

Strategic Management and Business Performance

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1 Introduction

A great amount of research has been devoted to establish a relationship between planning effort and business performance. The spectrum of conclusions ranges from strong positive correlations to claims that the role of formal planning systems in business management is only informational (Rogers, Miller & Judge 1999, 567–568). Hill, Jones & Galvin (2004, 23) take position in this debate by claiming that “strategic planning, on average, has a positive impact on company performance”. This claim, further referred to as the ‘Performance Claim’, is based on research conducted by Miller & Cardinal (1994) and Rogers et al. (1999). Many academics question the usefulness of formal strategic planning systems as a means to improve company performance and argue that luck plays a critical role in determining competitive advantage (Mintzberg 1979, Hart 1992, Hamel 1996).

In this essay, the claim that strategic planning has a positive influence on company performance, will be evaluated. It will be argued that an organisation can not rely solely on formal systems to develop corporate strategy. Although empirical research points towards a positive correlation between strategic planning and company performance, these studies suffer from some methodological problems. It will further be argued that because strategic management is not an exact science, strategy formulation requires a great deal of intuition and company performance relies to some extent on serendipity. This does, however, not imply that strategic planning as a formal exercise is futile. Strategic planning is vital for good management of an organisation. Not as a means to plot the course for years ahead, but as a way to be able to anticipate the unpredictability of external influences.

In the next section of this essay, the terms of the performance claim will be clarified. Following a discussion of research supporting and rejecting the Performance Claim, the different viewpoints are analysed and an integrated approach to

strategic planning will be proposed.

2 The Performance Claim

The Performance Claim (Strategic planning, on average, has a positive impact on company performance) has two terms that need clarification before it can be assessed: strategic planning and company performance.

2.1 What is strategic planning?

Hill et al. (2004, 5) define strategy in terms of its function as: “an action a company takes to attain superior performance”. Functional definitions are, however, not suitable to assess the Performance Claim. When strategy is defined as the action(s) taken to improve performance, the claim that strategy improves performance becomes a tautology (Actions taken to attain superior performance, on average, have a positive impact on company performance). To assess the Performance Claim, a different kind of definition is required.

Mintzberg (1979, 11) argued that strategic planning is a multifaceted phenomenon which is impossible to define in a short essential definition. He rejects any definition of strategy that restricts it to explicit, *a priori* guidelines and expands restrictive definitions by including evolved, *a posteriori*, consistencies in decisional behaviour as strategy. Mintzberg advocates a phenomenological approach and defines strategy as a “plan, ploy, pattern, position and perspective” (Mintzberg 1987). The multifaceted approach of Mintzberg is more suitable to assess the Performance Claim because it explains what strategic management actually is or can be, not what it is intended to do.

Strategic planning is the *formal* process, or set of processes, used to determine the strategies (actions) for the organisation (Hill et al. 2004, 5). Not all strategy is, however, derived from a formalised process. Hill et al. (2004, 23) distinguish, following Mintzberg, between *intended strategy* and *emergent strategy*. In intended strategy—the formal strategic planning process—strategic choices are based on rigorous analysis of external and internal factors.

Emergent strategies, on the other hand, originate from organisational grass roots. Emergent strategies are not developed, but evolve in an organisation on the basis of actions that the organisation takes in reaction to internal and external circumstances (Hill et al. 2004, 20).

The discourse around the Performance Claim focuses on the impact on performance of strategic planning as a formalised process. In this essay, the Performance Claim will be evaluated from both perspectives.

2.2 Company performance

Company performance is traditionally related to increasing shareholder value. Performance can, however, also be measured in terms of reduction of environmental footprint, improved occupational health and safety performance, increased customer satisfaction and so on. All research referred to in this essay uses the restricted interpretation of company performance, e.g. financial performance.

A key term in the Performance Claim is that company performance is on “average” positively affected by formal strategic planning. The research referred to in this essay (Miller & Cardinal 1994, Rogers et al. 1999) investigated whether a positive correlation between the amount of strategic planning and company performance exists; the more formal strategic planning, the better a company will perform.

3 Discussion

Given the above discussion, the Performance Claim is formulated as:

There exists a positive correlation between the extent of formal strategic planning and financial company performance.

3.1 Strategic management and company performance

Miller & Cardinal (1994) argue that strategic planning positively influences financial performance of an organisation. They investigated how firm size, capital intensity and environmental turbulence influence performance in firms with different degrees of formal strategic planning. The authors concluded that the mean correlations support the thesis that planning positively affects growth and profitability. The correlations show a fairly large fluctuation ($-0.30 \leq R^2 \leq 0.71$), but are skewed towards positive performance. They also concluded that stronger planning-profitability correlations emerge when firms face turbulent environments (Miller & Vaughan 2001, 1658).

Rogers et al. (1999) argued that a direct link between strategic planning and performance can not be made without considering the moderating effect of the actual content of the strategy. They investigated whether the relationship between strategic planning processes and organisational performance depends on the content of the strategy pursued and not just the extent of planning. Strategic planning was measured by using a questionnaire completed by representatives of several banks, which resulted in a set of planning dimensions.¹ When the data was controlled to include strategy content, it was found that strategy content moderates the relationship between planning and performance. The overall conclusion of their research was that formal strategic planning positively influences company performance, as expressed in the Performance Claim.

Mankins & Steele (2005) support the Performance Claim but argue that companies typically only realise 63% of the potential value of their strategy because of defects in planning and execution. Mankins and Steele provide a list of causes of performance loss, but do not recognise that contingencies can negatively influence company performance. They thus imply that any strategy can be realised, as long as planned and executed appropriately.

3.2 Emergent Strategy and company performance

Several researchers emphasise the importance of emergent strategy formulation and downplay the role of formal strategic planning. They argue that luck plays a critical role in whether an organisation is successful or not (Mintzberg 1979, Hart 1992, Hamel 1996).

Strategy formation is, according to Mintzberg, the interplay between the formal, intended strategies and informal, emergent strategies, mediated by leadership (Mintzberg 1979, 72). He emphasises that strategy is not a fixed plan, nor does it change systematically at prearranged times at the will of management (Mintzberg 1979, 84). Mintzberg emphasises the unpredictability of the external environment. An organisation can find itself in a stable environment for long periods of time, without the need to change its strategy. Sometimes the environment can, however, become so turbulent that even the best planning techniques are useless because of the high level of unpredictability (Mintzberg 1979, 75). This seems to contradict the finding of Rogers et al. (1999) that stronger planning-profitability correlations emerge when firms face turbulent environments. Companies that per-

¹Accounting control, integration & coordination, flexibility, goals & plans, scanning and broad analysis.

form well in a turbulent environment acknowledge that circumstances are in an eternal flux. Both Rogers and Mintzberg are correct, the world is unpredictable, but good strategic planning includes provisions for this uncertainty, such as scenario planning (Hill et al. 2004, 23).

Hamel (1996) argues that strategic planning as it is practised in business management, is not strategic at all. He claims that strategy development tends to be a reductionist process, based on simple rules and heuristics, working from the present to the future, rather than the other way around. The strategic planning process is largely extrapolative and it is assumed that the future will resemble the past, an assumption that David Hume has shown to be irrational more than 250 years ago (Prevos 2005). Hamel emphasises the creative aspect of strategic management and points out that it is not a rote process that can be instrumentalised in neat systems, but a 'quest' that must be a subversive revolution to improve company performance (Hamel 1996, 71).

3.3 An integrated approach

Hill et al. (2004, 130) argue that, although luck may be a reason for an organisation's success in particular cases, it is an unconvincing explanation for the persistent success of a company. They find it "difficult to imagine how *sustained* excellence . . . could result from anything other than conscious effort" (Hill et al. 2004, 130). There are, however, many examples of how luck has positively influenced the future of organisations dramatically, and vice versa how unpredictable external circumstances have negatively influenced an organisation's fortune.

Empirical research shows a positive correlation between the extent of formal strategic planning and company performance (Miller & Cardinal 1994, Rogers et al. 1999). This does, however, not prove a causal link between strategic planning and company performance. From an evolutionary perspective, only those companies that maintain a positive performance will survive. The research did not include an analysis of failed companies and their strategic planning. Furthermore, the research focusses on strategy that has been realised. Mintzberg argues in this context that realised strategy is always a combination of intended and emergent strategies (Mintzberg 1979, Mintzberg 1987). Following Mintzberg's typology of strategy formulation, the positive correlation between strategic planning and performance is not only based on formal, intended, strategy. Emergent strategy, and thus serendipity, luck and informal strategy formulation, play an important role in achieving positive performance. This also explains the seeming contradiction

between Rogers and Mintzberg regarding the influence of turbulence. Hill et al. (2004, 21) recognise the mutual importance of intended and emergent strategy and stress that management need to recognise the process of emergence and intervene when appropriate. Even though these strategies evolve without going through the formal process, management needs to evaluate these and select those that align with the vision set for the organisation.

Hart (1992) summarises the discourse between proponents of strict formal planning and those that stress the limits of this approach. He refers to formal planning as the *rational model* for strategy formulation. The rational model advocates to consider all available alternatives, identify and evaluate all of the consequences of each alternative and then select the preferred alternative. Researchers challenging this approach argue that organisations can achieve only limited rationality because of individual cognitive limits, heuristics and biases in human judgement. Hart proposes an integrated approach to strategy formulation. Hart argues that prior literature on the subject has focused on a particular theme and has failed to capture the full range of the phenomenon of strategic planning.

An integrated approach to strategic management is required to get the full benefits. Strategic planning will not automatically positively influence performance once put into place, it requires constant ‘tinkering and kludging’ to deal with continually changing circumstances.

3.4 Strategic management as a science

Research into strategy formulation has resulted in a plethora of strategic management theories.² The fundamental differences between individual theories and the fact that they come and go in quick succession, supports the claim that there is no firm scientific basis for theories of management (Miller & Vaughan 2001, 5). Strategic management theory is an eclectic field with contributions from military history, engineering, industrial economics, organisational sociology, behavioural, cognitive and social psychology, anthropology and political science (Foster & Browne 1996, 21). Strategic management is thus more aligned with social sciences than the exact sciences and as such needs a methodology suiting the unpredictability of human behaviour, rather than a rational model, feigning predictability.

Management deals with human beings and their social interaction and both the external and internal environment are in a constant state of flux. Strategy will only

²For an overview, see: www.12manage.com/i_s.html.

improve performance if its formulation takes the fundamental unpredictability of the world into account. Strategy can not be formulated through rational systems that model the real world. Formulating strategy is a continuously developing 'narrative' between the organisation and the external environment.

4 Conclusion

In this essay the question whether strategic planning has, on average, a positive impact on company performance has been investigated. It has been argued that this is indeed the case, but a business can not rely on formal strategy planning alone to positively affect performance.

Although research (Miller & Cardinal 1994, Rogers et al. 1999) has established a positive correlation between strategic planning and company performance, it has not established a causal relationship between formal strategic planning and improved company performance. Strategy formulation is a complex synergy of intended and emergent strategy and positive company performance is brought about by a combination of both.

It has also been argued that strategic management as a science is closely related to social sciences and that the methodology of strategy formulation needs to fit the nature of the discipline. This does not mean that strategic planning is a futile exercise. Even in uncharted waters a course needs to be chosen, even if there are no reference points for orientation. Strategic planning is vital for ensuring continued good company performance. Only those organisations that practice some form of strategic planning will survive. Not strategy as a rational model to plot the course for years ahead, but as a narrative between the organisation and the environment, anticipating the unpredictability of external influences.

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