

Effectiveness Of Strategic Planning On Performance
In The Lebanese Insurance Companies

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EFFECTIVENESS OF STRATEGIC PLANNING
ON PERFORMANCE IN THE LEBANESE
INSURANCE COMPANIES

A Research Topic

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COMPANIES

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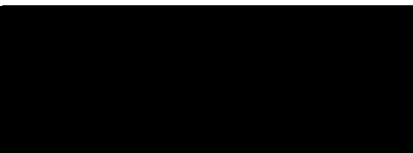
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CHAPTER I

INTRODUCTION

General Background

Strategic planning is a key to every aspect of life. Planning should always be made before doing anything, for it saves time, money and effort. Planning should follow a certain strategy in order to be successfully executed - formulation strategy and implementation strategy.

Strategic planning is the skeleton to every work and the mirror to observe strengths and weaknesses. As by definition "Strategic planning is the process of formulating certain strategies through the implementation of certain plans for the purpose of optimizing resources available to management in a changing environment given the points of strength and weakness in the corporation and the attitudes of management toward risk taking and change, and to achieve those objectives " ¹.

Strategic management or strategic planning, this word is a new field after World War II, where strategy is borrowed from the military dictionary. It is the

¹Lloyd L. Byars, Strategic Management, (New York: Harper and Row Publishers, 1980) p. 5

ability to mobilize the military forces and tools to fit the objectives. However, a comparison can easily be made between military strategies and management strategies.

Battle field	Market
Resources	Resources
Generals	Board of directors
Motors, airlines	Money, machines and equipment ²

Over the last few decades, considerable progress has been made in the development and use of strategic planning (corporate planning, long range planning) as a management tool. One indication of this development is corporations' current heavy emphasis on planning as a part of managing and searching for better ways of doing this job. Other indications are the proliferation of consulting services offered in this area, research efforts centered on planning within the academic community, and the emergence of an abundance of courses and seminars offered on planning ³.

² Ibid, p. 7

³ Peter Lorange, Implementation of Strategic Planning, (Englewood Cliffs, New Jersey: Prentice Hall, 1982) p. 10.

Historical Events

Planning is not a new form of mental activity for human beings. Formal strategic planning with its modern design characteristics was first introduced in business firms in the mid of 1950. At that time, it was essentially the largest companies that developed formal strategic planning systems, that were called long-range planning systems.

What was new in the early 1960s was the attempt by managers in large organizations to formalize this activity and to focus it on affecting the strategic direction of their enterprises. The most vocal and visible advocate of such efforts was Robert S. McNamara, who left the presidency of Ford Motor Company in 1961 to become Secretary of Defense in Kenedy's Administration. At Ford, Mc Namara had developed a method of multi-year planning which helped him gain perspectives on the key strategic decisions in that company. He carried that management technology into the Pentagon, applying it to an organization more than ten times the size of Ford with great apparent success. Mc Namara's abilities as a manager and the role of longe-range planning as an essential ingredient to his effectiveness, were widely discussed in popular press.

Since then strategic planning has matured until virtually all companies around the world applied strategic planning systems and smaller companies followed the example of the large companies. This

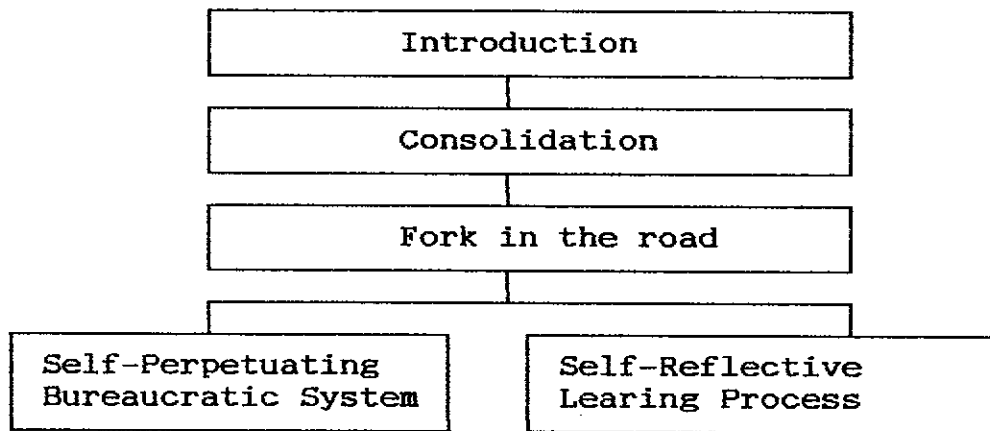
experience has produced a vast and important body of knowledge about strategic planning ⁴.

The Evolution Of Strategic Planning

The evolution of strategic planning process has three distinct phases as showed in figure I.

Figure I ⁵

The Evolution OF Strategic Planning



⁴ Peter Lorange and Richard F. Vancil, Strategic Planning Systems (New Jersey: Engle Wood Cliffs, 1977)p. 12 .

⁵ R. T. Lenz, 'Managing the Evolution Of Strategic Planning', Business Horizon, (Jan. - Feb., 1987) pp. 35-36.

Introduction Phase

The introduction phase lasts about three years. Through out this period managerial attention centers on designing the strategic planning process and introducing basic planning concepts to line and staff. Basic issues requiring resolution concern the form of the planning process, the timing of key activities and the identification of individuals responsible for implementating the process and participating in it. Much activity is in response to immediate problems. It is often a time of intense activity, inventiveness, and adhoc problem solving.

By the end of the third year, reasonably good strategic plans need to be produced. The concepts of planning are sufficiently well understood to provide a common language for line managers and staff. Information systems have supported in providing data necessary for the planning efforts. And managers acknowledge that strategic planning is a priority and that they are expected to play a role in the process.

Consolidation Phase

The consolidation phase is a direct outgrowth of the introduction phase. It exhibits the linear development of activities that were put in motion during the previous phase. The transition to this phase is usually gradual, and the phase itself lasts up to three years.

Managerial attention is focused on consolidating major aspects of the planning process. The memory of the previous phase is still fresh, so there is usually little interest in introducing significant change in the way things are done. A planning culture begins to develop as managers become increasingly comfortable with their roles and abilities. Persons involved directly in the planning process begin to make systematic efforts to introduce basic concepts to their subordinates. The purpose for doing so is to stimulate strategic thinking and to prepare lower level managers for eventual participation in the process.

During the consolidation phase, strategic planning changes the rhythm of the administrative process. Key planning activities begin to be used as reference points for both existing and new organizational decision processes. Human resource development,

research and product planning programs, and public affairs activities are made to help with the planning calendar, which integrates executive action.

This phase is characterized by a growing sense of achievement and self-confidence.

Fork In The Road

This phase constitutes the most important juncture in the evolution of the process. When organizations reach the "fork in the road stage", planning process will be driven towards self-perpetuating or self reflective process .

Need And Purpose Of The Study

The healthiness of a certain economy is measured by banking and the insurance sector. Those two sectors are the major parts of the service sector and they have played a very important and leading role in the Lebanese economy. Lebanon has passed sixteen years of civil war and destruction and is still standing due to the mobility of the Lebanese sectors and their investments. The insurance sector is playing an important role but is still moving slowly. This sector can be divided under two major sections: private insurance companies and public insurance companies.

Moreover, insurance companies and their investments have enormous economic importance both to individuals and to businesses. Also, insurance companies have an ability to respond to changing conditions, this contributed in making them an important force in today's economy ^e.

While the literature contains clues to the nature of relationship between strategic planning and performance, it is virtually silent on the question of the effect of strategic planning on performance in the insurance sector in Lebanon. To address this issue the purpose of this study is to investigate whether or not the insurance companies undertake strategic planning process and to examine the effect of strategic planning on performance within a modern analytical context. Simple discriminant function will be applied to identify the discriminating variables leading to differences in effectiveness between more and less effective systems using performance as the effectiveness criterion.

The obvious importance of the insurance sector in Lebanon and the need for strategic planning in every line of business, make it worthwhile to be discussed

^e Raghid Adas, "Insurance Sector And Its Role In The Lebanese Economy", (Unpublished MBA Project, American University Of Beirut 1984), P. 6.

in this study; for despite the large number of research efforts that attempt to elucidate links between planning and performance, the results are fragmented and contradictory. This study has arisen because most previous researches on the effectiveness of planning systems has suffered from two major conceptual shortcomings.

- First, most studies have used rather simplistic conceptualization of the notion of planning. Thus, researches have attempted to show differences in financial performance between planners and non planners or between formal planners and informal planners.

- Second, most studies have been solely preoccupied with the linkage between planning and the financial aspects of corporate performance, even though conceptual writings on formal planning systems stress several non financial intangible benefits ⁷.

Strategic Planning And The Insurance Market In Lebanon

Strategic planning is an important factor and a source of cohesiveness in any field of work. It is the

⁷ Vasudevan Ramanujam, N. Venkatraman and John C. Camillus " Multi-objective Assessment of Effectiveness Of Strategic Planning: A Discriminant Approach"Academy of Management Journal, (Oct. 1984),P. 360.

conceptual glue that binds the diverse activities of a complex organization together toward achieving the objectives ⁸.

Insurance as any field of work needs strategic planning. The aim of this research is to investigate the effectiveness of strategic planning on the performance of the insurance companies in Lebanon.

To start with, it is mostly important to define insurance from two points of view:

- According to Shofton, insurance was defined as the compensation of the accidental events which is made by the coordinated cooperation according to the known statistical methods ⁹.

- Insurance, by definition also, is an act, business or system by, which pecuniary indemnity is guaranteed by one party (as a company) to another party in certain contingencies as of death, accident, damage, disaster, injury, loss, oldage, risk, sickness, unemployment, etc..., upon specified terms ¹⁰.

✓ The evolution of the insurance business has coincided with the development of civilization itself.

⁸ Lorange and Vancil, p. 21.

⁹ Murice Mansour, Dirasat Fi Altamin, (Studies Of Insurance), (Baghdad: Maarif Press, 1980), P. 3.

¹⁰ Funk and Wagnalls New Standard Dictionary Of The English Language, (New York: Funk and Wagnalls Company, 1965), Vol. 1, p. 659.

From the beginning, it has been a cooperative institution affecting and protecting various social structures. The insurance industry is like an umbrella in maintaining the nation's human and national wealth ¹¹.

In Lebanon, the insurance industry paved its way into the market during the second half of the 19th century, the first insurance company to start operation was Royal Insurance Co. Ltd.(British). Five years later the Lebanese insurance market witnessed the entrance of another two British insurance companies, the London and Liverpool insurance companies.

In 1929, the issuing of decree No. 96 was considered as the first serious entry of insurance to Lebanon. At that time the practices of insurance were governed by the general company laws ¹².

Later, in 1943 and after independence, a legislative reform took place to include the commercial law in Lebanon. The first Lebanese company started operating in 1947 under the name of Al-Ittihad AL-Watani. In 1955, a special law for controlling insurance companies was enacted. Under this law an Insurance Advisory Committee was appointed by the government. After that and in May 1968 and under decree No. 9812, a replacement for the Advisory

¹¹ Ahmad Sidki, Altamin Ahamiyatouho, (Insurance And Its Importance), (Cairo: Alnahda Al Arabia, 1976), p. 105.

¹² Basim A. Faris, Insurance And Reinsurance In The Arab World, (London: klumer Publishing Limited, 1984), P. 13.

Committee was made and the Advisory Council was formed to regulate the insurance profession from that date.

In 1926, there were 9 foreign companies which had conformed with decree No. 96 and received licences. By the beginning of 1963, there were 88 foreign and 9 national companies working in Lebanon.

Between the year 1962 and 1975, the last normal years in Lebanon before the troubles started, the Lebanese insurance market has seen a remarkable growth, which was a result of the growth of the Lebanese economy at that time.

Between 1971 and 1981 the number of companies had increased along with the establishment of local companies. The number of foreign companies was continuously decreasing ¹³.)

Research Questions

- 1- What are the major characteristics of the selected sample?
- 2- How can we discriminate between more effective and less effective planning systems affecting the selected insurance companies as being high performers or low performers?

¹³ Ibid. P. 15.

CHAPTER II

REVIEW OF LITERATURE

The Relation Between Planning And Performance

The relationship between planning and organizational performance is one of the most extensively researched issues in the field of strategic management.

The study of Vasudevan Ramanujam, N. Venkatram and John C. Camillus in 1984, aimed to explain the relationship between planning and performance ¹. This study developed seven key dimensions of planning systems, five reflecting their design aspects and two tapping the organizational context of planning.

- Design elements: which has the elements as system capability, planning techniques, attention to internal and external factors and functional coverage.

- Organizational context of planning: this undertakes the resources provided for planning and resistance to planning.

Discriminant analysis is employed to evaluate the ability of these seven dimensions to distinguish between more and less effective planning systems using three different criteria of effectiveness; fulfillment

¹ Ramanujam, Venkatraman, and Caamillus, pp. 348-370.

of key planning objectives, performance relative to competition and satisfaction with planning systems.

Data was collected by a questionnaire that was mailed to 600 executives of Fortune 500, Fortune 500 services, and 500 companies. A complete questionnaire from 207 executives were received. The seven dimensions were measured by multi-item scale while effectiveness was measured using both single and multi-item scales. All variables were measured on appropriately anchored 5-point Likert scales.

Although influences on effectiveness seem to vary depending on the criterion of effectiveness used, overall the most important dimensions were system capability and functional coverage ².

Danny's Miller study, 'Relating Porter's Business strategies to Environment and Structure' in 1988, investigated the relationships of Porter's business strategies to the structures and environment of undiversified firms. Four main themes guided the present investigation concerning the relationships between strategy, environment and structure ³. Hypotheses are made to study these relationships.

² Ibid.

³ Danny Miller, 'Relating Porter's Business To Environment And Structure', Academy Of Management Journal, (June, 1988), Vol. 31, pp. 280-308.

Porter distinguished between three generic strategies, differentiation in product through marketing and innovation, cost leadership and focus - environment is studied through unpredictability, dynamism and heterogeneity while structure through liaison devices, technocrafts, delegation and formal controls.

Data was collected by questionnaires that were sent in person by two field researchers with graduate degrees to the CEO, senior vice president or the general manager of undiversified companies.

Correlation analysis was used to assess multicollinearity for the regression analyses.

It was shown that strategies must be matched with complementary environments and structures to promote success. The strategy of innovative differentiation is most likely to be pursued in uncertain environments and correlates with the use of technocrafts and liaison devices. The strategy of cost leadership is associated with stable and predictable environments and correlates with the use of controls. Unfocused strategy make much use of liaison devices. These relationships were more likely to be significant in groups of high performing firms than in groups of poor performing firms.

Linsu Kim and Yoocheol Lim conducted a study in 1988 on environment, generic strategies and performance in a rapidly developing country⁴. This research mainly investigated the dynamic electronics industry in a rapidly developing country, Korea, where effective strategic management at the firm level become essential. It also attempted to a limited extent to extend the existing theories by identifying multienvironments within an industry and examining relations among environment, strategy and performance. This study adopted a set of key decision variables suggested by Porter.

The data for this study was collected from 54 firms in the electronics industry in Korea, which is growing dynamically in terms of product development and production volume.

A pilot study of five firms was undertaken. They collected data for both environmental and strategy variables through interviews in Korea with top managers, senior vice presidents. They conducted an open ended discussions in an attempt to effectively communicate the meanings of questions and to establish the reliability of measures by cross-checking answers between 2 modes.

4 Linsu Lim, and Yoocheol Lim, "Environment, Generic Strategies, And Performance In A Rapidly Developing Country", Academy Of Management Journal, (Dec. 1988), Vol. 31, pp. 802 - 827.

The variables that are measured in this study are as follows:

1- environmental variables: covered areas as firm bargaining power, power in relation to buyers and suppliers, the possibility of vertical integration, the behavior of competitors affecting market stability, the threat of substitute products and the degree of technological change. These variables are measured in 7-point scale, with 1=strongly disagree to 7=strongly agree.

2- strategy variables used to identify strategic groups reflect the multifaceted nature of the strategy construct. They include variables related to product development, manufacturing and marketing. These are measured in 7-point scale ranging from 1=not at all to 7=a great deal.

3- Performance variables: as return on assets (ROA), return of equity (ROE), and sales growth rate, all are measured in terms of three-year averages. Also, financial indicators are the most useful measures of organizational performance at the macro-organizational level.

Multivariate analyses of 54 firms in the high growth of electronics industry in Korea showed that top management perceived multiple environments within the industry. The characteristics of the strategic groups were generally consistent with the generic

strategies identified by Porter and Miller, and the environmental settings that emerged were classified primarily on the basis of two dimensions, technical dynamism, and bargaining power. High performing cost leaders and high performing differentiators were found in different environments. Also firms without a clear cut generic strategy performed less well than those using generic strategies⁵.

The link between planning and performance continued to interest the management community. This was the subject of Vasudevan Ramanujam and N. Venkatraman in 1987 which aimed at exploring the aspects of planning that differ significantly (in a statistical sense) across two groups of organizations classified as either high performers or low performers⁶. They used two criteria to develop this classification:

- Relative Performance: where performance should be treated in terms relative to the focal firm's competition.
- Multiple Indicators: as sales growth, net income growth, return on investment, and market share changes.

⁵ Ibid.

⁶ Lenz, pp. 35 - 40.

A structured questionnaire was mailed to 600 senior planning executives belonging to a target population of primarily Fortune 100 companies during the spring and summer of 1984. Responses were received from 207 planning executives from as many different planning units. They represented more than a third of the target sample.

A fine point scale ranging from 5 (much better than competition) to (much worse than competition) was used. The classification into high performers versus low performers was made by using the composite index and then dividing the sample at the median level.

They have examined trends in the design and use of planning systems along many parameters which differed significantly between high and low performers. These parameters covering the following aspects:

- 1- Fulfillment of planning objectives.
- 2- General trends in the use and perceived usefulness of planning.
- 3- Key planning issues receiving emphasis and the degree of emphasis placed on different functions in planning.
- 4- Use of planning techniques.
- 5- The organizational role of the planning system.

By comparing and constructing the planning practices of relatively high-performing and low-performing organizations, they have isolated significant differences that enable them to develop broad planning guide lines for today's planners as they intensify their efforts to fully exploit the potentials of their strategic planning systems and process .

Dimensions Of Planning Systems

Planning systems are multifaced management systems, they can not be adequately described in terms of one or two characteristics. Although employing different terminologies, most writings (King and Cleland, 1978; Lorange and Vancil, 1977; Steiner, 1979) have emphasized the notion that planning systems are best described in multidimensional terms ⁷.

Nevertheless, most researchers emphasize two sets of influences on a planning system's effectiveness. These are the design elements of the planning system and the organizational context of planning. The design elements that included in this study are (1) system capability, (2) Use of techniques, (3) degree of attention to internal facets, (4) degree of attention to external facets and (5) functional coverage.

⁷ Ramanujam, Venkatraman, and Camillus, p. 348.

The following two dimensions are the organizational context of planning elements: (1) resources provided for planning, (2) resistance to planning.

Although we could identify other dimensions that might conceivably influence the effectiveness of planning, these seven dimensions have support of an extensive literature. Also, they are variables that are relatively amenable to control by managers.

Design Elements :

The design elements of the planning system have an influence on a planning system's effectiveness. The design elements included in this study are as follows:

1- System capability: strategic planning differ in the extent to which they emphasize creativity as opposed to control. It has been stressed that these two somewhat opposed orientation need to be balanced in order to enhance the effectiveness of a system. An excessive emphasis on creativity at the expense of control or vice versa is apt to be dysfunctional. We conceptualize system capability in terms of the ability of a system to foster control as well as creativity. The creative capability of a system is assessed in terms of its ability to anticipate surprises and crises, its ability to adapt to unforeseen changes, and so forth. On the other hand,

the control aspect of a system refers to the degree of emphasis given to managerial motivation, upward and downward communication within an organizational hierarchy, integration of diverse operational areas, and the like.

2- Use of techniques: a variety of analytical techniques and methodologies have been developed to aid managers in identifying and dealing with strategic decisions and problems. Use of the techniques is one indication of the extent of formalization of a planning process. Also the extent of reliance on various planning techniques and methodologies indicates what an organization's approach to decision making is, and is an important dimension of planning systems.

3- Attention to internal facets: a formal approach to planning usually begins with an assessment of an organization's recent history and current situation. In this assessment, organizations' internal capabilities receive close study to identify their strengths and weaknesses. Often plans fail because of an inadequate or incorrect assessment of an organization's internal aspects (King and Cleland,

1978)⁹. This study treats degree of attention to internal aspects such as past performance, current strengths and weaknesses, and diagnostic assessment of recent failures or performance shortfalls as a distinct and important influence on the effectiveness of an organization's planning.

4- Attention to external facets: one of the purposes of planning is to adapt organizations to environmental demands and pressures. Analyzing external opportunities and threats is a major element of planning. This study includes the extent of attention devoted to various aspects of environments as a further aspect of the design planning systems.

5- Functional coverage: this term refers to the degree of emphasis accorded to various functional areas in planning. Functional coverage can vary because of strategic differences in the competitive postures of firms in an industry. Some firms may attempt to compete on the basis of price and volume, and others may emphasize product differentiation and customer services. In the first case, manufacturing efficiencies may receive special emphasis. Therefore, the degree of emphasis given to various functional areas is included in this study as a dimension of the design of planning systems.

⁹ Ibid, p. 350.

Organizational Context Of Planning:

The organizational context of planning contains of the following dimensions:

1- Resources provided for planning: many authors have emphasized that planning in an organization can not be successful unless adequate resources are committed to that activity. These resources may be physical- a separate planning staff and office; or they may be intangible- the time spent by the CEO and other key managers in the planning function. Planning is not a costless activity, if organizations expect benefits from planning; they must be willing to have commensurate levels of tangible and intangible costs of doing effective planning.

2- Resistance to planning: early research on planning systems emphasized the importance of identifying and overcoming sources of resistance to organizational planning. Organizational members may show resistance to a system in many ways, as lack of acceptance of the outputs of planning, withdrawals or nominal participation in planning activities without active involvement on the part of operating managers, and gaming behaviors. Resistance to the idea and process of planning can be expected to exert a negative influence on the effectiveness of planning systems.

Multiple Criteria Of Effectiveness

This study approached the effectiveness of planning systems from three perspectives. First, the extent of fulfillment of key planning objectives. Second, performance relative to competition. Third, an overall measure of satisfaction with a planning system.

I- Fulfillment Of Planning Objectives:

Six objectives of planning are to be considered. These are (1) predicting future trends, (2) evaluating alternatives, (3) enhancing management development, (4) avoiding problem areas, (5) improving long term performance. The following subsections discuss and justify each of these objectives.

1- Predicting future trends: planning is often justified on the grounds that contemporary organizational environments have become increasingly turbulent, thereby necessitating some formal mechanisms for environmental monitoring and coping with environmental change. An objective that follows from this reasoning is the improvement of the ability of a planning system to predict future trends. Proponents of such capabilities do not suggest that planning

should necessarily result in accurate predictions of the future, but that planning should at least help organizations to delineate probable, plausible, and preferable future states of the world. In fact, according to one investigation, one of the major problems with planning is the inability of planners to produce reasonably valid forecasts of the future. Thus, predicting future trends is considered an important task of planning.

2- Evaluating alternatives: a good planning system should not only serve as a vehicle for mind stretching, but also should delicate balance control and creativity. The extent to which a planning system fosters the creative generation and exploration of alternative courses of action thus becomes a further important test of its effectiveness.

3- Avoiding problem areas: yet another approach to the evaluation of planning system is to examine the extent to which they result in an accumulation of experience and enhance organizational learning (Shrivastava & Grant, 1985) ⁹ . An evolutionary approach to systems design (Lorange & Vancil, 1977) inconsistent with the idea that effective planning

⁹ Ibid, p. 352.

systems are adaptive learning systems. Learning can be said to be occurring if a system increases the probability of achieving goals and minimizes recurrence of errors. A corollary is that an effective planning system should enable an organization to avoid problem areas.

4- Enhancing management development:

formalization of planning should lead to an improvement in the quality of management and facilitate management succession. This constitutes the long-term educational value of planning process (Hax & Majluf, 1984; Lorange & Vancil, 1977)¹⁰. Planning's contribution to the development of the depth of management in an organization is by no means an easy achievement to evaluate. Yet, some attention to this important objective appears to be warranted in evaluating planning systems.

5- Improving short-term and long-term performance: finally the importance of performance, both short-term and long-term is the main reason for adopting elaborate planning systems.

¹⁰ Ibid. p. 353.

II- Performance Relative To Competition:

In addition to the achievement of key planning objectives, effective systems would improve organizational performance. There is a subtle difference between an organization's achieving performance objectives and performing at a relatively higher level. Hence, relative performance as a separate criterion of planning effectiveness is included.

III- Satisfaction With Planning Systems:

Satisfaction with planning systems is an additional criterion of effectiveness. Satisfaction is particularly important when use of a system is mandatory rather than voluntary, which is likely to be the case for an organization's planning system. Satisfaction with a system is likely to reflect fulfillment of objectives; thus, satisfaction can also be regarded as an additional internal validation criterion for the variables measuring fulfillment of objectives.

CHAPTER III

PROCEDURES AND METHODOLOGY

In order to investigate the effect of planning on performance in the insurance sector, it becomes necessary to study how managers respond and act according to different existing variables and strategies.

Population And Sample Selection Of The Study

The population of the study consists of 19 out of 72 Lebanese insurance companies located in Beirut (East and West), Saida and Tripoly . Based on experts opinion in the insurance field, insurance companies with a good market share in the insurance market are included in this study, (see appendix 1) ¹.

A detailed questionnaire on the companies' planning practices was distributed to 60 out of 65 top level managers and professional staff both in the head offices as well as the branches of the insurance companies.

¹ " The Names And Addresses Of The Insurance Companies In Lebanon." Al-Bayan Journal, (Jan. 1990), pp. 280 - 288.

Completed questionnaires were received from only 51 manager and professional staff despite the fact that the personal approach in data collection was used. The process involved meeting with the managers and chief executive officers, explaining the nature and purpose of the study. The response was about 85 percent, few managers resisted to fill the questionnaires, but most of them showed a willingness and cooperation to help in this research.

Simple random sampling was the basis for the statistical work in this study.

The population of 19 insurance companies and their branches had a population of 60 top level managers and chief executive officer in Beirut, Saida, and Tripoly.

Since the respondents were top-level planning and operating executives, the researcher assumed that they would be quite knowledgeable about their planning systems and generally unbiased in their responses.

Instrumentation And Data Collection

Based on the review of literature- Academy Of Management Journal- (Ramanujam, Venkatraman, and Camillus in 1984) and (Kim and Lim in 1988), the researcher constructed a pilot instrument that consists of 32 items (questions) in Jan. 1991.

The questions used are divided into parts including environment, organizational planning systems, demographic and other characteristics of the respondents.

The instrument of questions was administered on a trial basis, as a pretest, to a selected group of bank managers in Beirut. This may be considered as a limitation. Since the pilot instrument was found to be lengthy, wordy and inappropriately scaled, the final instrument was revised to correct these problems. The final instrument is shown in Appendix 2.

The first 7 questions are designed to collect data about the name of the insurance company, the name of the manager, sex, marital status, educational level, experience, inside and outside the company in the insurance field and location of the insurance company. The next 3 questions are designed to identify the planning system's capability of the insurance companies. The following 4 questions are used to determine the companies' attention to both internal and external factors affecting them. Questions # 8 and # 9 are used to measure the companies performance by sales and earnings. The final 2 questions are used to know the environment working conditions of the insurance companies.

Those 18 items of the questionnaire are chosen to test the validity and reliability of the variables chosen.

Variables And Their Measurement

Design Elements

Based on previous research 4 design elements are included in this study :

a- System's Planning Capability : the ability of a formal planning system to balance creativity and control ; adaptive flexibility of a system and its capability to support strategy formulation and implementation.

b- Use of Technique : the degree of emphasis given to the use of planning techniques to structure ill-defined, messy strategic problems.

c- Attention to Internal Facets : the degree of attention to internal organizational factors, past performance and analysis of strengths and weaknesses (Feedback).

d- Attention to External Facets : the level of emphasis given to monitoring environmental trends .

Environmental Factors : the environment where the insurance companies operate in the form of input (customers)and output (insurance services) should be studied.

Performance Variables : since the aim in this study is to investigate the effect of planning on performance. The performance variables (sales and earnings) are thus included and studied as being the result of managers' planned strategies.

The Independent Variables:

1- Strategic Planning's system's capability: Based on (Ramanujam and others, 1984, p. 371) study, questions number 1, 2, and 3 contain the three items that were used to measure strategic planning by a 5 point Likert type scale ranging from "1" indicating "strongly disagree" to "5" indicating "strongly agree" ¹.

2- Internal and External Facets Factors: Questions # 4, 5, 6, and 7 measure internal and external factors, affecting the insurance company, in a 3 point scale ranging from "2" indicating "significantly more emphasis" to "0" indicating "significantly less emphasis" ².

¹ Ramanujam, Venkatraman and Camillus, p.371.

² Ibid.

3- Environmental Variables: Questions # 10 and 11 measure the environmental variables, affecting the insurance companies, using a 5 point Likert scale type ranging from "1" indicating "strongly disagree" to "5" indicating "strongly agree" ³ .

The Dependent Variables:

Performance Variables: Questions number 8 and 9 of the instrument contain the two items that were taken from (Kim and Lim, 1988, p. 862) study to measure performance by a 5 point Likert scale with the weight of "1" indicating "strongly disagree" to "5" indicating "strongly agree". The groupings for simple discriminant function into less and more effective performers were constructed by using the average median score as a cut point. An insurance company who had below the median performance score was assigned a code of "1" indicating "low performers" and those with above median score are assigned a code of "2" indicating "high performers" ⁴ .

Responses were analyzed using the facilities of the statistical package SPSS (Statistical Package for Social Sciences).

³ Kim and Lim, p. 862.

⁴ Ibid.

Does the instrument (questionnaire) measure what is supposed to measure ? The responses to the questionnaire were measured using factor analyses in oblique rotation.

Hair, Anderson, Tatham and Garblowsky in 1979, suggested that the number of cases in a sample should be at least four times the number of variables used in factor analysis ⁵.

Table 1 shows the results of the oblique rotated factors solution. Each item is highly loaded on one factor but not on the other .

Factor Analysis

Factor analysis is an important test to be done for it measures the validity and reliability of the variables taken. The factor loading table expresses the correlation between the items and the factors. It is used for determining the number and nature of the underlying variables. The variables in this study were reduced into 11 variables representing the companies' strategic planning system, attention to both internal and external factors, performance and environmental factors.

⁵ Hair, H. F. Jr., Anderson, R. E., Tatham, R. L., and Grablowsky, B. J., Multivariate Data Analysis, (Oklahoma: Petroleum Publishing Co., 1977), p. 70.

Table 1 represents the results of oblique factor analysis that is performed to investigate the relationship between planning and performance .

The strategic planning system load on factor 1, internal factors load on factor 2, performance on factor 3, external factors on factor 4, and finally environment load on factor 5. These 5 factors (1,2,3,4,5) with eigvalue 3.66, 2.07, 1.57, 1.04 and 0.77 accounted for 83 ./. of the common variables of all the 11 items.

As a conclusion, the results of the factor analysis show the relationships between the variables. Hence, the conclusion is that the research instrument is valid and reliable.

The major characteristics of the selected sample is done by using of percentage analyses of frequency distribution.

The relation between variables is made by using the correlation matrix.

Discriminant analysis is used in a step wise fashion to discriminate between more and less effective systems on the basis of a least square composed of the relevant explanatory variables.

TABLE 1
Oblique Factor Solution

<u>Variables</u>	<u>Factor Loadings</u>				
	I	II	III	IV	V
I- Strat. Plann.					
Q : 1	-.89789	-.14600	.04002	-.10805	-.02381
Q : 2	-.85516	-.24885	-.05480	-.14420	.03547
Q : 3	-.70381	.22444	-.01074	.19630	.16618
II- Int. Fact.					
Q : 4	.27802	.89948	-.00043	-.04281	.02709
Q : 5	-.30768	.60414	-.15426	.01638	-.48713
III- Perform.					
Q : 8	-.08959	.04580	.98331	-.02412	.03648
Q : 9	.03923	-.09556	.93396	.06186	-.06170
IV- Ext. Fact.					
Q : 6	.04950	-.13625	-.03351	.96558	-.09192
Q : 7	-.01734	.49408	.17347	.58690	.01021
V- Environ.					
Q : 10	-.16338	.05251	-.02255	-.26960	.80213
Q : 11	.14321	.09314	.37477	-.20978	-.60126
Pct of VAR	33.3	18.9	14.4	9.5	7.0
Cum Pct	33.3	52.2	66.5	76.0	83.0

CHAPTER IV

FINDINGS OF THE STUDY

This chapter presents the findings of this study according to the following questions that were presented in chapter 1; these questions are :

- 1- What are the major characteristics of the selected sample?
- 2- How can we discriminate between more effective and less effective planning systems according to their performance?

Major characteristics of the selected sample

The selected sample of insurance managers and chief executive officers described according to the following independent variables:

- 1- Sex
- 2- Marital status
- 3- Educational level
- 4- Experience
- 5- Location of the insurance company

TABLE 2 shows the frequency distribution for the selected group of managers by sex.

TABLE 2

A Frequency Distribution Of The Selected Sample by Sex .

Sex	Value	Frequency	Percent	Valid Percent	Cum Percent
Female	0	5	9.8	9.8	9.8
Male	1	46	90.2	90.2	100.0
		-----	-----	-----	
Total		51	100.0	100.2	

Fourty six out of fifty one manager and CEO (90.2 percent) are males. It is reasoned hence that the line of insurance business has the share of the majority of male managers, due to social and cultural factors, where women prefer to work in education and social work rather than insurance.

TABLE 3 shows a frequency distribution of the selected sample by marital status.

TABLE 3

A Frequency Distribution of the Selected Sample by Marital Status.

Marital status

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
Single	0	13	25.5	25.5	25.5
Married	1	38	74.5	74.5	100.0

	Total	51	100.0	100.0	

Thirty eight out of fifty one manager (74.5 Percent) are married and thirteen are single.

TABLE 4 shows the frequency distribution of managers according to educational level.

TABLE 4

A Frequency Distribution of the Managers' Educational Level.

Educational level					
Value Label	Value	Frequency	Percent	Percent	Percent
Highschool	0	10	19.6	19.6	19.6
BA/BS	1	21	41.2	41.2	41.2
MS	2	20	39.2	39.2	100.0
		-----	-----	-----	-----
Total		51	100.0	100.0	

Twenty one out of 51 manager (41.2 Percent) are holding a BA/BS degree, while twenty (60.8 percent) are holding an MS degree and ten (19.6 Percent) are holding a high school. Hence, the majority of insurance managers or chief executive officers have a university degree, and some of them usually attend seminars and workshops concerning strategic planning issues.

TABLE 5 shows a frequency distribution of the managers' experience in the insurance field both inside and outside the company.

TABLE 5

A Frequency Distribution of the Managers' Experience.

Insurance Experience

Value Label	Value	Frequency	Percent	Percent	Percent
Ins Exp	0	38	74.5	74.5	74.5
Ins+Out Exp	1	13	25.5	25.5	100.0
		-----	-----	-----	
	Total	51	100.0	100.0	

Thirteen out of fifty one manager (25.5 percent) have both inside plus outside experience in the insurance field while thirty eight manager (74.5 Percent) have inside experience only. Hence, the managers of chief executive officers of the insurance companies have good experience in the insurance field between 5 to 15 years. Some of the managers have insurance experience in more than one company, others have experience in one company only.

According to the location of the insurance companies (the selected cities), twenty-two company with (43.1 percent) are located in East Beirut, 16 company with (31.4 percent) are located in West Beirut, 7 companies with (13.7 percent) are located in Saida and finally 5 companies with (9.8 percent) are located in Tripoly.

The Correlation Matrix

It is evident that there is no multicollinearity existing between the variables.

TABLE 6 shows the relationships between the relevant variables by a matrix of correlation coefficients.

TABLE 6
A Matrix Of Correlation Coefficients Between Variables

	TSP	TPS	TEF	TEN	TEQ	Ed
TSP	1.000	-.125	-.142	-.040	-.259	.006
TPS	-.125	1.000	.157	.317	-.133	-.260
TEF	-.142	.147	1.000	-.237	.423	-.212
TEN	-.040	.317	-.237	1.000	.052	.063
TEQ	-.259	-.133	.423	.052	1.000	-.178
Ed	.006	-.260	-.212	.063	-.178	1.000

The correlation matrix that is presented in TABLE 6 shows a relatively low correlation coefficients among variables.

- TSP (strategic planning) have a negative relation with TPS (performance), TEF (external factors), TEN (environment), TEQ (Technique), and positive relation with Ed (educational level).

- TPS have a positive relation with TEF and TEN, and a negative relation with TEQ and Ed.

- TEF have a negative relation with TEN and Ed while a positive relation with TEQ.

- TEN have a positive relation with TEQ and Ed.

- TEQ have a negative relation with Ed.

Assumptions of Normality And Heteroscedasticity

TABLE 7 shows that the distribution of performance and the variables affecting performance are normally distributed.

Table 7
Frequency Distribution Of All Variables

		MEAN	Variance	Skewness	Kurtosis
STRAT	1	2.098	2.810	.820	-.721
STRAT	2	2.608	1.323	.177	-1.540
STRAT	3	2.667	1.547	-.041	-1.701
INTF	1	1.137	.481	-.189	-.854
INTF	2	1.333	.587	-.659	-.976
PERF	1	3.510	1.015	-.455	-1.021
PERF	2	3.451	1.213	-.713	-.346
EXTF	1	1.176	.468	-.239	-.995
EXTF	2	1.196	.521	-.316	-.995
ENV	1	2.706	1.172	.624	-.743
ENV	2	3.353	1.553	.060	-1.680

TABLE 8 shows the distribution of performance and the variables affecting performance according to their totals. TSPS for total strategic planning scores, TIF for total internal factors' scores, TPS for total performance scores, TEF for total external factors scores and TEN for total environment scores.

TABLE 8

Frequency Distribution Of The Totals Of Variables

	Mean	Variance	Skewness	Kurtosis
	-----	-----	-----	-----
TSPS	7.373	11.798	.440	- 1.209
TIFS	2.471	1.574	- .532	- .624
TPS	1.608	.243	- .455	- 1.868
TEFS	2.373	1.518	- .295	- .858
TENS	6.059	1.376	.191	.430

It is shown from this table that the totals of the performance variables and the variable affecting performance as strategic planning, external and internal factors, and environment are normally distributed.

Discriminant Analysis

Given our interest in exploring the dimension of systems contributing to differences in effectiveness between more and less effective systems, the researcher deemed discriminant analysis to be the appropriate analytical approach.

Groupings for discriminant analysis:

The effectiveness groupings for discriminant analysis were constructed as follows; since responses were made on 5 point scales, all respondents choosing 1,2, or 3 were placed in one group, and those checking 4 or 5 were placed in the other group. In the case of the 3-point scales, the median was used as the cut point to yield the two groups for discriminant analysis.

The accuracy of the classifications that result from applying discriminant analysis is sensitive to the assumption that the predictor variables constitute a multivariate normal population. The previous section on assumptions of normality and heteroscedasticity showed that the assumption was not violated.

The summary TABLE 9 shows the results for the discriminant analysis using performance as the effectiveness criterion.

TABLE 9

Summary Of Discriminant Analysis

Step	Action		Vars In	Wills' Lambda	Sig.	Label
	Entered	Removed				
1	TENS		1	.89935	.0233	Env. v
2	Ed		2	.82082	.0087	Ed. Le.
3	TEQ		3	.77923	.0079	Q. TEQ
4	TEFS		4	.69535	.0019	EXTF
5	TSPS		5	.67193	.0024	STRAT

This summary table shows that the environment variables, educational level, TEQ as the use of quantitative techniques, the external factors, and strategic planning variables were statistically significant in discriminating between more effective and less effective planning systems applied by managers.

According to the summary table, the environment working conditions were the key discriminators as being ranked the first factor. This shows that the insurance companies pay much attention to its target market of customers. Moreover, managers' educational level is ranked the second factor, where the majority of insurance managers or chief executive officers have a university degree and some of them attend seminars and workshops concerning strategic planning issues. Techniques (as the use of computer, quantitative methods, PIMS, and BCG) have a role to play in strategic planning, and it is ranked here the third factor. They use computers and some of the quantitative techniques. The external factors was fourth in the analyses, where insurance companies pay little attention to competition and technological trends. The managers' system capability of strategic planning is placed as the least factor.

Canonical Discriminant Function

Table 10 shows that the canonical correlation is statistically significant.

TABLE 10

Canonical Discriminant Functions

Fcn	Eigenvalue	Pct of Variance	Cum Pct	Canonical Corr
1	.4883	100.00	100.00	.5728
After Wilks'				
Fcn	Lambda	Chisquare	DF	Sig
0	.6719	18.489	5	.0024

Table 11 shows that TENS (environment variables) is the most important variable, while TSPS (strategic planning variable) is the least important one.

TABLE 11

Standardized Canonical Discriminant Function
Coefficients

	FUNC 1
TSPS	.33579
TEFS	-.68951
TENS	-.86074
Ed	.58545
TEQ	.81316

TABLE 12 shows that 4 out of 20 in group 1 (20 percent) and 6 out of 31 in group 2 (19.4 percent) were misclassified. The total percent of "grouped" cases correctly classified is 80.39 %.

TABLE 12

Classification Results

Actual group	No. of Cases	Predicted Group Membership	
		1	2
Group 1	20	16	4
		80.0 %	20.0 %
Group 2	31	6	25
		19.4 %	80.6 %

Percent of "grouped" cases correctly classified is :
80.39 %.

CHAPTER V

CONCLUSION AND RECOMMENDATION

The intent of this research is to investigate the relationship between planning and performance. Although strategic planning is not really applied in the insurance companies where 3/4 of these companies deal with insurance transactions as a commercial deal rather than a technology of work that has its own rules and procedures. The governmental role of controlling and monitoring the insurance business is missing. Every one can enter the insurance business with the existing insurance facilities in getting licanses. Competition is severe in the insurance market¹.

Most prior research on the effectiveness of planning systems has pursued the implicit question: "Does planning pay"? In contrast, this study was based on the premise that planning is a multidimensional feature of overall management process, and hence this researcher pursued the question: "What dimensions of planning are associated with effectiveness as approached from multiple prespectives"?

¹ Hussein Badreddine, Manager of City Arabian Insurance Company, Interview, Oct. 10, 1990.

Hence, the importance of this study was derived by the fact that planning has an effect on performance. Performance as being the criteria of effectiveness and the dependent variable employed in this study appeared to be influenced significantly by three contextual dimensions; managers' system capability, external factors and use of techniques.

Both environmental variables and educational level were key discriminators for performance, followed by use of technique and external factors. The strategic planning of system's capability proved to be the least important

It is concluded from the discriminant analysis that the insurance companies pay much attention to environmental changes, trends, attracting customers, competition, demands and pressures in the insurance market. On the contrary, some insurance companies do not pay much attention to strategic planning process and importance in any type of business, without realizing its benefit in saving time and efforts.

Moreover, it is concluded that the managers of the insurance companies have a majority of male managers with a higher education and a good experience in the insurance field.

The findings of this study suggest that determinants of the effectiveness of planning systems tend to vary depending on the criterion of effectiveness used.

Every effort was made to use an appropriate methodology and to execute it as rigorously as possible. However, a key limitation of this study is the reliance on data from a single respondent in each firm. This may have introduced response or function bias to data, and it may raise questions about the generalizability of our findings, since organizational constructs like these are probably best measured with data from multiple respondents drawn from different functional and hierarchical levels.

Future studies should include more dimensions than the two used in this study. Possible candidates include environmental volatility, leadership styles, and maturity of planning systems.

Effective planning requires adequate resources to planning efforts. This in turn requires high levels of involvement on the parts of not only top level managers but also operating managers and chief executive officers.

It is hoped that research on planning systems is at a critical crossroad stimulating further efforts in new directions and enhance understanding of the role and value of planning systems in the formulation and implementation of strategies.

APPENDIX 1

Sample Of Insurance Companies

The selected sample of the Lebanese insurance companies are as follows:

- American Life Insurance (ALICO)
- Arab Universal
- North Insurance
- Affiliated Insurance Brokers
- Arab European Insurance Company
- Libano Arab
- Sofras
- Union Assurance De Paris (UAP)
- Ittihad Al Watani
- City Arabian Insurance
- Prosperity For Insurance and Reinsurance
- Eagle For Insurance and Reinsurance
- Al Salam Insurance Company
- Al Mashrik Insurance Company
- Arab Life Insurance
- Arabian Insurance
- Arab Reinsurance Company
- Insan
- AL Massir Insurance Company

Appendix 2

Questionnaire Items

My name is Fathieh Zaatari, a graduate student at B.U.C., working for MBA program. I am interested in studying 'The Effectiveness Of Strategic Planning On Performance In The Iebanese Insurance Companies'. The information you provide will be strictly confidential. These will be used for statistical analyses and research purposes. The results of this study will be available to you upon your request.

Please answer according to:

VS for Very Satisfied	1
S for Satisfied	2
NS for Not Satisfied	4
NS at all for Not Satisfied at all	5
SD for Strongly Disagree	1
D for Disagree	2
UND for Undecided	3
SA for Strongly Agree	4
A for Agree	5
Significantly more emphasis	1
Significantly medium emphasis	2
Significantly less emphasis	3

I- Characteristics of the respondents.

- 1- Name of the Insurance Company:
- 2- Name of the manager:
- 3- Sex: Male --- Female---
- 4- Marital Status: Single --- Married ---
- 5- Level of education: Highschool ---
Undergraduate ---
Graduate ---
- 6- Experience in the insurance field, in years:
Inside the company ----- Outside the company -----
- 7- Location of the insurance company:
West Beirut ---
East Beirut ---
Saida ---
Tripoly ---

II- Items measuring strategic planning's system's capability.

8- Following insurance policies different than the competitors' policies is really an important factor for insurance success and in keeping the insurance company alive.

SD D UND A SA

9- Communication with other staff managers is done on causal bases.

SD D UND A SA

10- Communication with employees is done when it is needed.

SD D UND A SA

III- Items measuring internal factors.

How do you look at the following items.

11- Past performance of the company :

Sig. more emphasis -----

Sig. medium emphasis -----

Sig. less emphasis -----

12- Feedback :

Sig. more emphasis -----

Sig. medium emphasis -----

Sig. less emphasis -----

IV- Items measuring external factors.

13- Competition trends of other insurance companies:

Sig. more emphasis -----

Sig. medium emphasis -----

Sig. less emphasis -----

14- Technological trends:

Sig. more emphasis -----

Sig. medium emphasis -----

Sig. less emphasis -----

V- Items measuring performance.

15- Sales of your company has rapidly increased in the past five years.

SD D UND A SA

16- Earnings has grown rapidly in the past five years.

SD D UND A SA

VI- Items measuring environmental working conditions.

17- You are satisfied with the number of customers.

SD D UND A SA

18- You have limited alternative sources in getting customers.

SD D UND A SA

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