Determinants of strategic planning effectiveness: extension of earlier work

Strategic planning effectiveness

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Abstract

Purpose – This paper aims to report the results of a study which extends the research of Elbanna by testing the relationship between strategic planning practice and participation on the one hand and the effectiveness of strategic planning on the other.

Design/methodology/approach – The paper extends the work of Elbanna by conducting the study in a new setting, the United Arab Emirates (UAE) with a broader sample: private and public organizations. The study tries to control for the possible impact of the methodology on research results by adopting the same methods and measures as the initial study had adopted.

Findings – The conclusions of the combined studies show that, in Arab countries, strategic planning practice enhances strategic planning effectiveness; unexpectedly, and contrary to previous research in developed economies, management participation does not contribute here to the effectiveness of strategic planning.

Originality/value - Although previous research provides valuable knowledge concerning strategic planning, there has been a paucity of research that empirically measures the effectiveness of strategic planning. Moreover, the scarcity of replications and extensions in the strategic management literature encourages this study to try to fill this gap. The research also shows the importance of extensions in building strategic management theory.

Keywords Business planning, Competitive strategy, Management effectiveness, United Arab Emirates, Arabian Peninsula

Paper type Research paper

1. Introduction

Do planning and participation contribute to or inhibit firm performance? This is probably one of the most important but unresolved questions in strategic management research and practice. Although the relationship between strategic planning and organizational outcomes is one of the most extensively researched issues in the field of strategic management (Elbanna and Child, 2007a), empirical research still needs to pay more attention to this relationship. This study makes an empirical attempt to do so. Moreover, Wooldridge and Floyd (1990) argue that today's business environment demands cooperation between top management and people at other managerial levels. Top managers, for example, need to articulate the context and develop the organizational structures and reward systems that encourage middle managers to think strategically. This need suggests different roles for staff at different managerial Journal of Strategy and Management levels in the strategic planning process. Ketokivi and Castaner (2004) suggest that management participation in the strategic planning process can generate © Emerald Group Publishing Limited informational, affective and emotional effects. As a result, management participation



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in strategic planning may enforce strategic planning practice and its effectiveness. Thus, one aim of this paper was to incorporate management participation in our model.

Evaluating strategies is a vital need for strategists and hence for academics. The need to align organizations' strategies with organizational performance measurement systems is well established in the strategy literature (Tapinos et al., 2005). Despite the huge amount of strategic planning literature, there has been a paucity of research that empirically measures the effectiveness of strategic planning. Moreover, the operationalization of strategic planning effectiveness in strategy research is still one of the thorniest issues confronting researchers. For example, little consensus exists over what constitutes a valid set of criteria for the effectiveness of strategic planning (Phillips and Moutinho, 1999). Strategic planning research has traditionally assessed planning effectiveness by focusing on financial performance (Falshaw et al., 2006; Gerbing et al., 1994; Schaffer and Willauer, 2003). It has neglected an important array of strategic planning nonfinancial outcomes (Elbanna, 2008; Freeman, 1989; McLarney, 2001). These valued organizational outcomes include, for example, efficiency in operations, public image, quality of products and employee satisfaction (Elbanna and Child, 2007b; Kaplan and Norton, 2001; Schaffer and Willauer, 2003). Ittner and Larcker (2003) found that most of their investigated companies have made little attempt to measure nonfinancial performance. Accordingly, incorporation of other performance measures in addition to financial ones would enrich our understanding of planning-performance relationship (Falshaw et al., 2006). This was taken into consideration in this study.

Although replications are generally argued to be important in scientific research, there is a lack of replications in the management literature (Peng et al., 2007; Tsang and Kwan, 1999). Yet replications have the fundamental role of protection from the uncritical acceptance of empirical results (Peng et al., 2006). The purpose of the present article is to deepen our understanding of the relationship between planning and participation and the effectiveness of strategic planning. In doing so, we replicate the research of Elbanna (2008). It is worth noting that we not only replicate Elbanna's study, but also extend it by conducting the present study in a new setting, the United Arab Emirates (UAE), employing a broader sample: private and public organizations. Thus, our research is a replication with extension of that of Elbanna. UAE, as one of the oil rich Gulf countries, provides a highly interesting setting in which to refine and test existing management theories. Hence, more knowledge on what is going is uniquely valuable. Moreover, although both Egypt and UAE are Arab countries with many cultural similarities, there are key distinctions between them in terms of their economic, political and social systems. Given this, another function of this paper is to draw on data from organizations working in the UAE, which is novel in this stream of research.

Finally, a meta-analysis (Miller and Cardinal, 1994) reported that what is primarily responsible for the inconsistencies reported in previous research on the link between strategic planning and firm performance is the study methodology. Similarly, Greenley (1994) found many differences in the methodology of studies that examine this link, to the extent that their results cannot be legitimately combined; therefore it cannot be concluded that a link is evident. This continues until now. Furthermore, Elbanna (2006) confirms the important role of the method of study in explaining the conflicting results of previous research on the relationship between the strategy-making process and

organizational outcomes. Many authors emphasize the impact of different aspects of methods on research results (e.g. Barkema and Shvyrkov, 2007; Elbanna, forthcoming; Lu and Beamish, 2001; Miller, 2008). Given the above, in this study we tried to control for the possible impact of methodology on our research results by adopting the same methodology of Elbanna (2008).

2. Theory development

Previous research shows that the practice of strategic planning is beneficial for organizations (Sarason and Tegarden, 2003). Over time, the use of strategic tools will enhance the effectiveness of the planning system itself (Ramanujam *et al.*, 1986). Tapinos *et al.* (2005) report a positive relationship between the practice and the effectiveness of strategic planning. A meta-analysis found that strategic planning positively influences firm performance (Miller and Cardinal, 1994). In a neighboring Arab country, Egypt, Elbanna (2008) reported that strategic planning practice is significantly associated with strategic planning effectiveness. Thus:

H1. There is a positive relationship between the practice and the effectiveness of strategic planning.

Although not all research has supported the positive impact of management participation on strategic planning effectiveness (e.g. Elbanna, 2008), strong theoretical support suggests that broad-based participation by management in the strategy process enhances the attainment of organizational outcomes (Bourgeois and Brodwin, 1984; Hrebiniak and Joyce, 1984) and much research has supported a positive link (e.g. Higgins, 1981; Van de Ven, 1980). For example, Freeman (1989) reports that management participation in strategic planning clearly influences the utilitarian planning consequences and the psychological planning consequences. In the same vein, Gerbing et al. (1994) suggest a strong causal relationship between management participation and two classes of strategic benefit, namely, utilitarian and psychological. Wooldridge and Floyd (1990) suggest that management participation in strategy development is necessary for organizational performance. Lines (2004) argues that participation in the strategic change processes is frequently assumed to have a number of positive consequences. Participation may also facilitate managers' commitment to the strategic plans (Hirschman, 1970), which can reduce behavioral impediments to the effectiveness of strategic planning (Hart, 1992). Hence:

H2. There is a positive relationship between management participation in strategic planning processes and strategic planning effectiveness.

Several authors confirm respect for seniority in the Arab society (e.g. Hickson and Pugh, 2001). For example, Hofstede (1991) suggests that managers in Arab countries are likely to keep a long hierarchical distance, be relatively respectful towards leadership and have a fatalistic outlook. This may suggest that the higher the seniority, the greater the participation in the strategic planning process. Elbanna (2007) empirically supports this suggestion, in reporting a positive relationship in Egypt between the managerial level and the degree of participation in the strategic planning process. Since the highest levels of management usually participate in the strategic planning process, this may inhibit other managerial levels from effective participation in this process and hence lessen their impact on the process and its outcomes. At the



same time, the formality of the planning system can be indicative of the use of strategic tools in the planning process and the overall relationship between formal planning and performance across studies is positive. On the basis of this discussion, we argue that the relative impact of strategic planning practice on organizational outcomes may be greater than the impact of participation in the UAE. Elbanna (2008) provides empirical support for this argument in another Arab country and reports that the impact of strategic planning practice on strategic planning effectiveness is significantly greater than the impact of participation. Thus:

H3. In the UAE context, strategic planning practice explains more of the significant variance in strategic planning effectiveness than management participation does.

When people have an opportunity to participate in the strategic planning process, they are more likely to be interested in its outcomes (Ketokivi and Castaner, 2004). Further, this involvement is likely to generate participants' commitment to the strategic planning tools which are used during this process or which will be employed as a result of it. Being asked to participate in the strategic planning process generates an implicit contract between the participants and members of top management, who are asking for their participation, that the participants will not only agree with the adopted strategic planning practices, but also will do their best to implement them successfully. Such participation therefore reinforces the effects of strategic planning practices in jointly enhancing the effectiveness of strategic planning. Simultaneously, the wide use of strategic planning tools may mean that more employees will be involved in wielding such tools. This may increase the possibility of their participation in the strategic planning process and their understanding of this process, as well as their commitment to it and hence reinforce the impact of management participation on the effectiveness of strategic planning. Given the above in addition to the results of related research in the Egyptian setting that the effect of a wide participation by management strengthens the effect of strategic planning practice on the effectiveness of strategic planning and vice versa (Elbanna, 2008), we suggest the following hypothesis:

H4. Strategic planning practice and the extent of management participation in strategic planning processes complement one another to further enhance the effectiveness of strategic planning above and beyond the main effects that they create individually.

3. Method

Following Fredrickson (1984), we used the methodology used in the initial study of Elbanna (2008) (e.g. data collection methods, sample size, statistical techniques, type of industry, number of industries and operationalization of the study variables) in order to control for one of the major causes of the contradictory results of previous research, namely, methods.

3.1. Sampling and data collection

The researcher and five academics critically reviewed the first draft of the questionnaire. Taking into consideration their experience as executives in addition to their academic background, 18 MBA students were chosen to run a pilot test. Some of the items in the questionnaire were reversed, to reduce response bias. Considering the



difficulties of collecting data in Arab countries and the nature of our data, a personal delivery and pick-up system was used to collect our questionnaire. A total of 112 usable questionnaires were collected. Questionnaires with a few items left unanswered were considered usable (sporadic non-response) and a sample mean was used as a replacement for unanswered items. For generalization purposes, we selected our sample from both public and private sector organizations. Sampled organizations were divided into 47 percent from the public sector and 53 percent from the private sector. 21 percent of the organizations were classified as operating in the manufacturing sector, while 79 percent were in the service sector (financial services (25 percent), trading (16 percent), government (14 percent), education, training and consultation (9 percent), hospitality and entertainment (8 percent), IT, the media and communication (7 percent)). The mean number of employees is 1,297. Unsurprisingly, the mean number of employees in the public sector (2.242) is bigger than that in the private sector (532). Moreover, 85 percent of the private companies have fewer than 1,000 employees while 45 percent only of public organizations have fewer than 1,000 employees. Our respondents were department heads (38 percent), general managers or managing directors (21 percent), section heads (21 percent), branch managers (13 percent) and vice presidents (7 percent). 18 percent of the respondents were female and 66 percent of respondents requested a summary report on the final results.

3.2. Measures

Following Elbanna (2008), the study variables (effectiveness of strategic planning, strategic planning practice, management participation and control variables) were measured. The effectiveness of strategic planning was operationalized through six items. The respondents were asked to respond to each item using a five-point Likert scale from 1 (strongly disagree) through 5 (strongly agree). These items examine, for example, whether the strategic planning increased effectiveness in achieving the organization's objectives and led to the development of a sustainable competitive position. The six items were factor analyzed and only one factor emerged with an eigenvalue of more than 1, demonstrating the unidimensionality for our construct. Moreover, the Alpha coefficient for this construct (0.73) indicates adequate reliability and internal consistency. These results provide additional support for the reliability and validity of this measure, which was originally developed in the Egyptian setting.

Following Elbanna (2008, p. 786), we define strategic planning practice as "the extent to which the company uses strategic planning tools". We claim that the use of strategic planning tools as an indicator of the practice of strategic planning provides us with more objective evidence of this practice. Although this cannot be enough in itself to completely measure strategic planning practice, it is better than asking our respondents whether they have a mission and/or vision, long-term objectives and strategies. Hence, when we use the term strategic planning practice, the intent is to convey that a firm's strategic planning process involves some strategic tools which are explicitly used to put the strategic planning concept into action. Given the above, a list of 24 strategic tools is included in the questionnaire. These tools are: spreadsheet "what if" analysis; analysis of critical success factors; portfolio analysis; competitor analysis/competitive intelligence; SWOT analysis; strategic planning software; economic forecasting models; stakeholder analysis; value chain analysis; Porter's five-forces analysis; Boston consulting group matrix or General Electric matrix;

scenario construction/analysis; PEST analysis; experience curve analysis; Delphi technique; PIMS analysis; benchmarking; gap analysis; product life cycle analysis; balanced scorecard; outsourcing analysis; pro forma financial statements (e.g. cash flow, income statement and budget); cost benefit analysis; and cognitive mapping. Finally, we calculated the mean of the 24 tools and used it in the data analysis.

The respondent was asked to identify to what extent the following individuals or teams participate in or influence the strategic planning process, namely, board of directors, CEO/managing director, planning committee, groups of senior managers, and groups of middle and lower managers. The respondent answered each question by using a five-point Likert scale from 1 (to a very great extent) through 5 (to a very small extent). We reversed this scale so that a high value indicates a high degree of management participation. The management participation in strategic planning was calculated as the mean of each respondent's answers. We measured organization size with the log transform of the number of full-time employees. Corporate control has been transferred in the form of a dummy variable, private owned companies (coded 0) and public owned organizations (coded 1). With only one exception (corporate control), all variables are scalar or measured at interval level, and therefore assumed to be close to metric; and the dependent variable is unbounded.

4. Empirical analysis and results

The descriptive statistics are shown in Table I. Our data show that six cases only have standardized residuals ± 2 . Although in an ordinary sample, we would expect 5 percent of cases (5.6 cases (112*5 percent)) to have standardized residuals outside of these limits (Field, 2000), we decided to investigate the six cases further. The results of Cook's distance show that all six cases are well below the criterion of 1 (Cook and Weisberg, 1982). Hence, we are confident that none of the cases has an undue influence on our regressions models and that these models appear to be reasonably reliable. The values of Durbin-Watson for the four regression models are close to 2 (ranging from 1.58 to 1.71); therefore the assumption of independent errors is almost tenable (Field, 2000).

Three of the more common measures for assessing multicollinearity were used in this study, i.e. the tolerance statistic and the variance inflation factor (VIF) and correlation matrix. For the first three regression models, examining the tolerance statistic and the VIF values shows that we can safely conclude that there is no multicollinearity within the data of Models 1-3. The correlation matrix provides extra support for this conclusion. In contrast, Model 4 shows a high degree of multicollinearity and violates the homoscedasticity assumption. The correlation coefficients between the cross product of strategic planning practice and management participation and both strategic planning practice ($\beta = 0.85$, p < 0.01) and participation ($\beta = 0.60$, p < 0.01) are very high. This lends further support to the above concern. Hence, the results of H4, which is based on Model 4, should be interpreted with caution.

Hypotheses were tested primarily through multiple regression analyses. Table II reports regression results for four models: Model 1: control variables and the practice of strategic planning; Model 2: control variables and management participation; Model 3: control variables and both the practice of strategic planning and management participation (base model); and Model 4: base model and the interaction term of practice

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Variables	Mean	SD	1	2	3	4	2
Strategic planning effectiveness Strategic planning practice Participation Corporate control Company size (log) Strategic planning practice ** participation	4.14 2.66 3.72 0.47 2.48 9.99	0.48 0.80 0.74 0.50 0.79 3.70	1 0.36 ** 0.20 * 0.03 0.02 0.38 **	1 0.14 0.03 0.21* 0.85**	1 0.14 0.29 ** 0.60 **	$\begin{array}{c} 1 \\ 0.42 ** \\ 0.10 \end{array}$	1 0.31
Notes: * p is 0.05; ** p is 0.01; $n = 112$							

Table I.
Means, standard
deviations, and
correlations

JSMA 2,2	Variables	Depe Model 1 Practice	endent variable effecti Model 2 Participation	veness Model 3	Model 4
182	Corporate control Company size Strategic planning practice Participation in strategic planning Strategic planning practice × participation in	0.06 - 0.09 0.38**	0.03 -0.06 0.21*	0.05 - 0.13 0.36 ** 0.18	0.05 - 0.13 0.23 0.10
Table II. Models of regression analyses	strategic planning R^2 Adjusted R^2 Adjusted R^2 ΔR^2 from Model 2 to Model 3 ΔR^2 from Model 3 to Model 4 Notes: *p is 0.05; **p is 0.01; $n = 112$	0.14** 0.11**	0.04 0.02	0.16 ** 0.13 ** 0.12 **	0.23 0.17** 0.13** 0.01

of strategic planning and management participation (full model). This approach allows the relative effects to be compared on the explained variance of the effectiveness of strategic planning of both the practice of strategic planning and management participation.

Model 1 of Table II supports H1 that there is a positive relationship between the practice and the effectiveness of strategic planning ($\beta=0.38,\ p<0.01$). Model 1 explains 0.14 of the variance in the effectiveness of strategic planning (p<0.01). Model 2 shows that participation in strategic planning is a significant predictor of the effectiveness of strategic planning ($\beta=0.21,\ p<0.05$). However, the whole model is not significant and R^2 is very low in value ($R^2=0.04,\ n.s.$). Thus, we cannot trust this significant relationship. In order to examine further the link between participation and the effectiveness of strategic planning, we looked at Model 3 and Model 4 and found that participation in both models is not a significant predictor of the effectiveness of strategic planning ($\beta=0.18,\ n.s.$; $\beta=0.10,\ n.s.$ respectively). Thus H2, that there is a positive relationship between management participation in strategic planning processes and the effectiveness of strategic planning, was not supported.

In order to test H3, control variables and management participation were entered into the equation as a first step (Model 2) before entering the practice of strategic planning in the second step (Model 3). The change in R^2 between Models 2 and 3 was significant ($\Delta R^2 = 0.12$, p < 0.01). This supports H3, that the practice of strategic planning better explains a significant variance in the effectiveness of strategic planning than does management participation ($\beta = 0.36$, p < 0.01). Model 3 explains 0.16 of the variance in the effectiveness of strategic planning (p < 0.01). In order to test p = 0.01, we used hierarchical moderated regression analysis. The change in p = 0.01, p = 0.01,

It is worth noting that although Model 4 shows that strategic planning practice is not a significant predictor of strategic planning effectiveness, we do not trust this finding because, as mentioned earlier, this model suffers from significant problems of



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5. Discussion and conclusion

The main purpose of this paper was to provide new empirical evidence on the relationship between strategic planning practice and management participation, on the one hand and the effectiveness of strategic planning, on the other, in the light of the influence of a set of control variables (namely, company size and corporate control) on this relationship. As a replication with extension of the research of Elbanna (2008), this study adds in several ways to the prior studies. First, despite the importance of the impact of strategic planning practice and participation on the effectiveness of strategic planning, most existing studies are limited to developed economies (Falshaw et al., 2006), yet little is known about this subject in developing economies such as the UAE. Second, although Elbanna (2008) has tested these relationships on the data of Egyptian private companies, it is more important to test these relationships in a more general setting elsewhere. In so doing, we replicated the study of Elbanna and extended it to private and public owned organizations working in the UAE. Hence, this study is not a simple replication of Elbanna's (2008), but an extension of it. Third, as replication and extension of earlier work, this study contributes to fill a serious gap in the strategic management literature concerning the scarcity of replications and extensions.

Our findings lend strong support to those of Elbanna (2008) and show that the practice of strategic planning positively and significantly influences its effectiveness. This has strong implications for the strategic management literature, which has attempted with little success to find a positive relationship between strategic planning and subsequent organizational outcomes (Ketokivi and Castaner, 2004). Consistent with Elbanna (2008), also, management participation was not an important predictor of the effectiveness of strategic planning. A likely explanation of this finding is that the linkage between participation and its outcomes may be moderated by other variables (e.g. Lines, 2004; Marchington et al., 1994). Given the frequently made claim that the broad involvement of members of the organization is positively associated with organizational outcomes, our results and those of Elbanna (2008) may be culture-specific and hence the social-cultural context in Arab countries should be taken into account when interpreting them. For example, Parnell and Hatem (1999) note that seeking subordinates' participation, in the Egyptian setting, is considered a symbol of weak management. This reveals that management participation is a much more complex issue than it is held to be in this study, both as a theoretical concept and as an empirical construct. Another possible explanation of this finding is that two aspects of management participation, namely, quantity and quality, have been recognized in the literature on the strategy process. This reflects the notion that different aspects of management participation do not influence the planning process and its outcomes equally (Lines, 2004). However, we did not differentiate between these two aspects of management participation. This is a serious limitation of our study, which may be responsible for the insignificant impact of management participation on the effectiveness of strategic planning.

The only contradictory finding between this study and that of Elbanna (2008) is that strategic planning practice and management participation jointly do not enhance the



effectiveness of strategic planning. However, this contradiction may be due to the significant problems of multicollinearity in Model 4, which are mentioned above. Hence, further research is needed to examine the apparent reasons for this contradiction.

Some important limitations of this study should be highlighted. First, it tried to introduce the contextual variables which are thought to control the relationships between the practice of strategic planning and management participation, on the one hand, and the effectiveness of strategic planning on the other. However, it is clear that the context in which our predictors are introduced has a much higher level of complexity than can be captured by the two control variables under investigation here. Second, measurement validity may be a problem. The data are cross-sectional. Therefore, causal linkages among the variables cannot be firmly established and longitudinal data are needed. Third, this study and that of Elbanna (2008) were conducted in Arabic-speaking countries. Therefore, their results are context-specific and further restrict the generalizations that can be drawn about organizations operating elsewhere, for example in European or Latin American countries. Fourth, while subjective measures are commonly used in strategic planning research, and both subjective and objective measures of organizational outcomes have been shown to be correlated, subjective measures must nevertheless be approached with caution.

There are several ways in which future research can overcome the limitations of the two studies (this one and that of Elbanna, 2008), or simply build on their findings. First, researchers agree that planning yields superior returns for an organization only if it is implemented successfully (Harris and Ogbonna, 2006). Hence, the use of any strategic planning tool is not enough in itself to guarantee a positive impact on organizational outcomes; successful implementation is also essential. Therefore, future research should also consider the implementation implications of strategic tools. Second, we recommend future researchers to distinguish between the quantity and quality aspects of participation and to give more attention to the quality aspect. Third, Katsioloudes and Tymon (2003) argue that, although we normatively tend to see management participation in the strategic planning process as a good thing, participation may have some negative effects. It may mean that managers will be distracted from other tasks, which they often see as accomplishing the objectives of their organizations. Simply put, management participation can be seen as a waste of time. This is especially true if the organization has a history of engaging in strategic planning, and then shelving the results. In conclusion, unless the participants in the strategic planning process truly believe that their participation makes a difference, they will not want to spend the time and energy needed for a worthwhile process. The above issues represent promising topics for further research. Fourth, it is also necessary to examine why the quantity aspect of participation is not important in strategic planning effectiveness in Arab organizations. Fifth, the antecedents to strategic planning practice need examination in order to better understand the determinants of strategic planning practice. Finally, we urge future researchers to use multiple respondents as a reasonable way of avoiding single-informant bias.

This study has three managerial implications, especially for top management team executives in Arab countries in general and in UAE in particular. First, it strongly supports the fact that organizations that employ the tools of strategic planning exhibit enhanced effectiveness in their strategic planning. Thus, it seems warranted to

recommend the use of an appropriate set of strategic planning tools as one important element in organizational success. Second, organizations may use some strategic tools although they do not have written strategic plans. This may be due to the fact that, for many firms working in UAE, experience of strategic planning is still recent. It is worth noting that the average for strategic planning practice in organizations that have no written strategic plans is 2.47. This supports the findings of Elbanna (2008) that even organizations without written strategic plans could practice strategic planning. Third, our study shows that the quantity aspect of participation does not contribute to the effectiveness of strategic planning in UAE organizations. Since high quality management participation in strategic planning appears crucial for the effectiveness of strategic planning (Freeman, 1989), we recommend UAE and Arab managers to give more attention to the quality aspect of management participation and to avoid pseudo participation, that is, the extent to which participants' input to strategic planning process is neither valued nor used by their superiors.

In conclusion, the author suggests that the two studies combine to answer critical questions in the debate regarding the linkage between strategic planning practice and participation, on the one hand, and the effectiveness of strategic planning, on the other. Their primary results support the contention that, in Arab countries, strategic planning practice matters, while participation does not. In addition, the research experience in the two studies illustrates the benefits of employing similar methodologies in conducting research in order to validate and generalize the results of previous studies and hence to contribute to the building of strategic management theory.

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