



# A causal analysis of formal strategic planning and firm performance

## Evidence from an emerging country

Analysis of  
formal strategic  
planning

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### Abstract

**Purpose** – The purpose of this paper is to examine the nature of the strategic planning-performance relationship by drawing on data from a sample of Turkish firms.

**Design/methodology/approach** – The sample frame for the study was derived from the database of the Istanbul Chamber of Industry's 500 largest Turkish manufacturing companies and the database of companies quoted on the Istanbul Stock Exchange. Based on a postal survey, 135 usable questionnaires were returned. Using LISREL causal modeling the moderating effects of a set of contingency factors on the relationship between formal strategic planning and firm performance were investigated.

**Findings** – The findings show that there is a good deal of support for the study's hypotheses. A strong and positive relationship was formed between formal strategic planning and firm performance, which tends to confirm the arguments of the prescriptive strategic management literature. The test results also verify the moderating roles of environmental turbulence, organization structure and firm size on the strategic planning-performance link.

**Research limitations/implications** – Strategic planning and its key dimensions represent a subtle and complex activity, and that to obtain rich data on such phenomena may be best accomplished through research methods that employ qualitative data gathering techniques. Incorporation of qualitative performance measures, in addition to financial measures would enrich our understanding of the planning-performance relationship.

**Practical implications** – After almost a decade of relative neglect perhaps this research issue will again begin to attract the kind of attention that it deserves. Although strategy is often considered to be a universal practice, it is better thought of as many different crafts, varying according to its different contexts. So, the impact of various contexts on the planning-performance relationship should be taken into account.

**Originality/value** – Prior studies that have examined strategic planning-performance relationship have tended to focus on firms from industrialized countries. This is one of the first studies that has explicitly modeled and empirically tested the relationship in an emerging country context.

**Keywords** Strategic planning, Company performance, Turkey, Emerging markets

**Paper type** Research paper



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**Introduction**

The performance implications of strategic planning have been a central area of investigation for researchers over the past three decades. There is a plethora of research findings on the relationship between formal strategic planning (FSP) and organizational performance, but many of these findings have proved inconclusive. Early studies suggested that FSP enhanced performance (Herold, 1972; Thune and House, 1970). Later studies concluded that there was no clear systematic relationship between FSP and firm performance (e.g. Shrader *et al.*, 1984. Some have argued that FSP may be dysfunctional if it introduces rigidity and encourages excessive bureaucracy (Bresser and Bishop, 1983). It is recognized, however, that there may be non-financial consequences of strategic planning which provide benefits to the organization (Greenley, 1986).

Despite the continued importance of performance objectives in the prescriptive literature, Greenley (1994) has pointed out that attention has not been given to strategic planning and performance in empirical research. The main purpose of this paper is to re-kindle this area of research and provide new empirical evidence on the relationship between strategic planning and performance. Using LISREL structural equation modeling we analyze the moderating effects of a set of contingency variables on the relationship between formal strategic planning and firm performance.

The empirical study draws on data from Turkish companies, which is novel in this stream of research. The planning and performance literature has focused primarily on industrialized countries including the USA, UK, Canada, Australia and Japan, producing frameworks and models that are not necessarily applicable to developing or emerging countries (Koufopoulos *et al.* 2005; Haines, 1988). A review of 29 relevant studies by Greenley (1994) revealed that the majority reported data from the USA. Greenley notes that while this represents a stream of research from a single business culture, the major issue is one of relevance to the practice of strategic planning in Europe and other countries. "Although the principles of strategic planning should, of course, have universal application, there may be national differences in strategic planning, country dependent influences from business culture, and influences from different national trading conditions" (Greenley, 1994, p. 392). As Kotha and Nair (1995) note in the context of studies on Japanese firms and industries, the strategic management field can be criticized for not examining particular phenomena in non-US contexts.

This study therefore attempts to rectify this imbalance by examining the relationship between strategic planning and organizational performance in a different environmental context, that of the developing transitional economy of Turkey, and provides a contribution to the literature. The findings of this study also offer some important insights to the applicability of Western strategic management thinking to the business environment in emerging countries (Cheah and Chew, 2005; Haines, 1988). Turkey, in this regard, is an instructive case as it is currently at the center of several debates due to its ongoing membership negotiations with the EU. The characteristics of the Turkish economy and its strategic location as a bridgehead between East and West make it an interesting case to examine the nature and role of the strategic planning process on firm performance. Since the early 1980s, Government policies in Turkey have aimed at developing a free market economy and have encouraged an outward-oriented export-led development strategy. Significant progress has been

achieved in the liberalization of trade and investment policies and the pursuit of macroeconomic stability and economic growth. This policy stance has also contributed to a substantial increase in inward foreign direct investment to Turkey (Tatoglu and Glaister, 2000; Hadjit and Moxon-Browne, 2005).

The rest of the paper is set out in the following manner. The next section briefly describes the survey setting. The third section considers the literature on strategic planning and performance and develops the paper's hypotheses. The research methods are set out in the fourth section, followed by results and discussion. Conclusions are in the final section.

### Survey setting

Cross-national cultural surveys of managerial attitudes and practices exhibit international differences (Hofstede, 1994; Trompenaars and Hampden-Turner, 1998) and these differences have been well mirrored in managerial behavior (Carr, 2005). In terms of managerial attitudes and work practices, Turkish firms, in general, have more commonalities to the Arabic cluster in terms of values, norms, behaviors in organizations and business relationships (Kabasakal and Bodur, 2002) as well as governance and leadership practices (Kakabadse and Kakabadse, 2006).

Although there is a dearth of research investigating Turkish management practices in general and planning practices in particular, commentators and researchers tend to agree on certain characteristics of management practices in Turkey (Skinner, 1964; Lauter, 1970; Ramazanoglu, 1985). Amongst the frequently mentioned characteristics of Turkish managerial practices are a highly centralized organizational structure (Skinner, 1964; Terril, 1965; Lauter, 1969, 1970; Pasa *et al.*, 2001), reliance on short term planning (Lauter, 1970; Iseri and Demirbag, 1999), less clear organizational strategies (Terril, 1965; Sozen and Shaw, 2002), reactive rather than proactive strategies and long term vertical relationships (Skinner, 1964; Iseri and Demirbag, 1999). The nature of decision making in Turkish business organizations has been described as top-down and less participative (Lauter, 1969; Sozen and Shaw, 2002) and hierarchical relations are reported to be formal and status rigid (Pasa *et al.*, 2001). Turkish business organizations, probably due to overstaffing and top-down communication, have been found to have high administrative intensity (Iseri and Demirbag, 1999; Sozen and Shaw, 2002). In their work on understanding cultural diversity among 38 nations, Trompenaars and Hampden-Turner (1998) noted that Turkey had the steepest hierarchy in its organizations and resembled more the "family type" category. Sozen and Shaw (2002) argue that submissive and paternalistic tendencies, the avoidance of initiation and innovation are derived from a patriarchal benevolent and close-knit family system and authoritarian and rote learning based education system. Such administrative values appear to create action avoidance in terms of decision making and strategic planning.

As a close-knit society, business organizations in Turkey are dominated by private holding companies run by family members and professional managers (Gunduz and Tatoglu, 2003). As Pasa *et al.* (2001, p. 568) highlight "family members still hold permanent positions in organizations and continue to be responsible for relationships with state officials". The state, in Turkey, from the early years of the republic, has been a major player in business life (Ramazanoglu, 1985; Bugra, 1994) and often intervenes by frequent and predictable policy changes (Bugra, 1994; Pasa *et al.*, 2001). At a more

fundamental level, Turkey has developed an “insider system” of corporate governance, which is characterized by few listed companies, a large number of substantial share stakes, and large inter-corporate shareholdings (Ararat and Ugur, 2003). While ownership structures of Turkish companies are relatively transparent, empirical evidence suggests that statutory and executive boards are dominated by family members (Kula and Tatoglu, 2006). The holding company structure of Turkish firms facilitates inter-corporate shareholding, but the ultimate owners of these companies are often family members, which indicate that ownership and cash flow rights are not diffused (Yurtoglu, 2000). In their comparative survey of the role, purpose and contribution of boards between Turkish firms and Anglo-American firms, Kakabadse and Kakabadse (2006) concluded that business and interpersonal skills of Turkish chairmen and board members are wide-ranging, though their “neglect” of governance leaves the firm vulnerable in terms of a heavy reliance on one person, the owner/chairman, and tends to undermine the corporate reputation, especially from the perspective of attracting international strategic alliances and foreign direct investment.

Although much has been argued about culture and its impact on management practices (Hofstede, 1994), Negandhi (1983a, 1983b) provides some evidence that planning practices in emerging countries are affected more by the institutional environment (i.e. government intervention, political instabilities, inflation level, state business relations, incentives or lack thereof) than societal values. Negandhi (1983a) further argues that, in developing countries, factors such as political instability and inflation and market conditions are more important to planning practices than national or organizational culture. Owner-manager controlled firms, coupled with market conditions may create a centralized nucleus in organizations in emerging market economies. Governmental controls are also seen among the important factors in Negandhi's (1983b) earlier research in Latin America and India. Price and wage spirals, and subsequent inflation are serious problems confronting many developing countries (Iseri and Demirbag, 1999). Therefore one may expect inflation and political instabilities to affect planning practices and planning horizons more than national culture does.

In addition to both its cultural and institutional idiosyncrasies, the characteristics of the Turkish economy also make it an interesting case to examine the nature and role of the strategic planning process on organizational performance. Since the early 1980s, government policies in Turkey have focused on developing a free market economy and have encouraged an outward-oriented export-led development strategy. Significant progress has been made in the liberalization of trade and investment policies and the pursuit of macroeconomic stability and economic growth. The new stage triggered by the start of Turkey's membership negotiations with the EU suggests a greater likelihood of more FDI entries through acquisitions, privatization or expansion of existing multinational enterprises' operations thus leading to an increase in foreign competition. In response to the level of complexity and change in most industries, Turkish firms have been increasingly turning their attention to strategic planning practices (Dincer *et al.*, 2006). Hence, Turkey is an ideal country case for examining the planning-performance relationships in country environments characterized by greater instability and turbulence (Yamak and Üsdiken, 2006). The relatively new trend toward strategic planning in Turkish firms is perceived as a move designed not only to help them manage their environment more effectively but also to improve their

organizational performance. This will help to generalize the previous findings and will be instructive in comparing the planning-performance relationships in a developed market economy and those located in a transitional economy.

### Literature review and hypotheses

The central tenet of this study is that the link between the formal strategic planning (FSP) process and firm performance is moderated by a set of contingency factors such as environmental turbulence, organizational structure and firm size. Equivocal findings in the prior literature might largely stem from the lack of attention to these variables and their potential impact on formal planning practices and performance. An examination of these important factors is likely to lead to a better understanding of the planning-performance relationships in firms operating in an emerging economy. The following subsections detail the rationale for the FSP-performance linkage and moderating impact of these contingency factors on this linkage, and set out the study's hypotheses.

#### *FSP and performance*

Grant (2003, p. 492) notes that empirical research in strategic planning systems has focused on two areas: the impact of strategic planning on firm performance and the role of strategic planning in strategic decision making. The latter area of research explored the organizational processes of strategy formulation, which is briefly considered here in order to locate the main concerns of this paper in context.

The prescriptive strategic management literature implies that there is a positive association between strategic planning and company performance, with directional causality from strategic planning to performance (Greenley, 1994). Greenley (1986) has identified a range of advantages to be gained from using strategic planning. Some authors have claimed that it is the act of planning which is of real value (Sinha, 1990; Ramanujam and Venkatraman, 1987). Managers may perceive that it contributes to effectiveness, giving them a feeling of confidence and control. Strategic planning may therefore be effective as a process of management, regardless of the performance achieved.

Capon *et al.* (1994) argue that the greater the degree of sophistication of the planning process, the better the performance. In their view, strategic planners should perform better than financial planners because of their focus on adaptation to the environment, and the formal thinking through of strategic issues and resource allocation priorities. This practice should lead to the better identification of opportunities and threats, and appropriate firm action. Overall they hypothesize that planners should outperform non-planners.

Despite the presumed positive association between strategic planning and company performance in the prescriptive literature, Boyd (1991) notes that after decades of research, the effect of strategic planning on a firm's performance is still unclear. The first empirical test of this relationship was conducted by Thune and House (1970), who reported better economic performance by groups of formal planners compared to non-planners. In the time since this study numerous papers conducting similar analyses have been published resulting in dozens of empirical tests of the planning-performance relationship. Some studies have reported strong benefits of planning (Karger and Malik, 1975; Rhyne, 1986), many report no quantifiable benefit

(Grinyer and Norburn, 1975; Kudla, 1980), and others (Fulmer and Rue, 1974; Whitehead and Gup, 1985) have even reported that planners perform worse on some measures than their non-planning counterparts. Several papers have reviewed this body of early empirical work in an effort to integrate these findings. Some of these papers and their main conclusions are summarized in Table I.

The methodological shortcomings in the prior empirical literature have been identified by a number of reviews (Pearce *et al.*, 1987; Rhyne, 1986; Greenley, 1994). The most prominent ones are related to the definition of planning and the selection of performance measures. Most studies have characterized firms as either planners or non-planners based on the extensiveness of the formal planning system. The presence of an elaborate system does not necessarily mean, however, that a firm's planning process will be effective.

The majority of prior research on the planning-performance relationship has been conducted in the context of a relatively few industrialized countries, including the USA, Japan and the UK, with emerging countries largely ignored. Despite the severe critiques of the prescriptive strategic planning process and the equivocal empirical findings on its dimensions, roles and contributions to overall firm performance, the following hypothesis adopts a prescriptive view of strategic planning and proposes that formal strategic planning will have a positive impact on firm performance:

*H1.* For Turkish firms there is a positive and direct relationship between formal strategic planning and firm performance.

#### *Contextual variables*

The prior literature on formal strategic planning and performance has been criticized for placing little or no emphasis on examining organizational or contextual influences. This stream of research appears to consider strategic planning as an isolated set of activities and has taken insufficient account of the contextual variables. To the limited

Author(s)	Number of studies reviewed	Main conclusions
Armstrong (1982)	12	These studies supported the usefulness of formal planning, but "serious research problems were found in these studies, so few conclusions could be drawn about how to plan and when to plan" (p. 209)
Pearce <i>et al.</i> (1987)	18	Empirical support for the effect of formal planning "has been inconsistent and contradictory" (p. 671) and only a "tenuous link" between formal strategic planning and financial performance had been identified
Shrader <i>et al.</i> (1984)	18	There is no clear relationship between formal, long range planning and organizational performance
Boyd (1991)	Meta-analysis of 29 studies	The overall effect of planning on performance is very weak
Greenley (1994)	29	On balance the evidence supports an association between strategic planning and company performance, but there are many methodological weaknesses which challenge this conclusion

**Table I.**  
Formal strategic planning and performance – reviews of the early literature



extent that the planning context was considered, researchers depicted only a simple and unfettered relationship between organizational factors, strategic planning and financial performance. Elements of corporate context and their influence on the FSP-performance relationship have been largely ignored. The extent to which firms engage in the strategic planning process, i.e. whether the process is formal or informal, hinges on certain organizational factors. We argue that formal strategic planning practices and their impact on firm performance should be viewed in relation to organizational variables (Bracker and Pearson, 1986; Bahae, 1992). Although there may be several organizational determinants of formal strategic planning, this study posits that environmental turbulence, organization structure and firm size are major determinants.

*Environmental turbulence.* The external environment of the firm has a high intuitive appeal as a factor that may influence the planning-performance relationship (Pearce *et al.*, 1987; Shrader *et al.*, 1984; Priem *et al.*, 1995; Slevin and Covin, 1997; Andersen, 2004). "Environment" is normally taken to mean those forces acting on the firm beyond the control of management (Shrader *et al.*, 1984). Greenley and Foxall (1997) note that although studies have found that certain aspects of strategic planning are associated with performance, theory also predicts that these associations will be influenced by external environmental influences (Boyd *et al.*, 1993; Drazin and Ven de Ven, 1985; Ginsberg and Venkatraman, 1985; Hansen and Wernerfelt, 1989). Shrader *et al.* (1984) note that if one of the purposes of strategic planning is to guide the organization in its relationships with the environment (Hambrick, 1980), then organizations that accurately project and anticipate environmental changes should exhibit an uncommon or distinctive level of performance. In this sense strategic planning may be more useful in a turbulent environment than a placid one (Armstrong, 1982; Miller and Friesen, 1983; Eisenhardt, 1989; Miller and Cardinal, 1994).

Consequently, the correlation between planning and performance may be stronger in a turbulent environment, and weaker in a placid environment (Boyd, 1991). However, there are counter arguments to this view: strategic planning is more likely to have a positive impact on firm performance in less turbulent environments where future conditions are easier to anticipate (Mintzberg, 1973; Fredrickson and Mitchell, 1984; Daft, 1992). These conflicting arguments with their respective empirical evidence are well documented by Priem *et al.* (1995). Adopting the former arguments, and given the relatively turbulent environment in Turkey, firms will expect a large positive impact on performance by adopting FSP processes. This leads to the second hypothesis:

*H2.* In the Turkish context the positive effect of formal strategic planning on firm performance is greater when environmental turbulence is high than when environmental turbulence is low.

*Organization structure.* The firm's organization structure is critical to its information processing capability and has a significant influence on the context and nature of human interactions (Miller, 1987). Previous research has investigated the relationships between structure and strategy and between structure and environmental uncertainty (Khandwalla, 1977; Covin and Slevin, 1989; Gibbons and O'Connor, 2005). Organization structures may be viewed as being either mechanistic or organic (Burns and Stalker, 1961). Organizations relying on organic structures are characterized by a high level of

mutual adjustment and tend to encourage flexibility and decentralized decision making. In contrast, a mechanistic organization is characterized by a higher level of standardization and formal rules to facilitate control and coordination, which in turn favorably influences the organization's choice of formal strategic planning practices.

Miller (1987) assessed organization structures along formalization, centralization and structural integration dimensions and noted that formalization had a significant and positive impact on the rationality of strategy-making approaches. In a later study, Gibbons and O'Connor (2005) similarly found that firms with organic structures tended to adopt a strategy formation process that is incremental and emergent, while firms with mechanistic structures were more likely to adopt a strategy formation process that is formal and comprehensive.

The nature of the external environment (varying from very uncertain and unstable to certain and stable) will influence the organization structure adopted by the firm. It is argued that in turbulent and dynamic environments the most effective organization structures tend to be more organic while in stable and more certain environments more mechanic structures will be adopted (Lawrence and Lorsch, 1967; Pugh *et al.*, 1969; Child, 1972). Environmental instability may influence organization structure where managers develop more flexible mechanisms to cope with uncertainties stemming from the lack of clarity in the operational environment. Uncertainty relates to the level of unpredictability of changes in customer tastes, competitive behavior, technology, sources of supply, and the like (Miller and Dröge, 1986a). Contingency theorists (Lawrence and Lorsch, 1967; Pugh *et al.*, 1969; Perrow, 1970; Child, 1972) argue that increased uncertainty creates more complex and non-routine tasks. A high level of uncertainty in the environment therefore requires less formalized and more flexible structures, and more complex but flexible departments and roles (Lawrence and Lorsch, 1967). While Mintzberg (1979) notes that these arguments have not enjoyed consistent support in the literature, Keats and Hitt (1988) found that higher levels of environmental instability were associated with lower levels of divisionalization and diversification.

Roberts (2004) notes that while much research has been conducted on the vertical and horizontal boundaries of the firm and performance, much less has dealt with the internal organization of the firm and its impact on the planning-performance relationship. Given the paucity of research examining the effect of organization structure on formal strategic planning process and performance link, the following hypothesis is derived:

- H3. In the Turkish context the positive effect of formal strategic planning on firm performance is greater when the firm's organization structure is more organic than mechanistic.

#### *Firm size*

Strategic planning is often seen as a more useful management tool for relatively larger firms, but its appropriateness and use by small and medium size firms has also been highlighted (Matthews and Scott, 1995). Pearce *et al.* (1987) identify as a major methodological concern the influence that a firm's size may have on the planning-performance relationship. They call for explicit research attention to firm size, particularly in regard to how this variable may interact with the formality dimension. Size has been argued to be a significant contingency variable to be



considered when designing effective strategic planning systems (Lindsay and Rue, 1980; Hofer, 1975; Lenz, 1981). It may be further argued that in large organizations the strategic planning system functions as a co-ordination mechanism to integrate and control various parts of a firm. Miller and Cardinal (1994) argue that as larger firms are more complex and require more control and integration, strategic planning may affect their performance relatively more. Small firms, tend to relinquish formal strategic planning since they operate in relatively less complex industry environments and their internal operations are highly manageable by a single manager or small group of managers, without the need to engage in comprehensive planning (Mintzberg, 1979). For smaller size firms the usefulness of strategic planning perhaps lies more in developing adaptive thinking rather than being a control mechanism (Miller and Cardinal, 1994).

The empirical evidence on the impact of firm size on FSP and performance is equivocal. Robinson and Pearce (1983) argue that the organization's size is a critical contingency variable in the planning-performance relationship, and found evidence to support this when they examined the planning-performance relationship among small banks. A similar finding was reported by Powell (1994) who found that the correlation between strategic planning and performance was greater among large firms than among small firms. However, using meta-analytic data from 26 previously published studies, Miller and Cardinal (1994) found that firm size was a not a significant predictor of the planning-performance relationship. Also, from data on 112 banks, Hopkins and Hopkins (1997) found a negative direct relationship between bank size and strategic planning intensity which in turn negatively affected banks' financial performance. Despite the contradictory findings, in the context of the Turkish economy we propose the following hypothesis:

- H4.* In the Turkish context the positive effect of formal strategic planning on firm performance is greater among large firms than among small firms.

## Research methods

### *Sample and data collection*

The sample frame for the study was derived from the database of the Istanbul Chamber of Industry's 500 largest Turkish manufacturing companies and the database of companies quoted on the Istanbul Stock Exchange. After eliminating those companies listed in both databases, the sampling frame included a total of 638 companies.

A modified version of the Dillman's (1978) Total Design Method was used to organize and conduct the study. The first part of the method included the efforts made in identifying the sample, as described above, and designing and piloting the survey instrument. The questionnaire was mailed to the CEO of each company with a letter requesting that it be completed by the CEO, or his/her senior executive in charge of strategy development within the organization. After one reminder 135 usable questionnaires were returned, a response rate of 21.2 percent, which is acceptable given the seniority of the respondents, and the confidentiality and complexity of the questionnaire. Respondents were CEOs (39.3 percent), Vice President (14.8 percent), planning executives (11.1 percent), finance executives (10.4 percent) and other senior executives, for example, Marketing Director (24.4 percent).

No systematic differences were found between responding and non-responding companies across the main characteristics of the sample. The sample firms had mean sales of \$131.96 million and mean number of employees of 1,040. In terms of the number of employees, 30.4 percent of the sample is composed of small and medium-sized firms (less than 250 employees) with the remainder being characterized as large size firms. The sample is therefore composed of relatively large firms given the scale of the Turkish economy. The distribution of the sample in terms of the sector of operation is as follows: auto, transport and related equipment, 8.1 percent; electrical and electrical machinery, 8.9 percent; food/drink manufacturing, 17.8 percent; chemicals, 9.6 percent; textile, apparel and leather, 13.3 percent; cement, 5.2 percent; metal, iron and steel, 14.1 percent; other manufacturing, 11.1 percent; financial and consultancy services, 4.4 percent; retailing, 3.7 percent; and construction and real estate, 3.7 percent. In terms of ownership type, the companies were classified as state-owned (22 percent), private-owned (59 percent) and foreign-owned (19 percent).

#### *Measurement of variables*

*Formal strategic planning.* As previously noted, early studies of the effect of strategic planning systems have been criticized for adopting overly simple measures of process or formality. Typically the measure of formality was nominal on a has/has not a strategic planning systems scale. This study sought to assess the planning process using multiple indicators. From the earliest development of the corporate planning literature commentators have identified problems or features of good and bad planning practice (e.g. Pennington, 1972; Steiner and Schöllhammer, 1975; Porter, 1987; Marx, 1991). Several commentators have observed that the deciding characteristic of a "formal" strategic planning process is "that the process is not just cerebral but formal, decomposable into distinct steps, delineated by checklists, and supported by techniques" (Mintzberg and Lampel, 1999, p. 22). This study's focus is therefore on the formality versus flexibility of the organizational planning process. The intention was to develop a measure of planning process formality, not to debate whether this process should be formal or flexible. To this end, a multi-item measure of the planning process based on this formal-flexibility dimension was developed based upon studies by Gluck *et al.* (1982) and Marx (1991). The multi-item scale was adopted to counter the critique made above of early studies that used a simple dichotomous scale and therefore to better reflect the multi-faceted nature of formal planning within organizations. The items used to measure formal strategic planning (FSP) process are reproduced in the Appendix. After eliminating four items (Q4E, Q4F, Q4K and Q4L) from the initial set of 12, the inter-item reliability coefficient (alpha) for FSP was computed to be 0.76, which is well above the threshold value of 0.70 as suggested by Nunnally (1978).

*Firm performance.* It is generally recognized that it is difficult to select a single measure of firm performance. Greenley (1994) notes that the strategic management literature lists several quantitative objectives that can be set to guide performance over a period of time, as well as qualitative objectives (Hunger and Wheelen, 1993; Thompson, 1993; Thompson and Strickland, 1992). Shrader *et al.* (1984) note that the dependent (performance) variables have been measured in numerous ways in the literature (sales, profit, productivity, revenue, dividends, growth, stock price, capital, cash flow, return on assets, return on capital, return on equity, return on investment,

earnings per share, as well as other financial ratios), and point out that some performance variables may be more susceptible than others to strategic planning intervention. Greenley further argues that despite obvious difficulties in measuring qualitative objectives, there is a strong *a priori* case that they should be included in assessments of performance (Chakravarthy, 1986). Therefore, care needs to be taken in identifying the adopted measures of performance.

Greenley and Foxall (1997) note that previous studies have taken either a subjective or an objective approach to measuring performance. The subjective approach has been used extensively in empirical studies, based on executives' perceptions of performance, having been justified by several writers. Studies by Covin *et al.* (1994), Dess (1987), Dess and Robinson (1984), Golden (1992), Hart and Banbury (1994), Powell (1992), Venkatraman (1990), Venkatraman and Ramanujam (1986), and Verhage and Waarts (1988) have all found consistency between executives' perceptions of performance and objective measures. Additionally, Fisher and McGowan (1983) argue that objective measures in company accounts are flawed and are not suitable for research purposes, while Day and Wensley (1988) suggest an absence of suitable objective measures. Hence the subjective approach has been widely adopted, and we do so in this paper.

Measures of subjective relative performance (PERF) were based on items derived from a number of previous studies using this variable (Pearce *et al.*, 1987; Boyd, 1991; Dess and Robinson, 1984). Respondents were asked to indicate on a five-point Likert-type scale, ranging from "definitely better" through "about the same" to "definitely worse" or "don't know", how their business had performed over the last three years relative to their major competitors on each of the following financial performance criteria: growth in profits, growth in sales volume, growth in market share, after tax returns on total sales, ratio of total sales to total assets and overall performance/success. These items are typically employed to measure performance as they are of interest to, and accessible to, powerful external stakeholders of an organization, such as its shareholders. Subjective relative performance was then calculated as the average response for all estimated performance criteria. Dess and Robinson (1984) found subjective measures of performance, assessed relative to a company's main competitors, were well correlated with objective performance measures. After eliminating one item (growth in profits), the inter-item reliability for PERF scale was found to be 0.90.

*Moderator variables.* Environmental turbulence (TURB) was gauged using Miller and Dröge's (1986b) measure for environmental uncertainty based on Khandwalla's (1974, 1977) measures (see Appendix, Tables AI-AIII). These reflect the degree of change and unpredictability on market-related and technology dimensions. The Cronbach alpha value for TURB is 0.72, denoting a satisfactory level of construct reliability.

Organization structure (STRUCT) was operationalized by using a five-item scale (see Appendix, Tables AI-AIII), which measures "organicity" or the extent to which companies are structured in mechanistic or organic forms. The scale was initially developed by Covin and Slevin (1988) based on Burns and Stalker (1961). With the exclusion of one item (Q5A), the inter-item reliability of STRUCT was found to be highly satisfactory with the Cronbach alpha value being 0.83.

Size (SIZE) was measured using the number of employees in the firm.

*Unidimensionality and convergent validity of scales*

For unidimensionality and convergent validity analysis, confirmatory factor analysis (CFA) was used as opposed to exploratory factor analysis (EFA). Mulaik (1972) provides a strong argument in favor of performing confirmatory factor analysis by suggesting that the major disadvantage of pure EFA lies in the difficulty involved in interpreting the factors. Implementing CFA within LISREL “allows the specification of measurement errors within a broader context of assessing measurement properties and describes a causal indicator model where the operational indicators are reflective of the unobserved theoretical construct” (Venkatraman, 1989).

In this study, firm performance was treated as an endogenous variable (dependent variable), while formal strategic planning was taken as an exogenous variable (independent variable). Table II summarizes the test results for unidimensionality of each scale. As shown in Table II, both scales achieve unidimensionality and convergent validity at monomethod level based on the following model statistics:  $\chi^2$  statistics, its associated degrees of freedom,  $p$  value, GFI, AGFI, CFI, and Tucker-Lewis index.

*Model*

A structural theory is a conceptual representation of the relationships between constructs. It can be expressed in terms of a structural model that represents the theory with a set of structural equations and is usually depicted with a visual diagram. Advances in structural equation modeling (SEM) techniques have made it possible for management researchers to simultaneously examine theory and measures. SEM is a comprehensive statistical approach to testing hypotheses about relationships between observed and latent variables. It combines features of factor analysis and multiple regression for studying both the measurement and the structural properties of theoretical models. Such techniques are considered to be more superior to more traditional statistical techniques such as multiple regression, factor analysis and multidimensional scaling. However, researchers should apply these new techniques appropriately. They must be aware of underlying assumptions and limitations of SEM techniques. The most prominent SEM technique is the maximum likelihood (ML) based covariance structure analysis method that is so-called LISREL (Bollen, 1989; Jöreskog, 1970; Rigdon, 1998). LISREL analysis was used as a linear structural equation model for latent variables (Jöreskog, 1970). The objective of LISREL is to show the complete set of paths as specified in the model is reasonable and the operationalization of the theory is corroborated and not disconfirmed by the sample data (Fornell and Bookstein, 1982; Hair *et al.*, 2006).

LISREL causal modeling deals with structural and measurement issues in survey-based research and is employed to test a hypothesized model. The two components of LISREL are measurement and structural. The measurement component identifies the latent variables, while the structural component evaluates the

**Table II.**  
Initial confirmatory  
factor analysis results

Variables	Number of indicators	$\chi^2$	d.f.	$p$	GFI	AGFI	CFI	TLI
Firm performance	6	2.39	4	0.66	0.99	0.97	0.99	0.99
Formal strategic planning	8	22.44	19	0.26	0.96	0.93	0.99	0.98

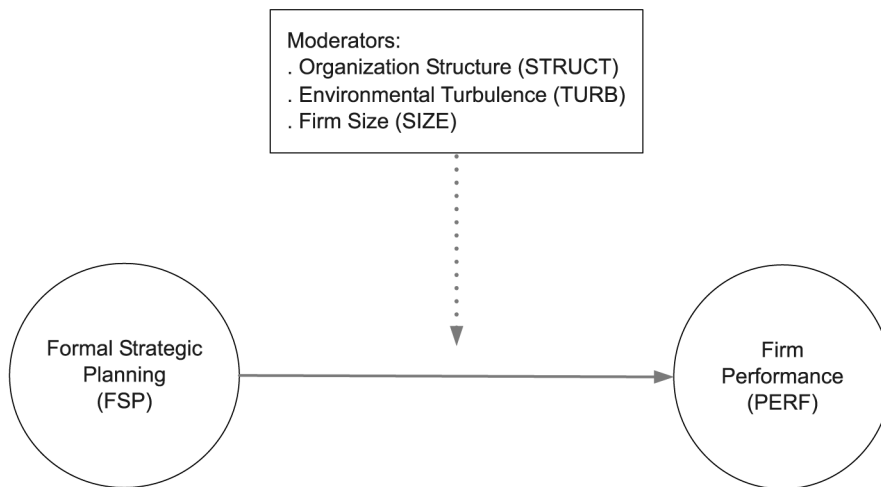
hypothesized causal relationships among latent variables in the structural equation model and provides an overall hypothesis test of the model as a whole. The LISREL model, used to test the hypothesized model is shown in Figure 1. Table III displays the descriptive statistics and correlations among the measured variables.

**Results and discussion**

The first step in the analysis was to test the base path model as specified in Figure 1. The hypothesis testing capability of LISREL allowed us to determine the likelihood that the relationships among the latent variables actually fit the relationship defined in the model. LISREL first analyzes the data collected on the observed variables for evidence of model specification quality and then conducts a chi-square likelihood ratio test of the null hypothesis that the sample covariance matrix  $S$  is drawn from a population characterized by the hypothesized covariance matrix  $\Sigma$ . An overall goodness-of-fit ( $\chi^2$ ) test with a  $p$  value exceeding 0.05 would indicate that the model is correctly specified. Figure 2 presents the results of the LISREL analysis for the base model without considering the impact of moderating variables.

The method of maximum likelihood was employed to derive parameter estimates for the structural equation model, as shown in Figure 2. PERF was measured by six performance variables: Q6B, Q6C, Q6D, Q6E, Q6F and Q6G. Based on the components of the formal strategic planning process, the eight measures of the FSP latent variable were: Q4A, Q4B, Q4C, Q4D, Q4G, Q4H, Q4I and Q4J. All parameter estimates for the model are statistically significant ( $p < 0.01$ ). The model fit determines the degree to which the structural equation model fits the sample data. The model fit criteria commonly used are chi-square ( $\chi^2$ ), goodness of fit index (GFI), adjusted goodness of fit index (AGFI), comparative fit index (CFI), Tucker-Lewis index and root mean square residual (RMS) (Schumacker and Lomax, 1996).

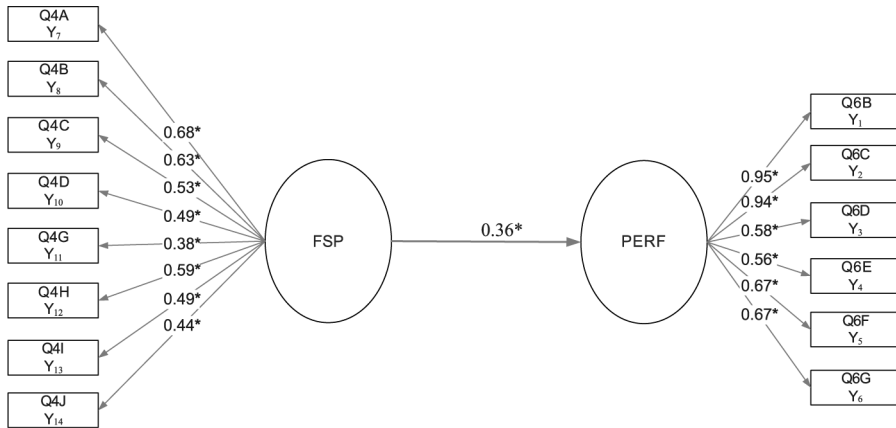
Table IV shows the parameter estimates for the SEM models, which include both the standardized inner regression weights and the goodness of fit indices for the hypothesized relationships that are provided in the following equations:



**Figure 1.** Research framework







Note: \*p<0.001

**Figure 2.**  
The base SEM of planning-performance relationship

$$\text{PERF} = \gamma_{11} \text{FSP} + \zeta_1$$

$$H_0 : \gamma_{11} = 0; H_1 : \gamma_{11} \neq 0$$

$$\text{PERF} = \gamma_{\text{high}} \text{FSP} + \zeta_1 \text{ (High TURB)} \text{ and } \text{PERF} = \gamma_{\text{low}} \text{FSP} + \zeta_1 \text{ (Low TURB)}$$

$$H_0 : \gamma_{\text{high}} \leq \gamma_{\text{low}}; H_2 : \gamma_{\text{high}} > \gamma_{\text{low}}$$

$$\text{PERF} = \gamma_{\text{organic}} \text{FSP} + \zeta_1 \text{ (Organic STRUCT)} \text{ and } \text{PERF} = \gamma_{\text{mechanistic}} \text{FSP} + \zeta_1 \text{ (Mechanistic STRUCT)}$$

$$H_0 : \gamma_{\text{organic}} \leq \gamma_{\text{mechanistic}}; H_3 : \gamma_{\text{organic}} > \gamma_{\text{mechanistic}}$$

$$\text{PERF} = \gamma_{\text{large}} \text{FSP} + \zeta_1 \text{ (Large SIZE)} \text{ and } \text{PERF} = \gamma_{\text{small}} \text{FSP} + \zeta_1 \text{ (Small SIZE)}$$

$$H_0 : \gamma_{\text{large}} \leq \gamma_{\text{small}}; H_4 : \gamma_{\text{large}} > \gamma_{\text{small}}$$

For the base model, the chi square value of 77.63 (d.f. = 67) has a significance level of 0.176 that is above the minimum threshold value of 0.05. The Goodness of Fit Index (GFI) is 0.93, which is close to 1 and accepted as a good indicator of an adequate model fit. The value of adjusted goodness of fit index (AGFI) is 0.89, which is more than the suggested cut off value of 0.80 and thus, it is considered as a good indicator of an adequate model fit (Hair *et al.*, 2006).

In this model, the root mean square residual (RMR) value was found to be 0.078 indicating a perfect fit. The root mean square error of approximation (RMSEA) is also another indicator of model fit. RMSEA for the model was 0.03. In terms of goodness of fit indices, there is a need to check further two more indices, CFI and TLI. The values of both indices are 0.98, which is very close to 1. All of the model fit criteria for the path model are highly satisfactory such that the base model was accepted to fit the data.

**Table IV.**  
Parameter estimates for  
SEM models

Model	Moderators	Inner regression weights	$\chi^2$	d.f.	$p$	GFI	AGFI	CFI	RMR	RMSEA	TLI
Base model		FSP – PERF	77.63	67	0.17	0.93	0.89	0.98	0.08	0.03	0.98
Model 1a	TURB	FSP – PERF	89.54	74	0.10	0.84	0.77	0.96	0.11	0.06	0.95
Model 1b	TURB	FSP – PERF	93.27	73	0.06	0.86	0.80	0.96	0.08	0.06	0.95
Model 2a	STRUCT	FSP – PERF	95.48	72	0.06	0.86	0.80	0.95	0.09	0.06	0.93
Model 2b	STRUCT	FSP – PERF	86.51	75	0.17	0.83	0.77	0.97	0.09	0.05	0.96
Model 3a	SIZE	FSP – PERF	90.32	70	0.07	0.85	0.78	0.96	0.09	0.06	0.95
Model 3b	SIZE	FSP – PERF	90.61	73	0.08	0.85	0.79	0.96	0.12	0.06	0.96

**Notes:** \*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$  (two-tailed test)

Based on these results, *H1* was supported suggesting a strong relationship between formal strategic planning practices and firm performance. This finding tends to confirm the arguments of the prescriptive strategic management literature, which implies that there is a positive association between formal strategic planning and firm performance, with directional causality from FSP to performance. In our sample of Turkish firms FSP contributes to effectiveness, this is likely to give managers a feeling of confidence and control for managing in an environment characterized by relatively high uncertainty. In an emerging market where relatively higher uncertainty prevails, this finding implies that strategic planning is an efficient tool, even in an environment of ongoing economic and political transformation.

Concerning the moderating impact of environmental turbulence (*H2*) the sample was split as close as possible on the median to form two groups (the “low” group consists of 62 firms and the “high” group consists of 73 firms). Models 1a and 1b in Table IV show the path models for the low and high groups, respectively. It may be noted that the relationship between FSP and firm performance is much stronger in the high moderating group ( $\beta = 0.538$ ;  $p < 0.001$ ) than in the low moderating group ( $\beta = 0.348$ ;  $p < 0.01$ ). Table IV indicates that the goodness of fit indices for both models are within acceptable ranges and exhibit satisfactory fits. These results tend to confirm *H2* that the positive relationship between FSP practices and firm performance is moderated by environmental turbulence. This finding corroborates the findings of earlier studies (Armstrong, 1982; Shrader *et al.*, 1984; Miller and Friesen, 1983; Eisenhardt, 1989; Boyd, 1991; Miller and Cardinal, 1994) that strategic planning may be more useful in a turbulent environment than a placid one. The emerging nature of the Turkish context might to some extent explain the moderating role of environmental turbulence on the causal link between formal strategic planning and firm performance. Similar to many other emerging countries, Turkey has a highly uncertain business environment. The legal and institutional environment is relatively poorly developed, capital markets are thin and there are numerous market failures. Such market inefficiencies and a weak resource base may increase the risk of the business environment and thus affect the likelihood of the firm adopting a FSP process, which will in fact positively influence firm performance. It might be argued therefore that Turkish firms would tend to perceive strategic planning more as a deliberate and formal process rather than an emergent process in a relatively turbulent business environment, which they envisage would affect firm performance positively.

To verify *H3* regarding the moderating role of organization structure, a two-group analysis relying on the base model represented in Figure 2 was conducted. To form two groups differentiated in terms of their organization structure, a median split distinguishes firms on the extent to which they are structured in mechanistic or organic forms (the “low” group consists of 76 firms and the “high” group consists of 59 firms). Models 2a and 2b in Table IV indicate the path models for the low and high groups, respectively. It can be clearly seen that the relationship between FSP and firm performance is much stronger in the high moderating group ( $\beta = 0.59$ ;  $p < 0.001$ ) than in the low moderating group ( $\beta = 0.198$ ;  $p > 0.1$ ). The goodness of fit indices for both models are highly satisfactory.

It is clear that these results support *H3*, which indicates that FSP is more effective for firms relying on relatively more organic structures than those relying on

mechanistic structures. In organic or more entrepreneurial type of organizations, perhaps there might be more loose edges to strengthen (Mintzberg, 1994) hence formal strategic planning appears to facilitate a better performance for these type of organizations. The literature on FSP mainly focuses on a linear relationship between planning and performance and appears to neglect FSP's catalyst role in more dynamic environments. Our finding supports the assertion of contingency theorists (Lawrence and Lorsch, 1967; Pugh *et al.*, 1969; Perrow, 1970; Child, 1972) that increased uncertainty creates more complex and non-routine tasks. A high level of uncertainty in the environment therefore requires less formalized and more flexible structures, and more complex but flexible departments and roles (Lawrence and Lorsch, 1967). For such organizational structures, FSP can serve as an integrating mechanism by building awareness or crystallizing consensus throughout the organization to be able to respond to the challenges of a highly dynamic business environment. This contention to some extent is also shared by Mintzberg (1994) who argues that it is a fallacy to assume that formal strategic planning makes no sense for non-mechanical organizations operating in fairly dynamic environments.

To assess the moderating role of firm size (*H4*), a similar approach was adopted where firm size as measured by number of employee was used to create a median split of 135 firms into two groups with 70 firms in the low size group and 65 firms in the high size group. Models 3a and 3b in Table IV indicate the parameter estimates for the low and high groups, respectively. The results of the path models, as shown in Table IV, indicate that there is a strong support for *H4* in that the positive relationship between FSP and firm performance is much stronger in the high moderating group ( $\beta = 0.479$ ;  $p < 0.01$ ) than in the low moderating group ( $\beta = 0.296$ ;  $p < 0.05$ ). The goodness of fit indices for both models are also indicative of well fitting models. These results indicate that firm size has a moderating effect on the relationship between FSP and firm performance: As the firm size increases, implementation of FSP practices will have much stronger positive impact on firm performance. This finding tends to confirm the views of previous studies (Robinson and Pearce, 1983; Powell, 1994; Miller and Cardinal, 1994) that as larger firms are more complex and require more control and integration, strategic planning may affect larger firms' performance relatively more in large organizations.

### Conclusions

This paper provides new evidence to explain the nature of the strategic planning-performance relationship, drawing on data from Turkish companies. Prior studies that have examined this relationship have tended to focus on firms from industrialized countries. This is one of the first studies that has explicitly modeled and empirically tested the relationship in an emerging country context.

By using LISREL causal modeling we investigated the relationship between formal strategic planning and firm performance, and the moderating effects of a set of contingency factors on this relationship. The findings show that there is a good deal of support for the study's hypotheses. First, there exists a strong and positive relationship between formal strategic planning and firm performance (*H1*), which tends to confirm the arguments of the prescriptive strategic management literature.

In the case of the moderator impact of environmental turbulence, the results are consistent with *H2*, verifying that the relationship between FSP and firm performance is stronger for firms in the high environmental turbulence group. While this finding corroborates the findings of earlier studies, it also contributes to the relatively scant strategy literature in emerging countries. Turkish firms operating in a highly turbulent business environment, have a tendency to view strategic planning more as a deliberate and formal process rather than an emergent process, which affects firm performance positively.

A test of *H3* verifies the moderator role of organization structure indicating that FSP is more effective for firms relying on relatively more organic structures than those relying on mechanistic structures. In fact, FSP can serve as an integrating mechanism for firms relying on more flexible or organic structures by building awareness or crystallizing consensus throughout the firm to be able to respond to the challenges of a highly dynamic business environment.

The test results also support *H4*, that the FSP-performance link becomes stronger as the firm size increases. This finding is not surprising within the context of an emerging country where large size firms would tend to benefit from oligopolistic advantages and have relatively more favored access to most kinds of inputs as compared to smaller firms.

The findings of this study provide a contribution to our understanding of the relationship between formal strategic planning and firm performance, however, there is much more that can be done in future research. After almost a decade of relative neglect perhaps this research issue will again begin to attract the kind of attention that it deserves. Although strategy is often considered to be a universal practice, it is better thought of as many different crafts, varying according to its different contexts. So, the impact of various contexts on the planning-performance relationship should be taken into account. For instance, consideration of different national and societal contexts, such as that between developed country and emerging country, as well as ownership and stakeholder contexts, including family businesses and public sector organizations, would all provide valuable contextual factors to further examine the planning-performance relationship. Another way forward would be to recognize that strategic planning and its key dimensions represent a subtle and complex activity, and that to obtain rich data on such phenomena may be best accomplished through research methods that employ qualitative data gathering techniques. This study, like previous planning-performance studies, is concerned with financial measures of company performance. Incorporation of other performance measures, such as quality and employee satisfaction, in addition to financial measures would enrich our understanding of the planning-performance relationship. Finally, this study points to the desirability of incorporating additional theoretically relevant moderators into future studies of the planning-performance relationship. We suggest these could include the content of a firm's strategy, the market power of the firm and the firm's resources, capabilities and systems. Finally, given the paucity of strategy research in emerging country context, there is an obvious need for comparison studies. Particularly those that have some commonalities with Turkey, such as Brazil, Russia and India, would be useful.

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### Appendix

#### *The Planning Formality Scale*

To what extent do your company's planning procedures conform to the statement on the left or right of the following list?

Q no.	Flexible		Formal
Q4A	Scheduled as needed	1 to 5	Regular scheduled reviews
Q4B	As much time as needed	1 to 5	Strict time limits on reviews
Q4C	Informal presentations	1 to 5	Formal presentations
Q4D	Decision makers only	1 to 5	Numerous observers
Q4E	Ten page plans, or less	1 to 5	Massive paperwork
Q4F	Open dialogue	1 to 5	Restricted discussion
Q4G	Decisions optional	1 to 5	Decisions compulsory
Q4H	Results emphasized	1 to 5	Process emphasized
Q4I	Random progress reviews	1 to 5	Regular progress reviews
Q4J	Limited accountability	1 to 5	Strict accountability
Q4K	Business intelligence	1 to 5	Data, numbers, facts
Q4L	Flexible planning procedures	1 to 5	Uniform planning procedures

Table AI.

#### *The Environmental Turbulence Scale*

For the industry that accounts for the largest percentage of your sales (i.e. your main industry) how rapid or intense is each of the following?

Q2A	Our firm has to change its marketing practices to keep up with the market and competitors	1 to 5	Our firm must change its marketing practices extremely frequently (e.g. semi-annually)
Q2B	The rate at which products or services are getting obsolete in the industry is very slow (e.g., basic metal like copper)	1 to 5	Threat of obsolescence is very high, as in some fashion goods
Q2C	Actions of competitors are quite easy to predict	1 to 5	Actions of competitors are unpredictable
Q2D	Demand and consumer tastes are fairly easy to forecast	1 to 5	Demand and taste are almost unpredictable
Q2E	The production/service technology is not subject to very much change and is well established	1 to 5	The modes of production/service change often and in a major way

Table AII.



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*The Organization Structure Scale*

Indicate in each scale the number that best approximates the operating management philosophy of the top management of your company.

Analysis of  
formal strategic  
planning

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Q5A	Tight formal control of most operations by means of sophisticated control and information systems	1 to 5	Loose, informal control; heavy dependence on informal relations and norm of cooperation for getting work done
Q5B	Strong emphasis on always getting personnel to follow the formally laid down procedures	1 to 5	Strong emphasis on getting things done if this means disregarding formal procedures
Q5C	A strong emphasis on holding fast to true and tried management principles despite any change in business conditions	1 to 5	A strong emphasis on adapting freely to changing circumstances without too much concern for past practice
Q5D	Strong emphasis on a uniform management style throughout the business unit	1 to 5	Managers' operating styles allowed to range freely from the very formal to the very informal
Q5E	Strong emphasis on getting line and staff personnel to adhere closely to formal job descriptions	1 to 5	Strong tendency to let the requirements of the situation and the individual's personality define proper on-job behavior

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**Table AIII.**

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