

The Study on Strategic Planning and Organizational Performance in the Regional Government Owned Banks in Indonesia

Mohammad Sihab. Ridwan, and John. Marti

Abstract--This study explored the strategic planning practices and tried to understand the link between strategic planning practices, institutional context, and performance in the regional government-owned banks in Indonesia. This study employed a qualitative research method for a framework in this study. Exploring the link between the variables of strategic planning dimensions, institutional context, and performance such as growth in asset and ROI will improve the understanding of the fundamental characteristics of successful strategic planning practices. The method of data collection used in-dept semi-structured interviews of both head and staff of planning department and non planning members in their institution. The Three banks were selected due to commitment in strategic planning and having high performance.

The findings gave researcher an understanding relating to steps, processes of planning practices, corporate culture, types of decision making in the organization, organizational structures, and performance at each of three government regional-owned banks. This study findings also provides insight into the influence of corporate culture and types of decision making in developing institutional context to enable effective strategic planning.

Keywords--Institutional context, organizational performance, strategic planning practices.

I. INTRODUCTION

STRATEGIC planning is a backbone support to strategic management and it is a major process in the conduct of strategic management [30]. Almost fifty years strategic planning has become a standart part of management thinking and practice in the business world and more than twenty five years it has become the standart practice of large numbers of public and non profit organization [8]. The first and perhaps most obvious benefit of strategic planning is the promotion of strategic thinking, acting, and learning [8].

However, there is a gap between planning process including implementation and the extent to which organizational context supports or distracts from planning process [26]. Other factors will impact on the relationship between strategic planning and performance [17].

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Strategic planning often fails due to problems or barriers encountered at the implementation stage [27]. Mixed evidence about the relationship between strategic planning and organizational performance makes the debate about its effectiveness as a tool of strategic management an on going one [27].

The linkage between strategic planning, organizational/institutional context, and performance needs analysis to get a better understanding how strategic planning is applied in practice and will improve organizational performance. For Indonesian context, no studies in the area of strategic planning practices have been conducted for both private sector as well as public and non profit organization. To the best of the author's knowledge, this is the first study trying to analyze the issue under the Indonesian case.

I.1. Research Questions

- How was strategic planning practiced in the regional government-owned banks in Indonesia?
- To what extent is the link between strategic planning and performance ?
- To what extent will culture and types of decision decision influence an institutional/organizational context to enable effective strategic planning ?

II. LITERATURE REVIEW

II.1. Strategic Planning

Steiner [30] defines strategic planning from four points of view, one of them is that strategic planning is as a process. 'It is a process that begins with the setting organizational aims, defines strategies and policies to achieve them, and develops

Detailed plans to make sure that the strategies are implemented so as to achieve the ends sought. By a rational model of strategic planning process, organization investigates industry and competition trends, make forecasting models and scenario analyses, identity business threats and opportunities as well as make creative programmes [10]. In such model, a company goes through a number of well defined steps in order to formulate intended strategies that align organizational strengths and weaknesses with environmental opportunities and threats [10].

II.2. Dimensions of Strategic Planning Process (Strategic Planning Practices):

The author extends the theoretical review of 17 Dimensions of Strategic Planning Process identified by Wegner [33] as follows:

1. Awareness of financial constraints [18], [30], [7], [14], [16], [8].
2. CEO or president is involved and a champion for planning [14], [16], [30], [18], [26], [8], [13].
3. Clear and measurable objectives [1], [30], [13], [8]
4. Commitment to take action even if only small wins are achieved at first [14], [30], [8], [13].
5. Communication lines established and open [7], [16], [30].
6. Environmental scanning [1], [8], [7], [14], [16], [30], [8], [13], [23], [6].
7. Feedback and evaluation [1], [4], [32], [27], [21], [8], [57], [9], [23].
8. Flexibility to adjust planning process and goals after process is complete [32], [28].
9. Hierarchical planning (planning occurs at each institutional level) [32], [8], [25], [26], [9].
10. Information flow and communications [32], [8], [25], [57], [28], [9].
11. Linking of goals to budgets [1], [32], [8], [25], [26], [57], [21], [9].
12. Manager and various constituencies on organizational are involved [32], [8], [21], [9].
13. Money available to finance some of the initiatives [32], [8], [25], [26], [9].
14. Planning document [32], [25], [9].
15. Preplanning [21], [9].
16. Process must be clear to all involved [32], [9].
17. Strategy formulation [1], [2], [8], [26], [23], [9].

II.3. Institutional/organizational context

The other organizational factors affect the planning process besides the dimensions of strategic planning [33]. The Smart, Kuh, and Tierney's work [29] argued that culture has the important roles in improving organizational effectiveness. Cameron and Ettington [9] in their study about the effectiveness of two-year and four-year colleges and universities developed four types of institutional culture. They are : clan, adhocracy, bureaucracy, and market.

Another variable considered in this study is decision making. To get an understanding of how organization makes decisions about resources allocation, two decision frameworks are examined. One of decision frameworks is the rational-collegial and the other is the autocratic-political.

II.4. The connection strategic planning and performance

Venkatraman and Ramanujam [32] described that performance is a continuing theme in most areas of management, including strategic management, and it is of interest to both academic scholars and practicing manager. Performance enhancement is at the heart of strategic

management and the importance of organizational performance in strategic management can be reasoned on three aspects, they are : theoretical, empirical, and managerial. Theoretically, the concept of organizational performance is at the heart of strategic management and the time of test of whichever strategy. Empirically, most strategy research investigations use the construct of business performance to test a sort of strategy content and process issues and for an systematic analysis of the extent to which the empirical inquiries reflect the performance dimension. The managerial importance of organizational performance is all too manifest in the many recommendations offered for performance enhancement such as research on corporate turn around and organizational transitions. Similarly, Ramanujam and venkatraman [25] depicted that an issue central concern in the literature on strategic planning is the connection between strategic planning and organizational performance.

Numerous empirical studies have tried to explain the linkage between strategic planning and organizational performance. The seminal early works on formal strategic planning processes: Ansoff [1] Anthony [4], Steiner [30], Lorange [18], Keller [15] link the strategic planning to organizational performance (change). Keller, writing in 1983, presented that strategic planning places long term liveliness and quality of an organization first. It is concerned about organizational survival. Steiner [30] depicted that "strategic planning is the systematic and more or less formalized effort of a company to establish..... strategies to achieve objectives and basic company purposes" [p.15]. Lorange [18] presented that „the purpose of strategic planning is thus to accomplish a sufficient process of innovation and change in the firm.....if a formal system for strategic planning does not support innovation and change, it is a failure.“

Furthermore, Lorange [18] and Steiner [30] explained that strategic planning system is a critical process for top management. Further Steiner pointed out that strategic planning facilitated growth. Ansoff et.al's study [3] on mergers and acquisitions of US manufacturing firms 1946-1965 revealed that „the presence of planning variables examined was highly correlated with performance, specifically sales, earnings, earnings/common equity, earnings/total capital, and debt equity ratio.“ Further, they argued that Planning process mostly results in better alignment and financial outcomes than does trial and error learning.

Several later works observed the criticality of performance as dependent variable. Grant's study [12] of the major oil companies in USA revealed that during the 1950s and 1960s the diffusion of strategic planning among big firms, followed interest in strategy as an area of management. Further, Grant states that Focus of empirical research in strategic planning by 1980s was on just two areas: first, the impact of strategic planning on firm performance where there were a lot of studies but no robust findings. 2. Second, the role of strategic planning in

strategic decision making where it studied the organizational process of strategy formulation.

There is, however, some doubt relating to the efficacy of strategic planning to organizational performance. Quin, for example, stated that investigation on strategic planning is inconclusive and the most main strategic decisions are made outside the formal planning process [24]. Perhaps, the most compelling critique was presented by Mintzberg [21] arguing that business had often an counterproductive love affair with strategic planning from 1960s through the 1980s.

III. METHODOLOGY RESEARCH

This study employed qualitative research approach as framework to study [20]. Qualitative research is a form of inquiry that help us understand and explain the meaning of social phenomena with as little disruption of the natural settings as possible [20]. .

III.1. The sample

The population of this study is the Indonesian banking industry both private bank and state bank. The total population of the regional government-owned banks is 26 banks (N =26 banks). From this population, a sample of three banks was selected.

III.2. Data Analysis

Four strategies were used concerning with case study analysis :

- Relying on theoretical prepositions
- Developing a case description.
- Using both qualitative and quantitative data
- Examining rival explanations.

The field data also were analyzed using the theoretical framework of the model. The six generic steps as recommended by Creswell [11] was utilized to describe the data analysis of this study. Thematic analysis [20] will be used to analysis the data.

IV. FINDINGS

The findings gave researcher an understanding relating to steps, processes of planning practices, organizational culture, decision making types, organizational structures, and corporate performance at each of three regional government-owned banks. The research results also provide insight into the contribution of institutional/organizational culture and types of decision making in forming organizational context to enable effective strategic planning. One finding of this study concerning with the role of CEO in strategic planning process found that CEOs in all three banks in this research have very decisive role in strategic planning process. CEO presented the big picture of the future direction of the company in front of the staff including strategic planning team, then strategic planning team translate the guidance of CEO in their strategic planning design. The other finding in this study revealed that discovering strategic issues assists

to control the desire to scurry to find solutions. In turn, it will drive to organizational change. Strategic planning is a very useful vehicle to identify such important issues facing company. In addition, in the three banks showed that the need to watch budgets is always existing. Monitoring budgets is very useful to sharp the allocation of budgets and reallocate the budgets if needed. The other findings revealed that by creating a sharp link between goals, plans, and resources during strategic planning process, the organization would much better select action plans based on their advantage, cost, and ROI and assess the attractiveness of numerous strategies versus the cost of their achievement as argued by Sevier[28]. The other finding in terms of environmental scanning revealed that the constantly scanning of the external environment of the three banks is crucial for effectively underway strategic decision making.

V. CONCLUSION

V.1. Research Contribution

V.1.1. Managerial implications

- a. For strategic planning to be effective and useful, there must be commitment and involvement all over the organization. It is very important to overcome any inherent problems such as: rivalry among divisions, departments, branches, resistance to change, resource requirement, resources allocation, and so on.
- b. 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 Grant [12, p:515] “a framework of constraints and objectives that bounded and directed strategic choices.”
- c. The connection of goals to budget, feedback and evaluation has shaped a management system much more intimately aligned with supervising efficient performance, giving incentives, and distributing cash flows to high yield usages.

V.2. Research directions

- a. To get better understanding of strategic planning practices, the future study needs to incorporate some additional variables and be examined for cross industries, private sector, non-profit organizations, and small medium enterprises.
- b. The future study needs to be examined using quantitative method with larger sample.

Future research needs to consider strategy content and additional constructs such as vertical integration and operating environment

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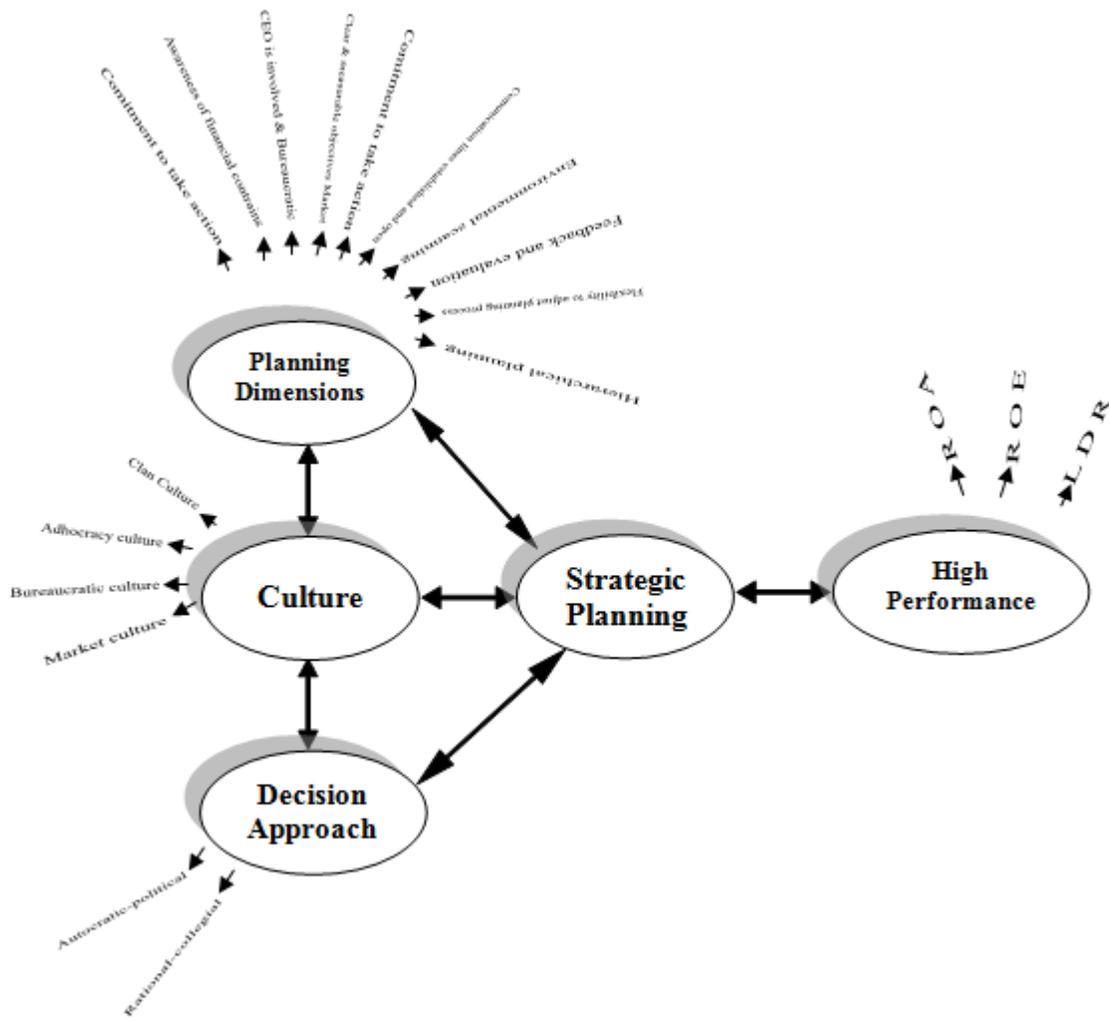


Fig. 1 Model of variable relations (adapted and developed from previous research [33]).