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THE INFLUENCE OF FIRM-LEVEL FACTORS ON THE RELATIONSHIP BETWEEN STRATEGIC PLANNING AND PERFORMANCE OF ORGANIZATIONS

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Abstract

This study was based on conceptualized relationship between strategic planning (SP), firm-level factors and performance. Some researchers have argued that strategic planning influences performance positively while others contend that the influence is negative. Therefore, the past empirical studies have produced many contradictory findings and there is a need for further studies to fix this empirical conundrum. Other researchers have posited that the central tenet in strategic management is that a match between firm resources and capabilities are critical to performance, and that a strategist's job is to find or create this match. Hence, there was need for more research on the moderating influence of firm-level factors on the relationship between strategic planning and performance. These variables were contextualized in the manufacturing firms in Kenya. The current study had one objective, to establish the influence of firm-level factors on the relationship between strategic planning and performance of manufacturing firms in Kenya. A corresponding hypothesis, *firm-level factors have a moderated influence on the relationship between strategic planning and performance of manufacturing firms in Kenya,* was formulated and tested at 95 percent confidence level. Through a cross-sectional descriptive survey, data was obtained using a structured questionnaire from 72 manufacturing firms representing 52.17 percent response rate. Data obtained were analyzed using both descriptive and inferential statistics. Hypothesis was tested using both simple and multiple regression analysis. Statistical Package for Social Sciences (SPSS) was used to analyze the data. The findings established that firm-level factors had a significant moderating influence on the relationship between strategic planning and performance. The independent influences of the firm-level factors' indicators used were all significant. The study suggested that the managers of the manufacturing firms in Kenya need to synchronize the strategic planning and firm-level factors for superior performance. Current study's findings have theory, policy, managerial practice and methodological implications. The findings support resource based view theory. On policy and managerial practice, manufacturing firms' management should be motivated to attract valuable resources and capabilities which are valuable, rare, not easily imitated, and cannot be substituted as they create sustainable competitive advantage hence propel organizations to better performance. The use of regression method in analysis made it very easy to test the hypothesis which was developed to attain research objective.

Key Words: Strategic Planning, Firm-Level Factors, Performance, Manufacturing Firms, Kenya.

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1. Introduction

Strategic planning and organizational performance linkage have presented an extreme dilemma for strategic management researchers. Scholars like Powell (1992) asserts that the empirical studies conducted on this relationship have produced many findings which are contradicting, and their weak theoretical underpinning as well as their negligible practical importance have been criticized. This infers that the findings are still inconclusive and there is a need for more research on this relationship. Concerning firm-level factors and performance linkage, Muthuiya (2004) pointed out that at organizational level, firms should develop enough capacity and relevant staffs' competence as a requirement for strategy implementation process.

Firm-level factors are anchored in resource based view theory (Wenerfelt, 1984; Rumelt, 1991; Barney, 1991; Peteraf, 1993) and contingency theory (Meindl, et al, 1985; Carpenter & Golden, 1997). The firm's internal competences in strategy making to attain a sustainable competitive advantage in its operation scope are emphasized by resource based view theory (Wenerfelt, 1984; Rumelt, 1991; Barney, 1991; Peteraf, 1993). Presumption for contingency theory is that the organizational dynamics (Carpenter & Golden, 1997) restrict the aptitude of managers to effect company outcome (Meindl et al., 1985).

Bearing in mind that implementation of plans is the most critical stage of SP, resources and capabilities are needed to accomplish this stage and this is adequately addressed by RBV theory. The research done on SP and performance of manufacturing firms in Kenya are scarce since most have been done on insurance and banks. Many studies have been done in developed countries like Britain, USA and Japan. The current study sought to add to the knowledge by establishing the relationship of SP, firm-level factors and performance of manufacturing firms in Kenya.

2. Materials and Conceptual Hypothesis

Zou and Stan (1998) define firm-level factors as the firm's internal effects that are controlled by the management and provide the firm with benefits for participating in particular activities with the intention of accomplishing specific goals and objectives. According to Higgins (2005) these factors are structure, style, system and processes, staff, shared values, strategy, resources and strategic performance. Scholars have defined a resource as an input to production process (Helfat & Peteraf, 2003; Grant & Jordan, 2012). Resources have been postulated to be the primary source of stellar organizational performance. Since resources are internal effects, the firm's management control them to facilitate it envisage and execute strategies that enhance performance (Teece et al., 1997; Helfat & Peteraf, 2003). Grant (1991) and Teece et al. (1997) describe capabilities as the firm's aptitude to blend, develop and reconfigure competences both inside and outside of the firm to focus on unpredictable environments.

Competences which are qualities that organizations necessitate to enable them

compete are driven from the bundle of resources that a firm possesses. According to Grant (1991), competitive advantage (CA) can be gained from the resources and capabilities the firm owns. Firms seeking to gain CA should possess strategic and rare resources as compared to competitors. In addition, they should defend these resources against inimitability in order to achieve SCA. However, CA cannot be gained from the resources alone. A firm's CA emanates from the unique procedures created by the company's resource endowment and growth direction (s) it has espoused or inherited (Teece et al., 1997).

Organizational structure is sets of relations between the roles of an organization (Fararo, 1997). Review of literature indicates conflicting results in some studies. For instance, Germain et al. (2008) findings was that structure had a positive influence on the performance. Another study by Zheng et al. (2010) reported structure to have negative influence on company performance which was based on effectiveness. The research conducted by Efendioglu and Karabulut (2010) on firm-level factors and performance did not give any significant relationship between the two variables. The past studies which have empirically investigated the SP and performance direct relationships have given mixed results which have attracted criticisms from various scholars. Glaister et al. (2008) asserts that they have been criticized for little consideration on determining contextual or organizational influences.

With this in mind, the study conceptualized that firm-level factors have a moderating influence on SP and performance relationship. The firm-level factors indicators used in the current study were firm resources and capabilities, and firm structure. The concept here is that the resources a firm owns and controls can be a determinant of superior performance. Firm resources have been defined by scholars as assets, capabilities, knowledge and processes (Barney, 1991; Marino, 1996). They argue that resources facilitate the firm to envision and implement strategic decisions. Grant and Jordan (2012) noted that the basic objective of analyzing a resource is to understand their potential for creating CA and not to value a firm's assets. Chandler (1962) and Child (1972) define a firm structure as a formal dimension of framework characterized by impersonal tasks, precise, rule and authority relations. Miller (1987) explained that the nature of human interactions and context is influenced significantly by structure of a firm. He added that the capability of a firm to process information is highly influenced by structure.

Burns and Stalker (1961) posits that the design choice a firm adopts for structure usually produces two different firm structures which are mechanistic or organic structures. Firms practicing mechanistic structures are depicted by formal rules and higher level of standardization to facilitate coordination and control hence influencing the firm's selection of formal SP practices. For those depicting high level of mutual adjustment and tend to encourage flexibility and decentralized decision making, thus practicing organic structures. The moderation strength for firm level factors was established. We hypothesize thus: *Firm-level factors have a moderated influence on the relationship between*

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strategic planning and performance of manufacturing firms in Kenya.

3. Methods

A cross-sectional survey was conducted across a targeted sample of 138 out of 502 manufacturing firms registered with Kenya Association of Manufacturers (KAM). Cross-sectional survey was used because it enabled the researcher to acquire the data at one point in time through questionnaires. Both primary and secondary data were gathered. Structured questionnaire was used to collect the primary data through a 5-point Likert-type scale and secondary data through company's financial statements mainly income statements and balance sheets for the last five years so that return on assets (ROA) could be calculated.

The key targeted respondents were top management consisting of chief executive officers (CEO), managing directors (MD), corporate planning managers, finance and administration managers, operation managers, human resource managers or their representatives. Data on strategic planning mainly focused on specification of objectives, generation of strategies, documentation, time-spent, communication and process exist. For firm-level factors, firm structure, and firm resources and capabilities were considered. Firm performance utilized financial and non-financial performances. Cronbach's alpha was used to measure the reliability.

4. Data Analysis and Results

The manifestations of the variables under this study were explained by use of descriptive and inferential statistics. The study variables relationships were tested by regression and correlation analysis. In order to determine whether the variation of the levels of manifestation of the variables were statistically significant, one sample t-test at test value 3 (the mid-point of the Likert scale that was used for ranking responses) and at 95 percent level of confidence were used. The study utilized a number of inferential statistical operations to achieve the objectives and test the hypotheses. Simple regression, multiple regression and pearson's product moment correlation (r) analyzes helped to determine the influence of predictor variables on the outcome variables.

We provide descriptive statistics, of which 72 firms responded out of sampled 138 firms translating to 52.17 % response rate which was considered adequate for analysis. The outcomes for ownership structure were locally fully owned (70.8%), both locally and foreign owned (11.1%) and foreign fully owned (6.9%). Scope of operation outcomes were national (within Kenya) (22.2%), regional (within East Africa) (45.8%), continental (within Africa) (26.4%) and global (outside Africa) (5.6%). Firm size results were large firms (above 100 full time employees) (79.2%), medium firms (51 to 100 full time employees) (15.3%) and small firms (11 to 50 employees) (5.5%). For products sold locally, 41.7% of firms sold 81-100% of their volume, 22.3% of firms sold 61-80% of their volume, 20.9% of firms sold 41-60% of their volume, 5.6% of firms sold 21-40% of their volume and 5.6% of firms sold 0-20% of their volume. For products exported, 2.8% of firms exported 81-100% of their volume, 5.6% of firms exported 61-80% of their volume, 8.4% of firms exported 41-60% of their volume, 32.0% of firms exported 21-40% of their volume and 47.3% of firms exported 0-20% of their volume.

Influence of independent firm-level factors on SP and performance relationship was tested, then influence of combined effect of firm-level factors on SP and performance relationship was tested and finally the moderating influence of firm-level factors on SP and performance relationship was tested. The findings are as per Tables 1, 2 and 3. Overall, Table 1 findings established that firm-level factors had a moderate weak positive relationship with performance (R= 0.306). This relationship explains 6.7 percent variation in performance whereas 93.3 percent of performance is elucidated by other aspects not considered in this model. This proportion was statistically significant ($p<0.05$). The individual indicators defining firm-level factors gave results which were both positive and statistically significant. Firm structure influenced performance positively and the influence was statistically significant (B= .121, t= 1.479, sig= .014). Firm resources and capabilities influenced performance positively and the influence was statistically significant (B= .185, t= 1.928, sig= .004). This shows that firm resources and capabilities were more statistically significant than firm structure.

Table 1: Independent Influence of Firm-Level Factors on Strategic Planning and Performance Relationship

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.306[a]	.094	.067	.663

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.082	2	1.541	3.508	.004[a]
	Residual	29.876	68	.439		
	Total	32.958	70			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3.325	.418		7.961	.000		
	Firm structure	.121	.082	.173	1.479	.014	.974	1.027
	Firm resources and capabilities	.185	.096	.226	1.928	.004	.974	1.027

a. Predictors: (Constant), Firm resources and capabilities, Firm structure.

b. Dependent Variable: Firm Performance

The equation defining the relationship would thus be:

P= 3.325 + 0.121FS + 0.185FRC

Where, P= Performance; FS= Firm Structure; FRC= Firm Resources and Capabilities

In the equation, positive influences were reported for both indicators defining firm-level factors. A unit change in firm structure in the firm-level factors yields a positive change (.121) in performance. A unit change in firm resources and capabilities in the firm-level factors yields

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a positive change (.185) in performance. Findings as per Table 2 indicated that when combined, firm-level factors influence performance of manufacturing firms in Kenya and it was statistically significant (B= 0.234, t= 2.016, p<0.05). Overall, firm-level factors correlate with performance up to 0.234 meaning it is a weak positive relationship and explain 4.1 percent variation in performance. 95.9 percent of performance is elucidated by other aspects not considered in this model. This proportion that is explained by combined influence of firm-level factors is statistically significant (Higher F-values, p<0.05).

Table 2: The Combined Influence of Firm-Level Factors on Strategic Planning and Performance Relationship

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.234[a]	.055	.041	.669

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.817	1	1.817	4.065	.004[a]
	Residual	31.294	70	.447		
	Total	33.111	71			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3.726	.338		11.021	.000		
	Firm Level Factors	.179	.089	.234	2.016	.004	1.000	1.000

a. Predictors: (Constant), Firm Level Factors

b. Dependent Variable: Firm Performance

These findings were represented by the following equation:

P= 3.726 + 0.179FLF, Where; P= Performance, FLF= Firm-level factors

In the equation, a unit change in firm-level factors yields a positive coefficient of 0.179 positive change in performance. This change is statistically significant.

To test for the moderation influence of firm-level factors on SP and performance relationship, a hierarchical regression analysis was conducted using the following two steps. Step one, tested the influence of strategic planning and firm-level factors on performance. In step two, the interaction term was introduced in the equation and its significance evaluated when controlling for strategic planning and firm-level factors. The interaction term was computed as the product of the standardized scores of the SP and firm-level factors. To confirm

moderation, the influence of the interaction term should be significant. The relationship was depicted in Figure 1.

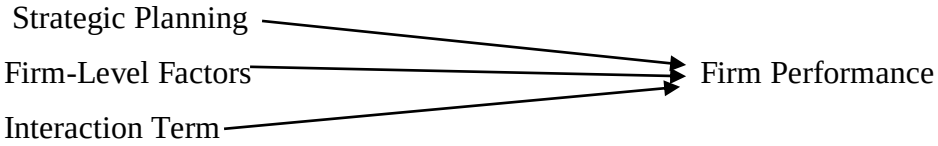

Figure 1: Influence of Interaction Term

The findings of these tests are presented in Table 3. The findings for step one indicated that SP (B= .287, t= 2.838, p<.05) independently had an influence which was statistically significant on performance, while firm-level factors (B= .110, t= 1.036, p>.05) independently did not have an influence which was statistically significant on performance. This accounts for 18.4 percent (R^2 = .184, F= 7.794, p<.05) explained variation. In the second step, the influence of the interaction term on controlling for the two independent variables was however statistically significant (B= .237, t= 3.021, p<.05). The model explaining the relationship was statistically significant and accounted for 28.1 percent explained variation

(R^2= .281, F= 8.850, p<.05).

Table 3: Regression Results Depicting Moderating Influence of Firm-Level Factors on Strategic Planning and Performance Relationship.

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.429[a]	.184	.161	.626	.184	7.794	2	69	.001
2	.530[b]	.281	.249	.592	.097	9.127	1	68	.004

ANOVA[d]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.102	2	3.051	7.794	.001[a]
	Residual	27.010	69	.391		
	Total	33.111	71			
2	Regression	9.298	3	3.099	8.850	.000[b]
	Residual	23.813	68	.350		
	Total	33.111	71			

Coefficients[a]								
Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF

1	(Constant)	2.840	.431		6.584	.000		
	SP	.287	.101	.352	2.838	.006	.767	1.303
	Firm Level Factors	.110	.106	.129	1.036	.304	.767	1.303
2	(Constant)	2.398	.433		5.532	.000		
	SP	.243	.097	.298	2.506	.015	.750	1.334
	Firm Level Factors	.029	.104	.034	.278	.782	.716	1.396
	Interaction Term	.237	.078	.337	3.021	.004	.851	1.176
a. Predictors: (Constant), Firm Level Factors, Strategic Planning								
b. Predictors: Firm Level Factors, Strategic Planning, interaction term								
c. Dependent variable: Firm performance								

The significance of the interaction term indicated that SP independently contributed to the influence of firm performance while firm-level factors did not contribute to the influence of firm performance. The relatively small change in R^2 was an indication that the interaction term had a significant influence which was enough to explain the relationship. The current study thus concluded that strategic planning has significant contribution to influencing firm performance while firm-level factors have no significant contribution to influencing firm performance. The interaction between the two variables had influence on firm performance which was enough to support the moderation relationship. The findings therefore failed to reject the hypothesis H2, that firm-level factors moderate the influence of SP on firm performance.

5. Conclusion

Current study had one objective, to establish the influence of firm-level factors on the relationship between strategic planning and performance of manufacturing firms in Kenya. Results for the independent influence of the aspects of firm-level factors with performance had a moderate weak positive relationship and the influence was statistically significant. Combined influence indicated that firm-level factors influenced manufacturing firms' performance, relationship was weak and positive and the influence was statistically significant. The moderating influence indicates that SP independently was statistically significant on performance while firm-level factors independently was not statistically significant on performance. But on influence of interaction term on controlling for the two independent variables was however statistically significant. The significance of interaction term pointed out that firm-level factors had a moderated influence on SP and performance relationship.

Current study findings support the argument of the RBV theory advanced by Wenerfelt (1984), Barney (1991) and Peteraf (1993) which stresses the internal competences of the firm in formulating strategy to achieve a SCA in its markets and industries. The study further supports Talaja (2012) who established that both physical and financial resources were important to coordination and use of the other resources. The overall results concur with proponents of RBV theory (Wernerfelt, 1984; Penrose, 1959) that resource possession influences

performance. Kostopoulos et al. (2002) proposed that organizational resources bestow the input that in turn is merged and transformed by competences to yield innovative forms of CA. Due to this CA, a significant influence of the SP and firm performance is enhanced.

Performance was influenced by firm structure positively and the influence was statistically significant. The firm structure is vital to the company's information processing competence and has an important influence on the context and nature of human interactions (Miller, 1987). The current study supports Robbin and DeCenzo (2005) who argued that organizational structure carry out an important role in the attainment of organization's set objectives and achievement of its strategic goals and direction. This is in support of Grant (1991) who asserted that capabilities and resources are a source of competitive advantage for companies.

These findings are in support of Prahalad and Hamel (1990) who argued that management's critical responsibility is to create an organization proficient of creating products which consumers demand, thus the organization's bundle of resources are configured and reconfigured to be the company's core and distinctive competences. Leonard-Barton (1992) posited that new products and innovations reflect a company's cluster of aptitude to attain new and innovative forms of CA given path dependencies and market positions. The current study's results also support Prahalad and Hamel (1990) who proposed that learning and knowledge creation of firms will lead to cumulative and path-dependency. They posit that firms should not only possess resources but build capabilities and competencies if they are to earn a competitive edge over their competitors.

6. Implications of the Study

Current study's findings have theory, policy, managerial practice and methodological implications. For theory implications, the study confirmed that firm-level factors influence SP and performance relationship both directly and indirectly through moderation influence. This indicates that firm resources and capabilities, and firm structure influence the firm performance and therefore support the RBV theory.

On policy implications, manufacturing firms' management should be motivated to attract valuable resources and capabilities which are rare, not easily imitated, and cannot be substituted as they create sustainable competitive advantage hence propel organizations to better performance. Also policy on quality specifications, employee trainings, technology to be used for different products and staff skills development should be emphasized. Implications on managerial practice, we suggest that the stellar performance drivers in manufacturing firms are the company's owned and controlled resources and the firm's innovative propensity.

This study suggests that for managerial practice, manufacturing firms should have strategic resources that are valuable, rare, inimitable and non-substitutable. Regular continuous innovation, automation, and research and development should be adhered to. This will ensure development of new products and improvement of the existing ones which meets quality specifications and competitive pricing. Quality specifications for the inputs from

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the environment should be adhered to by manufacturing firms before they are allowed in the transformation process to give outputs which must conform to the quality specifications demanded by the environment.

Throughout the transformation process, the operational and procedural parameters should also be adhered to for the outputs to attain the specified quality specifications. This can only be done if the manufacturing firms adopt the right technology, and the superior resources and capabilities which will highly contribute in attaining the quality specifications. The environment will go for quality products which meet the specifications and this will improve the performance. The current study also found that the firm structure influence the performance and the firms' management should be able to put up ideal structure which is a recipe for good performance.

Data collection in manufacturing firms involved mostly drop and pick of data collection instrument with telephone follow-ups. This was effective since any respondent's query was addressed on the spot. Most of respondents who are skeptical of the e-mail method are convinced on the need to fill the questionnaire. This improved response rate. Operationalization of study variables made it easy for the respondents to understand the questions raised in the questionnaire and to provide relevant data that brought issues of performance in manufacturing firms in Kenya. Stratified sampling helped in picking firms from all sectors of economy and this enabled representation.

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