The Relationship between Strategic Planning and Firm Performance

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Abstract
Organizations from both the private and public sector are increasingly embracing the practice of strategic planning in anticipation that this will translate to improved performance. Past studies have mainly focused on the direct relationship between strategic planning and performance and did not give attention to the specific steps that make up the strategic planning process. The manner and extent to which each of the steps is practiced could have implications on the expected strategic planning results. This study examined the relationship between strategic planning and firm performance giving attention to the strategic planning steps. Correlation analysis results indicate the existence of a strong relationship between strategic planning and firm performance. Further, all the strategic planning steps (defining firm’s corporate purpose, scanning of business environment, identification of firm’s strategic issues, strategy choice and setting up of implementation, evaluation and control systems) were found to be positively related to company performance.

1. Introduction
Over time the concept and practice of strategic planning has been embraced worldwide and across sectors because of its perceived contribution to organizational effectiveness. Today organizations from both the private and public sectors have taken the practice of strategic planning seriously as a tool that can be utilized to fast track their performances. Strategic planning is arguably important ingredient in the conduct of strategic management. Steiner (1979) noted that the framework for formulating and implementing strategies is the formal strategic planning system. Porter (1985) noted that despite the criticism leveled against strategic planning during the 1970s and 80s, it was still useful and it only needed to be improved and recasted. Greenley (1986) noted that strategic planning has potential advantages and intrinsic values that eventually translate into improved firm performance. It is, therefore, a vehicle that facilitates improved firm performance.

Many of the studies on the relationship between strategic planning and firm performance were done between 1970s and early 1990s, in the developed economies. These studies focused on the direct relationship between strategic planning and firm performance. Although the studies within the African context by Woodburn (1984), Adegbite (1986) and Fubara (1986) noted that firms that practiced strategic planning recorded better performance compared to non-planners, their focus, however, was on the formality of planning rather than the link between planning and firm performance. It is noted that the past studies did not give attention to the individual steps that make up the strategic planning process. It is perceived that the manner and extent to which each of the strategic planning steps is addressed could have implications on the realization of the expected corporate goals.
This study set out to examine the relationship between strategic planning and firm performance in a developing country’s context (Kenya). Most of the research done is based on the developed countries’ context. Given the fact that even strategic planning is fast being embraced in the developing countries, it is important that the implications of this practice is researched and documented. This study made an attempt towards finding answers to the research questions: is there a link between strategic planning and firm performance given different contexts? and, is there a link between the strategic planning steps and firm performance? Therefore, there are two main objectives in this study. First we examine the relationship between strategic planning and firm performance and thereafter examine the relationship between strategic planning constituent variables and firm performance.

2. Literature Review

2.1 The concept of strategic planning

Strategic planning has been explained by various writers and scholars in different but complementary ways. Drucker (1954) contends that strategic planning is management by plans, an analytical process and is focused in making optimal strategic decisions. Other writers have expanded on Drucker’s definition. Ansoff (1970) conceptualizes strategic planning as the process of seeking a better match between a firm’s products or technology and its increasingly turbulent markets. He looks at it in terms of change from a familiar environment to an unfamiliar world of strange technologies, strange competitors, new consumer attitudes, new dimensions of social control and above all, a questioning of the firm’s role in society. Sharing this view, Hofer and Schendel (1978) define strategic planning as an evolution of managerial response to environmental change in a focus moving from internal structure and production efficiency, to the integration of strategy and structure and production innovation, multinational expansion and diversification. Wendy (1997) explained strategic planning as the process of developing and maintaining consistency between the organization’s objectives and resources and its changing opportunities. Wendy further argues that strategic planning aims at defining and document an approach to doing business that will leads to satisfactory profits and growth.

Steiner (1979) defines strategic planning as the systematic and more or less formalized effort of a company to establish basic company purposes, objectives, policies and strategies. It involves the development of detailed plans to implement policies and strategies to achieve objectives and basic company purposes. On the same breath, Bateman and Zeithml (1993) view planning as a conscious, systematic process during which decisions are made about the goals and activities that an individual, group, work unit or organization will pursue in the future. It provides individuals and work units a map to follow in their future activities. Hax and Majluf (1996) supporting this argument explain strategic planning as a disciplined and well-defined organizational effort aimed at the complete specification of a firm’s strategy and the assignment of responsibilities for execution. From these diverse views expressed above, strategic planning in its general and basic understanding can be said to be a process of selecting organizational goals and strategies, determining the necessary programs to achieve specific objectives enroute to the goals, and establishing the methods necessary to ensure that the policies and programs are implemented.

Wendy (1997) explains that strategic planning process comprises of three main elements which helps turn an organizations vision or mission into concrete achievable. These are the strategic analysis, strategic choice and strategic implementation. The strategic analysis encompasses setting the organization’s direction in terms of vision, mission and goals. Therefore this entails articulating the company’s strategic intent and directing efforts towards understanding the business environment. Strategic choice stage involves generating, evaluating and selecting the most appropriate strategy. Strategy implementation stage consists of putting in place the relevant policies and formulating frameworks that will aid in translating chosen strategies into actionable forms. For purposes of this study, the three main steps have been sequenced into five generic components that can be considered to complete the strategic planning process. These are; defining firm’s corporate direction, appraisal of business environment, identification and analysis of firm’s strategic issues, strategy choice and development of implementation, evaluation & control systems.

2.2 Link between strategic planning and performance

It is conceptualized that firms that have effectively embraced strategic planning, records better performance as compared to those that have not.
Hofer and Schendel (1978), Henderson (1979), Greenley (1986), Miller and Cardinal (1994) and David (1997) argue that firms record improved performance once they effectively embrace strategic planning. Carrying out the various steps in the strategic planning process is expected to facilitate the realization of organizational effectiveness. By defining a company’s purpose and goals, strategic planning provides direction to the organization and enhances coordination and control of organization activities. McCarthy and Minichiello (1996), note that a company’s strategy provides a central purpose and direction to the activities of the organization and to the people who work in it. Howe (1986) and Kotter (1996) argue that the primary goal of strategic planning is to guide the organization in setting out its strategic intent and priorities and refocus itself towards realizing the same. Porter (1980), Greenley (1986), Miller and Cardinal (1994), Hax and Majluf (1996) and Grant (1998) argue that an objective analysis of external and internal environment facilitates the establishment of the firm-environment fit and improved decision-making. Adding to this view, Porter (1980), Quinn (1980), Ohmae (1983) and Kotter (1996) note that the identification of strategic issues and, strategy analysis and selection facilitates the achievement of efficient allocation of resources, sustainable competitive advantage, and improved innovation. It is also perceived that the development of implementation programme, evaluation and control systems facilitates smooth execution and implementation of the planned tasks. Figure 1 below presents the conceptualized relationship between strategic planning (independent variable) and firm performance (dependent variable).

**Figure 1: A conceptual model on the relationship between strategic planning, strategic planning steps and firm performance**

Bryson (1989), Stoner (1994) and Viljoen (1995) argue that strategic planning assists in providing direction so that organization members know where the organization is heading and where to expend their major efforts. It guides in defining the business the firm is in, the ends it seeks and the means it will use to accomplish those ends. McCarthy and Minichiello (1996), note that a company’s strategy provides a central purpose and direction to the activities of the organization and to the people who work in it. Adding to this argument, Kotter (1996) contends that the primary goal of strategic planning is to guide the organization in setting out its strategic intent and priorities and refocus itself towards realizing the same. David (1997) argues that strategic planning allows an organization to be more proactive than reactive in shaping its own future, initiate and influence (rather than just respond to) activities, and thus to exert control over its destiny. It assists in highlighting areas requiring attention or innovation.

The process of strategic planning shapes a company’s strategy choice. It reveals and clarifies future opportunities and threats and provides a framework for decision making throughout a company. It helps organizations to make better strategies through the use of more systematic, logical and rational approach to strategic choice. Steiner (1979) noted that strategic planning stimulates the future on paper and it encourages and permits a manager to see, evaluate and accept or discard a far greater number of alternative courses of action than he might otherwise consider.
Stoner (1994) and Viljoen (1995) argue that strategic planning tends to make an organization more systematic in terms of its development and this can lead to a greater proportion of the organization’s efforts being directed towards the attainment of those goals established at the planning stage, that is, the organization become more focused.

Strategic planning applies a system approach by looking at a company as a system composed of subsystems. It permits managers to look at the organization a whole and the interrelationships of parts, rather than deal with each separate part alone without reference to others. Therefore, it provides a framework for improved coordination and control of an organization’s activities. Strategic planning provides a basis for other management functions. Steiner (1979) observes that strategic planning is inextricably interwoven into the entire fabric of management. It provides a framework for decision-making throughout the company and forces the setting of objectives, which provides a basis for measuring performance. Managers are able to spend time, efforts and resources in activities that pay off. Setting of goals and targets on the other hand facilitate evaluation of organization performance. Individuals in an organization will strive to achieve clear objectives that are set.

It is argued that strategic planning results in a viable match between the firm and its external environment. Strategy concerns an analysis of the firm’s environment, leading to what the firm, given its environment, should achieve. Environmental scanning and analysis allows the firm to be connected to its environment and guarantees the alignment between the firm and its environment. Environmental analysis reveals the market dynamics, business opportunities and challenges, customer expectations, technological advancements and the firm’s internal capacities and this provides the basis for strategy selection.

Kotter (1996) argues that the strategic planning process can be used as a means of repositioning and transforming the organization. Thompson, Strickland and Gamble (2007) postulate that the essence of good strategy making is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition, and internal difficulties. Quinn (1980) explains that well-formulated strategies helps marshal and allocate an organization’s resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents. Indeed Ohmae (1983) contends that strategic planning enables a company to gain, as effectively as possible, a sustainable edge over its competitors. Bryson (1989), Stoner (1994) and Viljoen (1995) share Ohmae’s contention, pointing out that strategic planning assists organizations to develop a comparative advantage or an edge over competitors and creates sustainable competitive advantage. Greenley (1986) points out that a range of potential benefits to intrinsic values accrues to both the company and external stakeholders from the use of strategic planning.

Various empirical studies have been done to establish the relationship between strategic planning and firm performance with varied conclusions. The initial studies include that done by Thune and House (1970). Thune and House studied 36 companies employing the approach of examining the performance of each company both before and after formal strategic planning was initiated. This covered both informal and informal planners. The comparison showed that formal planners outperformed the informal planners on all the performance measures that were used. Herold (1972) in an attempt to cross-validate Thune and House (1970) study, surveyed 10 companies, comparing performance of formal and informal planners over a 7-year period. Based on the survey results, He concluded that formal planners outperform informal planners and hence, supporting the results of Thune and House (1970). Gershefski (1970) in his survey compared the growth of sales in companies over a 5-year period before strategic planning was introduced, and over a period of 5 years after planning was introduced. The results of the comparison led Gershefski to conclude that companies with formal strategic planning outperformed companies with little planning. Ansoff (1970) studied 93 firms using various variables of financial performance.

The findings revealed that companies, which do extensive strategic planning, outperformed the other companies. Karger and Malik (1975), taking a similar approach to that taken by Ansoff, compared the values of a range of variables of planners to those of the non-planners and based on the results concluded that the planners outperformed the non-planners. Greenley (1986) examining empirical data from nine surveys (8 in USA and 1 UK within the manufacturing business) on the relationship between strategic planning and company overall performance noted mixed conclusions with five studies concluding the existence of the relationship while the rest conclude that higher levels of performance did not necessarily relate to the utilization of strategic planning.
Miller and Cardinal (1994) employed a meta-analytic approach using data from 26 previously published studies and concluded that strategic planning positively influences firm performance. Caeldries and VanDierdonck (1988) surveyed 82 Belgian Business firms and reported a link between strategy and performance. They noted that strategy enables a firm to strengthen its competitive position, and facilitates integration and coordination of members’ behavior. Pealtie (1993) observed that the main reason for the introduction of formalized strategic planning is to improve company performance through the development and implementation of better strategies. Pealtie noted that managing a large business without a plan is like trying to organize a car rally without a map, not impossible, but difficult. Published research from Africa also indicates that strategic planning is an effective tool in improving firm performance. Imoisili (1978), studying indigenous and multinational companies in Nigeria, concluded that the more effective companies are found among organizations which maintain consistency between environmental perception and management practices, do long-term planning, use more flexible control systems and have smaller spans of control. Fubara (1986) did a survey in Nigeria and observed that companies that engage in formal planning experienced growth in profits.

It has been argued that although there is a general perception and belief that strategic planning improves organization effectiveness, if wrongly pursued the anticipated value may not be tapped. Steiner (1979) points out that a wrong strategy or a wrongly formulated strategy may not translate into the anticipated value for the organization. Johnson, Scholes and Whittington (2005), note that strategic drift occurs when the organization’s strategy gradually moves away from relevance to the forces at work in its environment. Tourangeau (1987) shares these sentiments but cautions that strategic business planning cannot be expected to cure all that ails an organization i.e. address other shortcoming of the management process, but can best be seen as a partial solution to management problems. Strategic planning, or any other management technique is of limited value by itself, only a partnership with all parts of the management particularly execution, controls and rewards can result in synergy and lead to substantial advancement. In their survey to see how successful companies translates their strategies into performance, Mankins and Steele (2005) observed that companies typically realize only about 60 percent of their strategies potential value because of defects and breakdowns in planning and execution. Hofer and Schendel (1978) argue that strategy is important and therefore its formulation should be managed and not left to chance. Therefore, each of the stages in the strategic planning process cannot be taken for granted.

To effectively address the study’s research questions and objectives, the following hypotheses were formulated for testing.

H1 There is a relationship between strategic planning and firm performance
H2 There is a relationship between the strategic planning constituent variables and firm performance

3. Research Methodology

3.1 Research design

Towards establishing relationships between the variable of interest, there was need to formulate and test appropriate hypotheses. The underlying concepts were translated into measurable forms to facilitate testing of the formulated hypotheses. A quantitative analytical approach was employed in an attempt to empirically determine the relationship between the variables of interest by applying appropriate statistical data techniques. Survey design was used. This was the most appropriate method towards effectively addressing the research objectives. The study involved collecting data from across section of firms within the studied sector. Interviews were conducted across the firms targeted and where possible focused group discussions were held.

3.2 Data collection

Both primary and secondary data was sourced and utilized for purposes of addressing the research objectives. Secondary data was extracted from existing published and unpublished records such as the Commissioner of Insurance and Association of Kenya Insurers’ annual reports. Primary data was collected on strategic planning process and also on some performance indicators using the likert type scale. Our main data collection instrument was a questionnaire consisting of structured closed and open-ended questions. Top management (CEO/MD, general managers, line managers) were the study’s key target respondents. We managed to have interviews with CEOs of two companies, General Managers from eleven companies and Managers from eighteen companies.
3.3 Reliability and validity of measurement instrument

Test of reliability was carried out to check on the internal consistency of data measurement instrument. Cronbach’s alpha was used to measure this reliability. Nunnally (1978) notes that coefficient alpha provides a good estimate of reliability. Alpha values of between 0.80 and 1.00 are considered reliable, values of between 0.50 and 0.80 are acceptable while values of below 0.50 are considered less reliable and therefore unacceptable (Sekaran, 2003). Table 1 below presents the computed reliability coefficients for various data groups.

Table 1: Results of the test of internal consistency reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of items in variable</th>
<th>Alpha coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>5</td>
<td>0.901</td>
</tr>
<tr>
<td>Performance</td>
<td>9</td>
<td>0.817</td>
</tr>
</tbody>
</table>

Table 1 indicates that the computed Cronbach’s alpha for all the various measurement instrument fall above 0.50, all recording high coefficients an indication of very high reliability.

3.4 Data Analysis

Statistical analyses were applied to describe and establish existence and extent of strategic planning and firm performance levels. A six point likert type scale was used to capture the extent of strategic planning. In applied management studies, the likert type scale is an acceptable technique for purposes of carrying out parametric statistical analysis. The Statistical Package for the Social Sciences (SPSS) version has been used to facilitate this analysis. The focus of the study was to examine the relationships between variables of interest and not the causal effects. Therefore, in addressing our study objectives, we utilized the correlation analysis technique. In this regard, the Pearson’s product correlation coefficients(r) have been computed.

4. Research Findings

4.1 Strategic planning and firm performance

It had been anticipated that most or all companies being surveyed do embrace and practice the concept of strategic planning. This turned to be true as all the 31 firms that responded indicated. During the introductory stages of the interviews probing questions were put forward and responses revealed that actually all firms did/do strategic planning and the difference only arose on the extent and rigour of conducting it. Before addressing the real objectives of this study, it was imperative that the researcher gets an understanding of the conduct of strategic planning in the sector under study. To achieve this, a six point likert type scale running from 0 to 5 was used to capture data for purposes of ascertaining the extent of strategic planning. Findings are presented below.

4.1.1 Responses on the strategic planning process

In order to have a feeling on the extent to which strategic planning is embraced, probing questions with respect to each of the specific steps were presented before the respondents. Table 2 below presents a summary in respect to responses on the extent to which firms practice strategic planning as defined by the various strategic planning steps. The table reveals that of all the strategic planning steps, majority of the firms do very well in the step of defining the business of the organization and hence setting the company direction with all the means falling above 3.7 out of a possible maximum 5.0 and standard deviations of close to 1.0 for all the variables.

Table 2: Extent to which various strategic planning steps are carried out

<table>
<thead>
<tr>
<th>Strategic planning steps</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining company purpose and goals</td>
<td>4.419</td>
<td>0.672</td>
</tr>
<tr>
<td>Analysis of business environment</td>
<td>3.774</td>
<td>0.805</td>
</tr>
<tr>
<td>Analysis of strategic issues</td>
<td>3.871</td>
<td>0.763</td>
</tr>
<tr>
<td>Strategy selection</td>
<td>3.741</td>
<td>0.855</td>
</tr>
<tr>
<td>Strategy implementation, evaluation and control framework</td>
<td>3.806</td>
<td>0.749</td>
</tr>
</tbody>
</table>

These means and standard deviations are based on the data captured through a six point likert type scale running from 0 to 5, representing “not attended to at all and attended to a very large extent” respectively.
4.1.2 Responses on firm performance

As discussed in Chapter III, performance is the key dependent variable in this study and both the financial and non-financial dimensions have been examined. A range for absolute values was used to capture financial performance. After the initial pre-testing of the questionnaire it was evident that respondents were more willing to indicate the range where their respective firms fall on the indicators of interest as opposed to stating the absolute values/figures. As for the non-financial indicators a six-point likert scale was used. The banding of the financial measures was harmonized with the non-financial ones in an effort to providing an indication of overall performance. This was also aimed at facilitating analysis. The responses on the financial indicators were based on the immediate preceding 3-year averages.

Three financial indicators were used to measure financial performance. These are: premium growth rate, claims ratio, and profit in percentage forms. Respondents were asked to indicate the band where their respective companies fall on each of the indicators. Table 3 below provides a summary of the comparative analysis on financial performance indicators across the firms studied. Findings reveal high performance on indicator claims ratio (with a mean of about 3.5) compared to performance on the other two measures (premium growth rate and profit earnings whose mean ratings stand at 1.8 and 0.9 respectively). There are great variations across the firms in terms of the level of realization of premium and profit indicators as compared to claims ratio.

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>n</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Growth</td>
<td>31</td>
<td>1.838</td>
<td>1.067</td>
</tr>
<tr>
<td>Claims Ratio</td>
<td>31</td>
<td>3.451</td>
<td>.767</td>
</tr>
<tr>
<td>Profit</td>
<td>31</td>
<td>.903</td>
<td>1.106</td>
</tr>
</tbody>
</table>

These means and standard deviations were based on responses where respondents indicated the bands(s) their firms fall within in terms of performance in respect of the three indicators. A six point likert type scale was used to represent each of the bands with 0 representing the lowest band and 5 representing the highest band.

As an additional ingredient to the previous studies on the relationship between strategic planning and firm performance, non-financial indicators were of interest in this study. The indicators used in this study are: lead time in claims payment, growth in market share, employee turnover, new products and cancellation of policies rate. Respondents were asked to indicate on a six point likert type scale the performance of their respective firms on each of these indicators. The findings for each indicator are explained below.

Of those who responded, 3.2 percent indicated that lead-time in claims payments within their firms had improved to a small extent, 35.5 percent indicated that this had improved averagely in their firms, another 35.5 percent indicated that this had improved to a large extent while 25.8 percent indicated that it had improved to a very large extent. This gave a mean score of 3.8 out of a possible maximum 5 points, implying that majority of the firms surveyed did improve to a great extent in terms of lead time in claims payment.

The market share in absolute terms was not taken for purposes of this study. It was felt that growth in market share will give more meaning because the interest of the researcher was to see whether there is growth in market share as a result of embracing strategic planning. To gather data in this area, therefore, a six-point likert scale was used to capture the extent if any to which market share has grown as a result of embracing strategic planning. Responses indicated that 22.6 percent of the firms achieved a very small growth in market share, 32.3 percent achieved a small growth, 22.6 percent achieved average growth, 6.5 percent realized such growth to a large extent, while 12.9 percent realized growth to a very large extent.
Like with the other variables, a six point likert scale was used to capture data on employee turnover. The interest of the researcher was to establish extent to which employee turnover if any has been reduced over the last 3 years. Of those who responded, 3.2 percent indicated that no reduced employee turnover has been experienced at all in their firms, 9.7 percent indicated that this has been experienced to a very small extent in their firms, 35.5 percent indicated that reduced employee turnover has been experienced to a small extent in their firms, another 35.5 percent indicated that the reduction in employee turnover has been experienced somehow in their firms, 12.9 percent indicated that reduced employee turnover has been experienced in their firms to a large extent while only 3.2 percent had experienced the reduced employee turnover to a very large extent.

The extent to which target firms have launched new products was examined. Like on the other non-financial performance indicators, a six point likert scale was used. Of the firms that responded, 9.7 percent have new products introduced to a very small extent, 32.3 percent have achieved the introduction of new products to a small extent, 29 percent have achieved this averagely, 25.8 percent have achieved this to a large extent, while only 3.2 percent have attained the introduction of new products to a very large extent.

The rate cancellation of policies or cover was also utilized as a non-financial performance indicator. The higher cancellation rate could imply a state of non-satisfactory on the part of the clients. The extent to which policies have been and are being cancelled was therefore examined using a six point likert scale. Of those who responded, 6.5 percent indicated that their firms had experienced a decline in policy cancellations to a very small extent, 9.7 percent had experienced the decline in cancellations to a small extent, 58.1 percent had somehow experienced the decline in policy cancellations, 12.9 percent had experienced a decline in policy cancellations to a large extent, while another 12.9 percent had experienced the decline in the rate of cancellations to a very large extent in their respective firms.

Table 4 presents a summary of responses on the various non-financial indicators. Findings indicate that firms have performed better on lead time in claims payment with a mean score of 3.83 and standard deviation of 0.86 followed by reduced cancellation of policies (with mean of 3.16 and standard deviation of 1.00). The rest of the indicators had means of below 3.00. Overall, firms did well on the non-financial indicators as opposed to the financial indicators. The responses also reveal greater variation across the firms in terms of level of realization of non-financial indicators.

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>n</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead Time in claims processing</td>
<td>31</td>
<td>3.838</td>
<td>.860</td>
</tr>
<tr>
<td>Growth in market share</td>
<td>31</td>
<td>2.451</td>
<td>1.362</td>
</tr>
<tr>
<td>Reduction in employee turnover</td>
<td>31</td>
<td>2.548</td>
<td>1.059</td>
</tr>
<tr>
<td>New Products</td>
<td>31</td>
<td>2.806</td>
<td>1.046</td>
</tr>
<tr>
<td>Cancellation of Policies</td>
<td>31</td>
<td>3.161</td>
<td>1.003</td>
</tr>
</tbody>
</table>

These means and standard deviations are based on the data captured through a six point likert type scale running from 0 to 5, representing “no improvement at all and improved to very large extent” respectively as a result of embracing strategic planning.

4.2 Tests of the hypothesis on the relationship between strategic planning and firm performance

Objective one of this study was to examine the relationship between strategic planning and firm performance. To address this objective the following hypothesis formulated and tested.

H1: There is a relationship between strategic planning and firm performance

Results of the correlation analysis indicate that there is a positive correlation between strategic planning and firm performance with the Pearson correlation coefficient of 0.616. This relationship is significant at p<0.01.

4.3 Tests of the hypothesis on the relationship between strategic planning steps and firm performance

Attempts were made to determine whether each of the strategic planning steps influences performance. Therefore the following hypothesis was tested.

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H2: There is a relationship between strategic planning constituent steps and firm performance
A correlation analysis was carried out with a view to understanding the relationship between each of the strategic planning steps and firm performance. Table 5 below presents the results of the analysis.

**Table 5: Correlation (r) for the relationship between strategic planning constituent variables and firm performance**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Overall firm performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, goals, and philosophies</td>
<td>.458(***)</td>
</tr>
<tr>
<td>Analysis of business environment</td>
<td>.671(***</td>
</tr>
<tr>
<td>Analysis of strategic issues</td>
<td>.558(***</td>
</tr>
<tr>
<td>Strategy selection</td>
<td>.514(***</td>
</tr>
<tr>
<td>Development of implementation, evaluation and control framework</td>
<td>.523(***</td>
</tr>
</tbody>
</table>

n = 31

** Correlation is significant at the 0.01 level (2-tailed).

The results presented in table 5 indicate that each of the constituent strategic planning sub-variables is positively related to company performance. Among all the strategic planning constituent variables, analysis of business environment exhibits a stronger relationship with firm performance with a Pearson correlation coefficient of 0.671. Nevertheless, all the correlations are significant at p<0.01.

4.4 Tests of the hypothesis on the relationship between strategic planning and both financial and non-financial firm performance

The relationship between strategic planning and both financial and non-financial performances was also examined. The following hypothesis was tested.

H3 There is a positive relationship between strategic planning and both financial and non-financial firm performance

The analysis result indicates the existence of a positive relationship between strategic planning and financial performance with a Pearson Correlation coefficient of 0.600. This correlation is significant at p<0.01. Further, the analysis result reveals that there is a positive relationship between strategic planning and all the financial performance indicators. The relationship between strategic planning constituent variables and financial performance was also examined. Results of the analysis indicate that all the strategic planning constituent variables are positively related to financial performance. The correlations between variables analysis of business environment, handling of strategic issues, strategy selection and formulation of implementation framework and financial performance are significant at the 1 percent level (all recording a Pearson correlation coefficient of over 0.500). The correlation between defining company purpose and goals and, financial performance is significant at the 5 percent level (with a Pearson correlation coefficient of 0.405). The analysis results also indicate that there is a positive relationship between all the strategic planning constituent variables and overall financial performance indicators. Table 6 below presents a summary of these findings.

**Table 6: Correlation (r) for the relationship between strategic planning constituent variables and financial performance**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Premium Growth</th>
<th>Claims Ratio</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, goals &amp; philosophies</td>
<td>.376(*)</td>
<td>.267</td>
<td>.281</td>
</tr>
<tr>
<td>Analysis of business environment</td>
<td>.228</td>
<td>.387(*)</td>
<td>.462(***)</td>
</tr>
<tr>
<td>Analysis of strategic issues</td>
<td>.342</td>
<td>.387(*)</td>
<td>.419(*)</td>
</tr>
<tr>
<td>Strategy selection</td>
<td>.318</td>
<td>.387(*)</td>
<td>.537(***)</td>
</tr>
<tr>
<td>Implementation, evaluation framework</td>
<td>.210</td>
<td>.389(*)</td>
<td>.500(***)</td>
</tr>
</tbody>
</table>

n = 31

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
The correlation analysis carried out to also revealed the existence of a positive relationship between strategic planning and non-financial firm performance \((r = 0.539)\). This correlation is significant at \(p<0.01\). Further examination results indicated the existence of a positive relationship between strategic planning and all the non-financial indicators.

Analysis results also indicated that there is a positive relationship between all the strategic planning sub-variables and non-financial performance and these correlations are significant. The relationship between the strategic planning constituent variables and the specific non-financial indicators was examined. Table 7 below presents these findings.

Table 7: Correlation (r) for the relationship between strategic planning constituent variables and non-financial performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Lead time in claims payments</th>
<th>Growth in market share</th>
<th>Reduction in employee turnover</th>
<th>Development of new products</th>
<th>Cancellation of Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose, goals &amp; philosophies</td>
<td>.640(**)</td>
<td>.442(*)</td>
<td>.134</td>
<td>.167</td>
<td>.490(**)</td>
</tr>
<tr>
<td>Analysis of business environment</td>
<td>.716(**)</td>
<td>.552(**)</td>
<td>.346</td>
<td>.422(*)</td>
<td>.583(**)</td>
</tr>
<tr>
<td>Analysis of strategic issues</td>
<td>.627(**)</td>
<td>.475(**)</td>
<td>.255</td>
<td>.302</td>
<td>.463(**)</td>
</tr>
<tr>
<td>Strategy selection</td>
<td>.576(**)</td>
<td>.275</td>
<td>.493(**)</td>
<td>.129</td>
<td>.400(*)</td>
</tr>
<tr>
<td>Implementation, evaluation framework</td>
<td>.519(**)</td>
<td>.186</td>
<td>.516(**)</td>
<td>.206</td>
<td>.398(*)</td>
</tr>
</tbody>
</table>

\* Correlation is significant at the 0.05 level (2-tailed).

\** Correlation is significant at the 0.01 level (2-tailed).

As shown in table 7, there is a relationship between all the strategic planning constituent variables and lead-time in claims payment. However, the relationship is stronger between lead-time in claims payment and analysis of business environment reporting a Pearson correlation coefficient of 0.716. All these correlations are significant at \(P<0.01\). Growth in market share has significant correlations with defining company purpose, analysis of business environment and handling of strategic issues. Although there is a correlation between market share growth and strategy selection and development of implementation framework it is a weak one and also not significant. The correlation between all the strategic planning constituent variables and employee turnover is weak and therefore not significant other than for strategy selection and implementation framework. Introduction of new products correlate significantly only with analysis of business environment. Lastly the correlation between all strategic planning constituent variables and cancellation of policies is significant.

5. Summary, Discussion, Conclusions and Recommendations

5.1 Summary

The concept of strategic planning traces its roots to the USA. By 1960s formal strategic planning was increasingly getting adopted in the USA and in other developed countries. Today the practice has gained a lot of prominence worldwide and across businesses, public and private. Various writers have argued that strategic planning facilitates effective organization performance. This examined the relationship between strategic planning and firm performance giving attention to the specific steps in the strategic planning process. To facilitate the testing of the formulated hypotheses, correlation analysis technique was utilized where the Pearson correlation coefficients were computed. All firms that responded indicated that they do practice strategic planning. Results of the analysis indicate that there is a positive relationship between strategic planning and firm performance with the Pearson correlation coefficient of 0.616. This relationship is significant at \(p<0.01\).
On examining whether there exists a link between the individual steps in the strategic planning and performance, findings revealed that each of the steps in the strategic planning process has a positive relationship with firm performance. The element of business environmental scanning is noted as one of the critical activities during the strategic planning process. This, according to the finding exhibits the strongest link to firm performance with a Pearson coefficient of over 0.650. However, the correlations are significant for all the strategic planning steps.

Analysis results further indicate that there is a positive relationship between strategic planning and both financial and non-financial performance indicators with a Pearson Correlation coefficient of 0.600 and 0.539 respectively. All these correlations are significant at p<0.01. It was also observed that firms that exhibit higher levels of strategic planning perform better in both financial and non-financial indicators compared to those exhibiting low levels of strategic planning.

5.2 Discussion

Various writers have argued that strategic planning leads to effective company performance. Our hypothesis and assumptions were drawn from such arguments and also similar past studies. We first acquainted ourselves on the conduct of strategic planning within the studied sector and thereafter examined the relationship between strategic planning and firm performance. Although similar studies have been carried out elsewhere, this study also doubled up as a replication with extensions study.

Results of the analysis reveal the existence of a relationship between strategic planning and firm performance with a Pearson moment product coefficient of 0.616. Study findings also indicate existence of a relationship between strategic planning and both financial and non-financial performance indicators. It was observed that firms that exhibit higher levels of strategic planning perform better in both financial and non-financial indicators compared to those exhibiting low levels of strategic planning. Examining the strategic planning constituent variables and there link to performance, it was evident that no doubt there are correlations between these constituent variables and performance. This finding conforms to the theoretical arguments by Hofer and Schendel (1978), Henderson (1979), Greenley (1986), David (1997) that companies record improved performance once they effectively embrace strategic planning. These findings are also in agreement with those of other studies which observed that indeed there is a relationship between strategic planning and firm performance. These include studies by Ansoff (1970), Gershefski (1970), Thune & House (1970), Caeldries & Van Dierdonck (1988) and Miller & Cardinal (1994) all of which concluded that there is a link between strategic planning and firm performance. This finding, therefore, is an indication that findings from previous studies, carried out in the developed countries, during different time periods, within manufacturing businesses and utilizing mainly financial performance measures are in tandem with the ones from the developing countries context i.e. the relationship between strategic planning and firm performance could exist regardless of context (geographical or business sector).

5.3 Recommendations

After this study, a window has been exposed for further specific studies to be pursued. Issues came out which because of the initial intentions and scope of this study could not be attended to conclusively. Some of the areas that may require attention include the examination of the relationship between the strategic planning intervening outcomes and performance and the implications of a participatory orientation to strategic planning and performance. In this study we did not control for the effects of contexts and time periods because of our initial scope and resource constraints. A study could be carried out giving attention to this dimension.

As revealed from the study findings, every step in the strategic planning process is important. If the company business or purpose is not clear, how will the workers know that they are on the right track? Or if the business environment has not been critically analyzed, how will the organization understand its internal competences or business opportunities from where appropriate strategies are crafted to facilitate a fit and success. In a nutshell what we are saying is that the process of strategic planning should be given its deserved attention in terms of all the prescribed steps within the existing literature.

This study mainly focused on the connection between the strategic planning process and and organizational performance. It would be of interest to investigate the role of intervening variables in translating the strategic planning intentions into reality.
References


