International Journal of Learning & Development
ISSN 2164-4063
2012, Vol. 2, No. 3

Analyzing the Impact of Corporate Governance and Organizational Learning on Strategic Planning Effectiveness (An Empirical practice among some industrial companies in Iran)

Dr. Hossein Rezaei Dolat Abadi

Fatemeh Nematizadeh

Department of Management, University of Isfahan

Accepted: May 24, 2012 Published: June 17, 2012

Doi:10.5296/ijld.v2i3.1959 URL: http://dx.doi.org/10.5296/ijld.v2i3.1959

Abstract:

The main purpose of this paper is to investigate relationships between corporate governance, organizational learning and strategic planning effectiveness. A total of 89 questionnaires were collected from some industrial firms working in Iran. Regression analysis was used to test the hypotheses. Findings showed corporate governance, but not Organizational learning, is significantly associated with strategic planning effectiveness. Further, both corporate governance and organizational learning jointly enhance the effectiveness of strategic planning. Longitudinal data would be needed in order to prove that causal relationships exist. It would be useful to explore whether the results hold when other integrative variables are taken into consideration.

Keywords*:* Strategic planning effectiveness, Corporate governance, Organizational learning

1. Introduction

Strategic management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives (Hopkins, 2004).

Strategic management has often been criticized on the grounds that it is based upon theoretical principles and not on the realities of management (Berry, 2007). Moreover, although, the need for strategic planning practice and outcomes to be aligned is well established in the literature, little research has been published on the impact of strategic planning tools on strategic planning effectiveness. The Strategic planning effectiveness refers to the set of strategic actions that are planned and enacted by firms for purposes of maximizing economic returns from the environment (Ali, 2000). The goal of an effective strategic manager is to produce excellent results without a lot of effort. This idea is simple to grasp in theory but is poorly executed by most firms. This study empirically tries to rectify this imbalance and its contribution is to fill a major gap in the literature of strategic planning.

Corporate governance can be conceptualized as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled, and its purpose is to influence directly or indirectly the behavior of the organization towards its stakeholders (Dyson and Lowry, 2006). The last two decades have seen the renewal in corporate governance interest amongst scholars, practitioners and media alike due to the high-profile collapse of several large corporations, whose governance systems failed to prevent corruption and adequately implement risk management procedures (Ermann and Lundman, 2002). Corporate governance is a mechanism established to allow different parties to contribute capital, expertise and labor for their mutual benefit the investor or shareholder participates in the profits of the enterprise without taking responsibility for the operations. Corporate governance has a positive effect on efficiency of public and private organizations and their economic growth and development. Management runs the company without being personally responsible for providing the funds. So as representatives of the shareholders, directors have both the authority and the responsibility to establish basic corporate policies and to ensure they are followed. The board of directors has, therefore, an obligation to approve all decisions that might affect the long run performance of the corporation. The term corporate governance refers to the relationship among these three groups (board of directors, management and shareholders) in determining the direction and performance of the corporation, so it can be considered as a serious factor in strategic planning and its effectiveness as well (Hunger, 2010).

The phenomenon of organizational learning is increasingly becoming a source of interest among researchers and practitioners. It is also becoming a point of widespread controversy and confusion on learning in or by organizations. No one single perspective in current learning theory is sufficient to capture fully the multiple connections and possibilities that learning creates and from which it emerges (Antonacopoulou, 2006). According to Bresser (2004), systems theory is tied to organizational learning. Bateson (1972) reiterated criticisms of traditional conceptions of knowledge which suggest that, when developing knowledge on a given subject, the subject needs to be separated from its context so as to keep the focus on the analysis process. As Bowerman later pointed out (1999), analytical separation such as this cannot be sustained in the real world. He went on to build a systemic approach to learning in which he drew a distinction between first-order and second-order learning. This and other similar approaches were the inspiration for the single loop and double loop learning concepts proposed by Fiegener (2005). These authors found that organizational learning occurs when the organization's members respond to changes in its internal and external contexts by adjusting their activities to correct existing or potential differences between the results being achieved and the desired results (Edmilson, 2011).

Strategic management has now evolved to the point that it is primary value is to help the organization operate successfully in dynamic, complex environment. To be competitive in dynamic environment, corporations have to become less bureaucratic and more flexible. In stable environments such as those that have existed in the past, a competitive strategy simply involved defining a competitive position and then defending it. Because it takes less and less time for one product or technology to replace another, companies are finding that there are no such thing as competitive advantage.

Corporations must develop strategic flexibility which is the ability to shift from one dominant strategy to another. Strategic flexibility demands a long term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization that is an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behavior to reflect new knowledge and insights (Atiyyah, 2005). Learning organizations avoid stability through continuous self-examinations and experimentations. People at all levels, not just top the management, need to be involved in strategic management: scanning the environment for critical information, suggesting changes to strategies and programs to take advantage of environmental shifts, and working with others to continuously improve work methods, procedures and evaluation techniques. Learning and mainly owner-managers" learning in the strategic management process are central in the healthy survival of small and medium-sized enterprises (Edmilson, 2011), so we can take it into account as a significant element exploring whether it is affecting on strategic planning process in this study.

Given this, the main function of this paper is to explore relationships among strategic planning effectiveness, corporate governance, organizational learning, as proposed in our theoretical model, while there is no recent study which has brought to our attention about strategic practices in the Iran. This article supposed to link these factors (Corporate governance and Organizational learning) to analyze the impact of them on strategic planning effectiveness which has not been considered up to now.

2. Research Model and Hypotheses

However there are many research studies that seek to elucidate the relationship between strategic planning and organizational outcomes, the results of this body of research are fragmented and no consensus has yet emerged. Previous research shows that the corporate governance is a critical issue for organizations (Robinson, 2007, and Tegarden, 2003); on this basis, it can be expected that corporate governance affects strategic planning effectiveness:

H_1: There is a positive relationship between corporate governance and strategic planning effectiveness.

Many authors have highlighted the important role of organizational learning in the strategic planning process (e.g. Field, 2000). Cummings and Tapinos (2005) define organizational development as a process by which behavioral knowledge and practices are used to help organizations achieve greater effectiveness. This implies that increased organizational effectiveness (OE) will play an important role in accelerating organizational development. However, in order to decide whether an organization is successful in its development process, some indicators of effectiveness should be selected and analyzed such as organizational learning. In our research, we can take this point into account by the second hypothesis:

H_2: There is a positive relationship between organizational learning and strategic planning effectiveness.

Some of researches showed that there is a positive relationship between corporate governance and organizational learning as well (Hatem, 1994).The belief that corporate governance mechanisms influence the performance and long-term value of an organization is generally accepted among governments and academicians (Pearce, 2008). The theory underlying the roles of corporate governance on organizational performance widely referred to is agency theory (Elbanna, 2007). According to the theory, a potential governance problem is built into corporate system because of the separation of ownership from control. Agency problems emerge when the manager, who is a hired agent with the responsibility of representing the owners' best interests, pursues self-interest instead of the owners' best interests and then it can be concluded that there is a potential relationship between corporate governance and some other organizational elements such as organizational learning; so the third hypothesis has been formed based on these concepts:

H_3: There is a positive relationship between corporate governance and organizational learning.

The use of learning can also reinforce the effects on strategic planning effectiveness of corporate governance. The wide use of these tools may mean that managers will be involved in wielding learning plans. This may increase the possibility of their participation in the strategic planning process and their understanding of this process, as well as their commitment to this process and its outcomes (Peel, 2000). In conclusion, corporate governance and organizational learning are not only compatible and able to be used in conjunction with one another, but are also complementary. In other words, the effect of a wide learning of organization is possibly to reinforce the effect of corporate governance on strategic planning effectiveness and vice versa. Hence:

H4: corporate governance and the extent of organizational learning in strategic planning processes complement one another to further enhance strategic planning effectiveness above and beyond the main effects which they create individually.

International Journal of Learning & Development
ISSN 2164-4063
2012, Vol. 2, No. 3

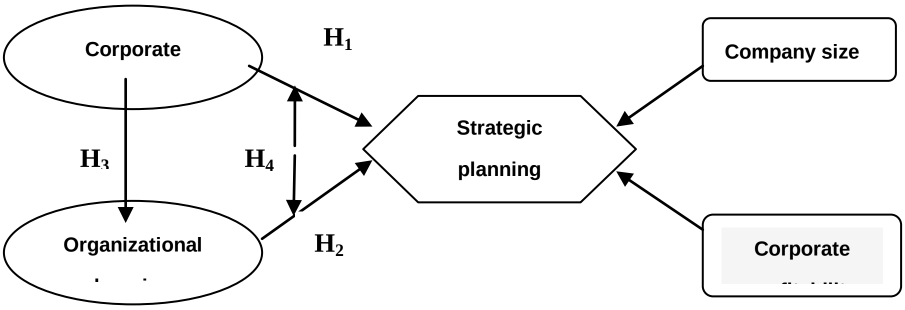

Figure 1.

3. Research Methodology

Study of any phenomena may involve some type of measurement. The instrument of this study is questionnaire. The questionnaire contains 3 parts in organizational learning (four dimensions: commitment to learning, shared vision, open-mindedness and knowledge sharing), corporate governance (five dimensions: community focus, service delivery, structures and processes, risk management and internal control and standards of conduct) and strategic planning effectiveness which employed the Lykert scale for measuring items. Its validity was analyzed by some masters in management course also. Reliability of both parts of questionnaire was tested by Cronbach's alpha (84%). The corporates in our sample represent some industrial firms working in Iran. A total of 120 questionnaires were dropped off from December 2011 to January 2012; 89 completed questionnaires from 27 corporates were collected and included in the analysis, representing a 74 percent response rate. When distributing questionnaires, the researcher gave respondents some guidelines for completing the questionnaire, stressing the importance of their cooperation and the benefits they could obtain by participating in the study.

Given that strategic planning effectiveness is not only a function of corporate governance or organizational learning, we included two controls to clarify the relationships between the corporate governance and organizational learning, on the one hand, and the effectiveness of strategic planning on the other:

(1) Company size was controlled because many studies have argued that organization size can systematically influence managerial practices (e.g. Capon, 1994). Traditionally, it has been assumed that company size is an important variable which can affect the relationship between management techniques and organizational outcomes. We measured company size with the log transform of the number of full-time employees; and

(2) Corporate profitability was controlled because several studies have provided evidence of the important implications of this variable in managerial processes (e.g. Gioukas et al., 1993; Atiyyah, 2005) and hence in organizational performance. Corporate profitability has been intervened in the form of dummy variable in private owned companies.

4. Results

As a control for any peculiar effects of company size and corporate profitability, two control variables, for company size and amount of profitability, were included in the regression models.

Regressing strategic planning effectiveness on the control variables and corporate governance in model 1 lent support to H_1 that there is a positive relationship between the corporate governance and strategic planning effectiveness (β= 0.26, $p<$ 0.05). Model 1 shows that control variables, company size (β= 20.09, n.s.) and corporate profitability (β= 0.12, n.s.), are not significant predictors of strategic planning effectiveness. The control variables and corporate governance explained 0.09 of the variance in strategic planning effectiveness ($p<$ 0.05). Model 2, in which strategic planning effectiveness was regressed on the control variables and organizational learning in strategic planning, indicates that organizational learning (β= 0. 21, n.s.), company size (β= 20.04, n.s.) and corporate profitability (β=0.18, n.s.) have no significant effect on strategic planning effectiveness (R^2 = 0.08, n.s.). Thus H_2, that there is a positive relationship between organizational learning in strategic planning processes and strategic planning effectiveness was not supported. The hierarchical regression model was used to test H_3. In this model, control variables and organizational learning in strategic planning were entered into the equation as a first step (model 2) before entering the corporate governance in the second stage (model 3). The results of model 3 support H_3, that the corporate governance better explains a significant variance in strategic planning effectiveness than does organizational learning in the strategic planning processes (β= 0.25, $p<$ 0.05). This model explains 0.13 of the variance in the strategic planning effectiveness ($p<$ 0.05).

Hierarchical moderated regression analysis was used to test H_4. This type of analysis can be used to examine the effect of interaction between two variables on the relationship between these two variables and a dependent variable (Andersen, 2000). The hierarchical moderated regression analysis procedures, as used in this study, consist of two steps. The first step was to enter as one block the main effects of the two control variables and corporate governance and organizational learning into the equation. This step represents the base model, which shows the main effects (model 3). The second step involved entering the cross-product of corporate governance and organizational learning into the equation (model 4). Then, we examined the change in R^2 between the base model (main effects) and the full model (main and interaction effects). As we predicted, the cross-product of the corporate governance and organizational learning was significant (β= 21.68, $p<$ 0.05).

Moreover, it increased the amount of variance explained in the strategic planning effectiveness (ΔR^2= 0.05, $p<$ 0.05). Entering the cross-product into the equation shows that both the corporate governance (β=0.1.54, $p<$ 0.01) and organizational learning (β=1.11, $p<$ 0.01) significantly affect strategic planning effectiveness. The above findings support H_4 that organizational learning in strategic planning processes enforces the positive strategic planning effectiveness effects of corporate governance and vice versa. In other words, this shows that corporate governance and organizational learning exert strategic planning effectiveness dependently on each other (Tables I and II).

concept	mean	Standard deviation	1	2	3	4
Strategic planning effectiveness	3.84	0.65	1			
corporate governance	2.43	0.65	0.26 *	1		
Organizational learning	3.50	0.71	0.21	0.09	1	
Corporate profitability	0.53	0.50	0.18	0.23 *	-0.01	1
Company size	2.71	0.66	0.00	0.29 * *	0.12	0.10

Table I. Means, standard deviation, and correlations (*p is 0.05; **p is 0.01)

variables	Model1 (corporate)	Model 2 (learning)	Model 3 (Base model)	Model 4 (Full model)
Corporate profitability	0.12	0.18	0.13	0.14
Company size	-0.09	-0.04	-0.11	-0.08
corporate governance	0.26 *		0.25 *	1.54 * *
Organizational learning		0.21	0.20	1.11 * *
corporate governance✕ Organizational learning				-1.68 *
R2	0.09 *	0.08	0.13 *	0.18 * *
Adjusted R2	0.06 *	0.04	0.09 *	0.13 * *
From model 3 to model4			0.05 *	
From model 4 to model5				0.05 *

Table II. Models of regression analyses (Dependent variable = strategic planning effectiveness, *p is 0.05; **p is 0.01)

5. Discussion and Conclusion

Given the extant debate on the value of strategic planning (e.g. Brock and Barry, 2003) and organizational learning (e.g. Dyson and Foster, 1982), on the one hand, and the pervasiveness of strategic planning in all kinds of organizations and many countries, on the other, the topic of this study is indeed a fundamental issue in management research. The foremost result of our study is that the corporate governance has value. As Ketokivi and Castaner argued, this has strong implications for the strategic planning literature, which has attempted with little success to find a positive relationship between strategic planning and subsequent organizational outcomes. The ownership and control of firms are pronounced and vary dramatically across OECD countries. Therefore, one of the questions that arises when considering whether or not corporate governance affects performance includes whether or not owner-controlled firms are more profitable that manager-controlled firms? A priori it is not clear whether or not concentrated ownership and control will improve performance. On the one hand, concentrated ownership by providing better monitoring incentives should lead to better performance. On the other hand, it might also lead to the extraction of private benefits by controlling block holders at the expense of minority shareholders. These issues are central to the debate surrounding corporate governance practices, particularly since concentrated holdings are the primary means of control in so many countries around the world (Brouthers, 2000). It was not our purpose here to review and dissect the similarities and differences between these concepts or what they bring to the corporate governance. Instead, we aimed to employ these as an objective indicator of the extent to which our sampled organizations corporate governance. As argued by Ramanujam et al. (2001), a variety of analytical tools has been developed to aid companies in developing good way of control. The use of these tools is an important indication of the extent of formalization in corporate governance. Moreover, we argue that some firms may utilize some ways of control tools to promote the effectiveness of strategic planning though they do not have written plans. Our data provide support for this argument. When we split our sample into firms with external corporate governance control and firms with internal corporate governance control, we found that the average for strategic planning effectiveness in firms which has internal corporate governance control is 3.3. This shows that internal-controlled companies could practice strategic planning effectively. This discussion gives further justification to our choice to use corporate governance in order to measure strategic planning effectiveness.

Our results show that there is no significant relationship between organizational learning and strategic planning effectiveness. This finding is somewhat surprising given the frequently made claim that the broad involvement of members of the organization is positively associated with organizational outcomes. A likely explanation of this finding is that the influence of learning on strategic planning effectiveness may be moderated by other variables. Hence, we need to incorporate other contextual variables in our model in order to explain the nature of the relationship between organizational learning and strategic planning effectiveness. For example, Lines (2004) has argued that the effects of learning, if any, would not be stable across all the possible conditions in which it is implemented. A number of contextual factors, such as company culture, have been hypothesized to moderate the relationships between learning and its outcomes (Falshaw et al., 2006, Dollinger, 1984, Elbanna, 2006, Brouthers et al., 2000).

Moreover, the social-cultural context in Egypt should be taken into account when interpreting the above result (Brock, 2003). For example, Parnell and Hatem (1994) noted that using subordinates knowledge is considered as a symbol of weak management in the Egyptian setting. This revealed that organizational learning is a much more complex issue than it is held to be here, both as a theoretical concept and as an empirical construct. Hence, there is still much to learn about the nature of organizational learning in strategic planning and how best to manage it. We also find that kind of control and organizational learning jointly enhance strategic planning effectiveness. This shows that, much like the other integrative mechanisms discussed in strategic management, certain characteristics of the control process can have an integrative role (e.g. Ketokivi and Castaner, 2004). In an examination of some of these characteristics, we have shown that, if organizations incorporate the internal corporate governance control and organizational learning into the strategic planning process, they can enhance their strategic planning effectiveness.

References:

Ali, A.J. (2000), “Organizational development in the Arab world”, Journal of Management Development, Vol. 15 No. 5, pp. 4-21.

Antonacopoulou, T.J. (2006), “Strategic planning, autonomous actions and corporate control”, Long Range Planning, Vol. 33, pp. 184-200.

Atiyyah, H.S. (2005), “Culture, control, management and organizations in Arab countries: a review of research findings”, Cross Cultural Management, Vol. 4 No. 2, pp. 13-20.

Berry, M. (2007), “corporate governance in small high tech companies”, Long Range Planning, Vol. 31 No. 3, pp. 455-66.

Bateson, L.J. (1972), “Strategic implementation: five approaches to an elusive phenomenon”, Strategic Management Journal, Vol. 5, pp. 241-64.

Bowerman, B.L. and O’Connell, R.T. (1999), Linear Statistical Models: An Applied Approach, 2nd ed., Duxbury, Belmont, CA.

Bracker, J. and Pearson, J. (1986), “learning and financial performance of small mature firms”, Strategic Management Journal, Vol. 7 No. 6, pp. 503-22.

Bresser, R.K. and Bishop, R.C. (2004), “Dysfunctional effects of formal planning: two theoretical explanations”, Academy of Management Review, Vol. 8, pp. 588-99.

Brock, D.M. and Barry, D. (2003), “What if planning was really strategic? Exploring the strategy-planning relationship in multinationals”, International Business Review, Vol. 12, pp. 543-61.

Brouthers, K.D., Brouthers, L.E. and Werner, S. (2000), "Influences on corporate governance in the Dutch financial services industry", Journal of Management, Vol. 26 No. 5, pp. 863-83.

Capon, N., Farley, J.U. and Hulbert, J.M. (1994), "Strategic planning and financial performance: more evidence", Journal of Management Studies, Vol. 31 No. 1, pp. 105-10.

Dollinger, M.J. (1984), "Environmental boundary spanning and information processing effects on organizational performance", Academy of Management Journal, Vol. 27 No. 2, pp. 351-68.

Dyson, R.G. and Foster, M.J. (2006), "The relationship of learning and effectiveness in strategic planning", Strategic Management Journal, Vol. 3, pp. 77-88.

Edmilson Lima, M. (2011), "Investigating corporate control in the Egyptian context", Personnel Review, Vol. 34 No. 2.

Elbanna, S. (2006), "Strategic planning: process perspectives", International Journal of Management Reviews, Vol. 8 No. 1, pp. 1-20.

Ermann, S. (2002), "corporate governance: an empirical study", Proceedings of the 15th American Society of Business and Behavioral Sciences, Las Vegas, NV.

Elbanna, S. and Child, J. (2007), "The influence of decision, environmental and firm characteristics on the rationality of strategic planning", Journal of Management
Studies, Vol. 44 No. 4, pp. 561-91.

Falshaw, J.R., Glasiter, K.W. and Tatoglu, E. (2006), "Evidence on formal strategic planning and company governance", Management Decision, Vol. 44 No. 1, pp. 9-30.

Fiegener, M.K. (2005), "Determinants of board control in the strategic decisions of small corporations", Entrepreneurship Theory and Practice, Vol. 29 No. 5, pp. 627-50.

Field, A. (2000), Discovering Statistics Using SPSS for Windows, Sage, London.

Gioukas et al., 1993, D.W., Hamilton, J.G. and Freeman, E.B. (1994), "A large-scale second-order structural equation model of the influence of organizational learning on organizational planning benefits", Journal of Management, Vol. 20 No. 4, pp. 859-85.

Ketokivi, K.L, Castaner, O.M, 2004, "Does strategic planning improve company performance?" Long Range Planning, Vol. 19 No. 2, pp. 101-9.

Hart, S. (1992), "An integrative framework for strategy-making processes", Academy of Management Review, Vol. 17 No. 2, pp. 327-51.

Hatem, T. (1994), "Egypt: exploring management in the Middle East", International Studies of Management & Organization, Vol. 24 No. 1, pp. 116-36.

Hunger, D.J. and Pugh, D.S. (2010), Management Worldwide: Distinctive Styles amid Globalisation, Penguin, London.

Hofstede, G. (1991), learning and Organizations: Software of the Mind, McGraw-Hill, and London.

Hopkins, W.E. and Hopkins, S.A. (2004), "Strategic planning-financial performance relationships in banks: a causal examination", Strategic Management Journal, Vol. 18, pp. 635-52.

Lines, R. (2004), "Influence of learning in strategic change: resistance, organizational commitment and change goal achievement", Journal of Change Management, Vol. 4 No. 3, pp. 193-215.

Nelson, D.C. (2005), "organizational learning: American owned firms in Britain", Journal of Management Studies, Vol. 20 No. 2, pp. 191-211.

Pearce, J.A., Freeman, E.B. and Robinson, R.B. (2008), "The tenuous link between formal strategic planning and financial performance", Academy of Management Review, Vol. 12 No. 4, pp. 658-75.

Peel, M.J. and Bridge, J. (2000), "How corporate governance and capital budgeting improve SME performance", Long Range Planning, Vol. 31 No. 6, pp. 848-56.

Robinson, R.B. and Pearce, J.A. (2007), "The impact of formalized control on financial performance in small organizations", Strategic Management Journal, Vol. 4 No. 3, pp. 197-207.

Tapinos, E., Dyson, R.G. and Meadows, M. (2005), "The impact of performance measurement in strategic planning", International Journal of Productivity and Performance Management, Vol. 54 No. 5/6, pp. 370-84.