

# Organizational culture, strategic planning and performance: empirical evidence from organizations in Malaysia

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## Abstract

This study examined the influence of strategic planning on organizational performance of selected government organizations in Malaysia. Consequently, it determined the moderating effect of organizational culture on the relationship between strategic planning and organizational performance. A quantitative study was carried out on a sample of 291 officers in Malaysian government organizations. The obtained data based on self-administered questionnaires was analyzed using SmartPartial Least Squares (PLS). The study revealed that strategic planning dimensions have positive effects on performance of government organizations. The results found that organizational culture has significantly moderated the relationship between strategic planning and performance. The implications from the research findings, limitation of study and future research directions are discussed.

**Keywords:** Organizational Culture, Strategic Planning and Performance

## 1. Introduction

Recent rapid technological advancements and globalization have substantially affected the way most organizations manage their resources. While many researchers relate this notion to the performance of business organizations, a great concern has also been highlighted on this matter on government organizations [1, 2, 3]. Various strategies have been linked to the performance of government organizations such as strategic planning. This strategy is vital to the success and performance of an organization [4]. It needs to be practiced throughout government organizations as it is pertinent to ensure that the promises of strategic planning result into actual practice [5]. With clear strategic planning, organizations will be able to create and maintain competitive advantage that will contribute towards superior performance [6]. However, criticisms have been posited by scholars on which critical strategic planning processes need to be given high priority in public organizations to attain the desired performance. Further, the role of strategic planning on performance of government organizations in Malaysia is not well understood and many studies were mainly focused on business organizations [7]. While some researchers echoed the formulation as a pivotal aspect in strategic planning, some scholars persistently emphasize that implementation strategy is also critical in achieving outstanding organizational performance. The disparity and ambiguity of this contention necessitates a novel study to be carried out to fill the gaps in previous studies. Additionally, drawing from the contingency theory, it is postulated that performance could be achieved by situational influences such as strategic response and environmental factors [1]. Accordingly, contingency perspectives placed an emphasis on the moderating effects of environmental variables on the relationship between organizational factors, e.g. strategy and organizational outcomes, e.g. performance. The lack of clarity and position among scholars on the effect of organizational culture on the relationship

between strategic planning and organizational performance in government organizations creates a gap in knowledge and understanding of this phenomenon. Thus this study examines the relationship between strategic planning and organizational performance Malaysian government organizations. Consequently, it determines the moderating effect of organizational culture on the relationship between strategic planning and organizational performance. Malaysian government organizations play a significant role in ensuring efficient and effective administrative machineries as manifested in the government slogan: "People first, accountable and transparent". Furthermore, the government ministries are entrusted to implement all the programs and initiatives under Malaysian Plan and the transformation agenda.

## 2. Literature review

### 2.1. Strategic Planning

Strategic planning has been a concern among public and private organizations around the globe as it is deemed to be instrumental towards attaining effectiveness and superior performance. It involves a process using rigorous investigation, scientific and systematic criteria to formulate, implement, evaluate and formally report the desired outcomes of the organizations [4]. Debates that surround strategic planning are on the inextricable questions of which process and dimension are integral for organizational performance. While some researchers extolled formulation, implementation, and evaluation as important for strategic planning, Samad et al. [5] asserted formulation and implementation strategy as crucial factors for superior performance via clear vision, missions, and goals in formulation strategy and allocation of resources, strategy, structure and other factors such as culture during implementation strategy.

## 2.2. Relationship between strategic planning and performance

Numerous studies have been conducted to identify the factors that influence organizational performance. However, it is unclear whether there is a link between strategic planning and performance in Malaysian government ministries. Moreover, Samad et al. [7] suggested that: (i) vision, mission, and goals in formulation strategy, and (ii) structure, strategy, and human resource aspects in implementation strategy, are profoundly related to the performance of organizations. A study by Karabag & Berggren [8], supported the influence of these strategies on organizational performance. Empirical evidence indicated that strategic planning appears as a practice to help improve the performance of non-profit organizational. Based on the previous discussions and literature review, this study attempts to answer the following hypotheses:

Strategic planning in terms of formulation dimension vision (H1a); dimension mission (H1b) and dimension goals (H1c) positively influence organizational performance,

Strategic planning in terms of implementation dimension strategy (H2a); dimension structure (H2b) and dimension human resource (H2c) positively influence organizational performance

## 2.3. Moderating effect organizational culture on the relationship between strategic planning and performance

Previous studies revealed that strategic planning would lead to effective performance for both public and private organizations particularly during turbulent era. Even though abundant studies have been undertaken on this topic but the findings are inconclusive [8]. The mixed findings were due to several reasons. One of them is pertaining to the concept of 'planning' and secondly, most studies used financial indicators to measure performance. Samad et al. [1] opined that the relationship between organizational performance and its antecedents could be buffered by contingency factors such as organizational culture. Previous studies found a significant and positive moderating effect of organizational culture on the relationship between organizational management practices and organizational performance in service sectors [9]. Accordingly since organizations need to continuously adapt with changes due to dynamic changes in environment, thus the strategic planning needs to align with the policies of the organization including human resource policy. However these policies may not be sufficient to change the behaviour of employees as the key predictor for employee behaviour is shown in the organizational culture [10]. This suggests organizational culture is an important element in realising the strategic planning and attaining favourable organizational performance. Rooting from this premise, this study will answer the following hypotheses:

The effects of strategic planning in terms of formulation dimension vision (H3a); dimension mission (H3b) and dimension goals (H3c) on organizational performance is moderated by organizational culture,

The effects of strategic planning in terms of implementation dimension strategy (H4a); dimension structure (H4b) and dimension human resource (H4c) on organizational performance is moderated by organizational culture.

## 2.4. Organizational performance

A myriad of organizations is keen to apply a variety of systems to measure their performance. This system aims to monitor and drive the improvement of the desired results as manifested in their vision, mission, goals, and objectives. Organizational performance is conceptualized as the difference between the created and expected values that will be received by an organization [6]. Kaplan & Norton [11] have proposed a balance Scorecard (BSC) model which measure performance based on the combined both financial and non-financial aspects in terms of financial, internal, customer,

and learning and growth. Meanwhile, Bhagwat & Sharma [12] measured non-financial performance based on economy, efficiency, and effectiveness. This study adopts non-financial performance measures in terms of internal management, employee perspective, learning growth, and internal operation to examine a comprehensive performance among Malaysian government organizations.

## 3. Materials and methods

### 3.1. Data collection and measurement

The unit analysis of the study was middle and senior management officers representing Malaysian government organizations located in Kuala Lumpur and Putrajaya. These organizations were selected via the list of ministries obtained from the Public Service Department. The self-administered questionnaires was conducted based on a rule of thumb of sample size between 50 – 500 would be sufficient for social science studies as suggested by Roscoe [13]. A random sample of 350 staff was used, of which 291 respondents returned usable questionnaires with the response rate of 83.14%. The questionnaires were divided into four sections. Questionnaire in Section A was adapted from Qouod [14]. It encompassed two aspects of strategic planning (formulation and implementation strategy). Formulation strategy was measured based on dimensions of vision (5 items), mission (4 items), and goals (5 items). Implementation strategy was measured based on dimensions of strategy (4 items), structure (4 items), and human resource (4 items). Organizational culture in Section B, was measured using the scales of Denison et al. [15] with three dimensions; namely involvement (6 items), consistency (5 items), and adaptability (5 items). Organizational performance (Section C) was made based on four dimensions, namely internal management (6 items) that was adapted from Brewer and Selden [16], employee perspective (8 items), learning and growth (8 items) and internal operation (8 items) were all measured using scales developed by Blackmon [17]. All of the items were measured based on the 7-point Likert Scale. Finally, Section D contains the profile of respondents.

### 3.2. Respondent profile

A number of 350 questionnaires were distributed to the respondents. 291 useful responses were received (male 60% and 40% from the female). Therefore, more than half of the samples in this study were males. In terms of position, 55% were middle management officers and 45% were at senior level. About 42.5% of the respondents was between 35 to 45 years old, 37.5% between 45 to 55 years old, and 14.2% between 25 to 35 years old. Only 5.8% were above 55 years old. 66.6% of the respondents hold a Bachelor degree, 26.7% Masters, and 6.7% were Phd graduates. In terms of experience, 45.8% respondents had between 10 to 20 years, 23.4% between 5 to 10 years, 20.8% had more than 20 years of experience and 10% of the respondents had between 1 to 5 years of working experience.

### 3.3. PLS Data analysis and results

PLS was used to evaluate the research model in the study. Two analyses were conducted in the study, including the assessments of measurement and structural models.

#### 3.3.1. Assessment of measurement model

Measurement model assesses the convergent validity which encompasses factor loading, average variance extracted (AVE), and composite reliability. Convergent validity refers to the degree of multiple items that measure the agreement level within the same concept. It needs to be tested prior to having the next discriminant analysis. From the analysis it was found that the factor loadings exceeded the threshold of the recommended value of 0.05 [18],

indicating acceptable level of convergent validity. It was found that all items indicated high loadings in the range of 0.718 to 0.890 on their constructs. The study also revealed that the all of AVE values were greater than the recommended value of 0.5 while the CR value was above the threshold value of 0.7 [18], indicating adequate convergent validity. The Cronbach Alpha values met the minimum threshold of 0.60 [18], suggesting acceptable and high internal consistency of the scales used to investigate the constructs. Discriminant validity analysis was then conducted to measure the degree of differentiation among the items within the constructs [19]. In this analysis, AVE was square rooted and the value should be greater than the intercorrelations of the construct in the model. The recommended value of AVE should be higher than 0.707 [20]. The results revealed that all the values along the diagonals are greater than values in the row and column ( $> 0.707$ ), indicating discriminant validity. Based on the adequacy in reliability, convergent and discriminant validities therefore the model of measurement in this study is acceptable.

### 3.3.2. Structural model

A structural model was constructed to examine the hypotheses of the study. It described the relationship between the independent (exogenous) variables and dependent (endogenous) variables.<sup>18</sup> The structural model in this study was estimated using PLS technique and by performing bootstrapping with a sample size of 500. The examination is based on the path coefficient and coefficient of determination ( $R^2$  value). Path coefficient refers to the strength of the relationship of the paths, while  $R^2$  is a measure of the predictive accuracy of the model and the amount of variance explained by dependent variable on dependent variable. The results shown in Table 1, indicated that the five paths of vision (VIS), goals (GOL), strategy (STG), structure (STC), and human resource (HR) towards organization performance (OP) were statistically significant as their p-values were below the significance level of 0.05. Thus, the hypotheses H1a, H1c, H2a, H2b and H2c were supported. Meanwhile, the path of mission (MIS) on organization performance (OP) was statistically insignificant, thus hypothesis H1b was not supported. The analysis found that the  $R^2$  value for organizational performance (OP) was 0.501. This indicates that 50.1% of variations in organization performance (OP) could be explained

by the predictors of mission, vision, goals, strategy, structure, and human resource. This suggests on overall the strategic planning dimensions have affected OP. The  $R^2$  of 0.501 which is above the threshold of 0.26 indicates a substantial model [21].

### 3.3.3. Mediation effect

In this analysis, the moderation effects of organization culture (OC) on the relationship between formulation strategy dimensions (vision, mission, goals) and implementation dimensions (strategy, structure and Human Resource) with dependent variable of organization performance (OP) were examined. Further, the path coefficient and  $R^2$  were used to evaluate the contribution of each and overall interaction terms on the OP. To ensure OC making a moderation effect on the relationship between independent and dependent variables, the nature of the relationship needs to be changed as the values of the moderating variable change. This is done by including an interaction effect in the model and checking its significance. In this analysis, all predictors need to be standardized or centered to avoid multi-collinearity issues and to enable plausible interpretations [22]. To determine the significance of moderator effect, the effect of interaction term on the dependent variable should be significant.

Based on the results in Table 2, the moderation analysis revealed that the  $R^2$  value of organizational performance was 0.596, which is above the threshold of 0.26, indicating a substantial model. This suggests that the model exhibits an acceptable fit and high predictive relevance. This shows that 59.6% of variations in OP are explained by the interactions of independent variables and organizational culture. It was found that, the interaction of OC with vision, mission, goals, strategy, and human resource portrays a significant effect on OP based on their p-values that are all lower than 0.05. Therefore, the results found that OC moderates the inter-relationship among vision, mission, goals, strategy, human resource dimensions, and OP. Hence, hypotheses H3a, H3b, H3c, H4a, and H4c, are supported. However, H4b is not supported as the interaction of OC with structure had no effect on OP and was not significant (p-values  $> 0.05$ ). It can be concluded that the overall organizational culture has partially moderated the relationship between the strategic planning (formulation and implementation dimensions) and organizational performance.

**Table 1:** Path of Coefficients and Testing of Hypotheses

Hypotheses	Path Shape	Path Coefficient	Standard Error	T-value	P-value	Result
H1a	VIS → OP	0.225***	0.050	4.438	0.000	Supported
H1b	MIS → OP	0.054	0.046	1.394	0.164	Not supported
H1c	GOL → OP	0.136**	0.038	3.608	0.000	Supported
H2a	STG → OP	0.173**	0.060	2.829	0.005	Supported
H2b	STC → OP	0.225***	0.062	3.617	0.000	Supported
H2c	HR → OP	0.155***	0.040	3.768	0.000	Supported

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

**Table 2:** Moderation Effects of Organizational Culture (OC)

Hypotheses	Interaction Path	Standard Coefficient	Error	T-value	P-value	Result
H3a	OC * VIS	0.150**	0.046	3.371	0.001	Supported
H3b	OC * MIS	0.120**	0.045	2.752	0.005	Supported
H3c	OC * GOL	0.110*	0.048	2.160	0.010	Supported
H4a	OC * STG	0.260***	0.059	4.472	0.000	Supported
H4b	OC * STC	0.055	0.064	2.162	0.153	Not Supported
H4c	OC * HR	0.158***	0.038	1.438	0.000	Supported

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

## 4. Discussion and conclusion

This study found that dimension 'mission' indicated no significant effect towards performance, whereas other dimensions (vision, goals, strategy, structure and human resource dimensions) were all significantly related to OP which support the hypotheses of the study. Overall, the results found that strategic planning have significantly influenced OP based on the 50.1% variance in OP as explained by the independent variables. Meanwhile, the moderation analysis indicated that organizational culture has partially moderated the relationship between strategic planning (formulation and implementation dimensions) and organizational performance. OC indicated no moderation effect on the relationship between dimension structure and OP. Holistically, the interactions of OC and strategic planning (formulation and implementation strategy dimensions) have affected OP based on 59.6% of variance in OP, which could be explained by the interactions of OC and the independent variables. The results provided support for the hypotheses of study that the effects of strategic planning were significantly moderated by organizational culture. Theoretically, organizations that have proper formulation and implementation in their strategic planning will likely secure superior performance [23]. The finding is close parallel of previous study by Samad et al. [24] and Magee [11]. The findings from this study fill the gaps present in previous research. The moderation effect of culture on the relationship between strategic planning and performance implies that the performance of government organizations is contingent upon the existence of organizational culture. In conclusion, this study have proved the robustness of contingency theory which explains the influence of appropriate strategy for organizational performance. Nonetheless, this study was limited only to a specific group and setting. To address its generalizability, future research is suggested to be conducted in different samples, setting, in different countries and using different approach such as mixed mode.

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