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Strategic Planning Practice in Village Administration

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ABSTRACT: This study investigates the strategic planning practice in village government. Strategic planning is required by law in Indonesia's village government. However, no studies examine the element of strategic planning and strategic planning impact. This study aims to determine the effect of the elements of strategic planning and strategic planning performance. The strategic planning component comprises four constructs: stakeholders' involvement, strategic planning activity, strategic planning budget link, and strategic planning performance measurement link. Fifty village governments participated in this study. Variance-based structural equation model (VB-SEM) is employed to analyse the research data. In this case, SmartPLS 3.2.3 is utilised, which includes two assessments: measurement model assessment and structural model assessment. The result indicates that strategic planning activity and the strategic planning budget link are positively related to strategic planning performance. This study practically implies that the village government should emphasise these elements of strategic planning while developing strategic planning. This study provides additional evidence for the resource-based theory and contingency theory.

KEYWORDS: strategic planning, performance, village government, Indonesia

I. INTRODUCTION

Organisations face significant challenges in the present competitive world due to a rapid increase in new products, processes, customer preferences, and technology (Alosani, Yusoff and Al-Dhaafri, 2020). Success in this environment would bring an organisation to a strategic position. The viability of any organisation relies on its ability to remedy its strategic planning (Dlamini *et al.*, 2020). Strategic planning is a must to gain the competitive advantages of both the private and public sectors. In addition, strategic planning is an important process in both public and private organisations (Cheung and Yu, 2020). In addition, Cheung and Yu (2020) argue that the issue has become more salient on the public organisation's agenda due to the new public management reforms. In addition, strategic planning has become a crucial part of the private sector and local governments (Denhardt, 1985). Many organisations use strategic planning as a copy-paste benchmark from other organisations or institutions (Al-dhaafri and Alosani, 2020). In public organisations, strategic planning is executed after exhaustive practice by trainers or practitioners (Al-dhaafri and Alosani, 2020). Many managers of public sector organizations have held strategic planning. Still, it is unexpected to generate the advantages they expect, except they encourage it through their performance management process, measurement and budgeting (Poister and Streib, 2005).

One of the public organisations is the village government. The village government is recognised as the lowest tier of government in Indonesia's administrative hierarchy (Antlöv, Wetterberg and Dharmawan, 2016). The village government has been subjected to poor strategic planning, resulting in poor service delivery and corruption practices (Susan and Budirahayu, 2018). Strategic planning is a component of strategic management. Managing strategy is one of the extremely notable practices that help them achieve superior performance. It includes strategy formulation, planning, implementation, and strategic control (Dlamini *et al.*, 2020). Resource-based view (RBV) is one of the theories used to understand how an organisation achieves its performance through internal strengths and weaknesses (Priem and Butler, 2001). SWOT analysis is one of the most common strategies. The first step in SWOT analysis is identifying the internal factors based on the activity and functional capability (finance, marketing, etc.) (Jacobs, van Witteloostuijn and Christe-Zeyse, 2013). The second step is to audit the external factors: mega environment, industry environment, and competitive environment (Valentin, 2001). The strategy results from internal factors (strengths and weaknesses) and external factors (threats and opportunities).

The study of strategic planning in village government is very limited. Most of the study investigates the strategic planning usage focus on central government (Duarte *et al.*, 2006), local government (Kostagiolas, Banou and Laskari, 2009; Elbanna, 2010;

Lee *et al.*, 2018; Alosani, Yusoff and Al-Dhaafri, 2020; Cheung and Yu, 2020), and no strategic planning study for village government. Thus, this study explores the contemporary circumstances of strategic planning enactment in village government, particularly focusing on the perceived collision of these tools and the components most directly contributing to their successful use. Specifically, this study aims to analyse stakeholder involvement in strategic planning activities, the connection of the budget to a strategic plan, the integration of the performance management system with strategic planning, and the impact of strategic planning. Specifically, this study investigates the relationship between four strategic planning processes and strategic planning impact. This paper comprises five sessions: research background, theoretical aspect, research methodology, results and discussion, and conclusion and recommendations.

II. LITERATURE REVIEW

Performance

The competitive advantage of an organisation depends on how it configures its strategic planning. Thus, strategic planning is a process of generating a formal planning document to be followed by the management to achieve an organisation's goals and objectives. Strategic planning provides a structured approach for gathering information about the organisation and using it to establish long-term goals and then interpret direction-specific objectives and actions (Poister, 2010). In addition, Bryson (1995) defines strategic planning as a controlled means to construct basic decisions and actions that shape and guide what an organisation is, what it does, and why it does it. Further, strategic planning compounds futuristic thinking, objective analysis, and subjective evaluation of goals and priorities to chart a future course of action that will ensure the organisation's vitality and effectiveness in the long run (Poister and Streib, 2005). An organisation can outperform its competitor if it designs its strategies through strategic planning that aligns with and complements its internal dynamic (Yuliansyah, Rammal and Rose, 2016). Strategic planning impact is the outcome of this process. Several organisational theories can explain why an organisation can achieve sustainable competitive advantage. The first theory is structure-conduct-performance (SCP) (Fu and Heffernan, 2009). In addition, this model is massively used in the private sector. This model predicts that an organisation's performance is influenced by industry structure (external to an organisation). The second theory is the resource-based theory or RBV (Barney, 1991). According to RBV, an organisation's performance (sustainable competitive advantage-SCA) largely depends on an organisation's resources. To achieve SCA, the organisation's resources must be unique (value, rare, inimitable, and non-substitutable) (Priem & Butler, 2001). Other theories that can explain the variation of an organisation's outcome are agency theory (Jensen and Meckling, 1976), dynamic capability theory (Helfat and Peteraf, 2003), resource-dependent theory (Hillman, Cannella and Paetzold, 2000), contingency theory (Ginsberg and Venkatraman, 1985), and others.

Stakeholder involvement

Stakeholder involvement is an important element of strategic planning. Stakeholder involvement is defined as the participation of all parties interested in an organisation. This involvement provides stakeholders with a deep understanding of the organisation's planning. Therefore, they have an accountability to achieve the goals and objectives of an organisation. Besides, the stakeholders actively participated in running the action plan. In addition, an organisation with high stakeholder involvement in strategic planning development tends to have high strategic planning performance. Therefore, the first hypothesis is developed as follows.

H1: Stakeholder involvement is positively associated with strategic planning performance.

Strategic planning activity

Strategic planning activity is a set of activities for developing the strategic planning document. They compose a review of an organisation's mission, identify needs and concerns of stakeholders, assess external opportunities and threats, evaluate the organisation's strengths and weaknesses, develop its vision, goals, and objectives, and finally, establish a strategic agenda. These activities will produce strategies for different levels. Therefore, creating the tactic (short-term planning) and the budget becomes a form of guidance. Finally, this will lead to good performance in an organisation.

H2: Strategic planning activity is positively related to strategic planning performance.

Linking strategic planning to the budget

Linking strategic planning to budget is an important element of successful implementation. Budgeting is a process of translating an organisation's strategy into a detailed plan to create value. In addition, a budget creates a foundation to link the economic goal with leading indicators of strategic implementation. The benefit of linking the budget to strategic planning is that it makes the strategy concrete and gets everyone in the organisation on the same page. Moreover, this link also provides a control tool for an organisation. An example of a sub-element of this link is to consider a strategic objective and goal when reviewing the annual budget, as a strategic plan has a strong influence on the department/divisional budget. Therefore, this link will make the strategy run, positively impacting performance.

H3: The strategic planning-budget link positively influences strategic planning performance.

Strategic planning performance measurement link

The strategic planning performance measurement link is the performance measurement system (PMS) related to the component of strategic planning. In other words, PMS's indicators should relate to strategic goals and objectives. For example, the annual evaluation of department/divisional heads is based on their accomplishment of strategic goals and objectives, and annual salary adjustments are based on their contribution to advancing strategic planning. If these achievements are rewarded, it will boost personnel motivation. Therefore, the strategic planning outcome could be optimally achieved. In brief, the strategic planning-performance measurement link positively affects strategic planning performance.

H4: The strategic planning-performance measurement link positively affects strategic planning performance

III. RESEARCH METHODS

We surveyed all village governments in *Pariaman*, Indonesia, to address this issue. Demography data and the existence of strategic planning documents are questioned in the first part of the questionnaire. The main survey contained items concerning the overall strategic management process. It begins with stakeholder involvement, strategic planning activities, linking the budget to the strategic plan, connecting the management system to strategic planning, and assessing the impact of strategic planning (strategic planning performance). The questionnaires were developed by Poister and Streib (2005). Stakeholders' involvement consists of seven items, and an example item is "the village chief administrative officer has been centrally involved in the development of our strategic planning". Further, the strategic planning activity includes ten items, including "evaluate village government strength and weakness". Moreover, the strategic planning-budget link comprises six items. An example of an item is "the village government supervisory board considers strategic goals and objectives when reviewing the annual budget". Thus, the strategic planning performance measurement link is divided into seven items: "the objectives established for divisional heads and other managers come from the overall strategic plan". Finally, the strategic planning impact includes two items, with an example being "strategic goal and objective estimated to be accomplished". Latent independent variables are measured by a five-point Likert (Likert, 1931), ranging from strongly disagree (1) to strongly agree (5). In addition, the latent dependent variables are measured using five scales ranging from very dissatisfied to very satisfied for the first item. The second item (strategic goal and objective estimated to be accomplished) is measured by 0%-20% (1), 21%-40% (2) , 41%-60% (3), 61%-80% (4), and 81%-100% (5). The questionnaires were submitted to the head of the village government, or Kepala Desa, using the name and address provided by *Dinas Pemberdayaan Masyarakat*, the *Pariaman* city. In the first step, the surveyor distributed the questionnaires to the village government's office and gave the respondents several days to complete them. The surveyor picked it up in the second step and screened all items to ensure they were filled. The data is analysed using a structural equation model (SEM) with SmartPLS 3.2.3. version software. There are two model assessments in smart pls: measurement model assessment and structural model assessment (Vinzi *et al.*, 2010). In the last part of the analysis, we also conduct the important performance MAP (IPMA) to see which latent significant independent variables are important based on the result of the structural model assessment

IV. RESULT AND DISCUSSION

We Distributed the Questionnaire To All Village Governments (July To August 2022). However, Only Fifty Questionnaires Were Returned to surveyors. In addition, the village government head is the respondent of this study. The demographic data of the village government head is demonstrated in Table 1 below. Based on age, the village government head is dominated by those aged 41–50 (34%), and the second place is held by those aged 31–40. The respondent's sex is predominantly male (92%), with the rest being female (8%). The education level of the village government head includes a bachelor's degree (50%), senior high school (38%), postgraduate studies (10%), and a diploma (2%). According to the educational background, only 20% of the village government heads have an economic background, while the rest have a non-economic background (80%).

Table 1. Demographic data

demographic data	category	frequency	percentage
Age	23-30 years old	2	4
	31-40 years old	15	30
	41-50 years old	17	34
	> 50 years old	16	32
Sex	Male	46	92

	Female	4	8
	Senior high school	19	38
Education level	Diploma	1	2
	Bachelor	25	50
	Postgraduate	5	10
	Economic	10	20
Education background	Non-economic	40	80

Sources: SPSS output

The result of data analysis is divided into two assessments: measurement model assessment and structural model assessment (Vinzi *et al.*, 2010). In the measurement model, two types of validity are assessed: convergent and discriminant validity. In convergent validity, four statistical properties are evaluated: outer loading, Cronbach's alpha, composite reliability, and average variance extracted (Hair *et al.*, 2017). Further, the discriminant validity is assessed using the Fornell-Lacker criterion and cross-loading. Meanwhile, the structural model assessment applies the Q-squared and R-squared. Thus, the p-value is employed to see the effect of the latent independent variable on the latent dependent variable. As seen in Figure 1, the construct of strategic planning activity has eleven items, and it finally has seven valid items with outer loading above 0.70 (Hulland, 1999). This construct has a Cronbach alpha value, and its composite reliability reaches 0.70 (Bagozzi and Yi, 1988). The average variance extracted (AVE) also achieves the cut value (>0.50), and therefore, it satisfies convergent validity. The second construct is the strategic planning performance measurement link. The final algorithm indicates that only three items (spmsl2, spmsl3, and spmsl4) have an outer loading above 0.70 (Hulland, 1999). The indicator reliability also satisfies the requirement with Cronbach's alpha, and composite reliability reaches 0.700 (Bagozzi and Yi, 1988). In addition, the average variance extracted from the construct is above 0.50 (Bagozzi and Yi, 1988). The third construct is the strategic planning-budget link. This construct has six items, and the final run gained three valid items (spbl3, spbl4, and spbl6) with outer loading above 0.70 (Hulland, 1999). The reliability of the construct is demonstrated in Table 2, with Cronbach's alpha and composite reliability values of 0.670 and 0.822, respectively. Meanwhile, the variance average extracted (AVE) value reaches the minimum required cut-off (0.50).

Table 2. Convergent validity assessment

Latent variable	CA	CR	AVE
Stakeholders' Involvement	0.681	0.853	0.745
Strategic Planning Activity	0.883	0.908	0.585
Strategic Planning Performance	0.641	0.848	0.736
Strategic Planning-Budget Link	0.679	0.822	0.607
Strategic Planning-Performance Measurement Link	0.886	0.929	0.813

Sources: Smart-PLS output

The stakeholder's involvement in strategic planning preparation is the fifth construct. It previously had seven items, and the valid items are two items (si2 and si5) with an outer loading of 0.700 (Hulland, 1999). Furthermore, the indicator reliability is satisfactory, which suggests that the indicator is reliable. Thus, the value of AVE is 0.745, and this value is greater than 0.500. In brief, it achieves the cut-off value. Therefore, this construct gains convergent validity. The final construct is strategic planning performance. In this case, two items reflect this construct. Based on the convergent validity assessment, it has high outer loading (see figure 1), satisfies Cronbach's alpha (0.641) and composite reliability (0.848), and has a high average variance extracted (0.736).

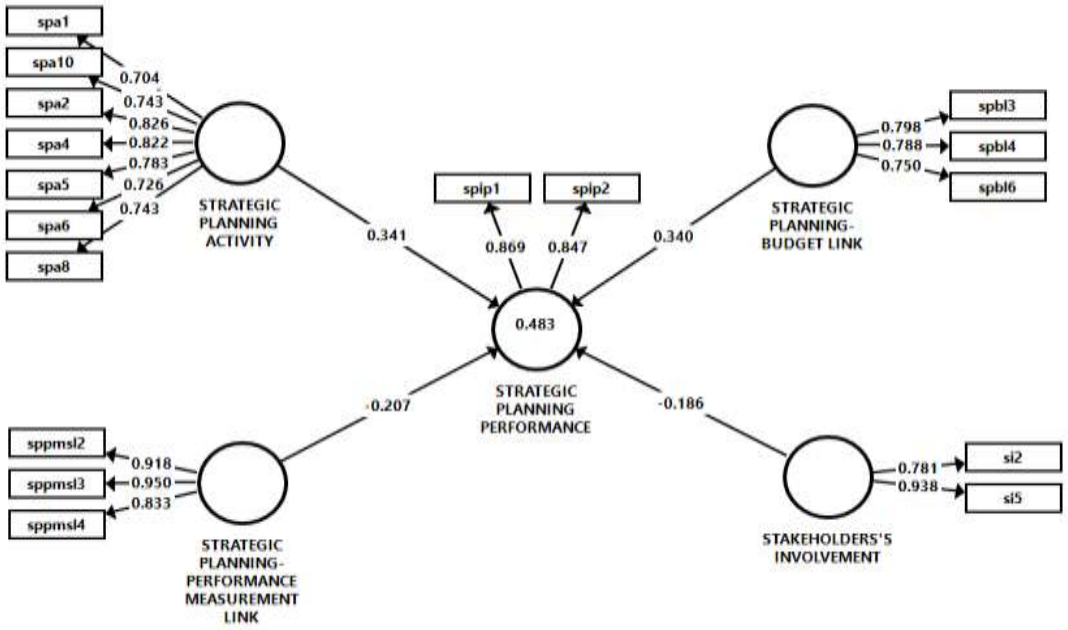

Figure 1. Measurement model

sources: Smart-PLS output

The following assessment is for discriminant validity. We use two kinds of statistical properties: Fornell-Lacker criterion (Fornell, 1982) and cross-loading (Henseler, Ringle and Sarstedt, 2015). The result of the Fornell-Lacker criterion is depicted in Table 3. All constructs have a square root of AVE above the correlation between this construct and other constructs, thereby achieving discriminant validity (Fornell and Larcker, 1981). For example, the construct of stakeholders' involvement has a square root of 0.863. This value is greater than the relationship between this construct and other constructs, such as the strategic planning-budget link (0.064).

Table 3. Fornell-Lacker criterion

Latent variable	SI	SPA	SPIP	SPBL	SPPMSL
Stakeholders' involvement	**0.863**				
Strategic planning activity	-0.116	**0.765**			
Strategic planning performance	-0.155	0.576	**0.858**		
Strategic planning-budget link	0.064	0.592	0.588	**0.779**	
Strategic planning-performance ML	-0.237	-0.062	-0.280	-0.283	**0.902**

Sources: Smart-PLS output

The second assessment for discriminant validity is cross-loading. The item of a construct should have a higher loading on the construct than other constructs. For example, si2 has a higher loading (0.781) to SI than other constructs, such as SPA (-0.039). The completed result of this assessment can be seen in Table 4. All items for all constructs are loading higher than other constructs. Therefore, it can be concluded that discriminant validity is achieved.

Table 4. Cross-loading

Indicator/LV	SI	SPA	SPIP	SPBL	SPPMSL
si2	**0.781**	-0.039	-0.090	-0.025	-0.214
si5	**0.938**	-0.137	-0.162	0.101	-0.206
spa1	0.032	**0.704**	0.504	0.383	0.059
spa10	-0.136	**0.743**	0.387	0.441	-0.057
spa2	-0.120	**0.826**	0.517	0.567	-0.102
spa4	-0.094	**0.822**	0.455	0.492	0.047
spa5	-0.199	**0.783**	0.359	0.478	-0.034
spa6	-0.116	**0.726**	0.214	0.490	0.101

spa8	-0.044	**0.743**	0.491	0.349	-0.257
spbl3	0.093	0.527	0.428	**0.798**	-0.224
spbl4	0.098	0.409	0.415	**0.788**	-0.276
spbl6	-0.026	0.445	0.515	**0.750**	-0.171
spip1	-0.015	0.542	**0.869**	0.577	-0.217
spip2	-0.259	0.444	**0.847**	0.427	-0.265
sppmsl2	-0.194	-0.007	-0.240	-0.216	**0.918**
sppmsl3	-0.260	-0.079	-0.305	-0.303	**0.950**
sppmsl4	-0.170	-0.083	-0.193	-0.237	**0.833**

Sources: Smart-PLS output

The structural model assessment is conducted to answer the research questions/hypotheses. However, it first sees the predictive power (R-squared) and predictive relevance (Q-squared) of the model (Hair *et al.*, 2017). The predictive power and relevance result is demonstrated in Tables 5 and 6. The model's predictive power is 0.483, and it can be categorised as moderate predictive power (Hair *et al.*, 2014). Therefore, the latent independent variable is powerful enough to predict strategic planning performance.

Table 5. Predictive power

.atent dependent variable	R Square	R Square Adjusted	Decision
strategic planning performance	0.483	0.439	Moderate

Sources: Smart-PLS output

The predictive relevance is the relative impact of the structural model on the observed, measured latent dependent variable (Henseler, Ringle and Sinkovics, 2009). In addition, it is a criterion to evaluate how well the model estimates the omitted data. The result of predictive relevance is shown in Table 5, and it indicates that the Q^2 is 0.262. This value is grouped into medium predictive relevance (Henseler, Ringle and Sinkovics, 2009).

Table 6. Predictive relevance

Latent variable	SSO	SSE	Q^2 (=1-SSE/SSO)
Stakeholders' involvement	104.000	104.000	
Strategic planning activity	364.000	364.000	
Strategic planning performance	104.000	76.703	0.262
Strategic planning-budget link	156.000	156.000	
Strategic planning-performance measurement link	156.000	156.000	

Sources: Smart-PLS output

The structural model shows that it has adequate predictive power and predictive relevance. The next interpretation is hypothesis testing. In this case, we employ the bootstrapping menu to produce the statistical property needed to test the hypothesis. Thus, the t-statistic is applied to see whether the latent independent variable significantly affects the latent dependent variable. The result is depicted in Figure 2 below. There are four latent independent variables: stakeholder's involvement, strategic planning activity, strategic planning-budget link, and strategic planning performance-measurement link. As shown in Figure 2, only two latent independent variables significantly affect strategic planning performance, as indicated by the high t statistic (α=5%) for the strategic planning activity and strategic planning budget link. The effect direction is positive, which means that the better the strategic planning activity and the strategic planning budget link, the better the strategic planning performance.

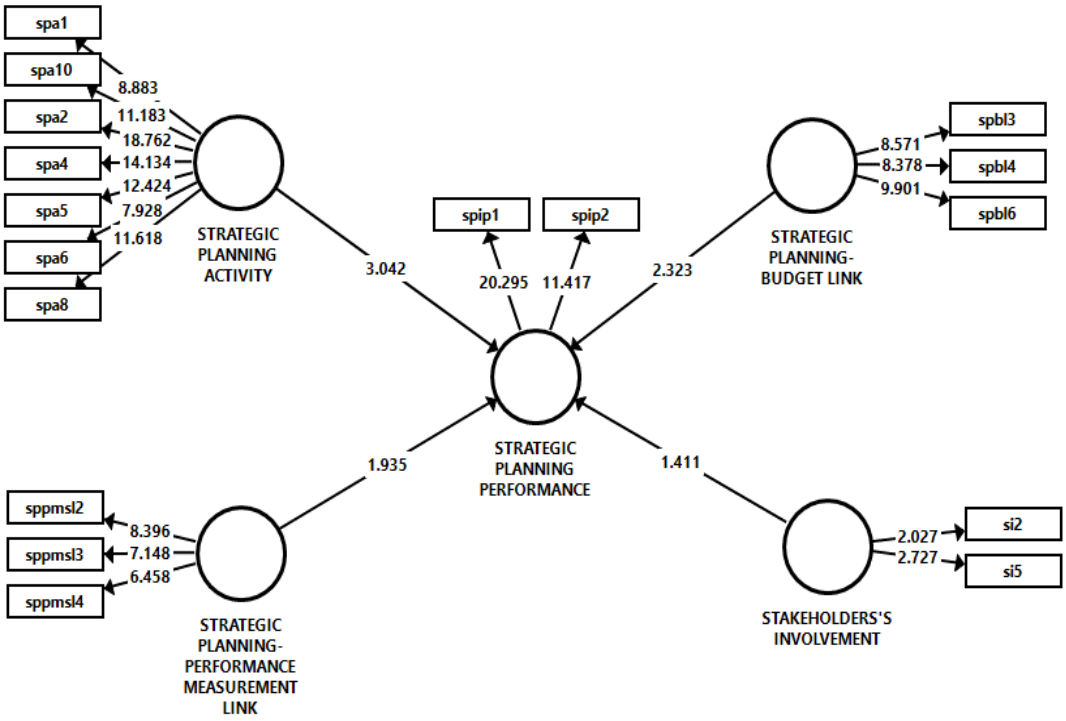

Figure 2. Structural model

sources: Smart-PLS output

Important-performance Map (IPMA)

The following analysis is an important-performance Map (IPMA). This kind of analysis leads to a better comprehension of the SEM-PLS approach. This type of analysis is an alternative to path coefficient testing (an important measure). In addition, IPMA also comprises the latent dependent and independent variables. However, we only use the significant latent independent variable resulting from bootstrapping smart pls. Figure 3 shows the importance and performance of each construct in the strategic planning performance framework. Based on the result, the strategic planning-budget link has the highest priority and performance, followed by strategic planning activity.

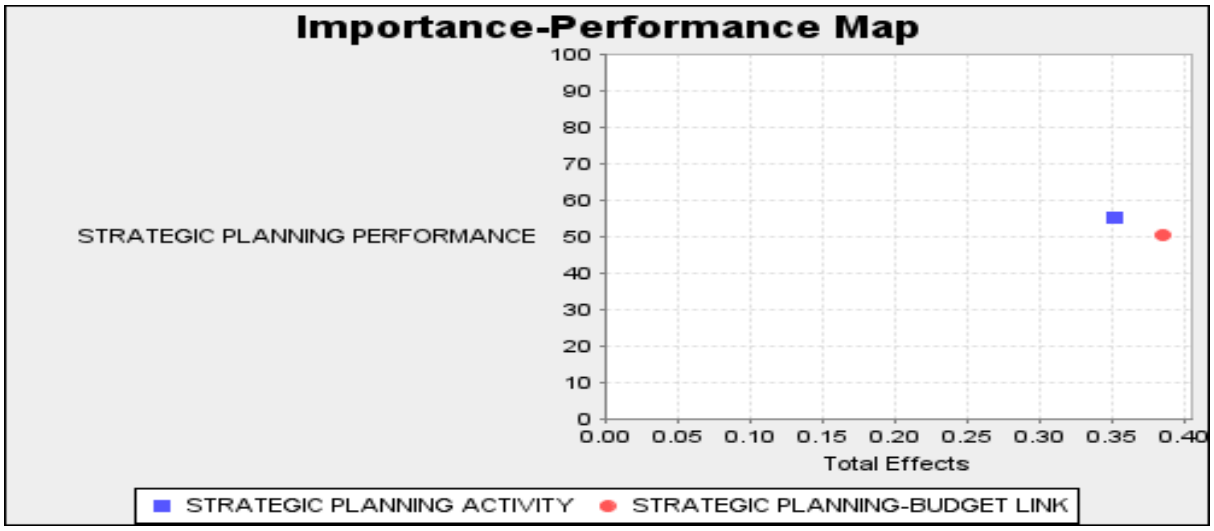

Figure 3. IPMA

Sources: Smart-PLS output

This study also analyses the key performance indicators. All indicators (valid items) from significant latent independent variables are included in this analysis. Based on Figure 4, the highest importance and performance is spbl6, followed by spbl6, spbl3, spa4, etc.

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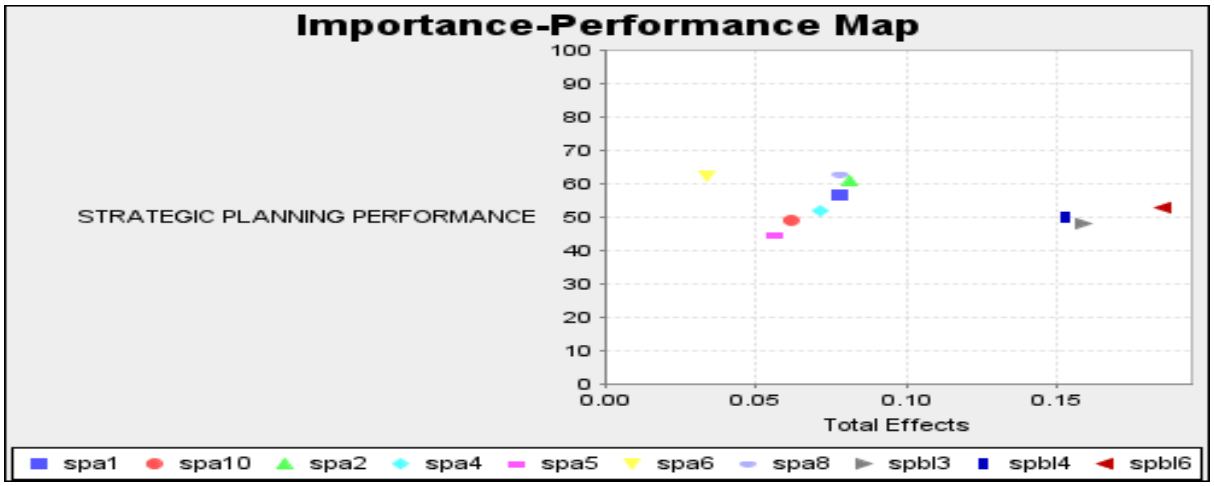

Figure 4. IPMA for the indicator

Sources: Smart-PLS output

The study of strategic planning practices in village government is limited. This study documented the level of strategic planning practices in village government. First, the stakeholder involvement level is higher (mean=4.36 or 87.25). Therefore, the village government involved various stakeholders in the strategic planning process, such as the city government leader, village government secretary, village supervisory board, village community, and village government dan employee. Compared to a previous study (Poister and Streib, 2005) in other types of government (municipal government), the level of stakeholder involvement of this village government is higher (87.25 vs 76.00). The high stakeholder involvement in strategic planning development is due to full support from city leaders and other stakeholders. In addition, it might also be caused by the availability of a budget to prepare the strategic planning document. The second strategic planning practice is strategic planning activities. The level of strategic planning activities in village government is 3.88 or 77.65. Thus, it can be concluded that the level of strategic planning activities, such as the organisation's mission and the assessment of internal and external environments, is sufficient. The lowest level is the review of the organisation's mission (3.69 or 73.80), and the highest is in the internal environment assessment (4.04 or 80.80). However, the level of strategic planning activities is still higher than in the previous study. The third component of strategic planning practices is the strategic planning budget link. This study reveals that the level of the strategic planning budget link is sufficient (4.04 or 80.05). The aspects are (i) annual budget support the goal (3.96), (ii) considering the strategic goal when reviewing the annual budget (4.04), (iii) linking capital budget to the strategic goal (3.29), and (iv) additional budget link to the strategic goal (4.00) etc. the level of the strategic planning budget link in the village government is higher compared to the previous study (75.50).In addition, the last practice of strategic planning is the strategic planning performance measurement link. This study finds that this level is 3.19 or 63.91. The highest level (4.27) is the department head, who is responsible for implementing initiatives that are part of the strategic plan. The lowest level is the village government secretary, who is responsible for implementing the strategic plan (2.33). In addition, the practice level of strategic planning performance measurement link is higher than found in the previous study (Poister and Streib, 2005; Poister, 2010). Based on the SmartPLS result, the strategic planning activity and budget link have significantly contributed to the strategic planning performance. This finding is aligned with the conclusion of the previous study: the strategic planning activity and strategic planning budget link would improve the strategic planning performance (Poister and Streib, 2005)

V. CONCLUSIONS

The heading Strategic planning aims to impact overall performance. Strategic planning and performance in empirical research have not been given attention. This study investigates the effect of stakeholders' involvement, strategic planning activity, strategic planning-budget link, and strategic planning-performance measurement link on strategic planning performance. This study also determines the important variables based on the results of the first objective. The village government in *Pariaman* city is an object of research. SEM-PLS is employed to analyse the data. The result shows that the strategic planning activity and the strategic planning-budget link positively affect strategic planning performance. Based on the IPMA analysis, the strategic planning budget link is more important and has a higher performance rating than the strategic planning activity. In terms of indicators, spbl6 is the highest priority for performance. This study has practical implications, suggesting that the performance of strategic planning could be enhanced by conducting the activity and linking the budget to it. Therefore, a set of strategic planning development activities, such as reviewing an organisation's mission, evaluating its strengths and weaknesses, assessing

opportunities and threats, and developing its goals and objectives, could enhance strategic planning performance. Strategic planning performance can be achieved by linking the budget to strategic planning, such as considering goals and objectives when reviewing the annual budget and reflecting these priorities in the capital budget. Additional money in the budget is targeted to achieve the strategic goals and objectives. Theoretically, this finding partially contributes to the resource-based view/theory and contingency theory. Performance largely depends on the resource the organisation have. In addition, these resources must be unique because they should be valuable, rare, unique, and not substitutable (VRUN). Thus, when evaluating strengths and weaknesses (strategic planning activity), they can derive from resources characterised as VRUN. Further, this study also benefited from contingency theory, especially the strategic planning-budget link. This research was limited in several ways. Future studies should consider these limitations. First, this study employed fifty village governments in *Pariaman* city, Indonesia, and therefore it can be regarded as a small sample. Future investigations can include more samples to obtain more rigorous results. Second, this study investigates the predictors of strategic planning performance from the process perspective of strategic planning development. Future research can see the strategic planning performance from another perspective, such as strategic planning implementation. Finally, the current study uses VB-SEM using smart pls. Future investigation can apply the CB-SEM, a confirmatory type of analysis.

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