

## Investigating the Effects of Strategic Management on Financial Performance of Companies Listed on Tehran Stock Exchange

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**Abstract:** Strategic planning is of utmost importance for the strategic management of companies. Therefore, the purpose of this study was to examine the effect of strategic planning on the financial performance of companies listed on Tehran Stock Exchange. The findings revealed that a lot of domestic and foreign companies included in the study sample had their own strategic management processes. Such processes were annual and reflected on significant organizational activities. The present study was one of the few investigations examining strategic planning process in a sample of companies in a developing economy wherein existing changes in corporate performance over time were determined in a way that they involved the use of strategic tools in a dynamic and competitive environment. The results of this study contributed to understanding the nature and strategic planning experiences in companies listed on Tehran Stock Exchange as well as the correlational potentials between corporate efforts and performance.

**Key words:** Strategic management, strategic issues, strategic tools, financial performance

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### INTRODUCTION

Thus far, the main emphasis of researchers in the field of strategic planning has been placed on the US and developed economies in Europe. As economy developed and grew in the US and Great Britain, various models and methods were proposed and critical discussions about the methods and concepts in order to improve competitiveness of such economies were raised. However, few research studies have been conducted to understand and use such tools and concepts of strategic planning in developing countries and organizations as the foundations of such economic systems. This study was to evaluate the manifestations of strategic management in the capital market of Iran with its own developing economy.

**Statement of the problem:** Although, the concept of strategy has grounded its fundamentals in competitive roles and efforts; over recent decades, this orientation has turned into a mainstay and a major process (corporate activities) in organizations in order to become a profit and a non-profit. Strategic planning is of utmost importance for the management of companies. Given the current global economic situation and the higher competitiveness of markets, the necessity and importance of using strategic planning and management processes in

companies has increased. Over the last decade, it has also become a significant and integral tool in organizations to have profitability, survival and continuity for corporate activities. These organizations have also improved strategic management processes and used them to understand the issues that have been out of control but have had major effects on their levels of survival and success. Such organizations have made use of their limited resources and capacities to enhance their competitive position (Kukalis, 2009).

**Purpose of the study:** The present study was to extend and develop previous findings by the evaluation of different types of strategic planning related to Iran's growing economy. It was also to examine the impact of this experience on the performance of companies using strategic planning. The term "performance" referred to "financial performance" in the present study calculated through certain financial ratios as follows.

**Research hypothesis:** It seems that there is a relationship between the use of strategic management and financial performance of companies.

**Review of literature:** In previous decades, the foundations of strategic planning were low inflation, proper and reasonable demands of customers, fixed rules,

low interest rates and stable markets. In this respect, inactivity and stability enable strategic managers to use aggressive strategies such as re-engineering, minimization of sections, transfer of part of the work out of the organization and whatever falls into the effectiveness of their work. By the time of the 21st century, the mentioned strategies lost their values and financial and physical goals disappeared in the late 1990s.

The need for the establishment of strategic planning processes cannot be discounted in the global economic vision. There are also other underlying factors that can be taken into account. To pay more attention to this issue, the present study examined the use of strategic management techniques employed by companies on Tehran Stock Exchange. To this end, the process of management development and strategic techniques used in past decades were delineated.

In the 1980s, companies dealt with a new phase referred to as strategic management, i.e., the integration of corporate resources to achieve competitive advantage. The given phase consisted of: a planning framework that was beyond organizational boundaries and facilitated strategic decisions in relation to resources and customer groups, a planning process that encouraged entrepreneurial thinking and a system of corporate values reinforcing management commitment to corporate strategy (Gluck *et al.*, 1980).

In the mid-1980s, the ineffectiveness of strategic management process led many specialists in this field to stress on the need for strategic thinking. In the 1990s, strategic paradigm developed with the advent of strategic thinking in order to assist and facilitate strategic planning and strategic management. Development of strategic paradigm from strategic planning to strategic management and then to strategic thinking was a reflection of economic, technological and social changes which started in the mid-1950s and reached their higher levels of instability in the environment especially from 1984 and exposed strategic processes in organizations with new requirements (Shannassy, 2001).

In the 1990s, improvement of management performance depended upon increased equity value. With the widespread use of financial incentives such as the right to select the stock, the increase or maximization of equity value was facilitated. In the late 1990s, these financial incentives resulted in incomprehensible profits that also expanded in other countries such as Germany and Japan. Despite numerous research studies on the use of managerial incentives to increase equity, some materialistic and unethical business practices were established. These issues disregarded validity and success of managerial incentives in 1990.

Since the 1990s, there have been lots of pressures on organizations which can be mentioned as the necessity for more flexibility and adaptability of strategic processes. These pressures included high levels of instability in the processing context of organizations, continued difficulties in improving the implementation of strategies and increasing importance of organizational culture and inter-organizational policies to achieve effective strategies. To prove that strategic planning in the 1970s and strategic management processes in the 1980s were not able to overcome such pressures led to the development of a strategic paradigm. In the 1990s, greater emphasis was placed on strategy as a process of social interaction and there was more focus on decisions at individual and organizational levels. Currently, strategy is an overall process and staff at all levels of the organization including the board of directors, chief executive officers, senior managers, internal consultants, executives and external stakeholders such as consultants, suppliers, creditors, capital owners and lenders were involved in strategic thinking to contribute to facilitating the implementation of the strategy by having their own continuous inputs and their commitment to strategic processes. In this respect, the employees in particular can play a key role in determining corporate boundaries and transfer valuable insights about market trends and customers to the company crucial for strategic success (Wilson, 1994).

All strategic managers require re-evaluations in their traditional planning processes in order to have a foresight. There are also tools and controllers to operate different systems and on the other hand the external environment of organizations is increasingly growing. Therefore, new prediction techniques should be established to show the stability and variability of new global markets. It should be noted that unpredicted conditions in all aspects and organizational environments are expected and they are converted into laws; while, in the 21st century, the presence of unpredicted and unexpected conditions are considered as exceptions (Kukalis, 2009).

In terms of the appropriate level of deep strategic thinking and balance in the use of intuition and analysis, what may be suitable for a company or a manager in a special condition is not necessarily considered appropriate for other companies or managers in different situations. Strategic thinking and strategic planning are both indispensable and no one is no longer enough by itself. Flexible approaches in strategic thinking can help to achieve better strategic planning. Establishing a balance between intuition and analysis is also of utmost importance. No unique formula is available for success in

strategic thinking, i.e., the approach that works for a company or a manager may not suit other companies and managers (Heracleous, 1998).

Moreover, conflicts within organizations could be due to conflicts caused by an innovative, divergent and intuitive approach in dealing with strategic issues. As a result, it is necessary to consider strategic thinking, organizational culture and policies, as well as group behavior to understand organizational processes in a better manner. The evolution of this paradigm made it evident that managers and organizations should master a broad scope of topics such as perceptive (cognitive) psychology, system theory, contingency theory, group dynamics and concept of learning organizations in order to facilitate effective strategic thinking (Stacey, 1993).

As it was previously noted, the relationship between corporate strategic planning efforts and performance has been highly emphasized. Despite the large number of studies examining the stated relationship, the results have been uncertain and non-conclusive, so that some of the findings suggested a positive relationship, some a negative one and some others concluded with no relationships.

Many researchers have tried to reflect on such conflicting results. A published research in this line generally reinforced the hypothesis that formal planning was useful but detected considerable research problems in such studies. The main problem was associated with few definitions or descriptions of strategic planning processes for research purposes. It was concluded that due to the absence of a definition or description for planning techniques, there was no possibility to validate planning scientifically (Armstrong, 1982).

The issue that formal strategic planning as a criterion can increase economic efficiency of a company is not acceptable and often contradictory. This research had concerns about the limitations of approaches on the ability of researchers to understand the impact of strategic planning on financial performance. The results were based on a review of 18 research papers examining the relationship between formal strategic planning and organizational performance using single definition for strategic planning. They also had concerns in terms of lack of a consistent definition for strategic planning, measurement of establishing a strategic planning and impact of company's working field and commercial factor scale (Pearce *et al.*, 1987).

In another study, it was revealed that a widely accepted definition for strategy was lacking and the inability to measure strategic planning was an obstacle for research attempts to determine true relationships between dependent and independent variables (Venkatraman and Grant, 1986).

Another study based on the examination of the results of 21 research studies between the years 1970 to 1988 including 29 samples and 2496 companies indicated relatively small and positive correlations between strategic planning and economic performance. There were also concerns in the case of significant measurement errors in these studies which were likely to lead to a poor estimate of the relationship between strategic planning and financial performance (Boyd, 1991).

The other notable research in this respect proved that this issue was not true. According to this study; in research studies in which the industrial effects were controlled, a source of performance data was used, planning was defined in a way that did not demand any written documentation, quality of strategy determination was high and planning was strongly and positively associated with growth (Miller and Cardinal, 1994).

## **MATERIALS AND METHODS**

This experimental research was conducted in the form of a field study using a questionnaire to measure the variables, collect the data and required information. The components of the questionnaire were developed based on theoretical and conceptual definitions. The given questionnaire also included 22 items in total.

In this study, part of the data was collected through a field study using the attached questionnaire. The section on financial performance was collected through data available on Tehran Stock Exchange.

**Validity of the questionnaire:** Validity addresses the question "how much the research instrument measures targeted features". Without any knowledge of the credibility of the measurement instrument, the data obtained cannot be precisely ensured (Bazargan *et al.*, 1998).

There are several methods to determine the validity of a measurement instrument including face validity. To determine the face validity of the questionnaire, the researchers and scholars involved in research on integrity and transparency of questionnaire items were interviewed. To this end, 10 professors and experts in this field as well as 8 managers of companies listed on Tehran Stock Exchange spelled out their comments on the questionnaire and its items and they confirmed it. Furthermore, this questionnaire was developed using standardized indicators.

**Reliability of the questionnaire:** Reliability is one of the technical features of measurement tools. The given

Table 1: Correlation coefficient

Hypotheses	Sig.	Accept/Reject	Results
There is a relationship between strategic processes and sales growth	0.576	Reject	There is no significant relationship between strategic processes and sales growth
There is a relationship between strategic issues and sales growth	0.014	Accept	There is a significant relationship between strategic issues and sales growth
There is a relationship between strategic tools and sales growth	0.416	Reject	There is no significant relationship between strategic tools and sales growth
There is a relationship between strategic processes and net profit	0.997	Reject	There is no significant relationship between strategic processes and net profit
There is a relationship between strategic issues and net profit	0.387	Reject	There is no significant relationship between strategic issues and net profit
There is a relationship between strategic tools and net profit	0.494	Reject	There is no significant relationship between strategic tools and net profit

concept deals with the issue that “how much the measurement tools in the same conditions lead to the same results”.

One of the methods of calculating reliability is Cronbach’s alpha. This method is employed to calculate the internal consistency of measurement tools specially questionnaires (Bazargan *et al.*, 1998).

In this research, SPSS Software was used to calculate Cronbach’s alpha. In this way, initial Cronbach’s alpha test was calculated following the distribution of 30 questionnaires.

According to Nonaly, if alpha is  $>0.7$ , the questionnaire is reliable. Based on the given Table, since the alpha value associated with each variable and total alpha was  $>0.7$ , all the variables were reliable discretely and together. As a result, the questionnaire of the study with the alpha value of 0.821 had the required reliability.

The statistical population of this study were companies listed on Tehran Stock Exchange, i.e., all the characteristics, especially those of importance in terms of research topic were available to a fit level in the sample in order to generalize its results to the entire population. The sample size also means the total number of elements in the sample; on the contrary, statistical sample size is the total number of elements in the sample population which is the calculation basis for sampling.

The sample size of this study was determined based on “estimate of sample size according to sample size table of determination based on population size”. Using the following formula, the sample size can be estimated from the size of the population. Given the 0.05 sampling error and the 0.095 confidence level, the sample size was equal to:

$$n = \frac{Z^2 NP(1-P)}{d^2(N-1) + Z^2 P(1-P)}$$

In this study, a sample size of companies listed on Tehran Stock Exchange was 64.

**Data analysis:** Since, the research hypotheses were similar, Pearson’s correlation coefficient as a statistical technique was used to test the hypotheses.

**Correlation:** Correlation analysis is a statistical tool that can be used to measure the degree to which a variable is related to another variable in terms of linear relationship. Correlation is usually used along with regression analysis and it is a measure used to determine the relationship between two variables. For correlation, two criteria are discussed: coefficient of determination and correlation coefficient.

**Correlation coefficient:** If the squared root of coefficient of determination is taken into account, the value obtained is called correlation coefficient. The correlation coefficient also shows the intensity of the relationship as well as the type of relationship, whether direct or reverse and it is always between 1 and -1. Correlation coefficient ( $r$ ) is the symbol of slope of regression analysis ( $b$ ).

In this study, hypotheses were proposed. Pearson correlation coefficient was also used to test the research hypotheses and analyze the results. Table 1 extracted from the SPSS Software was the correlation coefficient between the variables of the study. Based on this Table, the research hypotheses were tested.

## CONCLUSION

Testing the research hypotheses revealed that: among the variables related to strategic management, attention to strategic issues was only linked to the financial performance of companies listed on Tehran Stock Exchange. In other words, attention to strategic issues by the management of company could lead to higher sales growth and improved financial performance of listed companies. But other variables associated with strategic management had no effect on financial performance.

The results demonstrated that attention to strategic issues in a company such as setting quantitative goals; analysis of similar markets, organizational capacity

assessment, analysis of environmental changes and search for new markets had led to a rise in corporate sales.

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