Strategic Planning Resources and Performance of Financial Institutions: Mediating Role of Institutional Capability

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Abstract
Regardless of a growing body of literature on organizational performance, explaining why organizations in the same industry and markets differ in their performance remains a fundamental question within the strategic management field. The study was designed to examine the mediating role of institutional capability and planning resources on the performance of financial institutions in Ethiopia. This study has used a cross-sectional survey in dealing with the mediating role of institutional capability & planning resources on the performance of financial institutions. Out of 175 questionnaires, 142 usable ones were collected from the financial institutions which were operated in Ethiopia. We find that institutional capability was mediating the relationship between planning resources & performance of financial institutions, which has a significant positive influence. Besides, it was ascertained that planning resources have a significant positive effect on the performance of financial institutions. The finding of this research work offer guidance to managers considering how to configure and deploy planning resources and how to utilize capabilities to enhance the performance of financial institutions. Limitations and future research were discussed.

Keywords: Strategic planning resources, Institutional capability, Financial Institutions, Performance, Ethiopia.

Introduction
A fundamental premise of strategic planning is an alignment between the firm and the environment to achieve competitiveness (Grant, 2003). Strategic planning resources are seen as bundles of resources that firms use to achieve superior performance. Bustinza, Molina, and Aranda (2010) argued that dynamic capabilities enable firms to create new products and respond to changing market conditions. Strategic resources have been linked to organizational performance, studies have indicated that they describe performance only to the extent that companies capture the value which key stakeholders such as managers, owners and employees compete to capture (Barney & Clark, 2007), an argument by Newbert (2007) who argues that strategic resources shape organizational performance. Duff (2016) viewed strategic resources as the building blocks of competitive advantage and comprised of an organization’s human resources, physical resources, financial resources, and intangible resources, e.g., patents, know-how and relationships among others. However, Grant (2001) argued that possession of strategic resources does not automatically guarantee performance but the way an organization builds a reliable strategic resource base by developing, upgrading, deploying and coordinating resources at their disposal. Institutional capability is considered a significant source of sustainable competitive advantage through articulate acquisition, deployment and a combination of strategic planning resources in ways that add unique value and that is difficult for competitors to imitate (Barney, 1991). Resource transformations require specific capabilities that Garvin (1993) posited that is achieved through involvement & learning. The growth of the firm depends not only on how resources are employed but also on the way resources are transformed through value-adding processes as posited by the dynamic capability theorists (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, winter, 2007).

There is mixed findings of the relationship between strategic planning resources and organizational performance. However, it has extended the debate about its effectiveness as a tool of strategic management into an ongoing discourse (Obeng and Ugboro, 2008). Planning resources measured in terms of the number of financial resources, the quantity of time, number of business

The practical problems that manager’s face in Ethiopian financial sectors is: what are the causes of variation in performance in which firms operated in the same market and why it is inconsistent in performance? The financial institutions in Ethiopia are among the priority sectors that are expected to spur the country's economic growth. This study, therefore, focuses on financial institutions that operated in Ethiopia because their performance would impact on the country’s growth and development. The financial institutions play the intermediary financial role that contributes significantly to the realization of the Ethiopian economic growth. Although several studies have found that organizational resources have an impact on performance, no study found to have institutional capability mediating on the relationship between planning resources & performance of financial institutions. Based on the above knowledge gap about planning resources, institutional capability and performance of financial institutions, the current research was designed to answer the following question.

- How does planning resources and institutional capability influence the performance of financial institutions?

Theoretical Model and Hypothesis Development

Strategic management relates more to the managerial aspect of strategy (Fitzroy et al., 2012). Johnson, Whittington and Scholes (2009:14) state that the term ‘strategic management’ highlights the importance of managers about strategy. Strategies do not emerge by themselves; strategy involves people, particularly the managers who decide and execute it. Strategic management deals with “complexity arising out of ambiguous and no-routine situations with organization-wide rather than operation-specific implication.” They further state that strategic management can be thought of as having three major components: understanding the strategic position of an organization, making strategic choices for the future, and managing strategy in action. Resource-Based View describes that not all organization's resources generate superior performance but only various types that are managed and owned by the firm (Barney, 2007). Wernerfelt (2011) concluded that resources such as human capital and technology are a foundation for generating superior performance. Besides, the study noted that the relationship between firms' resources and competitive advantage are strengthened by the valuable, rare, inimitable & non-substitutability factor. Human capital generates superior performance if it is definite to the original firm and changing the cost to a new environment avert immediate impound by rivals (Nyberg, Moliterno, Halo &Lepak, 2014).

A study by Ouakouak (2010) established that organizational capabilities have a positive mediating effect on the relationship between middle-level manager’s involvement in the strategy-making process and their ability to take autonomous actions in strategy development and company performance. The study only focused on the manager’s involvement in the strategy-making process and ignored the mediating effect of institutional capabilities on the relationship between strategic planning resources and organizational performance. The resources are either tangible or intangible. Ramanujam, Venkatraman and Camillus (1986) noted that an organization must identify and overcome sources of resistance in planning. Organizational members could show resistance in the form of
withdrawal from planning activities, lack of acceptance of planning outputs, or gaming behavior. This study bases on resource-based view & dynamic capabilities theory formed the theoretical foundation. Strategic planning resources are considered resource bundles that firms use to achieve superior performance hence knowing by the resource-based view of the organizations. On the other hand, institutional capability is a vital dynamic capability within organizations that draw insights on deployment, configuration & a combination of resources from the dynamic capabilities theory. The purpose of this study, hence, is to increase the knowledge base in the field of strategic planning resources and institutional capability by investigating its effect on the performance of financial performance in a single model and examining it in a new setting, namely the Ethiopian financial institutions.

Planning Resources and Performance of Financial Institutions

Helfat and Peteraf (2003) describe resources as an asset that an organization owns controls and has access to on a semi-permanent basis. Resources exist in form of brand names, trade contacts, technology, skilled personnel and production/service delivery procedures. The resources, as by Kraatz and Zajac (2001), had to be scarce, valuable and cannot imitable to create superior performance differences amongst competing firms. McLarney (2003) examined the link between environmental turbulence and strategic planning systems and concluded that in dynamic environments, organizations devote more resources to the planning function. A study by Newbert (2007) argues that strategic resources shape organizational performance. Duff (2016) viewed strategic resources as the building blocks of competitive advantage and comprised of an organization’s human resources, physical resources, financial resources and intangible resources, e.g., patents, know-how and relationships among others. However, Grant (2001) argued that possession of strategic resources does not automatically guarantee performance but the way an organization builds a reliable strategic resource base by developing, upgrading, deploying and coordinating resources at their disposal. A study by Ismail, Rose, Uli and Abdullah (2012) examined the relationship between strategic resources, capabilities, systems and competitive advantage and found that, there a significant positive effect of organizational resources, capabilities and systems collectively on competitive advantage. Given the above discussion, we suggest:

H1a: Planning resources have positive influence on the financial performance of financial institutions
H1b: Planning resources have positive influence on the non-financial performance of financial institutions

Institutional Capability and Performance of Financial Institutions

Institutional capabilities provide the link between strategic planning resources and sustainable competitive advantage which consequently lead to firm performance (Colotla, Shi & Gregory, 2003; Wang & Lo, 2003). Studies show that Organizational capabilities can only lead to sustained competitive advantage if firms that do not possess them cannot acquire or replicate these capabilities successfully from firms who possess them (Barney, 1991). In order to influence planning resources, institutional capabilities should be translated into activities that organizational members clearly understand. Ray, Barney and Muhanna (2004) on the effect of institutional capabilities and Business Processes on competitive advantage found that, there was significant positive effect of institutional capabilities on the link between firm resources and organization’s competitive advantage and that organizational capabilities that are not translated into activities, routines or business processes do not have any positive impact on organizational performance. Paulraj (2011) examined the relationship between internal resources and capabilities, sustainable supply management and organizational sustainability. The findings revealed that organizational capabilities splayed a significant role in managing sustainable supply practices as well as organizational sustainability. The study failed to focus on the effect of organizational capabilities on the relationship between strategic resources and organizational performance. A study by Ouakouak (2010) established that organizational capabilities have a positive mediating effect on the relationship between middle-level manager’s involvement in the strategy-making process and their ability to take autonomous actions in strategy development and
A study conducted by Gruber, Helnemann, Brettel and Hungeling (2010) found that organizational capabilities have a significant positive effect on the relationship between resources and firm performance. The study further revealed that the availability of resources might not necessarily lead to firm performance if the resources are not deployed and coordinated in the right and most optimal way. Given the above discussion, we suggest:

**H2a:** Institutional Capability has a positive significant mediating effect on the relationship between planning resources and financial performance of financial institutions.

**H2b:** Institutional Capability has a positive significant mediating effect on the relationship between planning resources and non-financial performance of financial institutions.

As shown in figure 1, our model theories that the performance of financial institutions directly influenced by planning resources and which, in turn, institutional capability mediating the relationship between planning resources and performance of financial institutions. According to the above literature review, the following conceptual framework was developed.

![Figure 1: proposed model](image)

**Research Method**

**Sample and Data Collection**

A cross-sectional survey methodology was used to test the hypothesis. The research scope was restricted to the financial institutions which are operated in Ethiopia. It is a model for specifying the relationships among the study’s variables as well as a blueprint that outlines each procedure from the hypothesis to the analysis of data (Kerlinger, 2007). The study’s population includes all banks & insurance companies that are operating in the Ethiopia market and are registered at the National Bank of Ethiopia (NBE). The final number of banks & insurance companies, which was included in this research, would be 18 banks & 17 insurance companies in which they are operated in Ethiopia. The study used census methods. All the banks & insurance companies were included in the research. A purposive sampling technique used to select 175 respondents as a sample size who are reached in such information and hold a position as top-level managers or senior managers in the organizations. This is in agreement with Mugenda (2008), who pointed out that the purposive sampling technique permits the researcher to use and access the required information. Out of 175 questionnaires, 142 usable ones were collected, which means 81 percent of the response rate. This was an acceptable response rate as it compared well to similar studies conducted, e.g., Machuki (2011) had a response rate of 43.3 percent. Ramanujam and Venkatraman (1987) study on strategic planning systems done in the USA had a response rate of 34.5 percent, while Elbanna (2008) study on strategic planning systems in Egypt had a response rate of 25 percent. This was an acceptable response rate compared to previous studies and
can be considered representative of the population and can thus be generalized. The researcher was decided to administer the questionnaire personally to enhance the response rate. This is consistent with Sharma, Yetton and Crawford (2009) who opined that personally administering questionnaires enhances the response rate and enables the researcher to get credible responses.

**Measures**

The study used five-point Likert-scale items to measure the constructs, which were adapted from prior studies for the measurement of most of the constructs, were used to test our hypothesis. The questionnaire was designed on a five-point Likert-type scale ranging from (1) - not at all to (5) - a very high extent. Planning resources measured in terms of the number of financial resources, the quantity of time, number of business networks and contacts, number of working equipment for planning, number of personnel in the planning department. (Elbanna, 2008; Venkatraman and Ramanujam, 1987, Ogbeide and Harrington, 2011), the indicators of institutional capability include the deployment of resources, accumulated experience and partnership with stakeholders, Amit and Schoemaker (1993), Saint-Amant and Renard (2003), Rauffet, Cunha and Benard (2010). The financial performance indicators for this study are profit before tax and growth rate, whereas the non-financial performance measures are market or customer perspective and internal business process, Kaplan and Norton (1996).

**Results**

**Reliability & Validity**

Reliability was evaluated using Cronbach’s alpha (see in Table 1). Following the suitable measures of planning resources, institutional capability & performance, the reliability test run to dig out if a suitable internal consistency had been got for each of the key variables. The widely used tools for checking the reliability of the survey response is the Cronbach's alpha, which describes the extent of normal correlation among the items of the given scale. The alpha coefficient ranges from 0 to 1 and has generally acknowledged the estimation of 0.6 or more (Pallant, 2010). Results show that Cronbach's alpha value for each of the variables ranged from 0.779 to 0.841.

<table>
<thead>
<tr>
<th>variables</th>
<th>Number of items</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR</td>
<td>5</td>
<td>.830</td>
</tr>
<tr>
<td>IC</td>
<td>10</td>
<td>.841</td>
</tr>
<tr>
<td>FP</td>
<td>10</td>
<td>.779</td>
</tr>
<tr>
<td>NFP</td>
<td>15</td>
<td>.833</td>
</tr>
</tbody>
</table>

Key: PR= Planning Resources, IC=Institutional capability, FP=Financial Performance, NFP=Non-Financial Performance

**Correlation Analysis**

The descriptive statistics, the correlation among variables, mean and standard deviation are presented in Table 2. The correlation analysis was performed to find out whether there is a relationship between variables. It is a useful step in any regression analysis attempting to find the influence of independent variables on an outcome variable. Table 2 shows that planning resources have a strong positive connection with a financial performance at correlation coefficient of 0.822 at a significant level of 0.01 and a positive connection with a non-financial performance at a correlation coefficient of 0.497. It is also revealed that a positive relationship exists between institutional capability & financial performance with correlation coefficient 0.559 and positive relationship exist between institutional capability & non-financial performance with a correlation coefficient of 0.708 at a significant level of 0.01. This result shows that regression analysis that looks at the best fit linear function that best describes the relationship between the dependent variable financial and non-financial performance and the independent variable planning resources and institutional capability can be estimated.
study, the coefficients were all below the upper limit of 0.90. Therefore, the independent variables were not highly correlated and further analysis could be safely undertaken.

Table 2: Descriptive Statistics & Correlation among Variables

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>PR</th>
<th>IC</th>
<th>FP</th>
<th>NFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR</td>
<td>3.7704</td>
<td>.38772</td>
<td>1</td>
<td>.513**</td>
<td>.822**</td>
<td>.497**</td>
</tr>
<tr>
<td>IC</td>
<td>3.8430</td>
<td>.33143</td>
<td>.513**</td>
<td>1</td>
<td>.559**</td>
<td>.708**</td>
</tr>
<tr>
<td>FP</td>
<td>3.7345</td>
<td>.31399</td>
<td>.822**</td>
<td>.559**</td>
<td>1</td>
<td>.632**</td>
</tr>
<tr>
<td>NFP</td>
<td>3.7441</td>
<td>.26101</td>
<td>.497**</td>
<td>.708**</td>
<td>.632**</td>
<td>1</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed), Sample size =142

Table 3 shows regression results of the influence of planning resources on financial performance. The coefficient of determination was 0.724, which means that 72.4 percent of the variation in financial performance was explained by planning resources. The remaining 27.6 percent was explained by other factors not considered in the study. The overall significance of the model with a p-value was less than 0.01. The null hypothesis was accepted and concluded that planning resources have a significant and positive influence on financial performance. In Table 3 the beta coefficients for all constructs are financial resources, planning space, business network, planning personnel and planning equipment were positive while the p < 0.01. All of the beta coefficients were significant, which means that the independent influence of the variables does have explain the changes in financial performance. Financial resources had a coefficient of 0.092 at a p< 0.05, planning equipment had a coefficient 0.226 at p<0.01, planning space had a coefficient of 0.098 at p< 0.01, planning personnel had a coefficient of 0.144 with a p< 0.01 while business network & contact had coefficient of 0.091 with a p<0.01. It means that a unit change in planning equipment causes an increase of 0.226 units in financial performance while a unit change in planning personnel causes an increase of 0.144 in financial performance within the financial institutions.

Table 3 also shows regression results of the influence of planning resources on non-financial performance. The coefficient of determination was 0.293, which means that only 29.3 percent of variation in non-financial performance was explained by planning resources. The remaining 70.7 percent was explained by other factors not considered in the study and the overall significance of the model with a p-value of which is less than 0.01. According to the results, the null hypothesis was not rejected; therefore, planning resources had a positive influence on non-financial performance. In table 3 below shows the beta coefficients of financial resources, planning space, & planning equipment was significant and positive effect, which means that the independent influence of the variables explain the changes in non-financial performance.

Table 3 Effects of Planning Resources on Financial & non-financial performance

<table>
<thead>
<tr>
<th>Variables</th>
<th>DV=FP</th>
<th></th>
<th>DV=NFP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resources</td>
<td>.092</td>
<td>.162</td>
<td>.136</td>
<td>.288</td>
</tr>
<tr>
<td></td>
<td>(.028)</td>
<td></td>
<td>(.037)</td>
<td></td>
</tr>
<tr>
<td>Planning space</td>
<td>.098</td>
<td>.184</td>
<td>.098</td>
<td>.222</td>
</tr>
<tr>
<td></td>
<td>(.026)</td>
<td></td>
<td>(.035)</td>
<td></td>
</tr>
<tr>
<td>Business network &amp;</td>
<td>.091</td>
<td>.194</td>
<td>.035</td>
<td>.076</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In order to test the indirect effects of the relationship hypothesized in H2a and H2b with a bootstrapped confidence interval. The researcher employed PROCESS macro 3.3 for SPSS 22.0 developed by Hayes (2013) and used five thousand samples based on a biased-corrected bootstrap method with a 95% confidence interval at each level of mediation (Preacher, K.J, & Hayes, 2004). Table 4 shows the empirical findings of these tests on indirect effect. The result of testing H2a indicates that planning resources has significant and positive indirect effect on financial performance through institutional capability ($\beta_{PR\rightarrow IC\rightarrow FP} = 0.0777, 95\% CI[0.0294, 0.1415]$) and planning resources has significant and indirect effect on non-financial performance through institutional capability ($\beta_{PR\rightarrow IC\rightarrow NFP} = 0.2125, 95\% CI[0.1342, 0.2955], p<0.01$), which has a positive effect. Thus H2b is supported, which means institutional capability has a significant positive mediating effect on the relationship between planning resources and non-financial performance. The $R^2$ square value tells us the indirect effect of planning resources through institutional capability explains 70.10 percent of the variance in financial performance and the indirect effect of planning resources through institutional capability being about 24.66 percent of variation in non-financial performance.

**Table 4 Results of Mediation Effects of Institutional Capability**

<table>
<thead>
<tr>
<th>Paths</th>
<th>Effect size</th>
<th>Boot SE</th>
<th>Bias-corrected CI. 95 %</th>
<th>Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>H2a:PR→IC→FP</td>
<td>0.0777</td>
<td>0.0283</td>
<td>[0.0294, 0.1415]</td>
<td>supported</td>
</tr>
<tr>
<td>H2b:PR→IC→NFP</td>
<td>0.2125</td>
<td>0.0410</td>
<td>[0.1342, 0.2955]</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Note: $R^2 = 0.7010$, MSE=.0299, when DV=FP and $R^2 = 0.2466$, MSE=.0517, When DV=NFP $p<0.01$, $\leq 0.05$ P

**Discussion**

This study established a significant positive relationship between planning resources with both financial and non-financial performance measures. Studies on organizational resources have a long history in strategic management in terms of determining competitive advantage. This primary concern has surfaced in the resource-based view of the firm, which has directed attention to substantial resource endowments of firms within industries (Wernerfelt, 1984; Barney, 1991). Kraatz and Zajac (2001) argued that organizational resources are valuable bundles of options for future strategic choices. Therefore, the findings of this study are consistent with past studies. Morgan et al. (2004) in Ismail et al. (2012) argued that financial resources were a source of a firm's competitive advantage and superior performance. The results contribute to the RBT by indicating to managers of financial institutions that it is how resources are combined that lead to a competitive advantage. The findings which is support to Kaplan and Norton's (1996) BSC perspective of measuring a financial institution's performance using
both financial and non-financial performance indicators. Kaplan and Norton noted that financial indicators were subjective and for firms to better measure their performance, they need to focus on non-financial performance. Previous studies give little attention to planning resources, so this study’s empirical findings provide evidence of performance being a function of planning resource endowments. Consistent with prior research, this study established that resources not only enhance internal and external growth of the firm but also were a function of both financial and non-financial performance in the financial sector (Ramanujam and Venkatraman, 1987; Kraatz and Zajac, 2001). The study established a statistically positive significant intervening influence of institutional capability on the relationship between planning resources and financial performance and also institutional capability has a positive mediating effect on the relationship between planning resources & non-financial performance. The study findings are consistent with Saint – Amant and Renard (2004), Cameli and Tishler (2004) who found that organizational capability enhances organizational performance through deploying and coordination of strategic resources and ability to utilize the accumulated experiences.

Through the mediation effect of institutional capability, this research indicated that the achievement of competitive advantage by financial institutions through the use of resource bundles depends on the level of institutional capabilities. Nasir and Sisnuhadi (2013) observed that it is evident that managers through resource transformation are a critical role in aligning the firm’s capabilities with an external environment which ultimately leads to better performance. Wheeler (2012) and Chen and Hung (2009) established that organizational capabilities facilitate an organization to integrate different resources in order to respond quickly to the changes in the dynamic environment and therefore gain the ability to deliver goods and services of superior value to their customers. The study findings concur with Ouakouak et al. (2014), who established that organizational capabilities have a positive mediating effect on the relationship between middle-level managers’ involvement in the strategy-making process and their ability to take autonomous actions and company performance. This research contributes to the resource-based theory by supporting the perspective that a companies’ competitive advantage is a function of a scarce, valuable, and unique resource which is embedded within the strategic planning resources. This study established that strategic planning resources are valuable resource bundles. Another theoretical contribution is to the dynamic capability theory, which posits that transformation of companies’ resources is achieved through dynamic institutional capabilities inherent indeployment, integration and configuration.

**Limitation & future research**

This study was limited in terms of scope. The study focused on banks and insurance companies’ context. It means, therefore the findings are limited to the banking & insurance sectors and could not be generalized to other micro-financial institutions. The cross-sectional research design adopted for this study caused a challenge to the results of the study. The results are limited by cross-sectional data, which have an inherent inability to predict causal relationships. Regarding to this view, longitudinal data would be better suited to prove causal relationships. Future studies could adopt a longitudinal approach and focus on collecting both qualitative and quantitative data based on time series. Future research should be a focus on the moderated relationships between planning resources and the performance of financial institutions. A possible moderator’s variables could be organizational culture and company size. Despite the limitation, we believe that these results provide compelling grounds for further debate and empirical research.


41. Pallant, J.2010),SPSS survival Manual: A step by step guide to data analysis using SPSS maidenhead


