

## THE IMPACT OF STRATEGIC PLANNING ON ORGANIZATIONAL PERFORMANCE THROUGH STRATEGY IMPLEMENTATION

**TORNIKE KHOSHTARIA**

European University, Georgia

tkhoshtaria@eu.edu.ge

**KEYWORDS:** BUSINESS STRATEGY, STRATEGIC MANAGEMENT, STRATEGY IMPLEMENTATION, ORGANIZATIONAL PERFORMANCE

**Actuality of the research.** Strategic management is a key factor of the success of any organization. At what degree managers pay attention to strategy formulation and its implementation is reflected on a company performance. worldwide experience shows, that successful companies have clearly formulated the strategic choice so they reach set goals step by step. In this way, they get desired results at local or international levels.

**Theoretical basis of the work.** Literature analysis showed that the main field of interest of strategic management is to answer the following question—what causes performance heterogeneity between the competitor organizations? (Rummelt, 1994). According to the existing point of view, heterogeneity in the performance indicators can be explained by strategic planning process, strategy formulation and the degree of planning strategy implementation (Minzberg, 1990; Parnell, 1997). Therefore, the impact of the above mentioned three factors on organizational performance is discussed in the following research. The organizational results are measured with two mechanisms - “Objective fulfillment” and “Relative competitive performance”. The objective fulfillment shows how an organization manages to reach its outlined short-term or long-term goals, while “Relative competitive performance” show the degree of improvement or worsening the company’s performance according to sales, profit, market share, etc.

**The scientific novelty of the work.** It is estimated, that the manufacturing companies’ in Georgia, which are focused on a rational and comprehensive strategic planning have better results than those putting less emphasis on strategic planning. Also, it is empirically proved that the companies adopting rational and comprehensive strategic planning in Georgia do not focus on the degree of planning the strategy implementation.

**Practical value of the work.** The research results are important not only for those studying strategic management issues but for the managers of running enterprises in Georgia who try to succeed on a competitive market through the strategic planning process. Given study will help managers to identify impeding factors in making a strategic choice and overcome difficulties arising in this process.

### 1. The impact of Strategic planning on organizational performance

**Strategic planning process.** Strategy formulation rational and comprehensive choice is used in this research. This method is used by many researchers to explain the phenomenon of different performance of competitor organizations. It should

be noted, that some works showed positive effect of strategic planning on companies’ results. Though, some researchers did not find any connection between these two phenomena. Besides, the most researchers did not indicate the field or the sector of their studies.

**Review of empirical literature.** After reviewing the strategy formulation models, the choice was made in favor of strategy formulation rational choice model. According to this method, the strategy should be made with the assistance of formal strategic planning and analytical techniques. The formal strategic planning is a clearly formulated process consisting of the following elements: goal identification, strategy formulation and its evaluation (Armstrong, 1982, Steiner, 1979; Boyd, 1991).

**Measurements for the strategic planning process.** Various measurement methods were used by strategy scholars. It is seen that those methods defer significantly from each other. After the studying several works Boyd and Raining-Elliot (1998) revealed incoherence and discordance in the process of measuring strategic planning. They identified the following indicators: formality, analysis, efficiency, comprehensiveness, size, completeness, meaning, rationality, goal formulation, observation and analysis, processes, factors, systems, clarity, innovation, specifications, abilities and strategy. Most of these works characterized the strategic planning according to the meaning of indicators and formality (Pierce, Friedman and Robinson, 1987) while, other works indicated that knowledge and abilities play more important role than other aspects (Vencatraman and Ramanujam, 1987). Boyd and Roining- Elliot (1998) considered the strategic planning to be a normative process and identified its main indicators: mission statement, tendency analysis, competition analysis, long-term annual goals, action plans and liquidity.

### 2. The degree of planning of strategy implementation

**Strategy Implementation and Performance** - Although there is significant theoretical and or empirical literature available on strategic processes, its implementation process has not yet been studied widely enough. According to Noble and Mokwa strategy implementation is the most important link between a strategy formulation and a firm’s performance. Nutt has conducted research studying on both the U.S. and Canadian organizations. He came to the conclusion that not even half of these organizations have fulfilled their goals because of the mistakes in the implementation process.

Hickson identified eight influential factors on the strategy implementation process and classified them into two groups. The first group factors are based on experience and include: acceptability, resourcing, familiarity and specificity. The second group factors are based on readiness and include: structural facilitation, priority and receptivity. According to the authors, companies have only two options in successfully implementing the strategy. One is a planned option and the other is a prioritized option. Adopting either of the aforementioned approaches in the process of strategy implementation will make a company's results better but Hickson based on their research findings, has concluded that those companies choosing to employ an integrated approach have better results in their performances.

### 3. Organizational performance

**Performance Measures** - The majority of studies use a variety of measures, such as non-financial (success) or financial. Financial measure comprises such indicators as: profit turnover, return on investment, return on capital employed and inventory turnover. Non-financial measures include innovation and market standing.

The measures in the success of a firm's performance generally include the bottom-line, and financial indicators such as sales, profits, cash flow, return on equity, and growth. These factors are important to determine how a firm compares with its industry competitors when assessing a firm's performance. With the multitude of competitive environments faced by firms in differing industries, knowing only absolute financial numbers such as sales, profits, and or cash flow is not very illuminating unless viewed in the context of how well the firm is doing compared to their competition. Therefore, it is important to use an industry comparison approach when making firm performance assessments for organizations sampled from a wide variety of industries.

This research is going to adopt the two types of performance measures (objective achievement and competitive performance, including financial performance measures like: return on assets, return on equity, return on sales end etc.) used by many researchers in different combinations.

### 4. Research Methodology

**The aim of The Study** – The following study is concentrated on researching the strategic planning and strategy

implementation processes employed by Georgian based manufacturing companies and their impact on performance. For this two hypotheses have been formulated. One of them tested whether or not there is a link between strategic planning and company performance and the other looked at the relationship between strategic planning and the degree of planning strategy implementation.

- **Hypotheses H1. Rational, Comprehensive strategic planning contributes towards better organizational performance.**

- **Organizations with strong emphasis on strategic planning also pays significant attention to strategy implementation.**

**Research Strategy** - The following research undertook a quantitative strategy through a deduction approach. Hypotheses were formulated from the existing knowledge which has been tested using the primary data collected from administering the questionnaire. A random sample of the manufacturing organizations that were selected for this study and the findings that were generalized. Due to the above stated reasons, this quantitative research strategy is the most appropriate for this study. The hypothesized relationships between the variables are tested using appropriate statistical techniques in order to assess and model the relationships.

**Survey Instrument** - The questionnaire was constructed to investigate the relationship between the generic strategies and the organizational performance. Already existing measures were employed to test the hypotheses mentioned in this chapter. The questionnaire was distributed accordingly and responses were collected through an internet survey tool. However, in some cases (when we did not receive a response) we made contact with the intended person and conducted the survey over the phone. Only, 12 cases required call intervention. The questionnaire was accompanied with a cover letter clearly explaining the reason for the research and anonymity was negotiated beforehand (Khoshtaria T. 2016). The survey instrument was divided into three sections. A strategy related question (cost related, differentiated and focus), strategy implementation and performance related (objective achievement and competitive performance). The survey tool contained 50 Likert scale questions. Taking into account the number of questions and the fact that top-level managers lack time, respondents were allowed sufficient time to fill it in.

**Sample Selection and Survey Execution** - The research population of manufacturing companies for this research has

Table1. Constructs and measurement scales

| Model Component            | Construct   | Source   |
|----------------------------|---|--|
| Strategic planning         | Rational planning                                       | Nandakumar, Ghobadian and O'Regan (2011)   |
| Strategy implementation    | Degree of planning whilst implementing                  | Hickson, Miller & Wilson (2003)<br>Nandakumar, Ghobadian and O'Regan (2011)<br>Richard and Helms (2006)          |
| Organizational performance | Objective fulfillment, Relative Competitive Performance | Ramanujam, Venkatraman & Camillus (1988)<br>Nandakumar, Ghobadian and O'Regan (2011)<br>Richard and Helms (2006) |

Table 2. Reliability of the scales

| Questionnaire Component    | Constructs   | Reliability Coefficient (Cronbach's Alpha) | Cronbach's Alpha of Prior Studies |
|----------------------------|--|--|-----------------------------------|
| Strategic planning         | Rational planning  | • 0.89                                     | • 0.85                            |
| Strategy implementation    | Degree of planning strategy implementation (planned and prioritized options) | • 0.815                                    | • 0.867<br>• 0.817                |
| Organizational performance | Objective achievement<br>Competitive performance                             | • 0.913<br>• 0.928                         | • 0.748<br>• 0.953                |

been derived from the database of the National statistics office of Georgia. The companies were chosen from D (manufacturing) section with 1.5 million of yearly production and 50 or more employees. However, the initial number of companies in section D is 1750, the research population is estimated by the top 455 companies after the aforementioned characteristics. The preliminary research suggested that the majority of mid-sized, and particularly small companies, do not have or maintain any strategic process.

The questionnaire was sent to all 455 firms and responses were collected via an internet based survey instrument. 104 responses were obtained, which is 24 more than the sample size intended. The response rate for this survey was calculated according to Sunders 61 estimated by 22.85 % which is acceptable for business researches.

**Sampling Techniques** - According to Salant and Dillman for business research studies the minimum sample sizes can be estimated at 95% confidence level and +/- 10% sampling error. Consequently, a simple random sample of 455 organizations was generated, which consists of 80 companies. The contact information about 455 manufacturing companies was inquired from the National statistics office of Georgia and was received within 7 working days.

**Reliability and Validity of the Measures** – Reliability assesses the degree of consistency between multiple measurements of the variable. Mainly, there are two methods used in empirical studies, which are: test-retest reliability and internal consistency. The internal consistency approach is the

most commonly used. This approach assesses the consistency between the variables in a summed scale. One method of assessing the internal consistency is to test the correlation of each item to the summed scale score in order to check the correlation significance. Another method is a reliability coefficient or Cronbach's alpha which checks the whole scale consistency. Cronbach's alpha was used for this study to determine the reliability of the scales. According to many authors the lower limit of acceptability for Cronbach's alpha value is 0.7, in exploratory research 0.6 is also acceptable.

**Analytical Techniques** - Data analysis techniques were adopted by this research are those previously used by other studies on strategy processes, those are: ANOVA and correlation analysis.

**5. Hypothesis Testing**

The aim of this section is to test proposed hypothesis based on the data gathered from the survey.

**Strategic planning and organizational performance**

**Hypotheses H1. Comprehensive rational strategic planning contributes towards better organizational performance.**

**Determining variables:** according to H1 strategic planning is an independent variable and organizational performance (which consists of two variables: objective fulfillment and relative competitive performance) is a dependent variable.

Analytical technique: because there is only one depen-

Table 3. correlation coefficient between strategic planning, objective fulfillment and relative competitive performance

|                                  |        |        |        |
|----------------------------------|--------|--------|--------|
| Strategic planning               | 1.000  | .690** | .644** |
| Objective fulfillment            | .690** | 1.000  | .792** |
| Relative competitive performance | .644** | .792** | 1.000  |

\*\* . Correlation is significant at 0.01 level (two tailed)

Table 4. Regression model summary (objective fulfillment)

| R                 | R <sup>2</sup> | Adjusted R <sup>2</sup> | Stand. Deviation |
|-------------------|----------------|-------------------------|------------------|
| .690 <sup>a</sup> | .476           | .471                    | .5627899         |

As it can be seen R2 is 0.476 which means that change strategic planning variable causes 47.6% change in objective fulfillment variable.

Table 5. Regression model summary (relative competitive performance)

| R                 | R <sup>2</sup> | Adjusted R <sup>2</sup> | Stand. Deviation |
|-------------------|----------------|-------------------------|------------------|
| .644 <sup>a</sup> | .415           | .410                    | .5955608         |

As it can be observed R<sup>2</sup> is 0.415 which means that change strategic planning variable causes 41.5% change in relative competitive performance variable. According to bivariate regression and correlation analysis hypotheses H1 is supported.

Table 6. Correlation coefficient between strategic planning and the degree of planning strategy implementation

|  |       |       |
|--|-------|-------|
| Strategic planning                         | 1.000 | .010  |
| degree of planning strategy implementation | .010  | 1.000 |

\*\* . Correlation is significant at 0.01 level (two tailed)

Table 7. Regression model (Strategic planning and degree of planning strategy implementation)

| R                | R <sup>2</sup> | Adjusted R <sup>2</sup> | Stand. Deviation |
|------------------|----------------|-------------------------|------------------|
| .10 <sup>a</sup> | .000           | -.009                   | .6895467         |

As it can be observed R<sup>2</sup> is 0.000 which means that there is no impact of strategic planning on the degree of planning strategy implementation. According to bivariate linear regression and correlation analysis hypothesis H2 is not supported.

dependent variable bivariate regression and correlations analysis will be used.

As it can be seen from the table above correlation coefficient is significant at 0.01 level. Correlation coefficient between strategic planning, objective fulfillment and relative competitive performance is 0.690 and 0.644 respectively.

Also, Bivariate regression analysis was performed in order to determine whether or not strategic planning has an impact on organizational performance (the analysis was performed twice in relation with objective fulfillment and relative competitive performance).

#### Strategic planning and the degree of planning strategy implementation

**Hypotheses H2.** Organization with strong emphasis on strategic planning also pays strong attention to strategy implementation.

**Determining variables:** according to H2 strategic planning is an independent variable and the degree of planning strategy implementation is a dependent variable.

**Analytical technique:** because there is only one dependent variable bivariate regression and correlations analysis will be used.

It is seen from the table that the correlation coefficient between two variables is 0.010. also, bivariate regression analysis was performed in order to check if there is a dependency between variables.

#### Conclusion and findings

This work is focused on the strategic planning process of manufacturing organizations in Georgia. Systematic literature review lead to the formulation of two hypotheses that were tested primary data gathered from the survey.

**Strategic planning and its impact on organizational performance.** Several theoretical and empirical works, published in the leading journals, were reviewed in order to observe links between strategic planning and organizational performance. Consequently, it was clear that more studies need to be performed in this direction. It was found, that there is a slight inadequacy between the measurements of strategic planning employed by various researches.

**Strategy implementation.** It should be pointed out, that the number of works on a strategy implementation process is very little. Consequently, the number of works studying connection between strategic planning and the degree of strategy implementation are fewer. However, works of Hinson, Miller and Wilson (2003) played significant role in the development of strategy implementation process. Accordingly, this study will apply their approaches in the process of strategy implementation.

**Findings and recommendations.** Hypotheses H1. Rational, Comprehensive strategic planning contributes towards better organizational performance. According to the bivariate regression and correlation hypothesis H1 is supported. Meaning that, companies with focus on rational and comprehensive strategic planning have better performance indicators, those less focused on mentioned process. Accordingly, executives should be engaged in strategic planning process.

**Hypothesis H2:** Organizations with strong emphasis on strategic planning also pays significant attention to strategy implementation. Bivariate regression and correlation of hypothesis H1 did not support it. Manufacturing companies focusing on strategic planning pay less attention to the degree of effective strategy implementation planning.

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### SUMMARY

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