

## **An Empirical Investigation into the Effects of Strategic Planning and Satisfaction in Small Firms in Nigeria**

OBOREH J. S and UMUKORO, Francis George  
Department of Business Administration,  
Delta State University,  
Abraka, Nigeria.  
Corresponding Email: snapps2008@yahoo.com

### **ABSTRACT**

Most empirical studies examining strategic planning effectiveness have focused on the impact on financial performance. However, solid empirically-based conclusions concerning the usefulness of strategic planning have not yet emerged. The present study takes an alternative perspective, examining two dimensions of satisfaction with strategic planning. Results support a link between identified seven strategic planning characteristics and planning satisfaction among small firms in Nigeria.

Keywords: Strategic Planning, Small firms, Nigeria, Corporate planning

### **INTRODUCTION**

There has been some theoretical understanding confirming a maxim that for organization to achieve positive results, change and flexibility, it requires effective strategic planning. However, researchers have not yet conclusively determined why some planning efforts are more successful than others in meeting this challenge. This study therefore examines the relationship between various issues associated with strategic planning and performance in small firms. Review some relevant planning literature; this article suggests that planning-performance research on small firms can produce meaningful results.

In the last three decades, there have been tremendous investigations on the direct and indirect effects of strategic planning on the performance of small firms. Most of the studies carried out revealed that there is no consistent relationship between the strategic planning process and performance (e.g. Cappel, 1990; Greenley, 1986). However, in response to studies highlighting the impact of strategic planning on firm performance; greater emphasis on the strategic process rather than only on the strategy contents has surfaced. One of such studies is the one carried out by Steiner (1979) who provided a thorough conceptualization of strategic planning. According to Steiner, planning is an attitude and a process concerned with the future consequences of current decisions. Steiner's argue in favour of the importance of strategic planning provides keen insight into overcoming the barriers and biases associated with planning failures. Results from other authors in this field of study are however founded in the critical assumption that planning is important. But while the debates on strategic planning rages on in literature, it has become imperative to ask this important question: *'Has there been a link between planning and performance?'*

Perhaps the answer to this question can be seen in the benefits accruable to planning. Current literatures are inundated with the apparent advantages of planning, most notably is the ability of planning to improve the fit between the organization and its external environment (Godiwalla, et. al, 1981). Others have argued that planning aids in the identification of future marketing threats and opportunities, elicits an objective view of managerial problems, creates a framework for internal communication, promotes forward thinking, and encourages; favorable attitude to change (Hausler, Wilson, 1979).

According to Roach and Alien (1983), the strategic planning process is the product of the best minds inside and outside the corporation. The process considers future implications of current decisions, adjusts plans to the emerging business environment, manages the business analytically and links, directs,

and controls complex enterprises through a practical working management system. This process plays a vital role in firm performance. Robinson and Pearce (1984) in their own contribution to the debates argued that formal strategic planning is a conceptual activity suited solely to larger firms and therefore has no effect on the financial performance of small firms. Agreeing with Robinson and Pearce, Greenley (1986) provided an alternative perspective, suggesting that there may not even be a positive relationship between planning and performance. Specifically, Greenley noted the face validity of the planning-performance linkage, but reports that existing empirical data has not yet substantiated the relationship. On the other hand, Ramanujam and Venkatraman (1987) provided limited support for Greenley's contention. However, their empirical analysis of high and low performing firms elicited significant differences between the groups that relate to the planning process.

In another development, Pearce et al (1987) examined the perceived substantive contributions of studies on planning relationships to performance and concluded that all small firms should engage in formal strategic planning. Schwenk and Shrader (1993) recently meta-analyzed fourteen studies on formal strategic planning and performance in small firms. While they did not find that planning necessarily improves performance, they argued against the assertion that strategic planning is only appropriate for large firms. As such, they concluded that strategic planning promotes long-range thinking, reduces the focus on operational details, and provides a structured means for identifying and evaluating strategic alternatives.

Parnell (1994) identified three frequently cited reasons why top managers pursue changes in strategy (Parnell, 1994). First, a change in strategy may appear attractive when the desired performance levels are not being attained by the organization. In many cases, top managers may believe that a change in strategy will improve the ability of the business to generate revenues or profits, increase market share, and/or improve return on assets or investment. Second, an environmental shift may necessitate strategic change to maintain alignment. Such shifts may result from changes in either the macro-environment or the industry environment. Changes in competition and technology necessitate a change in the knowledge base within the organization if it is to survive. According to Hannan and Freeman (1977), the environment determines which organizations will survive and which ones will not. New firms better suited to the changing environment constantly replace existing ones. Thus, strategic change can be seen as a means to access additional resources and survive in a turbulent environment (Aldrich, McKelvey, & Ulrich, 1984). Third, strategic change can enhance effective resource utilization (Barney, 1991). Proponents of the resource-based perspective have noted that competitive advantage often occurs from such organizational attributes as informational asymmetries and the minimization of transaction costs (Camerer & Vepsäläinen, 1988). Hence, as organizational human and capital resources evolve, changes in strategy become necessary to fully utilize the resources available to the organization.

Three potential benefits of strategic change are commonly cited in the literature. First, strategic change can enhance the strategy-environment fit. For example, Calingo (1989) found that the low cost leadership strategy was most successful in price sensitive markets, whereas the differentiation strategy was most successful when consumers perceived great differences among product offerings. The second one is that strategic change can open new dimensions of competitive advantage previously untapped by competitors. These first mover advantages result from the willingness of an organization to enter a new market or develop a new product or service prior to the competition. Third, strategic change can improve an organization's ability to adapt by forcing healthy changes within the business. The initial pain associated with change may be offset by the emergence of a lean, rejuvenated organization with a fresh focus on its goals and objectives. On the contrary, organizations that maintain strategic consistency over time may become stagnant, limiting the creativity and potential contributions of its members (Grimm & Smith, 1991).

Regardless of the potential benefits, four potential costs that may be incurred as a result of strategic change have received considerable attention in the literature. First, strategic change increases perceived risks; a change in any key strategic, environmental, or organizational factor requires that the business develop a new formula for success suited to the change (Yoshihara, 1990). Second, change can disrupt the strategy-culture alignment (Green, 1988). Third, measures required to implement a change in strategy may

necessitate the outlays of capital (Miles & Snow, 1978). Finally, strategic change may result in consumer confusion as they begin to alter their perceptions of the organization's products and services.

Researchers investigating small-firm strategic planning have used financial and marketing measures as indicators of performance. These performance measures are based on how a business has performed in the past; implicitly assuming that such success can be extrapolated into the future. However, financial superiority is only one element of organization performance. A realistic model of organization performance must reflect a highly complex paradigm and requires more than a single criterion (Brown & Laverick, 1994). As such, the present study adopts a broader perspective, examining satisfaction with planning.

Thus, two dimensions are examined:

- (a) Satisfaction with the concrete and financial outcomes believed to be associated with the planning process, and
- (b) Satisfaction with the contribution of strategic planning efforts to overall organizational effectiveness.

The first dimension follows the tradition of earlier studies that sought to examine the impact of planning on financial performance. Although performance objectives were included in the goal attainment dimension, there is a clear distinction between achieving performance goals and being a high-performance organization. The second dimension reflects a goal-centered approach to assessing organizational effectiveness (Cameron & Whetten, 1983). The goal attainment measure is primarily concerned with the specific end results normally anticipated from a planning system. This view reflects King's (1983) suggested approach to the evaluation of planning and Steiner's (1979) notion of measurement against purpose.

## **METHODS AND MATERIALS**

Drawing from the literature reviewed above the study posits two hypotheses:

- (a) There is a positive association between emphasis placed on planning characteristics and the two dimensions of planning satisfaction.
- (b) Top executives of firms that place their greatest emphasis on planning characteristics will report the greatest satisfaction with planning along the two dimensions.

Sixty micro-finance banks in Lagos and Delta States of Nigeria were examined, representing the entire population with fewer than N350 million in total deposits. All the 60 of the banks are considered as small banks by banking industry standards (CBN Nigeria). Questionnaires were sent to the senior executives of these banks. To improve the response rate, each of the CEO cooperates were separately administered questionnaire through special appeal approach. Fifty five of the 60 banks completed and returned the research questionnaire for a response rate of 88.5 percent. Fifty of these banks were chosen for further analysis to eliminate banks less than five years old as well as those that did not provide complete information. These criteria ensured that the sample would not be biased toward banks with inadequately developed strategic planning systems, reducing the effective response rate to 88.3 percent.

Micro-finance banks provide an excellent opportunity to apply evaluation processes that are normally employed to study strategic planning in small businesses because they historically have had broad powers to engage in various businesses traditionally not associated with commercial lending. Challenges requiring strategic management by micro-finance banks go beyond establishing new branches and typically include introducing new products/services, offering competitive personalized services, and meeting the needs of small businesses. The relative stability of the micro-finance banks in an industry under turmoil also provided for a strong population from which to draw the sample.

## **RESULTS AND DISCUSSION**

Table 1 below summarizes the specific strategic planning system characteristics. These are based on five-point Likert scales ranging from no emphasis (1) to great emphasis (5). Internal orientation was measured through the perceived degree of attention devoted to customer services, efficiency of operations process, attracting and retaining high-quality employees, and analysis of financial strengths and weaknesses. External orientation was measured by four items relating to the analysis of investment and deposits opportunities, competition and market analysis. Functional coverage was measured on a four-item scale relating to the perceived degree of emphasis accorded to functional involvement, coordination, and integration in planning activity.

Key personnel involvement was measured by the degree of CEO, board member, and line manager involvement in the strategic planning process. Creativity in planning is assessed on a nine-item scale addressing the firm's ability to anticipate surprises and crises, to adapt to unanticipated changes.

The control aspect was measured on a ten-item scale which addressed the degree of emphasis given to managerial motivation, upward and downward communication in the hierarchy, and integration of operational areas. Finally, the use of planning techniques was measured by the degree of emphasis devoted to the application of financial models, portfolio analysis, and forecasting analysis techniques.

These dimensions were measured by an eight-item, two-factor scale based on prior work by Ramanujam and Venkatraman (1987), including items addressing areas such as the prediction of future trends, improving short-term performance, improving long-term performance, evaluating alternatives, and enhancing management development. Respondents were asked to indicate their views via a 5-point scale, ranging from much deterioration (1) to much important (5), on eight criteria as a primary goal.

Table 2 presents measures of planning satisfaction. This was done via the two aforementioned dimensions, hereafter abbreviated as financial performance (FNCP) and organizational effectiveness (ORGF).

From tables 1 and 2 factor loadings indicate that all the factors tapped characteristics measuring states of planning system and organization performance. Factor loadings in each scale were above 0.50 and eigenvalues for each factor were well above 1.0. Internal consistency of each scale was also assessed and judged strong using Cronbach's alpha (Cronbach, 1951; Van de Ven & Ferry, 1980). These assessments provide adequate support for the reliability of the measures employed. Factor scores were computed for each planning system characteristic and planning satisfaction dimension to serve as composite measures for hypothesis testing.

Table 3 presents correlations among the dimensions. Each planning system characteristic positively and significantly correlates with only FNCC and ORGF (at the .05 percent level). These results are consistent with the conceptual literature from which dimensions were distilled. The presence of the expected bivariate relationships between the planning system characteristics and these two satisfaction dimensions is encouraging, but the main focus of this study is on the multivariate relationship between the planning characteristics and planning satisfaction. Having established the existence of appropriate measurement scales, hypotheses testing can be pursued.

The first hypothesis was strongly supported. Emphasis on each of the seven planning characteristics was positively associated with both satisfaction dimensions. Further, firm size was not significantly associated with any of the seven characteristics. The second hypothesis was partially supported. To examine which factors contributed to the greatest satisfaction in planning along both dimensions, the 50 businesses were clustered on the seven planning emphases into three distinct groups (see Table 4). The purpose of the cluster analysis was to identify several groups of organizations, each of which would contain businesses with similar emphases on the seven planning characteristics. The optimum solution contained three clusters of 10, 15, and 25 businesses.

Table 1: Summary of Planning Characteristics

<b>Planning System Characteristics and Their Factor Loading</b>	<b>Factor Loading</b>
<b>Orientation (Internal) ORTI, alpha = 0.76</b>	
Customer Services	0.54
Operating Efficiency	0.89
High Quality Employees	0.79
Financial Strength and Weakness	0.76
<b>Orientation (External) ORTE, alpha = 0.68</b>	
Investment Opportunities	0.73
Deposits Opportunities	0.81
Competition	0.75
Market Research	0.72
<b>Functional Coverage. FUCV, alpha 0.74</b>	
Marketing	0.76
Personnel	0.81
Finance	0.74
Operations	0.70
<b>Key Personnel Involvement. INVP, alpha = 0.54</b>	
CEO's time spent in strategic planning	0.92
Line managers' time spent in strategic planning	0.55
Board members' time spent in strategic planning	0.76
<b>Planning Technique Usage. PLNT, alpha = 0.62</b>	
Models in Finance	0.88
Forecasting	0.84
Portfolio Analysis	0.72
<b>Planning Creativity. CRTP, alpha = 0.82</b>	
Anticipating threats and crises	0.71
Identifying new business opportunities	0.69
Identifying key problems	0.55
Enhancing innovation	0.72
Generating new ideas	0.65
Formulating goals	0.66
Evaluating strategic alternatives	0.52
Anticipating and removing barriers to strategy implementation	0.70
Adapting to unanticipated changes	0.71
<b>Control Focus. FCCN, alpha = 0.91</b>	
Managerial control	0.65
Communicating top management's expectation to line managers	0.79
Managerial motivation	0.76
Organizational learning	0.77
Communicating line managers' concern to top management	0.85
Integrating diverse functions and operations	0.62
Controlling implementation of strategy	0.89
Financial and non financial control	0.83
Monitoring performance	0.88
Reversing current plans	0.84

Table 2: Satisfaction with Planning and their Factor Loadings

Dependent Variables	Factor Loadings	
	FNCP	ORGF
<b>Financial Performance Items</b>		
Future trends predictions	0.74	0.42
Management development enhancement	0.58	0.36
Short term performance improvement	0.8	0.28
Long term performance improvement	0.82	0.25
Impact on financial performance	0.82	0.35
<b>Organizational effectiveness items</b>		
Ability to evaluate alternative	0.21	0.8
Ability to avoid mistakes	0.28	0.74
Budget process improvement	0.34	0.71

Table 3: Correlations within Dimensions

Variables/items	EMPLOYEE	ORTI	ORTE	FUCV	INVP	PLNT	CRTP	FCCN
EMPLOYEE	1.00							
ORTI	.0042	1.00						
ORTE	-.1764	.6342	1.00					
FUCV	-.1564	.3476	.7683	1.00				
INVP	.8921	.4333	.3672	.4423	1.00			
PLNT	.2315	.3321	.2431	.3123	.2821	1.00		
CRTP	.1245	.3123	.2561	.3122	.2871	.2212	1.00	
FCCN	-.2154	.3328	.4421	.6781	.4325	.3952	.5563	1.00

The planning system satisfaction’s mean for each cluster was analysed. Firms in the first cluster placed the greatest emphasis on six of the seven planning characteristics and also reported the greatest satisfaction with planning along both dimensions. Firms in the second cluster placed the least emphasis on six of the seven characteristics, also reporting the least satisfaction with planning dimensions. Significant differences among the clusters were found in four of the seven emphases and both planning satisfaction dimensions. External emphasis did not associate with the other six planning characteristics, suggesting that heavy external emphasis may be more associated with planning that does not lead to satisfaction with the process.

Table 4: Cluster Presentation

Variable	First Cluster (N= 10, 20%)	Second Cluster (N=15, 30%)	Third Cluster (N= 25, 50%)	Level of Significance
EMPLOYEEES				
ORTI	0.32	-0.34	0.03	.167
ORTE	0.71	1.32	0.79	.332
FUCV	0.88	-0.52	-0.04	.034
INVP	0.42	-0.21	-0.05	.007
PLNT	0.37	-0.17	-0.07	.374
CRTP	0.87	-0.43	-0.08	.499
FCCN	0.73	-1.12	-0.03	.009
FNCP	0.74	0-1.22	0.34	.001
ORFF	1.02	0.38	-0.58	.000

## CONCLUSION

From the above analyses, it is evident that the relationship between planning and performance in small firms bears significantly on strategic management research and practice. The planning literature appears to suggest two key themes: First, planning should be an integral part of the strategic management process. The benefits of planning can outweigh the costs. And most critically, one's competitors will likely enjoy the benefits of planning. Therefore, to ignore planning is to relegate a source of competitive advantage to disadvantage. The second theme is perhaps most critical. Effective planning not just the process of planning appears to be positively associated with performance. In other words, organizations that plan effectively are more likely to achieve higher performance than those that do not. But the point here is effective planning. There can be no predictable and consistent relationship between ineffective planning appears performance. Therefore a strong emphasis placed on planning is can be justified when it is also focused on effective planning.

## REFERENCES

- Aldrich, H., B. McKelvey, and D. Ulrich (1984) *Design Strategy from the Population Perspective*. Journal of Management 10 (1984): 67-86.
- Barney, J. B (1001) *Firm Resources and Sustained Competitive Advantage*, Journal of Management 17: 99-120.
- Calingo, L.M.R. (1989) *Environmental Determinants of Generic Competitive Strategies: Preliminary Evidence From Structured Content Analysis of Fortune and Business Week Articles (1983-1984)*." Human Relations 42 353-369.
- Camerer, C., and A. Vepsalainen (1988) *The Economic Efficiency of Corporate Culture*. Strategic Management Journal 9: 115-126.
- Cameron, K. and D.A. Whetten. (1983) *Organizational Effectiveness: A Comparison of Multiple Models*. New York: Academic Press
- Cronbach, .J. (1951) *Coefficient Alpha and the Internal Structure of Tests*. Psychometrica 16 297-334.
- Godiwalla, Y.M., W.A. Meinhart, and W.A. Warde.(1981) *General Management and Corporate Strategy*, Managerial Planning 30: 17-29.
- Golden, B.R.(1092) *The Past is the Past—Or is it? The Use of Retrospective Accounts as Indicators of Past Strategy*, Academy of Management Journal: 848-860.
- Green, S. (1988) *Strategy, Organizational Culture, and Symbolism*. Long Range Planning 21 121-129.
- Greenley, G.(1986) *Does Strategic Planning Improve Company Performance?* Long Range Planning 19: 101-109.
- Grimm, C.M., and K.G. Smith.(1991) *Management and Organizational Change: A Note on the Railroad Industry*. Strategic Management Journal 12 : 557-562.
- Hannan, M. and J. Freeman (1977) *The Population Ecology of Organizations*. American Journal of Sociology 82 : 929-964.
- King, W.R.(1993) *Evaluating Strategic Planning Systems*. Strategic Management Journal 4 :263-277.
- Miles, R.E., and C.C. Snow.(1978) *Organizational Strategy, Structure, and Process*. New York: West, 1978.
- Parnell, J.A.(1994) *Strategic Consistency Versus Flexibility: Does Strategic Change Really Enhance Performance?* American Business Review 12 : 22-30.
- Pearce, J.A., II, E.B. Freeman, and R.B. Robinson.(1097) *The Tenuous Link Between Formal Strategic Planning and Financial Performance*. Academy of Management Review 12, 658-675.
- Ramanujam, V., and N. Venkatraman.(1987) *Planning and Performance: A New Look at an Old Question*. Business Horizons 3Q . 19-25.
- Ramanujam, V., N. Venkatraman, and J.C. Camillus.(1986) *Multi-Objective Assessment of Effectiveness of Strategic Planning: A Discriminant Analysis Approach*. Academy of Management Journal 29:

347-372.

Roach, J.D.C., and M.G. Alien.(1983) Strengthening the Strategic Management Process. In *The Strategic Management Handbook*, Robinson, R.B., and J.A. Pearce.(1983) The Impact of Formalized Strategic Planning on Financial Performance in Small Organizations. *Strategic Management Journal* 4 : 197-207.

Steiner, G. A. *Strategic Planning (1979) What Every Manager Must Know*. New York: Free Press.

Van de Ven, A., and D. Ferry (1980). *Measuring and Assessing Organizations*. New York: Wiley, 1980.

Yoshihara, H. (1990) *Originality in Management*. *Journal for Quality & Participation* 4-21.