CORPORATE STRATEGIC PLANNING PRACTICES IN BANKING AND FINANCIAL INSTITUTIONS IN MALAYSIA

الجامعة الإسلامية العالمية ماليزيا
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CORPORATE STRATEGIC PLANNING PRACTICES IN BANKING AND FINANCIAL INSTITUTIONS IN MALAYSIA

BY

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ABSTRACT

This study is aimed to discover corporate strategic planning practices among Banking and Financial Institutions in Malaysia. Survey instruments are adopted from Farley and Hulbert (1987), and questions related to company performance are adopted from Corporate Planning Questionnaire (Yusof, 1996). Instruments were adopted to measure the corporate strategy, company performance, and planning system respectively. Factors affecting the company performance as perceived by respondents were also identified. Thirty-two out of eighty-two respondents return the survey instruments with thirty days of administration. Post hoc analysis suggests that there is significant correlation between strategy and performance among the Banking and Financial Institutions. The findings of this explanatory study do not match results of previous studies. Chief Executive Officer does assert influence in the making of corporate strategic planning but in different ways within banking and financial institutions fraternity. There is a significant difference in several areas of corporate strategic planning among institutions. The study recommends using multiple respondents to further enhance future study in this field. Suggestions are also given to improve this study.

APPROVAL PAGE

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I hereby declare that this project paper is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by reference notes and a bibliography is appended.

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DEDICATION

This project paper is specially dedicated to myself, my brother, ibu and ayah, lecturers, teachers, my beloved aunts, uncles, cousins, nieces, colleagues, friends, and foe

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ABBREVIATIONS

ANOVA	Analysis of Variance

CHAPTER 1

INTRODUCTION

1.0 Background of the study

Leaders of companies have always had to make strategic decisions. In business, these have related to issues such as the products or services to be supplied; target groups of customers; ways of producing, marketing, selling, distributing and servicing them; pricing, advertising and promotion; relationships with suppliers of materials and labour (Foo & Grinyer, 1994).

In large companies with diverse business activities and probably a divisional structure, such decisions are likely to be delegated to the senior management of the divisions or subsidiaries within them.

Strategic decisions at the corporate office are likely to focus on the portfolio of business. The decision covers technological or investments, which includes market, economic, social, political and technological trends and changes, which present threats or opportunities. Also, behavior of major competitors; future development or retrenchment; the organization, motivation co-ordination and control of divisions and their subsidiaries; strategic alliances, joint ventures, acquisitions and mergers; and relationships with governments (Foo & Grinyer, 1994).

Ansoff (1970) described planning as the process of setting goals and establishing means by which they can be achieved. Formalized Corporate Planning is a modern management discipline emerged during 1960s. Prior to this, the formal consideration of the future, and the monitoring and control of the current situation were achieved mainly through the mechanism of budgeting. This mechanism worked well during the first half of the twentieth century.

First, the business environment changed in largely predictable ways, allowing companies to cope by making gradual adjustments.

Second, the wars and the Great Depression in the West ended, and steady growth in demand ensured that for most companies the competitive environment presented more opportunities than threats. While demand grew, the strategic priorities for manufacturers involved expanding production capacity, improving production efficiency and maintaining control of costs and production schedules. Accurate budgeting, and planning which projected forward the underlying trends of the current annual budget, was an effective mean.

Ansoff (1970) submitted that from 1950s onwards several trends emerged, which a budgeting based approach to planning and control found difficult to cope with because:

1. Environmental change accelerated, become increasingly unpredictable and less easily dealt with by referring to companies' past experiences;
2. Accelerating technological change created entire industries based around new technologies, and novel substitutes emerged as challengers to established products;
3. Many mature industries reached saturation point, and became increasingly competitive;
4. Expanding international trade brought an international dimension to a wide range of markets. Many companies were faced with a new and serious threat from unfamiliar non-domestic competition.
5. Increasingly complex, unpredictable and international nature of business environment forced companies to formalized corporate planning processes.

An internal environment stimulus is part of the forces. Companies have their own life cycle, which influences the nature and development of planning within them (Leppard and McDonald 1987). They often begin with a product idea, which launch the business and let it develop in an informal and entrepreneurial fashion. If successful, the business will grow, and usually the growth will increase the complexity as well as the size of the business.

Managers have to cope with an increasing number and variety of products, customers, employees, suppliers and investors. Eventually, the growth brings the company to a point where it can no longer be successfully plan and manage in an informal manner. The founders of the business might be replaced or supplemented by 'professional' managers, and the business will begin to formalize elements such as its structure, policies and procedures and its planning and control systems.

Leppard and McDonald (1987) discovers the growth that many companies enjoyed during the 1950's and 1960's began to make formal planning and control based around budgeting increasingly inadequate for several reasons:

1. Product/market complexity. Growth through acquisition or innovation can require a company to plan for a range of products that are not closely related in either marketing or manufacturing terms.
2. Internal variety. Component business within a corporation might differ in terms of their size, maturity and whether they were created through internal growth or acquisition.
3. Internationalization. Companies seeking to produce and market products internationally will need to plan for business units located in different countries, each with their own accounting conventions, and a currency whose value will fluctuate in relation to others. This makes a financial approach to planing and control increasingly difficult.

4. Stakeholder complexity. Growth is usually accompanied by an increase in number and variety of the stakeholders whose differing needs be balanced by the business.
5. Increased risks. Size brings with it increased risk, not because larger business are inherently more susceptible to making mistakes than small ones, but because the consequences of any mistakes are likely to be much greater. A large company that makes crucial mistake can destroy not only itself, but also the community within which it exists. The increasing risks of failure create pressure for comprehensive planning.
6. Increased visibility. A large company is a visible company, to the news media, to legislators, to investors, to pressure groups and to society as a whole. The larger a company is, the more likely it is that any mistakes or malpractice will be noticed and used by others to the company's disadvantage.

1.1 Statement of problem

Corporate leaders and their top management teams face increasingly difficult challenges as they approach the end of the 20^{th} century. Market demand, products, technology, competitive behavior, sources of relative advantage and political conditions change more rapidly and often unpredictably (Foo & Grinyer, 1994).

Strategic planning is a widely adopted approach to handling threats and opportunities thus created. Yet many of its fundamental characteristics, such as formality, rationality and the use of analytical techniques have come under attack in the West as inappropriate in an uncertain, rapidly changing and unpredictable world (Foo & Grinyer, 1994). Flexible response is seen by many as preferable to a search for an optimal future direction (Foo & Grinyer, 1994).

This situation raises significant questions (Foo & Grinyer, 1994). Why bother with formal strategic planning systems? What do they involve and how are their features related to contributions they may make? What are these contributions? For instance, what support is given in practice to the chief executive officer (CEO) and others in the organization? Is successful implementation of strategic planning and perception by management of effective contributions, dependent strongly on conditions such as top management support, an approach which enlists the participation of managers and even non-managerial staff at levels below the top, or a more predictable, stable environment?

Are those who implement formal systematic planning systems more or less likely to be better performers than others in their industries in terms, for instance, of exploitation of technological change, seizing market opportunities, exploiting strengths and achieving goals?

1.2 Objectives of the study

Overall, this study wishes to discover strategic planning practices at corporate level of banking and financial institutions in Malaysia, as follows:

1. Corporate strategic planning characteristics and patterns.
2. Significant importance among the variables in corporate strategic planning.
3. Relationships among the variables in corporate strategic planning.

1.3 Hypotheses

Based on the limitations to be observed when carrying out this study, several hypotheses have been constructed, and they are summarized in Table 1.1.

Table 1.1: Summary of Hypotheses and Hypotheses Testing Method

Hypothesis	Research Objectives	Statement/Question	Survey Questions		Sources (from Literature Review)	Statistical Tools
			SET 1 (Corporate Strategy)	SET 2 (The Planning System)		
1	3	Corporate strategy is correlated with company performance	Section A/B	-	Mintzberg (1973), Hall (1978), Peattie (1998), Goold & Campbell (1987), Henderson (1970), and Leppard and McDonald (1987)	Correlatio n
2	2	There is a significant importance of corporate strategy in company performance for Miles and Snow (1994) Typology	Section A/B	-	Mintzberg (1973), Hall (1978), Peattie (1998), Goold & Campbell (1987), Henderson (1970), and Leppard and McDonald (1987)	one-way ANOVA
3	2	There is a significant benefit in planning for Miles and Snow (1994) Typology	-	Section A	Peattie (1998), Tregoe & Zimberman (1979), George Steiner (1986), and Kagar (1995)	one-way ANOVA
4	2	Planning process plays a significant role in meeting future expectations and resolutions for Miles and Snow (1994) Typology	-	Section B	Hofer & Schendel (1978), Peattie (1998), Ansoff (1976), Thune & Hure (1970), Armstrong (1982), and Fulmer Rue (1973)	one-way ANOVA

continued

Table 1.1: Summary of Hypotheses and Hypotheses Testing Method

5	2	In planning, coordination issues are significant for Miles and Snow (1994) Typology	-	Section C	Peattie (1998), Ansoff (1970), and Armstrong (1982)	one-way ANOVA
6	1/2	There is a significant pattern of planning emphasis and direction for Miles and Snow (1994) Typology	-	Section D	Peattie (1998), Litschert & Nicholson (1974), and Armstrong (1982)	one-way ANOVA
7	2	CEO asserts significant influence to corporate planning for Miles and Snow (1994) Typology	-	Section E	Peattie (1998), Ansoff (1970), and Kagar (1995)	one-way ANOVA

1.4 Significance of the study

The researcher hopes to get a clear picture about the elements of corporate strategic planning practice among banking and financial institutions in Malaysia. The result and findings of this study may also be of significant interest to corporate personnel of banking and financial institutions in Malaysia in their efforts to plan programs and systems that will enhance the development and improvement of their banking operations.

1.5 Limitation of the study

This study was limited to 81 population of banking and financial institutions in Malaysia (Table 1.2), out of which the respondent institutions would be taken as sample of research.

Table 1.2: Categories of Samples of Banking and Financial Institutions

Categories of Samples (N)	**N=**
Commercial banks	**35**
Financial companies	**33**
Merchant banks	**12**
Bank Islam	**1**
Total population N=	**81**

Source: Bank Negara Malaysia (BNM) and Association of Banks of Malaysia (ABM)