

# STRATEGIC PLAN QUALITY, IMPLEMENTATION CAPABILITY, AND FIRM PERFORMANCE

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## ABSTRACT

*This paper extends research on strategic plan quality, implementation capability, and firm performance. Specifically, banks pursue cost leadership, differentiation, and focus strategies consistent with Porter's typology and cost leaders realize significantly higher performance than those that do not pursue a generic strategy. When strategic groups are divided by intensity of the strategic plan quality and implementation capability effort, banks that follow one of the Porter generic strategy types and report both high plan quality and high implementation capability achieve significantly higher levels of performance than their low plan quality and low implementation capability counterparts.*

## INTRODUCTION

While implementation of strategy is critical to firm success, most strategic management models inadequately emphasize the relationship between strategy formulation, quality, and implementation (Day and Wensley, 1983; White, 2008). This lack of emphasis is significant as the capability of an implementation effort is important to the achievement of superior performance (Crittenden and Crittenden, 2008; Noble, 1999; Singer, 2008). Despite this relationship between implementation and performance, often strategic planning becomes a formality as opposed to a vital and implemented process (O'Regan and Ghobadian, 2007). While a sizeable body of literature exists in the area of strategy formulation (Borch, Huse, and Senneseth, 1999; Campbell-Hunt, 2000; Dess and Davis, 1984; Porter, 1980, 1985; Miles and Snow, 1978; Mintzberg, 1988; Robinson and Pearce, 1988), limited research attention has been given to implementation's role in strategic planning success (Chebot, 1999; El-Ansary, 2006; Khalil, Kim, and Shin, 2006; Noble, 1999; Tsai, Fan, Leu, Chou, and Yang, 2007).

This paper examines how the interaction of strategic plan quality and implementation capability impacts performance at financial service firms. In an early study, Burt (1978) identified a link between strategic plan quality and firm performance, but regrettably, subsequent research was not conducted in this area. The present research builds upon Burt's study and advances the strategic management research stream by first identifying firms that follow a common strategic direction (cost leadership, differentiation, or focus), and then by assessing how firm performance is impacted within

identifiable strategic groups as a result of differences in strategic plan quality and implementation capability.

The results indicate that banks convert competitive methods in a way that conforms to a cost leadership, differentiation, or focus generic strategy type. The cost leadership group's performance is significantly different compared to the stuck-in-the-middle strategy group, whereas other strategy group comparisons were found to be not significant. This study is an important first effort to investigate the interaction of strategic plan quality and implementation capability on firm performance. The results indicate that there is a significant performance advantage associated with strategic plan quality and implementation capability. Banks that report both high strategic plan quality and high implementation capability generate statistically superior ROAs when compared to those that report low strategic plan quality and low implementation capability.

## STRATEGIC MANAGEMENT LITERATURE

Managers of profit seeking organizations strive to maximize firm performance (Rappaport, 1981). Strategic planning enhances firm performance (Bowman and Helfat, 2001) and its implementation is necessary for value creation (El-Ansary, 2006). It can also serve as a tool to engage various members of the organization in the achievement of its goals (Vilda and Canales, 2008). It must be kept in mind, however, that managers often tend to underestimate the difficulties associated with strategy implementation (Speculand, 2006). Strategic initiatives are a key aspect of profitable performance in the financial services industry (Young 1999; Devlin 2000) making this industry appropriate to study. To explore the planning and performance linkage, this section reviews research in the areas of strategic plan formulation and implementation capability.

### Strategic Plan Formulation Quality

Strategy formulation involves mission statement construction and internal and external environmental scanning in a way that leads to the development of a unified set of strategic objectives, goals, and tactics to be pursued by an organization. Early strategy formulation research examined the impact of the sophistication of the planning process on firm performance (Thune and House, 1970; Bracker and Pearson, 1986; Rhyne, 1986). Sophistication was defined differently among studies, including, but not limited to, developing a written plan document for three years forward (Thune and House, 1970), conducting a formal planning process in some manner (Wood and LaForge, 1979), or categorizing the nature of written documentation emanating from the planning process (Robinson and Pearce, 1983).

While inconsistently defined in the early literature, a firm was considered sophisticated if it conducted formalized planning when compared to firms that planned minimally or did not plan at all, and results of these studies were mixed. Some found a performance advantage (Bracker and

Pearson, 1986; Gordon and Sussman, 1997; Rue and Ibrahim, 1998) while others did not (Kudla, 1980; Robinson and Pearce, 1983; Hahn and Powers, 1999). However, a meta-analysis of 34 strategy studies conducted by Miller and Cardinal (1994) concluded that strategic planning provides a performance advantage, citing methodological differences, including the definition of strategy sophistication, as a primary reason prior studies report mixed planning/performance benefits. Within this area of research, only Burt (1978) assessed the impact of strategic plan quality on firm performance. His study of 14 Australian retailing firms found that a high quality strategic plan was significantly associated with high performance, whereas low plan quality did not result in a performance advantage.

As this stream of research matured, the definition of planning sophistication evolved to include the primary steps in the strategic management process, specifically, mission statement, internal and external analysis, strategy formulation, implementation, and control and follow-up (Bracker and Pearson, 1986; Baker and Leidecker, 2001). Although only Burt (1978) studied the quality of an organization's strategic plan formulation effort, the collective strategy sophistication literature suggests that a higher level of sophistication in the planning process is synonymous with a higher level of strategic plan quality.

### Specific Strategy Types

Leask (2007) concluded that strategic group research remains a useful and valuable way to classify firms by strategy types. Research has been conducted that identifies how specific strategy types impact firm performance using typologies developed by Porter (1980, 1985), Miles and Snow (1978), and Mintzberg (1988). Porter's (1980, 1985) typology uses cost leadership, differentiation, and focus generic strategies as the basis for pursuing superior performance and research in this area. Several studies found support for a performance benefit (Hambrick, 1983; Dess and Davis, 1984; Miller and Friesen 1986; Calingo, 1989) while others are unable to establish a single-strategy performance benefit (Roberts, Brown, and Parini, 1990, Wagner and Digman, 1997). The Miles and Snow (1978) typology breaks strategic dimension into prospector, analyzer, defender, and reactor components. Research using this typology has examined various aspects of corporate activity, including performance (Short, Palmer, and Ketchen, 2002), technology (Dvir, Segev, and Shenhar, 1993), and market orientation (McDaniel and Kolari, 1987; Matsuno and Mentzer, 2000).

Mintzberg's (1988) model breaks generic strategy types into subcomponents (e.g. differentiation is separated based on image, quality, support). A study by Kotha and Vadlamani (1995) compared this approach to strategic classification to that of Porter (1980, 1985) and determined that Mintzberg's (1988) typology provides greater clarity and descriptive power. While each typology has been the focus of research attention, Porter's (1980, 1985) is the most well known and considered to be superior when separating firms according to strategic pursuit (Bush and Sinclair, 1992; Campbell-Hunt, 2000). Therefore, this research used Porter's (1980, 1985)

framework as a basis for separating firms into strategic groups. In this model, a cost leader is defined as pursuing the lowest cost structure among competitors, a differentiation strategy is the process of providing a service or product to the market in a way that customers feel is unique, and a focus strategy concentrates on a specific type of customer, product, or geographic market, and may have either a differentiation or cost element. If a firm does not pursue a specific generic strategy, it is considered to be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy (Porter, 1980).

While Porter (1980) posited that firms should follow a specific generic strategy, he cautioned that a firm cannot ignore activity related to other strategy types. For example, a cost leader cannot ignore differentiation activities. Other research has shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods (Miller and Friesen, 1986; Kim and Lim, 1988; Robinson and Pearce, 1988; Roberts, Brown, and Parini, 1990; Bush and Sinclair, 1992; Wagner and Digman, 1997). It may be necessary to pursue a multiple strategy focus (Takala, Sivusuo, Hirvela, and Kekale, 2006), however, to be consistent with Porter (1980) one strategic type must receive primary and the other secondary, emphasis. Parnell (2006) found that this typology remains useful for classifying firms by strategy types.

Another consideration is the appropriateness of a formal planning model given the level of volatility that the firm is facing in its industry. Brown and Eisenhardt (1997) found that a traditional planning model might inhibit firm performance in industries experiencing rapid growth, such as the high-technology industry. For firms in rapidly changing environments, continuous improvisation in the product area must be both current and future focused if a firm is to keep pace with competitors, and therefore, traditional planning models may not translate into successful performance outcomes. Further, Ormanidhi and Stringa (2008) found that Porter's model provides insight and convenience of use for analyzing competitive behavior by strategy types. Since banking is considered a mature industry in which most product and service offerings are not rapidly changing, using Porter's (1980) traditional planning typology is appropriate.

## Implementation

Implementation is the system-wide action taken by firm members aimed at accomplishing formulated strategies. Implementation is important to firm performance because strategies do not add value unless properly implemented (Heide, Gronhaug, and Johannessen, 2002; Noble, 1999). Heracleous (2000) notes that strategy research fails to examine the capability of a firm's implementation effort, and Chebat (1999) suggests that implementation research receives scant attention in the literature for two reasons. First, it is mechanistic and mundane when compared to strategy formulation, and second, it is difficult to operationalize implementation constructs because researchers must ". . . either use elaborate theoretical schemata that cannot be verified through empirical data or observe the managers without validated measurement tools" (p. 107).

Noble (1999) identified a set of 36 implementation studies conducted between 1969 and 1996. He reports that implementation research data are collected by using a mailed survey instrument (22%), by conducting interviews (31%), through field studies (14%), and by case study or undisclosed methods (33%). Among these studies, most variables are related to the implementation process, such as consensus building, information flow, group cohesiveness, control systems, and risk. Dobni (2003) emphasizes the critical role that employee capability plays in the implementation process, stressing that success in this area can become a core competency. In the area of strategic plan implementation, Porter and Harper (2003) contend that managers, employees, and firm infrastructure must be brought together in a way that culminates in a high level of implementation capability, which when accomplished will provide a firm with a core competence.

### RESEARCH OBJECTIVES, METHODS, AND MEASURES

This study explores two primary areas, which are: 1) to identify unique strategy types pursued by banks developed in their strategy formulation process, and 2) to test for a performance advantage between strategic groups based on the level of strategic plan quality and implementation capability. In order to examine these issues, the research examined banks operating in the New England Federal Reserve banking district, a setting that provides a competitive landscape driven by technological advances and interstate banking, which interact to provide fertile ground for new entrants and substitute products. As a result, this study is set in a dynamic marketplace that lends itself to fruitful testing of strategy formulation and implementation concepts.

Since it has been more widely used in research than other available models, Porter's (1980, 1985) typology of strategy formulation is used as a basis for operationalizing strategy types in this study. Prior research (Dess and Davis, 1984; Robinson and Pearce, 1988; Bush and Sinclair, 1992; Kumar, Subramanian and Yauger, 1997; Borch, Huse and Senneseth, 1999) identified all three of Porter's (1980, 1985) generic strategy types in research in manufacturing industries. Based on this literature, the first and second hypotheses are:

- H1. Competitive methods employed by banks will conform to a cost leadership, differentiation, or focus strategy type.*
- H2. Banks that pursue a cost leadership, differentiation, or focus strategy will realize higher performance than banks that do not follow one of these strategy types.*

Based on the strategic plan formulation and implementation research cited in the previous section, additional research hypotheses are:

- H3. Banks following a generic strategy type with high strategic plan formulation quality and high implementation capability will realize superior performance when compared to banks following a generic strategy type with low strategic plan formulation quality and low implementation capability.*
- H4. Banks following a generic strategy type with high strategic plan formulation quality and high implementation capability will realize superior performance when compared to banks following a generic strategy type with low strategic plan formulation quality and high implementation capability.*
- H5. Banks following a generic strategy type with high strategic plan formulation quality and high implementation capability will realize superior performance when compared to banks following a generic strategy type with high strategic plan formulation quality and low implementation capability.*

Additionally, as an extension of the strategic planning literature related to strategic plan formulation quality and implementation capability research cited in the previous section, we investigate the following hypothesis:

- H6. Banks that follow a cost leadership, differentiation, or focus strategy type and report both high strategic plan formulation quality and high implementation capability will achieve superior performance when compared to banks that follow the same strategy type but do not report both high strategic plan formulation quality and high implementation capability.*

Table 1 sets forth the 26 competitive method measures used to test the first hypothesis, which were drawn from prior studies (Dess and Davis, 1984; Kim and Lim, 1988; Robinson and Pearce, 1988; Bush and Sinclair, 1992) and adapted to the banking industry using a panel of experts for the purpose of determining if firms follow a generic strategy conforming to Porter (1980, 1985). Generic strategies are defined as (1) cost leadership, which is the employment of competitive methods intended to achieve the lowest cost of operation in a given industry, (2) differentiation, which is the process of providing a service or product to the market in a way that customers feel is unique; or (3) focus, which concentrates on a specific type of customer, product, or geographic market, and may have either a differentiation or cost element.

The measure used to test performance is return on assets (ROA) since it is a primary banking industry performance measure (FDIC, 1995), and it provides a basis for relating this study to previously conducted strategy research (Lenz, 1980). Since ROA is one form of ROI, use of this measure is consistent with Porter's (1980, 1985) suggestion that ROI is an appropriate performance

measure. Based on prior research, ROA is defined as net income divided by total assets (Lenz, 1980; Robinson and Pearce, 1988; Bernstein, 1993). The ROA performance measure used in this study was provided by bank respondents in accordance with previous strategy research practice (Robinson and Pearce, 1988; Lyles, Baird, Orris, and Kuratko, 1993).

The strategic plan quality and implementation capability measures were obtained using perceptual measures in a manner similar to the performance “versus competitors” and performance “versus goals/expectations” responses as employed by Pleshko and Souiden (2003). Perceptual measures are appropriate when objective data cannot be reasonably obtained from study participants due to lack of availability or because they are confidential and managers are reluctant to provide important data (Beal, 2000; Homburg, Krohmer, and Workman, 2004), and also because perceptual measures have been found to correlate strongly with same firm objective measures (Pearce, Robbins, and Robinson, 1987). Such measures have been used successfully in previous strategy research (Pearce and Robinson, 1988; Sarkar, Echambadi, and Harrison, 2001; Pleshko and Souiden, 2003) where they have been found to be highly correlated with objective measures (Pearce, Robbins, and Robinson, 1987; Pleshko and Souiden, 2003). Studies employing perceptual measures used either a 5-point Likert type scale (Homburg, Krohmer, and Workman, 2004; Sarkar, Echambadi, and Harrison, 2001; Strandholm and Kumar, 2003) or a similar scaling procedure with five data groupings, for example top 20%, next 20%, middle 20%, lower 20%, and lowest 20% (Robinson and Pearce, 1988) which are easily convertible to Likert type scaling.

In banking, regulatory authorities, independent auditors, and consulting firms (e.g. Golembe and Sheshunoff) provide information to bank managers useful for developing insight into the quality and efficiency of competitor firm operations and performance. Since the President/CEO is best situated to determine whether or not his or her bank effectively formulates and implements its strategic plan (Greenley, 1983), perceptual measures obtained from respondents in the areas of strategic plan formulation quality and implementation capability provide responses useful to examining the research questions.

To obtain a President/CEO’s assessment of the effectiveness of his/her bank’s strategic planning effort, the following two questions were adapted from Robinson and Pearce (1988): 1) How do you feel your bank performed when compared to competitors in the area of strategic plan formulation? and 2) How do you feel your bank performed when compared to competitors in the area of implementation of your strategic plan? The scale used for this aspect of the study asked respondents to rank their position among competing banks in 20 percent increments (top 20%, next 20%, middle 20%, lower 20%, lowest 20%) consistent with a method employed by Robinson and Pearce (1988).

## RESULTS AND FINDINGS

A survey instrument used in prior research and adapted to the banking industry using a panel of experts was mailed to the CEOs at 441 banks with total assets between \$10 million and \$1.5 billion operating in the six New England states. Ninety-four usable questionnaires were returned resulting in a response rate of 21.3 percent, exceeding the response rate in similar studies Robinson and Pearce (1988) and Kotha and Vadlamani (1995). A Chi-Square test indicated that there is no bias between states represented in the total bank population and the study sample, and a wave analysis procedure using ANOVA provided evidence that there is no significant difference between responses returned prior to and after a postcard reminder was mailed.

Performance and bank size was examined by separating banks into three groups with assets of up to \$100 million, \$101 to \$500 million, and more than \$500 million. An analysis using ANOVA indicated that size effects are not significant within the sample. To determine respondent strategic planning capability, the survey captured information on the person completing the questionnaire (for 93 percent of the returned surveys the respondent was the president or CEO) and the years of strategic planning experience (for all respondents the average planning experience was 11 years). This suggests that those completing the survey are qualified to provide information appropriate to the intent of the study.

### Banking Industry Strategies

To identify strategy types used by banks, twenty-six competitive method scores (seven-point, Likert-type scale) captured by the survey instrument were subjected to principal components factor analysis (with VARIMAX rotation) using the latent root method. A K-Means clustering procedure was then employed to identify cases that aligned with each strategic group, and to strengthen the within-group homogeneity and maximize the between-group heterogeneity of the strategic groups (Singh, 1990; Hair, Anderson, Tatham, and Black, 1995). As a result, variables CM02 (continuing, overriding concern for lowest cost per unit) and CM22 (only serve specific geographic markets) did not vary significantly between clusters based on an ANOVA F-test ( $p > .05$ ) and were excluded for purposes of cluster identification. The remaining 24 competitive methods differed in terms of cluster association (all with  $p < .05$ ) and were used to name strategic groups. The 24 competitive methods grouped by cluster association, presented in Table 1, show that banks pursue strategy types consistent with Porter's (1980, 1985) model. Further, these strategy types are consistent with those identified in prior studies in the areas of broad differentiation, focus, and cost leadership (Hambrick, 1983; Dess and Davis, 1984; Miller and Friesen, 1986; Kim and Lim, 1988); customer service differentiation (Hambrick, 1983); and stuck-in-the-middle (Hambrick, 1983; Dess and Davis, 1994; Miller and Friesen, 1986; Kim and Lim, 1988; Robinson and Pearce, 1988), thereby supporting H1.

The Table 1 groupings show that the cost leadership group contains the developing and refining existing services/product offerings variable, which is more commonly associated with a differentiation strategy. Similarly, the broad differentiation group emphasized the “economies of scale through mergers and consolidation” variable and the customer service differentiation group included the variable labeled “outsourcing functions to control costs,” each of which are related to cost control efforts. This mixing of strategy variables is not inconsistent with Porter (1980, 1985), as he cautioned that cost leaders should incorporate some differentiation activity and differentiators should maintain some level of cost control in their strategic efforts.

The ROAs of banks included in each of the strategy groups were tested using ANOVA and the results are reported in Table 2. All of the strategy groups report higher performance than the stuck-in-the-middle group (cluster 3) but only the cost leadership group’s performance difference is statistically greater ( $p=.0496$ ) than the stuck-in-the-middle group. Thus, H2 was only partially supported.

<b>Table 1: Association of Competitive Methods with Generic Strategy</b>	
Strategic Group 1: Broad Differentiation Strategy (n=41) CM06. Economies of scale achieved through merger or consolidation	
CM13.	Strong branch network
CM14.	Promotion/advertising expenditures above the industry average
CM15.	Major expenditure on technology to differentiate services/products
CM18.	Broad service/product range
CM21.	New product/service Strategic
Group 2: Focus Strategy (n=13) CM03. Narrow, limited range of services/products	
CM22.	Only serve specific geographic markets (related but not significantly so)
CM23.	Emphasis on marketing of specialty services/products
CM25.	Services/products offered in lower priced market segments
Strategic Group 3: Stuck-in-the-Middle (n=18)	
CM11.	Following actions of competitors
Strategic Group 4: Cost Leadership Strategy (n=14)	
CM02.	Continuing, overriding concern for lowest cost per unit (related but not significantly so)
CM04.	Developing and refining existing service/product offerings
CM05.	Major expenditure on technology based delivery systems to lower costs
CM09.	Specific efforts to insure a pool of highly trained/experienced personnel
CM19.	Maintaining lending capacity and flexibility
CM20.	Major effort to insure adequate deposit availability
CM26.	Emphasis on training, education, and institutional learning

<b>Table 1: Association of Competitive Methods with Generic Strategy</b>	
Strategic Group 5: Customer Service Differentiation Strategy (n=8)	
CM07.	Outsourcing functions or entering into joint ventures to control cost
CM08.	Extremely strict service/product quality control procedures
CM10.	Concerted effort to build the bank's reputation within the industry
CM12.	Building bank name identification
CM16.	Extensive customer service capabilities
CM17.	Innovation in marketing techniques and methods
CM24.	Services/products offered in higher priced market segments

<b>Table 2: Strategic Group Performance Testing</b>						
Measure	Strategic Group					Overall
	BDiff	Focus	SIM	Cost	CSDiff	
ROA Mean	.96	1.22	.88	1.23	.97	1.02
Standard Dev.	.26	.53	.47	.24	.34	.38
Number	41	13	18	14	8	94
T-score	-1.50	1.35	-1.30	3.32	-.47	.00
P-value	.14	.20	.21	.006	.65	1.00
Strategic Groups: BDIF = Broad Differentiation Strategy Focus = Focus Strategy SIM = No Generic Strategy (Stuck-in-the-Middle) Cost = Cost Leadership Strategy CSDiff = Customer Service Differentiation Strategy						

### **Strategic Plan Quality and Implementation Capability**

Successful strategic planning requires two actions. First, a firm must formulate a plan that sets forth an appropriate strategic direction, and then it must capably employ its available skills and resources in the implementation effort. Based on this premise, it would be expected to find that firms that formulate a high quality strategic plan that is capably implemented will realize superior performance when compared to firms that do not do so. To test our hypotheses, banks within each strategic group were separated based on responses to questions which asked respondents to indicate how their bank performed in the areas of strategic plan quality and implementation capability.

The previously described scale was used to capture their responses and the mean of the responses to these two questions was calculated for each strategic group. A response that was above

the mean was considered to indicate high strategic plan quality or high implementation capability. To test the reasonableness of the self-reported response pattern, the percentage of firms reporting strategic plan quality above and below the mean was calculated. It was found that 43% of responses were below the mean and 57% were above. Likewise, for implementation capability, the sample consisted of 51% below and 49% above this measure's mean. Based on this analysis, the conclusion is that respondents provided responses to the perceptual measures exhibit representational faithfulness in terms of each bank's underlying reality for these two measures.

For purposes of this test, banks (n=9) that are members of a multi-bank holding company were excluded, as it is not possible to tell from the responses to the survey questions whether these banks have direct responsibility for their strategic plans or if costs are allocated among bank members in a manner that resulted in an ROA that was comparable to that of single-bank companies. The remaining 85 banks used in performance testing are either independent or members of a one-bank holding company. These banks are classified into one of four possible categories. These were (1) low implementation capability and low strategic plan quality (quadrant 1), (2) high implementation capability and low strategic plan quality (quadrant 2), (3) high strategic plan quality and low implementation capability (quadrant 3), or (4) high implementation capability and high strategic plan quality (quadrant 4). The number of banks and the ROA for each strategic group, as well as the stuck-in-the-middle group, are set forth in Figure 1.

		Strategic Plan Implementation Capability			
		Low		High	
Quality of Strategic Plan	Low	(16) B. Differentiation .87 (4) Focus .93 (9) Stuck-in-Middle 1.07 (3) Cost Leadership 1.13	Quadrant 1	(1) B. Differentiation .84 (1) Focus 1.10 (2) Customer Service 1.22	Quadrant 2
	High	(7) B. Differentiation .97 (1) Stuck-in-Middle .68 (2) Cost Leadership 1.26 (1) Customer Service .60	Quadrant 3	(12) B. Differentiation 1.03 (7) Focus 1.25 (6) Stuck-in-Middle .77 (9) Cost Leadership 1.20 (4) Customer Service 1.10	Quadrant 4

Figure 1. Relationship Between Strategic Plan Quality and Implementation Capability

To test H3, H4, and H5, we compare the general differentiation, focus and cost leadership banks in quadrant four (high plan quality, high implementation capability) to banks in the other three quadrants. Stuck-in-the-middle banks were excluded from these tests because they do not following a specific strategy type. As can be seen in Table 3, a t-test shows that banks in quadrant four achieve a significantly higher ( $p < .01$ ) average ROA of 1.13% compared to an ROA of .92% for quadrant one banks, thereby providing support for H3.

<b>Table 3: Quality of Strategic Plan and Implementation Capability</b>					
Strategic Group:	Number	ROA Mean	St. Dev.	T-score	p-value
Tests for H3, H4, and H5. High Plan Quality and High Implementation Capability Quadrant Compared to Other Quadrants:					
Quadrant One	23	.915	.358	-2.91	.00
Quadrant Two	4	1.098	.289	.16	.88
Quadrant Three	10	.991	.248	-1.80	.11
Quadrant Four	32	1.132	.277	.00	1.00
Tests for H6. High Plan Quality and High Implementation Capability Quadrant On A Strategy-By-Strategy Basis Compared to Other Quadrants:					
Quadrant One	16	.871	.335	-1.93	.07
Quadrant Two 1	.840	n/a	n/a	n/a	
Quadrant Three	7	.970	.204	-.81	.45
Quadrant Four	12	1.032	.230	.00	1.00
Focus:					
Quadrant One	4	.930	.488	-1.30	.28
Quadrant Two	1	1.100	n/a	n/a	n/a
Quadrant Three	0				
Quadrant Four	7	1.247	.426	.00	1.00
Stuck-in-the-Middle:					
Quadrant One	9	1.069	.469	1.94	.09
Quadrant Two	0				
Quadrant Three	1	.680	n/a	n/a	n/a
Quadrant Four	6	.765	.380	.00	1.00

Table 3: Quality of Strategic Plan and Implementation Capability					
Strategic Group:	Number	ROA Mean	St. Dev.	T-score	p-value
Cost Leadership:					
Quadrant One	3	1.127	.392	-.32	.78
Quadrant Two	0				
Quadrant Three	2	1.260	.057	1.53	.37
Quadrant Four	9	1.199	.206	.00	1.00
Customer Service Differentiation:					
Quadrant One	0				
Quadrant Two	2	1.225	.389	.45	.73
Quadrant Three	1	.600	n/a	n/a	n/a
Quadrant Four	4	1.100	.094	.00	1.00
Totals:					
Quadrant One	32	.958	.398	-1.62	.11
Quadrant Two	4	1.098	.289	.16	.88
Quadrant Three	11	.963	.253	-1.46	.18
Quadrant Four	38	1.074	.320	.00	1.00

The t-tests set forth in Table 3 did not find a statistically significant difference between quadrant four banks and those in quadrants two ( $p > .05$ ) and three ( $p > .05$ ). Thus, support for H4 and H5 was not confirmed. Table 3 also shows that banks in quadrants two (high implementation capability/low plan quality) and quadrant three (low implementation capability/high plan quality) generate higher ROAs than the quadrant one banks. While this performance difference is not statistically significant, it appears that there is an advantage to be gained even if a well crafted plan is implemented poorly or a low quality plan is implemented capably.

To examine H6, banks are compared on a strategy-by-strategy basis. To do this, banks in quadrants one, two, and three that follow the same strategy type as banks in quadrant four are compared to see if a performance advantage is evident. As can be seen in Table 3, t-tests show that performance differences for the cost leadership, differentiation, and focus strategy types are not statistically significantly ( $p > .05$ ). Thus, on a strategy-by-strategy basis, there does not appear to be a performance advantage associated with high plan quality and high implementation capability among banks pursuing an identical strategy type.

However, even though a performance advantage is not statistically validated, it does not seem coincidental that the quadrant four banks that pursue a broad differentiation (ROA 1.03), focus (ROA 1.25), or cost leadership (ROA 1.20) strategy type each report higher performance than their

quadrant one broad differentiation (ROA .87), focus (ROA .93), and cost leadership (ROA 1.13) counterparts. Consistently, both the broad differentiation and focus quadrant four banks exhibit higher performance than their quadrant one, two, and three equivalents. Only the cost leaders and customer services differentiators experience mixed results in this area. Thus, while tenuous, there appears to be an incremental performance advantage available to banks that develop a high quality strategic plan and then capably implement that plan when compared to banks in other quadrants that follow identical strategy types. The inability to find statistical significance between plan quality and implementation capability within a strategy type might be attributable to the small number of banks available for statistical testing once the sample is subdivided for testing purposes.

## DISCUSSION

For managers, the implications of this study are clear. Formulating a strategy-based, high quality strategic plan that is flawlessly implemented is important to high level performance. In our study, cost leaders do this best, and it does not seem coincidental that they place unrelenting emphasis on insuring a pool of highly trained and experience personnel which is augmented by training, education, and institutional learning.

In summary, this study identified the strategic dimensions of differentiation, focus, and cost leadership consistent with prior research finding. The results reported here find that the performance of those pursuing a cost leadership strategy exceeds that of all other strategy groups and is significantly superior to that of the stuck-in-the-middle group. There was not a significant performance difference for the broad differentiation, customer service differentiation, or focus strategy when compared to the stuck-in-the-middle group.

This study also found a statistically significant performance advantage associated with strategic plan quality and implementation capability. Among the four strategic groups identified in this study, banks that reported both high strategic plan quality and high implementation capability (quadrant four) generated statistically superior ROAs when compared to those that reported low strategic plan quality and low implementation capability (quadrant one). While it may be possible to generate higher ROAs by emphasizing either high implementation capability with low plan quality (quadrant two) or low implementation capability with high plan quality (quadrant three), the results suggest that this is not easily achieved. When performance was examined by specific strategy type, banks in quadrant four were not able to demonstrate a significant performance advantage over banks pursuing the same strategy type in quadrants one, two, and three.

While it is generally assumed that a high quality plan implemented capably is important to firm success, only 44.7% of the respondents indicated that their banks developed and implemented strategic plans at a high level of quality and capability. This finding also suggests that those providing perceptual assessments of strategic plan quality and implementation capability did so in an unbiased manner. An additional finding is that banks pursuing a broad differentiation strategy

are present in each of the four quadrants, but only the quadrant four banks are able to achieve an ROA in excess of the study average.

Since this was a first attempt to isolate a performance advantage associated with strategic plan formulation quality and implementation capability, perceptual data are employed. While this methodology has inherent weaknesses, it is utilized in this study because perceptual information has been successfully employed in prior studies and also because of time and resource constraints. Future studies might consider obtaining strategic plan quality and implementation capability information using a field study or an interview process that will facilitate a more comprehensive approach to understanding the full range of strategy formulation and implementation activities. The sample was limited to one Federal Reserve district, which resulted in small numbers of banks for statistical testing purposes when the sample was divided into strategic plan quality and implementation capability subgroups. Expanding the scope to a national level could sufficiently increase the sample size so that performance testing between strategic subgroups is improved.

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