

EFFECTS OF STRATEGIC PLANNING PRACTICES ON ORGANIZATIONAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA: A CASE OF BANK OF KIGALI

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Abstract: Strategic planning is important for strategic management of companies. Strategic planning has been regarded as a prerequisite to successful organizational outcomes and while the contexts of strategic planning differs by sector and geographical orientation, there is renewed interest in strategic planning - performance linkage in developing economies, this, due in part to the realization of the role of firm-based factors such as strategic planning dimensions. The purpose of this study was to determine the effects of strategic planning dimensions on organizational performance of commercial banks in Rwanda. To achieve this the study was guided by the following specific objectives; to establish the effects of cross functional integration on the organizational performance of commercial banks in Rwanda, to determine the effects of management participation on the organizational performance of commercial banks in Rwanda, to establish the effects of strategic orientation on the organizational performance of commercial banks in Rwanda and to examine the effects of strategic control on the organizational performance of commercial banks in Rwanda. The study adopted a descriptive survey design. Stratified random sampling was used to determine the sample size. The target population for the study was 150 employees of bank of Kigali. The study used both primary and secondary data, where questionnaires, interview was used for data collection. Data collected was analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Ordinary least squares (OLS) regression method of analysis were adopted to determine the inferential statistics. The results of the correlation analysis revealed that there was positive correlation between cross functional integration and firm performance ($r=0.328$, $p\text{-value} < 0.001$). Thus, an increase in emphasis on management participation in the firm resulted in an increase in overall firm performance of 32.8%. From the correlation analysis management participation also exhibited a positive correlation with firm performance ($r=0.334$, $p\text{-value} < 0.001$). This meant that increased use of management participation increased company performance. Strategic orientation presented a weak positive correlation with firm performance ($r = 0.399$, $p\text{-value} < 0.001$), while strategic control practices displayed the moderately weak positive correlation with firm performance ($r = 0.455$, $p\text{-value} < 0.001$). The highest correlation was noted between strategic control and firm performance, relative to the other variables. The study recommended high participation and involvement of top management in the whole process of strategic planning, anchoring of deliberate cross functional integration processes in the firm, heightened strategic oriented paradigms for market orientation, customer focus and competitiveness and the development, design and customization of management control systems to enhance implementation, monitoring and evaluation of the strategic planning process outcomes.

Keywords: Cross functional integration, organizational performance, Commercial bank.

1. INTRODUCTION

1.1 Background

In recent years Strategic planning has gained renewed interest as a means of monitoring a rapidly changing environment, taking effective decisions and action in the running of business (Elbanna, 2010). High adoption of strategic planning by firms can be attributed to growing uncertainty in the competitive business environment as well as fast economic and political changes occurring in the global marketplace (Gkiliatis & Dimitrios (2013). Strategic planning involves a process by which firms derive a strategy to enable them to anticipate and respond to the dynamic business environment, such efforts inevitably improve the competitiveness of business firms and eventually their performances (Wong *et al.*, 2013). Scholars have linked strategic planning in modern organizations to successful firm performance. Successful organizations now clearly recognize the critical role of strategic planning in achieving desired business results, but even then, few succeed at translating their strategies into business results (Ghamdi, 2005).

Taiwo and Idunnu (2010) advanced that strategic planning consists of a set of underlying processes that are intended to create or manipulate a situation to create a more favorable outcome for a company and which is quite different from traditional tactical planning that is more defensive based and depends on the move of competition to drive the company's move.

In business, therefore, strategic planning provides overall direction for specific units such as financial focuses, projects, human resources and marketing. Strategic planning may be conducive to productivity improvement when there is consensus about mission and when most work procedures depend on technical or technological considerations. Hendrick (2010) adds that strategic planning unlike long-term financial planning and capital planning, involves thorough assessment of the environment and organization.

According to Elbanna (2008) the type of strategic planning employed evolved and become more formal and sophisticated over the life cycle of the business. Similarly, Tapinos *et al.* (2005) has observed a positive relationship between strategic planning and firm performance. While Glaister *et al.* (2008) found strong positive relationship between formal planning process and performance in Turkish companies. The authors add that a prescriptive strategic management literature implies that there is a positive association between strategic planning and company performance.

According to Porter (2004) organization performance is determined by its ability to find a unique position. Strategic planning practices provide tools for enabling an organization to establish a unique position to acquire a unique and competitive advantage. Organizational performance is about creating value for the primary beneficiaries of the organization. Strategic thinking and planning can help you to keep the focus of your team on this value creation, and not on management tools or practices for their own sake. For example, a SWOT Analysis is a useful tool in one of the essential stages or elements of such planning processes. The concept of performance measurement attempts to answer the basic question of how much input is required to achieve a particular output which cannot be fully achieved without formal strategic planning. An organization accomplishment of the goal and objectives is assessed against its ability to maximize shareholders wealth.

While much research has been done on strategic planning practices by commercial banks on performances on developed and emerging economies like the United States of America (USA), Europe, China and Latin America (Jianqing, 2012)

A number of challenges have been experienced in the banking industry in Rwanda. José Viñals (2011) acknowledges that, the financial sector faces new challenges and changes affecting financial development and stability going forward. These reflect the authorities' stated priorities to achieve visible progress in improving access to financial services and in the provision of long-term financing to the economy. Rwanda also faces an ambitious agenda with its commitment as a member of the EAC to further regional economic, financial and monetary integration, with the ultimate objective of establishing a monetary union.

Bank of Kigali opened a representative office in Nairobi, Kenya on 19th February 2013 that is wholly owned subsidiary of Bank of Kigali Limited. The representative office acts as a liaison between the bank and its clientele in Kenya by helping them to have access to their funds without opening an account with foreign banks and seeking to strengthen the Bank's relationship with existing clients operating in Nairobi as well establish a relationship with prospective clients.

1.2 Statement of the Problem

Dynamic and intensely competitive markets are driving organizations to leverage on their various capabilities in order to deliver sustainable competitive edge. One major practice used to achieve this has been effective strategic planning; such efforts inevitably improve the competitiveness of business firms and eventually their performances (Wong et al., 2013).

An organization practicing strategic planning involves the following, defining the organizational vision and mission, environmental scanning, setting of objectives, generating strategic option, evaluating and deciding on the strategic methods to monitor progress. For an organization to achieve its desired goal and maximize profits it needs to follow the step of corporate strategic planning. Performance is ensured, and a clear vision is set that avoids confusion between the activities of the business. Organizational performance is about creating value for the primary beneficiaries of the organization. Strategic thinking and planning assists firms to keep the focus of their team on this value creation, and not on management tools or practices for their own sake. Through strategic planning, the firm is able to achieve overall organization performance in areas such as human resources, production, finance and marketing.

There are numerous studies done in Rwanda in the banking industry but focused on different aspects other than strategic planning practices and performance (Achoki, 2015; Andine, 2015). Kamau (2008) have done studies in strategic planning practices in hotel, tours and travel companies respectively. They did not cover strategic planning practices and performance in the banking industry. This therefore fills in the gap in literature by addressing the following questions, what are the strategic planning practices adopted by commercial banks in Rwanda? And how does strategic planning practice influence performance of commercial banks in Rwanda?

1.3 Objectives of the study

The objectives were meant to highlight the purpose of the study and comprised both general and specific objectives.

1.3.1 General objective

The general objective of the study was to determine the effect of strategic planning practices on the organizational performance of commercial banks in Rwanda.

1.3.2 Specific objectives

The study was guided by the following specific objectives:

1. To establish the effects of cross functional integration on organizational performance of commercial banks in Rwanda.

2. CONCEPTUAL FRAMEWORK

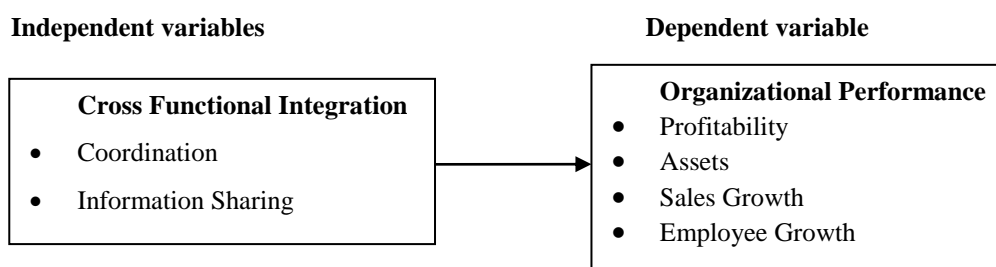


Figure 2.1 Conceptual framework

3. TARGET POPULATION

According to Cooper and Schindler (2008), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. The target population of this study comprised of 150 managers of Bank of Kigali. These included eight boards of directors, thirty senior managers, thirty-two middle management and eighty lower managers stationed at Bank of Kigali head office, (Bank of Kigali [BK], 2015). The study preferred to use managers, because they are the ones who make decisions in commercial banks.

4. RESEARCH FINDINGS AND DISCUSSION

4.1: Effect of cross functional integration on performance

The study sought the view of the respondents in regard to recruitment and selection of new staff. Respondents' opinion on effect of cross functional integration on performance with regard to Banks performance was captured using 1-Strongly disagree; 2 – Disagree; 3 – Indifferent; 4 – Agree; 5 –Strongly agree. The statements, respondents' opinions and their percentages are as shown below:

Table 4.1: Effect of Cross functional integration on organizational performance

	SD	D	N	A	SA	M	SD
Departmental Managers are regularly involved in strategic planning		3 (3%)	12 (13%)	28 (30%)	50 (54%)	3.96	.999
Top management is strongly involved strategic planning process.		1 (1%)	15 (16%)	31 (33%)	46 (50%)	3.42	1.137
The firm strategic planning process is highly systematic.		9 (10%)	12 (13%)	24 (25%)	48 (52%)	4.06	.897
Management has high level of expertise in strategic planning	2 (2%)	3 (3%)	12 (13%)	40 (43%)	36 (39%)	3.97	.791
Departmental functional plans are aligned to the firm Strategic Plan		3 (3%)	12 (13%)	28 (30%)	50 (54%)	4.07	.807

Analysis of the responses to the statement that departmental managers are regularly involved in strategic planning was done, it was found that 54% of the respondents strongly agreed, 30% agreed, 13% were neutral, 3% disagreed while none strongly disagreed. This revealed that majority of the respondents agreed that in the bank departmental managers are regularly involved in strategic planning. This item returned a mean of 3.96 which according to the scale is very high. Analysis of the statement that Top management is strongly involved strategic planning process was also done and it was found that, 50% of the respondents strongly agreed, 33% agreed, 16% were neutral, 1% disagreed while none of them strongly disagreed. This revealed that majority of the respondents agreed Top management is strongly involved strategic planning process. When the responses to the statement that the firm strategic planning process is highly systematic were analyzed, it was found that 52% of the respondents strongly agreed, 25% agreed, 13% were neutral, 10% disagreed while none strongly disagreed.

Analysis of the statement that Management has high level of expertise in strategic planning was also done. From the analysis, it was found that 39% of the respondents strongly agreed with the statement, 43% agreed, 13% were neutral, 3% disagreed while 2% strongly disagreed.

When the responses to the statement that the departmental functional plans are aligned to the firm Strategic Plan were analyzed, it was found that 54% strongly agreed, 30%, agreed, 13% were neutral, 3% disagreed while none strongly disagreed. The above observation is outlined in the Table 4.5. In only two items was a standard deviation of above 1.0 recorded, this implies the diversity responses to the set of items was within expectation.

5. CONCLUSIONS

Cross functional integration was found to be significant and positively associated with performance of commercial banks in Rwanda. The practices of coordinating, knowledge sharing with other department and functional areas, alignment of departmental planning with division and corporate plans was found in place. Top management support or coordination was also established. Cross functional integration in the Resource based view of the firm is a vital resource and capability. Bank of Kigali utilize cross functional integration as a mode of enhancing cooperation, which combines cooperation and competition among departments, while focused on the strategic outcomes of the bank. Cross functional integration is also emerging as a higher level of cross functional integration in which there is intense relationship between departments to accentuate the operation efficiencies of the bank.

5.1. Recommendations

The study recommends that top management fully participate in the conceptualization, formulation, implementation, and control of strategic planning process in the bank. The performance of top management is influenced by its characteristics and collective experience, there is need to enhance top management experiences, skills and capacity through specific tailor made programmes.

The study recommends the establishment of inclusive round tables between industry players, regulatory bodies, academics and industry lobbies so as to enhance the conceptual and managerial outlook of the managers. This will help cross fertilize ideas and processes and mitigate inbreeding of ideas especially among family owned firms.

5.2. Areas for further research

Based on the conclusions and findings of the study, the following areas were suggested for further research:

The study could be replicated to other financial sector firms such as the microfinance institutions or the insurance firms in order to find out whether the practices are the same and whether they are influenced by the same factors. The inclusion of other firms together with firms from other industries should show the industry effects on the practice of strategic management.

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