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The Effects of Strategy Formulation on Organisational Performance: Evidence from the Malaysian Local Authorities

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ABSTRACT

The performance of Malaysian public service, including its local authorities (LAs), faces significant challenges. Previous research highlights a connection between poor performance and insufficient strategic planning in public service settings. This study investigates how strategy formulation impacts the performance of Malaysian LAs, as part of a broader examination of strategic planning and organizational effectiveness within this sector. The research assesses strategy formulation across four components: mission, objective, strategy, and policy while using efficiency as a proxy of performance. A quantitative approach was employed to collect data through mailed questionnaires distributed to all 150 LAs listed by the Malaysian Ministry of Housing and Local Government. The questionnaire consisted of 34 items divided into three sections. Ninety questionnaires were returned, and 75 were considered usable, resulting in a response rate of 50.3%. IBM-SPSS Statistics version 29 was utilized to analyze the data distribution. The results of the Shapiro-Wilk test and Q-Q plot analysis confirmed normal distribution. Further statistical analyses were conducted using SmartPLS version 3.0 software, chosen for its suitability with smaller sample sizes, to apply Partial Least Squares Structural Equation Modeling (PLS-SEM). The assessment of the measurement model confirmed validity, reliability, and goodness-of-fit. The findings from the structural model analysis indicate that mission significantly influences LA performance, whereas objective, strategy, and policy did not demonstrate significant effects. These results are interpreted through the perspective of Strategy Alignment Theory. The study discusses the managerial implications of these findings and proposes directions for future research.

Keywords: Strategy formulation; efficiency; Local authorities; Malaysia

INTRODUCTION

The principal aim of this research is to assess how elements of strategy formulation (SF) influence the performance of local authorities (LAs) in Malaysia. SF encompasses four key elements - mission, objective, strategy, and policy (Wheelan & Hunger, 2004) which are integral to the broader process of strategic planning

(SP) (Kitsios & Kamariotou, 2018; Gomera, Chinyamurindi, & Mishi, 2018; Samad & Ahmad, 2021), a process recognized for its positive and significant impact on organisational performance (OP) (Mashingardze, Phiri, & Bomani, 2021). In essence, SF serves as a guiding framework or roadmap for the organisation (Okwemba & Njuguna, 2021).

LAs play a pivotal role in ensuring the provision of essential services at the community level. An examination of existing literature indicates varied outcomes in previous studies on the performance of LAs in Malaysia. While some research suggests constituent satisfaction with the services provided by LAs (Manaf, Mohamed, & Harvey, 2022; Ngah et al., 2011; Zakaria et al., 2011), conflicting findings highlight persistent challenges, including inefficiency (Siddique, 2007; Hussain & Brahim, 2005; Osman, Bachok, Bakri, & Harun, 2014; Osman, Jusoh, Bachok, & Bakri, 2014; Bahardin, Alias, & Abdullah, 2019; Ibrahim & Karim, 2004; Mohamed, Nusari, Ameen, Raju, & Bhaumik, 2019).

Furthermore, allegations of a lack of transparency, service delays, insufficient customer service courtesy, and a deficit in accountability have been raised concerning LAs (Osman, Bachok et al., 2014; Osman, Jusoh et al., 2014; Manaf et al., 2022). Consequently, this study is formulated to investigate the impact of SF elements on the performance of Malaysian LAs, representing the initial exploration of such effects in the Malaysian context. The outcomes are anticipated to contribute to an enhanced comprehension of how SP, particularly SF, influences the performance of LAs in Malaysia. The significance of monitoring LA performance is underscored by its direct influence on public satisfaction and perception, consequently shaping the image of both LAs and the government at large (Osman, Jusoh et al., 2014).

Despite the expanding body of literature on SF, a distinct gap persists in our comprehension of how SF elements influence the performance of LAs in the Malaysian context. While existing literature offers valuable insights into SF across diverse settings, there remains a deficiency in dedicated research examining the impact of SF elements within Malaysian LAs.

An examination of the literature about the relationship between SF and OP also reveals methodological variations. SF can be incorporated into the theoretical model either as an aggregate exogenous variable (Mashingardze et al., 2021; Kitsios & Kamariotou, 2018) or delineated into its individual elements (Mohamed et al., 2019; Mbulwa & Kinyua, 2021; Ameen, Isaac, & AlDahar, 2020; al-Harethi & al-Masmari, 2018). Remarkably, there is no existing study that has specifically explored the impact of SF elements on the performance of LAs in Malaysia, representing a notable research gap that this study seeks to address.

This research adopts an exploratory approach, with a primary emphasis on investigating the direct relationship between SF elements and the performance of LAs, without delving into intermediary factors. As such, the central research question for this study is framed as follows: How do SF elements impact the performance of Malaysian LAs? The study, in particular, aims to address the following specific questions:

1. What is the relationship between the organisational mission and the performance of LAs?
2. What is the relationship between the organisational objective and the performance of LAs?
3. What is the relationship between the organisational strategy and the performance of LAs?
4. What is the relationship between the organisational policy and the performance of LAs?

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This section provides a comprehensive overview of the background of Local Authorities (LAs) in Malaysia, elucidating the interconnection between strategy planning, strategy formulation, and organisational performance. This contextual exploration serves as the foundation for the subsequent development of hypotheses.
Malaysian Local Authorities.

Local Authorities represent the most diminutive functional units within the Malaysian governmental framework, comprising city halls, municipal councils, and district councils (Hussain & Brahim, 2005). Mandated by the Local Government Act 1976 (Act 171) and the Town And Country Planning Act 1976 (Act 172), LAs assume the role of licensing authorities and are entrusted with the provision of municipal services, including waste and garbage collection, street lighting, public health, and the maintenance of public recreational parks (Osman, Bachok et al., 2014; Osman, Jusoh et al., 2014; Zakaria et al., 2011). It is noteworthy that Malaysia's trajectory envisions a shift from an agrarian state to an industrialized nation (Henley, 2012). This transition is accompanied by rural-to-urban migration, propelled by industrialization. Projections indicate an anticipated urbanization rate of 80.0 percent by the year 2030 (Azril, 2020). Consequently, there is a pressing need to enhance the performance of LAs in tandem with the escalating trend in urbanization, particularly in delivering quality services to urban communities (Lewis, 2014) and aligning with the nation's aspirations.

Strategic Planning, Strategic Formulation, and Performance

Strategic Planning (SP) is characterized as a purposeful and disciplined endeavour aimed at making fundamental decisions and actions that define the essence,

activities, and rationale of an organisation or entity (Bryson, 2018). It embodies a long-term orientation focused on achieving organisational goals (Ferreira & Proença, 2015). While initially rooted in the private sector, SP has been progressively integrated into the public sector (Khalid, 2008; Fatemi & Behmanesh, 2012). The positive impact of SP on the performance of both public and private sectors is well-documented (Johnsen, 2016; Ameen et al., 2020; Mbulwa & Kinyua, 2021; Okwemba & Njuguna, 2021; Kitsios & Kamariotou, 2018; Lim & Teoh, 2021; Gomera et al, 2018).

SP exerts its influence on organisational performance (OP) by fostering strategic thinking within the organisation, thereby enhancing decision-making elements (Bryson, 2018; al-Qershi, 2021; Mintzberg, 1994) and establishing control and accountability (Elliott, Day, & Lichtenstein, 2020). However, the relationship between SP and OP is arguably moderated by various factors, including the quality of human capital (AlQershi, 2021), leadership (Samad & Ahmad, 2021), organisational culture, and resource adequacy (Ab. Rahman, Ismail & Rajiani, 2018). Additionally, the relationship is also influenced by technological levels (Ibrahim & Karim, 2004; Ismail, Said & Amin, 2020), average income of the population, type and location of local authorities (Ibrahim & Karim, 2004), and stakeholder participation (Manaf et al., 2022; Vadeveloo & Singaravelloo, 2013).
As previously mentioned, strategy formulation (SF) is an integral part of the SP process (Mbulwa & Kinyua, 2021). SF involves the development of long-range plans for effective management of environmental opportunities and threats, aligning with corporate strengths and weaknesses (Ameen et al., 2020, p. 3). Lynch (2015) contends that SF is a process of aligning organisational capabilities with opportunities present in the competitive environment. It is not an overstatement to assert that SF serves as the foundation of a successful SP (Kitsios & Kamariotou, 2018; Gomera et al., 2018; Ameen et al., 2020). The formulation of strategies encompasses four key elements: defining mission, specifying objective, developing strategy, and setting policy guidelines (Wheelen & Hunger, 2004). Therefore, it is reasonable to contemplate at this juncture that mission, objective, strategy, and policy may have distinct influences on the performance of LAs.

Organisational performance (OP) can be defined as the successful fulfilment of a mission through the execution of necessary tasks by employees (Cascio, 2015). It is also characterized as a set of achievements resulting from the implementation of specific practices (Bryson, 2018). The assessment of an organisation's success is gauged by its performance, as perceived by the public (Osman, Jusoh et al., 2014). The scrutiny of performance is crucial for Local Authorities (LAs) as it mirrors the accomplishment of the government objectives.
Performance is a fundamental concern for all organisations, whether public or private (Pasha & Poister, 2017). Consequently, there is a significant body of research focusing on identifying the factors influencing performance (Askarany, 2011; Bunteng, 2022; Nazarian, Atkinson, Foroudi, & Edirisinghe, 2021; Khan,

Yaacob, Abdullah, & Abu Bakar Ah, 2016). Among these factors, strategic planning SP and SF are consistently highlighted as key influencers of OP (Johnsen, 2018; Ahmad & Ahmad, 2019; Donkor, Donkor, & Kwarteng, 2018). SP contributes to the enhancement of service quality by aiding organisations in decision-making and performance evaluation (Ferreira & Proença, 2015; Ameen et al., 2020). While the primary focus of the private sector lies in financial performance (Kitsios & Kamariotou, 2018; Gomera et al., 2018; Mashingardze et al., 2021), the public sector places greater emphasis on non-financial accomplishments, particularly the quality of service delivery (Johnsen, 2016; Ameen et al., 2020; Mbulwa & Kinyua, 2021; Bahardin et al., 2019).

The Malaysian Government is committed to enhancing its public service delivery and has introduced various transformation initiatives to improve the effectiveness and efficiency of its services (Hussain, 1975). These initiatives include the adoption of the New Public Management (NPM) (Khalid, 2008; Fatemi & Behmanesh, 2012), Total Quality Management (TQM), ISO 9000 (MS ISO 9000), MS ISO 9001:2000, Quality Control Circle (QCC) (Siddiquee, 2007), the Government Transformation Programme (GTP) (Siddique, 2014), and the Online One-Stop Centre (OOSC) (Kamaruddin, Rosmi, Halil, Misni, & Marzukhi, 2020). However, it was alleged that the impacts of the reforms on the service quality of the Malaysian public service were limited and not significant (Siddiquee, 2007; 2006; Bahardin et al., 2019). Issues such as corruption, inefficiency, procedural complications, delays in service provision, and lack of professionalism persist (Siddiquee, 2007).

In line with the arguments presented above, it is fair to conclude at this juncture that it is imperative to examine the impacts of SF elements on the performance of the Malaysian LAs. The following sub-sections elucidate the relationships between SF elements and performance. The sub-sections are concluded with hypotheses that encapsulate the anticipated relationships and potential causal links between specific SF elements and performance.

The Relationship Between Mission and Performance of LAs

Mission is the purpose or reason for the organisation's existence. The mission of an organisation delineates its fundamental and distinctive purpose, serving to differentiate it from other entities and specifying the extent of its operational domain (Wheelen & Hunger, 2004). Numerous studies have consistently demonstrated a positive correlation between a well-defined mission statement and organisational performance (Pandey, Kim, & Pandey, 2017; Baek, Ihm, & Kang, 2023; Ameen et al., 2020; Mohamed et al., 2019; Khalid & Nusari, 2020). Notably, a robust mission statement is identified as a catalyst for heightened organisational performance (Baek et al., 2023). However, it is crucial to recognize that the positive impact of a mission statement on performance is contingent upon the presence of organisational commitment (Macedo, Pinho, & Silva, 2016). The commitment of individuals at all levels within the organisation becomes imperative for the effective

implementation and realization of the mission statement. Committed employees, driven by a dedication to satisfying both internal and external stakeholders, actively engage with and prioritize the organisational mission (Jung & Pompper, 2014). In light of these considerations, the following hypothesis is posited:

H1: Organisational mission positively influences the performance of LAs.

The Relationship Between Objective and Performance of LAs

Objective is the accomplishment of a planned activity. It represents the intended accomplishments within specified timeframes, with a preference for quantifiable metrics (Wheelen & Hunger, 2004). Existing research, exemplified by Ameen et al. (2020), Mohamed et al. (2019), and Khalid and Nusari (2020), accentuates a positive and significant correlation between objective and organisational performance. However, the nexus between objective and performance is intricate, influenced potentially by factors such as pragmatism (Barlas & Yasarcan, 2006) and clarity of the objective (Jung, 2011; Ngilisho, Mori & Kitindi, 2022). Ambiguity in objective is observed to detrimentally impact employee morale and work behaviour, ultimately resulting in suboptimal performance (Jung, 2011; Ngilisho et al., 2022). Emphasizing the imperative of realism and achievability, unrealistic objectives are identified as a potential source of frustration that can undermine final performance outcomes (Barlas & Yasarcan, 2006). In consideration of the aforementioned arguments, a hypothesis is postulated as follows:

H2: Organisational objective positively influences the performance of LAs.

The Relationship Between Strategy and Performance of LAs

Strategy is a comprehensive roadmap outlining an organisation's approach to achieving its mission and objectives, with strategies translated into actionable steps (Bowen, Appiah, & Okafor, 2020). This strategic framework aims to optimize competitive advantage and mitigate competitive disadvantages (Wheelen & Hunger, 2004). Extant research, exemplified by Al-Zoubi and Emeagwali (2016) and Leitner and Guldenberg (2010), affirms the positive and significant impact of strategy on organisational performance. However, a notable body of evidence, as presented by Ham and Lee (2011) and Spanos, Zaralis, and Lioukas (2004), yields conflicting results. Ham and Lee (2011) contend that green marketing strategy does not influence non-financial performance, while Spanos et al. (2004) found that a pure low-cost strategy did not enhance performance. Moreover, scholars argue that the link between strategy and performance is indirect, subject to moderation by factors such as organisational type (Al-Zoubi & Emeagwali, 2016), the simplicity of the strategy (Lumpkin & Dess, 2006), and leadership dynamics (Čater & Pučko, 2010; Samad & Ahmed, 2021). In light of the presented arguments, a third hypothesis is formulated as follows:

H3: Organisational strategy positively influences the performance of LAs.

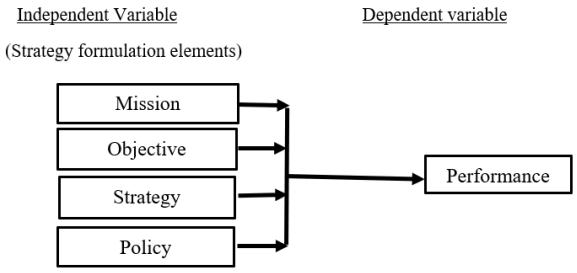
The Relationship Between Policy and Performance of LAs

Policy is a broad guideline for decision-making, acting as a linkage between the formulation and implementation of strategy (Wheelen & Hunger, 2004). Numerous studies emphasize the impact of organisational policy on performance (Haque & Ntim, 2018; Hillberry & Zhang, 2018; Katou & Budhwar, 2007). Well-crafted policies contribute to structural integrity, foster consistency, align actions with objectives, and cultivate a conducive working environment. However, the relationship between organisational policy and performance has exhibited variability and significance in divergent directions. Amidu (2007) posited that this relationship is contingent upon the chosen performance metric, citing a study on the influence of dividend policy on firm performance. While dividend policy significantly and positively affected return on assets (ROA) and return on equity (ROE), its impact was not significant when performance was measured by Tobin's q. Conversely, Abor (2007) reported a negative yet significant influence of debt policy on financial performance. Furthermore, this relationship is moderated by various variables, including remuneration, organisational culture (Owusu, 2006), governance, and the clarity of policies (Haque & Ntim, 2018). Additionally, a simplified policy framework enhances the strength of this relationship (Hillberry & Zhang, 2018). In consideration of the presented arguments, a hypothesis is formulated as follows:

H4: Organisational policy positively influences the performance of LAs.

In alignment with the literature reviewed and the scope of this study, the proposed theoretical framework is depicted in Figure 1 below. Following the exploratory nature of the study's objective, the research will concentrate solely on the direct relationships between the exogenous variables (mission, objective, strategy, and policy) and the endogenous variable (performance).

Figure 1: The Proposed Theoretical Framework (Wheelan & Hunger, 2004)



METHODOLOGY

The research adopted a quantitative approach for data collection and analysis, following the guidelines outlined by Zikmund et al. (2013). Primary data were

gathered using a structured questionnaire administered to respondents. This questionnaire, which utilized interval, nominal, and ratio measures, was adapted from Wheelen and Hunger (2004) and translated into Bahasa Melayu by a senior English teacher. To ensure accuracy, a senior lecturer in strategic management resolved any inconsistencies between the English and Bahasa Melayu versions.

The questionnaire consisted of three sections: Section 1 focused on personal and job backgrounds with seven items, Section 2 aimed to capture perceptions on strategy formulation with 20 items using a 5-point Likert scale, and Section 3 measured organizational performance perceptions with seven items, also on a 5-point Likert scale. Efficiency was chosen as the performance proxy for this study, aligning with the prudent use of public resources by local authorities (Johnsen, 2016; Mikesell, 2007; Ballaguer-Coll, Prior, & Tortosa-Ausina, 2010). The final questionnaire consists of 34 study variable items, having both languages. The justification for having both languages is that Bahasa Melayu is the official language of the country, but English is widely used especially in East Malaysia.

The focal point of this study is the local authorities (LAs) in Malaysia, totaling 150 units according to data from the Malaysian Ministry of Housing and Local Government. Questionnaires, accompanied by a cover letter, were distributed via mail to all Yang Dipertua/Mayor/Chairman of these 150 local authorities nationwide. To facilitate a robust response rate, each questionnaire package included a self-return envelope with prepaid postage. Over three and a half months, two reminders were sent to encourage participation. Moreover, efforts such as prepaid return envelopes and reminders typically enhance response rates (Singer & Couper, 2017). The study garnered 97 completed questionnaires, of which 75 met the criteria for usability, resulting in a response rate of 50.3%. A response rate above 50% is generally considered acceptable for surveys, indicating a significant portion of the target population engaged with the study (American Association for Public Opinion Research, 2016). Thus, the attained response rate of 50.3% can be deemed adequate for this research.

The analysis of data utilized SmartPLS 3.0 software, acknowledged for its applicability in handling small sample sizes (Ramayah, Cheah, Chuah, Ting, & Memon, 2018; Elliot et al., 2020), employing Partial Least Squares Structural Equation Modeling (PLS-SEM). However, before further statistical analyses, using IBM-SPSS Statistics version 29, the dataset underwent normality testing. Razali and Wah (2011) recommended that the Shapiro-Wilk test is “the most powerful test for all types of distribution and sample size” (p.32). The Shapiro-Wilk test yielded a statistic of W=0.972 (p-value=0.089). At the 0.05 significance level, the test results do not provide enough evidence to reject the null hypothesis, indicating that the data reasonably adhere to the assumption of normal distribution. This finding is corroborated by the Q-Q plot analysis, which shows data points closely following a straight line, further supporting the assumption of normality visually. Therefore,

both statistical testing and graphical examination affirm that the data exhibit characteristics indicative of a normal distribution. The validity and reliability of the data were evaluated in the measurement model analysis conducted within PLS-SEM, as detailed in the subsequent RESULTS section. The structural model analysis was subsequently employed to test the hypotheses posited in the study.

FINDINGS AND DISCUSSIONS

The data analyses were bifurcated into two segments: (i) measurement model analysis and (ii) structural model analysis, as per the methodology proposed by Ramayah et al. (2018). The former scrutinizes the construct quality, while the latter is designed to assess and test the hypotheses.

a) Measurement Model Analysis

The data underwent verification for two types of validity: discriminant validity and convergent validity. Discriminant validity was established through the assessment of the Fornell-Larcker Criterion (FLC) and cross-loadings (Ramayah et al., 2018). Examination of Table 1 indicates that the outer loadings of the constructs surpass those of other latent variables, signifying the non-interchangeability of items within constructs (Ramayah et al., 2018). Additionally, Table 2 reveals that the FLC diagonal values exceed their respective horizontal and vertical counterparts, affirming the attainment of discriminant validity (Ramayah et al., 2018).

Table 1: The cross-loadings of the constructs

	MISSION	OBJECTIVE	EFFICIENCY	POLICY	STRATEGY
M1	**0.895**	0.727	0.617	0.583	0.566
M2	**0.839**	0.682	0.46	0.669	0.634
M3	**0.858**	0.738	0.518	0.531	0.562
O1	0.767	**0.903**	0.597	0.721	0.643
O2	0.785	**0.911**	0.541	0.701	0.665
O3	0.695	**0.894**	0.565	0.688	0.712
O4	0.653	**0.794**	0.465	0.725	0.69
P1	0.622	0.752	0.492	**0.864**	0.674
P2	0.602	0.728	0.483	**0.927**	0.752
P3	0.618	0.698	0.524	**0.911**	0.826
EF1	0.392	0.400	**0.732**	0.368	0.39
EF2	0.393	0.393	**0.718**	0.393	0.409
EF3	0.455	0.393	**0.702**	0.266	0.346
EF4	0.542	0.51	**0.716**	0.452	0.44
EF5	0.429	0.456	**0.763**	0.409	0.341

EF6	0.533	0.524	**0.838**	0.452	0.47
EF7	0.509	0.562	**0.809**	0.546	0.581
S1	0.581	0.712	0.493	0.745	**0.901**
S2	0.65	0.706	0.531	0.779	**0.933**
S4	0.642	0.724	0.566	0.799	**0.948**

Table 2: Fornel-Larcker Criterion (FLC)

	MISSION	OBJECTIVE	EFFICIENCY	POLICY	STRATEGY
MISSION	**0.864**				
OBJECTIVE	0.828	**0.877**			
EFFICIENCY	0.622	0.621	**0.756**		
POLICIY	0.682	0.805	0.555	**0.901**	
STRATEGY	0.674	0.769	0.573	0.835	**0.928**

Convergent validity was ascertained through an examination of outer loadings and the Average Variance Extracted (AVE). As observed in Table 3, all items' outer loadings surpass the established threshold of 0.708 (Hair, Risher, Sarstedt, & Ringle, 2019). Additionally, the AVEs for all constructs exceed the threshold of 0.5, as recommended by Bargozzi and Yi (1988), Fornell and Larcker (1981), and Hair et al. (2019). Consequently, based on the results of the outer loadings and AVEs, it can be affirmed that the constructs have achieved convergent validity.

Table 3: Convergent validity and reliability

Variables	Items	Outer Loading	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
MISSION	M1	0.895	0.832	0.85	0.898	0.747
	M2	0.839				
	M3	0.858				
OBJECTIVE	O1	0.903	0.899	0.908	0.93	0.769
	O2	0.911				
	O3	0.894				
	O4	0.794				
EFFICIENCY	PF1	0.732	0.874	0.882	0.903	0.571
	PF2	0.718				
	PF3	0.702				
	PF4	0.716				
	PF5	0.763				
	PF6	0.838				

	PF7	0.809				
POLICY	P1	0.864	0.884	0.885	0.928	0.812
	P2	0.927				
	P3	0.911				
STRATEGY	S1	0.901	0.919	0.924	0.949	0.86
	S2	0.933				
	S3	0.948				

Table 3 also demonstrates that the outer loadings for all items across constructs exceed the threshold of 0.70 (Hair et al., 2019; Ramayah et al., 2018). This observation signifies the attainment of indicator reliability. Moreover, internal consistency reliability is evident, as reflected in Cronbach's Alpha values exceeding 0.70 for all constructs (Cronbach, 1951), and the lower bounds for composite reliability surpassing 0.70 but remaining below 0.95 (Jöreskog, 1971; Hair, Howard, & Nitzl, 2020). Conversely, the rho-As (ρAs) fall within the range defined by their respective Cronbach's Alphas and Composite Reliabilities (Dijkstra & Henseler, 2015; Hair et al., 2019).

a) Structural Model Analysis

The evaluation initiated with an examination of multicollinearity. As detailed in Table 4, the individual Variance Inflation Factors (VIFs) for MISSION, OBJECTIVE, POLICY, and STRATEGY are 3.21, 4.76, 4.20, and 3.65, respectively. Notably, none of these VIFs exceed the threshold of 5.0. Consequently, it can be inferred that multicollinearity is not a significant concern within the model utilized for this study, as outlined by Hair, Risher, Sarstedt, and Ringle (2019).

Table 4: The Variance Inflation Factor (VIF)

	EFFICIENCY
MISSION	3.21
OBJECTIVE	4.76
POLICY	4.20
STRATEGY	3.65

Before testing the hypotheses, the model fit was assessed using the Standardized Root Mean Square Residual (SRMR). Table 5 illustrates that the SRMR values for both the saturated and estimated models are below the threshold of 0.08 (Henseler et al., 2014). Thus, it is reasonable to conclude that the model employed in this study has achieved a satisfactory level of goodness-of-fit.

Table 5: The Standard Root Mean Square Residual (SRMR)

	Saturated Model	Estimated Model
SRMR	0.076	0.076

The hypotheses were evaluated using a bootstrapping procedure, specifically employed to examine the impact of each strategy formulation element on the efficiency of the LAs. The findings of this analysis are summarised in Table 6.

Table 6: The results of bootstrapping procedure on the relationship between elements of strategic formulation and organisational performance as measured by efficiency.

Hypotheses	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Decision
MISSION -> EFFICIENCY	0.32	0.153	2.085	0.038**	Supported
OBJECTIVES -> EFFICIENCY	0.189	0.202	0.938	0.349	Not supported
POLICIES -> EFFICIENCY	0.027	0.191	0.144	0.886	Not supported
STRATEGIES -> EFFICIENCY	0.189	0.185	1.02	0.308	Not supported

Note: ** significant at the 5-percent level

Table 6 indicates a positive and statistically significant relationship between mission and performance at the 5-percent significance level. This aligns with the research findings of Ameen et al. (2020). Nonetheless, it is noteworthy that the remaining elements of strategic formulation exhibit no significant impact on organisational efficiency.

Table 7: The results of R^2, f^2, and Q^2

Hypotheses/Relationship	R^2	Adjusted R^2	f^2	Q^2
H1: MISSION → EFFICIENCY	0.440	0.408	0.057	0.153
H2: OBJECTIVES → EFFICIENCY			0.013	
H3: POLICIES → EFFICIENCY			0.000	
H4: STARTEGIES → EFFICIENCY			0.017	

As presented in Table 7, the adjusted R^2 of 0.408 indicates that MISSION, OBJECTIVE, POLICY, and STRATEGY collectively account for 40.8 percent of the variances in EFFICIENCY. Hence, it is reasonable to assert that the model

exhibits weak to moderate explanatory power (Hair et al., 2019). The evaluation of effect sizes using f^2 statistics reveals that MISSION has a small effect size on EFFICIENCY, while the effect sizes of OBJECTIVE, POLICY, and STRATEGY are negligible ($f^2 < 0.02$) (Cohen, 1988; Hair et al., 2019). Additionally, the Q^2 value of 0.153, exceeding zero, indicates that MISSION, OBJECTIVE, POLICY, and STRATEGY possess small predictive relevance (Hair et al., 2019).

DISCUSSION

This study aims to examine how specific components of strategy formulation (SF) impact the performance of Local Authorities (LAs) in Malaysia prompted by concerns over their poor performance (Mohamed et al., 2019; Bahardin et al., 2019; Osman, Jusoh et al., 2014; Osman, Bachok et al., 2014). An examination of existing literature also underscored the deficiencies in comprehending how SF affects LA performance. In contrast to previous studies that treated SF as a single aggregated variable, this research adopts a novel approach by disaggregating SF into its constituent elements: mission, objective, strategy, and policy. Accordingly, the study aims to elucidate how each of these elements—mission, objective, strategy, and policy—contributes to shaping the performance outcomes of Malaysian LAs. The hypotheses posit that mission, objective, strategy, and policy each have a positive influence on the performance of LAs.

The study's findings indicate a significant positive effect of mission on performance, aligning with prior research by Wheelen and Hunger (2004), Pandey et al. (2017), Baek et al. (2023), Ameen et al. (2020), Mohamed et al. (2019), and Khalid and Nusari (2020), thereby supporting H1. However, the objective does not show a significant impact on performance, consistent with Barlas and Yasarcan's (2006) findings but contradicting Khalid and Nusari (2020), thus not supporting H2. Similarly, strategy's influence on performance is not significant, as noted by Ham and Lee (2011) and Spanos et al. (2004), despite conflicting results from al-Zoubi and Emeagwali (2016) and Leitner and Guldenberg (2010), which do not support H3. Lastly, the study finds policy to have an insignificant influence on performance, consistent with Abor (2007) but conflicting with Haques and Ntim (2018), leading to a lack of support for H4. Despite these non-significant findings, all relationships exhibit positive directions as hypothesized.

These findings can be interpreted through the framework of Strategic Alignment Theory (SAT) (Henderson & Venkatraman, 1999; Venkatraman, Henderson, & Oldach, 1993). According to SAT, an organization's performance hinges on how effectively its internal capabilities align with external opportunities and threats (Henderson & Venkatraman, 1999; Venkatraman et al., 1993). Initially developed to explain the alignment between information technology (IT) strategy and overall business strategy (Henderson & Venkatraman, 1999; Queiroz, 2017; Ghonim,

Khashaba, al-Najaar, & Khashan, 2022; Adama, Popoola, Okeke, & Akinoso, 2024), SAT has since evolved into a versatile framework applicable across various disciplines within strategic management and organizational performance. Previous research has applied SAT to address strategic alignment challenges in fields such as marketing (Noble & Mokwa, 1999), real estate (Osgood, 2004), and public sector management (al-Ghazi, Cin, Shen, Wamba, & Li, 2020). Within strategic management literature, SAT provides a foundational framework for understanding how different organizational strategies can be synchronized to optimize performance outcomes (Teece, Pisano, & Shuen, 1997; Bergeron, Raymond, & Rivard, 2004). Early study had indicated that the degree of alignment varies significantly between successful and unsuccessful organizations (Khalili Shavarini, Salimian, Nazemi, & Alborzi, 2013).

This study underlines SAT's premise that organizational performance depends on the integration and alignment of strategic activities across different stages. During strategy formulation, there should be coherence among key elements—specifically, mission, objective, strategy, and policy. These SF elements collectively shape organizational behaviour and decision-making processes, ensuring that activities are strategically directed towards achieving overarching goals and enhancing operational efficiency (Bryson, 2018; Kaplan & Norton, 1996; Porter, 1996). A well-defined mission provides a foundational framework, guiding organizational identity and strategic focus, thereby influencing performance by aligning internal efforts with external demands (Bryson, 2018). Objective establishes clear performance targets, strategy defines the approach to achieving these objectives within competitive contexts, and policy ensures consistency and adherence to organizational standards (Kaplan & Norton, 1996; Porter, 1996). While each element plays a critical role in strategic management, their collective alignment is crucial for enhancing organizational effectiveness and achieving sustainable competitive advantage in dynamic environments. According to SAT, when these elements are harmoniously aligned, organizations are more likely to operate efficiently and effectively, thereby improving overall performance (Bryson, 2018; Kaplan & Norton, 1996; Porter, 1996). It can be inferred that when the effects of objectives, strategies, and policies on performance are insignificant, it indicates not only a lack of alignment with the mission but also a lack of alignment among themselves (Venkatraman, 1989). In contrast to the notable impact of mission on performance, this suggests that a clearly defined mission aligns organizational efforts and decisions with strategic intent, promoting efficiency and effectiveness (Bryson, 2018).

It is possible to posit that the lacks of alignment in the LAs' strategic management occurs in several areas. Firstly, there is a possible lack of alignment in the formulation process itself. Strategy development typically follows a top-down approach, as noted in strategic management literature (Adamides, 2015; Kim, Sting,

& Loch, 2014; Kim & Arnold, 1996). A top-down strategy development may overlook valuable insights from lower-level managers and frontline employees who possess critical execution skills (Kim et al., 2014). Thus, insufficient stakeholder engagement further exacerbates this misalignment, hindering effective strategy implementation (Elbanna, Andrews, & Pollanen, 2016; Maina & Muturi, 2016; Mbulwa & Kinyua, 2021; Elliot et al., 2020; Johnsen, 2016; Muhammad, Masron, & Majid, 2015). Top-down approaches, often appear complex and challenging for lower-level managers and frontline employees to comprehend and execute effectively (Ameen et al., 2020). This approach can lead to a disconnect between the SF elements and practical implementation realities. Integrating perspectives from all organizational levels during strategy formulation can enhance the relevance and efficacy of strategies, thereby fortifying the link between policy implementation and organizational performance (Elbanna et al., 2016; Mbulwa & Kinyua, 2021; Elliot et al., 2020).

Secondly, it can be argued that misalignment also arises due to insufficient communication between senior management, middle managers, and frontline employees (Gasela, 2021). Effective communication is crucial in translating strategic initiatives into measurable performance outcomes within organizations. When communication channels are deficient or ineffective, several critical issues arise that hinder the effectiveness of strategies. Unclear communication regarding strategic objectives can lead to misunderstandings or misinterpretations among team members and departments (Johnson, 2020), diluting the impact of cohesive strategic plans by fostering divergent efforts and priorities. Additionally, inadequate communication channels impede the timely dissemination of information about strategy or tactical changes, hindering adaptability and responsiveness in a dynamic working environment (Choi & Mai-Dalton, 2021). Moreover, poor communication leads to insufficient feedback loops, preventing organizations from effectively assessing strategy effectiveness and making necessary adjustments in a timely manner (Alvesson & Willmott, 2002). In sum, it is imperative to have verticle alignment, meaning alignment between different levels of organisations (Andrews, Boyne, Meier, & O'Toole, 2012).

Thirdly, misalignment occurs when there is a disconnect between formulated strategies and the capacities and capabilities of the organization. The alignment between formulated strategies and organizational performance is influenced by the capacities and capabilities of the organization, which can vary significantly among local authorities (LAs) in terms of human resources, equipment, and financial resources (Gasela, 2021). When an organization lacks sufficient capacities, it faces challenges in executing formulated strategies effectively (Miller & Waller, 2003). Constraints in financial resources may limit the implementation of strategic initiatives, while outdated or inadequate technology can hinder operational efficiency and innovation (Wu & Liu, 2020). Additionally, deficiencies in

workforce skills and expertise may impede the execution of strategic plans, as employees may not possess the necessary training or knowledge (Helfat & Peteraf, 2003). Strategies perceived as detached from operational realities may encounter resistance, impeding their effectiveness. Involving employees across different organizational levels during strategy formulation is critical to ensure that senior management's strategic vision aligns effectively with the organization's capabilities and workforce competencies. These shortcomings result in a misalignment between strategic goals and operational capabilities, which undermines overall performance and organizational success (Teece et al., 1997). Therefore, enhancing organizational capacities and capabilities is critical to achieving alignment between formulated strategies and performance.

In summary, Strategic Alignment Theory provides significant insights into how the consistency of alignment influences the implementation of strategies and subsequently affects organizational performance. Across all phases of strategic management—from the initial formulation of strategies through to their execution—maintaining alignment is pivotal for achieving effective organizational performance (Srivastava & Sushil, 2017; Prieto & de Carvalho, 2018; Ritson, Johansen, & Osborne, 2012; Andrews et al., 2012).

This theory emphasizes that the formulation of strategies sets the foundation for organizational success. When strategies are carefully crafted to align with the organization's capabilities, resources, and external environment, they enhance the likelihood of achieving strategic objectives. Conversely, misalignment during the formulation phase can lead to inefficiencies and missed opportunities, impacting the organization's ability to execute plans effectively and achieve desired outcomes. Therefore, strategic alignment during formulation is not just about setting goals but also about ensuring that strategies are realistic, feasible, and tailored to leverage the organization's strengths while addressing potential challenges.

IMPLICATION

The study enlightens managers and practitioners to understand and introspect the significant impact of strategy formulation on organisational performance. Therefore, some policy changes and interventions can be introduced in the hope of improving the public delivery service efficiency and effectiveness. Similarly, for researchers, the study will be a thought- provoking on the reality of the issue as well as understanding the interconnectedness of each variable in a more comprehensive and turbulent environment, especially in meeting stakeholders' continuous demands. Perhaps, this would unlock and broaden our horizon on understanding the challenge, reality, and myth of strategy formulation.

LIMITATION AND FUTURE RESEARCH AGENDA

The research findings have several drawbacks and should be considered carefully in interpreting. Firstly, the research was an attempt to examine the notion of strategy formulation and its link with organisational performance. In this context, our approach differs from the mainstream literature where we study individual relationship between strategy formulation elements and performance. The concept of strategy formulation was expanded into four elements which are mission, objective, strategy, and policy. Perhaps, the elements could be improved further in terms of exhaustiveness.

Secondly, it is probable to contemplate that the insignificant impacts of objective, strategy, and policy on performance were the consequences of measurement used as the proxy of performance (Ameen et al, 2020; Pasha & Poister, 2017). In this study, efficiency was used to measure performance. Haberkamp, Hoppen, and Diehl (2018) argue that there is no single best method to measure performance. Hence, future studies should examine the impacts of other alternative measurements such as effectiveness (George, Walker, & Monster, 2019; Mohamed et al, 2019), productivity, reduction of waste, compliance with rules (Mohamed et al, 2019), innovation (Nwachukwu. Chladkova, & Fodeyl, 2018), service delivery (Mbulwa & Kinyua, 2021), responsiveness (George et al, 2019), as well as learning and growth (Ameen et al., 2020).

Thirdly, the scope of this study was confined to Malaysian local authorities, thereby limiting the generalizability of its findings to broader contexts within the public sector domain, private sector, and non-profit organisations. Consequently, the implications and conclusions drawn from the research may not be directly transferable to diverse environments beyond the specific context of Malaysian local authorities. Recognizing this constraint emphasizes the necessity for future research endeavours to bridge this gap by exploring similar phenomena in various organisational settings, thereby enhancing the overall comprehensiveness and external validity of scholarly inquiries in this domain. Addressing these gaps will contribute significantly to the nuanced understanding of the subject matter across diverse organisational landscapes.

CONCLUSION

In conclusion, this study explored the impact of strategy formulation elements—mission, objective, strategy, and policy—on the performance of local authorities (LAs) in Malaysia. The findings reveal that while the mission significantly influences performance, the objectives, strategy, and policy do not have the same impact. Analysis using the Strategy Alignment Model indicates that although the mission is well-aligned with the strategic goals of the LAs, the other elements are not effectively aligned with the mission or with each other. It is also suggested that

the objective, strategy, and policy are not well-aligned with the organizations' strategic goals. This misalignment is likely due to several factors, including limited engagement at various organizational levels caused by a top-down approach to strategy formulation, ineffective communication, and a disconnect between the strategy elements and the organization's capacities. To improve performance, LAs should actively involve employees at all levels, ensure clear and effective communication of the mission, objective, strategy, and policy, and align these components with the organization's resources and capabilities. By addressing these issues, LAs can enhance their performance and better achieve their strategic goals.

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