STRATEGIC PLANNING AND PERFORMANCE OF THE PETROLEUM FIRMS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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The project has been submitted with my approval as the University Supervisor.

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DEDICATION

This research work is dedicated to my parents Mr.& Mrs.Atakos who have invested and believed in me over the years and have taught me very valuable lessons in life including the determination to achieve whatever goals I set my eyes on in this life. The study is also dedicated to my dear husband Kenneth Amdany and my sons Cedric Kiprop and Adrian Kemboi the pillar of my life and who constantly challenge me to be the best, I am grateful for your support and may God bless you.

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God bless you all

TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

ERC	Energy Regulatory Commission
GDP	Gross Domestic Products
ICT	Information and Communication Technology
KPRL	Kenya Petroleum Refineries Limited
NOCK	National Oil Corporation of Kenya
OLS	Ordinary Lease Squares
RBV	Resource Based View
UoN	University of Nairobi

ABSTRACT

Driven by cost conscious customers, increasing competition, stringent regulatory requirements and technological changes and innovations, petroleum firms in Kenya are constantly searching for new ways to obtain better performance, gain and sustain competitive advantage. The need to have strategies in an organization is increasingly being considered as very fundamental to attaining superior performance within the context of strategic management. However, the existing literature on strategic planning and performance focuses on other industries other than the petroleum industry in Kenya. The importance of good strategic planning is recognized by most organizations. There is therefore need for better strategic planning that capture the industry dynamics and that are premised on radical changes reminiscent of the industry for swift responses may such occasions arise. The study therefore sought to determine the effect of strategic planning on the performance of the petroleum firms in Kenya. A cross sectional survey design was employed. The population for this study was 182 of the oil marketing firms in the petroleum industry in Kenya from which a sample size of 18 firms was selected using simple random sampling technique. This study used primary data which was collected using structured questionnaires administered to the sample using drop-and-pick method as well as mail method. The questionnaires were addressed to the managers in charge of strategy who were the respondents in the study. Data was analysed using descriptive analysis, correlation analysis and OLS regression analysis. The study found that strategic planning positively and significantly influenced financial performance. It accounted for 92.9% of the variance in financial performance of these firms (R-squared = 0.9189). The findings, consistent with a number of previous studies, lead to the conclusion that there is a positive and significant relationship between strategic planning and firm performance for petroleum firms in Kenya. The study recommends that policies should be instituted to enhance better strategic planning for these organisations. More studies should be conducted to examine the moderating effect of industry on the relationship between strategic planning and firm performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Over the years it has been strongly perceived that strategic planning greatly contributes to organizations effectiveness. Strategic planning is an important aspect for all organisations and part of strategic management. By consciously using formal planning, a company could exert some positive control over market forces, create competitive advantages, improve organizational effectiveness, and improve its performance. Strategic planning has been known to lead to greater performance. Performance management is a fundamental building block of a total quality organization. At the core of strategic planning exists the resource based theory, dynamic capability theory and game theory that tend to demonstrate how firms obtain superior performance.

Resources are considered central to understanding firm performance (Amit and Shoemaker, 1993). The resource based view (RBV) of the firm tries to explain that resources owned or controlled by the firm have the potential for providing enduring competitive advantage when they are inimitable and not readily substitutable. Resources become fundamental drivers of firm performance (Conner, 1991). Dynamic capabilities theory builds from the RBV theory. Teece et al. (1997) define dynamic capabilities as 'the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments'. Game theory provides a set of tools and components that may be used to develop logically consistent models of rational human behaviour. These models allow researchers to discount explanations of behaviour where people act against their own objectives, neglect opportunities, or ignore strategic behaviour of other parties. Many business strategy decisions involve interdependent outcomes and therefore seem to lend themselves to game theory.

In order to remain successful, organizations must develop strategies that will help them determine the direction to take in the long run in the environments in which they operate. The petroleum firms in Kenya have to aggressively work with strategic planning and also manage the changes in their environments hence have to put various strategies in place to enable them remain competitive. It is thus the researcher's quest to understand whether these strategies have any influence on the performance. The petroleum industry is made of a number of oil marketing firms, the regulator and the refinery. This industry is a very important one in the energy sector and has contributed a lot to the growth of the country by powering the manufacturing industry as well as individuals. This concept is especially important for petroleum firms in Kenya given the number of players hence the competition with oil marketers. With the introduction of price ceilings by the government, strategic planning is therefore very crucial since pricing as a strategy has been rendered irrelevant. The study of this industry is therefore an important venture to the economy.

1.1.1 The Concept of Strategic Planning

Strategic planning process involves formulation of mission statement, formulation of vision statement, performance of situational analysis and finally strategy formulation (Pearce, Robinson & Richard, 2008). Strategic decisions determine the organizational relations to its external environment, encompass the entire organization, depend on input from all of functional areas in the organization, have direct influences on the administrative and operational activities, and are vitally important to long-term health of an organization (Shirley, 1982).As much as strategic planning is important, what is of more importance is how it is practiced in the different institutions. It is no wonder to find institutions going for seminars, workshops and even involving consultants to help these institutions to formulate strategies!

According to Choo (1992), strategic thinking and decision making are the essence of strategic management and they should be directed to do three fundamental things. First, determining strategic direction and long-term performance of the organization; second, providing a set of managerial decisions; and finally, guiding the priority use of resources and internal managerial decisions.

Institutions can thus be seen to practice strategic planning in some of the following ways: The way they do the situation analysis where they address the question ‘where are we now? How they come up with the mission and vision for the institution, and the question addressed is ‘where do we want to be? What the institution hopes to do to get where they would want to be. This will be addressed by having strategic objectives.

1.1.2 Firm Performance

New concepts and tools were developed and added to company repertoires over time, and they were used to bring formality and uniformity to strategy development in organizations (Gibson &Cassar, 2005). Because one of the objectives of this process is to develop competitive advantages leading to superior organizational performance, the relationship between the firm’s strategic planning efforts and firm performance received considerable attention from academics, researchers, and business executives (Sarason&Tegarden, 2003).

However, despite the large number of studies examining this relationship, the findings have been inconclusive and present a mixed picture. Even though the majority of studies have reported a positive relationship between strategic planning and firm performance (Pearce et al., 1987; Boyd, 1991; Miller & Cardinal, 1994; Sarason&Tegarden, 2003), several studies found no relationship (Robinson and Pearce, 1983; Kudla, 1980), and a few reported a negative relationship (Fulmer and Rue, 1974). A recent study by Gibson &Cassar(2005) cast doubt on the causal relationship between planning and performance, even in small firms.

1.1.3 Petroleum Industry in Kenya

Petroleum industry in Kenya provides approximately 67% of the industrial and commercial energy needs. The country spends up to 4% of the GDP in the importation of petroleum products yearly. Kenya imports all its petroleum requirements, both as crude oil and refined fuel products. These imports account for about 33% of the total import bill. The total consumption of petroleum products in 2011 rose by more than four (4) million tons (KPRL, 2012).

The main players in the petroleum sector are various petroleum companies involved in the distribution of petroleum products. There are about 7 main companies and a growing number of independent oil distribution companies that have sprung up since the liberalization of the sector. The major players in the industry are KenolKobil(21.2% market share), Total Kenya (19.5%), Vivo Energy Kenya (previously Kenya Shell, 14.4%), Libya Oil (7.9%), and National Oil Corporation of Kenya (NOCK - 4.5%) (KPRL, 2012).

Other major players in the industry is the Kenya Petroleum Refineries Limited (KPRL), which operates the only oil refinery in the country, and the Kenya Pipeline Company Limited, which operates the pipeline that runs from Mombasa to Nairobi, Kisumu and Eldoret. There are plans to extend the pipeline to Uganda. Last but not least, The Energy Regulatory Commission (ERC) is another major player in the industry and regulates the industry (KPRL, 2012).

1.2 Research Problem

It is argued that strategic planning results in a viable match between the firm and its environment leading to greater and better firm performance. Strategy concerns an analysis of the firms' environment leading to what the firm given the environment should achieve. Strategic Planning determines where an organisation is going over the years and how it is expected to reach there. This will entail assessing the current position and the challenges facing the industry vis-à-vis the organisations anticipated performance. As much as the strategic planning practices are quite clear and specific, there is no one clear one way advocated by scholars on how institutions should go about in conducting or practicing its strategic planning. Different authors and scholars have advanced that strategies can form implicitly as well as be formulated explicitly (Mintzberg 1991, Johnson and Scholes 1993).

In 2006, the Energy Act No. 12 of 2006 was enacted that led to the transformation of the then Electricity Regulatory Board to the Energy Regulatory Commission (ERC) to also regulate petroleum and renewable energy sectors in addition to electricity. With this move, all the petroleum operators were required to comply with provisions for Environment Health and Safety as legislated by the ERC. Recently, ERC started price regulation of the petroleum products in the country. With the introduction of price ceilings, the petroleum firms in Kenya are faced with various challenges emanating from external environment such as competition, socio-cultural changes, technological changes and economic challenges.

These challenges pose a serious threat to such organisations performance. There is therefore need for better strategic planning that capture the industry dynamics and that are premised on radical changes reminiscent of the industry for swift responses may such occasions arise. This is also for the firm to be able to yield superior performance.

There are numerous studies that have been done in Kenya on strategic planning practices and performance in various sectors (Awino et al., 2012; Kathama, 2012; Muriuki, 2010; Bulle, 2012; Mukokho, 2010; Riungu, 2008; Arasa et al., 2011; Ong’ayo, 2012 and Odungo, 2012 among others). The petroleum industry has been largely neglected as far as studies on strategic management and specifically the relationship between strategic planning and performance are concerned. Given the importance of this industry as a source of energy in Kenya, there is need to undertake a diagnostic study to document how strategic planning is practiced in the industry as well as whether such practices have any effect on their performance. What is the effect of strategic planning on the performance of petroleum firms in Kenya?

1.3 Research Objective

The research objective was to determine the effect of strategic planning on the performance of the petroleum firms in Kenya.

1.4 Value of the Study

This study adds on to the theory of strategic planning by providing evidence of the importance of strategic planning for firms in the petroleum industry in a developing economy like Kenya. In their seminal contribution, Teece et al. (1997) argue that dynamic capabilities enable organizations to integrate, build, and reconfigure their resources and competencies and, therefore, maintain performance in the face of changing business environments. This study adds to that theory that by portraying instances where the firms strategic planning efforts towards reinforcing their competencies and resources lead to greater performance.

This study is also important for policy makers in the petroleum industry in Kenya. This is because, the government while formulating policies and measures to stimulate growth in the petroleum industry, can use the recommendations of this study as a guide for sound policy frameworks especially those that relate to governance. This is by using strategic planning to formulate strategies linked to the operating environment and thus be able to stimulate growth. The new entrants in this industry will also benefit as they will be able to use strategic planning to realign their objectives in the most optimal way to fully tap into the industry and acquire competitive advantage. They will also be able to proactively set up systems that will be able to resolve challenges that emanate from planning to attain competitive advantage.

The study will also benefit the practitioners in the petroleum industry. The management of petroleum firms can be guided in coming up with suitable strategies and management practices that can ensure profitability, survival and growth. The management of the local petroleum firms can also benefit by assessing, evaluating and reviewing their strategic planning practices as tools for competitiveness in the face of the changing business environment.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, literature that exists on strategic planning and performance will be identified in order to gain more insight on the topic of study and what others have said on the same topic. First a theoretical review on the nature of strategic planning and performance then followed by the empirical literature where studies on the effect of strategic planning on performance are reviewed.

2.2 Theoretical Foundation of the study

Strategic planning and strategic management are inseparable. Strategic planning is an off-shoot of strategic management and is nowadays referred to as corporate planning. According to Owolabi (cited by Ilesanmi, 2011), “Strategic management is the management process by which policies are formulated and strategies are selected to achieve the goals and objectives of an organisation”. He argued that both concepts (strategic management and strategic planning) are often used inter-changeably. In their seminal contribution, Teece et al. (1997) argue that dynamic capabilities enable organizations to integrate, build, and reconfigure their resources and competencies and, therefore, maintain performance in the face of changing business environments. Empirical testing concerning the influence of dynamic capabilities on firm performance has been hampered by difficulties regarding their description, operationalization and measurement and by their assumed tautological relationship with firm performance.

However, there is increasing evidence that a firm’s dynamic capabilities significantly affect firm performance. For example, Henderson and Cockburn (1994) confirm that a firm’s ability to integrate knowledge from external sources is positively related to its research productivity, measured by patent counts. Zollo and Singh (1998) in their study of post-acquisition integration processes in the banking sector, provide evidence that acquirers who invested more effort in codifying their integration processes achieve superior profitability performance compared to competitors. The RBV suggests that the resources possessed by a firm are the primary determinants of its performance, and these may contribute to a sustainable competitive advantage of the firm.

According to Barney (1991), the concept of resources includes all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. In the early stage of the RBV, the main concern was to identify the characteristics of resources that are not subject to imitation by competitors. If the resources possessed by a firm can easily be replicated by competitors, even though the resources are the source of competitive advantage of the firm, then the advantage will not last long.

Dierickx& Cool (1989) describe how the sustainability of a firm's asset position hinges on how easily its resources can be substituted or imitated, and imitability is linked to the characteristics of the asset accumulation process: i.e., time compression diseconomies, asset mass efficiencies, inter-connectedness, asset erosion and casual ambiguity. In the same way, several other characteristics have been explored such as unique historical conditions, causal ambiguity, social complexity, isolating mechanism and so on (Barney, 1991).

Game theory is the formal study of conflict and cooperation. Game theoretic concepts apply whenever the actions of several agents are interdependent, Arnold 1983-7. These agents may be individuals, groups, firms, or any combination of these. The concepts of game theory provide a language to formulate structure, analyse, and understand strategic scenarios. Game theory attempts to look at the relationships between participants in a particular model and predict their optimal decisions.

2.3 Nature of Strategic Planning

According to Kotler (2009), strategic planning is "the managerial process of developing and maintaining a viable relationship between the organisation and its environment, through the development of corporate purpose, objectives and goals, growth strategies and business portfolio plans for company-wide operations". Strategic planning is also seen as "a company's planning process towards what it wants to achieve in the long-term. It must convey a significant stretch for the company, a sense of direction, discovery and opportunity that can be communicated as worthwhile to all employees. In the words of Fashoyin (2005), “corporate planning is fundamental to all organizations. It involves the visualization and determination of the future course of actions that will lead an organisation to achieving its desired objectives; that is the setting of objectives and the determination of how to achieve those objectives”. Strategic planning can be viewed as a broad managerial process of developing a vision, mission statement, goals and objectives with which to serve as influential guides to employees using the top-bottom management approach (Warner, 2000). He looks at a vision as “a short, succinct, and inspiring statement of what the organization intends to become and to achieve at some point in the future, often stated in competitive terms”.

According to Strange and Mumford (2005) “a vision involves a set of beliefs about how people should act, and interact, to make manifest some idealized future state”. They further argued that a vision may contain commitment to: creating an outstanding value for customers and other stakeholders; developing a great new product or service; and/or developing a great company. Warner (2000) looks at a mission statement as “an organisation’s vision translated into written form. It makes concrete the leader’s view of the direction and purpose of the organization”. He posits that the major outcome of strategic planning and strategic road-mapping, after gathering all necessary information, is the setting of goals for the organisation based on its vision and mission statement. Ansoff (1965) posits that there are two types of plans which emanate from goals and objectives and the strategies designed to achieve them – operational/operating plans and strategic plans.

Aguilar (2003), further pointed out that once the planning team has developed actionable goals, they ‘cascade’ these goals down through the company. At each level, the planning team works with operational management to determine specific actions and priorities. By bringing operational management into the planning process, the company’s leadership gains buy-in and ensures that staff at all levels knows what must be done. They thus gain a clear understanding of what success looks like and how it will be measured. Ultimately, everyone knows his or her goals and is accountable for achieving them.

2.4 Performance Measurement

Organization performance is the accumulated end results of all the organization's work processes and activities. In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization. Since the perception of these outcomes is contextual, the measures used to represent performance are selected based upon the circumstances of the organization(s) being observed. Each group of organizational stakeholders will have a different view of organizational performance making it incumbent upon a researcher to select a perspective of performance that conforms to the phenomenon of interest.

Performance is often described as a yield of results of activities that have been carried out in relation to a defined goal or objective. The main objective is to determine the extent to which the organization has achieved its objectives, Curristine (2005). For management to achieve the set objectives and goals, they need to know whether their goals are being achieved in good time and within the resources allocated. Performance can only be managed if it can be accurately measured. According to Aguilar (cited by Ilesanmi, 2011) the problem in most companies is not a lack of measures, but a lack of focused and effective measures.

Most companies focus almost entirely on financial measures, but that approach results in a one-dimensional view of performance. Therefore, best-practice companies use a variety of measures, including people measures (Ilesanmi, 2011). Once appropriate measures are in place, managers can receive the specific information they need in electronic form in a concise format. If they want more information about a particular measure, they can simply drill down for greater details. Agreed-upon measures help managers take actions that are directly related to achieving the company's strategies. Such measures also show senior management where the best results are coming from so that success can be recognised and rewarded (Ilesanmi, 2011).

2.5 Strategic Planning and Firm Performance

It is conceptualized that firms that have effectively embraced strategic planning, records better performance as compared to those that have not. Hofer and Schendel (1978), Henderson (1979), Greenley (1986), Miller and Cardinal (1994) argue that firms record improved performance once they effectively embrace strategic planning. Carrying out the various steps in the strategic planning process is expected to facilitate the realization of organizational effectiveness. By defining a company's purpose and goals, strategic planning provides direction to the organization and enhances coordination and control of organization activities.

A company's strategy provides a central purpose and direction to the activities of the organization and to the people who work in it. Kotter (1996) argues that the primary goal of strategic planning is to guide the organization in setting out its strategic intent and priorities and refocus itself towards realizing the same. Porter (1980), Greenley (1986), Miller and Cardinal (1994), Hax and Majluf (1996) and Grant (1998) argue that an objective analysis of external and internal environment facilitates the establishment of the firm-environment fit and improved decision-making.

Adding to this, view Porter (1980), Quinn (1980), and Kotter (1996) note that the identification of strategic issues and, strategy analysis and selection facilitates the achievement of efficient allocation of resources, sustainable competitive advantage, and improved innovation. It is also perceived that the development of implementation program, evaluation and control systems facilitates smooth execution and implementation of the planned tasks. Organizations from both the private and public sector are increasingly embracing the practice of strategic planning in anticipation that this will translate to improved performance.

2.5.1 Strategic Planning and Performance: Global Viewpoint

Armstrong (1982) published one of the first such papers in attempting to understand the contradictory findings on strategic planning and firm performance. His analysis of 14 studies generally supported the hypothesis that formal planning was useful but, noted that there were “serious research problems” with the studies. He was very much concerned with the lack of description or definition of the strategic planning process provided to the study subjects. He concluded that “without a description of the planning techniques, it is not possible to assess the value of planning in a scientific manner”. (p. 204).

Pearce, Freeman, & Robinson (1987) also concluded that the evidence that formal strategic planning enhances a firm’s financial performance is “inconsistent and often contradictory.” They had concerns about the methodology’s limiting impact on the researchers’ ability to understand the effect of strategic planning on performance. Their conclusions were based on a review of the results of 18 papers which examined the relationship between formal strategic planning, using a definition similar to Armstrong (1982) for strategic planning, and organizational performance. They were concerned about the “lack of consistent definition” of strategic planning, how the strategic planning construct was “measured”, and the “impact of corporate context” and the factor of business size.

A study by Sarason&Tegarden (2003) focused on the configuration theory and firm’s resource based view to understand the relationship between strategic planning and firm’s performance, revealed a positive relationship between strategic planning and performance. However, they concluded that this relationship is moderated by organizational stage of development and that it is beneficial to early stage firms. The underlying premise for these conclusions are based on the development of competitive advantages provided by the structure and the future thinking incorporated into the strategic process and the nun-sustainability and erosion of these advantages in late stage firms, whose processes are more prone to imitation.

2.5.2 Strategic Planning and Performance: Local perspective

Awino, Muturia & Oeba (2012) investigated the influence of strategic planning and planning outcomes on bank performance. The study found that there were positive and significant relationship between strategic planning (seven dimensions of planning) and firm performance; strategic planning and planning outcomes and finally planning outcomes and firm performance. This study therefore is significant since it has contributed immensely to the body of knowledge more specifically in strategic planning where key variables of the study have been linked individually to organizational performance. The major deviation with the present study is its focus on the banking industry while the present study focuses on the petroleum industry. These industries differ in their operations and therefore could provide different results as far as the relationship are concerned.

Kathama (2012) investigated the relationship between strategic planning practices and performance of state corporations in Kenya. The study found that state corporations adopted a number of strategic planning practices that had a positive impact on performance of corporations but the impact was not significant at 5% level of confidence. The study therefore failed to establish a significant effect of strategic planning on firm performance though the model was fit at the same level of confidence. This may suggest that some of the practices could have shown significant impact had the researcher modelled the strategic planning practices individually rather than lump all the practices together into one variable while running the regression model.

Muriuki (2010) examined the relationship between strategic planning practices and performance of commercial banks in Kenya. The study found that strategic planning practice has a positive correction with performance. The major weakness of this study was the reliance of correlation analysis to detect the relationship between strategic planning and performance instead of more rigorous statistical analyses like regression analysis. Bulle (2012) conducted a survey within the ICT sector to determine the relationship between strategic planning and financial performance. The results showed that strategic planning is positively related to firm financial performance.

Mukokho (2010) examined the influence of strategic planning on the performance of the University of Nairobi. The study found and concluded that strategic planning had a positive effect on the performance of the university on a number of performance measures such as compliance with set budgetary levels, events within the UoN being open to public, work environment, implementation of service delivery charter, research innovation and technology and outreach and extension activities/programmes. The major weakness of this study is in its data analysis as it concludes the existence of relationships based on descriptive analysis and more specifically mean scores.

Odundo (2012) examined the moderating effect of environmental context on the relationship between level of implementation of strategic plans and performance of state corporations in Kenya. The study revealed that for commercial state corporations, political goodwill and support has a significant effect on the relationship between the extent of implementation of strategic plans and their financial performance on the one hand, and their effectiveness on the other hand.

Policy framework did not moderate the relationship between the extent of implementation of strategic plans and the financial performance of commercial state corporations, but had a significant effect on the relationship between their extent of implementation of strategic plans and efficiency. Both dimensions of environmental context did not moderate the relationship between the extent of implementation of strategic plans and effectiveness of either commercial or non-commercial state corporations. This study provides empirical evidence to support the theory that effective strategic planning and implementation, within a positive environment of political goodwill and support, leads to higher performance.

2.7 Summary

It is clear from the discussions that strategic planning is a concept that is very important to any organisation as it is planning that enables a firm to see into the future and plan for the same. Both the theoretical and the empirical review have established that there are a lot of inconsistencies as regards the findings of studies that have related strategic planning to firm performance. Some studies found that strategic planning influence firm performance – others noted that the relationship was positive while others found negative correlations. There are also studies that found no relationship at all. These inconsistencies need to be addressed.

Generally, most studies have shown that there is superior financial performance for firms that carry out strategic planning than the firms that don't. While studies have been done on strategy and performance relationship, there are a few studies available on the effect of strategic planning on performance from a Kenyan context. The studies that have tried to study the same have focused on other industries and not the petroleum industry. Some of those studies have also been qualitative while some of the quantitative ones did not use rigorous data analysis methods to establish the relationships relying more on descriptive statistics or correlation analysis.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter elucidates the research design for the study, the method used to collect data from the population of study and the analytical framework of data analysis. It entails describing the companies and variables included in the study, the distribution patterns of data, and applied statistical techniques in investigating strategic planning and performance of the petroleum firms in Kenya.

3.2 Research Design

A cross sectional survey was used to gain insight on the strategic planning and performance of the petroleum firms in Kenya. According to Malhotra& Birks (2006), a cross-sectional survey is a type of descriptive research design involving the collection of information from any given sample of population elements only once. Survey research was deemed a useful fact finding tool for educational studies, and was preferred because of its appeal for generalization within a particular parameter.

A structured questionnaire was designed and distributed to the various respondents, that is, the managers' in charge of strategy and the departmental managers who are involved in strategy decisions to gather both qualitative and quantitative data. The questionnaires were mainly distributed via e-mail as most of the respondents were out of the country or out of Nairobi at the time the survey was being carried out due to the nature of their work which involves a lot of travelling. The filled in questionnaires were therefore received via e-mail for some of them and others collected from their premises for those who available.

3.3 Population of the Study

The population for this study was the oil marketing firms in the petroleum industry in Kenya. According to the Energy Regulatory Commission (2013) website, it had issued a total of valid 259 petroleum licences as at 1st March 2013. An analysis into the licences revealed that some of the licences were duplicated given that each station is required to have a unique license for operation and all are listed as different from others even if they are for the same company.

After taking care of the different duplicity, 182 companies with valid licenses as at that date remain (see appendix A). This was the population for the study and it consisted of all key informants in the petroleum sector.

3.4 Sampling

Sampling in research is conducted in order to allow a detailed study of part of rather than the entire population. Information obtained from the sample was used to generalize the population. Mugenda and Mugenda (2002) noted that a sample size of 10% is an adequate one for social research studies.

In this study, the researcher selected a sample size of 10% (or 18 firms) from the population of 182 firms using simple random sampling technique in order to give each firm in the population an equal chance of selection. The sample size of the study was selected from the list of the petroleum firms obtained from the ERC and the selection was subjective given most of the firms are privately held and are not required to share their information to the public.

3.5 Data Collection

This study used primary data which was collected using structured questionnaires. The questionnaire was used since the study was concerned mainly with variables that cannot be directly observed such as views, opinions, perceptions and feeling of the respondents. According to Gilham (2008), a questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. The respondents were requested to indicate how strategic planning affects the performance of their firms.

The questionnaires were designed based on the two objectives of the study and comprised of three main sections. Section A focused on the sample characteristics such as the age of the company, the number of employees, the type of petroleum business engaged in, and legal identity of the business. Section B dealt with the strategic planning practices of the firm. The constructs for this were derived from literature where some of the constructs used previously were used. Section C dealt with the measurement of firm performance. Given that most of the firms in the sample are not public companies and therefore do not share their financial information, subjective measures of performance were used. These are known to reflect the same results just as the objective measures of performance from financial records (Merchant, Stringer, &Theivananthampillai, 2010).

After construction of questionnaires, the samples were given to the experts in the field of strategic management (including the research supervisor) as well as industry experts to go through the questions and check if the questions exhausted strategic planning practices and if they reflected specifically the practice in the petroleum industry. Amendments from these experts were incorporated in the amendment of the questionnaire. Then three firms (not in the final sample) were selected and the questionnaires administered to them as pilot survey to test the relevance of some of those questions and the validity as well as reliability of the instrument and the measures used. Reliability was calculated using Cronbach's alpha.

The final amended questionnaire was administered to the sample using drop-and-pick method for those firms that could be easily accessed in Nairobi. For those that access was hard, mail method (both email and postal address) were used to send the questionnaires. The questionnaires were addressed to the managers in charge of strategy who were the respondents in the study. A two week period was given for the collection of this data. After one week, reminders were sent to the firms that had not finished this task.

3.6 Data Analysis

The questionnaire was coded and the data collected was cleaned for any mistakes and descriptive statistics run to process the initial results. For questions in section A of the questionnaire, the percentages were reported and interpreted. For questions in section B, the mean score and standard deviation for each of the items was reported and interpreted. Further, each of the items was analysed for reliability and reported. The same process in section B was applied for section C.

In order to examine the practice of strategic planning among the sample firms, the results of section B shall be discussed in term of mean score values. Values from 3 and above shall be accepted for significance practices while those below shall be interpreted as insignificant practices. To determine the effect of strategic planning on performance, the strategic planning practices from section B of the questionnaire shall be regressed against those in section C (performance) and the results interpreted based on t-test values and the adjusted R^2. Significance will be measured at 5%. The following model will be used:

$$Y = \beta_0 + \beta_1 X + \varepsilon$$

Where

Y = performance as measured by qualitative financial performance (section C of questionnaire)

X = Strategic planning as measured from section B of the questionnaire

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the results of data analysis gathered through primary sources. The chapter is organised as follows. First, diagnostic results are shown in terms of response rates, reliability analysis and normality of data. Secondly, univariate results are shown where percentages, mean and standard deviations for each of the items used in the study are shown. Lastly, multivariate analysis results are shown in terms of correlation and OLS regression results.

4.2 Diagnostic Analysis

The study gathered data from all the 18 firms that had been sampled. Thus, the response rate for this study was therefore 100%. Reliability analysis was performed on the scales used in the questionnaires. The results showed a Cronbach's alpha value of 0.992 on all the 52 items used in the questionnaire. This is a high reliability value suggesting that the tool used for data collection was highly reliable.

Table 1 shows summary diagnostic statistics for all the variables used in the study. The results show the mean values and standard deviations for each of the constructs used in the study. The most practiced strategic planning construct was involvement of key personnel in strategic planning (mean = 4.0; SD = 1.09) while the least practiced was external orientation (mean = 3.2; SD = 1.36).

Table 1: Summary Diagnostic Statistics

Statistics	Creativity in Planning	External Orientation	Functional Coverage	Focus on Control	Internal Orientation	Key Personnel	Planning Techniques	Financial Performance	Organisational Effectiveness	Relative Performance
Mean	3.41	3.20	3.90	3.29	3.45	4.00	3.60	3.36	3.27	3.15
Median	4.11	3.33	4.50	3.55	3.75	4.33	4.00	3.60	3.33	3.00
Maximum	4.67	4.67	4.75	4.09	4.50	5.00	4.67	4.40	4.33	4.25
Minimum	1.67	1.00	2.50	1.73	1.50	2.00	1.33	1.60	1.67	1.75
Std. Dev.	1.23	1.36	0.91	0.84	1.07	1.09	1.20	0.97	0.96	0.88
Skewness	-0.44	-0.55	-0.59	-1.21	-1.11	-1.14	-1.30	-1.01	-0.63	-0.40
Kurtosis	1.40	2.02	1.64	2.95	2.81	2.79	3.04	2.75	2.19	2.13
Jarque-Bera	2.09	1.35	2.02	3.69	3.11	3.27	4.25	2.61	1.39	0.87
Probability	0.35	0.51	0.36	0.16	0.21	0.20	0.12	0.27	0.50	0.65
Sum Sq. Dev.	21.10	25.73	11.48	9.89	15.90	16.67	20.27	13.30	12.93	10.73
Observations	18	18	18	18	18	18	18	18	18	18

All the measures used in the study were skewed to the left (negatively skewed) hence were not normally distributed. Further, kurtosis results show that only planning techniques was normally distributed with a value of 3.04. The rest of the variables had a value of less than 3. The Jarque-bera test for normality can be interpreted based on the critical value of 5.99 since the significance level used in this study is 5%.

None of the variables had a Jarque-bera value exceeding this chi-square critical value at a reasonable significance level, $p > 0.05$. This suggests that the null hypothesis of normality is not rejected. The data is therefore normally distributed. The two measures (kurtosis and skewness) are applicable for large samples. Given that the sample size in this study is only 18 firms, they are not reliable for predicting normality of distributions. Therefore, the Jarque-bera test of normality is preferred in this study. Therefore, it can be concluded that the data in this study was normally distributed.

4.3 Univariate Analysis

The study had two main variables namely strategic planning and performance. The variables were derived from scaled responses to questions in appendix II. A five point scale was used to obtain responses. The scaled questions were analysed through percentages, mean and standard deviation. This is detailed in the following sections.

4.3.1 Strategic Planning Practices

The study sought to examine the extent to which the firms devoted attention to internal orientation as a strategic planning practice. The results (Table 2) show that 78% of the firms devoted great attention to customer services, 78% to efficiency of operating process, 39% to analysis of financial strengths and weaknesses, while only 22% devoted attention to attracting and retaining quality employees. Table 1 shows that firms devoted great attention to internal orientation (mean = 3.45; SD = 1.07).

Table 2: Descriptive Results on Internal Orientation

Internal Orientation	Statistic	Value
Customer services	Percentage	14 (78%)
	Mean	3.80
	SD	1.01
Efficiency of operating process	Percentage	14 (78%)
	Mean	3.80
	SD	1.52
Attracting and retaining quality employees	Percentage	4 (22%)
	Mean	2.80
	SD	1.06
Analysis of financial strengths and weaknesses	Percentage	7 (39%)
	Mean	3.40
	SD	1.06

The study sought to examine the degree of emphasis the companies place on external orientation as a strategic planning practice. The results (Table 3) show that 61% of the firms laid great emphasis on analysis of investment opportunities, 39% on analysis of competition, and 39% on performing market research. The mean scores also confirm that the firms laid more emphasis on analysis of investment opportunities (mean = 3.4; SD = 1.40) followed by competition (mean = 3.2; SD = 1.37) and finally market research (mean = 3.0; SD = 1.46). Table 1 shows that firms laid great emphasis on external orientation (mean = 3.2; SD = 1.36).

Table 3: Descriptive Results on External Orientation.

External Orientation	Statistic	Value
Analysis of investment opportunities	Percentage	11 (61%)
	Mean	3.40
	SD	1.40
Analysis of competition	Percentage	7 (39%)
	Mean	3.20
	SD	1.37
Performing market research	Percentage	7 (39%)
	Mean	3.00
	SD	1.46

The study also sought to determine the extent to which the firms lay emphasis on functional coverage as a strategic planning practice. The results (Table 4) show that 61% of the firms laid great emphasis on marketing function, 78% on finance function, 67% on personnel function, and 78% on operations function. The mean score values also show that more emphasis was laid on operations function (mean = 4.40; SD = 0.83), finance function (mean = 4.0; SD = 0.65); marketing function (mean = 3.8; SD = 1.21) and personnel function (mean = 3.4; SD = 1.24). Generally as shown in Table 1, firms laid great emphasis on functional coverage (mean = 3.9; SD = 0.91).

Table 4: Functional Coverage

Functional Coverage	Statistic	Value
Marketing function	Percentage	11 (61%)
	Mean	3.80
	SD	1.21
Finance function	Percentage	14 (78%)
	Mean	4.00
	SD	0.65
Personnel function	Percentage	12 (67%)
	Mean	3.40
	SD	1.24
Operations function	Percentage	14 (78%)
	Mean	4.40
	SD	0.83

Table 5 shows results on the degree of involvement of key personnel in strategic planning of oil firms in Kenya. As shown, 78% of the firms involved their CEOs, 78% involved line managers and 61% involved board members and business partners. The mean scores show that the CEOs were mostly involved (mean = 4.2; SD = 1.21), followed by the line managers (mean = 4.0; SD = 1.33) and finally the board members and business partners (mean = 3.8; SD = 1.21). From Table 1, it can be observed that generally, key personnel were greatly involved in strategic planning practices (mean = 4.0; SD = 1.09).

Table 5: Involvement of Key Personnel

Involvement of Key Personnel	Statistic	Value
The CEO	Percentage	14 (78%)
	Mean	4.20
	SD	1.21
The line managers	Percentage	14 (78%)
	Mean	4.00
	SD	1.33
Board members/business partners	Percentage	11 (61%)
	Mean	3.80
	SD	1.21

Table 6 shows results on the extent to which firms lay emphasis on use of planning techniques during strategic planning. The results show that 78% of the firms laid great emphasis on financial models, 78% on forecasting and trend analysis, and another 78% on portfolio analysis technique.

Table 6: Use of Planning Techniques

Use of Planning Techniques	Statistic	Value
Financial models	Percentage	14 (78%)
	Mean	3.60
	SD	1.40
Forecasting and trend analysis	Percentage	14 (78%)
	Mean	3.80
	SD	1.01
Portfolio analysis technique	Percentage	14 (78%)
	Mean	3.40
	SD	1.24

The results also show that more emphasis was laid on forecasting and trend analysis (mean = 3.8; SD = 1.01) followed by financial models (mean = 3.6; SD = 1.4) and portfolio analysis technique (mean = 3.4; SD = 1.24). Table 1 shows that the firms generally laid great emphasis on use of planning techniques during strategic planning (mean = 3.6; SD = 1.2).

Table 7: Creativity in Planning

Creativity in Planning	Statistic	Value
Ability to anticipate surprises, threats and crises	Percentage	14 (78%)
	Mean	3.60
	SD	1.40
Flexibility to adapt to unanticipated changes	Percentage	7 (39%)
	Mean	3.00
	SD	1.46
Value of a mechanism for identifying new business opportunities	Percentage	11 (61%)
	Mean	3.60
	SD	1.80
Role of identifying key problems	Percentage	7 (39%)
	Mean	3.20
	SD	1.21
Value as a basis for enhancing innovation	Percentage	11 (61%)
	Mean	3.40
	SD	1.24
Capacity to generate new ideas	Percentage	11 (61%)
	Mean	3.80
	SD	1.21
Formulating goals to be achieved	Percentage	11 (61%)
	Mean	3.80
	SD	1.21
Capacity to generate and evaluate a number of strategic alternatives	Percentage	10 (56%)
	Mean	3.33
	SD	0.82
Anticipating/avoiding/removing barriers to strategy implementation	Percentage	7 (39%)
	Mean	3.00
	SD	1.46

The results in Table 7 show the results on the degree to which firms emphasize on creativity in planning. The results show that 78% of the firms laid great emphasis on ability to anticipate surprises, threats and crises, 39% on flexibility to adapt to unanticipated changes, 61% on value of a mechanism for identifying new business opportunities, 39% on role of identifying key problems, 61% on value as a basis for enhancing innovation, 61% on capacity to generate new ideas, 61% on formulating goals to be achieved in the firm's competitive environment, 56% on capacity to generate and evaluate a number of strategic alternatives, and 39% on anticipating, avoiding and removing barriers to strategy implementation.

Further, the mean scores reveal that more emphasis was laid on capacity to generate new ideas (mean = 3.8; SD = 1.21) and formulation of goals (mean = 3.8; SD = 1.21) while least emphasis was laid on flexibility to adapt to unanticipated changes (mean = 3.0; SD = 1.46) and on anticipating, avoiding, and removing barriers to strategy implementation (mean = 3.0; SD = 1.46).

Table 8: Focus on Control

Focus on Control	Statistic	Value
Value as a tool for management control	Percentage	4 (22%)
	Mean	3.20
	SD	1.01
Ability to communicate top management's expectations down the line	Percentage	11 (61%)
	Mean	3.20
	SD	1.21
Value as a tool for managerial motivation	Percentage	4 (22%)
	Mean	2.80
	SD	1.01
Capacity to foster organizational learning	Percentage	14 (78%)
	Mean	3.80
	SD	1.01
Value as a mechanism for integrating diverse functions and operations	Percentage	11 (61%)
	Mean	3.20
	SD	1.21
Ability to communicate line management's concern to top management	Percentage	7 (39%)
	Mean	3.20
	SD	0.77
Value as a mechanism for integrating diverse functions and operations	Percentage	11 (61%)
	Mean	3.40
	SD	0.83
Monitoring & controlling the implementation of the firm's strategy	Percentage	7 (39%)
	Mean	3.20
	SD	0.77
Using multiple financial & non-financial control measures	Percentage	11 (61%)
	Mean	3.70
	SD	0.83
Using control techniques for monitoring performance	Percentage	11 (61%)
	Mean	3.40
	SD	0.83
Having control systems to revise current plans	Percentage	7 (39%)
	Mean	3.40
	SD	1.06

Table 8 shows the results on the degree of emphasis firms lay on control as a strategic planning issue. The results show that 22% of the firms laid great emphasis on value as a tool for management control, 61% on ability to communicate top management expectations down the line, 22% on value as a tool for managerial motivation, 78% on capacity to foster organisational learning, 61% on value as a mechanism for integrating diverse functions and operations, 39% on ability to communicate line management's concern on top management, 61% on value as a mechanism for integrating diverse functions and operations, 40% on monitoring and controlling the implementation of the firm's strategy, 61% on using multiple financial and non-financial control measures, 61% on using control techniques for monitoring performance, and 39% on having control systems to revise current plans.

The results further show that greatest emphasis was laid on capacity to foster organisational learning (mean = 3.8; SD = 1.01) and least emphasis on value as a tool for managerial motivation (mean = 2.8; SD = 1.01). Table 1 shows that generally, great emphasis was laid on control (mean = 3.29; SD = 0.84).

4.3.2 Firm Performance

The performance of the firms was also investigated in this study on three key areas namely financial performance, operational efficiency, and relative performance. Table 9 shows that over the last years, 22% of the firms had predicted future trends, 61% had enhanced management development, 78% had improved short-term performance, 61% had improved long-term performance, while 61% had directly improved their financial performance.

The results also show that the most fulfilled aspect of financial performance was improvement in short-term performance (mean = 3.6; SD = 1.4) while the least fulfilled was prediction of future trends (mean = 3.0; SD = 0.65). Generally, Table 1 shows that most firms greatly fulfilled their financial performance metrics (mean = 3.36; SD = 0.97).

Table 9: Financial Performance

Financial Performance	Statistic	Value
Prediction of future trends	Percentage	4 (22%)
	Mean	3.00
	SD	0.65
Enhancing management development	Percentage	11 (61%)
	Mean	3.40
	SD	0.83
Improving short-term performance	Percentage	14 (78%)
	Mean	3.60
	SD	1.40
Improving long-term performance	Percentage	11 (61%)
	Mean	3.40
	SD	1.40
Direct improvement on financial performance	Percentage	11 (61%)
	Mean	3.40
	SD	0.83

Table 10 shows the results for performance in terms of organisational effectiveness. As shown, 39% of the firms had improved ability to evaluate alternatives, 39% had improved ability to avoid mistakes, and 61% had improved budget process. The results also show that the most improved organisational effectiveness aspect was budget process (mean = 3.6; SD = 1.06) while the least was ability to avoid mistakes (mean = 3.0; SD = 1.13).

Table 10: Organisational Effectiveness

Organizational Effectiveness	Statistic	Value
Improving ability to evaluate alternatives	Percentage	7 (39%)
	Mean	3.20
	SD	0.77
Improving ability to avoid mistakes	Percentage	7 (39%)
	Mean	3.00
	SD	1.13
Improvement of budget process	Percentage	11 (61%)
	Mean	3.60
	SD	1.06

Table 11 shows that 78% of the firms recorded better performance as opposed to their competitors in sales growth, 78% recorded better performance in earnings growth, 78% in market share, and 78% in return on investment. The results also show that highest performance was recorded for sales growth, earnings growth, and market share (mean = 3.2, SD = 0.77 respectively). Generally as shown in Table 1, firms recorded better relative performance than their competitors (mean = 3.15, SD = 0.88).

Table 11: Relative Performance

Relative Performance	Statistic	Value
Sales growth	Percentage	14 (78%)
	Mean	3.20
	SD	0.77
Earnings growth	Percentage	14 (78%)
	Mean	3.20
	SD	0.77
Market share change	Percentage	14 (78%)
	Mean	3.20
	SD	0.77
Return on investment	Percentage	14 (78%)
	Mean	3.00
	SD	1.31

4.4 Multivariate Analysis

This section presents results of correlation analysis and regression analysis. The correlation results provide a diagnosis on whether there is any serial correlations among the independent variables before a regression analysis is run.

4.4.1 Correlation Analysis

Table 12 and Table 13 show correlation results. As shown, there were significantly high correlations between most of the independent variables used in the study. This suggests a high level of serial correlations among the independent variables in the study. Therefore, these variables could not be included in an OLS model for the study independently. The study therefore resorted to group all the independent variables into one measure of strategic performance to alleviate the problem of having spurious regression results.

Table 12: Correlation between Strategic Planning and Performance Measures

	Financial Performance (FP)	Organisational Efficiency (OE)	Relative Performance (RP)	Internal Orientation (IO)	External Orientation (EO	Functional Coverage (FC)	Key Personnel (KP)	Planning Techniques (PT)	Creativity in Planning (CP)	Focus on Control (FOC)
FP	1	0.713773	0.824017	0.967687	0.882291	0.869496	0.90016	0.862604	0.675609	0.990452
OE	0.713773	1	0.798131	0.728723	0.650467	0.81265	0.930857	0.798848	0.469054	0.757282
RP	0.824017	0.798131	1	0.898832	0.951065	0.797753	0.804054	0.739327	0.746775	0.870001
IO	0.967687	0.728723	0.898832	1	0.959081	0.785675	0.860013	0.902454	0.829898	0.99077
EO	0.882291	0.650467	0.951065	0.959081	1	0.715782	0.740396	0.782356	0.865339	0.919851
FC	0.869496	0.81265	0.797753	0.785675	0.715782	1	0.921954	0.649184	0.329202	0.841089
KP	0.90016	0.930857	0.804054	0.860013	0.740396	0.921954	1	0.870572	0.509579	0.906457
PT	0.862604	0.798848	0.739327	0.902454	0.782356	0.649184	0.870572	1	0.793825	0.906787
CP	0.675609	0.469054	0.746775	0.829898	0.865339	0.329202	0.509579	0.793825	1	0.754467
FOC	0.990452	0.757282	0.870001	0.99077	0.919851	0.841089	0.906457	0.906787	0.754467	1

Table 13: Correlation between Strategic Planning and Overall Performance

	Performance (P)	IO	EO	FC	KP	PT	CP	FOC
P	1	0.937085	0.89362	0.897177	0.954638	0.869753	0.679767	0.946494
IO	0.937085	1	0.959081	0.785675	0.860013	0.902454	0.829898	0.99077
EO	0.89362	0.959081	1	0.715782	0.740396	0.782356	0.865339	0.919851
FC	0.897177	0.785675	0.715782	1	0.921954	0.649184	0.329202	0.841089
KP	0.954638	0.860013	0.740396	0.921954	1	0.870572	0.509579	0.906457
PT	0.869753	0.902454	0.782356	0.649184	0.870572	1	0.793825	0.906787
CP	0.679767	0.829898	0.865339	0.329202	0.509579	0.793825	1	0.754467
FOC	0.946494	0.99077	0.919851	0.841089	0.906457	0.906787	0.754467	1

4.4.2 Regression Analysis

The regression results for the impact of each independent variable (strategic planning practices) on overall performance are shown in Table 14. The results show that all the practices had significant positive impacts on performance at 99% confidence level. The variable with the most impact was focus on control (beta = 0.98; R-squared = 0.89; t = 46.49) followed by external orientation (beta = 0.95; R-squared = 0.37; t = 18.68) and internal orientation (beta = 0.93; R-squared = 0.83; t = 36.43). The least impact was from involvement of key personnel (beta = 0.81; R-squared = 0.91; t = 49.08).

Table 14: Impact of Strategic Planning Practices on Performance

Variable	Coefficient	t-statistic	R-squared
Internal orientation	0.929519	36.43288	0.830629
External orientation	0.954027	18.68749	0.374524
Functional coverage	0.836620	33.88029	0.804465
Key personnel	0.810931	49.08621	0.906255
Planning technique	0.878778	24.11708	0.618579
Creative planning	0.903140	15.04608	0.054902
Focus on control	0.989312	46.49919	0.895603

Table 15 shows the results of the impact of overall strategic planning on performance. As shown, strategic planning had a positive impact financial performance of oil firms investigated in this study. The coefficient of strategic planning was 0.91 and with a t-statistic of 52.79. Thus, strategic planning positively and significantly influenced financial performance. It accounted for 92.9% of the variance in financial performance of these firms (R-squared = 0.9189).

Table 15: Relationship between Strategic Planning and Overall Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Strategic Planning	0.911944	0.017272	52.79785	0.00000
R-squared	0.918909	Mean dependent var		3.258889
Adjusted R-squared	0.918909	S.D. dependent var		0.86444
S.E. of regression	0.246163	Akaike info criterion		0.098693
Sum squared resid	0.848346	Schwarz criterion		0.145897
Log likelihood	0.259799	Hannan-Quinn criter.		0.098191
Durbin-Watson stat	3.41985			

4.5 Discussion of Findings

The results have shown that strategic planning has a positive and significant effect on financial performance of petroleum firms. This is consistent with a number of studies such as Awino et al (2012) who found that strategic planning had a positive and significant impact on firm performance. The study results are also consistent with Kathama (2012) who studied the relationship in state corporations in Kenya and noted that performance was positively and significantly related with strategic planning. The study is also consistent with the findings of Bulle (2012) in the ICT sector.

Therefore, this study falls within the many studies that have found a significant link between firm performance and strategic planning process. Thus it belongs to the school of thought that advocates for better strategic planning process, as well as the entire strategic management process, in organisations in order to improve performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary of findings, conclusions made from the study, limitations of the study, recommendations for policy and practice, and areas for further research.

5.2 Summary

The study sought to determine the effect of strategic planning on the performance of the petroleum firms in Kenya. The most practice strategic planning construct was involvement of key personnel in strategic planning (mean = 4.0; SD = 1.09) while the least practice was external orientation (mean = 3.2; SD = 1.36).The results show that all the practices had significant positive impacts on performance at 99% confidence level.

The variable with the most impact was focus on control (beta = 0.98; R-squared = 0.89; t = 46.49) followed by external orientation (beta = 0.95; R-squared = 0.37; t = 18.68) and internal orientation (beta = 0.93; R-squared = 0.83; t = 36.43). The least impact was from involvement of key personnel (beta = 0.81; R-squared = 0.91; t = 49.08).Strategic planning had a positive impact financial performance of oil firms investigated in this study. The coefficient of strategic planning was 0.91 and with a t-statistic of 52.79. The study therefore found that strategic planning positively and significantly influenced financial performance. It accounted for 92.9% of the variance in financial performance of these firms (R-squared = 0.9189).

5.3 Conclusion

The intended objective of this study was to examine the impact of strategic planning on financial performance of petroleum firms in Kenya. The results showed that performance was positively and significantly influenced by strategic planning practices of these firms. All the constructs that measured strategic planning were positively and significantly related with financial performance of petroleum firms surveyed.

The results are consistent with most empirical studies on whether performance is influenced by the level of strategic planning. Therefore, the study concludes that there is a positive and significant relationship between strategic planning and firm performance for petroleum firms in Kenya.

5.4 Recommendation

The results revealed that strategic planning impacts on the performance of the organisation positively and thus the researcher recommends that the policy makers in the petroleum industry use strategic planning to instituting policies that can strengthen the management of these firms in order to provide a sound basis for better performance. Thus, policies should be instituted to enhance better strategic planning for these organisations. The researcher also recommends that the petroleum firms should strive as much as possible to incorporate strategic planning in order for them to come up with their strategies, tailor make them to suit the environmental peculiarities for these strategies to be effective to enable them attain competitive advantage.

The study recommends that petroleum firms should take matters of strategic planning very seriously as part of their organizational strategic management as the results show that better planning will result in better firm performance. Of major importance is the focus on control during the strategic planning process and the involvement of the employees in the strategic planning process.

For strategic planning to be effective and useful, there must be commitment and involvement all over the organization. It is very important to overcome any inherent problems such as: rivalry among divisions, departments, branches, resistance to change, resource requirement, resources allocation, and so on. The connection of goals to budget, feedback and evaluation has shaped a management system much more intimately aligned with supervising efficient performance, giving incentives, and distributing cash flows to high yield usages.

5.5 Limitations of the Study

The study was not without limitations, time constraint was a major limitation for this research. The time available to carry out the research was limited due to work commitments and also the managers filling the questionnaire were constrained time wise.

This study used subjective performance measures to measure firm performance. While this measure may be acceptable due to the fact that most of these firms are not listed and therefore gathering their financial reports was hard, it was a major limitation as the use of objective performance measures would have been more appropriate.

The study also used only 18 firms in the final analysis. This sample may not be representative enough of the petroleum industry in Kenya and therefore the results may not be generalized to the whole petroleum industry. Such conclusions should therefore be approached with high level of care. The study was focused on petroleum firms only in Kenya. The results here therefore are just applicable to the petroleum industry and not any other industry. Further, these results may only be unique to Kenya as the setting was in Kenya. This may not therefore be applicable to petroleum firms in other countries.

The study relied on primary data from the respondents of the sampled firms some of whom were not able to return questionnaires. Some of the respondents were reluctant to provide information due to the fact that the industry is very competitive and some of the information is company secret used to outdo competition. Some respondents were reluctant to provide information for fear of it being manipulated. This required lots of persuasion and reassurance that the information collected was to be used only for the purposes of this research.

5.6 Areas for Further Research

This study has provided useful insight into the strategic planning process of petroleum firms as well as the relationship between the planning practices and firm performance. However, the limitations faced in the study provide a number of avenues for future studies to be conducted. Thus, the study proposes that more studies be done for the entire petroleum industry with a wider sample size than the one used here. Further, an inclusion of firms from different industries to examine whether industry moderates the relationship between performance and strategic planning would be very useful.

The regulatory environment in Kenya has also significantly changed in the recent past where the regulatory authorities are implementing stringent measures to ensure that the firms are operating within the required environmental, health and safety standards. This in return has translated to very high operational costs to the petroleum firms. The pricing is also managed by the ERC from time to time to protect the consumers. A detailed study on how companies use strategic planning to counter pricing as a strategy will be important in this industry.

5.7 Implications of the study on Theory, Policy and Practice

The results in this study are very important for policy makers in the petroleum industry in Kenya in terms of instituting policies that can strengthen the management of these firms in order to provide a sound basis for better performance. Thus, policies should be instituted to enhance better strategic planning for these organisations that will lead to positive growth of the economy as a whole. The top executives are now aware of the positive impact that strategic planning has on the overall performance of the organisation. They can be able to formulate strategies that will help the organisation attain competitive advantage.

The study adds to the theory of dynamic capabilities as it reveals that strategic planning does lead to improved firm performance. There are a few studies that have been conducted in Kenya on strategic planning and performance of the petroleum firms in Kenya. The study has therefore contributed to adding knowledge to the existing literature by showing the positive relationship between strategic planning and performance. The study will also bridge the research gap that has existed and avail secondary data for future primary research. Local petroleum firms also now will be able to use strategic planning to come up with various strategies that will enable the compete with their competitors and obtain growth and also now they understand the various strategies in place by their greatest competitors and may use this information to improve their own practices to enable them compete at the same level with the bigger firms.

The management of the firms will be guided in coming up with suitable strategies and management practices that can ensure profitability, survival and growth. They will benefit by assessing, evaluating and reviewing their strategic planning practices as tools for competitiveness in the face of the changing business environment.

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APPENDICES

Appendix A: Licensed Petroleum Companies in Kenya

1. Africa Fuels & Lubricants Limited
2. Afrioil International Limited
3. Agipol Africa Limited
4. Agrilink Limited
5. Ainushamsi Energy Limited
6. Al-Amana Invetsments Limited
7. Alba Petroleum Limited
8. Alfoss Energy Limited
9. Al-Noor Petroleum Limited
10. Apex Petroleum Limited
11. Astrol Petroleum Company Limited
12. Atlantic Petroleum Products Limited
13. Atria Multipurposes Enterprises
14. BachulalPopatlal (Kenya) Limited
15. Bakri International Energy Company Kenya Limited
16. Banoda Oil Limited
17. Bashir & Sons Limited
18. Ben Oil Limited
19. Bengorn Enterprises
20. Bilal Petroleum Company Limited
21. Bismak Oil (K) Limited
22. Bit & Lubes Limited
23. Broadband Communication Networks Limited
24. Broadway Petroleum Limited
25. Bulk Petroleum Limited
26. Canefields Company Limited
27. Cape Suppliers Limited
28. Center Star Company Limited
29. Chirayu Agencies
30. City Oil (K) Limited
31. Cyn Energy Company Limited
32. Dalbit Petroleum Limited
33. Devcon Group Limited
34. Diamond Shield International Limited
35. Diesel power company Limited
36. Doanic Enterprises Limited
37. Dola Petroleum Kenya Limited
38. Dollarline Services Limited
39. Dynergy Enterprises
40. East African Gasoil Limited
41. Eco Oil Kenya Limited
42. Economy Network Limited
43. Egol Enterprises Limited
44. Eldoret Petroleum services Limited
45. Emkay International Limited
46. Enhance Petroleum Distributors
47. Eppic Oil (K) Limited
48. Equitorial Oils Limited
49. Essar Petroleum (East Africa) Limited
50. Euro Petroleum Products E.A Limited
51. Exodus Oil Corporfation Company Limited
52. Falcon Oil Limited
53. Famus Trading Enterprises
54. Fast Energy Limited
55. Finejet Limited
56. Flamex Petroleum Limited
57. Flexon Oil Kenya Limited
58. Fossil Fuels Limited
59. Frelas Limited
60. Futures Energy Company Limited

61. Galana Oil Kenya Limited - Head Office
62. Gapco Kenya Limited - Head Office
63. Gasen Petroleum Company
64. Generation Petroleum Limited
65. Global Petroleum Products Kenya Limited
66. Gold spike Co. Limited
67. Goldstream Kenya Limited
68. Gulf Energy Limited
69. Hashi Energy Limited
70. Hass Petroleum (K) Limited
71. Heller Petroleum Limited
72. Hindafro Enterprises Limited
73. Ilade Oil Co. Limited
74. Interlink Petroleum Limited
75. Intoil Limited
76. Jade Petroleum Limited
77. Jaguar Petroleum Limited
78. Jambri Enterprise Limited
79. Jilk Petroleum Limited
80. Jipa Oil Company Limited
81. K.B. Sanghani and Sons Limited
82. Kamkis Trading Company Limited
83. Kenlloyd Logistics Limited
84. Kenolkobil Limited
85. Kensudd Energy Limited
86. Kenya Petroleum Refineries Limited
87. Kenya Pipeline Company Limited
88. Keroka Petroleum Limited
89. Kester Kenya Limited
90. Khaleejy Oil Limited
91. Kitui Riverside Service Station
92. Lensco Enterprises
93. Lewan Oil and Gas Limited
94. Libya Oil Kenya Limited
95. Lokutch Enterprises Limited
96. Lubeschem Kenya Limited
97. Lubesol Kenya Limited
98. Mafuko Industries Limited
99. Marine Sage Investment Limited
100. Mars Petroleum Dealers
101. Massoil Investments Limited
102. Mawa Traders Limited
103. Mbaraki Bulk Terminal Limited
104. Meifam Petroleum Limited
105. MercyJeff Company Limited
106. Meri Petroleum Limited
107. Mida Energy Limited
108. Midrift Merchants Company Limited
109. Mill Hill Petroleum Limited
110. Moledina Enterprises Limited
111. Motor Gallery Limited
112. Muloil Limited
113. Nafton Petroleum Limited
114. National Oil Corporation of Kenya Limited
115. Netsol Kenya Limited
116. Ocean Energy Limited
117. Oceanian Ventures Limited
118. Oceanic Oil Limited
119. Oilcom (K) Limited
120. OilPoint Kenya limited
121. Olympic Petroleum Limited
122. One Petroleum Limited
123. Orix Oil Kenya Limited
124. Orlando Energy Limited
125. Osgafre Petroleum Company Limited
126. Packfuels Limited
127. Partex Petroleum (K) Limited
128. Pat Key Energy Limited

129. Petchel Petroleum Dealers
130. Petro Oil Kenya Limited
131. Petrocel Limited
132. PetroKenya Oil Co. Limited
133. Premium Petroleum Company Limited
134. Prime Gas Investment Limited
135. Prime Regional Supplies Limited
136. Prisko Petroleum Network Limited
137. Quantum Petroleum Limited
138. R.K. Sanghani Limited
139. RamjiHaribhaiDevani Limited
140. Ras Petro Limited
141. Ravaco Enterprises
142. Regnol Oil (K) Limited
143. Riva Oils Company Limited
144. Riva Petroleum Dealers Limited
145. Roy Oils Kenya Limited
146. Royal Energy (K) Limited
147. Sammy Ndungu Mungai T/A Kinamba Evans
148. SAS Energy Limited
149. Sepyana Oil East Africa Limited
150. Seydou Resources Limited
151. Sheikh Petroleum Inter (K) Limited
152. Shell and Vivo Lubricants Kenya Limited
153. Shreeji Petroleum Investments
154. Shreeji Service Station
155. Siriwo Trading Company Limited
156. SocietePetroliere Kenya Limited
157. Sovereign Oil Limited
158. Spring Oil Limited
159. Stabex International Limited
160. Stallion Gulf Limited
161. Taheri Gas Limited
162. Tausi Industries (K) Limited
163. Tecaflex Kenya Limited
164. Tech-Energy Company Limited
165. Tiba Oil Company Limited
166. Tokyo (K) Services
167. Topaz Petroleum Limited
168. Toppointt (K) Limited
169. Tosha Petroleum (Kenya) Limited
170. Total Kenya Limited
171. Towba Petroleum Company Limited
172. Tradiverse Kenya Limited
173. Trans African Energy Limited
174. Transoceanic Development Project (Kenya) Limited
175. Tretra Oil Limited
176. Tristar Transport Limited
177. Trojan International Limited - Head Office
178. Ultra Holdings (K) Limited
179. Ultra Petroleum Limited
180. Vivo Energy Kenya Limited - Malindi Airport
181. VTTI Kenya Limited
182. Waters Enterprises Limited

Source: Energy Regulation Commission (1st March 2013)

Appendix B: Respondent's questionnaire

Questionnaire on the Relationship between Strategic Planning and Performance

This study intends to determine the effect of strategic planning practices of firms in the petroleum industry on performance. Please fill in this questionnaire by marking appropriately on the responses that best relate to your organisation.

Section A: General Information about the Company

1. What year did your firm start operating its business in Kenya?

   ....

2. What is your firm's legal identity?

   Sole proprietorship [ ]

   Partnership [ ]

   Limited Company [ ]

   Other [ ] (specify)...

3. On average, what is the revenue/sales level of your business per year in Kenya Shillings?

   ....

4. What is your title/job responsibility in the organisation?

   Planning [ ]

   Other [ ] (specify)...

5. In what year did your firm begin preparing strategic plans?

   ....

6. How many employees does the company currently have?

   ....

Section B: Strategic Planning Practices

7. To what extent does your firm devote attention to the following strategic planning practices (Key: 1=No extent, 2=Low extent; 3=Moderate extent; 4=Great extent; 5=Greatest extent)

Internal Orientation	1	2	3	4	5
Customer services					
Efficiency of operating process					
Attracting and retaining quality employees					
Analysis of financial strengths and weaknesses					

8. What degree of emphasis does your company place on the following strategic planning practices (Key: 1=No emphasis, 2=Low emphasis; 3=Moderate emphasis; 4=Great emphasis; 5=Greatest emphasis)

External Orientation	1	2	3	4	5
Analysis of investment opportunities					
Analysis of competition					
Performing market research					

9. To what extent does your firm lay emphasis on the following strategic planning practices (Key: 1=No extent, 2=Low extent; 3=Moderate extent; 4=Great extent; 5=Greatest extent)

Functional Coverage	1	2	3	4	5
Marketing function					
Finance function					
Personnel function					
Operations function					

10. What is the degree of involvement of the following people in strategic planning in your company (Key: 1=No involvement, 2=Low involvement; 3=Moderate involvement; 4=Great involvement; 5=Greatest involvement)

Involvement of Key Personnel	1	2	3	4	5
The CEO					
The line managers					
Board members/business partners					

11. To what extent does your firm lay emphasis on the following planning techniques during strategic planning (Key: 1=No extent, 2=Low extent; 3=Moderate extent; 4=Great extent; 5=Greatest extent)

Use of Planning Techniques	1	2	3	4	5
Financial models					
Forecasting and trend analysis					
Portfolio analysis technique					

12. To what degree does your firm emphasize on following strategic new modes of thinking (Key: 1=No emphasis, 2=Low emphasis; 3=Moderate emphasis; 4=Great emphasis; 5=Greatest emphasis)

Creativity in Planning	1	2	3	4	5
Ability to anticipate surprises, threats and crises					
Flexibility to adapt to unanticipated changes					
Value of a mechanism for identifying new business opportunities					
Role of identifying key problems					
Value as a basis for enhancing innovation					
Capacity to generate new ideas					
Formulating goals to be achieved in the firm's competitive environment					
Capacity to generate and evaluate a number of strategic alternatives					
Anticipating, avoiding, and removing barriers to strategy implementation					

13. What degree of emphasis does your firm lay on the following strategic planning issues (Key: 1=No emphasis, 2=Low emphasis; 3=Moderate emphasis; 4=Great emphasis; 5=Greatest emphasis)

Focus on Control	1	2	3	4	5
Value as a tool for management control					
Ability to communicate top management's expectations down the line					
Value as a tool for managerial motivation					
Capacity to foster organizational learning					
Value as a mechanism for integrating diverse functions and operations					
Ability to communicate line management's concern to top management					
Value as a mechanism for integrating diverse functions and operations					
Monitoring & controlling the implementation of the firm's strategy					
Using multiple financial & non-financial control measures					
Using control techniques for monitoring performance					
Having control systems to revise current plans					

Section C: Firm Performance

14. Over the last years, our firm has been able to fulfil the following: (Key: 1=Entirely Unfulfilled;2=Least fulfilled; 3=Moderately fulfilled; 4=Greatly fulfilled; 5=Entirely fulfilled)

Financial Performance	**1**	**2**	**3**	**4**	**5**
Prediction of future trends					
Enhancing management development					
Improving short-term performance					
Improving long-term performance					
Direct improvement on financial performance					
Organizational Effectiveness					
Improving ability to evaluate alternatives					
Improving ability to avoid mistakes					
Improvement of budget process					

15. How has your performance relative to competition been over the past years (Key: 1=Much Worse;2=Worse; 3=Good; 4=Better; 5=Much Better)

Relative Performance	**1**	**2**	**3**	**4**	**5**
Sales growth					
Earnings growth					
Market share change					
Return on investment					

THE END

THANK YOU FOR TAKING PART IN THIS SURVEY. YOUR PARTICIPATION IS HIGHLY VALUABLE

Appendix C: Raw Data from the Field

Firm	IO	EO	FC	KP	PT	CP	FOC	FP	OE	RP	OP	SP
Company A	3.50	2.67	4.75	5.00	4.00	2.33	3.55	3.80	4.00	3.00	3.60	3.69
Company B	3.75	3.33	3.25	4.00	4.67	4.67	3.45	3.40	3.33	3.00	3.24	3.87
Company C	4.00	4.33	4.50	4.67	4.00	4.11	3.64	3.60	4.33	4.25	4.06	4.18
Company D	4.50	4.67	4.50	4.33	4.00	4.33	4.09	4.40	3.00	3.75	3.72	4.35
Company E	1.50	1.00	2.50	2.00	1.33	1.67	1.73	1.60	1.67	1.75	1.67	1.68
Company F	3.50	2.67	4.75	5.00	4.00	2.33	3.55	3.80	4.00	3.00	3.60	3.69
Company G	3.75	3.33	3.25	4.00	4.67	4.67	3.45	3.40	3.33	3.00	3.24	3.87
Company H	4.00	4.33	4.50	4.67	4.00	4.11	3.64	3.60	4.33	4.25	4.06	4.18
Company I	4.50	4.67	4.50	4.33	4.00	4.33	4.09	4.40	3.00	3.75	3.72	4.35
Company J	1.50	1.00	2.50	2.00	1.33	1.67	1.73	1.60	1.67	1.75	1.67	1.68
Company K	3.50	2.67	4.75	5.00	4.00	2.33	3.55	3.80	4.00	3.00	3.60	3.69
Company L	3.75	3.33	3.25	4.00	4.67	4.56	3.45	3.40	3.33	3.00	3.24	3.86
Company M	4.00	4.33	4.50	4.67	4.00	4.11	3.64	3.60	4.33	4.25	4.06	4.18
Company N	4.50	4.67	4.50	4.33	4.00	4.33	4.09	4.40	3.00	3.75	3.72	4.35
Company O	1.50	1.00	2.50	2.00	1.33	1.67	1.73	1.60	1.67	1.75	1.67	1.68
Company P	1.75	1.00	3.25	4.00	4.67	4.11	3.45	1.60	3.33	3.00	4.06	3.86
Company Q	2.50	2.67	2.5	2.00	1.33	1.67	3.55	3.40	3.00	4.25	3.24	3.69
Company R	4.50	3.33	4.75	4.33	4.00	2.33	3.45	4.40	3.33	1.75	3.60	1.68

Key:

IO – Internal Orientation
EO – External Orientation
FC – Functional Coverage
KP – Key Personnel
CP – Creativity in Planning
FOC – Focus on Control
FP – Financial Performance
OE – Organisational Effectiveness
RP - Relative Performance
OP – Overall Performance
SP – Strategic Planning