

Strategic Planning and Organizational Performance in the Public Sector: A Study of Local Government in Aceh, Indonesia

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Abstract: The transformation that occurred in Indonesia since May 1998 has brought about a variety of change and reforms to the nation. Until recently, there have been no satisfactory results shown, particularly in the areas of organizational performance in the public sector. The success of the reform as well as the performance of government departments and agencies is depending on government strategic planning but prior studies argue that the relationship between strategic planning and organizational performance either in the private or public sector is inconsistent. This study aims to examine the relationship between strategic planning and organizational performance in the public sector. About 284 questionnaires were distributed to 671 government departments in 23 locals/districts in Aceh, Indonesian. Out of the total only 130 questionnaires were returned successfully. However, only 110 questionnaires were usable for further analysis which give the response rate at 45.77%. The study discovers a positive relationship between the strategic planning and organizational performance.

Key words: Strategic management, organizational performance, local government, strategic, department

INTRODUCTION

One of the main roles of the government to ensure the success of the reform is to develop a strategic plan to improve services to the public. In order to produce higher performance organizations, governments have conducted various experiments nationwide to implement reforms in the management. Since, the early 1990s changes in the public sector are inevitable with the influence of affective factors to the organization such as economic pressures, institutional, politics and ideology that have caused the changes. Blackberby (1994) assert that measurement of performance and the outlook has become a trend among local governments in the early 1980.

This situation is due to 5 factors and which are pressure from central government and audit committee, high expectations from society, compulsively competitive tender, a change in culture and attitude among managers of district authorities and loss of confidence. Furthermore, unlike the private sector, the performance of organizations in the public sector is more complex and multi-dimensional.

Prior studies argue that the relationship between strategic planning and organizational performance either in the private or public sector (Dusenbury, 2000; Hendrick, 2003; Edwards, 2011; Marin, 2012; Andrews *et al.*, 2009) is inconsistent. They found that strategic planning has a positive effect on organizational

performance. On the contrary, Poister *et al.* (2013) find that strategic planning has no effect on the measurement of efficiency or cost-effectiveness. In addition, it is claimed that the study of strategic planning in public organizations more often than not are largely descriptive and there are scarce evidence about benefits and effectiveness of strategic planning for public organizations (Hendrick, 2003). Meanwhile, previous studies failed to discover the indirect relationship between strategic planning and organizational performance in the public sector.

Furthermore, the transformation that occurred in Indonesia since May 1998 has brought about a variety of change and reforms to the nation. The basic elements identified in these reforms are democratic, decentralization and clean government. The three basic elements have encouraged the existence of the new rules in the relationship between the government and the public community and the business world; the relationship between the federal government and the state government. These reforms place great emphasis on transparency, accountability and public participation in various policies development (Bracker, 1980).

Despite the transformation that occurred in Indonesia until recently, there have been no satisfactory results shown, particularly in the areas of organizational performance in the public sector. Plant (2006, 2009) in her article stating that the Ministry of National Resource

Utilisation and Bureaucratic Reform (PAN-RB) claims that Indonesia is the last country to make changes in the bureaucracy among the Southeast Asia countries and Africa. Meanwhile, state that based on the study of OMBUDSMAN Republic of Indonesia (RI) it is found that about 40% of people are not satisfied on the performance of the local government. Therefore, the objective of this study is to provide new empirical evidence on the relationship between the strategic planning and the performance of organizations, especially in the public sector.

Literature review

Strategic planning: There are a variety of perspectives and definitions of strategic planning available in a variety of literature since each researcher has a different definition. This study uses a definition which refers to a compliance in producing important decisions and actions that defines the meaning of an organization what was done and why it was carried out (Connolly *et al.*, 1980). The strategic planning is consider as the organizational capability or resources where the resources are the fundamental driver of organizational performance (Poole *et al.*, 2006). The government has implemented a strategic plan of the public sector to help determine priorities and manage scarce resources in an environment that is constantly changing (Dusenbury, 2000).

While Hendrick (2010) recognizes that the strategic planning in the state is not just a long-term financial or capital plan but in respect of a comprehensive evaluation on the environment and organization for an extensive strategy development to tackle various important issues.

Additionally, various literature studies attest that strategic planning is helpful in organization (Pindur, 1992; Dunk and Lysons, 1997) argues that strategic planning is able to identify key issues in community, help to identify utilisation of resources to the fullest, educate community in building consensus and teamwork and ultimately is able to improve organizational performance.

Besides Poister and Streib (2005), Boyne *et al.* (2004)'s finding discover that most of the urban ministries in the United States have used strategic planning to develop long-term direction, set priorities and decision-making guide. In addition, they claim that the benefits obtained from the strategic planning is even greater when compared to the costs required to implement it.

Organizational performance: Organizational performance is the most important criteria in assessing an organization, action and its environment. Different people define performance differently, depending on the point of view

of the researcher. For an example, performance is seen as a change from the start to the last phase where decision is derived. In an economic context Abu Jarad *et al.* (2010) believe that a performance is the effectiveness of a relationship between the charge, output and outcome. Furthermore, Venkatraman and Ramanujam (1986) state that organizational performance is an indicator that can measure how well a company can achieve its goals.

Organizational performance is a multi-dimensional concept that can see the relationship between other variables subject and indicators adopted in the performance evaluation (Daft, 2001). In tandem with this, Carter (1991) and Bryson (1988) argues that a performance is a complex concept and is often disputed. In the management studies, there have been a variety of indicators assessing performance, namely: economic indicators (objective) and non-economic (subjective) (Leitao and Franco, 2010), financial performance, market performance, shareholder return (Richards, 2008); financial performance, financial and operational performance and organizational effectiveness (Venkatraman and Ramanujam, 1986).

The public sector has conducted many studies on organisational performance using multi-dimensions both financial and non-financial such as: quality of service, cost, efficiency, cost effectiveness (Boyne and Gould-Williams, 2003) efficiency, effectiveness, quality of service, productivity (Edwards, 2011) service coverage, quality of service, speed of service, efficiency and high impact of administration (Boyne, 1996; Kim and Wolff, 1994; Lapsley, 2008). In tandem with this, Carter (1991) argues that there are three dimensions that need to be measured in assessing the government's performance, namely: economy, efficiency and effectiveness.

Strategic planning and organizational performance's

relation: Bryson (2011) states that strategic planning is a management tool that can help set the direction for an organization. While Pindur (1992) and Bryson (2011) also believe that an investigation on strategic planning can lead to organizational performance. The study conducted by Poister and Streib (2005) discovers that the strategic planning process has led to a better performance in terms of delivering high-quality services, efficient operation and sustained the overall financial situation. In the meantime (O'Regan *et al.*, 2007) argue that by having the environment threat assessment during the process of strategic planning can contribute a positive impact on the strategic planning and eventually brings a significant impact on the financial performance of the organization. Meanwhile, Kohtamaki *et al.* (2012) and Mouzas (2006) state that the strategic planning can affect staff's commitment positively in implementing strategies that

have been designed to enhance the performance of organization. Boyne and Gould-Williams (2003), Hendriks (2003) state that the impact on the design of organizational performance in the public sector has been widely debated and it has not been empirically tested by previous studies.

Although, the relationship between the strategic planning and performance in the public sector is found not very strong, research interests in this field is not discouraged, Hendricks (2003), Andrews *et al.* (2009), Edwards (2011), Jennings and Disney (2006), Kaleba (2006), Boyne (2001), Newberry and Pallot (2004) argues that the empirical relationship between planning and performance in the public sector is unknown. Nevertheless, he claims that there has been more positive effect on the performance comparatively. Based on this, a research hypothesis is derived as:

- H₁: there is a relationship between strategic planning and organizational performance

MATERIALS AND METHODS

The unit of analysis for the study is department of local government/district that has direct relation with the 10 priority development of Aceh province, Indonesia as contained in the Medium Term Development Plan (RPJMD) in 2012-2017. There are 671 departments involved in the study and 284 departments were randomly selected to be contacted by the enumerators. This study obtained 130 responses and 110 were usable for analysis. Strategic planning has 4 dimensions: strategy implementation, monitoring strategy, incrementalism logic and rational planning. The instrument used in this study was developed based on previous studies.

Items of questionnaire were adopted from the study by Andrews *et al.* (2009), Poister and Streib (2005), Pina *et al.* (2011). The total number of item in the study was 17. The instruments used to measure the organizational performance is obtained from Van-de-Ven Ferry (1979) which was used by Dunk and Lysons (1997), Ferris (1984) and Verbeeten (2008). This instrument includes 7 questions which have been adjusted according to the situation in Indonesia. The respondents were required to state their views through the 6 points range measurement scale.

RESULTS AND DISCUSSION

The results in Table 1 lend support to H₁. That is strategic planning has a positive relationship with organizational performance. The strength of the relationship is moderate at (r = 0.484, p<0.01).

Table 1: The relationship between the variables

Variables	Organizational performance	Strategic planning
Organizational performance	1.000	0.484**
Strategic planning	0.484**	1.000

**The mean difference is significant at the 0.01 (2-tailed)

Table 2: Regression analysis

Independent variable	Dependent variable (organizational performance)	Sig.
Strategic planning	0.484***	0.000
F-value	33.064	-
R ²	0.234	-
Adjusted R ²	0.227	-
Durbin Watson	1.743	-

*The mean difference is significant at the 0.05; **significant level at the 0.01; ***significant level at the 0.001

Simple regression analysis was conducted to examine the effect of strategic planning on organizational performance. The equation of variables predictor regression is significant, R = 0.484, R² = 0.234, adjusted R² = 0.227, F = 33.064, p<0.001. It explains that the value of the coefficient of correlation between the strategic planning and the performance of an organization is 0.484 whereby the strategic planning describes 23.4% of variant in the organizational performance. The rest of the 76.6% is explained by other factors outside the model. The generalization of this model to other population is 22.7% which experiences a reduction by 7% in the adjusted R². The equation of the simple regression estimation in this study is:

$$Y = 1.999 + 0.577 \times X + e$$

Where:

Y = Performance of Organization (PO)

X = Strategic Planning (PS)

Constants of 1.999 indicate that the organizational performance is 1.999 in the absence of the strategic planning. The regression coefficient of 0.577 means that when there is any additions (because the + sign) of a strategic planning there will be an increase of organizational performance by 0.577. The significant value of the strategic planning is 0.000<0.05. Thus, H₁ is accepted which explains that the independent variable of the strategic planning has positive and significant effect on the dependent variable of the organizational performance. Hence, the higher the strategic planning, the higher the performance of the organization is and vice versa. The results of simple regression analysis on the relationship between the strategic planning and the organizational performance are shown in Table 2.

This study discovers that strategic planning has a significant positive correlation with organizational performance. It can be said that performance of an organization will increase when an organization

implements strategic planning process comprehensively. This is due to the fact that the present studies finding is similar with most of prior studies (Poister *et al.*, 2013; Dusenbury, 2000; Hendrick, 2003; Edwards, 2011; Marin, 2012; Andrews *et al.*, 2009; Owusu-Frimpong *et al.*, 2010; Hopkins and Hopskins, 1997).

Meanwhile, there are various reasons why strategic planning could lead to a better organizational performance. It clearly seen that by having a strategic planning, an organization's direction becomes clear. Hence, with clear direction, an organization can develop various strategies to achieve their goals. Meanwhile (Bryson, 2011; Fryer *et al.*, 2009) claims that strategic planning of an organization can also lead to high-quality services. This is supported by Poister and Streib (2005) who believe that strategic planning can lead to a better organizational performance. Therefore, it is not surprising when most studies discover that strategic planning in an organization leads to a better organizational performance.

CONCLUSION

This study is one of the key insights in strategic planning and organizational performance in the public sector. This study is one of the first attempts to examine empirically the performance of the government departments in Aceh, Indonesia. The findings show that the strategic planning has a positive relationship with the organizational performance.

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