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The effectiveness of strategic planning: competitiveness in the Brazilian supermarket sector

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Abstract

This paper considers the relative impact of management strategic planning practices and economic changes on company performance. The paper focuses on the Brazilian supermarket sector during the period 1988–1999. This was a period marked by significant changes in economic and competitive conditions. Using sales figures as indicators of company performance, ANOVA tests were applied. The results derived suggest that variables representing changes in economic conditions and strategic planning were both statistically significant when they were used to explain performance differences among Brazilian supermarket operations. Differences in company management practices were found to play a more important role than changes in the environment. However, the results clearly suggest that management by itself was unable to take advantage of the upward and downward movements in the economy to modify the relative competitive positions of companies operating within the market. This finding challenges the existing literature on strategic planning.
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1. Introduction

While the management literature has discussed, for some time, the contribution of rational planning processes to the successful achievement of competitive advantage, the ability of management to achieve superior organisational performance through strategic planning is debatable. Indeed, it has only been relatively recent that management theorists have established the presumption that strategic planning has a central role to play in competitive behaviour. Although, business strategy was raised as an important issue by economists such as Coase (1937), Schumpeter (1942) and Penrose (1959), for a long time, economic theory treated markets as beyond the control of individuals and organisations (Drucker, 1974).

However, the need to overcome widespread economic collapse in the middle years of the twentieth century demonstrated the importance of formal strategic thought in the decision-making process. This led Andrews (1980) to suggest that there was a need for the establishment of clear objectives in entrepreneurial organisations, their units, and among the individuals comprising those units. In his view, movement in a chosen direction was brought about through the establishment of clear goals. Thus, individual organisations and the managers of those organisations were able to take control of their own future through the type of activities outlined by Hax and Majluk (1991). That is, through the development of a series of coherently unified decisions, programs of long-range action incorporating priorities and resource allocation, decision-making patterns that lead the organisation to a definition of their business portfolio, actions that aim at guaranteeing the sustainability of business, a vision that engages the whole organisation in collective effort and a set of economic or non-economic contributions that the firm intends to offer its stakeholders.

This world view places the management of an organisation at centre stage, defining strategy and affecting events. This view, however, is not necessarily

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borne out by events. Chandler (1962, p. 13), on the basis of several case studies, has suggested that organisations and their operating units do not so much define strategy; rather, it is strategy that defines organisational structure. Nevertheless, much of the literature on competitiveness clearly indicates that management planning is instrumental in affecting competitive outcomes, that competitiveness encompasses the control of variables that define processes of importance to the organisation. This in turn has led to the development of popular frameworks within which to analyse and control strategic development. For example, Ansoff et al.'s (1976) paths of organisational development are particularly well known. Considering two dimensions, mission and product, Ansoff et al. (1976) defined the strategies of market penetration (present mission with present product), product development (present mission with new product), market development (new mission with present product), and diversification (new mission with a new product). Similarly, the Boston Consulting Group created the so-called growth and participation matrix in order to provide a typological structure. Through the use of such models, actions can be proposed that consider the extinction, maintenance, and support of business units (Mintzberg and Quinn, 1998).

Likewise, the assumptions concerning the role of management as a determinant of competitive performance underpin other models. The five competitive forces model produced by Porter (1980) echoes much of the work in the field of industrial organisation. Similarly, Bain (1956) and Scherer and Ross (1990), seeking to bring a more realistic analytical view to a traditional microeconomic approach, proposed the structure conduct and performance model. In that model, performance corresponds to the final results achieved by an organisation, while conduct is concerned with the policies that organisations implement in the markets in which they buy or hire productive resources and in the segments in which they sell their products or services. In the model, structure involves the organisation of different sectors and concerns such factors as the number of salespeople, the number of buyers, market concentration, and the spatial distribution of supply.

However, such underlying assumptions may not always be appropriate. The main concern of industrial organisation theory is the operation of markets and the economy. Industrial organisation theoretical models seek to analyse the performance of different sectors and their influences on macroeconomic conditions. Thus, they address the effects of industrial concentration on prices, the possible impact of regulation and deregulation, the consequences of cartels. The firm is not the principal focus of study. However, Porter, utilising several concepts from industrial organisation theory (market power, entry barriers, exit barriers, etc.), developed the five forces model: internal rivalry within the industry, entry barriers to a market, substitution potential between industries and relationship with suppliers and consumers. Unlike those writing in the area of industrial organisation, Porter's fundamental purpose was to study how firms can obtain and sustain competitive advantages against their competitors. Following Drucker's (1974) example, Porter (1980) proposed strategies that may be adopted by the firm: differentiation, cost leadership, and focus. The first two strategies act in the market as a whole. The third is oriented to serving a particular segment of the market.

The formulation of models and frameworks of strategic planning, however, does not mean that firms are able to address and influence their competitive situation. There has been an extensive debate about the real benefits of formal planning. Sinha (1990, p. 480) has noted that while research has in some cases "*…found a positive relationship between planning and economic performance, several others found none, while a few manage to find a negative association between the two*". Of the articles mentioned by Sinha (1990) that found a significant relationship between planning and performance, of particular note is Karger and Malik's (1975) work. For them "*...the top management of any profit seeking organisation is delinquent or grossly negligent if they do not engage in formal integrated long range planning...*" (Karger and Malik, 1975, p. 64).

This general interpretation of the process is supported in much of the literature. Miller and Cardinal (1994) having considered results from a number of studies concluded that strategic planning positively affects firms' performances (Miller and Cardinal, 1994). However, this general view may be challenged. A number of studies have tried to evaluate the impact of formal strategic planning with respect to the performance of banks and other financial institutions. The results of such studies have provided conflicting conclusions. For example, Wood and La Forge (1979) found that banks that develop and utilise long-range plans had a competitive advantage over other financial institutions. In contrast, the findings of Kudla (1980) and Gryner and Norburn (1975) contradicted such a conclusion.

To some extent, results are dependent on the form of the question asked. For example, Langley (1988) differentiates between strategic decisions and strategic planning. For Langley (1988), strategic planning does not substitute for a lack of strategic vision; however, it can be useful in providing information on which to base strategic decisions and is important in communicating the vision inherent in a given plan. Similarly, the effects of strategic planning may not be immediate. That is, a presumed effect may not be witnessed for some time (Hart and Banbury, 1994).

The importance of the question posed and the interpretative framework used to analyse the answers thereby derived underlies the challenge posed by chaos

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