IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

An Analytical Study on Relationship Between Strategic Planning and Firm Performance in Service Sector

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Abstract

As a managerial tool strategic planning has become a key process for managing an organization in the service sector of the economy, and helping it keep its future goals in line with the changing business environment. This study adopts an analytic approach to analyzing the linkage between strategic planning and company performance in the service sector, analyzes the influence of strategic planning practices on company outcomes including company profitability, operational efficiency, client satisfaction, innovation and competitive advantage. For this study, primary data have been collected from structured questionnaire of the managers and employees of selected service organizations and research method is quantitative approach. Descriptive analysis, correlation and regression are used to measure the strength and significance of the relationship between strategic planning and firm performance. Results proved that there is significant positive relationship between effectiveness of strategic planning and performance of the organization, which means that companies that have clearly defined strategic goals, procedure for implementing them and continuous assessment of performance have better business performance. Additionally, strategic planning will boost the adaptability of the organization, its use of resources and decision-making capabilities, and can help service firms to navigate the changing dynamics of the marketplace and meet evolving customer demands. The study finds that strategic planning plays an important role in the sustainable success of an organization and suggests that service organizations must institutionalize strategic planning practices in order to boost their overall achievements and to secure their long-term competitiveness in a rather dynamic and customer orientation business environment.

Keywords: Strategic Planning, Firm Performance, Service Sector, Organizational Performance, Competitive Advantage, Strategic Management, Business Performance, Decision-Making, Organizational Effectiveness, Sustainable Growth.

Introduction

The businesses of today are working in a changing landscape where consumer expectations are increasingly shifting, globalisation is shaping and driving an environment of digital transformation and uncertainty. These challenges have compelled them to be the ones needed for the implementation of systematic management practices which can lead to long term sustainability and organization's growth. Strategic planning is one of the key managerial practices, which helps organizations outline their vision, mission, objectives and plan to gain competitive advantage among various practices. Structured analysis of strengths, weaknesses, opportunities and threats of an organisation, allocating resources, and making plans to respond, is directed towards strategic planning. While strategic planning is in the long-term direction of the firm but not its short-term activities (like operational planning), strategic planning advances the firm's proactive stance in response to change(s) in their environment. With the growth of service industries around the world and their importance to nation's economies, managers, policymakers, and researchers have taken special interest in the development of strategic planning to help increase organizational performance.

In both the developed and the developing world the service sector has emerged as one of the major contributors to the economic progress, job creation and Gross Domestic Product (GDP) growth of the economies. This comprises the banking and insurance industry, the health-care and education service, the hospitality industry, tourism, the information technology industry, the tele-communcations industry, the logistics industry, the consulting service, the retail industry and the professional services industry. In contrast to manufacturing firms, service companies primarily deliver intangible products, and service quality, organizational innovation and service provider/customer interactions become the most important elements contributing to the company's success. This results in service organizations working in an over-competitive environment with constantly changing customer demands, innovation in the technology transforming traditional business models, and changing situations in the market. Under these conditions, strategic planning becomes an important instrument to identify new opportunities; mitigate the risk of operations; enhance the quality of services offered; increase customer satisfactions and keep the competitive position. Companies that have strategic planning capacity are more likely to earn a positive return on their finances and non-financial performance, predict market trends, utilize company resources more effectively and be more efficient in operation.

Performance is a broad subject in the business, relating to the effectiveness and efficiency of the business towards its goals and targets. The crucial benchmarks used to measure the performance of the company are traditional metrics such as profitability, revenue growth, the return on investment, market share of the firm, the cost efficiency. But in today's context performance measurement isn't limited to financial results, but also covers customer satisfaction, employee engagement, innovation ability, quality of service, and organizational learning, operational excellence, and other vital values of sustainability. It is highly important that charlie exists in the service industry as a measurement of success because of the businesses because elements like the customers' loyalty, responsiveness to service, productivity of the employees, or the overall reputation of the business at least in this industry is hard to control. In practice, therefore, over time organisations increasingly implement balanced systems of performance measure that combine a non-financial and financial dimension of performance, and measure the effectiveness of strategic planning programmes.

The strategic planning is related to organization performance in the following ways: to set clear organization purpose, to achieve good coordination between the departments, to make informed decisions, to allocate the resources optimally, to have a mechanism provided for monitoring and evaluation of the strategic outcomes. In order to design business strategies, fosters managers to make environmental analysis, competitor analysis, market forecast, and risk assessment. Furthermore, it enables a business to move quickly to adjust to new technologies, the regulatory environment, and customer expectations. Customer interaction and service delivery, which are the key point of organizational success in service organizations, are the backbone of strategic planning for continuous quality improvement, employee development, digital transformation and innovation in the service processes. Another aspect of the effective use of strategic planning is that it also fosters collaboration, accountability, communication and organizational commitment in various functional areas of the organization which aid in improving the organizational performance.

While strategic planning is known to be an integral part of management but there is huge disparity in terms of realising the strategic planning. In some service companies, the objectives, performance indicators and control system are well defined and constitute what is called a deep strategic planning process, while in other cases the planning is short or informal, or outright missing, due to the limited capability of managerial skills, available resources, and/or shifting trends in the environment. Despite the fact that strategic plans are formulated in some instances, they fail to produce the desired results due to lack of leadership, communication, participation of employees, change resistance and poor performance evaluation. Thus, a study of the relationship between strategic planning and firm performance is still a significant field of empirical research, especially in the service sector, where adaptability, innovation, and customer satisfaction are crucial to organizational success. Understanding of this relationship will enable managers to establish an organizational practice of strategic planning which most affects organization performance and sustainable competitive advantage.

Based on that, the present study aims to carry out an analytical study to analyze the relationship between strategic planning and the company's performance in the service sector. It is designed to compare the organisational performance of organisations that have strategic planning practices with a systematic approach to planning with the performance of organisations that have a less structured approach to planning. Additionally, it will identify the correlation between strategic planning and the financial performance, operational efficiency, service quality, customer satisfaction, and organizational innovations and competition. Findings are likely to provide better awareness in strategic management, and evidence of the effectiveness of strategic planning in the service sector. In addition, the study provides management, policy makers and organizational leaders with insights for the process of designing and implementing strategic planning processes that will help improve organizations' performance, sustain their growth and improve their long-term competitiveness in today's dynamic and customer-focused business landscape.

Literature Review

It is well established that strategic planning is an essential activity of managers to realize their role's mission and to increase the effectiveness of the organization through goal setting, resource allocation and positioning of the organization competitively in the system. There have been a large number of empirical studies of strategic planning–performance convergence in various industry and regional settings over the last several years. The effect of this relationship relies on the influence of organization control, implementation control and environmental control within most of the studies the positive impact of good strategic planning on both the financial and non-financial performance can be determined.

George et al. (2019) did a thorough metanalysis to explore if strategic planning adds value to organizational performance. Following literature search, the researchers found various empirical studies that finally led them to the conclusion that Strategic Planning has a positive effect and it is significant on organizational performance, regardless of its type (Public / Private) The systematic planning processes can help to better use resources, making decisions, coordinating the plan, and improving results of the organization, it was noted in the study. Along with this, it also discovered the successful implementation of plans and monitoring performance over time using trial and error also has a relation with planning effectiveness in the meta-analysis level.

The study by Glaister et al (2008) examined the causal relationship between role of strategic planning and performance of firms in an emerging economy. The study generated some empirical evidence from organisations in dynamic business environments that shows how strategic planning helps in boosting the performance of the organisation in the following ways: It helps in strengthening the process of strategic decision making; It helps to improve competitive positioning; It helps to improve managerial effectiveness. The researchers also found that structured planning is more likely to be effective in the ability to adapt to the environment; and that companies that engage in such planned activity are more efficient than those with an informal approach to planning.

The conceptuality and feasibility of strategically planning and organizing were explored by Jayawarna and Dissanayake (2019). They discussed that strategic planning, in turn, supports the organization by enhancing the LM in long-term and supporting environmental scan and proactive decision making. The authors discovered that the successful strategic planning should be started by adaptation to the market conditions and involving the stakeholders in the market during planning and implementation. They also pointed out that good strategic planning companies always exhibit greater productivity, innovativeness and level of client satisfaction.

The study of Khoshtaria 2018 investigated the effect of the strategic planning in organisation's performance by implementing the strategic planning. The results showed that implementation of strategy is a mediator between Planning and the performance of an organization. The study revealed that it is possible for organisations to have a strategic plan, but if they're unable to act effectively, effectively communicate that plan, involve the staff, and evaluate staff's performance to the plan, deliverables to the organisation may not be achieved. Therefore the successful implementation of strategic planning is a very dependent factor to the effectiveness of strategic planning.

The idea of the entrepreneurial state has been developed by Mazzucato (2011) and called attention to institutions as the players who have a strategic function in fostering innovation, long-term investments and sustainable economic development. Although the study was undertaken in the context of public sector innovation, it highlighted the importance of developing a long-term perspective and institutional planning to enhance capacity and competitiveness of the institutions. It was found that the organisations with proactive strategic orientations have more potentials to utilise technological changes and opportunities in new emerging markets.

Monye, Ibegbulem (2018) investigated the impact of strategic planning on the performance and profitability of an Organisation. They postulated that there is a strong positive correlation among strategic planning activities and organizational profitability from their empirical findings. The findings of the study were that those organisations, which have clearly set strategic goals, optimal allocation of resources and a performance monitoring system, have excellent profitability and operational efficiency. The authors suggested that strategic plans be part of 'standard' management to achieve sustainable organization growth.

Perera and Peiró (2012) focused on healthcare organizations and strategic planning and its ability to improve the quality of services provided, efficiency of processes and the satisfaction of patients. The study found that if healthcare institutions planned strategically, they were able to properly allocate their resources, provide services and adjust to changes in healthcare service requirements. The results confirmed the importance of strategic planning in service-oriented organizations where the quality of service and satisfaction of stakeholders is a crucial factor for the success of the organization.

Sandada et al., (2014) looked at small and medium enterprises (SMEs) in South Africa and studied the relationship between strategic planning and business performance. They noted that strategic planning was also observed to have a positive strong association with the business performance, where companies with the formal planning system had better performances in terms of financial, business growth and competitive advantage. The authors highlighted that focusing on strategic planning can help SMEs minimize uncertainties, clarify decision making, and enhance their sustainability.

In Skokan et al. discussion (2013), they had explored the problem and concepts related to strategic planning and business performance in MSMEs. They concluded that the companies that use formal strategic planning practices had better performance than those that did not have formal planning mechanisms. It was concluded that strategic planning can enhance managers' actions and coordination ability which can make an organization more competitive in the market, and can save the managers in operation control in the short or long run.

Walker, et al. (2010) investigated public management practices and public performance of organization and put forward the directions for future studies to them. The study revealed that strategic planning is one of the most vital management processes related to improving organizational effectiveness, accountability, quality and effectiveness measurement. The authors recommended further studies that could look at how contextual factors affect effectiveness across alternative service types and environments in the context of strategic planning.

Wijethunge and Pushpakumari (2014) empirically studied the relationship between strategic planning and business performance of Manufacturing SMEs of Sri Lanka. The interesting finding of the study was that more organizations that have a fuller strategic planning process were more successful with business performance than the organizations with a less well-defined strategic planning process. The researchers concluded that strategic planning is beneficial to the competitiveness of the company, which ensures optimal use of resources, market orientation and strategic decision making, thereby ensuring the sustainable development of the company.

In short, a review of the available literature shows that strategic planning is a significant contributor to improving the performance of the organisation in several sectors, such as in banking, health care, manufacturing, public administration and small and medium enterprises (SMEs). The benefits of strategically planning seem to be a net positive majority of increased decision making, allocation of resources, increased operational efficiency, innovation, satisfaction of customers, and profitability. The literature, however, suggests that the successful implementation of a strategic plan can be crucially dependent on: its effective execution; leadership commitment and dedication; staff co-operation; and performance review. While there are significant numbers of examples in the manufacturing and public sector firms, scant research has explored the relationship between strategic planning with firm performance in general service firms. Given this gap and the need to make a study into the analytical investigation of the role of implementing strategic planning to service sector organisation performance, the proposal to conduct the present study becomes very relevant.

Objectives of the Study

1. **To examine the strategic planning practices** adopted by organizations in the service sector.
2. **To analyze the relationship between strategic planning and firm performance** in terms of financial and non-financial performance indicators.
3. **To evaluate the impact of strategic planning on organizational performance**, including operational efficiency, customer satisfaction, innovation, and competitive advantage.

Hypothesis

- **Null Hypothesis (H_0):** Strategic planning has no significant impact on organizational performance, including operational efficiency, customer satisfaction, innovation, and competitive advantage in the service sector.
- **Alternative Hypothesis (H_1):** Strategic planning has a significant positive impact on organizational performance, including operational efficiency, customer satisfaction, innovation, and competitive advantage in the service sector.

Research Methodology

The present study employed a quantitative and descriptive-cum-analytical research design which examines relationship between strategic planning and firm performance among the service sectors. The study has been conducted using the primary and secondary sources. A structured questionnaire was prepared with a 5-point likeert scale of strongly disagree to strongly agree and suitable amount of primary data was gathered. The questionnaire deals with the following dimensions of strategic planning practices and dimensions of organizational performance including: operational efficiency, customer satisfaction, innovation, competitive advantage etc. The audience will include senior decision makers, supervisors and managers from a representative sample of the targeted service sector firms (banking, healthcare, information technology, hospitality, education, insurers and telecommunication companies). Based on simple random, unselect subjects give equal opportunity to participate as subjects. Reliability and representativeness of the findings have been taken into account in the study, depending on the size of the samples. The theoretical background of the research was derived from the secondary data taken from books, peer reviewed journals, research article, conference papers, government publications, annual report and authentic information from online data base. Data collected were coded, classified, and analyzed by computer program called Statistical Package for the Social Sciences (SPSS). Descriptive statistical tools like frequency distribution, percentage analysis, mean and standard deviation are used to summarise the profile and study variables of the respondents. An analysis of strategic planning relationship and effect towards the firm performance in inferential statistical techniques includes correlation analysis Pearson and simple linear regression analysis.

Table 1: Descriptive Statistics for Strategic Planning and Organizational Performance (N = 250)

Variables	N	Minimum	Maximum	Mean	Standard Deviation
Strategic Planning	250	2.10	5.00	4.18	0.56
Operational Efficiency	250	2.20	5.00	4.12	0.59
Customer Satisfaction	250	2.40	5.00	4.26	0.52
Innovation	250	2.00	5.00	4.08	0.63
Competitive Advantage	250	2.30	5.00	4.15	0.57
Overall Organizational Performance	250	2.35	5.00	4.15	0.54

Source: Computed from Survey Data using SPSS.

Table 1 presents the descriptive findings which indicate that the respondents were positive in terms of strategic planning and its impact on organization's performance in the service sector. Mean = 4.18 (SD = 0.56) for Strategic Planning indicates a great deal of organizations have adopted their own strategic planning process. Organisational dimensions in which the highest mean scores were obtained were Customer Satisfaction (4.26; SD = 0.52) which shows that the respondents think that the strategic planning of the organisation is very effective towards the improvement of service quality and customer expectation. The situation was similar also for Competitive Advantage (high mean value 4.15, SD = 0.57) which underlines the positive effect of strategic planning in making the position of the organisation stronger on the market. Likewise, Operational Efficiency scored 4.12 (SD = 0.59) which signifies effective utilization of resources, coordination and process improvement with strategic planning. The mean score of 4.08 (SD = 0.63) indicates that while strategic planning contributes to using new concepts, technology and services delivery, there is slight variation among respondents in their opinion on Innovation when compared to the other dimensions of the scale. The participants in general were convinced that an effective strategic planning can contribute to the overall performance of an organization, with average score being 4.15 (SD = 0.54) for Organizational Performance. The results showed that there was less variability in the responses as the mean standard deviation values were moderately low ranging from r=0.52 to 0.63 for the respondents. The descriptive statistics results that are obtained initially favor the alternative hypothesis which states that strategic planning has positive relationship with the indicators of organizational performance in the service industry which include organizational operational efficiency, customer satisfaction, and innovation and competitiveness.

Table 2: Model Summary (Simple Linear Regression)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.782	0.611	0.609	0.338

Predictor: Strategic Planning

Dependent Variable: Organizational Performance

Table 3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	45.326	1	45.326	396.548	0.000
Residual	28.341	248	0.114		
Total	73.667	249			

Dependent Variable: Organizational Performance

Table 4: Coefficients

Model	**Unstandardized Coefficients (B)**	**Std. Error**	**Standardized Coefficients (Beta)**	**t**	**Sig.**
(Constant)	1.072	0.159	–	6.742	0.000
Strategic Planning	0.736	0.037	0.782	19.914	0.000

Dependent Variable: Organizational Performance

Simple Linear Regression Analysis was used to analyze the effect of Strategic Planning on Organizational Performance in Service Sector. Very strong positive correlation between the variables (R = 0.782) is evident from the Model Summary. The coefficient of determination (R2 = 0.611) will show that 61.1% of the variability in organizational performance is due to strategic planning; the rest 38.9% will be due to other factors which are not included in the model. The adjusted R2 (0.609) also had good power showing the strength and the predictive value of the regression model. The ANOVA test indicates that the regression model is statistically significant with F = 396.548 and very low P of 0.000, which means that the regression model can explain (predict) the organizational performance very well. The significance value is below 0.05 level, which means the regression model is statistically valid. From the Coefficients table, it could be noted that there is positive, statistically significant relationship between Strategic Planning and Organizational Performance (B = 0.736, β = 0.782 and t = 19.914 with the p = 0.000). Positive standardised beta coefficient indicates that organisation gets better the better they manage their Strategic Planning. Strategic planning is in particular directly linked to the organizational performances with a coefficient of 0.736. So, the null hypothesis (H_0) is rejected and alternate hypothesis (H_1) is accepted. The findings suggest that strategic planning is positively affecting the performance of the organization based on operational efficiency, customer satisfaction, Innovation and competitive advantage in service industry. The results of this research highlight that strategic planning with the systematic approach is strongly correlated to the success of an organization, in the long-run, with business performance and sustainable competitive advantages.

Overall Conclusion

The present study topic and empirical evidence of the fact that strategic planning is a significant predictor of the firm's performance in the service sector is the relationship between strategic planning and firm performance. Today's competitive environment and the resulting increased dynamism requires service organizations to make strategic decisions that yield long-term growth, enhanced services and competitive edge. The outcomes of the study indicate that the outcomes of the organizations are better than in the case of other plans such as informal planning and short term planning process.

The descriptive analysis revealed a positive attitude and opinion among the respondents regarding strategic planning and strategic role toward successful organization. The strategic planning dimension of managerial tools has the highest mean score, indicating that strategic planning is seen as an effective managerial tool to increase the organizational effectiveness, while the high mean scores on each of the other dimensions point to the similar capabilities which have been perceived by the respondents. The relatively low standard deviation values also suggest that there was consistency in opinions from respondents reflecting strong agreement and commitment that strategic planning was important to service organisations.

Many evidences were given by regression analysis and the statistics proved that the hypothesis of the study was supported. The significant F statistic confirmed the validity of the model while the percentage of variance explained in the organizational performance was relatively large, meaning that the model was valid. Furthermore, the result of the regression coefficient shows a positive sign that indicates that the strategic planning has a significant effect on the organization's performance. The results show that an organization having a clearly defined strategic objectives, efficient resource allocation, consistent and continuous monitoring of the environment as well as efficient strategy implementation can have a higher level of operation efficiency, high customer satisfaction, innovative ability and competitive advantage.

It also underscores the importance of strategic planning not being perceived just as creating long-term plans but as being a strategic management process, which comprises of strategic formulation, the implementation of the plan, the monitoring, the evaluation and the continuous improvement. Sustainable organizational growth and the ability to maintain this competitive edge in the long term is more likely to occur in an organization that actively involves its employees in strategic decision making process, reviews and revises the strategic goals regularly and aligns its strategies to changing market conditions.

Based on the result of the whole study it is concluded that the strategic planning is a pivotal success factor for a service sector organisation. It enhances decision-making, maximise of use of resources, enhances the adaptability of the organisation, encourage innovation and generates customer value to enhance the effectiveness of the organisation. If the alternative hypothesis is accepted, it means that there is strategic planning effect that positive and significant on the firm's performance in the service sector. All these considerations suggest that the managerial and organizational leaders should be engaged in integrated strategic planning, which must become a part of the organizational processes to ensure the sustainable performance results in sustainable organizational competences in the dynamic business environment.

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