

## **Does Synergy Mentality Mediate Between Strategic Planning Relationship and a Firm's Performance? An Empirical Study of Manufacturing Companies in Indonesia**

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### **ABSTRACT**

This study endeavours to investigate the mediating role of synergy mentality between strategic planning relationship and a firm's performance. The study used the descriptive research design and the conceptual framework was tested using a multiple regression model. Data were collected using questionnaires distributed to senior managers, general managers and directors of manufacturing companies in Indonesia. The hypotheses were analysed using IBM SPSS. The results suggest that not only does strategic planning have a direct impact on a firm's performance but also on the mediating role of synergy mentality. In support of past findings, the present study shows that strategic planning has a positive relationship related to a firm's performance especially with synergy mentality within a firm's managerial levels. The present study is one of the first to empirically examine and confirm the mediating role of synergy mentality on strategic planning and firm performance.

*Keywords:* Synergy mentality, strategic planning, firm performance

### **INTRODUCTION**

Since 1994 when Henry Mintzberg's book "The Rise and Fall of Strategic Planning" came onto the scene, Igor Ansoff, the "victim" of most statements in the book, answered and challenged it with several published international journals and seminars in his

academic classes. Most of that academic feedback could be found in Ansoff's book, "Implanting Strategic Management", and several unpublished dissertations by Ansoff's strategic management students. From time to time most of the prominent

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scholarly works that were published by international journals stated that firms with formal strategic planning had performed much better than firms without it (Ansoff et al., 1970; Steiner, 1979; Rhyne, 1986; Martinet, 2010).

The first activity in management is planning and therefore, company leaders need to understand the essential importance of planning to produce the right plan by the right person. Strategic planning comes into the picture when they need a plan to anticipate their future environment. Thus, companies need to understand the role of a strategic plan concerning their internal environment and their external environment.

The study of strategic planning has been evolving following the changes in the business environment. Ansoff and his fellow Ansoffians (Moussetis, 2011) have shown that companies that fail to match their environmental turbulence level would in the end fail to compete. Companies must align their strategic aggressiveness and capability responsiveness and then plan and manage changes that should be made accordingly to gain a future competitive advantage. It is dynamic as change is always present and if flexibility is required by the external business environment, companies need to be more prepared and active in anticipating the future by preparing their strategic activities in view of possible future scenarios.

In explaining Ansoff's real contributions, Martinet (2010) said that today, few students, teachers and consultants realise that they are using, on a daily basis, a large set of concepts and tools elaborated

in Ansoff's seminal book (1965, 1988) and developed further by consulting firms (Boston Consulting Group, Mc Kinsey, AD Little) and other researchers. Examples include the three-level process of decision making, namely, strategic, administrative, operational; the objective system; the concepts of synergy and competencies profile; the matrix products vs. markets; the generic strategies and the growth vector; the portfolio analysis.

Synergy today is still one of the most common activities in the business environment and it was clearly stated by Ansoff (read the Mintzberg 1994 quotation on synergy by Ansoff) that it was one of the key factors in strategy and therefore, companies need to know the essentials of synergy and should know how to measure synergy. Synergy needs to be planned since every level in the business environment requires a different mindset and appropriate style of synergy (Martinet, 2010; Moussetis, 2011).

## **THEORETICAL BACKGROUND**

### **Strategic Planning**

Besides Mintzberg and Ansoff's works, several other research works on the relationship between strategic planning and firm performance have been conducted in different countries and industries and have yielded ambiguous results. Most supported the positive relationship between strategic planning and a company's innovations towards firm performance (Ansoff et al., 1970; Steiner, 1979; Kohtamaki et al., 2012; Dibrell et al., 2014), but a few were against

optimum performance (Mintzberg et al., 1994, 1998).

Earlier scholars argued that strategic planning was a formal process needed by top management. Strategic planning should be entrepreneurial and strategic to position and relate a firm to a relevant business environment and therefore, be able to better guarantee its future success (Ansoff et al., 1970; 1990; Steiner, 1979), since it is based on examination, evaluation and investigation of several genuine and innovative alternatives.

One study of 448 firms in a multi-industry sample explored the link between financial performance and the formal strategic planning process, planning flexibility, and innovativeness. The results suggested that firms' formal strategic planning processes and planning flexibility are positively associated, and each is positively related to innovativeness. In addition, innovativeness fully mediates the relationships between firm performance and the formal strategic planning process and planning flexibility (Dibrell et al., 2014). This research explained that flexibility was important during the process of planning, and when the implementation results have been facing many challenges. The author believes that besides innovation there are also other strategic aspects that a company could focus on to enhance its competitive advantage.

Based on an empirical investigation of 160 IT firms based in Finland, one study demonstrated that personnel commitment to strategy implementation clearly mediated the

relationship between participative strategic planning and company performance but that organisational learning did not (Kohtamaki et al., 2012). The results contributed to the literature on current strategic planning and strategic entrepreneurship by identifying a construct that plays a mediating role in the relationship between participative strategic planning and company performance in the context of a dynamic industry.

The above-mentioned studies have shown the role of mediating variables in a firm's performance, and we can also assume that not only is the formal strategic planning process essential but also the informal aspect of organisational behaviour. Both contribute to the overall performance and achievements of a firm. We can hypothesise then that the more usage of strategic planning by a firm's top management the better will be the firm's overall performance and other aspects of its operations and achievements.

### **Synergy Mentality**

The word synergy comes from the Greek language *synergos*, meaning *working together* (Hitt et al., 2005). Webster's New World Dictionary describes synergy as a combined or cooperative action or force. The study of synergy was initiated some time ago and it has been shown to have both positive and negative impact on a firm's performance (Gruca et al., 1997; Damodaran, 2005). The synergistic effect works by combining essential forces that drive a company and this can be worked out in formula i.e.  $2+2=5$  as derived by Ansoff (1965, 1988).

One scholar argued that two business units gain synergistic value when their “two in one” value is much more compared with the total value of the two units added separately; this is given in a simple formula as  $\text{value (a, b)} > \text{value (a)} + \text{value (b)}$  (Tanriverdi, 2006). The same scholar also said that a company would benefit in cost synergy when the usage of production factors reduced the overall cost of production from the two business units, or  $\text{cost (a, b)} < \text{cost (a)} + \text{cost (b)}$ .

According to Webster’s New World College Dictionary, mentality means mental capacity, power or activity; mind and mental attitude, or outlook; state of mind. Studies on management and strategic management have shown that without top management commitment and mentality a plan and a strategic plan cannot be properly established and executed and therefore, a firm’s competitiveness cannot be reached.

As defined by Ansoff (1990), the mentality of a firm’s managers or leaders includes the relative preoccupation with external and internal problems, and this is reflected in prominent companies as good overall performance because the firm focusses on matching its internal capabilities environment with its external business environment, which is ever changing. Managers or leaders are concerned with the past versus future time orientation, propensity to take risks, the manager’s personal model of the world and what leader perceives to be critical success factors and behaviours, and the leader’s values, norms and personal goals.

Based on this argument, strategic mentality can be developed as an effective mindset and managers can be trained to exercise strategic thinking to ensure they are prepared to anticipate future potentials, opportunities and threats. Thus, this type of thinking should become entrenched at top-management level and spread as an effective mindset and behaviour for the whole company to adopt. Therefore, essential training for building strategic mentality should also be planned according to the psychological characteristics of the top management and potential future top managers in addition to technical and technological aspects.

In their research into tackling the question of what good knowledge worker leadership in China and Indonesia is supposed to entail, Bildstein et al. (2013) identified several critical challenges and synergy potentials that could be identified from complementary behaviours to increase a firm’s overall performance.

Corporate leaders and managers having a bureaucratic management style or defending the status quo mentality often cannot cope with the unavoidable change and turbulence of the business environment. They need marketing and creative mindsets as necessary aspects in a business environment for companies to gain and sustain a competitive advantage (Ansoff et al., 1988, 1990; Moussetis, 2011).

Using Ansoff’s paradigm (1990), employees’ mentality level toward synergy can be grouped depending on the turbulence level of each company’s business

environment. If the business environment is at level 1 with only a company in one particular industry, then the mindset of working together might not be needed because there is no competition in the market. However, today's world is changing and nothing is more stable than change itself. A company needs to ensure that it can manage unavoidable change.

For a business environment at level 3, which requires a greater 'marketing' mindset to succeed, the extent of working together at the synergy level may not be needed as much as by companies at the level 5 environment (creative and entrepreneurial mindset), but a synergistic plan should be explicitly stated in the agenda by top manager. Failure to have and to implement such a plan will cause a significant effect for the company to build and sustain its competitive advantage (Porter, 1983; Ansoff et al., 1990).

Problems will occur when companies at business turbulence level 3 and level 5 have in top management people who possess the mentality of managers at business turbulence level 1 such as that no change is needed, defending status quo, nothing to be compared with and sticking to business as usual.

We may, therefore, hypothesise that a suitable level of synergy mindset might have a positive relationship with firm performance and it can also mediate between strategic planning relationship and the firm's overall performance. The more positive the mindset towards synergy, the better the firm's performance will be.

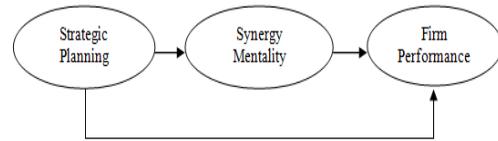


Figure 1: . Research model

## RESEARCH METHODOLOGY

### Data Collection

To explore strategic planning and synergy mentality at a firm's management levels, the author at the outset prepared questionnaires based on some relevant published journals and seminal books by prominent writers in the field of strategic management, strategic planning and synergy (Ansoff et al., 1965, 1970, 1988; Steiner, 1979; Mahajan et al., 1988; Mintzberg et al., 1994).

The author has given thorough attention to the Indonesian economic facts and figures (Gross Domestic Product, GDP), particularly on the contribution of the manufacturing industry. The contribution of the manufacturing industry to the Indonesian GDP in 2014 was 21.02 % as compared to 20.98 % in 2013. The contribution of the oil and gas industry within the manufacturing industry was 3.26 % in 2013 and 3.15 % in 2014 while the non-oil and gas industry contributed 17.72 % and 17.87 % in the years 2013 and 2014, respectively (Ministry of Industry, 2015).

In terms of consistent and representative data from the companies, the author focussed on respondents who were members

of management teams including senior managers who had been working for more than five years in one firm, general managers who were the supervisors of the senior managers and who had worked for more than five years in a firm and directors in selected manufacturing sub-industries e.g. the chemical industry, automotive industry, infrastructure industry, coal mining industry, power plant industry and pulp and paper industry. These industries are important in the context of the Indonesian economy and based on the Ministry of Industry's report (Ministry of Industry, 2015).

To ensure the respondents clearly understood all the points when giving their answers in the questionnaire, the author conducted direct interviews with them by phone after sending out the questionnaire and prior to receiving their feedback. The author also gave a proper and immediate response when receiving questions in emails from all the respondents to ensure their answers were correct and relevant.

### Measures

Synergy mentality, the independent variable in this research, was measured following earlier research in the relevant field as well as the respondents' background in the manufacturing sub-industries. Synergy mentality was measured by analysing the behaviour behind sales activities and operation activities (Mahajan et al., 1988); the questions asked were designed to focus on what the companies' had used in their sales force, advertising programme and

sales promotion programme and on whether the purchase of materials and supplies was made from other companies owned by the same group of companies. A 5-point Likert scale was used, where 1 corresponded to 'strongly agreed' and 5 corresponded to 'strongly disagreed'.

The other independent variable, strategic planning, was measured using the model from the study that explored the link between financial performance and the formal strategic planning process, planning flexibility and innovativeness in a multi-industry (Dibrell et al., 2014). For the formal strategic planning process, the original Likert scale used was from 1, which corresponded to 'none or not at all' to 5, 'to an extreme extent'. For planning flexibility, 1 signified 'not all flexible or a trigger' while 5 signified 'very flexible or a definite trigger'. In order to be consistent, the author adjusted 1, 'to an extreme extent', to 5, 'none or not at all' for the formal strategic planning process while for planning flexibility, the adjustment was from 1, 'very flexible or a definite trigger' to 5 'not all flexible or a trigger'. Thus, the Likert scales were the same with the other variables in the research model.

The dependent variable, firm's performance, was measured using a model that required all the respondents to rate the degree to which the survey questions were a current concern to their companies, as compared to the industry average. The original model used a 7-point Likert scale with 1 for 'strongly disagreed' and '7' for 'strongly agreed' (Feng et al., 2013), but to

be consistent with the other variables, the author modified the scale to 1 for ‘strongly agreed’ and 5 for ‘strongly disagreed’. Thus, the Likert scale used the same variables in the research model. The questions or statements that needed to be confirmed were included, for example, “We can quickly modify products to meet major customer’s requirements,” “We can quickly introduce new products into the market,” “We have an outstanding on-time delivery record for major customers,” “The lead time for fulfilling customers’ orders (the time elapsed between the receipt of customer’s orders and the delivery of the goods) is short,” and “We provide a high-level of customer service to major customers” (Feng et al., 2013).

## RESULTS

The descriptive statistics and correlation matrix results are shown in the tables below. From the tables, showing a total of 110 respondents, it can be seen that strategic planning was more highly correlated with the dependent variable, firm’s performance, than with the other variable, synergy mentality. However, synergy mentality also had a positive relationship with the dependent variable, firm’s performance.

Table 1  
*Descriptive Statistics*

Descriptive Statistics			
	Mean	Std. Deviation	N
FPerformance	3.667	0.3970	110
Strategic Plan	3.700	0.4543	110
Synergy Mentality	3.653	0.2497	110

Table 2  
*Correlations*

Correlations				
		FPerformance	Strategic Plan	Synergy
Pearson Correlation	FPerformance	1.000	0.498	0.249
	Strategic Plan	0.498	1.000	0.332
	Synergy Mentality	0.249	0.332	1.000
Sig. (1-tailed)	FPerformance	.	0.000	0.004
	Strategic Plan	0.000	.	0.000
	Synergy Mentality	0.004	0.000	.
N	FPerformance	110	110	110
	Strategic Plan	110	110	110
	Synergy Mentality	110	110	110

Table 3  
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.506a	.256	.242	.3456	.256	18.437	2	107	.000

The results of testing the fit on the proposed framework showed that the Multiple Correlation (R) of the model summary was 0.506, with a corresponding value of R-Square of 0.256, suggesting that 25.6% of the variance of firm performance was

explained by the set of predictors, synergy mentality and strategic planning. The correlations in the coefficients table showed zero-order, partial and part numbers at 0.498, 0.455 and 0.441, respectively.

Table 4  
Coefficients and ANOVA

	Coefficients <sup>a</sup>								
	Unstandardised Coefficients			Standardised Coefficients	T	Sig.	Correlations		
	B	Std. Error	Beta				Zero-order	Partial	Part
(Constant)	1.610	0.499		3.228	0.002				
1 Strategic Plan	0.408	0.077	0.467	5.287	0.000	0.498	0.455	0.441	
Synergy Mentality	0.150	0.141	0.094	1.064	0.290	0.249	0.102	0.089	

a. Dependent Variable: FPerformance

ANOVA <sup>a</sup>					
	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	4.404	2	2.202	18.437	0.000 <sup>b</sup>
Residual	12.779	107	0.119		
Total	17.182	109			

a. Dependent Variable: FPerformance

b. Predictors: (Constant), Synergy Mentality, Strategic Plan

The ANOVA table provides the test result of the statistical significance of the regression model. The author proposed model accounts for a significant amount of dependent variables variance (Sig 0.000). The model was statistically significant.

The author then used the IBM SPSS Stepwise Method to test further the relationship of one independent variable (in this study, synergy mentality) to the firm's performance. The result showed that the model was statistically significant while the model summary table showed that the Multiple Correlation (R) was now at 0.498 with a corresponding value of R-Square of 0.248, suggesting that 24.8% of the variance of firm performance was explained by the predictor, strategic planning, while in the coefficients table the correlations showed the zero order, partial and part at 0.498, 0.498 and 0.498, respectively. These coefficients numbers indicated a stronger relationship between strategic planning and firm performance when synergy mentality was taken out from the model.

To extend the above regression analysis and instead of just specifying a set of predictor variables, the author added and used a simple mediation analysis in which the variables were arranged in a predictive "causal" path model to assess the dynamics of the variables relationship (Meyers et al., 2013, p.379).

The mediation model performed a total of three linear regression analyses including the independent variable, strategic planning, to directly predict the mediator variable, synergy mentality, and independent

variables, strategic planning and synergy mentality, to predict the outcome of the variable, firm performance, and generated the unmediated model with strategic planning predicting firm performance in isolation. Finally, the model determined the relative strength of the mediated effect.

The result showed that the strength of the indirect effect (the product of the beta coefficients) associated with the paths, strategic planning to synergy mentality and synergy mentality to firm performance, in the mediated model was equal to  $(0.332) * (0.094)$  or 0.031. The strength of the isolated direct effect (the beta coefficient) in the unmediated model where strategic planning was the single predictor of firm performance was equal to 0.498.

The relative strength of the mediated effect was equal to the indirect effect divided by the direct effect, which was  $0.031/0.498$  or 0.062 (6.2). We could then conclude that about 6.2% of the effect of strategic planning relationship on firm performance was mediated through synergy mentality.

## DISCUSSION AND CONCLUSION

The research result clearly showed that strategic planning had a strong and positive relationship to firm performance and it supported the school of planning research results (Ansoff et al., 1965, 1970, 1988), and therefore companies should use strategic planning to produce a proper plan for the company to compete better from now on and for the future in order to gain competitive advantage. We can also conclude that the failures of many companies in the

intensely competitive business world resulted from their poor knowledge of executing proper strategic planning to establish an appropriately useful plan for companies to lead in the current and future industry.

Strategic planning, according to Ansoff (1988), is the firm's answer to two strategic needs. The first is to prepare the firm to anticipate its future un-extrapolative situation, the unpredictable conditions of the market and competition, which is always fierce. Ansoff believed that for companies to succeed, their strategic aggressiveness must match their business environment turbulence level. The second strategic need is to manage the firm in a comprehensive and systematic way. The firm should follow an official plan, and yet be flexible at the same time, to achieve its goals and to increase its capabilities following the strategic aggressiveness it is pursuing and to stay ahead of competitors.

Synergy is commonly said to be as one of the key variables for a company to succeed in today's business environment. The research into synergy conducted in this study has indeed shown that it makes a positive significant contribution to firm performance of manufacturing companies in Indonesia. Synergy has shown a positive relationship to firm performance and plays a mediating role in the strong relationship between strategic planning and a firm's performance. Indeed, there are other variables that make a greater contribution to firm performance (Mahajan et al., 1988; Damodaran, 2005). It is clear

that based on this research result, synergy mentality plays a positive mediating role in strategic planning relationship with a firm's performance.

The author, through direct phone interviews with the respondents, discovered that some of them were unclear of the meaning of synergy and its implications to senior managers and the firm's overall performance. More training and discussion are needed to ensure the respondents understand appropriate terminology and have accurate perceptions on synergy to inculcate the right mentality and produce better performance. It is clear that more research into strategic planning, synergy and strategic management is needed.

### **Managerial Implications**

Most of the managers of manufacturing companies in Indonesia focus more on business as the regular activities of operations rather than as activities that need strategic planning to accomplish operational tasks and targeted key performance indicators. They also frequently have little time to complete their work in spite of their managerial skills. This condition has given rise to more negative effects on strategic planning and other strategic activities, which require managers to set aside time dedicated to properly analysing aspects of their business in order to formulate strategic plans and to optimize operation strategies. They lack the time for planning strategies that can help top management accomplish their objectives for the firm's success.

Furthermore, the mindset of most Indonesian managers is fully occupied with performing what has been instructed by their direct supervisors and not encroach beyond their job specifications, particularly if a task may require them to exercise more control than they have been authorised to display. This is limiting thinking as it does not allow them to grow beyond what they know and are familiar with, and they stop themselves from learning about current and workable strategies such as synergy. Synergy based on this research is the combined force of elements of a business that creates a positive mediating role on the relationship between strategic planning and a firm's performance. It is a concept that needs to be clearly understood and properly planned, executed and controlled by top management. A company needs to initiate managerial training on the fundamental theory of synergy that would instil awareness and ability in staff about how and who should plan synergy and carry out synergy execution and how to control synergy.

The indicators on synergy mentality signalled that when senior managers gave more attention to other aspects of the business, accepted other departments' as also having important roles to play and cooperated with other departments, the firm performed better. The implication is clearly that if the mindset of the key people were corrected apply synergistic techniques that could help to achieve the firm's overall strategic goals, the firm's performance would be greatly enhanced.

The response of senior managers on strategic planning aspects, particularly the

more specific objectives when formulating strategy, the higher the degree of strategic implementation plans developed as a result of the formation process and also the higher the degree of objectives resulting from a formalised and documented strategy formation process, the better was the firm's overall performance.

Top management needs to pay closer attention to how to build corporate culture through a strategic formal plan and mindset inculcated among employees as a way to achieve the firm's goals, to compete effectively with current and future rivals, and to anticipate unexpected economic situations. Top management needs to understand the positive impact of strategic planning and the plan itself on the firm's performance as well as the role of synergy in enhancing the firm's performance.

Looking at the competitiveness index of the current Indonesian industries in the world global context, strategic planning process knowledge and the effectiveness of internal training conducted by Indonesian companies in strategic management should be analysed and then changed in order for managers to understand firm performance and to compete better. The job of top management, either in the private-public sector or in state-owned firms, is, therefore, to really understand the strategic problems of the firm and the industry.

Strategically, a company's top management should have a more future-orientated mindset to think of how to survive and to gain competitive advantage by acquiring other companies in the same industry dealing in a related business or

to diversify by moving to another industry that may have no connection at all with the company's existing business but which has more potentials and opportunities.

### **Limitations and Future Research**

Further research needs to be conducted using not only more respondents but also covering more industries especially in the services sectors e.g. banks, fast foods, hotels and tourisms, education and small and medium enterprises, all of which have more and more strategic roles in the economy of developing countries. The number of small and medium enterprises in Indonesia reached 3.4 million units in 2013. They contributed 90% of the total business units of the national industries and provided more than 9.7 million jobs (Ministry of Industry, 2015). These are significant numbers for the economy of Indonesia and therefore failure of companies to strategise their competitiveness would damage the country's overall competitive index in the world global context, which would in turn reduce foreign direct investment.

Since there is a huge number of State-Owned Enterprises in Indonesia compared to in other developing countries, research into State-Owned Enterprises is crucial. More attention should be paid to this important sector by involving their senior managers, general managers and directors as future respondents as this will enrich research into synergy, strategic planning and strategic management as a whole. Another suggestion is to conduct similar research in

other countries in the region like Singapore and Malaysia or in other Asian countries where transparency is greater.

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