



# THE EFFECT OF STRATEGIC PLAN ON ORGANIZATIONAL PERFORMANCE IN REMITTANCE COMPANIES IN MOGADISHU SOMALIA

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## ABSTRACT

*The main purpose of the study was to identify the effect of strategic plan on organizational performance of remittances in Somalia in Mogadishu. The study had three objectives. The first objective of the study was to determine the effect setting objectives on organizational performance of remittance companies in Mogadishu, Somalia. The second objective of this study was to assess the effect of budgetary allocations on organizational performance of remittance companies in Mogadishu, Somalia. The third objective of this study was to find out the effect of organization structure on organizational performance of remittance companies in Mogadishu, Somalia. The target population was 100 and the sample size was 40 respondents. The study used descriptive design. And 20 questionnaires were distributed. Descriptive and regression analysis was used. The study found that setting objectives, budgetary allocations and organization structure have significant positive relationships on organizational performance of remittance companies in Mogadishu-Somalia. Finally, the researcher found that the competitive strategy has significant positive relationships on organizational performance of remittance companies in Mogadishu-Somalia.*

## INTRODUCTION

Over the last two decades, developing countries have witnessed an unparalleled rise in workers' remittances. According to the (World Bank, 2006) estimates, official remittances received by LDCs increased from US\$31.2 billion in 1990 to US\$221.3 billion in 2005, representing an annual growth rate of over 13 percent. Remittances are now equivalent to about 35 percent of total financial flows to developing countries and have surpassed both official development aid flows and non-foreign direct investment flows. Moreover, the true size of remittances including unrecorded remittance flows is estimated to be at least 50 percent larger (World Bank, 2006).

According to, (Leeson, P., 2007), observed that in the 1980s the government of Somalia turned to inflation to finance its corrupt and bankrupt projects. Between 1983 and 1990, average annual depreciation of the Somali shilling against the US\$ was over 100 percent. In some years depreciation exceeded 300

percent (Little, 2003). Hyperinflation destroyed the savings of Somalis who managed to accrue modest sums over time. It also incapacitated the monetary unit as a means of economic calculation. Government's willful mismanagement of public resources prevented the state from being self-supporting. International development agencies, eager to woo Somalia from the influences of Eastern Europe, filled the shortfall with massive inflows of foreign aid. By the mid-1980s, 100 percent of Somalia's development budget and 50 percent of its recurrent budget was funded by foreign aid ( UNDP , 2001). In 1987 more than 70 percent of the state's total operating budget was financed this way (Mubarak, J (1996),, 1996).

In Somalia, Financial remittances from Somalis living abroad are perhaps the outstanding feature of the economy although this was not new. Their significance grew as part of the emerging parallel economy in the 1980s, when they were estimated to be worth US \$370 million annually, 75% of which came from workers in



the Gulf countries. This was equal to 13 times the Somali-based national wages bill and partially explains how households at the time were able to survive on basic government salaries that covered only 8% of household expenditure. As a result of the civil war the size of the Diaspora has grown and along with it the volume of remittances. The source has also changed as the Somali Diaspora in Europe, USA, Canada, and Australia has increased. According to, (Adams, R.H. Jr., 2003) noted that although remittances have become the critical source of hard currency for the country, the precise value of remittance to elements of Social Development is still in doubt.

Business environment is volatile and ever changing; and organizations need to look for fresh ways to keep growing profit. (Heppelman, J. E., 2014) found Consumer preferences and demands are also continuously evolving and increasing respectively to remain dynamic environment like U S A, firms continually innovate to stay ahead strategic management practices and this enable them to gain higher profit because of using their unique resources. (Charles, 2008) Indicated that to maximize shareholder value and increase performance managers must formulate and implement strategies that enable their companies to outperform its rivals—that give it a strategic plan. A company is said to have a good strategic plan over its rivals when its performance is greater than the average performance and profit growth of other companies competing for the same set of customers. According to, (Tapinos, E; Dyson, R. G., 2005) Strategic Plan provides the basic direction and rationale for determining the focus of an organization; and also provides the specification against which any organization may best decide what to do and how to do it. Simply put, it is a process for creating and describing a better future in measurable terms and the selection of the best means to achieve the results desired. It is important to note that not all planning is actually strategic even though they may be termed so. It is said that failure to plan leads to planning to fail. (Dyson, R.G., 2000). In order to assess the level of success or otherwise of a corporate body, its established strategic plans relative to the performance of the organization in all fronts of operations have to be ascertained. Formulating, implementing and the evaluation of a Strategic Plan indisputably become a major activity in both profit and not-for-profit organizations, especially, the banking sector (Tegarden, F. (2003)., 2003).

Strategic planning standardizes the processes of goal/objective setting, situation analysis, alternative consideration, implementation and evaluation that enable an organization to attain its goals and objectives (Tapinos, E; Dyson, R.G., 2005).

Performance measurement has significant influence in supporting the achievement of an organization's goals and the effectiveness and efficiency of its strategic planning process. Thus, in order to assess the level of success or otherwise of a corporate body, its established strategic plans in connection with the performance of the company in all fronts of operations had to be established (Strickland, A. J., 2004).

Strategic planning is a management function that focuses on the growth and future sustained well being of an organization. Ansoff, (2003) affirms that the interest in strategy grew out of the realization that a firm needed a well defined scope and growth direction not just extrapolations of past performances which were being used to project into the future. Hart and Banbury, (1994), made an observation of firms' recognition for the need to do strategic thinking and planning.

In Africa similar research had developed , in Kenya study investigated strategic plan on organizational performance (Benjamin, M. N., 2017).

In Somalia, since the collapse of central government in (1991), many businesses started to boom up fast especially service industry. These businesses were facing an environment which is dynamic, changeable, and essential, as well as an intensive competition. These circumstances and many others compel the organizations to adopt certain business concepts, policies, and practices in order to attain their goals and to get prominent results. Among those business concepts is strategic planning ( Ali Yassin Sheikh Ali (2016) In Somalia, after the collapse of the Somali state all financial institutions in the country were destroyed by the fighting factions. Although the last two decades the country has no effective government that monitor the quality of bank institutions on the other hand fortnightly there was increasing number of private remittances since 1990, according to our best knowledge there is no study that focus the impact of service quality provided by these institutions on customers's satisfaction. Thus, this is the main purpose of this study. (husein & Abdullah, 2007).

## LITERATURE REVIEW

Strategic planning was about success and failure, about the ability to plan wars and win them; big mergers perhaps the most visible sign of strategic planning can transform the performance of an organization, make fortunes for shareholders or change the structure of an industry (Scholes, K and Johnson, G. , 2002). Ineffective strategic planning can bankrupt companies and win careers of chief executives thus hindering organization growth. Appleby (1994) defines



a strategic plan as deciding on major organizational goals and guidelines or policies used in achieving those goals. This planning relies on an unpredicted long term forecast from senior levels of the organization.

According to (Campbell B., 1999) and (Thompson A. A and Strickland A. I , 2007), a strategic plan is a process that involves assessment of treats and opportunities of an organization, determining weakness and strengths in changing environment.

They continue saying that a strategy is laid down to cope with the problem at hand, considering the goals, objectives of the organization. They further defines strategic planning as management tool that continually and systematically evaluate a business, identify its long-term goals and quantifiable objectives, develops a plan to implement, monitor performance, allocated resources, redefine the plan where need be, to ensure the organizational members work towards the defined goals in changing environment and observes that strategic plan should ask the questions; Why do organizations exists, what it does, where it should go and how it is going to get there. Strategic plan should encompass, a vision, mission and organizational values. A vision is an insight into the long-term future, which should be short, understood by everyone, describes a static stage. A mission is the route followed to achieve a vision.

(Bennett R., 1996), summarizes the benefit of having strategic plan as follows:- It formulates strategy for the future action and criteria for the future actions. It makes it easier the coordination of divisions, subsidiaries and other component parts of the organization hence act as the focal point for all operations in the organization, the organization can analysis its position through strategy formulation hence know its internal weaknesses and hence how to get a remedy. It makes decision in response to predictable changes, identification of external treats and opportunities. The organization through speculation of future events may lead to influencing the future for the benefit of the organization growth and after considering all facts important decisions can be made hence avoiding crisis situations.

The mission of an organization the unique aim that sets the organization apart from others of its type. Objectives are the specific targets to be reached by organization. They are translation of an organization mission into concrete terms against results can be measured.

(Bernard, 2004), identifies the benefits of setting objectives as follows; it provides a basis for planning and developing other types of plans such as policies, budget and procedures. It acts as motivators for individuals and departments of an enterprise mobilizing

their activities with a sense of purpose, it helps in development of effective control that measure results and lead to corrective actions, it facilitates coordination behavior of various groups which otherwise may pull in different directions, they function as a basis for managerial control by serving as standards against which actual performance can be measured, provides legitimacy to organization activities and finally it facilitate better management of organization by providing a basis for leading, guiding, directing and controlling the activities of various departments.

(Hugh, D.; Michael, 2002) argues that the one or two sentences vision statements most companies make available to the company of course provide only a glimpse of what executives are really thinking and the strategic course they have chartered. Company personnel really have much better understanding where the company is headed and why is revealed in the in the official vision. But the real purpose of strategic vision is to serve as management for giving the organization a sense of direction. Like any tool, it can be used properly or improperly, either clearly conveying a company's strategic course or not.

(Tosi H. , 1975), identified some of characteristics of efficient budgetary system which include budget oriented towards results, budgetary system should be more effective if the duties and responsibilities for all operations are well defined and rightly assigned budget should be simple and understandable, fair and objective. Budget should be based on documentable information and not simple guesswork and judgment. A quick and two-way communication should be adopted so that the managers get timely information on deviations. Lastly, budget should be viewed as positive and be conducive to self control.

However this (Arthur S, Mondy R.W & Shane R.P, 1990), argue that despite its benefits, budgeting has become crucial to the planning process because budgets are often too rigid and restrictive because HR supervisors are given little free hand in managing their resources, budget may be changed too often or not at all making it difficult for employees to meet performance levels, furthermore, funds are allocated for various activities may not be transferable from one account to another. Budgets are used to evaluate the performance and result but the causes of failures and success are not thoroughly investigated, budgets may used punitively whereby employees regards budgets simply as rating tool for catching their mistakes which lower their morale and dilute their sense of dedication, budgets make some managers believe that all funds allocated in a budget for a given activity must be spent on that activity which may be detrimental to the organization's effectiveness. Budgeted goals may be



perceived as too high often misused particularly during the evaluation of action with the plans and strategies in the light of the latest information. (Otley D.T., 1998).

(Nnabuike, E., 2009) defines organizational performance as setting up a structure or mending an already existing one to suit the organizational environment and the demands of technology.

Organizational structure also referred to as organizational design provides a solid foundation for company operations by laying out the physical grouping of employees and the managerial hierarchies within an organization. Organizational design essentially provides a guide for the way in which work is to be completed within the organization by determining how task, decision and information flow into the company. Organizational design translates the goals and desires of business leaders into actual, tangible plans. Organizational design can serve as an element of a strategic plan to accomplish specific objectives since organizational structure influences the way in which work flows in a company. Therefore, different design can help or hinder different strategic objectives and also can aid or hinder employees in their role.

Structure can dictate the means by which strategies are formed, for instance, Companies with good structure, on the other hand, often involve a range of employees in strategy sessions. For organization to deliver its plan, the strategy and the structure must be woven together seamlessly. They involve combining flexible decision making, and sharing the best ideas across the organization, with appropriate levels of management and control from the centre. A company's organizational structure must support its strategy. For instance, in a case where downsizing is the strategy, organizational design involves figuring out which positions or department to trim. When introducing a new line of business, organizational design means figuring out who is responsible for the new business, how many positions should be opened and where in the reporting structure in the new line belongs. Normally businesses draft these changes into a formal organizational chart so that everyone involved can clearly understand the changes and how the business should operate. Employees at all levels of company must be empowered to effectively complete the task necessary to achieve organizational objectives (Nnabuike, E., 2009)

There is hardly any organization that does not have profit and growth as its main objectives.

The growth of a firm is principally measured on the percentage of market share captured and client served. By deciding how to approach the markets and Customers, employees are placed into different strategic

positions to execute the strategies established by the organization hence organizational structure is actually integral of strategic planning. However empirical evidence by Williams (1997) confirms a positive relationship between organizational structure and strategic planning while (Weir, C., 1995) in his effort to establish the relationship between organizational structure and corporate performance concludes that firms that adopted appropriate structure yield higher profits than those that do not (Weir, C., 1995).

## METHODOLOGY

The research design that was used in this study was descriptive cross sectional survey method aimed at establishing the strategic planning on organizational performance of remittances in Mogadishu, Somalia. The method was preferred because it allows for prudent comparison of the research findings. A cross sectional and descriptive survey attempts to describe or define a subject often by creating a profile of a group of problems, people or events through the collection of data and tabulation of the frequencies on research variables or their interaction as indicated.

The questionnaire was used as an instrument for data collection. The questionnaire consists of three sections. The first section contained demographic profile which included gender, age, marital status, experience and type of work. Second section is strategic plan consists of three dimensions setting objectives, (budgetary allocations and organization structure) and third section is organizational performance.

The data on complete mixed questionnaire will categorize or code and will enter into a computer for the Statistical Package for Social Scientists (SPSS) to summarize the data using simple and complex frequency tables. The same package used to analyze by computing relative frequencies, means, and standard deviations. In the questionnaire each selected one to four scale for where, 1=strongly disagree, 2=disagree; 3= agree; 4= strongly agree.

## FINDING OF THE STUDY

The findings of the study obtained from the target respondents that were involved in this study. This chapter highlights general information of the respondents, followed by the findings on the effect of strategic plan on organizational performance of remittance companies in Mogadishu-Somalia, the effect of setting objectives, budgetary allocations, and organization structure on Organizational performance.

Gender in majority of the respondents of this study which 30 respondents or (75.0%) were male while the remaining 10 respondents or (25.0%) were



female in terms of gender the majority of the respondents were male so this show male are dominated female in terms of work places.

The majority of the respondents of this study aged 18-30 years were 30 respondents or (20.0%), the respondents aged 8, while 2 respondents aged between 41-50 that were (5.0%),

The marital status of the respondents from the analysis, 25 respondents that is (62.5%) of the respondents were single 15 respondents (37.5%) of the respondents were single. This study shows that majority of the employees are single.

The majority of the respondents of this thesis were Bachelor level which was 27 respondents that equivalent (67.5%), 7 respondents that equivalent (17.5%) were secondary level, while the remaining 1 respondents which equivalent (2.5%) were diploma and 5 respondents that equivalent 12.5% were master degree.

The majority of the respondents of this study working 0-2 years were 27 respondents that equivalent (67.5%) or 3-5 years that was 10 which equivalent (25.0%) and 6-8 years that was 3 that was equivalent (7.5%).

The main objective of this study was the effect of strategic plan on organizational Performance of remittance companies in Mogadishu- Somalia. The study had three objectives. The first objective of the study was "To find out setting objective on organizational performance of remittance companies in Mogadishu- Somalia "the mean index of the questions was 3.75 which indicated Agree level. The second objective of this study was, about "budgetary allocations on organizational performance of remittance companies in Mogadishu- Somalia" the mean index of objective two was 3.71. Indicated Agree level

The third objective of this study was to find out organization structure on organizational performance of remittance companies in Mogadishu- Somalia "the mean index of the questions was 3.73 which indicated agree level. The study found that there is positive significant relationship between strategic plan on organizational performance of remittance companies in Mogadishu- Somalia.

## REGRESSION ANALYSIS

### Model Summary

According model summary revealed that adjusted R square of (0.511), implying that about (51%) variability in organizational performance is attributed to strategic formulation, strategy implementation and strategy evaluation.

### Anova

According Anova indicated that, (the model involving constant, setting objectives, budgetary allocations, organization structure) is significant in predicting how setting objectives, budgetary allocations, organization structure determine organizational performance of remittances in Mogadishu Somalia. The regression model achieves a degree of fit as reflected by an R2 of 0.511 ( $F = 12.542$ ;  $P = 0.000 < 0.05$ ).

### Coefficient

According to coefficient results indicated on how setting objectives, budgetary allocations, organization structure determine organizational performance of

Remittance companies in Mogadishu Somalia. The regression equation was that:  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$  and the regression equation became:  $Y = 0.748 + 0.182X_1 + 0.457X_2 + - 0.161X_3$ . This indicates that there was positive and significant effect of strategic plan on organizational performance in remittances in Mogadishu- Somalia.

There was positive and significant effect of setting objectives and organizational performance ( $\beta = 0.182$ ;  $t = 1.538$ ;  $p > 0.05$ ). There was positive and significant effects budgetary allocations and organizational performance ( $\beta = 0.457$ ;  $t = 3.291$ ;  $p < 0.05$ ). There was no positive and significant effect of organization structure and organizational performance ( $\beta = -0.161$ ;  $t = 1.293$ ;  $p > 0.05$ ) as shown table 4.7.3.

The researcher concluded that strategic Plan has positive significant on organizational performance of remittances in Mogadishu-Somalia

## CONCLUSION & RECOMMENDATION

The study also found that there is positive significant relationship between strategic Plan on on organizational performance of remittances in Mogadishu-Somalia.

Focuses on summarizing of the research findings, major challenges met during the study and as well as the corrections of what have been found during of the research gathering data. The study aims to explore strategic plan on organizational performance of remittances in Mogadishu-Somalia. Based on the findings and the conclusions of the study, the research team offered the following recommendations:-

1. Researcher found that strategic plan had influences setting objectives, budgetary allocation and organization structure.
2. The researcher recommended the private companies, NGOs and other institutions to implement strategic plan, because without strategy no institution can work.



- The researcher recommend to keep the positive relationship between the variables that the study denotes
- Researcher has also recommend government and other institutions to utilize their opportunity about this study.
- The researcher recommends making further research about strategic plan on organizational performance to telecommunication companies and banks.

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