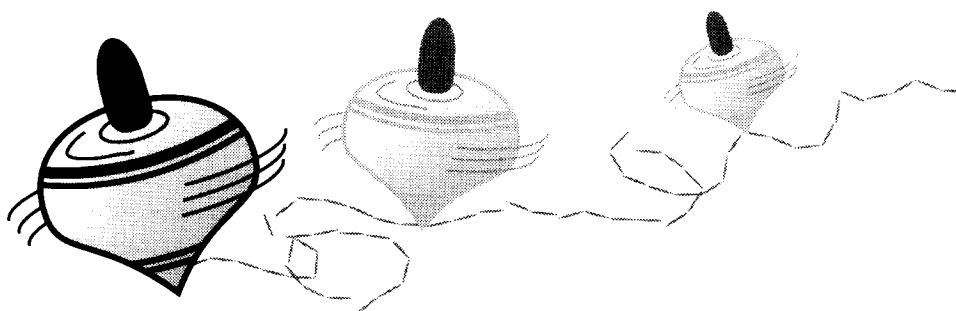# Top Management Involvement and Strategic Planning System Performance: A Validation Study

Isaiah O. Ugboro, *Assistant Professor, North Carolina A & T State University*

This paper reports the results of a study undertaken to determine significant differences between effective and ineffective Strategic Planning Systems (SPS). The study focused on involvement of top management or the chief executive officer in a company's strategic planning system and the impact of their involvement on the effectiveness of a company's SPS.

Using data from 63 U.S. electronic computing equipment manufacturers, the study concluded that significant differences in the roles and degree of involvement of top management (or the CEO) were strongly associated or significantly correlated with SPS's effectiveness. The study, therefore, recommended a high degree of top management involvement in the following aspects of SPS:

- the development of organization climate which supports strategic planning efforts;
- clear definition of the organization's mission;
- formulation of quantified goals or objectives using the strategic plans to evaluate managerial performance; and
- acceptance of strategic planning as a major responsibility that should not be delegated to subordinates or planning staff.

Background

While strategic planning as an effective management tool has received considerable and deserved attention of researchers and managers over the last two decades, much of this attention has been focused on establishing the legitimacy of SPS by linking it to financial profitability and growth. (Ansoff, et al, 1970; Thune and House, 1970; Fulmer and Rue, 1974; Kudla, 1980; Greenley, 1986; rhyne, 1986; Ramanujam and Venkatraman, 1987). Even though results from these studies and others have not produced consistent results, they have established the legitimacy of strategic planning as an effective management tool (Leontiades and Tezel, 1980). Therefore research should now examine how to make the planning systems useful to executives by improving the efficiency of the process (Schaffir, 1990).

There is no better starting point than the design and implementation of the Strategic Planning Systems (SPS). By definition, SPS is a set of interrelated organizational task definitions and procedures for seeing that pertinent information is obtained, forecasts are made, and strategic choices are addressed in an integrated, internally consistent, and timely fashion (Grant and King 1982, p. 4).

A key variable in the design of an effective strategic planning system is the role of top management or the chief executive (CEO). Throughout the process, from long-range planning to strategic management, various roles and degrees of involvement have been prescribed for management. These range from a limited role to total involvement. (Pennington, 1972; Kudla, 1976; Hall, 1977; Steiner, 1979; Lorange, 1980; Forman, 1988, Pinnell, 1986; Eigerman, 1988; Shanks, 1989). Perhaps due to the multiplicity of these roles, numerous demands on the CEO's time, and increasing complexity of most organizations, "Top management involvement in the strategic planning

process is too often limited to little more than basic allocation of corporate resources among previously selected options. It is time to reassess top management's role in SPS and its contribution to the strategic management process. For the CEO's involvement to have greater effects, he/she should enter the arena at an early stage, . . ." (Hunsicker, 1980). Nevertheless, little has been done to find empirical evidence establishing whether the prescribed roles actually contribute to the effectiveness of an organization's SPS and overall performance.

Purpose of Study

This study surveyed selected companies in the electronic computing equipment manufacturing industry that utilize SPS to achieve the following objectives:

1. To determine top management perception of strategic planning system effectiveness.

2. To identify areas where significant differences exist between SPS that are considered effective and those that are not, with respect to the degree of top management involvement.

3. To determine if there is a significant correlation between the prescribed (normative) roles of top management and SPS effectiveness.

Study Design and Methodology

A 19-item questionnaire was constructed with eight questions addressing the roles of top management or the CEO as prescribed in previous works of Steiner (1979), Lorange, (1980) and Forman, (1988). eleven questions pertaining to direct measures of SPS effectiveness were drawn from the works of Steiner (1979), Henry (1979), and Forman (1988).

The questionnaire was mailed to either the CEO or the executive responsible for strategy formulation in 200 U.S. computer manufacturing companies. Of these companies, 63 responded (32%). Respondents were asked to evaluate and rate their respective SPS performance and the role of top management and the CEO on five-point scales (0–4). A zero rating meant that a particular factor was not applicable to a company's situation, and 4 meant strong agreement with a given question. Based on the rating of the SPS performance measures, a company's SPS was classified as either effective or ineffective. Areas where significant differences existed were identified by the chi-square test. Whether or not these areas of significant difference were associated (significantly correlated) with SPS performance was determined with the spearman rank correlation coefficient test.

Exhibit 1.
Areas Addressed by the Questionnaire.

Performance Objectives of Strategic Planning Systems

1. Developing basic company mission and lines of business.
2. Foreseeing future major threats.
3. Foreseeing future major opportunities.
4. Properly appraising company strengths.
5. Properly appraising company weaknesses.
6. Developing realistic current information about competitors.
7. Clarifying priorities.
8. Developing useful long-range objectives.
9. Developing useful long-range program objectives.
10. Developing credible medium- and short-range plans to implement SPS to achieve goals.
11. Preventing unpleasant surprises.

Roles of Top Management

12. Top management has accepted the idea that strategic planning is its major responsibility.
13. Top management spends an appropriate amount of time on strategic planning.
14. The company's top management has developed a climate that supports strategic planning.
15. Top management has developed a formal statement of the company's mission.
16. Top management formulates quantified goals for the company.
17. Line executives are fully committed to accomplishing the strategic plan developed by the strategic planning system.
18. Attempts are made by top management to use SPS to judge managerial performance.
19. Line executives fully participate in the strategic planning processes.

Profile of Respondents

Companies that actively participated in the study represented a cross section of the industry— from manufacturers of large mainframe computers to manufacturers of hand-held calculators. The questionnaires were completed by three groups of corporate officers: CEOs who were directly responsible for the strategic planning function; vice presidents for strategic planning, for companies with such a position; and others responsible for strategic planning but lacking special titles reflecting this duty. Analysis of the questionnaires showed that such officers were located close to the CEO and were directly responsible to him or her. Of the 63 corporate officers responding, 12 were CEOs, 27 vice presidents for strategic planning, and 24 were officers whose responsibility included strategic planning.

Summary of Results

Based on the perception of the CEOs and other executives, 71% of the strategic planning systems were considered effective in accomplishing the direct performance objectives of an effective SPS, shown in Exhibit 1. Only 29% of the 63 companies considered their SPS to be ineffective.

When these results were examined using the chi-square test of statistical significance, it was found that the role of top management or the CEO was significantly different in seven of the eight prescribed roles of top management in an effective SPS. While the top management or CEO of companies with effective SPS were involved in all eight roles, companies with ineffective SPS showed little evidence of executive involvement. Table 1 presents a summary of the chi-square analysis.

The "so what?" question was answered by determining if there were associations between the involvement of top management and the performance of the strategic planning systems. The results of the Spearman rank correlation (association) analysis revealed multiple areas where the significant roles of top management and the CEO are positively and significantly (statistically) correlated (associated) with the direct performance objectives of an effective SPS. See Table 2.

Discussion and Conclusion

The roles of top management and the CEO do not completely explain the effectiveness of SPS in some cases and ineffectiveness in others.

Table 1

Analysis of Differences in Top Management Roles in Effective and Ineffective SPS.

Percentage of Respondents Who Expressed Agreement or Disagreement

	Effective SPS	Ineffective SPS
Top management has accepted the idea that strategic management is its major responsibility.	55.6* (14.3)	19* (11.1)
Top management spends appropriate amount of time on strategic planning.	45.1* (25.8)	9.7* (19.4)
Top management has developed a climate which supports strategic planning efforts.	57%* (12.7)	9* (14.3)
Top management has developed a formal mission statement.	62.3* (8.2)	16.4* (13.1)
The line executives are fully committed to accomplishing the strategic plans that are developed with the aid of SPS.	54* (16.4)	11.5* (18)
Top management uses the strategic plans to judge managerial performance.	39* (33.3)	6* (21.7)
Line executives fully participate in the strategic planning process.	57* (12.7)	14.3* (16)

NOTE: * Percentage of companies agreeing with each statement.

( ) Percentage of companies that disagreed.

	Developing Basic Company's Mission and Lines of Business	Foreseeing Major Future Opportunities	Foreseeing Major Future Threats	Properly Appraising Company's Strengths	Properly Appraising Company's Weaknesses	Developing Realistic Information About Competitors	Developing Useful Long-Range Objectives	Preventing Unpleasant Surprises	Developing Credible Medium and Short-Range Plans to Implement Long-Range Strategies	Developing Program Strategies	Clarifying Program Strategies
Top management has accepted strategic planning as its responsibility.	X	X		X	X	X	X	X	X	X	X
Top management spends an appropriate amount of time on strategic planning.	X		X	X	X				X	X	X
Top management has developed an organizational climate that supports planning efforts.	X		X	X	X		X	X	X	X	X
Top management has formulated quantified goals for the company.				X	X		X	X		X	X
Top management is fully committed to the strategic plans developed with the aid of the strategic planning systems.	X		X	X	X		X	X	X	X	X
Attempt is made by top management to use strategic plans to judge managerial performance.		X	X	X	X		X		X	X	X
Line executive fully participates in the strategic planning process			X	X	X		X	X	X	X	X
Top management developed a formal mission statement.	X	X	X	X	X		X	X	X	X	X

*DENOTES ASSOCIATION (SIGNIFICANT CORRELATION) BETWEEN MANAGEMENT ROLE AND DIRECT
SPS PERFORMANCE OBJECTIONS

However, the existence of significant position correlation suggests that top management involvement is crucial to the achievement of the direct performance objectives of an effective strategic planning system.

There are several reasons for this. First, one of the major purposes of strategic planning is to facilitate the decision-making process, which is the ultimate responsibility of top management or the chief executive. Secondly, it is top management's responsibility to determine and promote the strategic direction of any organization. This, coincidentally, is a major function of the strategic planning system. It is logical to conclude that the involvement of top management or the CEO is directly related to the effectiveness of SPS. Finally, the CEO has the ultimate control and authority over the organization's reward system and resources. This power should be used to focus personnel and material resources on the company's priorities. In fact, each member of the "team at the top" must be totally committed to the effectiveness of the strategic planning efforts and assume the role of cheerleader for the entire process.

This study supports the personal commitment of the CEO and top executives to the design and implementation of SPS and recommends the following types of involvement:

1. Acceptance of strategic planning as its major responsibility.
2. Assignment of appropriate amount of time to strategic planning.
3. Development of a climate which supports strategic planning.
4. Development of a formal corporate mission statement.
5. Commitment of resources to the implementation of plans that are developed with the aid of the planning system.
6. Evaluation of managerial performance with the results of the strategic planning systems.
7. Full participation of line executives in the strategic planning process.

Dr. Ugboro's principal teaching and research interests are organization theory and strategic management.

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