The relationship between strategic planning and business performance: Theoretical perspectives

M. Sandada
Graduate School of Management, University of Zimbabwe

ABSTRACT
The importance of strategic planning to small-and-medium-sized enterprises (SMEs) is well documented in many developed economies and emerging countries including South Africa, yet there seems to be an unresolved debate about its effect on business performance. To address this gap, the current study attempts to review the literature on previous studies that were conducted to examine the relationship between strategic planning and business performance. The findings indicate that previous studies report conflicting results. Some found a positive relationship while others report about the negative and no relationships between strategic planning and business performance. However, a thorough analysis of these studies has noted that the majority of studies found a positive relationship. The study therefore concludes that strategic planning exhibits a positive relationship with business performance. Therefore, the managerial implication of the research findings is that businesses should implement strategic planning practices in order to improve their performance. The findings also provide a basis for further research studies that seek to address the relationship between strategic planning practices and business performance.

Key words: Strategic planning practices, SMEs, business performance, South Africa, Competitive Advantage

1. INTRODUCTION
Given the vigorous global and domestic completion as well as the dynamic conditions, many businesses are looking for ways to improve their performance in order to achieve competitive edge over competitors. Strategic management scholars advocate for the practice of strategic planning as an effective business tool to enhance business performance (O'Regan and Ghobadian, 2004 and Elbanna, 2008). According to Hughes et al. (2008), strategic planning contributes to business performance by generating useful information, promoting long-range thinking, generating new ideas, and assisting the business to identify and evaluate strategic alternatives. However, other scholars such as Mintzberg (1994) and Saffu and Manu (2003) discourage strategic planning practices due to its tendency to be formalized and inflexible to quickly adapt to environmental changes. Strategic planning, therefore, has continued to receive attention from both the academic and the business communities because of the need to establish if it has positive impact on business performance.

2. PROBLEM INVESTIGATED
Studies that have attempted to elucidate the relationship between strategic planning and business performance have produced results that are fragmented, conflicting and inconclusive (Andersen 2000; Elbanna 2008; Hughes et al., 2008). Some studies have reported a positive relationship (Desai 2000, Baker 2003; O'Regan and Ghobadian 2004), while others show that the relationship is negative (Nwokah 2008). Others report mixed results (Saffu & Manu 2003; French et al., 2004). Falshaw et al. (2006) show that the relationship is actually non-existent. Other recent studies such as the one by Sandada (2012) found out a positive but weak relationship. This shows that no evidence has emerged to unequivocally substantiate the notion that strategic planning improves business performance (Andersen 2000).

3. PURPOSE OF THE STUDY/OBJECTIVES
The purpose of this paper is to review literature on the relationship between strategic planning and business performance. The following sub-objectives have been formulated:
The relationship between strategic planning and business performance: Theoretical perspectives

- To review literature on the positive relationship between strategic planning and business performance;
- To carry out literature review on the negative relationship between strategic planning and business performance,
- To conduct literature review on the mixed relationships between strategic planning and business performance; and
- To make suggestions for future research.

4. IMPORTANCE OF THE STUDY
The paper makes both academic and practical contributions. To the academic community, the paper contributes to the existing strategic planning and business performance body of knowledge by reviewing literature and by suggesting avenues for future research. To the business practitioner, the paper provides some insights that may assist strategic planners to be more effective in their strategic planning duties.

5. LITERATURE REVIEW
Literature review of various previous studies on the effect of strategic planning on business performance was carried out.

5.1 Positive relationship between strategic planning and business performance
Advocates of formalised strategic planning indicate that several performance benefits are attributed to strategic planning (Desai 2000; Kraus et al. 2006). A major claim of such an argument is that not only does strategic planning create a viable link between a business organisation’s objectives, goals and resources, but it also contributes to performance by generating relevant information, creating a better understanding of the business environment and by reducing uncertainty. McIlquham-Schmidt (2010) argues that strategic planning results in a better match between the external environment variables and the changing internal organisational conditions of the business.

According to McIlquham-Schmidt (2010), a match is necessary to ensure a continuous realignment between a business’ objectives and strategies with the environmental changes and this will ultimately improve business performance. In a related view, Hughes et al. (2008) note that strategic planning enables businesses to be initiative, to take some risks and capitalise on identified market opportunities, resulting in an increased level of intelligence generation and responsiveness and hence, competitiveness. Furthermore, Hughes et al. (2008) mention that strategic planning contributes to improved business performance by generating useful information, promoting long-range thinking, generating new ideas, and assisting the business to identify and evaluate strategic alternatives.

French et al. (2004) agree that strategic planning is vital to small businesses as it ensures an efficient allocation and control of resources. This results in the success and sustainability of SME business. This view is also reflected by McIlquham-Schmidt (2010) who presented both the process and personal advantages of strategic planning as follows:

Process advantages:
- Ensuring the identification and capitalisation of market opportunities;
- Providing guidelines on the strategic plan implementation, evaluation, and control;
- Cushioning the business from effects of adverse environmental conditions and changes;
- Helping the business to align its business decisions and objectives;
- Helping to integrate all business functions;
- Aiding the business in the prioritisation of activities; and
- Improving the general competitiveness of the business over competitors.
Personal benefits:
- Facilitating teamwork among personnel within the business organization;
- Helping to motivate employees by providing a basis to clarify responsibilities of each employee;
- Encouraging employees to have future focus;
- Motivating employees to solve problems and approach opportunities in a collective, integrated and cooperative manner;
- Stimulating desire for change; and
- Enforcing employee discipline and formality to the management of the business.

Beaver (2007) also contends that besides improving business performance through performance assessment, strategic planning also facilitates improvements in business processes, and innovation activities, which consequently increase the business' profitability. Wilson and Ellersten (2010) assessed the role of strategic planning during the 2009 financial crisis by asking line managers and professional staff what they perceived as key advantages of utilizing strategic planning during the crisis. Among the key findings, the respondents indicated that:

- Businesses that utilised strategic planning were better able to pursue growth strategies as compared to non-planners;
- Organisations that used strategic planning during the crisis are more confident about chances to grow;
- Regular strategic planners were more prepared for the economic crisis; and
- Strategic planners had better chances to earn more revenues.

A similar study by Phillips (2000) of the strategic planning and finance interface in UK hotels found the benefits of strategic planning at hotel unit level to be:

- Providing greater control over the hotels' future;
- Setting priorities for the hotel's future;
- Encouraging a long term focus;
- Identification of strengths and weaknesses of hotels;
- Improving the deployment of scarce resources in hotels;
- Providing a better understanding of competitors;
- Improving internal communication, co-ordination, synergy and teamwork in hotels; and
- Providing a better understanding of the external environment.

According to Beaver (2007), strategic thinking and planning are a prerequisite for business success because of three reasons. First, strategic planners are able to cope with dynamic markets. Secondly, businesses that use strategic planning can strategically position themselves to fight competition and to have a deep knowledge of customer needs. Thirdly, utilizing strategic planning helps a business to have a focus, cohesion, clear vision and a common purpose that results in business success. Brinckmann et al., (2010) synthesise various advantages of strategic planning. The authors argue that strategic planning allows more rapid decision making since information gaps can be anticipated and closed, assumptions can be verified without expending the resources, resource flows can be optimised, and bottlenecks can be averted. Brinckmann et al. (2010) proceed to point out that strategic planning helps a business to clearly formulate its goals and strategies, control goal achievement, identify and correct any deviations from the required standards, and finally to reduce uncertainty in dynamic and turbulent market environments. From the foregoing discussion, there appears to be substantial theoretical support for the hypothesis that numerous performance benefits are ascribed to strategic planning.

Several studies have found empirical support for the positive relationship between strategic planning and business performance. Wood and LaForge (1979) published one such research study. They examined the relationship between formal planning procedures and financial performance using a sample of large US banks. The results revealed that the sample of banks that engaged in comprehensive long range planning,
The relationship between strategic planning and business performance: Theoretical perspectives

significantly outperformed those that had no formal planning system. The study concluded that the large banks that develop and make use of long-range plans have a competitive advantage over similar financial institutions that do not. Bracker et al., (1988) examined the relationship between planning process sophistication and the financial performance of a select group of small firms in a US growth industry. Multivariate analysis of variance was used to statistically identify significant differences between businesses that utilise sophisticated plans and those that do not. The results support the hypothesis that strategic planning positively influences business' financial performance.

In deciding whether formal planning is useful to manufacturing companies, Armstrong (1991) conducted a quantitative critique of 28 studies, which concludes that formal planning is valuable for business organisations. Phillips' (1996) exploratory study of the relationship between strategic planning and business performance on 63 hotel units in the UK, found out that key strategic planning characteristics of thoroughness, sophistication, participation and formality were positive and in most cases significantly related to indicators of business performance, such as effectiveness that was measured by occupancy percentage, average room rate and growth in sales per room, efficiency that was indicated in terms of return on investment and profit margin and lastly; adaptability that was also measured by the number of successful new services/products introduced and percentage of sales accounting for new services/products.

Phillips and Moutinho's (1999) study of the effectiveness of strategic planning in the UK hotels included a detailed examination of components of strategic planning such as the use of SWOT analysis, setting of goals, commitment to long-term planning, assigning implementation responsibilities to individuals, participation of all employees and functions and use of benchmarking. The results confirm the positive contribution of strategic planning to business performance but cautioned that strategic planning must not be viewed as a panacea to business success.

Andersen (2000) authored a comprehensive study of the relationship between strategic planning and corporate performance across different industry groups. The study provides evidence that strategic planning that focuses on elements of the conventional strategic management process is associated with higher performances in all industries of different sectors. Specifically, the results confirm that the performance effects of strategic planning do not significantly vary between businesses of different sectors. The study concluded that strategic planning processes are crucial business performance driver in businesses of all industrial sectors and it recommended that businesses should employ strategic planning.

Desai (2000) found empirical support for the relationship between strategic planning and business performance by examining whether or not strategic planning creates value in the stock market. The study found that, on an average, organizations that institutionalize strategic planning, usually experienced an increase in stock price increases. The results document a strong relationship between strategic planning and stock market returns. The study recommends the utilisation of strategic planning in businesses as it increases shareholder value. Baker (2003) executed a survey of 200 executives in five food-processing industries to examine the relationship between formal strategic planning and financial performance. The study indicates positive results in terms of strategic planning and business performance.

The study assessed the utilisation of seven strategic planning tools, namely mission statement, trend analysis, competitor analysis, long-term goals, annual goals, short-term action plans and ongoing evaluation. Measuring financial business performance in terms of the average pretax return on assets (ROA) for the previous 3-year period, the study concludes that strategic planning is a business tool that can be used to improve business performance for a wide range of food processors. Delmar and Shane (2003) noted in a survey of 223 Swedish SMEs, the ability of strategic planning to facilitate the development of new ventures. They challenged the negative view of past researchers, that strategic planning interferes with the efforts of firm founders to undertake more valuable actions to develop their enterprises.

The results show that by helping businesses to make decisions, strategic planning reduces the probability of business failure and accelerates the chances of new product development and new venture creation. Sanchez and Marin (2005) examined 1351 Spanish SMEs and linked strategic orientation to business performance.
M. Sandada

The typology of three strategic orientations of a defender, prospector and analyser were adopted to assess the effect of each strategy adopted on business performance. The study presented findings that indicate that SMEs with a prospector strategy perform better than those who adopted the analyser and defender strategies. According to Sanchez and Marin (2005), businesses with a more prospector orientation perform better than the rest because they are more proactive and flexible to adapt to environmental changes and easily capitalise on their internal resources and capabilities, resulting in improved performance. A study examining the importance of capabilities for strategic direction and business performance in 194 United Kingdom (UK) manufacturing SMEs by O'Regan and Ghobadian (2004), presents findings that generic capabilities help a business to manage for the future by focusing on the needs of customers, while at the same time adapting to the changing environment. The study suggests that businesses that seek high business performance need to consider their generic capabilities as essential in determining their strategic direction. Briefly, the results confirm that alignment of the generic capabilities and strategic planning is needed to achieve high performance.

Similarly, Gibson and Cassar (2005), based on the results of the longitudinal analysis of Australian businesses over a four-year period, conclude that business performance indicators related to employment growth and sales growth are positively correlated with strategic planning. The results further indicate that regular planners are associated with higher levels of performance across all periods that were examined. Although this study has established a positive correlation between strategic planning and business performance, it did not establish a causal relationship between formal planning and an improved business performance.

Another study confirming the positive linkage between strategic planning and business performance was that of Kraus et al. (2006), whose results show that planning formalisation has a positive and highly significant impact on the chances of belonging to the group of growth businesses. However, the results also show that the other components of strategic planning, such as time horizon, strategic instruments and control, did not contribute to business performance. In addition, Racelis (2006) exploratory study of Philippine companies to investigate the relationship between strategic orientation and business performance, found out that financial performance indicators related to profit margin and debt ratio had a significant relationship with strategic planning variables, such as consistent brand and image strategies, the offering of products with competitive advantages and increasing investment in the development of core business areas.

Supporting a positive relationship, Veskaïsri (2007) executed a survey on Thai SMEs and found strategic planning to be statistically related to performance indicators relating to sales, expanding customer base, establishing new locations and increasing staff in using strategic planning. The study, therefore, concluded that the significant correlation between strategic planning growth linkages implies that SMEs employing strategic planning increase their chances to grow. Cortes et al. (2007) conducted a study to examine the impact of strategic behaviours on performance in Spanish hotels. The results indicate that strategic planning variables, namely; size, type of hotel management, category and competitive advantage, positively impact on hotel performance. A study examining the joint effects of market orientation and planning flexibility on business performance in Turkish manufacturing SMEs by Alpkan et al. (2007) found out that both market orientation and strategic planning positively influenced business performance.

Therefore, the study recommended that SMEs need to develop both proactive market-orientedness and a flexible strategic planning process because strategic planning flexibility, necessitates generation of new ideas and the acquisition of new sources of information and new alternatives. The study also encourages the use of flexible strategic plans in order to ensure the constant revision of the plans to capitalise on opportunities and to manage various risks, as well as increasing the business’ ability to adapt to environmental dynamics. The results in Gruber’s (2007) study of new ventures in Germany also support the hypothesis that strategic planning is beneficial in new venture creation. In a survey involving 500 Turkish manufacturing companies, Glaister et al. (2008) found a great deal of support to the study’s hypothesis that there is a strong and positive relationship between strategic planning and business performance.
The relationship between strategic planning and business performance: Theoretical perspectives

The study further confirmed the hypothesis that the bigger the size of the business, the higher the changes of strategic planning practices and that the more turbulent the environment is, the higher is the probability to utilise strategic planning. Rudd et al. (2008) applied a cross-sectional approach to administer 2 300 questionnaires to a database of medium to large UK manufacturing businesses to study the mediating effects of four types of flexibility (operational flexibility, financial flexibility, structural flexibility and technological flexibility) on the strategic planning and performance relationship. The results indicate that flexibility of the strategic planning process mediates the relationship between strategic planning and performance.

Specifically, both operational and financial flexibility mediate the influence of strategic planning on performance, whereas structural and technological flexibility mediate the influence on non-financial performance. According to Rudd et al. (2008), the process of flexibility and strategic planning work hand-in-hand in order to improve business performance. First, flexibility enables a business to anticipate and monitor environmental changes over the strategic plan period and take necessary actions. Secondly, when a business is flexible, it is able to compare various alternatives and eventually come up with the best option with respect to operations, finance, structure and technology, in order to minimise the adverse effects of environmental turbulence. Thirdly, flexibility forces managers to, at times, make unfamiliar decisions given the opportunities and threats that arise due to cyclical changes in the environment. Fourthly, flexibility helps a business to quickly adapt to new opportunities and threats, and hence becomes more efficient than its competitors. Finally, when a business is flexible, it is better positioned to efficiently and effectively implement changes that are important. Such adaptations, according to Rudd et al. (2008), are beneficial to the business because quality products or services are offered in the marketplace, financial standing of the business improves, management of the business improves and consequently, the business becomes more competitive.

Supporting a positive strategic planning and performance relationship, Mazzarol et al. (2009) examine the management practices of 204 Australian small business owners or managers with an objective of establishing the association between strategic planning behaviour and business performance. The results of the study reveal that businesses that possess formal written business plans were found to be better networked, employed more quality assurance standards and achieved an above-average level of annual sales turnover. Furthermore, results in a study by Wilson and Ellersien (2010) show the line managers' and professional staff perceived benefits of strategic planning during the 2009 financial crisis. Four major benefits were mentioned.

First, business organisations that utilised strategic planning during the financial crisis are better positioned to pursue growth opportunities during the crisis. Secondly, strategic planners are more confident about their future growth prospects than non-strategic planners are. Thirdly, regular strategic planners were more prepared for the economic crisis and therefore, were less affected by the crisis than non-regular planners were because they were prepared for it. Finally, businesses that employ strategic planning involve management in strategic planning, and as a result achieve more revenue growth. The survey concluded that the use of strategic planning in decision-making enhances business success.

Similar findings about the positive impact of strategic planning on business performance are reported by other scholars such as Mellucham-Schmidt (2010), who employed a comprehensive meta-analysis procedure on 88 individual studies representing a total sample size of 32 472 observations. The study presents findings that suggest that strategic planning has a positive influence on business performance. The study, however, points out that the positive relationship is weaker than the existing strategic management literature proclaims it to be. The results also show that the effect of strategic planning on business performance is stronger when quantitative performance measures are used, as compared to qualitative measures. The conclusion of the study is that the determination of whether there is a relationship between strategic planning and business performance depends on the performance measure selected.

The results in the meta-analysis (Brinchmann et al. 2010), indicate that strategic planning is a value creating activity, but contextual factors such as newness of the business and business culture, and the nature of
business planning, do moderate the relationship between strategic planning and business performance. The strategic planning variables that are found to significantly augment business performance are written plans, market and scenario analysis, use of computers and portfolio analysis.

Another recent study by Efendioglu and Karabulut (2010) on the impact of strategic planning on financial performance of companies in Turkey, highlights and reinforces the importance of strategic planning activities on business performance. The findings show that strategic planning components such as involvement of top management in the process, having a mission statement, organisational capabilities and a focus on similar markets, have a positive and statistically significant impact on business performance measures, namely average sales growth per year, average profit per year and average export growth rate per year.

5.2 Mixed or no relationship between strategic planning and business performance

Contrary to the proponents of strategic planning, other academics are pessimistic about the value of strategic planning and; therefore, have argued on several fronts as well, to prove that explicit strategic planning is dysfunctional or irrelevant (Desai 2000; McIlquham-Schmidt 2010). Strategic planning has been criticised for stifling creativity through its over-emphasis on rational analysis that has resulted in the formulation of strategies that are old, imitative and irrelevant to the current situation. Desai (2000) opposes strategic planning for institutionalising and regulating innovation, thereby inhibiting the ability of the business to come up with new ideas.

A management theorist, Mintzberg (1994), accuses strategic planning for its rigid focus on analysis and quantification which makes it inflexible and incapable to predict important environment changes. This, according to Mintzberg (1994), reduces the ability of a business to adapt to environmental changes that are taking place at an accelerated pace. The author also criticises strategic planning for discouraging the involvement of employees, as it is mostly top managers who dominate the strategic planning process. In this regard, strategic planning is viewed as a management tool that is diametrically opposed to the new ethos of employee empowerment (Desai 2000).

Brinckmann et al. (2010) argue that in the face of a dynamic environment, formalised and predictive behaviour are of less value, as they create unnecessary rigidities which result in lower degrees of adaptation to environmental changes, and hence lower business performance. In addition, Brinckmann et al. (2010) assert that the instability of the business environment creates information gaps as there is uncertainty about the market conditions and therefore, the ability of the business to develop reliable strategic plans is minimised. The authors proceed to mention that rather than wasting valuable time in trying to predict the future, the business should, instead, focus on leveraging the resources it currently controls and make efforts to acquire more resources. To this, Mintzberg (1994) argues, "while certainly not dead, strategic planning has long since fallen from its pedestal."

While studies discussed above have shown that strategic planning has a positive and statistically significant effect on business performance, conversely, other studies question the relationship. For example, Saffu and Manu (2003), relying on the results from a study of strategic capabilities of 171 Ghanaian female business owners, find no association between strategic planning and performance. The study indicates that no performance benefit is ascribed to the level of planning sophistication of businesses operating in uncertain economic environments like Ghana. The study further points out that rather than a sophisticated strategic planning regime, a business places more emphasis on short-term plans in order to tackle the continuing business environmental changes.

In a study involving a sample of small and regional professional service businesses operating in New South Wales and Australian economies, French et al. (2004) found mixed results. No significant relationship between performance measures (sales growth and net profit after tax) and strategic planning components (vision, mission, capabilities, competitor analysis and market analysis), was identified. However, a significant relationship between net profit and informal planning was identified. French et al. (2004), therefore,
questioned the value of strategic planning elements for SMEs namely, vision and mission statements, business capabilities, competitor analysis and market analysis. In this regard, French et al. (2004) argue that what is important is the process of planning, not the plan itself. Other scholars using data from 113 UK companies (Falshaw et al. 2006) also found no association between strategic planning and subjective business performance.

Similarly, Kraus et al. (2006) found a mixed association between strategic planning and business performance. The results indicate that planning formalisation has a positive and significant effect on the growth of a business, whereas other strategic planning aspects do not have an effect on business performance. Nwokah (2008) failed to find any strong association between strategic planning components of customer focus, competitor analysis and inter-functional coordination of food and beverage business organisations in Nigeria and their performance measured by sales growth, profitability and market share.

The foregoing discussion shows that empirical studies on the relationship between strategic planning and business performance revealed conflicting and varied associations between the two variables. This demonstrates that there is still lack of clear evidence about the relationship between strategic planning and business performance.

6. RESULTS
The study findings indicate that the majority of studies that were reviewed found a positive relationship between strategic planning and business performance. Furthermore, recent studies have also reported a positive and significant influence of strategic planning on business performance (Murimbika, 2011; Murimbika and Urban, 2013). Therefore, the results show that generally, strategic planning improves business performance.

7. RECOMMENDATIONS
Business organisations should not think that it is irrational to plan. From the analysis of past studies, it shows a positive correlation outweighing a negative or no association. Businesses should practice strategic planning to improve their performance. This happens because strategic planning cushions businesses from the turbulent environment, as it generates relevant information that is helpful in identifying weaknesses and strengths, as well as opportunities and threats to the business. Consequently, a business is able to devise appropriate strategies to achieve goals that ensure its survival and growth, and hence a competitive advantage. However, due to constant changes in the market, there is a need to make use of strategic plans that are flexible so that changes to the strategic plans may be implemented in accordance to market changes.

Further research should be conducted in order to provide evidence about the relationship between strategic planning and business performance. While the majority of studies have been carried out in developed countries, more studies should be done in developing countries like Zimbabwe, to establish the relationship between these variables.

8. CONCLUSION
The purpose of this chapter was to review literature on the relationship between strategic planning and business performance. The review shows that the debate on whether strategic planning improves business performance is still prominent and ongoing. However, the majority of studies prove that strategic planning improves business performance. Perhaps what is more compelling to conclude that strategic planning enhances business performance is the fact that recent studies are reporting a positive and even significant relationship between the two variables. Supporters of strategic planning argue that it cushions businesses from the turbulent environment, as it generates relevant information that is helpful in identifying weaknesses and strengths, as well as opportunities and threats to the business. Consequently, a business is able to devise appropriate strategies to achieve goals that ensure its survival and growth, and gain a competitive advantage.
9. REFERENCES


The relationship between strategic planning and business performance: Theoretical perspectives


