Australian Journal of Basic and Applied Sciences, 9(3) Special 2015, Pages: 61-66

AENSI Journals

Australian Journal of Basic and Applied Sciences

ISSN:1991-8178

Journal home page: www.ajbasweb.com

Mediating Role of Organization's Continuous Commitment between Strategy Formulation and Organizational Performance in Libya's Industrial Sector

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ARTICLE INFO

Article history:
Received 25 November 2014
Received in revised form 26 December 2014
Accepted 1 January 2015
Available online 10 January 2015

Keywords:
Strategy, organizational success, organization's commitment, Libya

ABSTRACT

Background: The practice of strategic management is important to evaluate why firms' levels of performance vary. It was revealed that firms, those practice strategic management performs better. Hence, it is important to know something about strategic management as this differentiates the performances among firms. However, due to lack of proper strategic management practices, the industries can only achieve 50% of their full production capacity in Libya. This further suggests opportunities to improve the industrial sector in Libya. **Objective:** This research aims to establish and verify the hypothesized relationship between strategy formulation and organizational success and the mediating role of organization's continuous commitment in Libya's industrial sectors. **Results:** A self-administered questionnaire was used to collect data from the 223 respondents through disproportionate stratified random sampling of employees working at the different industries in Libya. Structural equation modeling (SEM) was used to test the hypotheses. The results indicate that organization's continuous commitment fully mediates the relationship between strategy formulation and organizational success in the Libyan industry context. **Conclusion:** Proper uses of strategic management through formulating proper strategies are needed to sustain in the long run which can be achieved through identifying their mission, vision and future objectives in Libya. The findings of this study add knowledge and understanding on the subject of strategic management and its application in the Libyan context.

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To Cite This Article: Ahmed Alghazali Mohammed Alghannai and Abdul Talib Bin Bon., Mediating Role of Organization's Continuous Commitment between Strategy Formulation and Organizational Performance in Libya's Industrial Sector. ***Aust. J. Basic & Appl. Sci.**, 9(3): 61-66, 2015*

INTRODUCTION

The practice of strategic management is important to evaluate why firms' levels of performance vary. In the past, it was revealed that firms, those practice strategic management performs better. Hence, it is important to know something about strategic management as this differentiates the performances among firms. According to Carpenter and Sanders (2009), the practice of strategic management follows various systematic steps in the implementation of strategic management in the organization. The first step is the strategy formulation that helps to decide what to do next. Again, in strategy formulation, the first step is to identify the right mission and vision for the organization. Rieple and Haberberg (2008) stated that identifying the right mission and vision is crucial and this should be set before the company setup their business. Furthermore, there is also a need to set the goals and objectives of the organization (Johnson, Scholes & Whittington, 2007). However, top management in any organizations usually tries to find opportunities based on particular resources.

The year 2011 has seen as a remarkable change in the Libyan history due to the civil war which has ended the regime of Gaddafi government. This has opened up the opportunity for Libya in reforming its industrial sectors that had previously been ignored (African Economic Outlook, 2012). However, beside these industrial reforms, development in the agricultural sector is also needed as this particular sector plays an important role in the Libyan economy (Antipolis, 2002). The new interim government has taken an important steps in industrial development especially for light industries (food, textile, leather, furniture, chemical, basic metal, cement and building materials) which may become more important contributors in the new Libyan economy (African Economic Outlook, 2012).

Libya's economy is heavily dependent on petroleum and cement industry (Alghadafi & Latif, 2010). However, due to lack of uses of proper strategies, Libyan industries have achieved only 50% of their full

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production capacity (Anon World Report International, 2008). This has further created the demand for upgrading its infrastructure for the industrial sectors in Libya (Hokoma et al., 2008). As Libya is currently undergoing the reformation of their business environments, there is a need to understand the current environment and resources which will influence the organizational strategy in reforming the Libyan organizational structure. Besides, since the Libyan government aimed to improve Libyan economic from the industry sector, this study will help to achieve Libya's development plans in increasing management and employee's commitment and performance in Libyan industry sector and other Libyan organization. This research aims to establish and verify the hypothesized relationship between strategy formulation and organizational success and the mediating role of organization's continuous commitment in Libya's industrial sectors. Hence, this study is very much related for furthering the development of strategic management in the Libyan industrial sector.

Literature Review:

According to Carpenter and Sanders (2009), business organization must be ready for any drastic changes in the business landscape which call for strategic planning. Strategy formulation can be seen as a guideline that helps the organizations to decide "what to do" next (Carpenter & Sanders, 2009). Jiang and Alis (2009) have further noted that organizations without this guideline will fail to achieve their long term objectives (Jiang & Alis, 2009). However, the choice of strategies should be dependent on the product and market needs. Sometimes, strategies are also guided by the stakeholders' interest as the ultimate aim of any business is to generate profit for its shareholders (Tikkanen, Nokelainen, Suur-Inkeroinen & Lamberg, 2009).

The first step in strategy formulation is to identify the mission and vision for the business (Rieple & Haberberg, 2008). Mission and vision guides the top management to find out what they want to achieve that serves as a guideline towards achieving long term objectives (Jiang & Alis, 2009). Therefore, organizations need to decide "what to do" based on the analysis of internal resources, capabilities and the external environment (Analoui & Karami, 2003). Developing mission and mission in any organization is important (Tikkanen et al., 2009). A study conducted by O'Gorman and Doran (1999) noted that the mission and vision statement guides the organization's development and helps towards achieving its objectives.

Besides, according to Juan and Robert (2010), the advantages of first-rate strategic thinking and a deep commitment to the strategic management process include the guidance it provides to the entire management hierarchy in making clear just what it is the company is trying to do and to achieve. Hence, the contribution it makes to recognizing and responding to market changes, new opportunities and threatening developments (Johnson et al., 2007). The rationale behind the continuous commitment provides for management in evaluating competing requests for investment capital and new staff, the coordination it adds the entire strategy-related decision making done by managers across the organization and the proactive instead of reactive posture that it gives to the organization (Mathew & Patrick, 2007). This supports the relationship between strategy formulation and organization's continuous commitment and the relationship between strategy formulation and organizational success.

Furthermore, as already stated, high-performing companies use their knowledge and global expertise to deliberately try to impact their target markets with a powerful strategy; they try to initiate and lead, not just react and defend (Abell & Oxbrow, 2002). In that view, the real purpose and value of strategy is to come up with an action plan that will successfully attract buyers, produce a sustainable competitive advantage, and boost the firm's performance. Study conducted by Juan and Robert (2010) have found a positive correlations between organization's continuous commitment and firm's performance. Basing on the above discussion, the following hypotheses are drawn:

- H1: There is a significant positive relationship between strategy formulation and organization's continuous commitment.
- H2: There is a significant positive relationship between organization's continuous commitment and organizational success.
- H3: There is a significant positive relationship between strategy formulation and organizational success.
- H4: There is a significant positive relationship between strategy formulation and organizational success mediated by organization's continuous commitment.

Methodology:

A self-administered questionnaire was employed for data collection. Due to the lack of proper measuring tool, questions were mostly developed basing on the literature review. However, few items in the questionnaire were also adopted from the existing scales. A minimum alpha value of 0.70 was considered during the selection process (Sekaran & Bougie, 2010). 5 point Likert Scale were used in the questionnaire which was considered most suitable for this study (Gray, 2004). Total 300 questionnaires were distributed among the employees working at the different industries (total 70 industries identified for this study) in Libya. After the initial screening, total 223 returned questionnaires were found valid for further analysis. All information which were obtained from the individuals were analyzed in an aggregate form and kept strictly confidential, and is not identifiable to any specific organizations. After collecting the data, statistical tests were conducted using the SPSS software. The tests were influenced by the focus of the theoretical framework and research questions, the sample size, and parametric versus non-parametric types of tests based on the measurements. The analyses were planned and performed to ensure that only appropriate analyses were undertaken and redundancies or overlaps are minimized.

Besides, this study has also addressed the content and constructs validity (Cooper & Schindler 1998). The content validity in this study was assessed by thoroughly reviewing the available literature. The content validity of the assertions or items in the questionnaire was verified by the experts in this field. Moreover, factor analysis was carried out to assess the construct validity of the measurements. Finally, SEM was employed to test the hypotheses of the study.

RESULTS AND DISCUSSION

This study first employed the descriptive analysis to discuss the demographic profile of the respondents. The summary is presented in table 1 below.

Table 1: Demographic Profile.

Gender	Frequency	Percent
Male	149	66.8
Female	74	33.2
Total	223	100

Level of Education	Frequency	Percent
Bachelor degree	188	84.3
Master degree	18	8.1
PhD	10	4.5
Others	7	3.1
Total	223	100

Age	Frequency	Percent
0–25 years	6	2.7
26–35 years	92	41.3
36–45 years	100	44.8
46 and above	25	11.2
Total	223	100

Type of Industry	Frequency	Percent
Food and Beverage	120	53.8
Textile, leather and furniture	32	14.3
Chemical or electrical	38	17
Electrical engineering	1	0.4
Cement and building materials	24	10.8
Basic metal industries	8	3.6
Total	223	100

Job Position	Frequency	Percent
Top Management Level	26	11.7
Middle Management Level	137	61.4
Supervisory Level	60	26.9
Total	223	100

Monthly Income (in Libyan Dinner)	Frequency	Percent
250 and below	6	2.7
251–500	189	84.8
501–750	18	8.1
750 and above	10	4.5
Total	223	100

Average Time Spent on Work (Per Day)	Frequency	Percent
1 - 6 hours	14	6.3
7 - 10 hours	199	89.2
11 - 12 hours	10	4.5
Total	223	100

To identify the reliability of the measurement tool used in this study, Cronchbach alpha was determined. The value of 0.918 shows high reliability as the value is well above the required value of 0.70 (Hair et al., 2010). Besides, EFA was used to explore the underlying dimensions of strategy formulation (SF), organization's continuous commitment (OCC) and organizational success (OS) in the Libyan context. Bartlett's Test of Sphericity was found to be statistically significant [5.059E3, p = .000], while the KMO that measures the sampling adequacy was achieved a value of .811, indicating that the inter-correlations were sufficient for PCA (table 2).

Table 2: KMO and Bartlett's Test of Sphericity.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.811
Bartlett's Test of Sphericity	Approx. Chi-Square	5.059E3
	df	1081
	Sig.	.000

Besides, to reconfirm the construct validity, confirmatory factor analysis (CFA) was carried out. For assessing the measurement model for strategy formulation (SF), 2nd order factor analysis was conducted basing on the three dimensions extracted through EFA. Finally, through the use of SEM, the hypothesized model was specified.

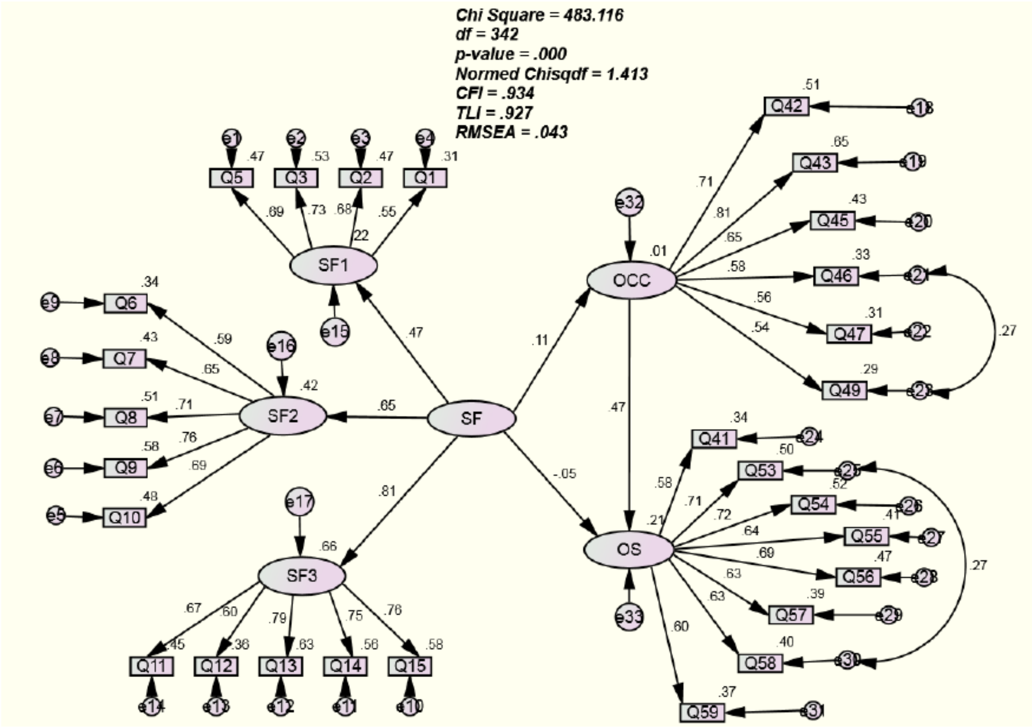

Fig. 1: Hypothesized Model.

Table 3: Item Dimensions.

Items	Strategic formulation		
	Mission	Vision	Objective
Company vision statement is updated on a regular basis	.655		
The vision statement is relevant to the association's activities and mandate	.736		
The vision is regularly communicated to the company employees	.786		
My organization has articulated a mission statement	.641		
The company employees participate on forming of the company vision and their comments are dealt with on the management level	.746		
Company mission statement is updated on a regular basis		.617	
I feel that our current mission statement is compatible with the activities being carried on by the association		.628	
All the employees participate in developing the mission statement		.809	
My association has a defined set of value statements		.781	
Company regularly updates the value statements		.764	
I clearly understand the association's value statements			.709
My association conducted a SWOT analysis			.727
My association is very competent in conducting a SWOT analysis			.822
My company gives the highest priority on the SWOT analysis process			.689
SWOT analysis is very effective for the overall operation of my association			.771
Cronbach's Alpha coefficient	**.785**	**.809**	**.838**
Cronbach's Alpha coefficient (Overall)		**.918**	

From Figure 1, it can be seen that the goodness-of-fit indices of the hypothesized model indicate that the model fits well. The Normed chi-square (CMIN/DF) falls within the required level of less than 3 (i.e. 1.413). This supports that the data used in this study is consistent. The RMSEA value has to be below 0.08 (Hair et al., 2010). In this study, the value is 0.043. Finally, the CFI (.934) and TLI (.927) also shows that the required level is achieved for the revised model. Hence, it can be assumed that the proposed model fits well.

From Table 4, it is observed that path coefficient between strategy formulation (SF) and organization's continuous commitment (OCC) is (.114) with a p value of 0.003. Therefore, the path is statistically significant as the $p \leq 0.05$. This indicates the statistical significance between organization's continuous commitment (OCC) and organizational success (OS). Thus, H1 is accepted.

Table 4: Hypothesis Testing.

			Estimate	S.E.	C.R.	P
Organization's Continuous Commitment	<---	Strategy Formulation	.114	.085	1.341	.003
Organizational Success	<---	Organization's Continuous Commitment	.466	.051	9.137	***
Organizational Success	<---	Strategy Formulation	-.054	.057	-.947	.553

The path coefficient between organization's continuous commitment (OCC) and organizational success (OS) is (.47) and the p is ≤ 0.05. This indicates the statistical significance between organization's continuous commitment (OCC) and strategy formulation (SF). Thus, H2 is also accepted.

However, the path coefficient between strategy formulation (SF) and organizational success (OS) is also very low (-0.05) with a p value of 0.553. Therefore, the path is also not statistically significant as the $p \geq 0.05$. This indicates the statistical insignificance between strategy formulation (SF) and organizational success (OS). Thus, H3 is rejected.

Finally, the result indicates that in Libya, the strategy formulation does not influence the organization's continuous commitment directly. Hence, we can assume the there is a full mediation of organization's continuous commitment (OCC) between strategy formulation (SF) and organizational success (OS) as the model achieves the goodness-of-fit indices. This indicates that strategy formulation (SF) do have a significant influence on the organizational success (OS) fully mediated by organization's continuous commitment (OCC) in the context of Libya. The finding supports what Mintzberg (1987) and Pearce et al. (2005) described in their studies. Therefore, H4 is also accepted.

Conclusion:

For proper formulation of strategic moves for Libyan industrial sector needs to confirm the proper practices and support from top management. Therefore, in developing new strategies, planners or designers should recognize their future strategies by identifying their people, organizational structure, reward system and process which will be transformed to behavior that will be reflected through performance and culture. It is understandable that Libya, being a under developed country, yet to integrate the advanced organization's structures and strategies into their industrial sector. Due to lack of implementation of proper strategies, the industrial sectors are still left with unrealized strategies. Therefore, proper uses of strategic management through formulating proper strategies are needed to sustain in the long run which can be achieved through identifying their mission, vision and future objectives. Nevertheless, the findings of this study add knowledge and understanding on the subject of strategic management and its application in the Libyan context.

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