

STRATEGIC PLANNING INTENSITY AND PERFORMANCE: A STUDY AMONG COMMERCIAL BANKS IN SRI LANKA

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ABSTRACT

Research on impact of formal strategic planning and strategic planning intensity on performance yields mixed results and had mainly focused only on financial aspect of performance. The aim of this study is to examine the relationship between formal strategic planning, strategic planning intensity and performance in both aspects of financial and non-financial. Multiple indicator measures of strategic planning were used to ascertain the strategic planning intensity and formality. The study was conducted in the commercial banks of Sri Lanka. The results of strategic planning-performance model reveal that being formal in strategic planning and high intensity in strategic planning improves financial performance. It further reveals that strategic planning intensity have a positive impact on non-financial performance than on financial performance.

Keywords: *strategic planning, performance, intensity, formality*

1. INTRODUCTION

Strategic planning has become an important and indispensable function for the survival of any business organization in any industry ever since the inception of strategic planning. Among many industries, financial services industry faces a severe competition and risk hence thinking strategically has become highly crucial (Schmenner, 1995). Within the financial services industry, banks in particular have begun to concentrate on strategic planning as a positive response to increase in complexity and change in the financial services industry (Hopkins and Hopkins, 1997). In studies carried out by Bettinger, 1986; Bird, 1991; Prasad, 1984 it has been revealed that among other things strategic planning was used to improve financial performance as well.

Despite numerous researches carried out with regards to the study of planning – performance relationships a vague idea exists as to the exact nature of the relationship between planning and performance. Conclusions with respect to the issue whether the financial performance increase by formal strategic planning reached by those researches are inconsistent. Various conclusions, methods, sample and geographical locations were used to those studies. A comprehensive analysis of literature is laid out in the following section. The focus of this study is to assess whether there is a relationship between performance (financial and none—financial) and strategic planning intensity and performance. As a sub objective the study measures a set of

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variables that describes strategy and assess the fitness of a model. The study is conducted in commercial banks of Sri Lanka.

2. ANALYSIS OF LITERATURE

Academic and practical insights into corporate performance go back to as early as 1970's. Studies of the relationship between different aspects of business on the corporate performance have been performed giving mixed conclusions. Large companies from different industries, banks (Auerbach, 1985; Austin, 1990; Bettinger, 1986; Bird, 1991; Gable and Topol, 1987; Robinson *et al.*, 1986; Robinson and Pearce, 1983) and also small and medium companies were taken as the population in those. One of the main features or rather the weakness of the previous studies was that, only financial aspect of performance was studied while ignoring the non-financial aspect.

Strategic planning is the process of using systematic criteria and investigation that are used to formulate, implement and control strategy in an organization and more importantly the procedure becomes normal when it is documented systematically (Mintzberg, 1994; Pearce and Robinson, 1994). As per the studies conducted pertaining to the manufacturing firms it has been revealed that formal strategic planning have contributed to the superior financial performance measured in terms of ROI, ROE, ROA etc (Ansoff *et al.*, 1971; Karger and Malik 1975). Studies conducted in 1980's and 1990's such as Armstrong, 1986; Greenley, 1986; Mintzberg, 1990; Shrader, Taylor and Dalton, 1984 have concluded that there is a negative relationship between formality of strategic planning and financial performance measured based on generally accepted ratios. However Miller and Cardinal, 1994; Schwenk and Shrader, 1993 confirms the notion of formality of strategic planning indeed improve the financial performance. The above inconsistent conclusions arise mainly due to methodological flaws, no robust statistical methods (Hopkins and Hopkins, 1997). One must keep in mind the time span of the sample study because the impact of strategic planning on performance is of long term. Research has raised this question as to whether the length of time a firm has been involved in strategic planning process has any impact on performance (Hopkins and Hopkins, 1997). Some researchers found no positive relationship between planning and performance but have concluded that the time taken to reap the benefits of planning is not shown with in the period of study concerned (Fulmer and Rue, 1974). Gup and Whitehead in 1989 did a study with in the banking industry to find the nature of relationship between performance and planning and found no statistically significant relationship between the lengths of time banks had been engaged in the strategic planning process and their financial performance. By analyzing the works carried out by Hopkins and Hopkins, 1997; Mintzberg, 1994; Thompson and Strickland, 1987 it can be concluded that strategic planning will give superior financial gains only if the managers engage in the process do it with some intensity. Miller and Cardinal in 1994 studied the above notion and affirmed the conclusion.

According to Hopkins and Hopkins, 1997, it was suggested that more the managers are involved in activities such as diversification, better services focus on niche, place emphasis on external and internal environment and focus on setting direction it means that they believe strongly on the positive relationship between the planning and performance.

There is also literature analysis to ensure that the relationship between planning and performance of banks exists and there is a cause and effect relationship between performance and planning and the relationship is somewhat reciprocal i.e. better planning leads to better financial performance and also better financial performance demands for better planning (Hopkins and Hopkins, 1997). In the above study the mediating effect of managerial factors and environmental factors and organizational factors on the strategic planning intensity was studied using Structural Equation Model and concluded that managerial factors, organizational factors and environmental factors has a mediating effect on the intensity of strategic planning.

Analysis of literature does not provide a clear idea about the benefits of formal strategic planning. For example Boyd in 1991 performed a meta-analytic study combining some previous studies; found that formalized strategic planning is linked to a number of performance measures. Capen and Farley in 1994 concluded similar results. Further, adding to the research of formality of strategic planning and performance Schwenk and Shrader in 1993 and Miller and Cardinal in 1994 found some kind of relationships between formal strategic planning and firm performance in overall. Perry, 2001 also came up with the same conclusion as to the positive nature of relationship between superior performance of formal strategic planners and non formal strategic planners. In contrast, researchers such as Walters, 1993; McKiernan and Morris, 1994 and Simpson, 1998 concluded in their studies that there is no significant benefit from formalized planning.

Generally it is agreed upon among the strategic planning theorists and researchers (Hax and Majluf, 1991; Higgins and Vincze, 1993; Pearce and Robinson, 1994) that strategic planning has three folds namely;

1. Formulation, which includes developing a mission, setting major objectives, assessing the external and internal environments and evaluating and selecting strategies.
2. Implementation.
3. Control.

In many organizations the major focus is on these components in the process of strategic planning. It can be seen that when the managers place equal emphasis on each of the above three components there is high degree to achieve superior financial performance (Dimma, 1985; Hopkins, 1987). Even though there are numerous research work done with regards to strategic planning, still there is no consensus on a definition of strategy (O'Regan and Ghobadian, 2007). Some of the definitions given by different scholars (O'Regan and Ghobadian, 2007) are given in the Table I.

Formal strategic planning process is a deliberate ways to include factors and techniques in a systematic way to achieve specified acts (O'Regan and Ghobadian, 2007). The organizations those who take into account the environmental requirements into the strategy formulation normally out perform than those who do not (O'Regan and Ghobadian, 2007). And the degree of success or failure depends on the extent to which they can take the changes into action. It is important to understand what is meant by performance and according to Laintinen (2002), "performance can be defined as the ability of an object to produce results in a dimension determined a priori, in relation to a target". Performance should be of two folds namely; financial

Table I
Definitions of Strategy

| <i>Author</i> | <i>Definition</i> |
|----------------------------------|---|
| Hofer and Schendel (1978) | The fundamental pattern of present and planned resource deployment and environmental interactions that indicate how the organization will achieve its objectives. |
| Robinson and Pearce (1983) | Large scale future oriented plans for interacting with the competitive environment to optimize the achievement of the organization's objectives |
| Wright <i>et al.</i> (1992) | Top management's plans to achieve outcomes consistent with the organization's missions and goals |
| Crittenden and Crittenden (2000) | Strategic planning attempts to systematize the processes that enable an organization to attain its goals and objectives |
| Farjoun (2002) | The planned or actual co-ordination of the firm's major goals and actions, in time and space, which continuously co-align the firm with its environment. |

and non-financial. Hillman and Keim, 2001 has put forwarded the view that non financial aspects of performance are important for the existence and success of an organization. Ever since Kaplan and Norton, (1996) introduced the Balanced Score Card into the filed of corporate performance, the importance of non-financial performance was emphasized by both practitioners and academics. Several researches have tried to incorporate some aspects of non-financial performance to their strategy performance studies (Steiner, 1979, Luo and Park 2001, O'Regan and Ghobadian, 2007). According to many authors non-financial indicators have become the driving forces of financial indicators. Supporters to this argument even argue that non-financial indicators should be published as supplementary to financial reports (Kaplan and Norton, 1996). The literature states that customer satisfaction, a non-financial measure, improves financial performance (Anderson, Fornell and Lehmann, 1994; Fornell, 1992). Mixed evidence also exist as to the performance and customer satisfaction research conclusions (Ittner and Larrcker, 1998).

3. STUDY BACKGROUND AND SIGNIFICANCE OF THE STUDY

It was inevitable that analysis on literature about planning and performance relationships in banks have given mixed results (Hopkins and Hopkins, 1997). For instance Gup and Whitehead in their study in 1987, it was found the banks those who plan formally had lower ROIs than the banks who planned less formally. On the other hand Clausen in 1990 had confirmed from his study higher profitability is attached with high level of formal planning. Early researchers found that there is a positive relationship between planning and performance (Ansoff *et al.*, 1970; Thuen and House, 1970; Herold, 1972). McKiernan and Morris, 1994 detected that there is no positive relationship between the formality of planning and overall performance whilst Kargar, 1996 detected a positive relationship between the two. Some of the later researchers revealed that there is a positive but an insignificant relationship between planning and performance (Fulmer and Rue, 1974; Malik and Karger, 1975). Pearce and Robins have founds that there is a positive relationship among the formality of planning and performance while Capon in 1991 concluded that planning has a minimum effect on performance. Adding further evidences to the insignificant relationship among planning and performance, Boyd in

his work in 1991 confirmed the lesser reassuring nature between planning and performance. Wrong performance measures, not taking a considerable time span to the study so that the impact of planning not depicted on financial indicators and other factors that are unique to banking industry are the main reasons for the inconsistent results of previous studies (Hopkins and Hopkins, 1997). Very limited studies were carried out to ascertain the impact of planning on financial performance. The ambiguity, lack of current evidence from all over the world together with lack of research in this field pertaining to banks in Sri Lanka, suggest that it is important from both academic and practical points of view to examine the following research question; *To what extent the intensity of strategic planning and formality of strategic planning affect the financial and non financial performance of commercial banks in Sri Lanka?*

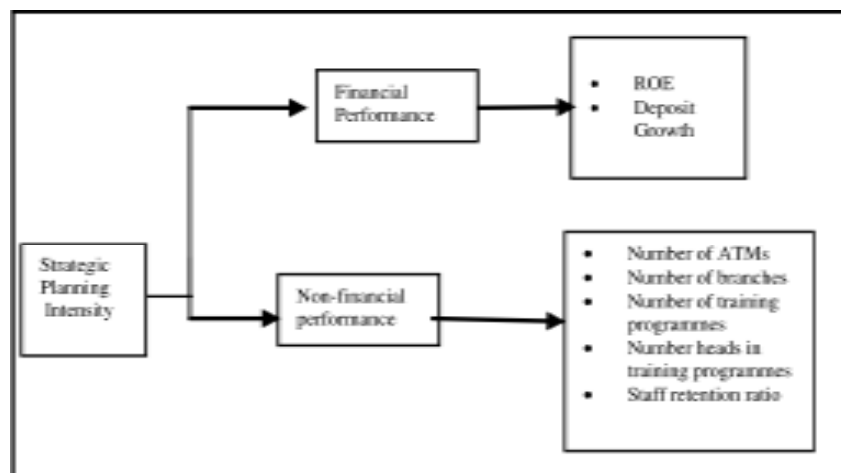
Objectives of the Study

In the light of the above detailed explanation the objectives of the study are to;

- Identify the level of formality of the content and process of the strategic planning of the commercial banks in Sri Lanka.
- Identify the variables that best describe the strategic planning intensity of commercial banks in Sri Lanka.
- Measure the nature of relationship between the strategic planning intensity and performance of commercial banks in Sri Lanka

In this study I hypothesize that the strategic planning intensity increases the financial and non-financial performance of banks. Effect on planning intensity and financial performance has been studied with respect to various industries by Schwenk and Sharder 1993; Steiner, 1979; Thompson and Strickland, 1987). The basic notion of this study is that the intensity with which banks involve in the strategic planning process influence the financial and non-financial performance of banks. As put forwarded by the inconsistent research findings previous studies have miss specified the nature of the relationship between strategic planning and financial

Figure I: Conceptual Framework



performance in banks. As explained earlier, these miss specifications may be due one or more of the factors such as wrong performance measures, ignoring length of time and other factors. More importantly, all most all those studies ignored the crucial aspect of performance, i.e. the non-financial performance. Consideration of the above factors in this study I have taken a more balanced approach in performance of banks and have eliminated the identified weaknesses of previous researches. Since it is very important to banks to be vigilant on the ever changing business environment and at the same time it is vital to cater to the needs of the stakeholders specially creating wealth for the share holders, engaging in strategic planning in an intensive manner is not disputable. The findings of this study can be used by the strategy makers to get an idea regarding the nature and the quantified impact of the strategic planning intensity on banks financial and non-financial performance hence they can concentrate on the given aspects of strategic planning in order to improve the financial and non-financial performance. More over since this is the first research of this nature pertaining to the banking industry in Sri Lanka conclusions and recommendations of this study can be directly applied to the Sri Lankan context with out any adjustments for the geographical or contextual modifications.

The global businesses are now undergoing a recessional period and are facing unfamiliar situations. According to Gavetti et al., 2005 strategy making is most critical in time where there are changes and unfamiliar situations. This research is done with the intention of providing recommendations to the banks whether the strategic planning intensity is important in making superior performance therefore the findings will be useful for the banks in a time of recessions.

4. METHODOLOGY

Sample

The concerned of this study is to assess the impact of strategic planning intensity on performance of commercial banks of Sri Lanka. It is therefore important to acquire a formal and legal list of commercial banks. The commercial banks are given the authority to collect deposits from the public as they are registered under the regulations of Central Bank of Sri Lanka, the governing body of the financial system in the country. The business of accepting deposits of money and lending and/or investing of such monies are an activity governed by specific laws. The Central Bank has, in terms of the provisions of the Banking Act No. 30 of 1988 or the Finance Companies Act No. 78 of 1988, authorized the following three categories of institutions to carry on such business:

- Licensed commercial banks
- Licensed specialized banks
- Registered finance companies

As per the scope of the study I have selected only the licensed commercial banks, there are 22 licensed commercial banks registered under the above stipulated requirements Central Bank Annual Report, 2008). Since all the commercial banks are public organizations, the annual reports are readily available for the general public. Out of these 22, the two government owned banks were deliberately excluded from the study due the political influence in strategic decision making and the government backing of the performance. On the other hand researcher was in

the view that inclusion of these two extremely large banks when compared to others would have distorted the findings of the study. From the rest of the 20 banks 10 banks were selected randomly as the sample.

Research Variables

The measure I used to strategic planning intensity is based on Hopkins and Hopkins study in 1997 in which they have used a detailed examination of strategic planning components comprising of strategic planning process. The components included mission, objectives, internal and external environmental analysis, strategic alternatives, strategy implementation and strategic control. The Chief Executive Officer (CEOs) of selected commercial banks were given the following definition of strategic planning” a process of using systematic criteria to formulate, implement and control strategic alternatives and formally documenting expectations concerning the process” (Hopkins and Hopkins, 1997). They were asked to indicate whether their bank actively involved in strategic planning i.e. the level on emphasis on each of the aspect on a scale ranging from 1 (weak emphasis) to 5 (a strong emphasis), as given in Table II. Detailed information was given to the CEOs during the preliminary discussions.

Table II
Level of Strategic Intensity

| <i>No.</i> | <i>Aspect</i> | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> |
|------------|---|----------|----------|----------|----------|----------|
| 1 | Determining the banks mission | | | | | |
| 2 | Developing major long term objectives | | | | | |
| 3 | Assessing the external environment | | | | | |
| 4 | Assessing the internal environment | | | | | |
| 5 | Evaluating strategic options | | | | | |
| 6 | Implementing strategic options | | | | | |
| 7 | Controlling the implemented strategic options | | | | | |

I have adopted a written strategic plan as a substitute measure of formality. This is in line with the work done by (O’Regan and Ghobadian, 2007, Bracker *et al.* 1988). Therefore the CEOs were asked whether they keep written documentation through out the total process of strategic planning. Table III depicts the content of formalized strategic planning used to assess the level of formality of strategic planning for the present study.

In order to derive a more comprehensive and unique picture of banks’ financial situations, two measures were used for the financial performance dependant variable. The first measure was Return on Equity (ROE), calculated as net income divided by shareholders’ equity. ROE has been considered as the true measure of financial performance in many of the previous studies (Bird, 1991; Hopkins and Hopkins, 1997). ROE has been taken as an appropriate measure of performance in service organizations by Heskett, in 1986.

Deposit growth has been taken as the other measure of financial performance by the author keeping inline with the works done by previous studies (Gup and Whitehead, 1989; Lenzner and Mao, 1995; Hopkins and Hopkins, 1997). Deposit growth is an important measure in the

Table III
Content of the Formalize Strategic Planning

| <i>No:</i> | <i>Aspect</i> |
|------------|---|
| 1 | Covered at least three years into the future |
| 2 | The specifications of objectives and goals |
| 3 | Other possible alternative strategy |
| 4 | Action plans for the major function areas of the firm |
| 5 | Identified and allocated resources required to support selected strategy |
| 6 | Procedures for anticipating or detecting errors in, or failures of the plan and for preventing or correcting them on a continual basis. |
| 7 | Some attempt to account for factors outside the immediate environment of the firm |

banking sector performance. This was measured as the percent change in consumer demand deposits for each bank between two consecutive years.

Data used to calculate all the financial measures were taken from the annual reports and were for five years from 2004 to 2008.

It is vital to get a comprehensive representation of performance of banks that are not financial this should cover all the aspects of the banks to name employees, customers, suppliers, innovation and creativity etc. I have analyzed number of previous studies pertaining to this area of non-financial performance and derived the following variables to measure the non-financial aspect of the banks. They are; Number of ATMs, Number of branches, Number of training programmes, Number heads in training programmes, Staff retention ratio. Strategic planning intensity was analyzed against the above identified non-financial performance indicators. Since the research that have been carried out pertaining to the non-financial aspect of performance is very poor the researcher couldn't find a model that has been developed previously in order to carry out a confirmatory factor analysis as for the financial performance. Therefore I have done a comprehensive regression analysis in order to establish a relationship between the non-financial performance independent variables and strategic planning intensity.

The aim of the study is to identify the economically important sector in the stock market. The questionnaire was mailed to the CEOs of the selected banks after briefing them about the study and the instructions to fill the questionnaire. The research instrument's validity was checked by Test Re Test method by discussing with the same CEOs after one month of the collection of the questionnaires. Since the same answers were given by the respondents after one month time it can be concluded that the questionnaire used for the study passes the validity test. Due to the smaller number of elements in the study there was a 100% response rate and no non respondents.

5. ANALYSIS AND DISCUSSION

During the discussion that the researcher held with the respondents it was revealed that all the banks have written documents for their planning purposes. It is interesting to analyze whether all the banks have given equivalent emphasis on all the content given in Table II. Percentages were calculated from the answers given by the respondents for the respective seven contents under formality. Table III shows the percentages.

It is apparent from the Table that content of formality is well covered by most of the banks. Since the banks selected are commercial banks and are very large in terms of operations they have considered their plans for the future covering at least three years. Content no 6 and content no 7 are the ones that were given lesser attention by most of the banks. Few banks have paid less attention to prepare action plans for major functional areas.

Table IV
Percentage Coverage of Aspects of Formal Strategic Planning

| <i>No.</i> | <i>Aspect</i> | <i>Percentages</i> |
|------------|---|--------------------|
| 1 | Covered at least three years into the future | 95% |
| 2 | The specifications of objectives and goals | 97% |
| 3 | Other possible alternative strategy | 90% |
| 4 | Action plans for the major function areas of the firm | 64% |
| 5 | Identified and allocated resources required to support selected strategy | 75% |
| 6 | Procedures for anticipating or detecting errors in, or failures of the plan and for preventing or correcting them on a continual basis. | 45% |
| 7 | Some attempt to account for factors outside the immediate environment of the firm | 54% |

Analysis of the above facts and figures reveals that the commercial banks in Sri Lanka are focusing on formality of strategic planning i.e. they are concerned of having written documentation for the strategic planning purposes.

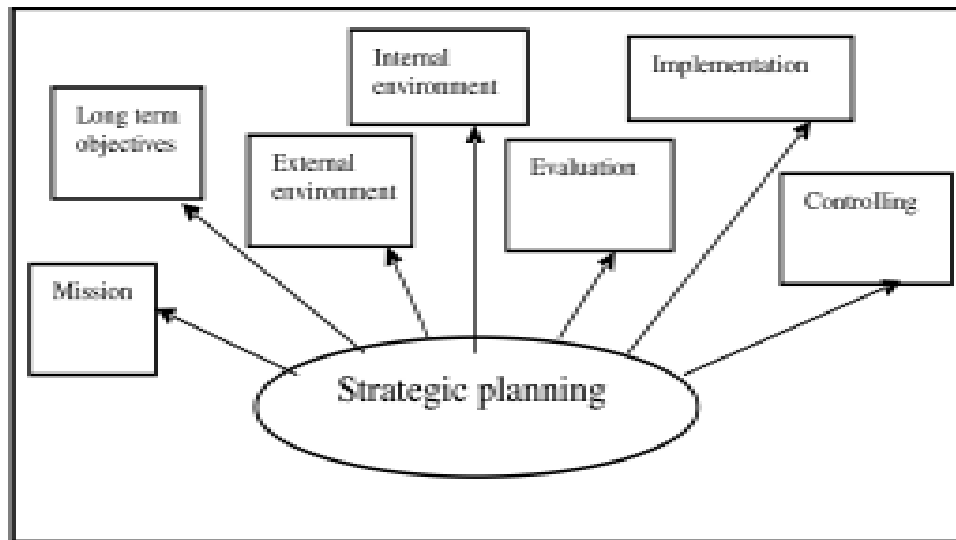
Intensity and Financial Performance

SPSS version 16 was used to analyze data. The convenient nature and the sophisticated features of SPSS has facilitated the analysis of data. As the dependant variables, i.e. financial and non-financial performance of banks are theoretical constructs and cannot be observed directly they are operationalised by variables that are observable and measurable. Hopkins and Hopkins developed the measurement model and was used in this study. They modeled strategic planning intensity as a theoretical construct with seven key variables as per Table II. The seven variables given in the Table are Mission (MSN), Long Term Objectives (LTO), External Environment (EENV), Internal Environment (IENV), Evaluation (EVA), Implementation (IMPT) and Controlling (CTRL).

Confirmatory factor analysis was used to assess whether the measurement model is consistent with the data collected in this study. Confirmatory factor analysis differ from that of exploratory factor analysis, with the later researcher is typically interested in whether data for many observed variables can be adequately represented by a few unobserved variables. Exploratory factor analysis is useful in underlying structure of observed variables. With confirmatory factor analysis the researcher has to start with a theory which has been previously validated and assess how well the data confirm. If the data fits good that shows the analysis support the theory being tested. Confirmatory factor analysis may also be used to develop and assess a measurement model that describes the relationship between latent and observed variables and also to develop structural equation models that assess the causality between latent and observed variables (Baker, 2003). In this study confirmatory factor analysis will be used to

assess the fit of the data with the Hopkins and Hopkins measurement model which specifies that identified strategic planning variables are really measuring an unobservable uni-dimensional strategic planning construct. The theoretical model assessed is depicted by a path diagram in Figure, 2 in the diagram the latent variable, i.e. the strategic planning is given by an oval and the observed variables are depicted by rectangles.

Figure II: Confirmatory Factor Analysis Model of the Strategic Planning Construct and Observed Variables



The above model indicates that there is an unobservable, uni-dimensional strategic planning construct that is assumed to affect seven observed strategic planning variables as mentioned above.

To test the notion, that the firm financial performance is related to the use of strategic planning intensity tools, the financial performance variable (five year average of ROE, and Deposit Growth) was regressed. The equation 1 reflects the relationship;

Equation 1

$$\text{ROE} = \beta_0 + \beta_1 \text{ strategy} + \text{error}$$

Where ROE represents the five year average Return On Equity, strategy represents the latent strategic planning construct and the error term.

Equation 3

$$\text{Deposit Growth} = \beta_0 + \beta_1 \text{ strategy}$$

Results

The first step was to estimate the latent variable model shown in Figure 2 according to the works of Hopkins and Hopkins to confirm the model's consistency with the data. The

confirmatory factor analysis for the measurement model was performed in SPSS. The respondents' ratings for the seven strategic planning variables were the inputs to this analysis. Table V presents the results of the analysis for the model.

Table V
Correlation Matrix

| | <i>MSN</i> | <i>LTO</i> | <i>EENV</i> | <i>IENV</i> | <i>EVT</i> | <i>IMPT</i> | <i>CTRL</i> |
|---------------------|------------|------------|-------------|-------------|------------|-------------|-------------|
| MSN | 1.000 | . | . | . | . | . | . |
| LTO | . | 1.000 | . | . | . | . | . |
| EENV | . | .149 | 1.000 | . | . | . | . |
| IENV | . | .575 | .710 | 1.000 | . | . | . |
| EVT | . | .910 | .354 | .730 | 1.000 | . | . |
| IMPT | . | .175 | .354 | .411 | .417 | 1.000 | . |
| CTRL | . | .642 | .540 | .837 | .764 | .382 | 1.000 |
| Standard Deviations | 0 | 0.90 | 0.53 | 0.69 | 0.38 | 0.76 | 1.15 |

The relationship between the strategy and the performance was the primary concerned. The coefficient on strategy variable is positive and statistically significant at the 1% probability level, indicating that firms place greater emphasis on strategic planning tend to have higher ROE.

Several measures indicate that the model fits well with the data. The correlation coefficient for “determining mission” is zero and the standard deviation is zero. This indicates that all the respondents have put the same level for this variable. The average value of 5.00 for this variable indicates that all the respondents think that they place a higher importance for the mission in strategic planning process.

The next step is to estimate the nature of relationship between strategy and performance.

Table VI
Correlation matrix – Financial Performance

| | <i>ROE</i> | <i>Deposit Growth</i> |
|--------------------------------|------------|-----------------------|
| Developing lg term objectives | .748 | .733 |
| Assessing ext environment | .375 | .202 |
| Assessing int env | .691 | .716 |
| Evaluating strategic options | .938 | .856 |
| Implementing strategic options | .483 | .141 |
| Controlling the options | .829 | .651 |
| ROE | 1.000 | .823 |
| Deposit Growth | .823 | 1.000 |

The above correlations indicate the nature of relationship between the strategy and performance. The correlations are higher between many of the variables and ROE and Deposit Growth other than assessing external environment which has a relatively lower impact on ROE and Deposit Growth.

Strategic planning intensity was analyzed against the above identified non-financial performance indicators. Since the research that have been carried out pertaining to the non-financial aspect of performance is very poor the researcher couldn't find a model that has been developed previously in order to carry out a confirmatory factor analysis as for the financial performance. Therefore I have done a comprehensive regression analysis in order to establish a relationship between the non-financial performance independent variables and strategic planning intensity.

The correlations reveal a positive relationship between the non-financial performance indicators and the strategic planning intensity. The strength of coefficients show that the impact of strategic planning intensity on non-financial performance is important for performance. This is more evident by assessing the correlations between the assessing external environment and the non-financial performance indicators. The above results are true at a level of significance of 1%.

Table VII
Correlation Matrix: Non-Financial Performance

| | <i># ATMs</i> | <i># branches</i> | <i># training programmes</i> | <i># heads in training programs</i> |
|------|---------------|-------------------|------------------------------|-------------------------------------|
| LTO | 0.875 | 0.883 | 0.761 | 0.877 |
| EENV | 0.567 | 0.455 | 0.378 | 0.413 |
| IENV | 0.679 | 0.688 | 0.597 | 0.656 |
| EVT | 0.988 | 0.863 | 0.855 | 0.897 |
| IMPT | 0.511 | 0.698 | 0.485 | 0.576 |
| CTRL | 0.841 | 0.778 | 0.789 | 0.875 |

Findings of the research are important for the academicians those who are interested in the field of performance and strategic planning. Especially this study gives an insight into the non-financial performance aspects hence the future research can focus on this regard more. The practitioners will find very valuable findings from the study. From the basic findings it is important for the practitioners involved in the banking sector in Sri Lanka to concentrate more on strategic planning intensity because it improves both financial and non-financial aspects of performance. More that they engage in strategic planning the more that they will reap benefits from non-financial performance than that of financial performance.

6. CONCLUSION

This study is carried out with the intention of assessing the level of formality and strategic planning intensity of commercial banks and to ascertain the relationship between strategic planning intensity and formality against financial performance and non-financial performance. As a secondary objective I identified the variables that best describes strategic planning intensity of commercial banks in Sri Lanka. Reviewing the literature pertaining to the issue of strategic planning intensity and performance it was found that there are several research studies carried out in this regard but has generated mixed conclusions. Several reasons were given for these mixed conclusions. This study employed confirmatory factor analysis to ascertain the strategy construct and found that identified variables describes strategy with a statistical significance. Furthermore it was revealed that there is a positive relationship between strategic planning intensity and financial performance. More importantly, it can be concluded that the nature of

relationship between non-financial performance and strategic planning intensity is stronger than that with the financial performance. In the light of the above findings I recommend that if the banks engage in strategic planning more intensely it will generate better financial performance and non-financial performance. These findings can also be applied to other financial services organizations in the country that work in the same environmental conditions.

7. LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The data was collected from the CEOs of the respective banks. These banks are well known among the community in Sri Lanka. This factor might have influenced the respondents when filling the questionnaire. I.e. they might have given the attention to fill the questionnaire that reflects their image rather than concentrating on giving 100% accurate feedback of the level of intensity that they face. The CEOs may have the view that they do strategic planning in a more intensive manner due to their success in the industry even though in real scenario the case may be of somewhat different. This issue was addressed in some previous similar research studies. According to Hopkins and Hopkins, 1997, the data is self reported and the limitation arises due to that. The banks those who possess a good financial status would likely to be pleased with their strategic planning and assume a high level of intensity. Similar statements have been made by some other researchers in their studies stating the limitation attributing to the self reported nature of the data and the respondents attitudes towards their performance and image (Clapham and schwenk, 1991). Considering the significant research findings came up in the study this limitation can be neglected as having minimum impact on the findings. This study has focused only on formality and intensity of the strategic planning in commercial banks in Sri Lanka. The mediating factors such as managerial, organizational and environmental factors that affect firm performance can be taken for a study and the multiple relationships can be measured. Further more it would be important to understand the cause and effect relationship between the performance and strategic planning rather than the nature of relationship. More sophisticated statistical models can be used to ascertain the cause and effect relationship and the findings will be more useful for the academics and practitioners. The same study can also be extended to include all the organizations in the CSE and a more representative sample should be drawn to represent all the sectors. In terms of practical point of view, this study contributes to the existing knowledge the importance of organizational commitment to strategic planning if it is to be effective. This finding can be generalized to other financial services institutions subject to similar conditions. Finally it is apparent that if the commercial banks need to be financially successful and have better non-financial indicators they need to be engaged in strategic planning more intensely.

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