

## Strategic planning and performance: Extending the debate

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### Abstract

This article extends the debate regarding the relationship between strategic planning and performance. It addresses criticism of previous empirical studies that have largely investigated direct and bi-variate relationships, producing equivocal results. The current study investigates the mediating effects of four types of flexibility on the strategic planning and performance relationship. Flexibility is defined as the extent to which new and alternative decisions are generated and considered in strategic planning, allowing for positive organizational change and adaptation to environmental turbulence. Through investigating simultaneous equations in a structural equation model, we find that two types of flexibility mediate the relationship between strategic planning and financial performance, while the other two types mediate the relationship between strategic planning and non-financial performance. The results are new empirical insights that have not been previously reported.

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### 1. Introduction

While there is empirical support for a positive association between strategic planning and performance (Rhyne, 1986; Miller and Cardinal, 1994; Brews and Hunt, 1999; Andersen, 2000; Delmar and Shane, 2003), there is also evidence suggesting that no such relationship exists (Shrader et al., 1984; Pearce et al., 1987). This dichotomy has hindered the development of this important research domain (Boyd, 1991; Greenley, 1994; Hahn and Powers, 1999). The empirical studies investigating a direct relationship between strategic planning and performance have attracted criticisms, including the use of a bi-variate methodology. While this relationship is of importance to organizations practicing strategic planning, the critics suggest that other factors will impact on the relationship between strategic planning and performance (Schwenk and Shrader, 1993; Meilich and Marcus, 1999).

Theory predicts that successful organizations will anticipate and address environmental turbulence through strategic plan-

ning (Miller and Cardinal, 1994; Rogers et al., 1999). It also predicts that they will demonstrate flexibility in strategically planning decision options about how they will adapt when the environment changes, in a preparatory or “ex-ante” state (Evans, 1991; p 77). Through flexibility organizations are better prepared to cope with environmental turbulence, enhancing the influence of their strategic planning on performance. Although strategic planning, the notion of the flexibility and performance have received much attention in the strategic management literature, to date there have been no empirical investigations of their simultaneous relationships; somewhat compounded by a lack of conceptual clarity surrounding the notion of flexibility (Dreyer and Gronhaug, 2004; Worren et al., 2002; Ebben and Johnson, 2005). This is at odds with their importance in the literature (Rapert et al., 2002; Dreyer and Gronhaug, 2004), and is a major gap in understanding.

In this article we contribute to understanding the strategic planning and performance relationship, by addressing the criticisms of the previous bi-variate empirical studies. We empirically investigate the mediating effects of flexibility on the strategic planning and performance relationship, through analyzing simultaneous relationships in a structural equation

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model, which is novel research in this domain. Also, this study renews investigative attention of the relationship between strategic planning and performance, which is central to the strategic management paradigm.

## 2. Theory development

Despite nearly forty years of empirical study (Ansoff, 1965; Delmar and Shane, 2003), evidence regarding the relationship between strategic planning and performance has been criticized as equivocal (Pearce et al., 1987; Mintzberg, 1994; Grant, 2003). Indeed, a prominent and on-going debate in the literature surrounds the efficacy of formalized strategic planning versus non-formalized strategic planning (Ansoff, 1965; Andrews, 1971; Mintzberg, 1990, 1994). Advocates of non-formalized strategic planning suggest that formalized strategic planning is rigid and inflexible (Quinn, 1980; Mintzberg, 1994), whereas advocates of formalized strategic planning suggest that non-formalized strategic planning is without structure, and hence direction (Steiner, 1979). Despite this claim, proponents of non-formal strategy development suggest that the planning school, residing in a largely formal approach to planning, is “an important branch of the literature” (Mintzberg and Lampel, 1999; p22), and that “scholars and consultants should continue to probe” into this paradigm (Mintzberg and Lampel, 1999; p29).

Criticism regarding empirical studies investigating the relationship between strategic planning and performance has focused on three main criticisms: 1) they have been restricted to bi-variate investigations of varying conceptualizations of strategic planning and performance, 2) there is little evidence of researchers addressing mediating variables, and 3) they have been limited to financial measures of performance (Boyd, 1991; Greenley, 1994; Miller and Cardinal, 1994; Capon et al., 1994; Brews and Hunt, 1999). Given the fundamental importance of strategic planning to the strategic management literature, the slow development of theory in this domain is unusual and has hindered advancement. A further methodological issue relating to the latter is the method of analysis used in previous studies. Comparison of statistical means (O'Regan and Ghobadian, 2002), comparison of percentages (Kallman and Shapiro, 1978) and regression (Andersen, 2000) have all been used. Whilst these techniques were appropriate for the studies cited, none have utilized the benefits of structural equation modeling, or more specifically, latent variable path analysis. This method has three main strengths. First, the ability to estimate multiple and interrelated dependence relationships, second, the ability to incorporate unobserved concepts within these relationships, and third the estimation of measurement error (Hair et al., 1998). In the current study we build on the planning school and respond to these criticisms of the strategic planning and performance studies.

### 2.1. Flexibility

Flexibility is the extent to which new and alternative decisions are generated and considered in strategic planning, allowing positive organizational change and adaptation to environmental turbulence (Combe and Greenley, 2004; Evans,

1991; Fiegenbaum and Karnani, 1991; Grewal and Tansuhaj, 2001). Despite the intuitive appeal of flexibility, it suffers from two main problems, 1) semantic issues, whereby “the use of the word flexibility is ubiquitous, yet it is not always clear what is meant by the term” (Evans, 1991, p. 73), and 2) no empirical development or testing within a strategic planning context, as the literature states that, “flexibility as a competitive goal still lacks clear and accurate definition” (Aranda, 2003, p. 1403). Much of the theoretical discussion regarding the notion of flexibility is divided into four main types; operational flexibility (Tang and Tikoo, 1999), financial flexibility (Mensah and Werner, 2003), structural flexibility (Harris and Ruefli, 2000) and technological flexibility (Adler, 1988; Harris, 2002). However, an assessment of their respective impact on performance in a strategic planning context is absent from the literature.

Organizations, through strategic planning, anticipate environmental turbulence and allocate resources accordingly. By being flexible alternative decision options are generated and considered, which may be deployed as and when particular opportunities or threats arise within the environment. As this process occurs prior to the impact of turbulence, flexibility in the organization is anticipatory and preparatory in nature (Evans, 1991). Hence, flexible organizations will adapt rapidly to environmental change as it occurs, through the exploitation of the appropriate alternative decision options generated in their strategic plans, giving a potentially valuable route to superior performance. The flexibility exhibited by an organization in dealing with environmental turbulence can therefore be strategically planned. In essence flexibility is a consequence of strategic planning, and therefore an important mediator of the relationship between strategic planning and performance. Hence, inconclusive findings cited within the strategic planning and performance literature are unsurprising, given the predicted mediating influence of flexibility.

### 2.2. Theoretical model

In order to address these criticisms, a model of strategic planning, flexibility and performance is proposed in Fig. 1 for empirical testing. Four types of flexibility exert mediating influences on the strategic planning and performance relationship. The conceptual development of the model and theorized relationships are discussed in the following sections. Of specific note are the dependent variables, financial and non-financial performance. The financial “pre-occupation” (Ramanujam and Venkatraman, 1987, p. 454) of the studies examining the relationship between strategic planning and performance has been highlighted above. A criticism is that financially based assessments of performance are “no longer sufficient to manage organizations competing in modern markets” (Kennerly and Neely, 2003, p. 214), and that further development is required. Non-financial measures of performance, or those performance measures not directly contributing to financial performance, are argued for in the strategic planning literature, based on morale and retention-based factors relating to involvement in the planning process (Greenley, 1983, 1986). Little empirical development has occurred, possibly due to measurement difficulties (Greenley, 1994). In order to address this, the theoretical model presented

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