

Original Article

The Role of Strategic Planning and Innovation in Achieving Performance of Public Organization in Indonesia

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Abstract - This study is conducted to investigate the role of strategic planning and innovation in achieving the performance of the Free Trade Zone Development Agency in Indonesia including the role of innovation as mediation in supporting the relationship of independent variables and dependent variables.

The model proposed was tested using SmartPLS version 3.0 for data processing. Data were collected from questionnaires filled by 109 samples who were registered as executives/heads of the department of the Free Trade Zone Development Agency in Indonesia

The four hypotheses tested in this study concluded that the construct of strategic planning has a negative effect and is not significant to the performance but indirectly has a significant effect on performance if through innovation as mediation. Innovation also proved to have a strong influence on achieving organizational performance.

This study shows the Agency may achieve great performance if they can practically set up strategic planning and optimize innovation ability within an organization.

Keywords - Strategic planning, Innovation, Organization performance.

I. INTRODUCTION

The implementation of strategic management in public service organizations or local government has increased and become an interesting issue among researchers to develop the theory, especially in relation to achieving organizational performance [1], [2]. But there are still few references to looking at such strategic management practices in public organizations and the possible consequences that arise even though this theory has been introduced to public organizations three decades ago [3].

Several studies such as [3]–[5] highlight the importance of studying strategy and strategic thinking in public organizations over the past decades. Some of these studies investigate the application of strategic management such as [6] and [7], how public organizations apply in practice, and what management tools are used [1], [5] to implement this strategy.

Technology now changing fast, the product cycle is getting shorter, the process of globalization, and there are no more industry boundaries to make the business environment more dynamic. One of the functions of strategic management is conceived as a process of uniting internal capabilities with external demand, and this integration requires clear planning, formulation, position, and perspective [8].

According to [9], the global economy and rapidly changing market conditions have required the management of free trade zone development agencies to adopt the new business and economic environment.

The focus of this research is to review the practice of strategic planning and its influences on achieving sustainable performance through innovation of free trade zones development agency in Indonesia. The implementation of strategic planning became an organizational effort to anticipate changes in the business environment and improve performance [4], [10]–[12].

The expected theoretical contribution of this study is to explain the relationship of strategic management with the performance of free trade zone development agency, especially strategic planning identified by [13], [14], [15] as a long-term strategy that can improve the performance of public organizations if implemented in the right context.

Strategic planning is defined as the process of formulating, implementing, and evaluating business strategies to achieve future goals [16]. This strategy is carried out to respond to the high demand and challenges of changing social life as a result of technological developments, globalization, limited



public resources [6], and uncertainties created for the public sector.

The strategic planning practice has been widely applied by public services from various sectors and levels of government to the regions [17]. Meanwhile, strategic planning theory continued to develop throughout the 1980s, 1990s, and 2000s, and began to attract the attention of researchers in the 1980s [18][19], in at that time, public administration experts focused their efforts on understanding and theorizing around this area of study. For a long time, experts hoped the strategic planning concepts offered to governments and public managers [19] could contribute to the creation of public value in a sustainable manner [20].

Early studies of strategic planning and public management are the basis for contemporary literature [21]. The focus is mainly on the understanding that different public-sector strategic planning practices in different organizational contexts; difficulties and challenges in implementing strategic planning in government institutions; the role of strategic planning in value creation (the relationship between strategic planning and organizational performance); and the role of strategic planning in various levels of government.

The study of [22] recommend that organizations must prioritize elements of strategic planning, establish high core values, such as rules of organizational behavior, set realistic goals, establish measurable and specific long-term goals, develop action plans and its implementation, making adequate environmental analysis, appropriate organizational structure and a number of other steps for effective organizational strategies.

However [23] argues that the application of strategic planning does not give results in the short term, and besides that effective strategic planning requires the transformation of the model from rule-based to goal-based, which enables effective strategy implementation.

The experiences of China, Korea, Dubai, and Singapore in developing SEZs can be used as examples [24]. The country applies for SEZ programs as important instruments in regional and national industrial and economic development agendas and ensures political support from the highest leadership of the government. Just like in Korea, exports have always been a top priority during the industrialization process in the country, and the government provides many policy instruments to facilitate exporters through the SEZ area.

In China, economic zones are used as a way of implementing national and regional development strategies and building economic growth and urbanization. For this reason, strategic vision plays an important role in achieving the success of an economic region, which depends on the long-term commitment of the government and the stability of the macroeconomic environment. These initiatives

must be clearly illustrated in national planning for research and innovation, so as to reflect the importance of an area in innovation policy [24].

Innovation can be conceptualized as a cultural change, change in process and service, or a combination of both [25]. Specifically, organizational innovation is a process of identifying new opportunities to improve performance by optimizing existing knowledge, seeking new knowledge, making improvements, and implementing important changes [26]. Without innovation, organizations do not have the ability to adapt and respond to changes in the external environment [27].

As on [21], [28], [29] [30], the main factors for organizations to maintain growth by innovating and how it relates to strategic planning. This study found a positive relationship between strategic planning and innovation and improving organizational performance through innovation as mediation [31] [32].

The study of [33] continues a number of studies on the public sector in developing countries and confirms the forming factors of organizational performance derived from three input variables namely innovation, inter-organizational systems, and quality. The study ensured that the relationship of the three factors to the performance of government organizations was very strong and significant.

Research Hypothesis

According to the prior study and building the argument that strategic planning plays a significant role to achieve innovation and performance, it can be proposed the research hypothesis as follow:

H₁: Strategic planning has a direct and positive effect on performance.

H₂: Strategic planning and innovation have a direct and positive relationship.

H₃: Innovation fully and positively mediates strategic planning and organization performance relationships.

H₄: Innovation and performance have a direct and positive relationship.

II. MATERIAL AND METHODS

This paper aims to investigate the role of strategic planning in achieving sustainable performance through innovation as mediating variable in Indonesia's Free Trade Zones Development Agency.

Sample and data collection

The sample population consisted of 350 employees registered as executives/heads of department-level 2 and 3 in four FTZ Development Agencies in Indonesia including FTZ Batam, FTZ Bintan, FTZ Karimun, and FTZ Tanjungpinang. Data collection was carried out between September 2018 – December 2018, using an online cross-sectional survey. In total, 109 responses were received, representing a response rate of 31,1%.

Method of analysis

Hypotheses were tested using structural equation modeling (SEM), which supports the analysis of causal paths and the identification of the collective strength of multiple variables [34]. SmartPLS was the partial least squares (PLS) software used for the analysis of data. According to [35], PLS path models have two types of linear equations: The measurement model (outer model), which specifies the relations between a construct and its observed indicators, and the structural model (inner model), composed of the endogenous and exogenous constructs, and the relationships between them.

III. RESULT AND DISCUSSION

Based on the theoretical premises, a model was developed to test the hypotheses proposed in this study. The model has six latent constructs: strategic planning construct formed by goals setting, stakeholder involvement, external-internal environment, and resource allocation. Innovation and organizational performance are the other two constructs in the model.

The following subsection presents the results of the analysis done over the measurement model and structural model, supported by SmartPLS software.

A. Measurement Model

The first measurement model test gave unsuccessful results for the strategic planning and innovation and performance constructs. There are 15 indicators that had loadings below the recommendable thresholds 0,5 [36] which produced reliability issues and, in the case of strategic planning construct, derived in a lack of discriminant validity. These 15 indicators were removed. The second test was conducted and the result all indicators of the construct passed the recommendable threshold 0,5.

As shown in Table 1, adequate scores for Cronbach's alpha and composite reliability assured good reliability.

Table 1. Measurement Model

	Cronbach's Alpha	Composite Reliability
Strategic Planning	0.929	0.939
Innovation	0.897	0.912
Performance	0.954	0.960

The measurement model assessments provided good evidence about reliability and validity for representing the concepts discussed in this study. Next, the structural model is going to be assessed

B. Structural Model

The model developed in this study is shown in Fig. 1. Measurement of structural models is

assessed by looking at the value of the coefficient of determination (R^2), the path coefficient value, the size of the Cohen effect (f^2), and predictive relevance (Q^2).

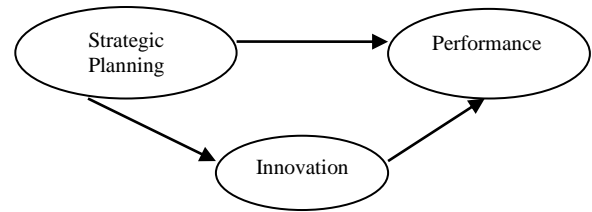


Fig. 1 Structural Model for Strategic Planning, Innovation and Performance

Table 2. The R^2 , Adjust R^2 , Q^2 Values

Construct	R^2	Adj. R^2	Q^2
Strategic Planning			
Innovation	0.672	0.666	0.287
Performance	0.615	0.604	0.366

As shown in Table II, the result indicates that 67.2% of Innovation and 61.5% of Performance are influenced by Strategic Planning as illustrated in the research model.

The results of predictive relevance (Q^2) for each endogenous latent variable in Table II indicate that all variables provided good evidence about the predictability of the model with the range value of 0.287 to 0.366, or greater than 0.

Table 3. The Cohen Values (f^2)

Path	f^2
Planning – Performance	0.011
Planning – Innovation	0.661
Innovation – Performance	0.404

The Cohen effect test (f^2) as shown in Table III indicates the low effect of Strategic Planning on Performance because it has an f^2 value of 0.011, meanwhile, the relationship of Strategic Planning on Innovation and Innovation on Performance indicates a large effect.

Table 4. Path Coefficient

Construct	Path Coef.	P-values
Planning – Performance	-0,124	0,316
Planning – Innovation	0,681	0,000
Planning – Innovation - Performance	0,345	0,000
Innovation – Performance	0,689	0,000

The results of path coefficients in the research model as shown in Table IV found that all paths have coefficient values in the range of -0.124 to 0.689. According to [37], the path coefficient values in the range of -0.1 to 0.1 are considered not significant, values greater than 0.1 are significant and

directly proportional values, and values smaller than -0.1 is significant value and inversely proportional. Therefore, almost all paths have a coefficient of more than 0.1 except one path which has negatively not significant because it is -0.124, p -values $> 0,5$.

The empirical evidence supports the three hypotheses (H_2 , H_3 , H_4) and one hypothesis was rejected (H_1). The result obtained suggested the existence of statistically significant paths between Strategic Planning and Innovation (0,681, $p < 0,05$), Strategic Planning and Performance through Innovation as mediation (0,345, $p < 0,05$), and Innovation and Performance (0,689, $p < 0,05$).

The results of this study are consistent with previous research which concluded strategic planning has a direct positive relationship to innovation, strategic planning also has an indirect positive relationship to performance through innovation as mediation, and innovation has a strong direct relationship to performance [28], [31], [21], [38], [39], [40].

The only hypothesis rejected is Strategic Planning and Performance (-0,124, $p > 0,05$). This result supports the prior research conducted by [41], [42] that strategic planning is negative and not significant to achieving organizational performance.

IV. CONCLUSION

The purpose of the study was to explore the practice of strategic planning and its role in improving innovation performance and organizational performance taking in FTZ Development Agency in Indonesia. The relevance of strategic planning for innovation and organizational performance is clearly supported by the findings. The findings also clearly show that practiced strategic planning has a strong influence on innovation than organizational performance.

The fact shown from this study is strategic planning has a negative impact and is not significant in achieving organizational performance. This result was declined all the prior studies that were used as references in the study.

This research extends our knowledge about the importance of strategic planning and innovation in the organization. It responded to an earlier discussion that management should practically implement strategic planning to optimized the innovation ability before they achieve the organization's performance [28]. The presented findings support the idea that strategic planning practices need to be incorporated in an institution and must be managed to enhance innovation and organizational performance.

The findings also suggest a number of possible actions for practitioners. By identifying the influence of each strategic planning dimension on organization innovation ability, FTZ managers and entrepreneurs will be able to manage their knowledge resources more efficiently and effectively, which, in turn, can make the organization more competitive in

the long run. The findings can support awareness creation for Indonesia FTZ managers and develop the zones more competitive among the competition in the region.

Further research opportunities can be derived from the limitations of this research. The scope of the research can be expanded by adding other independent variables that are relevant in strategic management practices of FTZ Development Agency in Indonesia, especially variables related to absorptive capability [38], adaptive capacity [43], innovation capability [39], and environmental dynamism [44].

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