

Analysis of the effects of strategic management on the financial performances in admitted companies to Tehran stock exchange

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Abstract: Strategic planning is quite important for strategic management in companies. The aim of this research is expressing the effects of strategic planning on financial performances of admitted companies to Tehran stock exchange. Our findings indicate that many of the domestic and foreign companies in our sampling have their own exclusive strategic management process. This is an annual process, considering a very important organizational activity. This research is one of the scarce studies dealing with analysis of the strategic management process in a set of companies, in a developing economy. This research determines the existing changes in their performances in a due time, such that using strategic tools is intervened in a dynamic competitive environment. The findings of this study have a great role in the notion of the nature and experience of strategic planning in admitted companies to Tehran stock exchange, and in the probability of correlations between the attempts and their performances.

[khaddemi Moghadam A, Torkzadeh M, Amoozesh N. **Analysis of the effects of strategic management on the financial performances in admitted companies to Tehran stock exchange.** *Life Sci J* 2013;10(3s):574-578] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 91

Keywords: Strategic management, strategic subjects, strategic tools, financial performance.

1. Introduction

The main focus of researchers in strategic planning has so far been on the U.S.A and European developed countries that were developed alongside U.S. and England. There have been different models and techniques presented and there have been important discussions about the techniques and concepts regarding improvements in competing in such economies. There have been few researches dealing with investigating the notions and using the tools and strategic planning concepts in developing countries and the organizations establishing the basis of such economic systems. In the study, we are looking for strategic management aspects in Iranian capital market that is having a developing economy.

Expressing the case:

Although the concept of strategy has had its main basis in competitive roles and efforts, but it has transformed in the recent decades to a relying point and principle process (organizational activity) in organizations for profiting and non-profiting aspects. Strategic planning is quite important for managements in companies. Regarding the present world economy conditions, the more the markets become competitive, the necessity and importance of using strategic management planning and processes increase.

It has become an important and necessary tool in the companies for more profits, survival and continuity of the activities in the companies. These organizations modify strategic management processes and used them in order to find subjects that could not be controlled, but have effects on their

survival and their success. They use their limited resources and capacities in order to improve their own competitive situations (kukalis-2009).

The aim of the research

The aim of this research is expanding and developing previous findings by using the investigations regarding different strategic plans, related to the developing economy in Iran and it also analyzes the effects of the experiences on the performance of the companies applying strategic programs. In this article performance is referred to financial performance, calculated via some financial ratios and that are expressed as follows:

Research hypothesis:

It seems that there is a relation between applying strategic management and the companies' financial performances

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3. Research variables:

Independent variables :

The rate of using strategic management mechanisms is used as the independent variable, in this research, that is evaluated by a questionnaire. As an important variable, strategic planning could affect the performance of a company. The variables in this regard include participation of high level managers in strategic management process, establishing a statement regarding the mission and goals of organizations and using strategic analysis tools such as SWOT matrix, economic estimations, main

success factors, BCG matrix and using porter competitive model

Dependent variables :

The financial performance of the companies as a dependent variable is calculated by the two measures of not profit and sales growth. Net profit could be obtained by observing profit and loss accounts and the sales growth could be obtained by dividing the difference of two years profits to the last year's profit. The required data for calculating the mentioned variables is extracted from the published financial statements of the companies.

Definition of the terms:

Strategy: instructions about the state of decisions affecting the long-term performance of organizations that the organizations follow to achieve their future goals

Strategic planning: planning that deals with the goal of organizations regarding their main businesses planning about long –term goals of organizations and selecting essential activities to verify the goals.

Strategic analysis tools: Methods used for evaluating strategic management process, such as SWOT and BCG matrix

Financial performance: evaluating the company's situation, regarding profit making, that is done by measures such as net profit and sales growth

Sales growth: this variable is calculated by dividing the difference in sales of two years to the first year sales rate.

4. Research literature

The principles of strategic planning in previous decades were low inflation, proper demand of the customers, fixed regulations, low profit rate and static markets. stasis and stability enable strategic managers to apply invasive strategies such as re-engineering, reducing sections, transferring a part of work outside their organizations and whatever is effective in reducing costs. Simultaneous with coming into the new century, the mentioned strategies lost their values. The physical and materialistic aims vanished by the end of 1990s(Martinez, Haddock-2007).

The necessity of creating strategic planning processes could not be ignored in the global economic outlook. There are other factors that could be considered, too.

For more considerations, this article analyzes the application of strategic management techniques of stock exchange companies. To follow, we deal with the trend of developing management and strategic techniques in the last decade.

in 1980, companies confronted a new phase, regarded as strategic management, that consisted of integrating. This phase included:1) a planning framework considering organizational boundaries and facilitating the strategic decisions about

resources and customers' groups, 2) a planning process encouraging entrepreneurship thoughts and ideas, 3) a system of company's values stimulating the management obligations to the company's strategies (gluck-1980)

Ineffectiveness of strategic management process led many of the specialists in this field in 1980s to emphasize on the necessity of strategic thoughts. in 1990s, the paradigm of strategy evolved more by the emergence of strategic ideology in order to aid strategic planning and facilitate it. evolution of the paradigm of strategy from strategic planning to strategic management and then to strategic thoughts and ideology is the reflection from economic, technical and social changes that emerged from 1950s and rose from 1984 by higher levels of instabilities in the environment, confronting strategy process in the organizations with requirements (O'shannass -1999).

In 1990s, the improvement of management performance depended on the increase in the equity. By using extensive financial incentives such as the right to select share, increasing or maximizing the equity become easier. By the end of 1990s, the financial incentive resulted in inscrutable interest that was also extended in to the countries such as Germany and Japan. Although extensive research was done on management incentives in increasing the equity, but lots of immoral and avaricious action have been emerged in agencies. These have destructed the credibility and value of the success of management incentive schemes of 1990s. We have observed from 1990s that organizations have tolerated extensive pressure that could be regarded as the necessity of more flexible and more conformity of strategy process. The pressure include: high level of instability in the processing environment of organization, continuous problems in improving execution of the strategies and increasing importance of organizational culture and intra- organizational policies in verification of effective strategies. Due to the fact that strategic planning of 1970sand strategic management process in 1980s could not overcome the pressures led and resulted to evolution of the paradigm of strategy. In 1990s, we observed higher emphasis on strategy as a mutual social process and higher emphasis on individual or organizational decision making. Now, strategy is a general process. Employees in all level in an organization, including the board of directors, managing director, senior manager, internal consultants, executive managers and outside beneficiaries such as consultants, suppliers, creditors, invertors and loan providers could intervene in the strategic ideology to help in facilitating the execution of the strategy by their continuous inputs and obligations towards the

strategic process. The employee in particular can have a role in determination of the limitations in the organization and transfer a valuable view about the market and customers trends to the organization (Wilson- 1994).

All the strategic managers need a re-evaluation of traditional planning processes as for their foresight. Control instruments and tools for executing different systems and the outside of organizations are increasing enormously. New foreseeing techniques should be deployed to show the stability and variability of global markets. Unexpected conditions in all cases and the organization environmental should become expected and legitimate, while the existence of unforeseen conditions in the 20th century was among the exceptions (Kukalis2004).

Regarding the appropriate level of strategic thinking and the balance of evidences and analyses, it may be the case that whatever is appropriate for a manager or a company may not be so for another. Strategic thinking and strategic planning are both essential and complementary to each other. Flexible approaches in strategic ideology could help us in reaching strategic planning. Providing the balance between the evidences and analysis is quite important. There is no exclusive formula for the success in strategic ideology and thinking and the appropriate approach for a company or a manager may not be appropriate for the other ones. (Heraleos-1998)

Contrasts within the organizations could be due to the created contrasts because of creative, convergence and evidential approach in facing strategic problems. Hence, it is necessary to consider strategic thinking organizational culture and policies as well as group behavior for better understanding of organizational processes. It is evident from the evolution of this paradigm that managers and organizations should enter the expanded field of subjects such as conceptual psychology, systems theory, demanding theory, group dynamicity and the organizational concepts to facilitate the effective strategic ideology and thinking (Stacey- 1993).

5. Previous research:

As stated before, the relation between the attempts for strategic planning of the companies and their performances is highly considered. But despite numerous researches in this field, the results have been inconsistent, such that some findings indicate the existence of positive relations; some indicate negative relations and some show no relations at all.

Many authors have tried to notify the contradictory results. A research was published in this case that enforced this hypothesis that official planning is useful, but stated that there are many research problems in this regard. The important is

that there are little descriptions or definitions about strategic planning process for the aims of this research. The result indicated that with no definition from planning techniques, determination of planning values is not possible in scientific aspects (Armstrong-1982). Another study stated that the criterion that official strategic planning increases the economic efficiency of a company is unacceptable and mostly contradictory. This study provided worries, regarding the effects of limited methods on the capacity of the researchers for the concept of strategic planning effects on the performances. The results were based on reviewing the result of 18 articles that investigated the relations between officials strategic planning and the organizational performance, by the use of a definition for strategic planning. They also had concerns about the lack of existence of a compatible definition for strategic planning, the state of measuring strategic planning and the effects of the company's tasks and also the commercial dimensional coefficients (Pearce, Freeman, Robinson, 1987).

Another study stated that an acceptable definition by the public is not available for strategy and inability in measuring performed strategic planning has disturbed and blocked researching efforts for determining real relations between dependent and independent variables (Venkatraman, Grant-1986).

Another research according to the results of another 21 research published in 1970-1988 and consisted of 24 samples and 2496 companies indicated there are only few correlations between strategic planning and economic functions, but there were concerns about the measuring errors in these studies that concluded the fact that this point may probably lead to an inappropriate estimate about the strategic planning and strategic performance (Boyd-1991).

Another considerable study proves that the case is not verified. This research indicates that in the research that industrial effects are controlled a resource of performance data is used, the planning is defined in such a way that there is no need for written documentation and the quality of strategic determination is high, and planning is having positive relations with the growth (Miller, Cardinal- 1994).

6. Research methodology

This research is experimental and will be done by field method and using questionnaires. To measure the variables and collecting required data and information, questionnaires are used in this research and the statements are based on theoretical basis and conceptual definitions. The prepared questionnaire includes 22 questions.

A part of information in this research is in field form, collected via the attached questionnaire and the part related to the financial performance is collected the existing data in Tehran stock exchange.

Validity of the questionnaire

Validity responds to the question of the extent the considered parameter is measured by the measuring tool. Without the knowledge about the validity of the measuring tool, the accuracy of the obtained data could not be taken into account. (Sarmad, Bazagan-2001).

There are numerous methods for determining the validity of measuring and the superficial validity is one of these methods. To determine the superficial validity of the questionnaire, survey will be done from the activities and researchers in the field of verification and clarity of the questions in the questionnaire and hence the views of 10 Professors and 8 managers of stock exchange managers were taken and thus the validity of research was confirmed. Moreover, the questionnaire is arranged by using valid indices.

Reliability of questionnaire

Reliability is one of the technical characteristics of measuring tools. The mentioned notion deals with the identical results by the measuring tools in similar conditions.

One reliable calculating method is using Alpha. Cronbach. This method is used for calculating the internal coordination of measuring tools such as questionnaires (Sarmad Bazargan- 2001).

SPSS software was used in this research for calculating alpha. Such that after distributing 30 questionnaires as the primary test, alpha was calculated.

According to Nonali, if alpha Cronbach is greater than 0.7, the questionnaire is reliable. According to the mentioned table, since the value of alpha for each variable is greater than 0.7, All the variable on their own and all the variables as a whole are reliable. Hence the questionnaire is reliable, with having the value of alpha equal to 0.821.

The statistical population of this study is the admitted companies in Tehran stock exchange. It is for the reason that all the characteristics, especially the ones that one important for the subject of the research to be existing accordingly and obtained results could be generalized for the total statistical population. Also, the sample volume means the total No. of elements existing in the samples. In contrast, the volume of statistical population is the set of existing elements in the statistical population that is considered as the basis of calculation in the sampling. According to “ the estimation of the sample volume regarding the table for determining the sample volume from the population volume”, the sample

volume is determined and by the use of the following formula, the sample volume could be estimated from the population volume. Regarding the sampling error of 0.05 and certainty level of 0.095, the sample volume will be: Z^2

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

The sample volume in this research includes 64 companies admitted in Tehran stock exchange.

7. Data analysis

Since the research assumptions are identical, only one statistical technique; i.e Pearson correlation coefficient is used for testing the assumptions

Table 1: Results of test assumption

Assumption	Sig	Refusal or confirmation	Result
Strategic processes are having relations with sales growth	0.576	Refuse (No)	No significant relations are observed between strategic process and sales growth
Strategic subjects are related to sales growth	0.014	Confirm (yes)	significant relations are observed between strategic subjects and sales growth
Relations between strategic tools and sales growth	0.416	Refuse (No)	No significant relations are observed between strategic tools and sale growth
Strategic processes are related to net profit	0.997	Refuse (No)	No significant relations observed between strategic process and net profit
Strategic subjects are related to net profit	0.378	Refuse (No)	No significant relations observed between strategic subjects and net profit
Strategic tools are related to net profit	0.494	Refuse (No)	No significant relations are observed between strategic tools and net profit

Correlation

Correlation analysis is a statistical tool to measure the linear degree of relativity of one variable to another. Correlation is usually used with regression analysis. Correlation is a criterion used for determining the rate of relations between two variables. Two variables are discussed in correlation: Determination coefficient and correlation coefficient.

Correlation Coefficient

If we take the second root of the determination coefficient, the result is called correlation coefficient. Correlation coefficient shows the relation intensity and also the type of relation, as

direct or inverse, and it is always between +1 and -1. The sign of correlation coefficient(r) is the same sign of regression slope(b).

In this section and by expressing the research hypotheses and using Pearson correlation coefficient, we are looking for the hypotheses and analyzing the obtained results. The following table, extracted from SPSS software, indicates Pearson correlation coefficients among the research variables. We deal with the testing of the research hypotheses in accordance with the table.

8. Conclusion

By analyzing the result of testing the assumptions, the following point are concluded.

A among the variables related to strategic management, it is only the strategic subjects that have relations with the financial performance of the admitted subjects that have relations with the financial performance of the admitted companies in Tehran stock exchange, in other words, notification of a company's management to the strategic subjects has resulted in the scales growth financial improvement of the admitted companies in the stock exchange. But other variables related to strategic management have had no effects on the financial performance of the companies. The results show that considering strategic subjects such as determination of quantitative aims, analyzing similar markets, analyzing organizational capacities, analyzing environmental changes and searching for new markets have caused the increase in the sales of companies.

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1/6/2013