

# Revisiting the relationship between formal planning process and planning effectiveness

## Do organizational capabilities and decision-making style matter?

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### Abstract

**Purpose** – The purpose of this study is to address a timely research question by clarifying whether formal planning is a worthy approach for hotels. In so doing, the authors developed a theoretical model that extends prior research by exploring how the formal planning process influences organizational capabilities and decision-making style. The model also examines the impact of the three identified factors on planning effectiveness.

**Design/methodology/approach** – Data were collected from 175 hotels located in United Arab Emirates (UAE) and Qatar and hypotheses were tested using structural equation modeling (SEM).

**Findings** – The study concludes that the practice of formal planning in the tourism sector does matter and both organizational capabilities and decision-making style are important factors in predicting planning effectiveness.

**Research limitations/implications** – Generalizations to organizations operating in other sectors, such as manufacturing or government sectors, should be drawn cautiously.

**Practical implications** – Taking into account oil price volatility and serious political crises in the region, this study provides several insights to hotel managers into how the formal planning process can influence planning effectiveness.

**Originality/value** – The findings enrich the debate on the role of formal planning in the tourism sector, which has been relatively devoid of similar studies.

**Keywords** Tourism, Planning, Strategic management, Hotel management, Organizational capabilities, GCC countries, Decision-making style, Formal planning process, Planning effectiveness

**Paper type** Research paper



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## Introduction

Is the formal business planning process a worthy approach for hotels? Is it worth the effort and resources used in this process? What begs these questions regarding the applicability of formal planning for hotels is the nature of the tourism sector. Although formal business planning has been always considered a key organizational activity for organizations in different domains, including tourism (Miller and Cardinal, 1994; Harrington *et al.*, 2014; Elbanna, 2013), some authors have grown sceptical of the value of formal planning for tourism firms. Despite the fact that the roots of planning in hospitality and tourism research can be traced back to the 1970s (Quek, 2011), there has been a dearth of rigorous planning research in tourism, coupled with little attention to various characteristics of practice.

Ambivalence toward the applicability of formal planning in tourism stems from the notion that tourism firms do not usually operate in the same way as companies do (Harrington and Ottenbacher, 2011). Tourism firms are typically small businesses that tend to focus primarily on operational matters and pay less attention to formal planning (Phillips and Louvieris, 2005). However, advocates of the importance of formal business planning adoption in tourism have also promoted rigor in reasoning. Tourism is a critical economic activity, which represents a significant earner of exports and predominant generator of foreign exchange earnings; it functions in a dynamic and vulnerable context and needs a well-thought-out planning approach (Phillips and Moutinho, 2014). The growing level of competition and the emergence of new substitutes for hotels, such as Airbnb.com and FlipKey.com, in the tourism marketplace make hotels compete not only against each other, but also with property management firms and property owners. Adding to this, the influence of technological agitation (e.g. consumer review mobile applications) makes business planning ever more inevitable. Furthermore, some crucial aspects of the planning process, such as adopting systematic approach that starts with specific ends in mind, its focus on results, performance improvement and the needs of customers and stakeholders, render this managerial activity very useful in the tourism field (Sotiriadis, 2015). This sentiment is supported by strategic planning success in the tourism context (Elbanna *et al.*, 2016). With regard to the changing environment, this is not limited to tourism, and most firms function in such circumstances, thereby providing a logical reason why tourism firms should adopt strategic or business planning to enable managers to anticipate and respond proactively to constant changes in the environment is needed. Finally, the effective business planning practice in emerging tourism countries such as the setting of this study – namely, the United Arab Emirates (UAE) and Qatar – is particularly important at present to help these countries get ready for the post-oil era (Elbanna *et al.*, 2015).

To date, most of the empirical evidence concerning business planning in tourism has emerged and developed in Western contexts, whereas there has been a dearth of research examining the outcomes of formal business planning in the tourism sector in general and the Gulf Cooperation Council (GCC) countries in particular. The question here is whether the *raison d'être* of formal business planning will remain the same in rich oil-producing Arab countries, where slack resources are one of the features of their economies and the firms operating within them. Fadol *et al.* (2015), for example, argues that firms in such settings use slack to improve performance. The point in question here is whether hotels operating in settings featuring slack resources are concerned with formal business planning. In other words, will the influences of formal business planning remain the same in this context compared to those emerging in settings featuring tight resources? Hence, a key contribution of this research is that it offers a largely non-Western and contextual understanding of business planning in the GCC tourism context, where less research currently exists.

Another contribution of the current study is related to examining the formal business planning process–organizational capabilities and formal business planning process–decision-making style links in the tourism sector. Previous research results related to strategic planning are inconclusive regarding the influences of formal business planning on organizational capabilities. Similarly, the mainstream literature demonstrates that an organization’s planning approach provides the context in which the decision-making style is shaped (Grant, 2003; Jarzabkowski and Balogun, 2009), yet very less research exists on this linkage in the tourism sector.

Faced with these gaps, this study, as shown in Figure 1, aims to:

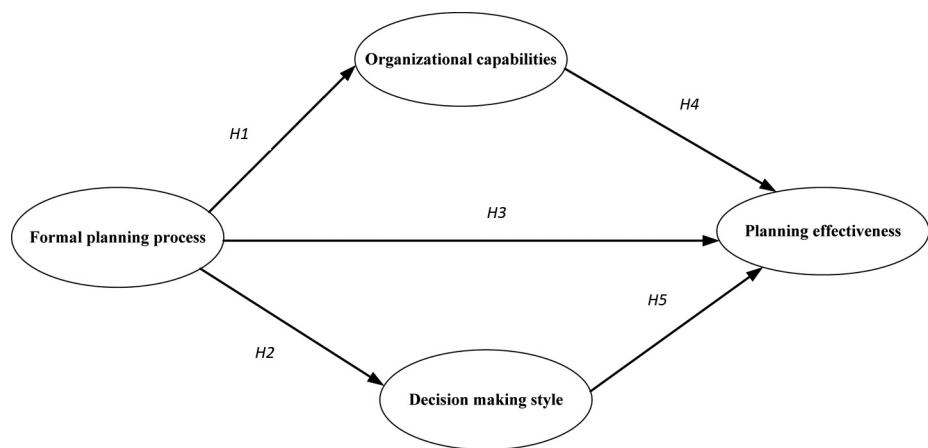
- examine the role of formal planning process in both organizational capabilities and decision-making style; and
- explore how formal planning process, organizational capabilities and decision-making style might affect planning effectiveness.

At the theoretical level, achieving these aims can enhance our understanding of the less researched role of formal planning in the tourism sector.

### Theory and hypothesis development

#### *Formal planning and organizational capabilities*

In conceptualizing planning, Mintzberg *et al.* (1998) differentiate between two schools: descriptive schools (cognitive, environmental, cultural and power, learning) and prescriptive schools (planning, positioning and design). For the purposes of this study, we concur with the design school’s view of planning as an intentional process to set goals and objectives, formulate metrics and targets and allocate resources (Ansoff, 1991). Phillips and Moutinho (2000) proposed the Strategic Planning Index (SPI) tool, which includes four design-related parameters of planning: participation, sophistication, thoroughness and formalization. Given these parameters, organizations executing formal planning are expected to possess certain capabilities and consider these capabilities in the recruitment and selection of their managers.



**Figure 1.** Linking the formal planning process, organizational capabilities and decision-making style to planning effectiveness

**Notes:** Control variables: Hotel size, hotel age and chained brand hotel

Orchiston *et al.* (2016) recently suggested that organizational resilience is a key organizational capability for tourism firms operating in turbulent environments. Organizational resilience is defined as “a function of an organization’s overall situation awareness, management of vulnerabilities, and adaptive capacity in a complex, dynamic and interconnected environment” (McManus *et al.*, 2008, p. 82). Adaptation (e.g. flexibility) and innovation were suggested as key attributes of organizational resilience for tourism firms (Orchiston *et al.*, 2016). The construct of organizational capabilities in this study is conceptualized as the organization’s ability to anticipate surprises, be flexible in making adaptive fast strategic decisions and successfully innovate (Ouakouak *et al.*, 2014). Planning flexibility is defined as “the capacity of a firm’s strategic plan to change as environmental opportunities/threats emerge” (Barringer and Bluedorn, 1999, p. 424). Innovativeness refers to an organization’s readiness to focus on new products and services as well as technological developments in its quest for possessing competitive advantage (Elbanna *et al.*, 2016; Lumpkin and Dess, 1996). Organizations may be able to attain innovativeness by developing strategies that enable the utilization of resources and capabilities, facilitating the processes of acquisition, transformation, assimilation and exploitation of knowledge (Santandreu-Mascarell *et al.*, 2014). Innovative firms possess a visionary perspective that enables them to push industry boundaries by introducing new products, services, processes, marketing or organizational approaches (Brooker *et al.*, 2012). Recent research emphasizes that innovation is a fundamental factor for tourism firms’ development and success (Gomezelj, 2016). This can be attributed to the nature of tourism customers (i.e. tourists). Today’s tourists have become more independent, informed, experienced, flexible and sophisticated in arranging their trips, all of which intensify the competition and render tourism firms more obliged to innovate to remain competitive (Gomezelj, 2016, Kessler *et al.*, 2015). The process of formal planning involves identifying, developing and implementing an organization’s strategic initiatives (Jarzabkowski and Balogun, 2009). Results of previous studies regarding the nature of dynamic capabilities as outcomes of formal planning are mixed. For example, a considerable debate exists on whether formal planning will lead to a flexible decision-making approach or not. Some scholars criticize formality in planning as an obstacle to flexibility (Andersen, 2004). The underpinning assumption for this argument is that formal planning produces a degree of rigidity, which makes it difficult to react swiftly to the changes in the external dynamic environment (Dibrell *et al.*, 2014).

Other authors, such as Grant (2003), argue that formal planning provides a level of flexibility by decentralizing strategy-making efforts within the organization. Between these two opposing views, it is argued that the necessity for flexibility in business planning may increase formality in some facets, such as adopting formal forecasting approaches, and decrease formality in others, like supporting open discussions (Wolf and Floyd, 2017). Furthermore, an effective formal business planning process requires a comprehensive evaluation and analysis of the external environment, which includes identifying customers’ changing needs, new technologies and technological trends in the industry. All of these are vital inputs into the innovation process. Dibrell *et al.* (2014) concluded that an organization’s innovative capability may be developed by managers’ knowledge and insights gleaned by conducting the process of formal business planning. Firms that adopt proactive strategic planning are more likely to be marketing-oriented entities and possess dynamic capabilities that enable them become more flexible or develop more innovative products and services (Alonso-Almeida *et al.*, 2015). Some scholars consider business planning *per se* as a capability (Brews and Hunt, 1999). It thus comes as no surprise that when an organization develops its advanced planning capability, the probability for developing dynamic capabilities increases (Wolf and Floyd, 2017). Therefore, it is expected that an organization’s

formal planning is positively associated with the development of certain organizational capabilities. Thus:

*H1.* The formal planning process is associated with greater organizational capabilities.

*Formal planning and decision-making style*

Traditionally, decision-making style is classified into two main styles: technocratic versus intuitive-based style (Khandwalla, 1977). Managers using the technocratic style rely extensively on quantitative tools, rational analyses and the systematic and analytical assessment of decision alternatives when making decisions. Managers who use an intuitive (experience-based) style are affected by their “gut feelings” about the decisions and are less likely to use objective data and an explicit logic as the basis for their decisions (Elbanna, 2010; Khandwalla, 1977; Covin *et al.*, 2001). Mainstream literature demonstrates that the decision-making style is shaped by the planning approach adopted by the organization (Grant, 2003; Jarzabkowski and Balogun, 2009).

With the fundamental changes taking place in the business environment, formal planning as an institutionalized practice “makes the legitimacy of strategic decisions a potentially important outcome” of the planning process (Wolf and Floyd, 2017, p. 1775). Furthermore, formal planning empowers organizations to perform systematic internal and external evaluations, scan for evolving industry developments/trends and assess alternative courses of action (Wiltbank *et al.*, 2006). Grant (2003) illustrates that the process of formal planning provides the context in which the quality and content of strategic decisions are determined. He further indicates that formal planning as a context for strategic decision-making plays two critical roles: influences the methodologies and techniques used and provides channels and forums for communications and knowledge sharing. Formal planning has been recognized as a key instrument for “integration and coordination and as a basis for both centralizing and decentralizing organizational decision making” (Wolf and Floyd, 2017, p. 1755). Within this framework, there has been a shift in the decision-making style from a rational, top-down approach to a more integrative, communicative and coordinated approach in which the planning system plays a critical role.

Tourism as a critical economic activity, functioning in a dynamic and vulnerable context, needs a coordinated and planned approach and new forms of strategic thinking (Phillips and Moutinho, 2014). Aldehayyat *et al.* (2011) reveal that the decision-making style depends on the planning approach adopted by the hotel. For example, in large hotels when formal planning is used, decision-making is practiced as a logical process, in which a rational analysis of the hotel and scanning of external environment are performed. However, in smaller hotels, the decision-making is viewed as an emerging process not as a result of a deliberate planning process (Aldehayyat *et al.*, 2011). Based on this discussion, it is our contention that the formal planning approach would be associated with the technocratic decision-making style. Formally:

*H2.* The formal planning process is associated with greater technocratic decision-making styles.

*Formal planning process and planning effectiveness*

Although some researchers argue that the organization’s strategic planning process is germane to whether the organization has a plan and if it is written down (Liao and Gartner, 2006), then others have adopted a broader view and argue that formal planning goes beyond the plan development to incorporate both developing and implementing the initiatives

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required to achieve the plan objectives (Jarzabkowski and Balogun, 2009). According to the latter view, which we adopt in this study, effective plans are a function of both plan formulation and implementation or the result of having a plan translated into actions through the appropriate implementation initiatives.

Prior research has sought to examine the link between formal planning processes and performance, with most studies supporting a positive association (Delmar and Shane, 2003; Miller and Cardinal, 1994). Although some diverse evidence from earlier research, it seems that non-formal planners underperform formal planners and formal planning or related concepts are essential variables by which management can positively influence organizational outcomes as concluded by both earlier works (Herold, 1972; Ansoff, 1965; Robinson and Pearce, 1984; Hopkins and Hopkins, 1997; Brews and Hunt, 1999) as well as more recent research (Elbanna and Fadol, 2016; Phillips and Moutinho, 2014; Fadol *et al.*, 2015). Peel and Bridge (1998), for example, observed that formal planning is positively related to both profitability and success in achieving organizational objectives. O'Regan and Ghobadian (2004) have suggested that planning is a prerequisite for high performance. In their study of 185 single-business firms, Andersen and Nielsen (2009) indicate that an intended strategy mode based on rational planning activities positively influences organizational performance. The use of formal planning has also shown positive outcomes under different environmental conditions. According to Slevin and Covin (1997), for example, planned strategies are more positively associated with a firm's performance when that firm works in hostile environments. However, Andersen (2004) claims that formal planning results in positive economic effects in relatively stable environments. Still other scholars support a positive association between formal planning and organizational performance when not controlling for the effect of environment (Fadol *et al.*, 2015).

In sum, the formal planning process is an indication of the extent to which organizations utilize a substantial formal process to formulate long-term objectives and develop the necessary plans to implement these objectives as intended; hence, the carefully devised plan is expected to produce superior organizational outcomes only if this plan is successfully implemented (Titus *et al.*, 2011; Elbanna and Fadol, 2016). Based on this discussion and the results of several meta-analyses (e.g. Miller and Cardinal, 1994; Schwenk and Shrader, 1993), we argue that formal planning tends to be a key determinant of a wide range of organizational outcomes, including planning effectiveness. Thus:

*H3.* The formal planning process is positively associated with planning effectiveness.

#### *Organizational capabilities and planning effectiveness*

The strategic management literature suggests that firm performance is not only influenced by decision-making style (Covin *et al.*, 2001), but also a function of how well the organization uses its capabilities in planning (Papke-Shields *et al.*, 2006). Hotels can achieve a competitive advantage and improve their market and financial performance when they possess certain organizational resources and capabilities (Leonidou *et al.*, 2013). Dibrell *et al.* (2014) argue that planning flexibility (as an organizational capability) enhances firms' performance, particularly in a turbulent environment, as this capability enables the firm to seize the opportunities emerging from changes in the external environment through quick modifications of their plans. Papke-Shields *et al.* (2006) found that capability improvement, which is developed when firms adopt a rational adaptive approach of planning, leads to greater planning effectiveness. Capability improvement occurs when firms develop their

ability to anticipate unexpected developments and/or crises, hone their flexibility in adapting to such unexpected changes and possess the capability to generate new ideas.

Furthermore, innovativeness (as an organizational capability) can turn planning benefits into superior financial performance. Firms armed with innovativeness capabilities can reap the associated benefits, such as improved and new products and services, thereby leading to enhanced performance (Dibrell *et al.*, 2014). Several studies in the tourism sector confirm the connection between firm's innovativeness and its performance indications (Gomezelj, 2016; Kessler *et al.*, 2015). Using data from SMEs in the tourism sector, researchers have demonstrated that there is a positive association between innovation in products and processes and financial performance (Martinez-Román *et al.*, 2015). In a recent study, Mihalache and Mihalache (2016) argue that one of the key drivers for obtaining sustained high performance in the tourism industry is firms' ability to combine exploratory and exploitative innovation. Although exploratory innovation implies radical innovations that require a departure from the current knowledge, exploitative innovations entail incremental improvements of existing knowledge (Mihalache and Mihalache, 2016).

Exploring the strategic alliance within and between the travel sector as well as other sectors in the tourism field, Pansiri (2008) found that organizational capabilities – that is, a firm's resources and core competencies – positively affect the firm's satisfaction with its market share and profitability in addition to its overall performance within the alliance. Organizational capabilities in terms of resource reconfigurability and knowledge management also positively influence the dynamic capability of planners, which directly affects their job performance (Kim and Boo, 2010). Given these observations, we expect that the existence of certain organizational capabilities when performing planning would lead to better planning effectiveness. Formally:

*H4.* Organizational capabilities are associated with greater planning effectiveness.

#### *Decision-making styles and planning effectiveness*

Considering that most researchers see organizational outcomes as the decisive test of concepts and theories (Keats, 1988), the effect of decision styles on different aspects of organizational outcomes such as performance, planning effectiveness and decision quality has been subjected to much empirical research, focusing in particular on the rational or technocratic style of decision-making (Basel and Brühl, 2013).

The technocratic style of decision-making is a measure of how close the decision process is to the rational model of decision-making; as addressed by many scholars, it is particularly valuable in understanding organizational outcomes. It is more likely to provide an extensive quantitative and formal analysis of data leading to a comprehensive view of the possible alternatives along with a systematic evaluation of these alternatives and showing which alternative best meets the essential requirements for dealing with the decision problem (Covin *et al.*, 2001). Similarly, technocratic styles of decision-making are likely to involve a rational analysis of the decision context, thereby reasonably leading to a better understanding of contextual limitations, such as environmental and organizational limitations, of the decision before making it (Elbanna, 2010).

Positive organizational outcomes, such as successful decisions and better planning at broader levels, are more likely to stem from rational processes of decision-making, as they are generally oriented toward organizational goals (Dean and Sharfman, 1996). Furthermore, technocratic styles can lead to developing effective plans which can, for example, reconcile organizations with environmental reality (Elbanna, 2010). Most previous research tends to

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provide evidence of a positive linkage between rational or technocratic styles of decision-making and a wide range of organizational outcomes at both the decision (Dean and Sharfman, 1996; Elbanna, 2010) and organizational levels (Jones *et al.*, 1992; Fadol *et al.*, 2015).

Finally, the extensive argument that the assumptions concerning the influence of planning on organizational outcomes also apply to the impact of technocratic styles of strategic decision-making (Miller *et al.*, 1998) proposes a positive link between technocratic decision-making styles and planning effectiveness. Together, the aforementioned theoretical arguments and empirical evidence lead to the following hypothesis:

- H5.* Technocratic decision-making styles are positively associated with planning effectiveness.

## Methods

### *Sampling and data collection*

To ensure a relevant level of planning practices, we targeted four- and five-star hotels to collect data for this study. The study population consisted of 939 hotels from two GCC countries: the UAE and Qatar. Eliminating hotels that did not meet the inclusion criteria (i.e. fewer than four stars) reduced the sample from 939 to 312 hotels, of which 190 hotels responded to the survey. In all, 15 surveys were rejected because of irrelevant responses and/or incomplete questionnaires. The remaining 175 responses (resulting in a response rate of 56 per cent) were used in our analysis to examine the study hypotheses. Cities represented in the sample included the four largest cities in the UAE and Qatar: Dubai (80 hotels; 46 per cent), Doha (42 hotels; 24 per cent), Abu Dhabi (32 hotels; 18 per cent) and Sharjah (21 hotels; 12 per cent). The data collection process was carried out from May to August 2014.

The average number of employees in the sampled hotels was 213. Most employees in the sample were expatriate (95 per cent), which is in line with previous research conducted in the private sector in the GCC countries. Of the 175 respondent hotels, 144 (82 per cent) belonged to the private sector, 9 hotels were publicly held (5 per cent) and 22 were joint ventures (13 per cent). In all, 95 hotels (54 per cent) ranked as four stars and 80 ranked as five stars (46 per cent). In addition, 143 hotels (82 per cent) belonged to a hotel chain, whereas 32 hotels did not (18 per cent). The average age of hotels in our sample was 10 years.

All respondents were managers, for example, general, regional, financial, marketing and human resource managers. In all, 141 respondents were male (81 per cent) and 34 were female (19 per cent). Of all, 88 respondents held university degrees (50 per cent) and 73 had graduate degrees (42 per cent); 14 respondents did not provide this information (8 per cent). Respondents had worked, on average, six years in the sampled hotels at the time of the survey.

We used a market research company for the purposes of collecting data from managers. The selection of this company was made on the basis of two criteria: be experienced in conducting similar research to the current project and be recommended by other scholars in the region. The researchers trained the team before going into the field. A fully standardized questionnaire (five-point Likert scale) was used to collect data via individual interviews. Respondents were informed that their participation in this study is voluntary.

To ensure content validity, we collected data from managers familiar with practices of business planning in their hotels. Before completing the questionnaire, respondents were informed of the study's importance as well as the benefits their hotels could derive from their participation. Furthermore, interviewers emphasized that all responses would be completely anonymous and confidential and only used for research purposes. Because the



hotels in both Qatar and the UAE use English as the first language, we developed and administered the questionnaire in English.

*Measurement of the study variables*

The operationalization of our scales was based on existing related research. All scales are five-point Likert scales with the exception of hotel size (number of employees), hotel age (the number of years since the hotel branch had been established) and chained-brand hotel (a dummy variable). We revised the first version of our survey (i.e. wording, order of questions and layout) based on feedback from three hotel executives and ten scholars.

To measure the concept of formal planning, we adopted the scale of *Dibrell et al. (2014)* to capture the extent to which hotels highlighted their objectives and implementation plans during their formal planning processes. An earlier version of this scale was successfully used by *Brews and Hunt (1999)*. As stated by *Dibrell et al. (2014, p. 2002)*, this scale addresses both “strategic ends (i.e. objectives set forth in a formal strategic plan) and means (i.e. implementation plans set forth in a formal strategic plan)”, which can provide a better understanding of the formal planning process. It also shows the extent to which firms engage in formal processes to formulate specific objectives and develop specific implementation plans; thus, it is more comprehensive than other scales of planning which address only the formulation stage, such as these of *Fadol et al.(2015)* and *Schäffer and Willauer (2003)*[1].

A measure of organizational capabilities, composed of three items, was adopted from *Ouakouak et al.(2014)*. This scale measures the level of improvement in a hotel’s ability to anticipate surprises and crises, enhance the generation of new ideas and take fast strategic decisions. A four-item Likert-type scale was adopted from *Covin et al.(2001)* to measure decision-making style – namely, an intuitive or experience-based style (a low score) or a technocratic style (a high score). Effectiveness of formal planning, adapted from related research which examined this concept (*Elbanna and Fadol, 2016; Poister and Streib, 2005; Elbanna, 2016*), examines the extent to which formal planning processes generated either harmful or beneficial impacts in the sampling hotels along three lines of planning outcomes: future direction (vision, mission and priorities), fit with the environment and performance (general performance and quality of services). Higher scores signify greater effectiveness, whereas lower scores signify less effectiveness.

*Robustness tests*

We assessed constructs’ psychometric properties using the Cronbach’s alpha reliability coefficient and the items-to-total correlation. With one exception, *Table I* indicates that

Study variables	Mean	SD	1	2	3	4	5	6	7
Formal planning process	4.01	0.48	1						
Organizational capabilities	4.13	0.53	0.30***	1					
Decision-making style	4.06	0.49	0.32***	0.21**	1				
Planning effectiveness	4.38	0.48	0.19*	0.43***	0.29***	1			
Hotel size	2.13	0.61	0.25**	0.23**	0.12	0.19*	1		
Hotel age	10.06	8.46	-0.01	-0.08	0.13 <sup>+</sup>	-0.02	0.09	1	
Chained brand hotel	0.82	0.39	0.10	0.09	0.00	0.11	0.25**	0.04	1
Composite reliability			0.70	0.75	0.69	0.86			

**Table I.**

Descriptive statistics **Notes:** *N* = 175; <sup>+</sup>*p* < 0.10; \**p* < 0.05; \*\**p* < 0.01; \*\*\**p* < 0.001

composite reliability ranged between 0.70 and 0.86 for all scales and suggesting a satisfactory degree of internal consistency. The only exception was the composite reliability of decision-making style which was slightly below 0.70 (0.69) and well above the cut-off level (i.e. 0.60) established for basic research. Moreover, the one could argue that scales are expected to demonstrate high internal reliability in well-researched, Western contexts. However, it is reasonable to accept more liberal criteria for reliability within emerging markets given the unique characteristics of such settings (e.g. within-country heterogeneity, socioeconomic systems, cultural and regulative influences) (Burgess and Steenkamp, 2006). All correlation coefficients were well below 0.50; thus, multicollinearity problems were not indicated.

Before testing the full measurement model, we ran an exploratory factor analysis (EFA). Our results show that all items loaded highly on their intended constructs. Next, we conducted a confirmatory factor analysis (CFA) to assess the resulting scales as well as verify the measures' unidimensionality and validity. All measures had standardized factor loadings greater than 0.50, demonstrating sufficient convergent validity; three items had standardized factor loadings between 0.40 and 0.50. As shown in Table II, the results demonstrate the good fit of the confirmatory measurement model by different indices ( $\chi^2 = 134.379$ , degrees of freedom [df] = 107,  $p = 0.038$ ,  $\chi^2/df = 1.256$ , GFI = 0.920, IFI = 0.970, TLI = 0.961, CFI = 0.969, RMSEA = 0.038, confidence interval [CI] = 0.010-0.057 and PClose = 0.831) (Bagozzi and Yi, 1988).

One potential concern that arose was that the same respondent provided our independent and dependent variables, suggesting the possibility of a common method bias. To mitigate memory failure and bias problems, we:

- collected data only from managers who intimately participated in their hotels' planning processes;
- excluded hotels which do not have business plans;
- assured participants that responses would be completely anonymous and confidential and would be used only for research purposes; and
- provided a clarification of the study's practicality and offered a summary of findings to foster the understanding that participating hotels would benefit from this study.

In addition to the above actions for ex ante survey design choices, we performed ex post analyses to address this concern (Conway and Lance, 2010). We performed Harman's one-factor (or single-factor) test of common method bias using CFA. The results indicated that a considerable amount of common method variance was not evident because the first factor explained only 28 per cent of the variance in the data.

Model	$\chi^2$	DF	$p$	$\chi^2/df$	GFI	IFI	TLI	CFI	RMSEA	CI	PClose
CFA model	134.38	107	0.04	1.26	0.92	0.97	0.96	0.97	0.04	0.010-0.057	0.831
Path model	196.140	150	0.01	1.31	0.91	0.95	0.94	0.95	0.04	0.023-0.058	0.787

	Statistic	Suggested
Goodness-of-fit index (GFI); incremental fit index (IFI); Tucker–Lewis index (TLI); Comparative fit index (CFI);		$\geq 0.90$
Root mean square residual (RMSEA)		$\leq 0.08$
PClose		$> 0.05$

**Table II.**  
Goodness-of-fit  
indices

**Analysis and results**

We used structural equation modeling (SEM) because it deals not only with a single simple or multiple linear regression but with several equations simultaneously which fits well our conceptual model and data analysis requirements. As shown in Table II, goodness-of-fit statistics of the study model are well above the suggested threshold values ( $\chi^2 = 196.14$ , degrees of freedom [df] = 150,  $p = 0.01$ ,  $\chi^2/df = 1.31$ , GFI = 0.91, IFI = 0.95, TLI = 0.94, CFI = 0.95, RMSEA = 0.04, confidence interval [CI] = 0.02-0.06 and PClose = 0.79), suggesting that the proposed structural model fits the data well.

Table III presents the proposed model's estimated standardized path coefficients. It was hypothesized that a formal planning process positively influences organizational capabilities. As hypothesized, the path from the formal planning process ( $\beta = 0.33, p < 0.01$ ) to organizational capabilities was positive and significant, thereby supporting the first hypothesis. We also hypothesized that the formal planning process positively influences technocratic decision-making styles. The path from the formal planning process to decision-making style (i.e. technocratic style) was statistically significant and positive ( $\beta = 0.55, p < 0.001$ ), thereby supporting the second hypothesis.

Surprisingly, the path from the formal planning process to planning effectiveness was insignificant ( $\beta = -0.10, ns$ ); hence, the third hypothesis – that a formal planning process positively influences planning effectiveness – was rejected.

Furthermore, the findings reveal that the relationship between both organizational capabilities ( $\beta = 0.46, p < 0.001$ ) and technocratic decision-making styles ( $\beta = 0.27, p < 0.05$ ) and planning effectiveness was statistically significant and positive. These results lend support for H4 and H5 – namely, both organizational capabilities and technocratic decision-making styles positively influence planning effectiveness.

*Additional mediation analysis*

To explain the surprising result concerning the lack of a significant direct relationship between the formal planning process and planning effectiveness, we performed a supplemental mediation analysis. To test for mediation, we used Baron and Kenny's (1986) mediation technique. According to this technique, organizational capabilities and decision-making style act as mediators if four conditions are met. First, the independent variable (the formal planning process) significantly influences the dependent variable (planning effectiveness) when the role of mediator variables (organizational capabilities and decision-making style) is omitted. Second, the mediator variables significantly influence the

Path from	Organizational capabilities (C)	Path to Decision-making style (C)	Planning effectiveness (D)
Formal planning process	0.33**	0.55***	-0.10
Hotel size	0.15 <sup>+</sup>	0.07	0.03
Hotel age	-0.06	0.14 <sup>+</sup>	-0.08
Chained brand hotel	0.01	0.05	0.03
Organizational capabilities			0.46***
Decision-making style			0.27*
R2	0.13	0.33	0.30

**Notes:** N = 175; <sup>+</sup>p < 0.10; \*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001

**Table III.** Estimated standardized coefficients for the hypothesized model

dependent variable when the role of independent variable is omitted. Third, the independent variable significantly influences the mediator variables. Finally, when the roles of both the independent and mediator variables are considered together in the same equation, the impact of the independent variable on the dependent variable is either no longer significant (full mediation) or decreased (partial mediation).

As shown in Table IV, we ran two new structural equation models to examine the first two conditions, where each model incorporates the independent variable or the mediator variables, the three control variables and the dependent variable. The results revealed that the path between the formal planning process and planning effectiveness ( $\beta = 0.22, p < 0.05$ ) was significant, thereby achieving the first condition. Similarly, the results support the second condition as the paths between organizational capabilities ( $\beta = 0.43, p < 0.001$ ) and decision-making style ( $\beta = 0.22, p < 0.05$ ) and planning effectiveness were also significant.

We used the results reported in Table III to examine the third and fourth conditions. As shown in this table, the third condition was met as the loadings of the paths between the formal planning process and organizational capabilities ( $\beta = 0.33, p < 0.01$ ) and decision-making style ( $\beta = 0.55, p < 0.001$ ) were significant. Finally, when the role of independent and mediator variables are considered together in the same structural equation, the impact of the formal planning process on planning effectiveness is no longer significant ( $\beta = -0.10, ns$ ). These results show that the relationship between the formal planning process and planning effectiveness is fully mediated by organizational capabilities and decision-making style.

## Discussion and conclusions

### *Theoretical implications*

Largely unexplored associations in the tourism sector among the planning process, organizational capabilities, decision-making style and planning effectiveness are examined in this study. Our results confirm that when adopting formal planning, hotels will be able to build and enhance organizational capabilities (H1). Given the nature of the tourism sector as fragile and vulnerable to political and economic volatility as well as prone to crises, organizational capabilities would be of critical importance for hotels to function effectively in such a setting. Although one can assume that formal planning may hinder some organizational capabilities, such as planning flexibility, because of the formality and rigidity associated with the process, our findings prove the contrary. This finding is aligned with the argument that one of the key roots of an organization's innovative

Path from	Path to	
	Planning effectiveness (A)	Planning effectiveness (B)
Formal planning process	0.22*	
Organizational capabilities		0.43***
Decision-making style		0.22*
Hotel size	0.09	0.05
Hotel age	-0.07	-0.08
Chained brand hotel	0.04	0.04
R <sup>2</sup>	0.06	0.24

Notes:  $N = 175$ ; \* $p < 0.05$ ; \*\*\* $p < 0.001$

**Table IV.**  
Additional mediation  
analysis

capability might stem from managers' knowledge and insights, which they developed while performing a strategic analysis as part of a formal planning process (Dibrell *et al.*, 2014).

The study findings also reveal that the adoption of formal planning has a strong association with the decision-making style used by managers. When a formal planning process is in place, managers tend to use a technocratic decision-making style (*H2*). This implies that, in cases where the planning process is characterized by formalization, the decision-making style may be expected to be characterized by more rationality, the use of more formal written reports and more extensive use of the quantitative analysis of data.

According to our prediction, organizational capabilities significantly influence a hotel's planning effectiveness (*H4*). This implies that when a hotel possesses capabilities related to the anticipation of surprises and crises, flexibility and innovativeness, it will be in a better position to develop effective strategic planning in terms of clear strategic direction, achieving a good fit between internal capabilities and the external environment as well as attaining better performance. This finding is consistent with the findings of Dibrell *et al.* (2014) that planning flexibility can enhance hotels' performance, particularly those operating in turbulent environments, by enabling the hotels to seize the opportunities emerging as a result of changes in the external environment. Similarly and as predicted, technocratic decision-making styles are positively associated with planning effectiveness (*H5*).

The only unexpected result in this study that needs an explanation is the lack of a significant association between the formal planning process and planning effectiveness (*H3*). A possible explanation for this surprising finding is that the relationship between formal planning and planning effectiveness is not direct; rather, it is mediated by other factors. The additional analysis we conducted herein provides strong support for this claim, as our results suggest that planning effectiveness is not achieved directly by a formal planning process, but by adopting a technocratic decision-making style, which is enabled by formal planning. Similarly, organizational capabilities mediate the link between formal planning and planning effectiveness. This result implies that when possessing certain organizational capabilities, hotels can achieve better planning outcomes by adopting a formal planning process. It also suggests that it is not sufficient for a hotel to perform a formal planning process to reap the desirable strategic outcomes. Certain organizational capabilities should exist to reach these ends.

#### *Practical implications*

This research and its findings offer several implications for practicing hotel managers and policy-makers. First, the fact that formal planning is not a vain act used to satisfy some executive mandate should reassure hotel managers. In fact, formal planning can lead to effective planning through its impact on other organizational factors – in our case, organizational capabilities and decision-making style. A managerial implication of this finding is that it is not enough for hotels to adopt a formal strategic planning approach to accomplish better planning outcomes; decision-makers should use a decision-making style characterized by rationality and the use of a systematic quantitative data analysis. Thus, the promotion of a technocratic orientation as opposed to an intuitive orientation may be an avenue by which managers can reap the benefits of the formal planning approach. Similarly, hotel capabilities are positively affected by the practice of formal planning and, in return, are germane to enhance planning effectiveness. Another important lesson is that planning is not a zero-sum game – plan formulation versus plan implementation – as combining the two in some way in practice will likely produce the maximum benefit in terms of planning effectiveness and performance improvement.

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Moreover, considering the dramatic fall in oil prices, the region's main source of income, the use of a formal planning process as introduced in this study can help hotels and tourism organizations in the GCC region develop clearer visions and relevant strategic objectives to deal with the oil prices fall. Similarly, the most recent major political crisis in the GCC region, that is, cutting diplomatic ties between several Arab countries and Qatar, in June 5, 2017, for the second time in three years in addition to closing their borders, airspace and waterways to this tiny, gas-rich Arab state clearly shows the role that the formal planning process can play in such turbulent setting. For example, formal planning can enhance organizational capabilities and improve decision-making styles that can jointly enable hotels to anticipate crises, develop relevant scenarios to deal with them and take fast strategic decisions once they happen. This can ultimately improve planning effectiveness.

#### *Limitations and future research*

As it is the case in any study, several limitations of this study deserve to be highlighted. First, this study was conducted in two GCC countries; thus, generalizations to other countries or regions should be drawn cautiously and replications along with extension of this study are needed. Second, it is clear that the context in which our predictors were introduced had a much higher level of complexity than can be captured by the three control variables under investigation here (i.e. hotel size, age and chain). Third, we examined planning practices at the business level of each sampled hotel rather than examining them at the corporate headquarter level.

In addition to the importance of considering the above limitations in future research, three future research directions are worth noting. First, considering the importance of integrating planning and implementation processes, the planning construct of [Dibrell \*et al.\* \(2014\)](#) that integrates both planning and implementation processes as used in this study needs more attention from researchers, as carefully devised plans will lead to superior performance only if a firm is able to successfully implement the plan ([Elbanna and Fadol, 2016](#)). Second, the contribution of mediating roles of decision-making style and organizational capabilities in explaining the missing direct link between formal planning and planning effectiveness is another avenue for further research. This may refer to the fact that formal planning may benefit firms from a "learn as you plan" orientation, as any formal planning and implementation process would likely produce learning capabilities of organizational members in general and decision-makers in particular. Third, considering that the tourism industry during recent years has experienced increasing uncertainty and complexity ([Phillips and Moutinho, 2014](#)), examining the missing role of environmental variables by future research is critically important in researching the chaotic, turbulent and non-linear tourism environment.

#### *Conclusions*

The originality and novelty of the empirical work undertaken represent a major contribution of this study. With regard to planning practices in the tourism industry, this study constitutes one of few empirical studies of its nature to build on the emerging literature on strategic practices in the tourism industry. The results of our study offer an answer to the key question raised at the beginning: is formal planning a worthy approach for hotels? We confirm that formal planning is a worthy approach for hotels because of the consequences of adopting this approach. This study supports the notion that this approach yields desirable organizational capabilities and enables decision-makers to use a technocratic style when making strategic decisions. Furthermore, a real challenge for hotels operating in a dynamic environment is how to manage achieving strategic planning effectiveness. Although our

findings do not support the direct link between formal planning and planning effectiveness, the indirect paths through organizational capabilities and decision-making style are supported. The resource-based view asserts that organizations can capitalize on or leverage their resources to develop advantages (Barney, 1991). In our study, we defined three factors that provide the foundation for planning effectiveness: formal planning processes, organizational capabilities and decision-making style.

#### Note

1. Full details of our measures are available from the authors upon request.

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Measure	Description	Factor loading	
Formal planning process	When formulating your business plan, how many objectives are usually specified?	0.67	
	To what degree are the objectives, that result from the business planning process, formalized and documented?	0.70	
	To what degree are plans to implement your business plan developed as a result of the planning process?	0.69	
	How closely are your hotel's plans to implement the business plan followed as the hotel attempts to implement its objectives?	0.67	
Organizational capabilities	Ability to anticipate surprises and crises.	0.71	
	Ability to enhance the generation of new ideas.	0.75	
	Ability to take fast strategic decisions.	0.73	
Decision-making style	Our strategic decisions always result from extensive quantitative analysis of data.	0.71	
	Our strategic decisions are always detailed in formal written reports.	0.64	
	We rely principally on rational analysis (rather than experience-based intuition) when making strategic decisions.	0.68	
	In general, our strategic decisions are much more affected by the results of formal search and systematic evaluation of alternatives than by industry experience and lessons learned.	0.75	
	Planning effectiveness	Developing a clear vision for the hotel.	0.74
		Orienting the hotel toward a unified mission.	0.74
Defining clear priorities and focusing on the important issues.		0.75	
Achieving a good fit between the external environment and the internal capabilities of our hotel.		0.73	
	Delivering high-quality services.	0.67	
	Improving hotel performance.	0.76	

**Table A1.**  
Measures and  
principal components  
analysis results

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