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The Strategic Planning Index: A Tool for Measuring Strategic Planning Effectiveness

PAUL A. PHILLIPS AND LUIZ MOUTINHO

Little empirical research exists on the measurement of strategic planning effectiveness. The authors propose a new approach: the strategic planning index (SPI). The SPI is tested on the hotel sector. Findings suggest that the SPI can be particularly useful for corporate and hotel unit managers in evaluating their strategic planning processes.

Although the economic benefits of planning have received much attention in the general management literature (e.g., Kudla 1980; Armstrong 1982; Shrader, Taylor, and Dalton 1984; Rhyne 1986; Pearce, Freeman, and Robinson 1987; Miller and Cardinal 1994), the strategic planning-performance relationship appears to have been largely overlooked in the tourism and hospitality management literature (Ingram 1995; Athiyaman 1995; Phillips 1996b; Phillips and Moutinho 1998b). Recently, two empirical studies have made some progress by exploring the study of strategic planning in the tourism and hospitality fields (Athiyaman and Robertson 1995; Phillips 1996a). Athiyaman and Robertson (1995) hypothesized that strategic planning procedures adopted by tourism firms were of equal sophistication to those employed by manufacturing firms in Australia. Contrary to previous research findings (Rovelstad and Blazer 1983), Athiyaman and Robertson found that tourism firms did have well-developed strategic planning processes. Phillips (1996b), using a multidimensional model, sought to conduct an exploratory investigation of the relationship between strategic planning and business performance in the U.K. hotel sector. His research findings provided evidence of a statistically significant relationship between business performance and the key planning characteristics of formality, participation, sophistication, and thoroughness.

Notwithstanding the paucity of empirical evidence, the hospitality literature asserts that strategic planning produces economic value. Thus, hoteliers who are seeking to uplift demand and business performance are placing much importance on developing mission statements, key objectives, and strategies in a dynamic external environment. However, given the apparent gap between theory and practice (Phillips 1994), together with the fact that a good product flows only from a good process (Feltenstein 1992), it seems relevant that the strategic planning process in hotels should be effective. Because little empirical evidence has been available to date to assist hoteliers in determining the effectiveness of their strategic planning system (SPS) (Phillips and Moutinho 1998b), this article is both timely and critical to tourism as well as hotel planning. A diagnostic tool, the strategic planning index (SPI), is proposed. The SPI can aid hoteliers by

evaluating the current effectiveness of their SPS. Prior to any discussion about the constructs, methodology, and application of our SPI, a brief overview of the strategy concept and strategic planning literature will be presented.

LITERATURE REVIEW

Strategy

The concept of strategy has been likened to a pattern of a stream of decisions (past or intended) that involves internal and/or external alignment, which affects organizational performance (Hambrick 1983b). However, because the construct has eluded precise academic and practical operationalization, it is time to go beyond the relatively simplistic notions of generic and industry strategies to study the complex interactions between strategy, various types of corporate performance, and the quality of strategic implementation. The nexus of relationships involving environment, size, performance, and strategy remains elusive, and the specific measure of performance makes a difference (Bantel and Osborn 1995).

The concept of strategy, the development of sustainable advantages, and the success of a given strategy have all been viewed as being dependent on some type of "fit" with environmental condition (e.g., Miller 1988). Nayyar and Bantel (1994) suggest that environmental instability should link with high competitive speed, that is, a rapid response to environmental and competitive pressure.

There have been many debates about the conceptualizations and adoption of competitive strategies. For example, Porter (1980) suggests that to ensure long-term profitability, the firm must make a choice between one of his generic strategies rather than end up being "stuck in the middle." Porter's assertions have been supported by several studies (Dess and Davis 1984; Hambrick 1983a; Nayyar 1993; Parker and Helms 1992; Reitsperger et al. 1993). However, several studies have suggested that in higher performing businesses, low cost and differentiation strategy may be adopted simultaneously (Buzzell and Gale 1987; Gupta 1995; Hall 1983;

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Slocum, McGill, and Lei 1994). In an attempt to investigate whether low cost and differentiation are mutually exclusive or whether they can be adopted simultaneously, Helms, Dibrell, and Wright (1997) found that business units that simultaneously compete on low cost and differentiation strategies have higher ROI.

Strategic Planning

During three decades of empirical research, strategic planning has been proven to be an essential prerequisite in successful organizations. Although this has not always been proven in empirical research, positive planning-performance studies outnumber negative ones. The 1990s have seen a variety of empirical studies that have reported the benefits of strategic planning.

Boyd (1991) published a long and detailed meta-analytic review, which involved the aggregation of 29 samples on a total of 2,496 organizations. Boyd concluded that the results of previous research were equivocal. He pointed out that existing research was subjected to a great deal of measurement errors, which underestimated the benefits of planning. Second, although the average effect size was small, many firms do not report significant, quantifiable benefits from participating in the strategic planning process. During the rest of the 1990s, researchers have continued to investigate the benefits of planning formality (Jenster and Overstreet 1990; Lyles, Orris, and Kurako 1993; Walters 1993; Miller and Cardinal 1994). Jenster and Overstreet (1990) focused on formal planning of U.S. credit unions. They observed from their study of 283 institutions that the propensity to plan is related to key organizational processes, structural configurations, administrative procedures, managerial perceptions of environmental predictability, and multiple performance measures. In addition to formal planning having differing roles among various types of organizations, communication between management and board was important for enhanced organizational performance. Lyles, Orris, and Kurako (1993), in their study of 188 mixed firms, found that the planners' growth rate was twice that of the nonplanners. In his study of 141 U.S. exporting firms, Walters (1993) noted that a majority of firms were missing critical elements of formal planning. Despite not finding any statistical difference between planners and nonplanners, those firms with the poorest sales growth planned least. Miller and Cardinal (1994), using meta-analysis, found that strategic planning positively influences firm performance and that the method of study was primarily responsible for the inconsistencies reported in the literature.

Conceptualization of Planning

Despite the improvement in planning scales used by researchers, the tendency is to still to treat planning in terms of a unidimensional perspective. For example, some studies have measured strategic planning solely in terms of formality (e.g., McKiernan and Morris 1995), comprehensiveness (e.g., Fredrickson and Mitchell 1984), sophistication (e.g., Robinson and Pearce 1988), and length of planning horizon (e.g., Rhyne 1986).

Boyd (1991) argued for more rigorous measures for planning, controls for industry effects, and separate analysis for the various dimensions of organizational performance. To

advance the strategic planning-performance literature, it is necessary to adopt a more multidimensional approach. Strategic planning is a multidimensional construct covering all functional areas of the firm. Hence, researchers should try to identify the most important attributes of planning. Finding the variables that reflect good planning should be the thrust of the literature. This multidimensional approach has been the object of the SPS literature. However, as succinctly stated by Greenley (1993, p. 3):

Improved management effectiveness through strategic planning may lead to improved performance, but this will depend on the ability of managers to address the range of internal and external variables that impinge on performance.

The need for a multidimensional approach to conceptualization and measurement of planning systems dimensions has been highlighted (e.g., King 1983; Ramanujam, Venkatraman, and Camillus 1986; Ramanujam and Venkatraman 1987; Javidan 1987; Rhyne 1987; Kukalis 1991; Veliyath and Shortell 1993). Unfortunately, there is no clear consensus as to what the critical planning system dimensions are. Nonetheless, a holistic approach to the planning-performance relationship incorporating the SPS dimensions would appear to be appropriate for future research. The effectiveness of the nature of strategic planning in firms, as opposed solely to performance outcomes, has been highlighted as a major problem (e.g., Dyson and Foster 1980; Greenley 1983). Some writers have proposed methods to evaluate the SPS (e.g., Kotler 1977; Heroux 1981; Meidan, Moutinho, and Chan 1992; Foster 1994).

There have been two main approaches to evaluate the effectiveness of an SPS: process and ends-oriented (Foster 1994). The process approach considers the whole system and provides users with a means of identifying weaknesses, whereas ends-oriented focuses on the outputs of the system. While Foster recommends the sole use of the first approach, this article argues that the best measure of effectiveness should include a combination of both approaches. It is felt that as managers tend to be evaluated more on output measures, the ideal measure of effectiveness should include both processes.

Performance Measurement

Determining how to measure performance of a company is always difficult. First is the problem of finding useful definitions of concepts such as competitiveness or performance (e.g., see Buckley, Pass, and Prescott 1988; Littler 1988; Day and Wensley 1988). Second is the problem of how to operationalize these concepts.

Studies on corporate performance have tended to use a variety of different measures of success, which can be classified into one of two groups: financial and nonfinancial. Researchers employ financial measures such as profit (Saunders and Wong 1985; Hooley and Lynch 1985; Baker, Black, and Hart 1988), turnover (Frazier and Howell 1983), return on investment (Hooley and Lynch 1985), return on capital employed (Baker, Black, and Hart 1988), and inventory turnover (Frazier and Howell 1983). Nonfinancial measures include innovativeness (Goldsmith and Clutterbuck 1984) and market standing (Saunders and Wong 1985;

TABLE 1
STRATEGIC PLANNING DESIGN PARAMETERS

Strategic Planning Design Parameters	Description	Supporting Literature
Formalization	Explicit systematic procedures, so as to gain the commitment of all those involved	Wood and LaForge (1981); Shrader, Taylor, and Dalton (1984); Pearce, Freeman, and Robinson (1987)
Participation	Improve communication, build a multi-functional perspective, and develop a shared vision for the direction of the firm	McDonald (1982); Gerbing, Hamilton, and Freeman (1994); Piercy and Morgan (1994)
Sophistication	Use of a wide range of managerial techniques	Bracker and Pearson (1986); Robinson and Pearce (1988); Odom and Boxx (1988)
Thoroughness	The extent to which a firm uses experience from a number of management levels	Stasch and Lanktree (1980); Piercy and Morgan (1994)

Hooley and Lynch 1985). Further studies of corporate performance measure success at different levels of analysis (e.g., national, industry, company, and product), thus making the comparison of results difficult, as commented on by Baker and Hart (1989), Buckley, Pass, and Prescott (1988), and Frazier and Howell (1983).

Performance as a theoretical construct is defined as the accomplishments or outcomes of an entity. In addition to not differentiating between manufacturing and service issues, most strategic planning-performance studies relate solely to corporate performance. The derived construct is business performance that Lusch and Laczniak (1989) define as the total economic results of the activities undertaken by an organization. Like its corporate counterpart, the measurement of business performance presents both conceptual and methodological problems (Fredrickson and Mitchell 1984). Again, the difficulty emanates from the diverse indicators of performance available. Nevertheless, for the business-level strategy researcher, the option to ignore performance is not viable, since performance improvement is an important strategic objective. In an attempt to address some of the problems, Walker and Ruekert (1987) stated that the dimensions of business performance that are of primary importance to corporate and business unit managers can be broken down into effectiveness, efficiency, and adaptability. However, they then admit that there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involves substantial trade-offs; good performance on one dimension often means sacrificing performance on another (Donaldson 1984).

SPI Background

One of the major shifts in strategic planning during the 1980s was the change in those responsible for strategic planning. Responsibility shifted from staff to line managers, and from the corporate level to the business level (Wilson 1994). According to Wilson (1994), both moves were a consequence of the problem that nearly sank strategic planning: a lack of implementation. It is for this reason that the initial focus of our SPI is at the business level. Phillips (1996a) posits that within certain limits, an individual hotel unit can be viewed as a strategic business unit (SBU). He asserts that strategy formation at the head office can be viewed as corporate strategy. Corporate planning differs from SBU level with regard to product and market scope. This therefore

reinforces the necessity for a hotel general manager (HGM) to be responsible for developing and implementing the strategies and plans necessary for his or her hotel's success. Thus, the evaluation of that hotel's SPS should be an important management exercise.

MODEL CONSTRUCTS

The foundations of our SPI lie in constructs identified by Phillips (1996a) during his survey of the literature pertaining to the design of the SPS. Table 1 briefly describes the four dimensions with the supporting literature. Eighteen attributes were extracted that were identified as being critical to the measurement of an SPS; 12 were strategic planning design parameters, and 6 were business performance attributes. The strategic planning design parameters and business performance attributes were measured using a judgmental approach on 7-point scales. Respondents were asked how they rated the performance of their hotel operation over the past year in comparison with primary competitors. The study also noted the issue of the time lag that exists between strategy implementation and the resulting improvement in performance. Respondents were asked how they expected their hotel to perform relative to primary competitors over the next 2 years. The level of business performance was determined by the following indicators: effectiveness (occupancy percentage, average room rate, growth in sales per room), efficiency (return on investment, profit margin), and adaptability (number of successful new services/products introduced, percentage of sales accounting for new services/products).

METHOD

The sampling frame used for this study was the top 50 U.K. hotel groups (Hotel and Catering Research Centre 1992-93). The data used to test our SPI were collected through a questionnaire survey of HGMs. The questionnaire was pretested through personal interviews with academics and practitioners. An initial letter was mailed to a contact or the managing director of each hotel group introducing the researchers, explaining the study, and requesting their HGM's participation in the study. Fifteen groups agreed to participate (30%). The final questionnaire was then mailed to

TABLE 2
LISTS OF ATTRIBUTES THAT ARE IMPORTANT IN
CALCULATING THE STRATEGIC PLANNING INDEX

Strategic planning design parameters
Use of knowledge and experience from different functions within the hotel unit
Use of knowledge and experience from different levels of staff
Use of a variety of motivational factors to encourage good planning
Setting explicit goals
Assigning implementation responsibilities to specified individuals/groups
Seeking commitment to the long-range plan
Involvement of head office/hotel unit managers
Involvement of hotel senior managers
Involvement of hotel middle managers
Use of SWOT analysis
Use of benchmarking
Use of investment appraisal techniques
Business performance
Efficiency (past year)
Efficiency (next 2 years)
Effectiveness (past year)
Effectiveness (next 2 years)
Adaptability (past year)
Adaptability (next 2 years)

Note: The above attributes were measured using 7-point Likert-type scales.

130 HGMs, and 100 were completed and returned (77%). Although many companies expressed an interest in the study, only a few were willing to participate. The two standard rejection phrases included in letters from those who took the trouble to reply were: "Regrettably, due to constraints upon very limited resources, we are unable to assist on this occasion" and "Hotel X is a private company, and as such, all our information is also private."

The average hotel unit for the sample consisted of 137 rooms, with an average sales turnover of £2.82 million. With regard to sales per employee, the figure was £33,772. Although sample size is by no means representative of the top 50 U.K. hotel groups, the key characteristics of room size, sales turnover, and sales per employee would appear to be comparable to samples used in other studies (Slattery, Feehly, and Savage 1994; BDO Hospitality Consulting 1994).

Data analysis was performed using standard statistical procedures (Chatfield 1988; Kervin 1992). Chatfield (1988) identified seven main stages in an idealized statistical investigation, whereas Kervin (1992) categorized these stages into three areas: data preparation, preliminary and descriptive analysis, and analysis of relationships. Factor analysis was used to establish whether the 18 attributes could be transformed into a smaller set of uncorrelated variables that contained most of the original information. Any reduction would reduce the attributes to a more manageable set.

Factors

The 18 attributes shown in Table 2 were factor analyzed, making use of the recommendations by Kaiser (1960) on how many factors to retain. Kaiser suggests dropping factors

with an eigenvalue of less than one. The rationale for the eigenvalue criterion is that any individual factor should account for at least the variance of a single variable if it is to be retained for interpretation. The eigenvalue approach is probably most reliable when the number of variables is between 20 and 50 (Hair, Anderson, and Tatham 1987). The a priori criterion is a reasonable criterion under certain circumstances. In this study, we did not know how many factors to extract before undertaking the factor analysis. The authors did not set out to test a hypothesis about the number of factors to be extracted, nor were they attempting to replicate another study and extract exactly the same number of factors that was previously found. The percentage of variance criterion was also used, that is, the cumulative percentages of the variance extracted by successive factors was the criterion used. No absolute cutting line was adopted for all data. A solution that accounts for 60% of the total variance was used as a satisfactory solution.

The scree tail test was used to identify the optimum number of factors that could be extracted before the amount of unique variance begins to dominate the common variance structure. The point at which the curve first begins to straighten out is considered to indicate the maximum number of factors to extract. Several trial rotations were undertaken, and by considering the initial criterion and comparing the factor interpretations for several different trial rotations, we were able to select the number of factors to extract based on the initial criterion and the factor structure that best represented the underlying relationship of the variables.

Factors were interpreted based on loadings greater than .61 (Meidan, Moutinho, and Chan 1992). Results of the factor analysis using varimax rotation on the 18 attributes are shown in Table 3. It can be seen that six factors were extracted from the analysis, and the following factors can be identified. Factor 1 was interpreted as Planning Implementation. The four attributes were explicit goals, implementation responsibilities, commitment to the plan, and the involvement of hotel senior and middle managers. Factor 2 was interpreted as Future Performance. The three attributes were adaptability, effectiveness, and efficiency. Factor 3 was interpreted as Past Performance. The two attributes were effectiveness and efficiency. Factor 4 was interpreted as Functional Coverage. The two attributes were knowledge and experience from different functions and from different levels within the hotel unit. Factor 5 was interpreted as Reliance on Analytical Techniques. The two attributes were use of benchmarking and investment appraisal techniques. Factor 6 was interpreted as Staff Planning Assistance. The one attribute was involvement of head office/hotel unit managers. Eigenvalues for the six factors that emerged ranged from 4.82 to 1.08, and these factors accounted for a cumulative variance of 70.3%. As can be seen, the scales appear robust. They satisfy Nunnally's (1978) threshold level for exploratory research, taken as equal to or greater than a Cronbach's alpha score of .50.

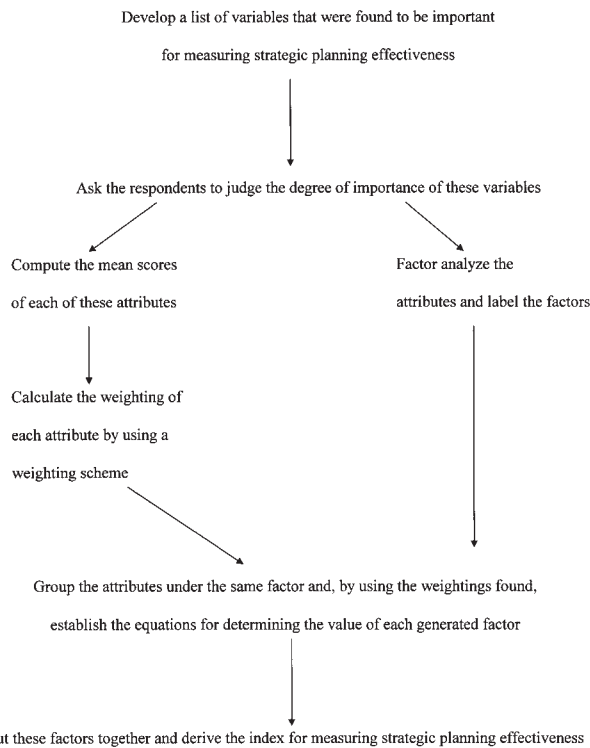
Calculating the SPI

Using the same methodology as Phillips and Moutinho (1998a), a figure ranging from zero to one can be derived from the sum of the six equations, which represents the level of strategic planning. Figure 1 illustrates the systematic approach to assessing the SPS. To calculate the level of

TABLE 3
RESULTS OF THE FACTOR ANALYSIS ON THOSE ATTRIBUTES THAT ARE IMPORTANT FOR CALCULATING THE SPI

Attributes That Are Important for Calculating the SPI	Factor 1 Planning Implementation	Factor 2 Future Performance	Factor 3 Past Performance	Factor 4 Functional Coverage	Factor 5 Reliance on Analytical Techniques	Factor 6 Staff Planning Assistance
Use of knowledge and experience from different functions within the hotel unit				0.7302		
Use of knowledge and experience from different levels of staff				0.8144		
Use of a variety of motivational factors to encourage good planning						
Setting explicit goals	0.7891					
Assigning implementation responsibilities to specified individuals/groups	0.8179					
Seeking commitment to the long-range plan	0.7579					
Involvement of hotel senior managers	0.6355					
Involvement of hotel middle managers	0.6122					
Use of SWOT analysis						
Use of benchmarking					0.8011	
Use of investment appraisal techniques					0.7849	
Adaptability (past)						
Effectiveness (past)			0.6261			
Efficiency (past)			0.8149			
Adaptability (future)		0.8344				
Effectiveness (future)		0.8156				
Efficiency (future)		0.7255				
Involvement of head office/hotel unit managers						0.7083
Eigenvalue	4.8292	2.5807	1.5971	1.3814	1.1850	1.0790
Percentage of variance	26.8	14.3	8.9	7.7	6.6	6.0
Cumulative percentage of variance	26.8	41.2	50.0	57.7	64.3	70.3
Cronbach's alpha	.8054	.8328	.7304	.6596	.5261	

FIGURE 1
PROCEDURAL STEPS FOR DEVELOPING THE INDEX OF STRATEGIC PLANNING EFFECTIVENESS



Source: Adapted from Meidan, Moutinho, and Chan (1992).

strategic planning, it is first necessary to calculate the mean score of each attribute that was included in the six factors. These mean scores are then used to derive the weightings of the 15 attributes. For example,

$$\text{weightings of attribute } a_{\bar{L}} = \bar{a}_1/\bar{a}_1 + \bar{a}_2 + \bar{a}_3 + \bar{a}_4 + \bar{a}_5 + \bar{b}_1 + \bar{b}_2, \dots, \bar{f}_1.$$

The weightings were used to determine the equations for ascertaining the level of planning. Meidan, Moutinho, and Chan (1992) advocate the use of a weighting scheme for two primary purposes: (1) to consider the relative importance that respondents would assign to each attribute and (2) to make the sum of the weights equal to one.

As a result of the above, the equation for determining the level of planning was as follows:

$$\text{Planning implementation} = 0.0777a_1 + 0.0750a_2 + 0.0698a_3 + 0.0912a_4 + 0.0712a_5$$

$$\text{Future performance} = 0.0666b_1 + 0.0749b_2 + 0.0505b_3$$

$$\text{Past performance} = 0.0720c_1 + 0.0498c_2$$

$$\text{Functional coverage} = 0.0863d_1 + 0.0833d_2$$

$$\text{Reliance on analytical techniques} = 0.0308e_1 + 0.0168e_2$$

$$\text{Staff planning assistance} = 0.0842f_1.$$

TABLE 4
KEY ATTRIBUTES OF STRATEGIC PLANNING EFFECTIVENESS

Factor	This Study	Foster (1994)
1	Planning implementation	Clear statement of objectives (planning implementation)
2	Future performance	Catalytic action of planning function ^a
3	Past performance	Integration of planning function ^a
4	Functional coverage	Explicitness of assumptions made (reliance on analytical technique)
5	Reliance on analytical techniques	Iteration in planning process (functional coverage)
6	Staff planning assistance	Treatment of uncertainty in evaluation (reliance on analytical technique)
Measurement of strategic planning effectiveness	Obtained by summing mean scores from six equations	Obtained via use of profiles

a. Applies only to those organizations with a discrete planning function.

FINDINGS

Six characteristics emerged as important measures of the effectiveness of a hotel unit's SPS. Fifteen items were identified that operationalized the six domains. The six attributes were the same number as identified by Foster (1994), and there were several similarities (see Table 4). It was interesting to see that strategic implementation was the most important attribute in both studies. To facilitate implementation, the process should include a team of staff drawn from all levels, which is preferable to the HGM working alone with support from headquarters. It would appear that good upward communication enables staff throughout the hotel unit to enjoy ownership of the strategic plan and makes staff members more likely to be committed to carrying it out. Several authors have discussed the significant role that middle managers play in the strategic planning process. Bower (1970) posits that middle managers are best able to decide whether strategic issues are being considered in the proper context. There is also some evidence of a relationship between middle manager involvement and organizational performance. A study by Wooldridge and Floyd (1990) of 20 organizations and 157 managers showed a statistically significant relationship between middle management involvement in strategy and organizational performance.

Developing good evaluation end measures, such as those advocated by Walker and Ruekert (1987), should be seen as an important step toward the comprehensive evaluation of an SPS. With the ever-increasing investments in SPS, there is a need to evaluate both the means and the ends. Foster (1994), however, adopts a process (means) orientation. Factors 2 and 3 confirm the importance of the ends approach by the

TABLE 5
MEAN SCORES OF THE 15 STRATEGIC PLANNING ATTRIBUTES

Attribute	Factor	Peer Group	Hotel X
Planning implementation			
a_1	Setting explicit goals	5.32	6.00
a_2	Assigning implementation responsibilities to specified individuals/groups	5.14	2.00
a_3	Seeking commitment to the long-range plan	4.78	5.00
a_4	Involvement of hotel senior managers	6.25	7.00
a_5	Involvement of hotel middle managers	4.88	2.00
Future performance			
b_1	Adaptability	4.56	4.00
b_2	Effectiveness	5.13	3.60
b_3	Efficiency	3.46	3.00
Past performance			
c_1	Effectiveness	4.93	4.00
c_2	Efficiency	3.41	4.00
Functional coverage			
d_1	Use of knowledge and experience from different functions within the hotel unit	5.91	2.00
d_2	Use of knowledge and experience from different levels of staff	5.71	4.00
Reliance on analytical techniques			
e_1	Use of benchmarking	2.11	0.00
e_2	Use of investment appraisal techniques	1.15	0.00
Staff planning assistance			
f_1	Involvement of head office/hotel unit managers	5.77	7.00
Total		68.51	53.60

inclusion of both financial and nonfinancial data. In addition, the performance attributes were split into past and future, which allows our model to cope with the time lag effect of strategy implementation and performance.

Both studies identified the exchange of information as indicative of effective planning. Foster (1994) sees this occurring through the iterations in the planning cycle, whereas this study focuses on functional coverage through the planning process. Although the degree of functional integration may vary within an industry from firm to firm due to differing competitive strategies, it has been highlighted as a critical dimension of SPS (Hitt, Ireland, and Stadter 1982). It was therefore interesting to see that Factor 4, which consists of the coverage given to different function and staff levels, supports the assertions by Hitt, Ireland, and Stadter (1982). Ideally, it would be best if all functions were equally involved during the strategy process. However, this will hardly be the case. For example, if an HGM chooses to compete on price and is unwilling to experiment with new products/services, then there is no need to emphasize marketing because the HGM's main focus is on operating efficiency. Conversely, hotel units that are continually seeking new products/services for emerging market opportunities need to be prominently market driven.

Factor 5 reinforces the importance of the use of strategic planning tools and techniques in the hotel sector. The extent of reliance on benchmarking and investment appraisal technique is thus a critical aspect of the SPS at the hotel unit level. Phillips and Appiah-Adu (1998) have shown how the managerial technique of benchmarking can be used in the hotel sector to go beyond traditional quantitative analysis and penetrate underlying qualitative processes. Reliance on analytical techniques, especially those relating to treatment of uncertainty, were identified as critical aspects of both studies. Foster (1994) suggests various tools and techniques that

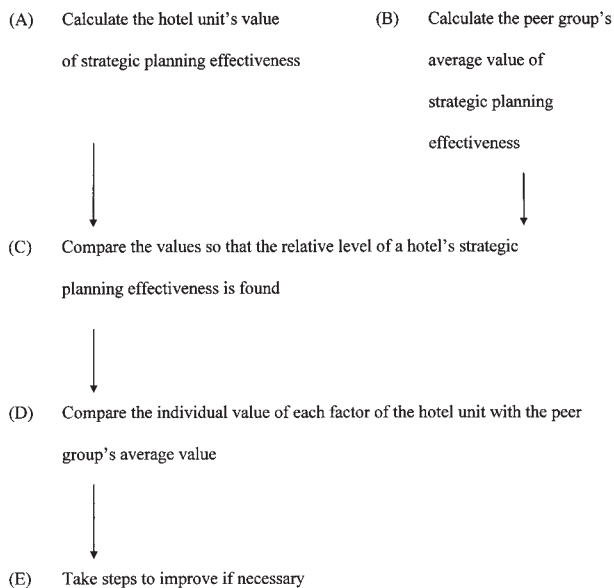
range from do nothing to the use of scenarios. This study places much emphasis on the use of a discount rate to allow for uncertainty through the use of investment appraisal techniques such as net present value. Our observations concur with a recent study by Collier and Gregory (1995), which explored the use of strategic management accounting¹ in the hotel sector through case studies at major U.K. hotel groups. Collier and Gregory demonstrated that the accounting function in hotel groups is becoming increasingly involved in strategic management accounting both in planning and in ad hoc exercises on the market conditions and competitor analysis.

In a multiunit hotel group, the vertical planning relationships between individual hotel units and the corporate office, as well as the lateral relationships between the units themselves, are an important characteristic of the SPS. In the general literature, the involvement of corporate- and SBU- level management in the strategic planning process has been highlighted as another salient dimension of the SPS (King and Cleland 1978; Steiner 1979). Factor 6 reinforces this assertion by highlighting the importance of adequate intangible resources, such as the level of planning assistance provided by the corporate office.

A WORKED EXAMPLE

To improve strategic planning effectiveness, hoteliers need first to identify the gap between themselves and best practice. This gap is said to occur when the SPI for an individual hotel unit is less than the figure for its peer group. By way of an example, this section describes how to determine the relevant measures for the peer group (which for illustrative purposes will be the average SPI of the sample) and for an individual hotel unit (hotel X) within the sample.

FIGURE 2
HOW TO USE THE STRATEGIC PLANNING INDEX



Source: Adapted from Meidan, Moutinho, and Chan (1992).

Table 5 shows the mean score for each of the 15 attributes. It can be seen that mean scores for the peer group and hotel X were 68.51 and 53.60, respectively. At first glance, we can see that for hotel X, its SPS is not as effective as its peer group. However, these mean scores are raw and, therefore, need to incorporate the weightings of each attribute. Using the methodology as shown in Figure 1, the level of planning is calculated for the peer group and hotel X. Figure 2 then shows how to determine the strategic planning effectiveness gap between the peer group and hotel X. Table 6 shows that the SPI of 0.5737 for hotel X is 20% below the corresponding figure for the peer group of 0.7133. This indicates that hotel X's overall level of strategic planning appears rather poor. This is borne out by the fact that hotel X scored below its peer group for five out of six factors. Interestingly, hotel X did not make use of benchmarking or any investment appraisal techniques. As a consequence of its poor design parameters, hotel X's past performance is 7% below average, and its performance over the next 2 years is expected to deteriorate to 20%. The SPS of hotel X is obviously failing, which could be a symptom of two problems. First, there may be a lack of belief for strategic planning throughout the hotel group; or the HGM does not see the need to change the planning system. Second, the HGM may not possess the knowledge or skills to develop an effective SPS. For example, it is interesting to see that the HGM places no importance on the use of benchmarking and investment appraisal techniques. Moreover, Table 6 shows that although there is a great deal of staff planning assistance from headquarters, the HGM makes little attempt to involve other senior staff members of his or her hotel unit. This indicates that the hotel unit would appear to be suffering from cultural, political, and cognitive problems. These observations alone suggest that hotel X should take immediate steps to improve its SPS by focusing on planning implementation, functional coverage, and

reliance on analytical techniques, paying particular attention to the attribute that each factor possesses.

In addition, the SPI of 0.7133 for the peer group indicates that the level of effectiveness is at best moderate, with plenty of scope for improvement. This observation, although in conflict with Athiyaman and Robertson (1995), tends to support Medlik (1989, p. 14), who stated:

Only a limited progress has been made in the translation of business and management theory from manufacturing to service industries generally and to hotels in particular.

CONCLUSIONS AND IMPLICATIONS

A review of the literature revealed little empirical research on the effectiveness of the SPS. Accordingly, we undertook to develop a diagnostic tool that offers a new approach to measuring strategic planning effectiveness within hotel units. The SPI is a simple but highly effective strategic planning tool that captures both the means and the ends of the SPS. Based on our SPI, if hoteliers wish to enhance the effectiveness of strategic planning in their hotel unit, they may well make a useful impact by focusing on the following:

- Setting explicit goals
- Assigning clear responsibilities for implementation
- Obtaining a high level of commitment to the strategic plan
- Involving all levels of management
- Obtaining adequate functional coverage
- Using modern analytical techniques
- Obtaining a suitable level of staff planning assistance.

However, it must be borne in mind that proper planning is hard work, and given the environmental challenges of the 1990s, failure to plan effectively is now planning to fail.

As stated previously, strategic planning is an important managerial process, which if used effectively will allow hoteliers to achieve economic and noneconomic objectives. Those hoteliers who believe that the hotel unit level is inappropriate for strategic planning fail to take into consideration the diversity of activities that need to be addressed. For example, hotel services are delivered to individuals by individuals, and a customer's perception of good service is ultimately related to individual hotel units. Hence, it is important that strategic planning within hotel groups is individualized with SBU goals and objectives dovetailing those at the corporate level. There is some evidence of a performance gap between hotel groups who do and do not encourage strategic thinking among their HGMs (Phillips 1996a). These observations suggest that the most significant management issue facing hospitality firms in the 1990s is the need to convert operations-oriented unit-level managers into strategists (Olsen 1991).

We believe our SPI made progress toward achieving two main objectives: it contributes to the general and hospitality literature on a critical but neglected topic and provides a framework for assessing the salient dimensions that may be used to characterize the effectiveness of the SPS. The SPI has already been used to perform benchmarking for a variety of service sector organizations. Data are collected by an independent body and added to the database. The data are then processed, and the organization is assessed against its own industry and/or organization (i.e., other members of the hotel chain). In this regard, the

TABLE 6
CALCULATING THE SPI

	Variable	Peer Group			Hotel X			Strategic Gap (B – A)/A		
		Weighting	Peer Group Score ^a	Peer Group SPI	Subtotals (A)	Weighting	Hotel X Score ^a		Hotel X SPI	Subtotals (B)
Planning implementation	<i>a</i> ₁	0.0777	0.7600	0.0590	0.2929	0.0777	0.8571	0.0666	0.2494	–15%
	<i>a</i> ₂	0.0750	0.7343	0.0551		0.0750	0.2857	0.0214		
	<i>a</i> ₃	0.0698	0.6829	0.0476		0.0698	0.7143	0.0498		
	<i>a</i> ₄	0.0912	0.8929	0.0815		0.0912	1.0000	0.0912		
	<i>a</i> ₅	0.0712	0.6971	0.0497		0.0712	0.2857	0.0204		
Future performance	<i>b</i> ₁	0.0666	0.6514	0.0434	0.1232	0.0666	0.5714	0.0380	0.0982	–20%
	<i>b</i> ₂	0.0749	0.7329	0.0549		0.0749	0.5143	0.0385		
	<i>b</i> ₃	0.0505	0.4943	0.0250		0.0505	0.4286	0.0216		
Past performance	<i>c</i> ₁	0.0720	0.7043	0.0507	0.0749	0.0720	0.5714	0.0411	0.0696	–7%
	<i>c</i> ₂	0.0498	0.4871	0.0242		0.0498	0.5714	0.0284		
Functional coverage	<i>d</i> ₁	0.0863	0.8443	0.0728	0.1408	0.0863	0.2857	0.0246	0.0723	–49%
	<i>d</i> ₂	0.0833	0.8157	0.0680		0.0833	0.5714	0.0476		
Reliance on analytical techniques	<i>e</i> ₁	0.0308	0.3014	0.0093	0.0120	0.0308	0.0000	0.0000	0.0000	–100%
	<i>e</i> ₂	0.0168	0.1643	0.0028		0.0168	0.0000	0.0000		
Staff planning assistance	<i>f</i> ₁	0.0842	0.8243	0.0694	0.0694	0.0842	1.0000	0.0842	0.0842	21%
Total		1.0000	9.7871	0.7133	0.7133	1.0000	7.6571	0.5737	0.5737	–20%

a. The actual mean scores have to be divided by the number of points on the Likert-type scale (i.e., 7). This allows figures to be less than one.

SPI can assist organizations in clarifying areas for improvement. First, by identifying their weaknesses vis-à-vis their competitors, hoteliers would be better able to produce and implement more appropriate strategies for themselves. Second, the value of the SPI can be used as a benchmark for comparing planning procedures within a hotelier's own hotel group. Third, our 15 attributes could be used as a comparative device, allowing hoteliers to consider new activities that are being used in other hotel units.

As with any single study of an issue as broad and important as strategic planning, the results must be interpreted in light of the obvious limitations the study possesses. The planning tool is still in its infancy, and future studies need to increase its validity and generalization. Hotel-specific weaknesses have been concentrated at the hotel unit level. This may not always be the case, and the problem may be at the corporate level. In this instance, it will be necessary for our planning tool to capture the nuances that are specific to the corporate level. This will permit a vertical evaluation of the SPS throughout the hotel group. On a much broader issue, the SPI could be enhanced if it were adapted for use in other commercial sectors (i.e., nonservice) and customized for use in other countries. This will obviously necessitate future studies to determine a proper reassessment of attributes and reevaluation of weights. The second limitation of this study is the one-time measurement of the attributes. Such a cross-sectional approach at a single point in time presents problems in explaining causality. The third limitation is the reliance on a single participant to provide views on strategic planning activities and performance of the hotel unit. Such self-report data may be susceptible to perceptual or attitudinal biases, which can reduce the reliability and validity of the data. Future research efforts would benefit from the use of multiple responses and of some objective data contained in archival or financial records. A longitudinal study would overcome the shortcomings of this study's cross-sectional approach by allowing a richer understanding of the strategic planning phenomenon. Fourth, the scope of attributes in this or any study is necessarily limited. Clearly, more research is needed to test and refine our planning tool. A good starting point in developing a more holistic framework would be to examine how a hotel's SPS should adapt to changes in the general and task environments. Finally, other research needs to investigate the relationship between quality of planning and business performance. Future research and replication of existing studies will allow for the rapid advancement in the theory and practice of measuring strategic planning effectiveness.

NOTE

1. The definition of strategic management accounting (the provision and analysis of management accounting data relating to business strategy—particularly the relative levels and trends in real costs and prices, volumes, market shape, cash flow, and the demands on a company's total resources) was used in the study.

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