

EFFECT OF STRATEGIC PLANNING ON ORGANIZATIONAL PERFORMANCE: A CASE OF INSTITUTION OF ENGINEERS RWANDA

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Abstract: Changes in the business environment are leading to new and greater demands on strategic planning systems. Existing literature shows that strategic planning significantly enhances organizational performance. However, some organizations do not have a strategic plan. Additionally, most organizations develop strategic plan with a view of making managerial and administrative tasks easy and not with a thinking of improving performance. The aim of this study was to assess the effect of strategic planning on organizational performance. The study was conducted at Institution of Engineers Rwanda (IER) headquarters in Remera, Gasabo district, Rwanda. It adopted a cross sectional research design. A total of 322 employees and registered members from Institution of engineers Rwanda formed the target population. A sample size of 178 employees was determined using Slovin's formula. Stratified random sampling method was used to obtain study samples. The study used both primary data and secondary data. Primary data was collected using questionnaires. Collected data was analyzed using statistical package for social science. Descriptive analysis was done to obtain frequencies and percentage of study variables. Pearson correlation and regression analysis were carried out to determine the relationship between strategic planning and organizational performance. Multiple regression analysis was employed to determine relationship between strategic planning and organization performance. Data was presented in tables, charts, figures and mathematical expressions. Ordinary least squares (OLS) regression method of analysis was adopted to determine the inferential statistics. The findings indicated that the beta coefficients of the resulting model indicate that strategy formulation, implementation and control had positive effect on institute of engineers of Rwanda performance with slopes of $\beta_1=0.306$, $\beta_2= 0.236$ and $\beta_3= 0.358$ respectfully. The study results show that there was positive and statistically significant relationship between Strategy formulation, strategy implementation and strategy evaluation and control at P value $0.000 < 0.05$. Given the findings of the study strategy implementation competence as well as the control environment are important drivers of organizational performance. It implies that implementation and control initiatives undertaken are significant aspects of an effective strategic management practice for Institution of engineers Rwanda. The study recommends that institutions of engineers in Rwanda need to prepare plans to cope with changes as they face dynamically changing environments especially such changes may be unpredictable and may occur suddenly. Being a case study, the findings of this study cannot be generalized to other public institutions in Rwanda since various institutions have different structures. The study therefore recommends further studies on effects of strategic planning practices on public institutions performance.

Keywords: strategy formulation, public institutions, Institution of Engineers Rwanda, Performance.

1. INTRODUCTION

1.1 Background:

Strategic planning is perceived as a crucial component of organizational development and change management. Consultants and managers are expected to make strategic decisions that affect organizational performance. During the past few decades, research on organizational contingencies and opportunity evaluation has propagated conceptual

assessments under the study of judgment. Behind every organizational success, there are strategic decisions that map organization's path in accomplishing its goals as set by the Board and top management level. If the decision-making quality is not sustained, it can lead to a chaotic organizational failure. Managers and consultants need substantial amount of facts and figures before making any formal decisions and there is no guarantee to make the right or perfect decision (Asaari & Razak, 2009).

Firms that do strategic planning significantly outperform those that do not have strategic plans since they spent most of their times realizing and reacting to unexpected changes and problem instead of anticipating and preparing for them and are always in crisis management situations. Strategic planning improves organizational performance as it helps firms to develop strategic understanding which in effect focus on Company direction; focus drives performance and performance drives results (Taiwo & Idunnu, 2009)

According to Arasa and Kobonyo (2012), the importance of strategic planning can be explained from a variety of perspectives including environmental scanning, strategy formulation, and linking goals to budgets and strategic planning process. The strategic planning process begins with the setting organizational goals. The linkage between strategic planning and organizational performance needs analysis to get a better understanding on how strategic planning is applied in practice and to improve performance. For strategic planning to be effective and useful, there must be commitment and involvement across all levels of the organization, overcome inherent problems such as; rivalry among departments, resistance to change, resource requirement, resources allocation and so on. The strategy initiatives and directions set up by firm management in the form of mission and vision statements and targets for cost saving, debt/equity ratios embodied as argued by Greenley and Foxall (2009) "a framework of constraints and objectives that bounded and directed strategic choices." Managers are responsible to make choices on daily basis and communicate their decisions with the rest of the employees.

Strategic planning has become a must for firms in the time of global competition, technological change and increased dynamics in markets. Business plan formulation practices, strategic planning and systematic decision making can be considered a key determinant of the survival and success of firms (Mazzarol et al., 2009). The ability of successful entrepreneurs to avoid formalizing strategic planning processes until their firm is well established raises a question as to the relative importance of strategic vision, strategy formulation, strategic planning or business plan development. The field of strategic planning is largely concerned with how companies generate and sustain competitive advantage to achieve the desired performance through continuous implementation of strategic decisions.

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard *et al.* (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment.); product market performance (sales, market share.); and shareholder return (total shareholder return, economic value added). Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development. Organizational performance is the most used dependent variable in organizational research today yet at the same time it remains one of the vaguest loosely defined. The biggest challenge to organizational performance is the external environment. All organization operates in an external environment: Political, economic, social cultural, environmental and technological (Snider & Rendon, 2011). The primary goal of organizational performance is to increase effectiveness and efficiency to improve the ability of the organization to deliver goods and services. Performance is often presented as a multidimensional concept. In particular, two types of measures of company performance can be distinguished: financial or objective measurement and non-financial or subjective measurements (Taiwo & Idumo, 2009).

1.2 Problem Statement:

Changes in the business environment are leading to new and greater demands on strategic planning systems. Moreover, given that strategic planning's sole purpose is to improve strategic performance, improving, assessing and monitoring the effectiveness of the strategic planning process would appear to be a key managerial task. However, as proven by various studies, many organizations do not perform the task (Phillips & Moutinho, 1999). In most cases, organizations experience challenges in resource constraints, institutional and capacity gaps including Poor leadership and governance in implementing strategies. A considerable number of organizations have developed Strategic plans that have enabled them to deal with the stated challenges hence realizing an improved performance (Awino *et al.*, 2012). However, some organizations have not adopted strategic plan as a strategy of enhancing their performance. In addition, formal plans or cost controls are initially provided on an irregular basis and strategic planning instruments are only used by a small number of individuals and developed out of feelings or formality rather than out of proof (Brinkmann, 2012).

The Institution of Engineers Rwanda (IER) has experienced lack of trust and confidence of the local engineers by the public and over reliance on the foreign engineering expertise. Additionally, the institution has been slow in responding to emerging opportunities (IER, 2014). In the recent past the IER has done very little to engage the public on engineering issues, they only speak to the engineers and not the public. This has culminated into poor performance in term of meeting its objectives as well as reduced competitiveness compared to foreign engineering expertise (RHA, 2011)

Although IER has formulated a six-year strategic plan for six years from 2014 to 2020 to enable the Institution to achieve its objectives, gaps in performance still exist where majority of the projects being executed in the country are contracted by foreign engineering firms and expatriate engineers hold many key positions in both contracting and supervising firms (IER Report, 2014).

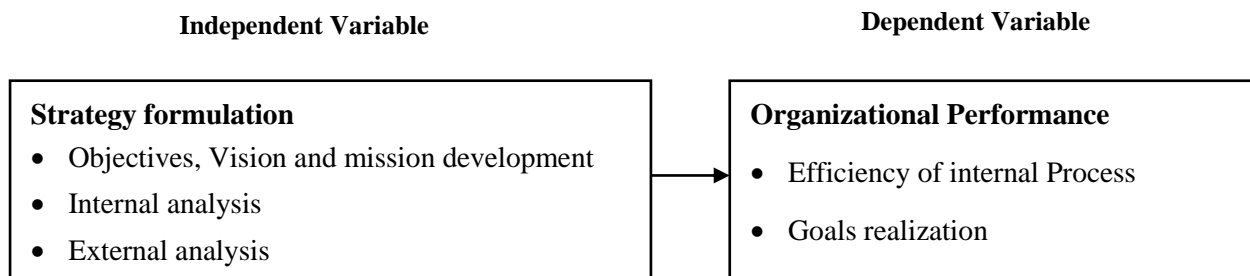
Past studies have showed that organizations that operate within developed strategic plans are more likely to survive the market competition while improving their performance (Kathama, 2012; Bulle, 2012). Even with existence of such evidence in the literature, there are still organizations that either do not have a strategic plan or do not implement their strategic plan. According to Otungu (2011) most of organizations develop strategic plan with a view of making managerial and administrative tasks easy and not with a thinking of improving performance. These shortcomings point towards the importance of examining the influence of strategic planning on performance for Institution of engineers Rwanda in detail.

1.3 Objective of the study:

The general objective for this study was to assess the influence of strategic planning on organizational performance. To achieve this the study sought to determine the influence of strategy formulation on performance of Institution of engineers Rwanda

2. CONCEPTUAL FRAMEWORK

In this study the independent variable is the strategy formulation of a firm while the dependent variable is the organizational performance.



2.1 Strategy Formulation and Organizational Performance:

Strategy formulation is the development of long-range plans for effective management of opportunities and threats in light of corporate strengths and weaknesses. It includes defining corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines (Stevenson, 2012). Corporate mission refers to the purpose for the organization's existence. It tells what the company is providing to the society, objectives tell what is to be accomplished, strategies state how the mission and objectives will be achieved, and policy serves as a broad guideline for decision making that links the formulation of a strategy with its implementation.

Gichunge (2009) examined the effect of strategy formulation on organizational performance of medium sized manufacturing enterprises in Nairobi Kenya. He investigated the effect of various administrative/legal factors on the extent to which formal strategic management are adopted, and also determined the relationship between level of competition and formal strategic management. He selected eighty medium enterprises (MEs) using simple random sampling. Primary data was collected using a semi-structured questionnaire. Results showed that strategy formulation had a significant relationship with performance of medium sized manufacturing enterprises. Further the study found out that the MEs have not fully adopted formal strategic management and that administrative/legal factors and competition influenced adoption of strategic management.

Zamedi and Fedhi (2010) investigated the influence of strategic planning on organization performance in Australia. The study investigated the influence of strategy formulation as one of the dimensions of strategic planning. The study found that there were positive and significant relationship between strategic planning and organization performance. Strategy formulation was found to significantly influence the organization performance and efficiency.

3. TARGET POPULATION

According to Polit and Hungler (2009) study population is the totality of all subjects that conform to set of specifications, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalized. Target population for this study was 322 employees and registered members of IER.

3.1 Sampling frame:

A sampling frame is a complete list of all subjects in the study population from which the researcher selected samples for the study. Table 1 shows the sample frame for this study.

Table 1: Sampling frame

Area of Operation	Population	Proportions
General assembly	312	172
Governing Council	7	4
Secretariat Staff	3	2
Total	322	178

3.2 Sample size:

Margaret Peil and Douglas Rammer (2012) define a sample as a set of elements which ideally is representative of the population. As a general principle, it is best to have as large a sample as possible. This increases the possibilities of analysis and decreases the sampling error (Mitchell 2012). The sample size of this research consisted of a minimum of 178 employees and registered members of IER who constituted the sample size for this study. Determination for the sample size was done using Slovin's formula below;

$$n = \frac{N}{1 + N(e)^2}$$

Where;

n is the sample size,

N is the population size (322)

e is the desired level of precision (0.05)

$$n = \frac{322}{1 + 322(0.05)^2} = 178$$

4. STRATEGY FORMULATION ON ORGANIZATIONAL PERFORMANCE

The study sought to determine the respondents rating of strategy formulation on organizational performance. Respondents' opinion on strategy formulation on organizational performance was captured using 5-Strongly disagree; 4 – Disagree; 3 – Indifferent; 2 – Agree; 1 –Strongly agree. The statements, respondents' opinions and their percentages are as shown below:

Table 2: Effect of Strategy formulation on organizational performance

Statement	Strongly agree	Agree	Disagree
Availability of strategic plan influences performance of your institution		15 (11%)	127(89%)
Your institution involves and engage relevant stakeholders in the formulation of the strategic plan	86(61%)	56(39%)	
Your institution has a mission, vision, and organizational values that employees and stakeholders understand	28(20%)	71(50%)	143(30%)

Table 2 shows that 11% of the study participant agreed with the statement that availability of strategic plan influences performance of your institution while majority (89%) disagreed with the statement. Majority (61%) strongly agreed with the statement that their institution involves and engage relevant stakeholders in the formulation of the strategic plan. The findings also indicated that 20% of the respondents strongly agreed with the statement that their institution has a mission, vision and organizational values that employees and stakeholders understand, 50% just agreed while 30% disagreed with the statement.

According to Suklev and Debarliev (2012) strategic planning consists of planning processes that are undertaken in firms to develop strategies that might contribute to performance. It also involves resource allocation, priorities, and actions needed to reach strategic goals. Since most business had experienced loss then it makes the business face difficulties in implementing strategic planning process.

4.1 Correlation between Strategy formulation on organizational performance

The study further carried out the correlation analysis between Strategy formulation on organizational performance

Table 3: Correlation between Strategy formulation on organizational performance

		Strategy formulation	Organizational performance
Strategy formulation	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	142	
Organizational performance	Pearson Correlation	.498**	1
	Sig. (2-tailed)	.000	
	N	142	142
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 3 indicates that strategy formulation is significantly correlated to organizational performance ($r=0.498$, $p<0.01$). The results agree with Taiwo and Idunnu (2010) that strategic formulation enhances better organizational performance. This implies that the ensuring good strategy formulation would result to increased organizational performance. The results are similar to those of Kantabutra and Avery (2010) which indicate that, companies consistently applying a disciplined approach to strategic formulation are better prepared to evolve as the market changes and as different market segments require different needs for the products or services of the company.

5. CONCLUSIONS

The conclusions of this study were informed by the findings based on each study objective and also findings of other similar studies.

Strategy formulation aids in the development of long-range plans for effective management of opportunities. It includes defining corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. Based on the findings the study concluded that strategy implementation influences performance of public health institutions.

The strategy implementation process determines whether an organization excels, survives or dies. A successful execution and implementation of strong and robust strategies will always give a firm a significant competitive edge.

Finally, based on the findings the study concluded that strategy evaluation influences performance of public health institutions. Strategy evaluation informs the managers about the reasons leading to a particular failure in meeting a certain objective and target.

Given the findings of the study strategy implementation competence as well as the control environment are important drivers of organizational performance. It implies that implementation and control initiatives undertaken are significant aspects of an effective strategic management practice for Institution of engineers Rwanda.

Institution of engineers Rwanda management should therefore lay emphasis on monitoring of strategy implementation process in order to enhance sustainability. Importantly, they should re-evaluate capacity of boards and the supervisory mechanism where the role of the state corporation advisory committee will not just be advisory but play a more powerful as a monitor and evaluator performance. This would strengthen the performance of Institution of engineers Rwanda

5.1. Recommendations:

The study recommends that institutions of engineers in Rwanda need to prepare plans to cope with changes as they face dynamically changing environments especially such changes may be unpredictable and may occur suddenly.

1. The study recommends that institute of engineers of Rwanda formulates strategies that can enable them to define their corporate mission, specifying achievable objectives, develop strategies and setting policy guidelines. Effective strategy formulation is able to tell what the institution is providing to the society, objectives tell what is to be accomplished, strategies state how the mission and objectives will be achieved.
2. The study further recommends that institute of engineers of Rwanda should put more weight on implementing set strategies. This is because in this stage, the success or failure of well-formulated strategies depends much on strategy implementation.
3. Finally, the study recommends continuous of strategy implementation from time to time in order to ensure a successful end. Strategy evaluation informs the managers about the reasons leading to a particular failure in meeting a certain objective and target.

5.2. Areas for further research:

This study mainly focused on the connection between the strategic planning and organizational performance. It would be of interest to investigate the role of intervening variables in translating the strategic planning intentions into reality.

Being a case study, the findings of this study cannot be generalized to other public institutions in Rwanda since various institutions have different structures. The study therefore recommends further studies on effects of strategic planning practices on public institutions performance. The study also recommends further studies in the area of factors affecting strategic planning in public institutions in Rwanda.

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