Does Strategic Planning Pay? A Study of the Banking Industry

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Propósito Central do Trabalho:

More than 50 years ago Ansoff, Avner, Brandenburg Portner and Radosevich (1970) asked: "Does planning pay"? After decades of conceptual discussion and empirical research, results about the impact of strategic planning on organzational performance are still not conclusive (Boyd, 1991; Miller and Cardinal, 1994; McIlquham-Schmidt, 2010; Pearce, Freeman & Robinson, 1987). Studies of the banking industry are no exception as can be seen from a comparison of the controversial results of some studies, for example, Wood and Laforge (1979), Sapp and Seiler (1981), Robinson and Pearce (1983), Whitehead and Gup (1985), Hopkins and Hopkins (1997). Such lack of consistency in empirical results may be due to several reasons, for example: diversity in research settings (countries, industries, firm sizes), variation in how the two key constructs (planning and performance) have been conceptually defined and operationally represented, diversity in the types of relationships modeled (e.g., direct, mediated, moderated), among others. So, the main objective of the present study is to investigate whether: Is there a positive association between strategic planning and business performance? Our empirical study is delimited to the banking industry in Brazil in the years 2009-2011.

Marco Teórico:

Strategic planning can be defined as the set of mechanisms (especially if explicit) that firms employ in order to delineate their long-term objectives, to collect external and internal information, to process that information in order to specify courses of actions to pursue those objectives, to allocate resources, and to monitor results. Strategic planning is a complex phenomenon, which can be conceived of from many complementary aspects. The literature suggests, among others, the following "dimensions": systematization, sophistication, standardization, structure, commitment, quality, intensity, importance, comprehensiveness, flexibility of the planning process or of the planning programmes (Boyd, 1991; Armstrong, 1982; Miller & Cardinal, 1994; Leontiades & Tezel, 1980; Pearce et al., 1987; Robison and Pearce, 1988). The relationship between strategic planning and performance has been found to be rather controversial. Pearce et al. (1987) reviewed 18 studies that investigated the relationship between strategic planning and performance and found inconsistent and contradictory results. They argued that, in part, such state of affairs was a consequence of assuming (albeit implicitly) a universal relationship, whereas the relationship would supposedly be influenced by several contextual variables. Also, meta-analyses conducted by Boyd (1991), Schwenk and Shrader's (1993), Miller and Cardinal (1994), Shea-Van Fossen, Rothstein and Korn's (2006) and McIlquham-Schmidt (2010), found mutually inconsistent results. In the banking industry, the relationship between planning and performance has also not been unequivocally established, as can be seen from the comparison of some studies. For example, Sapp and Seiler (1981) found that (bank) planners outperformed non-planners in three performance measures out of four. Wood and Laforge's (1979) study indicated that comprehensive formal planners did better than non-planners. On the other hand, Whitehead and Gup (1985) found there were, in general, no differences in performance between planners and non-planners, but planners performed worse on some measures (vz. non-planners). Robinson and Pearce (1983:197) found that "[s]mall banks without formal planning systems performed equally with small, formal planners." Hopkins and Hopkins (1997) found that, regardless of whether the strategic planning process was formal or informal, planning intensity was positively related with performance. On the other hand, Gup and Whitehead (1989) found evidence that banks that have a higher degree of formalization of the strategic planning process tend to have significantly lower ROIs than banks that run the process in a more informal manner. This controversy in the literature notwithstanding, we advance the following hypotheses: H1a: There is a positive relationship between the importance firms attribute to strategic planning and the intensity with which they engage in the strategic planning process H1b: There is a positive relationship between the importance firms attribute to strategic planning and the level of systematization of planning H2a: There is a positive relationship between the intensity with which firms engage in the strategic planning process and organizational performance H2b: There is a positive relationship between the level of systematization of planning and organizational performance

Método de investigação se pertinente:
We conducted a survey. Out of 137 banks in Brazil (according to Brazil's Central Bank (Banco Central do Brasil), 2012)), we removed development banks and also banks that did not have all historical data for our analysis, leaving out a sampling frame of 116 banks. A telephone contact was tried with all 116 banks, inviting them to participate in the survey. For those that agreed, the questionnaire in Word format was sent as an annex to an e-mail. Out of the 116, 30 responded all questions in the survey instrument, for an effective response rate of 25.9% (=30/116). A two-tailed test indicated that the average of firm size in the sample was not statistically different ($p < .171$) from the average firm size of the target population. It is important to note that this study tried to control for extraneous influences by using a sample of firms from a single industry and a single country. Regarding measures, we followed Boyd´s (1991) advice of not treating planning as a categorical (e.g., planners vs. non-planners) or ordinal variable (e.g., short-term forecasting, budgeting, operational planning, long-range planning, strategic planning). As suggested by him, we selected dimensions from which to characterize the conceptual domain of the strategic planning construct and then chose operational indicators to operationalize those dimensions. Data on strategic planning was self-reported by the firms, whereas data on performance was obtained from Brazil's Central Bank publicly available database. A multiple linear regression analysis (with minimum least squares estimation technique) was used.

Resultados e contribuições do trabalho para a área:
Results indicate that Intensity of Planning had no statistically significant impact over any of the four Performance indicators (none of the regression coefficients were significant and the adjusted R2 of the four regression equations were all near zero). In the equations relating only Intensity with Performance (controlling for Size), some regression coefficients were relatively high in absolute value (maximum = .30, though not statistically significant due to the low statistical power of the test, as will be discussed ahead) and three out of four were negative, suggesting that, maybe, too much planning might be detrimental to performance. After inclusion of the direct effect of Importance, the direct impact of Intensity on Performance changed a lot, but this effect is difficult to interpret since it does not seem to be clear, from a theoretical standpoint, why Importance might have a direct impact on Performance. In fact, if this relationship were always negative (which was the case only with Deposit Growth and ROE), then one might interpret that there might be a reverse causal path, that is, the more dissatisfied firms are with performance, the more they would resort to planning as a way to try to improve results. On the other hand, Importance of Planning has a positive and significant impact on Intensity of Planning (standardized regression coefficient = .672, $p < .001$, adjusted R2 = .432), as expected. Also, as expected, Importance had no statistically significant direct impact on Performance, and, unlike expected, it had no indirect impact (through Intensity) on Performance. Our findings indicate that Systematization of Planning seems to have limited impact on Performance. In fact, the relationship was significant only for Growth in

Intermediation Results ($p < .011$; standardized regression coefficient = .465; R2 adjusted = .162). However, once we inserted Importance in the equation, the relationship between Systematization and Performance was no longer statistically significant and, surprisingly, there could be found a direct significant impact of Importance over Growth in Intermediation Results. This finding is hard to explain in theoretical terms. The low adjusted coefficients of determination (R2) and the non-significant regression coefficients found in this study deserve some reflection. First of all, it should be noted that the vast majority of firms reported to have a high emphasis in each of the seven variables of Intensity of Planning and also reported high values of Systematization. Such low variation in the independent variables makes it a poor explanatory variable of the variance of the dependent variable (Performance). This is not to say that planning does not matter. But the non-significant findings may be an idiosyncratic result of particular sample of this study and its small variance. Second, a remark about the statistical power of the tests is necessary. Given that the sample is relatively small (30 observations), the probability of detecting as significant a specific level of R2, at a 5% significance level, would be at least .80 only if the R2 were at least .42 (these calculations were based on a simple extrapolation from Hair, Black, Baben and Tatham's (2006) table 4-7 (p.195)). So, the fact that it was not possible to detect a significant R2 in the regression equations does not mean that there is no such relationship in the population, but may have been due to the fact that the sample was small and, thus, the power of the test was low. Third, given the use of secondary data, the magnitudes of the effects measured in this study are expected to be lower than if we had used self-reported data (cf., Shea-Van Fossen et al., 2006), because of a tendency of executives to inflate the relationship once they sense that the questionnaire is about a relationship between strategic planning (which they may be believe to lead to better performance) and performance outcomes.

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