

Publicness and strategic planning of public institutions: Evidence from Indonesia

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ARTICLE INFO

Article history:

Received 7 April 2016

Revised 18 October 2016

Accepted 4 January 2017

JEL Classification:

H8, H83

Key words:

Publicity,
Strategic Planning,
Planning Formalization,
Flexibility, and
Participation.

DOI:

10.14414/jebav.v19i2.623

ABSTRACT

Strategic planning has been very commonly practiced in public organizations. Some studies show a positive effect of strategic planning on the company's performance. This study examines the effect of publicity on planning formalization, flexibility and participation. Empirical evidence collected from Indonesia suggests that planning formalization associates negatively with publicity; and mediates the relationships between publicity, flexibility and participation. The results support the political control view of public organizations. The results suggest that public organizations need to be both formal and flexible. We also find the positive association between participation and flexibility.

ABSTRAK

Perencanaan strategis telah menjadi praktek yang sangat lumrah dalam organisasi organisasi sektor publik. Penelitian menunjukkan dampak-dampak positif dari perencanaan strategis pada kinerja organisasi. Studi ini menguji dampak dari kepublikan pada formalisasi perencanaan, fleksibilitas dan partisipasi. Bukti empiris yang diperoleh dari Indonesia menunjukkan bahwa formalisasi perencanaan berhubungan negatif dengan kepublikan, dan memediasi hubungan antara kepublikasi, fleksibilitas dan partisipasi. Hasil-hasil ini mendukung pandangan kontrol politik dari organisasi publik. Hasil-hasil ini ini menyarankan bahwa organisasi publik perlu untuk menjadi formal dan fleksibel. Artikel ini juga menemukan hubungan positif antara partisipasi dan fleksibilitas.

1. INTRODUCTION

The practice of strategic planning in public sectors has started since 1980s and now has become a common feature of most public organizations in the United States (Bryson et al. 2010). Strategic planning has been defined as “a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and why it does it” (Bryson 2004).

A meta-analysis of strategic planning research of private and recent empirical research of public organizations suggest that strategic planning associates positively with the firm performance (Boyne 2001, Poister et al. 2013). Strategic planning improves firm performance by clarifying goals, formalizing communication, reducing reactionary responses, planning for the long term, promoting better decision making and unifying complex organizations (Poister et al. 2013).

The present study examines the impacts of publicness on the important planning dimensions: for-

malization, flexibility and participation (Boyne 2001, Wolf and Floyd 2013). Publicness has been identified as the key dimension that differentiates private and public organizations. Bozeman and Bretschneider (1994) defined publicness as “the extent the organization is influenced by political authority.” (p. 197). However, Boyne (2001) and Nutt and Backoff (1993) observes that most public sector strategic planning research has focused on the formality dimension of planning.

Our study is in the context of Indonesia in which strengthening the role of public organizations has been more important following the decentralization policy starting in the early 2000's. However, corruption and poor governance have also still been a serious problem (McLeod and Harun, 2014).

The results of the present study contribute to the existing literature in the following ways. First, it extends the literature by suggesting and providing empirical evidence that publicness impacts the firm through planning formalization. Second, it clarifies

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the relationship between planning formality and flexibility in the public organizations. We found that public organizations need to be both formal and flexible. Brews and Hunt (1999) found the negative association between formality and flexibility in private organizations.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Publicness is the key to understanding organizations (Bozeman 1987) and has important implications on the strategic management of public organizations (Nutt and Backoff 1993). Bozeman (1987) identified various sources of differences between public and private organizations: ownership, funding and political control. These differences have impacts on the organizational and managerial behavior. According to Boyne (2002), the lack of private ownership of public organizations lead to low efficiency while the use of tax funding lead to low responsiveness to the public needs. Public organizations are also under strong political control and easily influenced by other stakeholders such as opinion leaders and interest groups. As a consequence, for example, public organizations face goal ambiguity (Nutt and Backoff 1993) and their managers have less authority and more procedures or hierarchy to follow (Boyne 2002). Collectively, the differences and consequences have impacts on the strategic planning of public organizations. Specifically, the differences and consequences can influence dimensions of planning. Figure 1 is the research model.

Planning Formalization

Planning formality reflects the existence or degree of procedure, steps in the process, progress monitoring, timetable, and the documentation of the goals and strategy in a strategic planning process (Worrall et al. 1998, Pearce and Robinson 2000). It relates to the degree of participation, responsibility, and authority. Several predictors of formality are organizational size, management style, environmental complexity and the objectives of planning itself (O'Regan and Ghobadian 2002).

There are various reasons why planning formality in the public organizations are difficult. The environments facing public organizations are very complex and data collection for strategic analysis is difficult. Public organizations also have various different and even conflicting goals. Thus, managers face goal ambiguity. Public organizations are also subject to political authority rather than market forces (Bryson 1995, Boyne 2002). Overall, publicness imposes constraints of the organizations and their managers. We

hypothesize that

H1: Publicness negatively associates with the planning formality.

Planning Flexibility

Planning flexibility refers to the capacity of strategic plans to adapt to the environmental changes. It also relates to the periodical updating of the plans. Kulkalis (1989) introduced the concept of planning flexibility in his study of the impacts of environments on the strategic planning (Barringer and Bluedorn 1999). Kulkalis (1989) and Barringer and Bluedorn (1999) proposed that under complex environments firms need to increase their planning flexibility. Kulkalis found that firms increased their planning flexibility as the environmental complexity increased.

Various researchers have argued that public organizations are very complex (Nutt and Backoff 1993, Worrall et al. 1998). For example, public organizations have various stakeholders with different goals and are easily influenced by their constituents and political authority (Boyne 2002). Thus, public organizations operate under complex environment and need planning flexibility. We hypothesize that:

H2: Publicness positively associates with the planning flexibility.

Planning Participation

Planning participation refers to the degree of influence on strategic planning by individuals from various levels of an organizational hierarchy (Kim 2002). The intent of planning participation is to balance the involvement of management and employees in the firm information processing and decision making. Kim found that high participation in strategic planning of public organizations positively associates with high levels of job satisfaction (Kim 2002).

Nutt & Backoff (1992) suggest that participative planning can be utilized to compensate for the lack of incentives and expectations of public employees. The planning participation can encourage public employees in the plan execution.

In their national survey, Berry and Wescler (1995) found the increasing number of public employees involvement in the strategic planning of state agencies. Their involvement could enhance their understanding of the goals and implementation of the plan and reduces the role ambiguity and role conflict.

Public organizations are dependent on various stakeholders for resources and legitimacy. They also lack of authority. Thus, public organizations need to involve and accommodate interests of these stakeholders in the strategic planning process (Backoff,

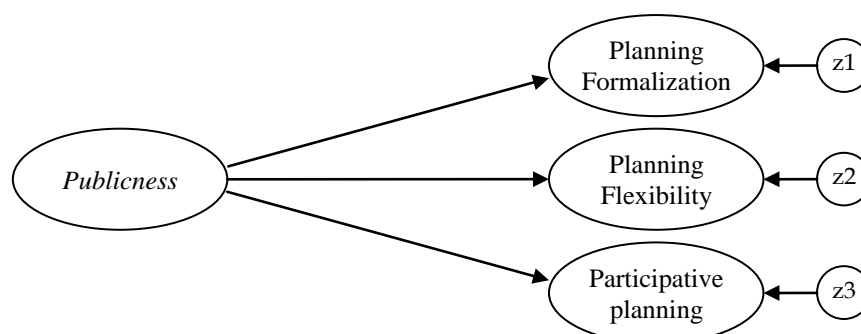


Figure 1
Research Model: The Impacts of Publicness on Strategic Planning Dimensions

Wechsler et al. 1993).

Collectively, participative planning is necessary in order to accommodate various impacts of publicness such as the conflicting and multiple goals, lack of incentives, roles ambiguity and conflicts, and implementation issues. Accordingly, we hypothesize that H3: Publicness positively associates with the participative planning.

3. RESEARCH METHOD

Sample and Data Collection

We perform a pilot test of the instrument. The respondents are graduate students of public administration and economic development programs in a major university in Indonesia. The students are public employees from various local and the state departments. Based on the feedback, we improved the clarity of the items in the instrument.

The sample of this study is the heads of public institutions of the cities and regencies in the Surakarta Residency. We sent out 390 surveys. We got 195 replies. Two of them were not complete. The final sample size is 193.

Measures

All items are measured using the Likert scale of 1 (strongly disagree) to 5 (strongly agree). We use Amos 4.01 to perform the confirmatory factor analysis and loading factors. Publicness was measured using 14 items adapted from Frederickson, Rainey et al. (1976). The environment dimension of the instrument was excluded. We retain 5 items. The Cronbach's Alpha was 0.865 and the loading factors for all five items were above 0.5. Those items are the complexity in defining the organization goal, the difficulty in establishing well-defined goal, the difficulty in presenting goal statements, the difficulty in measuring organizational performance and the lack of appropriate performance measurement tools.

We developed an instrument with 15 items to measure the planning formalization. We retain 14 items. Two of the items have corrected item-total correlation of 0.3368 and 0.3429. They are below 0.5

but are higher than the acceptable score of 0.3 (Yusoff, 2011). The Cronbach's Alpha was 0.814. Eight of 14 items have loading factors higher than 0.5. The planning formalization items consists of the difficulties in setting the vision of institution, the mission of institution, the objective of institution, the goal of institution, in defining the goal of the institution quantitatively, in formulating the strategy to reach the goal, in describing activities to implement the programs and the projects. Planning flexibility was measured using 8 items. Four were deleted because of low loading factors. The four retained items are new legislative provision, the demands of government, the objective of institution and the institution strategy. We measure participative planning using 9 items. Six items have loading factors higher than 0.5. The Cronbach's Alpha was 0.8279. The items of participative planning are the active participation of sub-units, the understanding of sub-units, the input of sub-units, the involvement of staffs, the understanding of staffs, and the extent to which ideas of the staffs are taken into consideration in arranging strategic planning.

4. DATA ANALYSIS AND DISCUSSION

We used factor scores as the weight and created four summated scales (Hair et al. 1998) for the constructs in this study. Table 1 shows the descriptive statistics. The table shows that formality and publicness are negatively and significantly correlated; formality is correlated positively and significantly with flexibility and participative planning; and flexibility is correlated positively and significantly with participative planning.

Table 2 shows the construct reliability, lambda and error. Table 3 shows the results of the model fit for the base model. Table 3 shows that most of the fit indices are outside of the acceptable threshold. Based on the theory and modification indices, we propose the revised model as shown in Figure 2. Previous research has shown that planning formalization associates with planning flexibility (Brews and Hunt 1999) and participative planning (Berry

Table 1
Descriptive Statistics and Variables Correlations

Constructs	Mean	SD	1	2	3	4
Publicness	1.8958	0.5644	1.000			
Planning Formalization	2.0887	0.2883	-0.399**	1.000		
Planning Flexibility	1.8429	0.2407	0.020	0.206**	1.000	
Participative Planning	2.5751	0.2639	-0.132	0.317**	0.281**	1.000

** Correlations significant at or greater than 0.01 (2-tailed).

Table 2
Construct Reliability, Lambda and Error

Constructs	Construct Reliability (α)	Lambda (λ)	Error (ϵ)
Publicness	0.9775	0.5580	0.0072
Planning Formality	0.9774	0.2841	0.0019
Planning Flexibility	0.9008	0.2283	0.0057
Participative Planning	0.9577	0.2576	0.0029

Table 3
Model Fit Indices for the Base Model

Fit Indices	Fit Indices of Proposed Model	Acceptable Fit Threshold
Chi-square	38.414	Expected to be lower than 7.825 (χ^2 with DF 3)
Degree of freedom (DF)	3	Positive/ the higher the better
Probability	0.000	>0.05
CMIN/DF	12.805	<2.00
GFI	0.901	>0.90
AGFI	0.670	>0.90
TLI	-0.021	>0.90
CFI	0.489	>0.90
RMSEA	0.248	<0.08

and Wechsler 1995).

Table 4 shows the fit indices for the revised model. The model shows that all the indices are acceptable. The results show that publicness is a significant predictor of planning formalization with path coefficient of -0.409. Planning flexibility and participative planning are significant predictors of planning formalization with path coefficients of 0.218 and 0.329. The results show that H1 was supported but H2 and H3 were not supported. The revised model suggests that planning formalization mediates the relationship between publicness and planning flexibility and participative planning.

Strategic planning has been widely adopted by the public sector organizations in various different countries in the world. The practice started in 1980s and now has become a common feature of most public organizations in the United States (Bryson et al. 2010). In 1999 the government of Indonesia issued the Presidential Instruction No.7 that orders state institutions to develop SAKIPs (*Sistem Akuntabilitas Kinerja Instansi Pemerintah*). The SAKIPs require that state institutions develop their (1) strategic plans, (2) vision, mission, goals, and strategy (3) work indicators and initiatives (4) implementation (5) performance mea-

surement and (6) performance evaluation.

The literature of public organizations suggests that strategic planning associates positively with the firm performance (Boyne 2001, Poister et al. 2013). However, Ring & Perry (1985) observed that public managers operate under different environments which create some managerial constraints that influence their strategic behavior. Some of the differences are such as ownership, funding and control (Bozeman 1987, Nutt and Backoff 1993, Boyne 2002). They have strategic implications on the public organizations' internal environments, goals, structure, and managerial values (Boyne 2002). These differences have impacts on the ways strategic planning improves firm performance. For example, the differences have impacts on goals clarity, communication formality, reactionary responses, long term plan orientation, decision making and integration of complex organizations (Poister et al. 2013).

Bozeman (1987) argued that publicness is the key to understand organizations and a differentiating factor of private and public organizations. In the present study we examine the impacts of publicness on three dimensions of planning: formality, flexibility and participation. We found negative association

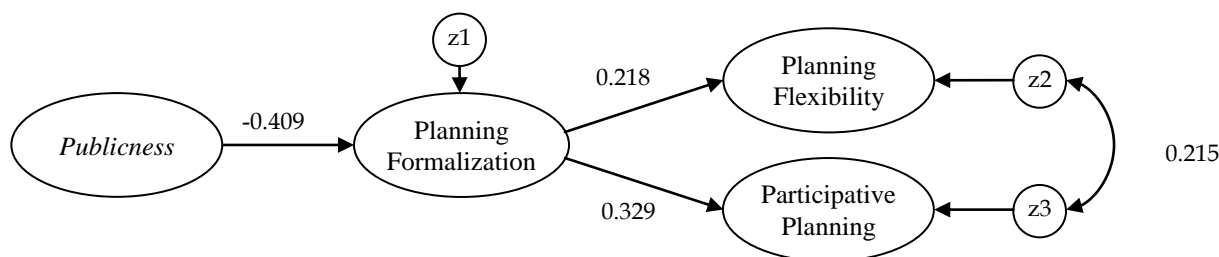


Figure 2
Revised Model: The Impacts of Publicness on Strategic Planning Dimensions

Table 4
Model Fit Indices for the Revised Model

Fit Indices	Fit Indices of Proposed Model	Acceptable Fit Threshold
Chi-square	2.793	Expected to be lower than (χ^2 with DF 2) 5.99
Degree of freedom (DF)	2	Positive/the higher the better
Probability	0.247	>0.05
CMIN/DF	1.397	<2.00
GFI	0.993	>0.90
AGFI	0.964	>0.90
TLI	0.966	>0.90
CFI	0.989	>0.90
RMSEA	0.045	<0.08

between publicness and formality, and positive associations between formality and flexibility and participation.

The negative association between publicness and formality gives support to previous researchers that contend that public organizations are subject to political authority (Bozeman 1987). The empirical result of this study suggests that the higher the political authority the less the formality of the planning. This means that political authority can reduce the extent of the use of procedure, process, progress monitoring, schedule, and the documentation of goals and strategy in the strategic planning process.

Researchers have found that public organizations have higher degree of formalization in their planning process than their private counterparts (Flynn and Talbot 1996). This is consistent with the complex environment facing the public organizations. However, researchers suggest that public organizations need to decrease the planning formalization in order to increase their planning flexibility (Ring and Perry 1985, Nutt and Backoff 1993). The findings of the positive relationship between the planning formalization and flexibility suggest the positive association between formalization and flexibility. Thus, the complex environments require public organizations to be both formal and flexible. This means that the complex environments of public sectors promote the use of procedure, monitoring, scheduling, and the documentation of the goals and strategy in their strategic planning process.

The present study finds the positive relationship

between formalization and participative planning. This is consistent with previous research results (Berry and Wechsler 1995). The positive relationship suggests the positive association between formalization and participative planning. For example, formalization of goals and progress monitoring increase participative planning. In this case, the participation is needed to clarify goal or progress. Similarly, the increase in the involvement of various levels of employees in the firm information processing and decision making requires more formalization such as procedure and documentation.

Lastly, the present study also finds the positive relationship between flexibility and participative planning. This suggests that the capacity of strategic plans to adapt to the environmental changes relates to the extent of involvement in decision making of various individuals from various levels of public organizations (Kim 2002).

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

We developed and tested a model of the impacts of publicness on the strategic planning of public organizations. We found that planning formalization mediates the relationships between publicness, flexibility and participation. We also found the positive relationship between flexibility and participation.

There are several research limitations. First, the sample was collected from one residency. Thus, this might impact on the generalizability of the result to different locations. Second, the sample size was very

limited. The instrument contains 46 items while there were only 193 samples. Ideally, it might need at least 10 samples per item (Hair et al. 1998).

Future research might want to replicate this study and include more residencies. This can improve the sample size and the generalizability of the research results. This approach will allow the researchers to use all items of publicness instrument by Frederickson et al. (1976).

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