cardinal, 1994; Chandler, 1998; Davis, 2004; Denning, 1997; Haveman, 1993; Hax and Majluf, 1991; Hayes, 2003; Hitt et al., 1990; Hunsaker, 2001) set forth and tested the notion, with affirmative results, that the amount of strategic planning a firm or an organization conducts positively affects its financial performance. For the purposes of the present study, strategic planning intensity is defined as the relative emphasis placed on each component of the strategic planning process.

In conclusion, majority of the studies that have examined the relationship of strategic planning and performance have concluded that firms having a formal strategic planning process out perform these that do not. Furthermore, firms taking a proactive strategic approach have better performance than those taking a reactive strategic approach. This evidence demonstrates the usefulness and, in fact, necessity of having a formal, proactive strategic planning process in an organization, whether it be large or small (Bearnish, 2000; Allison and Kaye, 2005 Anthony, 1999; Ararn and Cowen, 1990; Bradford and Duncan, 2000; Bryson, 2004; Alcinyele, 2007).

Objectives of the Study

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

The specific objectives include:

(1) To ascertain that strategic planning enhances better organizational performance and profitability.
(2) To ascertain that strategic planning intensity is determined by managerial, environmental and organizational factors.
(3) To ascertain that there is a link between strategic planning and organizational profitability.

RESEARCH METHODS

The nature of this research method is descriptive and due to the quantitative nature of this study, survey research was used (Ogunyankun, 1999; Aborisade, 1997). This entails the administration of questionnaire to the chosen sample size.

The Twenty item questionnaire ranged from Strongly Agree to Strongly Disagree on a live point Liken scale for positive statements as thus:

Strongly agree 5
Agree 4
Undecided 3
Disagree 2
Strongly disagree 1

The reverse is the case for negative statements.

Questionnaires were administered to hundred (100) staff comprising of Senior and Junior staff of Zenith Bank Plc Warri and (80) of the stall were able to fill and return the questionnaires. The questionnaires were randomly distributed to the above mentioned categories of staff of the organization. The responses were supplemented with personal interviews granted by a Corporate Planning Manager and some other heads of department. Thus, the sample size of the study is limited to 40 workers in the department of Corporate Planning and 60 workers in other departments. The purposive sampling technique was used in selecting the samples for this study. This sampling technique is a non parametric sampling technique.

RESULTS AND DISCUSSION

In order to test the hypotheses, the Parametric Test Method (T-test statistical technique) and Non Parametric Test Method (Chi Square (X^2)) were used.

H_1: Strategic planning enhances better organizational performance.

H_2: Strategic planning intensity is determined by managerial, environmental and organizational factors.

H_3: There is a link between strategic planning and organizational survival.

Hypothesis 1

Decision Rule

Accept Ho if t cal < t tab

Reject Ho if t cal > t tab

Step 1

H_1: Strategic planning enhances better organizational performance

		Frequency	**(%)**	**Valid (%)**	**Cumulative (%)**
Valid	Strongly agree	56	70.0	70.0	70.0
	Agree	18	22.5	22.5	92.5
	Undecided	6	7.5	7.5	100.0
	Total	80	100.0	100.0	

Step 2

T-Test: One-sample statis

N	Mean	SD	SEM
80	4.63	0.62	6.98 E-02

Step 3: One-sample statis

Test value = 0.05					
(95%) confidence interval of the difference					
T	df	Sig (2-tailed)	Mean difference	Lower	Upper
65.588	79	0.000	4.58	4.44	4.17

Interpretation

This is a two tailed test with d.f = 80-1. From the statistical value for *0.05* at 79 d.f is 1.99. Since the calculated value t *65.588* is greater than the computed value of 1.99, we reject the hull Hypothesis (Ho) and accept the alternative Hypothesis (Hi). This implies that strategic planning enhances better organizational performance.

Hypothesis II

Decision Rule

Accept Ho if X^2 cal < X^2 tab

Reject Ho if X^2 cal > X^2 tab

Strategic p1anning intensity is determined by managerial, environmental and organizational factors.

Step 1

H_1: Strategic p1anning intensity is determined by managerial, environmental and organizational factors.

		Frequency	**(%)**	**Valid (%)**	**Cumulative (%)**
Valid	Strongly agree	44	55.0	55.0	55.0
	Agree	27	33.8	33.8	88.8
	Undecided	9	11.3	11.3	100.0
	Total 80	**100.0**	**100.0**		

Step 2

Chi- Square Test

Frequencies

	Observed	Expected (E)	Residual (0-E)	$(0\text{-}E)^2$	$(0\text{-}E)^2/E$
Undecided	9	26.7	-17.7	313.29	11.7.00
Agree	27	26.7	0.3	0.09	0.0034
Strongly agree	44	26.7	17.3	299.30	11.2.00
Total	80	80.0			22.9.00

Step 3

$$X^{2 = \Sigma} (0\text{-}E)^2 = 22.90/E$$

Chi-Square df	22975
Df	2000
Asymp. Sig	0.000

0 cells (%) have expected frequencies less than 5. The expected cell frequency is 26.7

Interpretation

The degree of freedom (d.f) = 2. From the statistical value for 0.05 at 2 degree of freedom is 5.991. Since the calculated value X^2 = 22.90 is greater than the computed value of 5.991, we reject the hull hypothesis

(Ho) and accept the alternative hypothesis (Hi). This implies that Strategic planning intensity is determined by managerial, environmental and organizational factors.

Hypothesis III

Decision Rule

Accept Ho if t cal < t tab

Reject Ho if t cal > t tab

There is a link between strategic planning and organization's profitability.

Step I

H_1: There is a link between strategic planning and organizational profitability.

		Frequency	(%)	Valid (%)	Cumulative (%)
Valid	Strongly agree	39	48.8	48.8	48.8
	Agree	38	47.5	47.5	96.3
	Undecided	3	3.8	3.8	100.0
	Total	**80**	**100.0**	**100.0**	

Step 2

T-Test: One sample test

N	Mean	SD	SEM
80	4.45	0.57	6.39E-02

Step 3

T-Test: One sample test

Test value = 0.05					
(95%) confidence interval of the difference					
t	Df	Sig (2-tailed)	Mean difference	Lower	Upper
68.865	79	0.000	4.40	4.27	4.53

Interpretation

This is a two tailed test with *d.f*= 80-1. From the statistical value for 0.05 at 79 degree of freedom is 1 .99. Since the calculated value t = 68.865 is greater than the computed value of 1.99, we reject the hull hypothesis (Ho) and accept the alternative hypothesis (Hi). This implies that there is a link between strategic planning and organization's survival.

CONCLUSIONS

Judging from the various computation analysis and findings, the results revealed some pertinent fact from which the researcher then drew certain conclusion. Considering the high percentage in favour of the three tested hypotheses, it can be reasonably concluded that at 95% confidence, strategic planning enhances performance and survival. Most of' the respondents strongly agree that strategic planning enhances better organizational performance, as this also constituted part of the hypotheses used for this study. Few agree while just a little of the respondents were undecided. Hence, it can be deduced from the above responses that strategic planning enhances better organizational performance. Almost all of the respondents strongly agree and agree that there is a link between strategic planning and organization's survival, which was the final hypothesis tested in the study, while just a very few of the respondents were undecided, none of the respondents disagree nor strongly disagree. Hence, it can be concluded that there is a link between strategic planning and organization's survival, using the above responses as proves.

RECOMMENDATIONS

Based on the findings from the study the following recommendations are made. Having discovered that organizational performance and profitability is a function of strategic planning, Organizations should accord priority attention to the elements of strategic planning for example; having a documented mission statement, a future picture (vision) of the organization, organizations should establish core values i.e., organization's rules of conduct, set realistic goals, establishment of long term objectives (this has to be measurable and specific) and the development of action (strategic) plans and its implementation and adequate follow-up.

Finally, since it was discovered that environmental factors affect strategic planning intensity, organizations should make adequate environmental analysis both the internal and external analysis, this can be done through the SWOT analysis which indicates the Organization's strengths, weaknesses, opportunities and threats.

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