# Chapter 1

## Context of study

*We live in entrepreneurial times.*

*Orford, Herrington and Wood 2004:6*

### 1.1 Introduction

This chapter sets out the reasons for carrying out the research study. The importance and objectives of the study and the research hypotheses are presented. The chapter outlines the study and concludes by providing a description and clarification of the constructs under study, thereby explaining the focus of the study.

The reasons for carrying out the research are that there seems to be a contradiction in terms of the dictates of strategic and those of entrepreneurship. Planning tends to deal with order while entrepreneurship deals with creation. Creation tends to bring about chaos / disorder. The study would like to establish the extent to which these extremes are practiced by management. In order to establish the nature of this relationship research proposals are postulated which assesses these two constructs against a number of variables. The variables include business biographics such as age, listing and number of employees among others In addition other business operational variables include planning methods, entrepreneurial orientation, management focus on planning and entrepreneurship.

The study begins with literature review before the quantitative aspects of the study are discussed in detail and findings presented.

### 1.2 Importance of the study

With globalisation accelerating, the competitive relationship between individuals, businesses, regions and nations is becoming increasingly complex and interlocked, regardless of the size and development of the business (Yamada 2004:289).

This dynamism calls for a move from a single-dimensional view when focusing on business competitiveness. This study offers a multidimensional view by reviewing competitiveness from a strategic planning and Corporate Entrepreneurship perspective. Each of the two constructs is multifaceted on its own.

The implementation of corporate entrepreneurship is important not only for large businesses but for small and medium-sized businesses. It is also important to entire economies, since it affects the economy by increasing productivity, improving best practices, creating new industries and enhancing international competitiveness (Antoncic & Hisrich 2004:518). This becomes an important challenge for South Africa, which has been lagging behind in entrepreneurial orientation in the past four years relative to other developing nations surveyed since South Africa’s inclusion in the General Entrepreneurial Monitor (GEM) Report in 2001 (Foxcroft , Wood, Kew, Herrington & Segal 2004:3).

Skrt and Antoncic (2005:107) argue that strategic planning (thinking) has become a must for entrepreneurs in this time of global competition, technological change and dynamics in markets. Antoncic and Hisrich (2004:518) emphasise the fact that strategic planning (management) decisions are crucial for heterogeneity in business behaviour and value creation, as well as an important means of generating new value. It becomes very important to study such a phenomenon in businesses so as to contribute towards the desired behaviour of the business.

The entrepreneurial business and innovation that were evident some years back are decreasing rapidly due to the crisis in the IT industry and the breakdown of the dot.com wave. Large established businesses are disassociating themselves from the entrepreneurial “heroes” and “visionary” managers of the dot.com era and choose to hire the quieter “bookkeeper” type of manager in an apparent attempt to assure shareholders that nothing unexpected is about to happen (Drejer 2004:513). There is need therefore to halt this regression by championing the many other successes that have been brought about by a high entrepreneurship orientation.

Drejer (2004:513) adds that focus and resources are slowly but surely being drained from innovative and business-creating activities, leading to a vicious circle in which the ability to improve the competitive position is being diminished at the same time as the competitive position itself is being eroded. This is a worrying development, which calls for scholars to keep researching in the field in order to keep industry and other stakeholders informed about the best practice.

The benefits of entrepreneurship have been widely documented and accepted (Morris & Lewis 1995:38). Businesses can therefore benefit by inducing an entrepreneurial orientation. South Africa is struggling with the challenges of high unemployment, currently averaging 26.7% (Statistics South Africa 2005:1), high poverty levels and a growing divide between the "first and second economies". It is primary research like this which yield data that is useful for policy formulation and decision-making.

**1.2.1 Objectives of the study**

The concept of entrepreneurship has been studied from a very wide range of perspectives in every discipline from Psychology to Economics (Christensen 2004:303). The studies which emphasise business growth can roughly be divided into three perspectives, namely, external and internal perspectives and the interaction of the two (Yamada 2004:290). Instead of focusing on the different facets of entrepreneurship or looking at the concepts of strategic planning, which have both been studied extensively, this study combines the two areas and explores their impact on performance.

According to Skrt and Antoncic (2004:108), despite the fact that a number of entrepreneurship authors such as Wickham (2001), Hisrich and Peters (2001), and Timmons and Spinneli (2003), propagate the importance of strategic planning for the success of an entrepreneurial venture, many entrepreneurs tend not to formulate extensive plans. This is so despite the fact that strategic planning and systematic decision-making are considered key determinants of survival and success.

This study aims to explore the extent to which businesses are entrepreneurial and formulate strategic plans.

Entrepreneurial activity tends to lead towards creative destruction in which new combinations of ideas naturally lead to the same constructive development and also to some conflicts and misalignment (Yamada 2004:297). This thesis focuses on one such combination of corporate entrepreneurship (CE) and strategic planning (SP) and aims to establish the extend of the resultant conflicts and misalignment in the practice of these aspects and the business's performance.

According to Drejer (2004:508), the link between the theory and practice of strategic management, of which strategic planning is a key component, has been weak and this calls for a reflection on the part of researchers and scholars.

There is evidence of the practice of strategic planning and intrapreneurship in large businesses in the US and Europe. Studies in the US and elsewhere also show that businesses believe that planning and entrepreneurship lead to better business performance (Kuratko & Hodgetts 1992:466). However, the same cannot be said about South Africa. South African literature supporting the practice of strategic planning in businesses or corporate entrepreneurship is limited or not available. The apparent inadequacy or absence of coverage of the subject in local literature is a big gap that needs to be filled by primary South African research. This study aims to contribute to the filling of this gap.

As an academic discipline, the field of entrepreneurship is desperately in need of more solid theoretical work that will help strengthen its conceptual and empirical foundation and more importantly, provide guidance for emulators so that their success opportunities will be improved (Ma & Tan 2006:705; Cooper, Markman & Niss 2000:115).

This dissertation aims to contribute towards this end in its modest way.

**The following is a summary of the exploratory objectives of this research;**

- To understand the extent to which businesses practise strategic planning and entrepreneurship.
- To promote strategic planning and entrepreneurship as a best practice in the competitiveness of businesses.
- To show that both strategic planning (normally associated with big businesses) and entrepreneurship (normally associated with small businesses) are beneficial in all businesses irrespective of size.
- To contribute to the South African literature on strategic planning and entrepreneurship.

- To empirically show the relationship between the practise of strategic planning and entrepreneurship.

### 1.2.2 Problem statement

Theories and frameworks of strategic planning are well documented in academic literature, but the practical evidence of their application is in short supply (Stonehouse and Pemberton 2002:855; Drejer 2004:508). Managers appear either unconvinced or unaware of the practical benefits of strategic planning (Stonehouse and Pemberton 2002:860) and corporate entrepreneurship by businesses (Drejer 2004:513). This is despite the universal belief that the practice of strategic planning and corporate entrepreneurship ensures and enhances the success of businesses. Research shows that planning itself does not lead to the success of businesses, but rather the quality and high levels of entrepreneurial activity in the business.

### 1.2.3 Study propositions

**Proposition 1:** Businesses that practise strategic planning do not show significantly higher levels of strategic control.

**Proposition 2:** Businesses that practise strategic planning do not show significantly higher levels of entrepreneurial orientation.

**Proposition 3:** Businesses that practise strategic planning do not show significantly higher levels of new product introduction.

**Proposition 4:** Businesses that practise strategic planning do not show significantly higher levels of financial performance.

**Proposition 5:** Businesses that practise strategic control do not show significantly higher levels of entrepreneurial orientation.

**Proposition 6:** Businesses that practise strategic control as part of strategic planning do not show significantly higher levels of new product introduction.

**Proposition 7:** Businesses that practise strategic control do not show significantly higher levels of financial performance.

**Proposition 8:** Businesses that are entrepreneurially oriented do not show significantly higher levels of new product introduction.

**Proposition 9:** Businesses that are entrepreneurially oriented do not show significantly higher levels of financial performance.

**Proposition 10:** Businesses that have high product introductions do not show significantly higher levels of financial performance.

**Proposition 11:1 to P11.5** A statistically significant variance does not exist between strategic planning regarding the following variables:

**P11.1:** age

**P11.2:** duration of listing

**P11.3:** number of full-time employees

**P11.4:** gross income per annum

**P11.5:** gross asset value

**Propositions 11.1.1 to 11.1.5** A statistically significant variance does not exist between strategic planning regarding the following age strata:

**P11.1.1:** less than 2 years

**P11.1.2:** 4 to 10 years

**P11.1.3:** 11 to 20 years

**P11.1.4:** 21 to 50 years

**P11.1.5:** over 50 years

**Proposition 11.2.1 to 11.2.5** A statistically significant variance does not exist between strategic planning regarding the following listing duration strata:

**P11.2.1:** less than 2 years

**P11.2.2:** 4 to 10 years

**P11.2.3:** 11 to 20 years

**P11.2.4:** 21 to 50 years

**P11.2.5:** over 50 years

**Proposition 11.3.1 to 11.3.6** A statistically significant variance does not exist between strategic planning regarding the following full-time employee strata:

**P11.3.1:** 0 - 200

**P11.3.2:** 201 - 500

**P11.3.3:** 501 - 1000

**P11.3.4:** 1001 - 2000

**P11.3.5:** 2001 - 5000

**P11.3.6:** over 5000

**Proposition 11.4.1 to 11.4.7** A statistically significant variance does not exist between strategic planning regarding the following gross income strata:

**P11.4.1:** 0 - 50 million rands

**P11.4.2:** 51 - 100 million rands

**P11.4.3:** 101 - 500 million rands

**P11.4.4:** 501 - 1 billion rands

**P11.4.5:** 1.1 - 5 billion rands

**P11.4.6:** 5.1 - 10 billion rands

**P11.4.7:** over 10 billion rands

**Proposition 11.5.1 to 11.5.8** A statistically significant variance does not exist between strategic planning regarding the following gross asset value strata:

**P11.5.1:** 0 - 20 million rands

**P11.5.2:** 21 - 50 million rands

**P11.5.3:** 51 - 100 million rands

**P11.5.4:** 101 - 500 million rands

**P11.5.5:** 501 - 1 billion rands

**P11.5.6:** 1.1 - 5 billion rands

**P11.5.7:** 5.1 - 10 billion rands

**P11.5.8:** over 10 billion rands

**Proposition 12:1 to 12.5** A statistically significant variance does not exist between strategic controls regarding the following variables:

**P12.1:** age

**P12.2:** duration of listing

**P12.3:** number of full-time employees

**P12.4:** gross income per annum

**P12.5:** gross asset value

**Proposition 12.1.1 to 12.1.5** A statistically significant variance does not exist between strategic control regarding the following age strata:

**P12.1.1:** less than 2 years

**P12.1.2:** 4 to 10 years

**P12.1.3:** 11 to 20 years

**P12.1.4:** 21 to 50 years

**P12.1.5:** over 50 years

**Proposition 12.2.1 to 12.2.5** A statistically significant variance does not exist between strategic control regarding the following listing duration strata:

**P12.2.1:** less than 2 years

**P12.2.2:** 4 to 10 years

**P12.2.3:** 11 to 20 years

**P12.2.4:** 21 to 50 years

**P12.2.5:** 0ver 50 years

**Proposition 12.3.1 to 12.3.6** A statistically significant variance does not exist between strategic control regarding the following full-time employee strata:

**P12.3.1:** 0 - 200

**P12.3.2:** 201 - 500

**P12.3.3:** 501 - 1000

**P12.3.4:** 1001 - 2000

**P12.3.5:** 2001 - 5000

**P12.3.6:** over 5000

**Proposition 12.4.1 to 12.4.7** A statistically significant variance does not exist between strategic control regarding the following gross income strata:

**P12.4.1:** 0 - 50 million rands

**P12.4.2:** 51 - 100 million rands

**P12.4.3:** 101 - 500 million rands

**P12.4.4:** 501 - 1 billion rands

**P12.4.5:** 1.1 - 5 billion rands

**P12.4.6:** 5.1 - 10 billion rands

**P12.4.7:** over 10 billion rands

**Proposition 12.5.1 to 12.5.8** A statistically significant variance does not exist between strategic control regarding the following gross asset value strata:

**P12.5.1:** 0 - 20 million rands

**P12.5.2:** 21 - 50 million rands

**P12.5.3:** 51 - 100 million rands

**P12.5.4:** 101 - 500 million rands

**P12.5.5:** 501 - 1 billion rands

**P12.5.6:** 1.1 - 5 billion rands

**P12.5.7:** 5.1 - 10 billion rands

**P12.5.8:** over 10 billion rands

**Proposition 13:1 to 13.5** A statistically significant variance does not exist between a business's entrepreneurial orientation regarding the following variables:

**P13.1:** age

**P13.2:** duration of listing

**P13.3:** number of full-time employees

**P13.4:** gross income per annum

**P13.5:** gross asset value

**Proposition 13.1.1 to 13.1.5** A statistically significant variance does not exist between entrepreneurial orientation regarding the following age strata:

**P13.1.1:** less than 2 years

**P13.1.2:** 4 to 10 years

**P13.1.3:** 11 to 20 years

**P13.1.4:** 21 to 50 years

**P13.1.5:** 0ver 50 years

**Proposition 13.2.1 to 13.25** A statistically significant variance does not exist between entrepreneurial orientation regarding the following listing duration strata:

**P13.2.1:** less than 2 years

**P13.2.2:** 4 to 10 years

**P13.2.3:** 11 to 20 years

**P13.2.4:** 21 to 50 years

**P13.2.5:** 0ver 50 years

**Proposition 13.3.1 to 13.3.6** A statistically significant variance does not exist between entrepreneurial orientation regarding the following number of full-time employee strata:

**P13.3.1:** 0 - 200

**P13.3.2:** 201 - 500

**P13.3.3:** 501 - 1000

**P13.3.4:** 1001 - 2000

**P13.3.5:** 2001 - 5000

**P13.3.6:** over 5000

**Proposition 13.4.1 to 13.4.7** A statistically significant variance does not exist between entrepreneurial orientation regarding the following gross income strata:

**P13.4.1:** 0 - 50 million rands

**P13.4.2:** 51 - 100 million rands

**P13.4.3:** 101 - 500 million rands

**P13.4.4:** 501 - 1 billion rands

**P13.4.5:** 1.1 - 5 billion rands

**P13.4.6:** 5.1 - 10 billion rands

**P13.4.7:** over 10 billion rands

**Proposition 13.5.1 to 13.5.8** A statistically significant variance does not exist between entrepreneurial orientation regarding the following gross asset value strata:

**P13.5.1:** 0 - 20 million rands

**P13.5.2:** 21 - 50 million rands

**P13.5.3:** 51 - 100 million rands

**P13.5.4:** 101 - 500 million rands

**P13.5.5:** 501 - 1 billion rands

**P13.5.6:** 1.1 - 5 billion rands

**P13.5.7:** 5.1 - 10 billion rands

**P13.5.8:** over 10 billion rands

**Proposition 14:1 to 14.5** A statistically significant variance does not exist between new product introduction regarding the following variables:

**P14.1:** age

**P14.2:** duration of listing

**P14.3:** number of full-time employees

**P14.4:** gross income per annum

**P14.5:** gross asset value

**Proposition 14.1.1 to 14.1.5** A statistically significant variance does not exist between new product introduction regarding the following age strata:

**P14.1.1:** less than 2 years

**P14.1.2:** 4 to 10 years

**P14.1.3:** 11 to 20 years

**P14.1.4:** 21 to 50 years

**P14.1.5:** over 50 years

**Proposition 14.2.1 to 14.2.5** A statistically significant variance does not exist between new product introduction regarding the following listing duration strata:

**P14.2.1:** less than 2 years

**P14.2.2:** 4 to 10 years

**P14.2.3:** 11 to 20 years

**P14.2.4:** 21 to 50 years

**P14.2.5:** over 50 years

**Proposition 14.3.1 to 14.3.6** A statistically significant variance does not exist between new product introduction regarding the following full-time employee strata:

**P14.3.1:** 0 - 200

**P14.3.2:** 201 - 500

**P14.3.3:** 501 - 0 1000

**P14.3.4:** 1001 - 2000

**P14.3.5:** 2001 - 5000

**P14.3.6:** over 5000

**Proposition 14.4.1 to 14.3.7** A statistically significant variance does not exist between new product introduction regarding the following gross income strata

**P14.4.1:** 0 - 50 million rands

**P14.4.2:** 51 - 100 million rands

**P14.4.3:** 101 - 500 million rands

**P14.4.5:** 1.1 - 5 billion rands

**P14.4.6:** 5.1 - 10 billion rands

**P14.4.7:** over 10 billion rands

**Proposition 14.5.1 to 14.5.8** A statistically significant variance does not exist between new product introduction regarding the following gross asset value strata:

**P14.5.1:** 0 - 20 million rands

**P14.5.2:** 21 - 50 million rands

**P14.5.3:** 51 - 100 million rands

**P14.5.4:** 101 - 500 million rands

**P14.5.5:** 501 - 1 billion rands

**P14.5.6:** 1.1 - 5 billion rands

**P14.5.7:** 5.1 - 10 billion rands

**P14.5.8:** over 10 billion rands

**Proposition 15:1 to 15.5** A statistically significant variance does not exist between a business's financial performance regarding the following variables:

**P15.1:** age

**P15.2:** duration of listing

**P15.3:** number of full-time employees

**P15.4:** gross income per annum

**P15.5:** gross asset value

**Proposition 15.1.1 to 15.1.5** A statistically significant variance does not exist between financial performance regarding the following age strata:

**P15.1.1:** less than 2 years

**P15.1.2:** 4 to 10 years

**P15.1.3:** 11 to 20 years

**P15.1.4:** 21 to 50 years

**P15.1.5:** over 50 years

**Proposition 15.2.1 to 15.2.5** A statistically significant variance does not exist between financial performance regarding the following listing duration strata:

**P15.2.1:** less than 2 years

**P15.2.2:** 4 to 10 years

**P15.2.3:** 11 to 20 years

**P15.2.4:** 21 to 50 years

**P15.2.5:** over 50 years

**Proposition 15.3.1 to 15.3.6** A statistically significant variance does not exist between financial performance regarding the following full-time employee strata:

**P15.3.1:** 0 - 200

**P15.3.2:** 201 - 500

**P15.3.3:** 501 - 0 1000

**P15.3.4:** 1001 - 2000

**P15.3.5:** 2001 - 5000

**P15.3.6:** over 5000

**Proposition 15.4.1 to 15.4.7** A statistically significant variance does not exist between financial performance regarding the following gross income strata:

**P15.4.1:** 0 - 50 million rands

**P15.4.2:** 51 - 100 million rands

**P15.4.3:** 101 - 500 million rands

**P15.4.4:** 501 - 1 billion rands

**P15.4.5:** 1.1 - 5 billion rands

**P15.4.6:** 5.1- 10 billion rands

**P15.4.7:** over 10 billion rands

**Proposition 15.5.1 to 15.5.8** A statistically significant variance does not exist between financial performance regarding the following gross asset value strata:

**P15.5.1:** 0 - 20 million rands

**P15.5.2:** 21 - 50 million rands

**P15.5.3:** 51 - 100 million rands

**P15.5.4:** 101 - 500 million rands

**P15.5.5:** 501 - 1 billion rands

**P15.5.6:** 1.1 - 5 billion rands

**P15.5.7:** 5.1 - 10 billion

**P15.5.8:** over 10 billion

## 1.3 Definition of terms

### 1.3.1 Strategic planning terminology

According to Stonehouse and Pemberton (2002:853) and also Hannon and Atherton (1998:111), several terms are used ambiguously and interchangeably in the literature relating to strategy, resulting in a failure to distinguish between the concepts of *strategic management, strategic thinking, strategic learning* and *strategic planning*. Stonehouse and Pemberton (2002) clarify the concepts as follows:

***Strategic management*** can be conceptualised as a set of theories and frameworks designed to assist managers of businesses in thinking, planning and acting strategically. It concerns the long-term success of the whole business and is a vehicle through which managers can plan for the future.

***Strategic thinking*** relates to a vision of the future developed by business leaders, requiring managers to think ahead to develop long-term “strategic intent” for the business.

***Strategic learning*** is concerned with the processes by which businesses learn about themselves and the environment, thereby devising demanding, but achievable long-term goals together with the appropriate strategies intended to realise them. Strategic learning is vital to the development of the strategic knowledge upon which competitive advantage is based and involves the gathering and analysis of information to support the development of vision and strategy.

***Strategic planning*** centres on the setting of long-term business objectives and the development and implementation of plans designed to achieve the business objectives. The long-term orientation, level, detail and degree of flexibility involved in the process are vital elements. They define *strategic planning* as the devising and formulating of plans at business level which set the broad and flexible objectives, strategies and policies of a business, driving it towards its vision of the future.

Chen (2005:364), and Stonehouse and Pemperton (2002:854) cite Mckiernan (1997), who indicates four well-established frameworks for strategic management / planning;

- The planned approach (prescriptive)
- Emergent learning / logical incrementalism (Quinn 1978)
- Competitive positioning (outside-in analysis, Porter 1985)
- Core competence resource / knowledge based (inside-out analysis).

Strategic planning and thinking involve two distinct thought processes. Planning involves analysis and then establishing and formalising systems and procedures. Thinking involves synthesis, encouraging intuitive, innovative and creative thinking at all levels of the business (Graetz 2002:457).

Stonehouse and Pemperton (2002:854) point out that confusion over the terminology used for *strategy* is compounded by the different approaches devised to try to understand competitive advantage. O'Reagan and Ghobadian (2002:663) concur that the term *strategic planning* has a multitude of meanings. No school represents a complete or definitive explanation of strategic management / planning within a business (Stonehouse & Pemberton 2002:854). In addition there is the suggestion by Mintzberg (1990) that *strategy* is a combination of deliberate plans and emergent adjustments over time and Quinn's (1980) logical incrementalism.

Characteristics of strategic planning systems, adopted from Karger and Parnell (1996:46), form the basis of this construct. This is presented below as Table 1.1.

**Table 1.1 Characteristics of a strategic planning system**

| Characteristics | Description | Supporting literature |
|---|---|---|
| Internal orientation | The extent of attention devoted to a business's recent history and current situation, past performance and analysis of strengths and weaknesses. | Camillus & Venkatraman (1984)<br>Grant & King (1982)<br>King & Cleveland (1978)<br>Lorange & Vancil (1977<br>Steiner (1979) Stevenson (1976) |
| External orientation | Ability to obtain reliable and timely research information in order to learn about external environmental opportunities and threats. | Andrews (1971)<br>McDaniel & Kolari (1987)<br>Ramanujam *et al*. (1986)<br>Snow & Hrebiniak (1980)<br>Veliyati & Shortell (1993 |
| Functional integration | The extent of coverage given to different functional areas with a view to integrating different functional requirements into a general management perspective. | Hitt, Ireland & Palia (1982)<br>Hitt, Ireland & Stadler (1982)<br>Lorange (1980)<br>Snow & Hrebiniak (1980)<br>Ramanujam *et al.* (1986)<br>Ramanujam & Venkatraman (1987) |
| Key personnel involvement | The degree of involvement of top management, board members, line and staff managers in the planning process. | Govindrajan (1986) Modway *et al* (1982)<br>Ramanujan & Venkatraman (1987)<br>Steers (1977) Veliyath & Shortell (1993) |
| Use of analytical techniques: | The extent of reliance on appropriate planning techniques in order to solve ill-structured strategic | Fredickson (1984) Grant & King (1982)<br>Hax & Majluf (1984) |

| | | |
|---|---|---|
| | problems. | Ramanujam & Venkatraman (1987) |
| Creativity in planning: | The degree to which planning efforts emphasise new modes of thinking. | Cartwright (1987) Greenley (1986)<br>Ramanujan *et al.* (1986) Roach & Allen (1983) Shank, Niblock & Sandal (1973) |
| Focus on control | The degree of emphasis placed on planning as a means of business control. | Andrews (1971) Camillius (1975)<br>King & Cleland (1978) Langley (1988) |

*Karger and Parnell 1996:46*

This study adopts the prescriptive approach (also called deliberate or planned approach). It is inclusive of the emergent (learning) competitive positioning (Porter) and the core competence, resource or knowledge-based approaches.

The term *strategic planning* is used in this study to encompass both functional and operational planning, bearing in mind that each of the two on its own or combined does not constitute strategic planning.

Inferences are drawn about strategic management, bearing in mind that strategic planning is one of the constructs of strategic management. The terms may at times be used interchangeably.

**1.3.2 Corporate entrepreneurship**

The study uses the construct *corporate entrepreneurship* (CE), (Burgelman 1983;Vesper 1984; Guth & Ginsberg 1990; Hornsby et al. 1993; Zahra 1991;1993; Stopford & Fuller 1994; Sharma & Chrisman 1999) to mean entrepreneurship in an existing business and to encompass intrapreneuring (Pinchot 1985), intrapreneurship (Hisrich & Peters 1998; Antoncic & Hisrich 2000, 2001), corporate venturing (Macmillan 1986, Vesper 1990), business / industry transformation (Thornberry 2003) and posturing (Covin & Slevin 1986,1991). The summary of terms and the names of scholars, adopted from Antonic and Hisrich (2003:15) are provided below as Table 1.2.

**Table 1.2 Classification of business level entrepreneurship**

| Scholar | Concept name | Characteristic dimensions | Definitions |
|---|---|---|---|
| Miller and Friesen (1983) | Innovation (a dimension of strategy-making) | New products | Introduction of new products and production-service technologies, the search for novel solutions to marketing and production problems (Miller & Friesen1983:222) |
| | | Risk-taking | -------- |
| | | Proactiveness | The attempt to lead rather than follow competitors (Millner & Friesen 1983:222) |
| Covin and Slevin (1986,1991) | Entrepreneurial posture | Risk-taking | Risk-taking with regard to investment decisions and strategic actions in face of uncertainty (Covin & Slevin 1991:10) |
| | | Innovativeness | The extensiveness and frequency of product innovation and the related tendency towards technological leadership (Covin & Slevin 1991:10) |
| | | Proactive ness | The pioneering nature of the business's propensity to aggressively and proactively compete with industry rivals (Covan & Slevin 1991:10) |
| Guth and Ginsburg (1990) | Corporate entrepreneurship | Internal innovation and venturing | The birth of business within the existing businesses (Guth & Ginsberg 1990:5) |
| | | Strategic renewal | The transformation of businesses through renewal of the key ideas on which they |

| | | | |
|---|---|---|---|
| | | | are built (Guth & Ginsberg 1990:5) |
| Zahra (1991,1993) | Corporate entrepreneurship | Innovation and venturing | Creating new business through market developments or by undertaking product, process, technological and administrative innovations (Zahra 1993:321) |
| | | Strategic renewal | The redefinition of the business concept, reorganisation, and the introduction of system-wide changes for innovation (Zahra 1993:321) |
| Lumpkin and Dess (1996) | Entrepreneurial orientation | Autonomy | Independent action of an individual or a team bringing forth an idea or vision and carrying through completion (Lumpkin & Dess 1996:140) |
| | | Innovativeness | A business's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services of technological processes (Lumpkin & Dess 1996:142) |
| | | Risk-taking | A sense of uncertainty …probability of loss or negative outcome …high leverage from borrowing and heavy commitment resources (Lumpkin & Dess 1996:144) |
| | | Proactiveness | Taking initiatives by anticipating and pursuing new opportunities and by participating in emerging markets (Lumpkin & Dess 1996:146) |
| | | Competitive aggressiveness | Propensity to directly and intensely challenge its competitors to achieve entry or improve position (Lumpkin & Dess 1996:148) |

| | | | |
|---|---|---|---|
| Knight (1997) | Entrepreneurial orientation | Innovativeness | Pursuit of creative or novel solutions to challenges confronting the business, including the development or enhancement of products and services, as well as administrative techniques and technologies for performing business functions (Knight 1997:214) |
| | | Proactiveness | The opposite of reactiveness and associated with aggressive posturing relative to competitors (Knight 1997:214) |

*Antoncic and Hisrich 2003:15*

This study focuses on the formation of corporate ventures and the entrepreneurial venture. It adopts the approach by Christensen (2004:306), which views *corporate entrepreneurship* as an overall term for all other labels and perspectives. These terms include intrapreneurship, corporate venturing, internationalisation and internal resources.

***Corporate entrepreneurship*** is assumed to mean and encompass *intrapreneurship, entrepreneurship* (individual behaviour normally associated with small businesses) corporate venturing and corporate renewal. The words *entrepreneurship, intrapreneurship, corporate entrepreneurship and corporate venturing* will be used interchangeably and be assumed to mean the same thing.

The term ***Business*** is used through out this study. It is assumed to mean entities that are opportunity seeking and in the main are driven by the profit-making motive. The term business will also mean the activities or behaviour of these entities as they execute their missions. The term ***public company*** represents a form of business ownership in which a business' shares are traded at the exchanges market and as defined by the South African Companies Act.

The components of the strategic planning construct are provided as Table 6.1 and that of the entrepreneurship performance index (EPI) as Table 6.2 in Chapter 6. These form the basis upon which the measuring instruments are developed.

**1.4 Outline of proposed study**

This section outlines how the study is framed. Chapters 2 to 5 detail the literature of the subject under study. Chapters 6 and 7 provide the empirical methods of study and the results thereof respectively.  A bit of detail of these chapters is discussed below.

Chapter 2 (strategic planning and entrepreneurship) provides a detailed review of the interface between the two constructs.

Chapter 3 (strategic planning) gives a detailed review of what strategic planning is, its different facets and how strategic planning result in strategy. The formulation of an entrepreneurial strategic planning approach is also reviewed.

Chapter 4 (corporate entrepreneurship) provides a detailed analysis of what corporate entrepreneurship is by reviewing its different aspects. The importance of entrepreneurship in firm performance is emphasized.

Chapter 5 (the relationship between strategic planning and corporate entrepreneurship) details the linkages between the constructs. The chapter emphasizes the need for an integrative approach in the practice of the two constructs in order to maximize the possible benefits.

Chapter 6 (research methodology) provides the research method and the data analysis techniques used in the study.

Chapter 7 (measurement and data analysis) Results of the analysis are presented.

Chapter 8 (conclusion and recommendations)
The chapter concludes the research report and makes recommendations on the findings.

# Chapter 2

### Introduction to Strategic Planning and Corporate Entrepreneurship

*We meet at the departure point,*
*what you see and what you don't see*
*are the phantoms of the cross-roads.*
*Marechera 1990*

## 2.1 Introduction

Though debate is ongoing about whether the two fields of strategic planning and corporate entrepreneurship should be integrated or separated, Meyer *et al.* (2002:31), and Ma and Tan, (2006:705) maintain that there has been a popular trend of cross-fertilisation between strategic management and entrepreneurship research, two fields deeply concerned with wealth creation and heavily influenced by Schumpeter's seminal work on innovation and creative destruction.

This chapter gives an overview of strategic planning and corporate entrepreneurship. It provides the strategic planning and corporate entrepreneurship interface. This interface provides the meeting position and the point of departure for the two constructs. From this departure point, each construct is discussed in detail in later chapters. The chapter serves therefore as the introduction to the whole literature review of this dissertation. The underlying components of the strategic planning construct and the literature support are provided as Table 1.1 based on the work of Parnell and Karger (1996:50). The corporate entrepreneurship construct and supporting literature, based on Antoncic and Hisrich (2003:19), are provided in Table 4.2 in support of the EPI by Morris and Kuratko.

## 2.2 Strategic planning / Entrepreneurship and size of the business

Strategic management has traditionally been interested in big business, while entrepreneurship has been interested in small businesses. The interface between the two areas is the strategic management-entrepreneurship interface and this is necessitated by today's rapidly changing business environment which is about speed and action. All business, regardless of size and age, must be entrepreneurial to effectively compete and survive (Meyer *et al.* 2002:19). In addition, Schendel (1995:145), Slater and Olson (2000:813), and Meyer *et al*. (2002:27) discuss the entrepreneurial and the integrative as components of strategy. The entrepreneurial aspect is about creation and resource allocation, while integration is about managing what entrepreneurship creates. The interplay between the entrepreneurial and integrative strategy components determines how business achieves competitive advantage.

Hitt, Ireland, Camp and Sexton (2002:28) describe the content domain that lies at the centre of entrepreneurship and strategic planning as innovation, business networks, internationalisation, business learning, teams, growth, flexibility and change. It is the integration between the two that results in fast-growth businesses.

Meyer *et al.* (2002:29) look at the integration of, or blend into a whole, the two constructs as a single field of study. This is because:

- Both constructs view the performance of a business as a primary dependent variable.
- The new economy and the increasingly dynamic nature of the competitive environment demand entrepreneurial qualities such as flexibility and real-time responsiveness.
- Shifting paradigms in strategic management highlight the dynamic nature of businesses and the need for all businesses to be entrepreneurial.

**2.3 Entrepreneurship / Strategic planning and performance**

Meyer and Happard (2000:2) report an entrepreneurial dominant logic which leads a business and its members to constantly search for and filter information for new product ideas and process innovations that will lead to greater profitability.

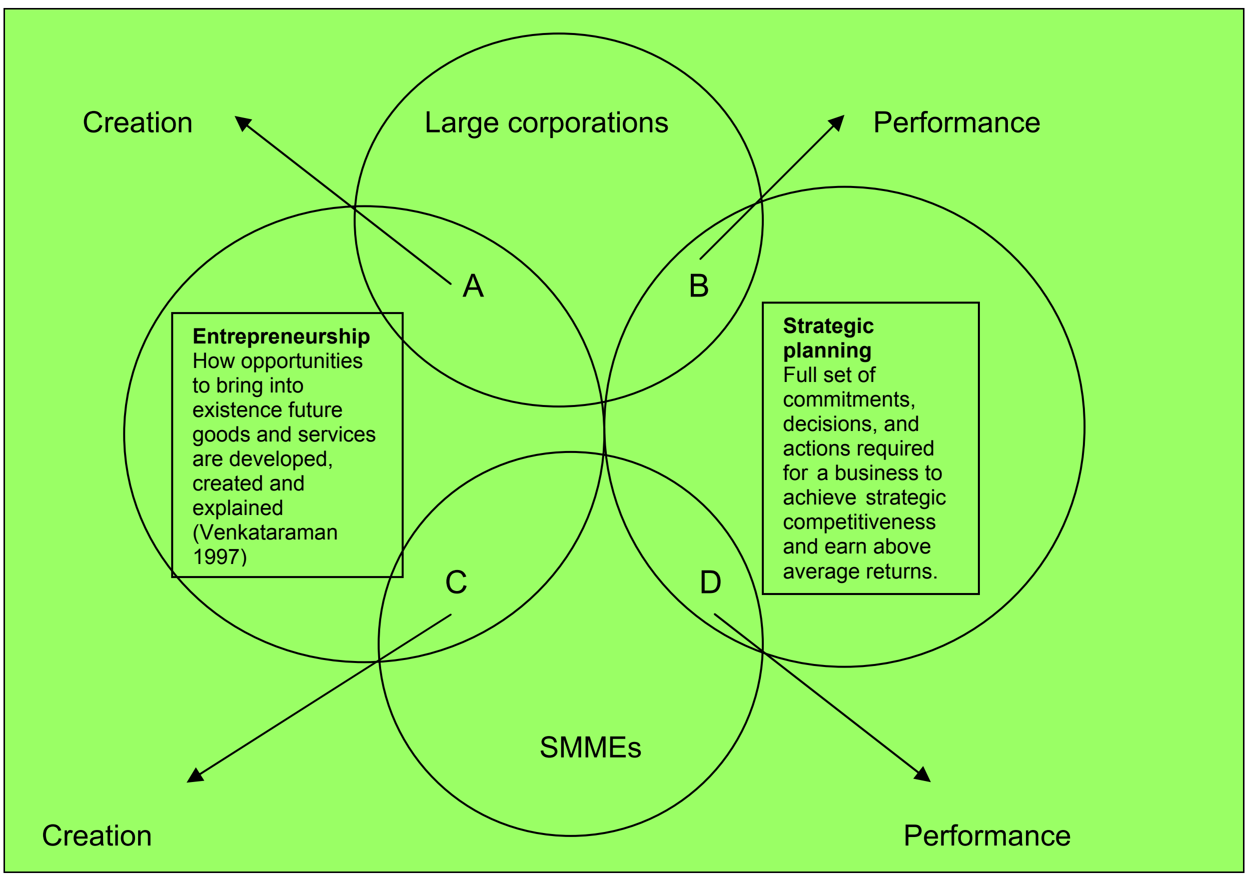
The fit between entrepreneurial orientation as a strategic element and its business and environmental context may have a positive impact on performance, not just the existence of such an orientation per se (Zahra 1993; Dess et al. 1997 in Antoncic & Hisrich 2004:521).

The convergence of entrepreneurship and strategic management / planning is driven partly by time and responsiveness, speed of innovations and actions taken in the marketplace. Entrepreneurial ventures are stereotyped as agile and capable of making decisions in real time. These time-compressed decision processes are created to meet the needs of customers, adapt to the environment and compete in a continuously changing competitive landscape.

The basis of the strategic planning (management) interface is the performance denominator. *Entrepreneurship* is ultimately about creation and *strategic management* is about achieving above-average performance via competitive advantage. It would be illogical to look at creation without looking at the outcome of such creation, whether it is wealth creation, job creation, profitability or growth. Any of these are performance measures (Meyer *et al.* 2002:33)

This is illustrated in diagram Figure 2.1 below.

**Figure 2.1 The entrepreneurship / strategic management interface**




*Meyer et al. 2002:34*

Figure 2.1 shows that entrepreneurship and strategic planning do not intersect; rather, the size of the business, small or large, and the issues of creation and performance create the spaces in which the fields communicate, i.e. the interface. Both small and large corporations benefit from strategic planning and entrepreneurship.
As indicated by Hitt *et al.* (2002:2), entrepreneurship has largely examined small businesses while strategic management concentrates on large businesses. This strategic entrepreneurship link emphasises the primary interface of creation and performance.

Wickland and Shepherd (2005:73) note that performance results from both consistency of structural and strategic factors and the congruence of these with entrepreneurial configurations that fit multiple contextual dimensions.

**2.4 Strategic entrepreneurship**

*Strategic entrepreneurship* is the integration of entrepreneurial / opportunity-seeking actions and strategic / advantage-seeking actions to design and implement entrepreneurial strategies that create wealth. Strategy provides a starting point for the examination of corporate entrepreneurship in which core competences of a corporation can be leveraged to create new businesses (Sathe 2003:2).

Hitt *et al.* (2002:2) note that strategic entrepreneurship is entrepreneurial action that is taken with a strategic perspective and that the entrepreneurial and strategic actions are complementary and can achieve the greatest wealth when integrated.

This need for strategic entrepreneurship is vital because, as Bouchard (2001:3) emphasises, entrepreneurship is exposed to the liabilities of the new and to failure. The entrepreneurial process is complex and uncertain. Strategic planning, of which the aim is, “to do better what a business already does well”, takes place within familiar contexts, can capitalise on past experience and apply proven recipes. It is less exposed to failure than entrepreneurship and is characterised by a marked “anti- failure bias”.

Businesses that continuously focus on finding better solutions maintain competitive advantage and in doing so require effective strategic planning and entrepreneurship throughout the ranks of the business (Lewis, Goodman & Fandt 2001:149).

The contemporary business environment is characterised by increasing risk and decreased ability to forecast fluid and industry boundaries which need a managerial mindset that must unlearn traditional management principles in order to minimise failure. This mindset needs to create or help shape its own environment by creating a strategic and entrepreneurial alertness if it is to survive the chaos, complexity and contradictions (Morris & Kuratko 2002:150).

Fink, Marr, Siebe & Kuhle (2005:360) point out that to survive and grow in an era of continuous change businesses must identify upcoming opportunities and threats early enough and deal with them in their strategic planning. Corporate entrepreneurship activities provide a business with opportunities to connect with its strategic vision or shape its strategic future (Kelly, Neck, O'Connor and Paulson 2002:1), and this is part of the strategic entrepreneurship.

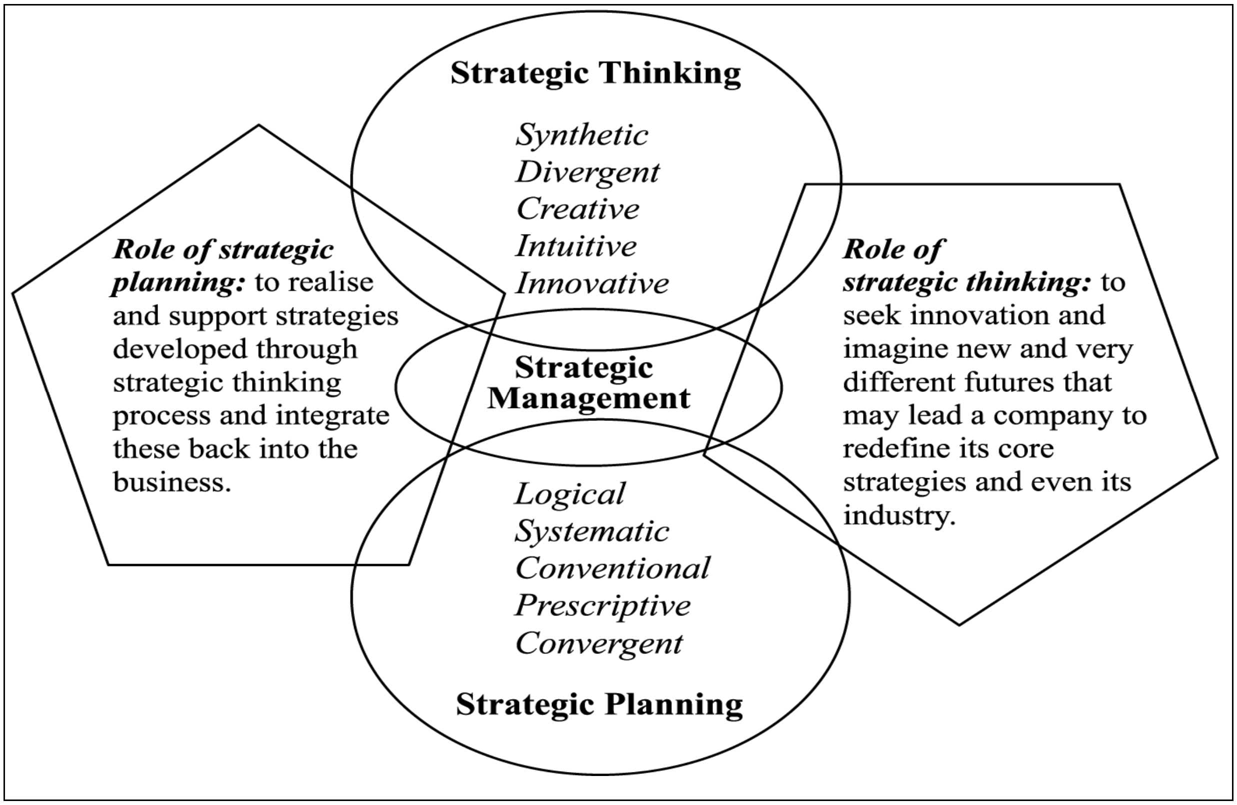
**2.5 Planning and strategic thinking**

Thinking strategically in the strategy-making process recognises that planning and strategic thinking is "distinct but interrelated and complementary thought processes" that must sustain and support each other for effective strategic management. As they are integral components of strategic management, there is need for moments of convergence and moments of divergence, a synergistic tension that reconciles creativity with rationalism and pragmatism and blends synthetic with analytical critical thinking. Recognising and valuing the creative tension between strategic thinking and planning provides a powerful driving force within the strategic planning process. The strategies from strategic thinking have to be operationalised through convergent and analytical planning (Graetz 2002:457).

This reasoning is illustrated in Figure 2.2.

Due to higher resource constraints, smaller businesses' key strategy prescription is to pursue a focus strategy by choosing a favourable product-market environment. The resources are concentrated on a restricted range of products, markets and customers. Corporates, on the other hand, tend to have slack resources which they can move around in support of alternative strategic postures (O'Gorman 2001:63). Having alternative strategic postures is about entrepreneurship, and making use of such resources becomes crucial.

**Figure 2.2 Strategic thinking and planning**




*Graetz 2002:457*

Achieving success through planning requires the participation of a broad range of business members in a decision-making process which tolerates a diversity of views and encourages strategic thinking. Businesses that encourage a wide range of different ideas and views are more likely to produce plans that are comprehensive and fully developed. Thinking is a skill, and as is the case with most skills, it can be developed through training and practice. Employees should be provided with the training necessary to develop strategic thinking skills and given the opportunity to practise those skills in their work environment. In addition, they should be rewarded for thinking strategically when developing their plans (Lewis *et al.* 2001:138).

Graetz (2002:456) points out that *entrepreneurship* is a creative, dynamic, responsive and often intuitive process in the framework of a largely unpredictive environment that fits more closely with the concept of strategic thinking.

In order to achieve the desired business outcomes, Kazanjian, Drazin & Glynn (2002:172) note that the link between strategic planning and corporate entrepreneurship is a fundamental one, as reflected in research by Schendel (1999) and Borringer and Bluedorn (1999).

### 2.6 Chapter summary

In this chapter the constructs of strategic planning and entrepreneurship were reviewed in detail. This included related aspects of these constructs such as strategic thinking, strategic planning, and strategic entrepreneurship. The relationships between these constructs were discussed in detail. The chapter serves as the introduction to the literature review.

Strategic planning is normally associated with big businesses while entrepreneurship is associated with small businesses. In appreciating the interface between the two concepts it becomes clear that all businesses irrespective of size need to have strategic plans as well as be entrepreneurial. This is so because entrepreneurship ensures that opportunities are identified (innovation and creativity) and pounced on in time. Strategic planning on the other hand ensures that a business achieves strategic competitiveness in the provision of goods and services

One key common element found in the two constructs is strategic thinking. This involves innovation and creativity. As pointed out by Lewis *et al. (*2001:138) this thinking is so critical that it should be developed through training and practice. through out the whole organisation Employees should also be rewarded for thinking strategically.

As a result of the strong need to practice both strategic planning and entrepreneurship, a new construct strategic entrepreneurship encapsulates the bond between the two. As noted by Sathe (2003:2) strategic entrepreneurship is about opportunity-seeking actions and strategic / advantage-seeking actions to design and implement entrepreneurial strategies that create wealth.

Wealth creation is about good performance. As noted by Wickland and Shepherd (2005:73) performance results from both strategic factors and the congruence of these with entrepreneurial configurations that are multidimensional.

# Chapter 3

## Strategic Planning

*We shall not cease from exploration*
*And the end of all our exploring*
*Will be to arrive where we started*
*And know the place for the first time.*

*Eliot*

### 3.1 Introduction

The chapter defines what strategic planning is. It then concentrates on the strategic planning process. The *process* defines what strategic planning is. Each of the different stages is analysed in detail and contextualised in relation to strategic planning and corporate entrepreneurship. In cases where there are different approaches, these are discussed in detail and a dominant position identified. The discussion on strategic planning is based on the conventional approach.

The strategic planning construct is explored in detail. The different strategic planning views ranging from the traditional / classic, the incremental and the emergent convergent are explained in terms of what they are and how they relate or differ from each other. The study adopts the traditional (conventional) approach as the basis of analysis and so the whole detailed strategic planning process is presented with this bias.

### 3.2 The strategic planning process

Traditionally, strategic planning is the process of
(1) analysing the business's external and internal environment
(2) developing a vision and mission
(3) formulating overall goals
(4) identifying general strategies to be pursued

(5) allocating resources to achieve business goals,
(6) deciding how these will be monitored and controlled (Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw & Oosthuizen 2001; Thompson & Strickland 2001; Pearce & Robinson 2000; Kaplan & Norton 2001; Drucker 1974; Hitt, Duane & Hoskisson 2003; Stonehouse & Pemberton 2002).

Strategic planning becomes a sequence of analytical and evaluative procedures to formulate an intended strategy and the means of implementing it. Strategic planning is one of the constructs of strategic management. The strategic management process of “formulation, implementation and evaluation” becomes the operationalisation of strategic planning (Thompson & Strickland 2001:7).

Business strategy is part of strategic planning and it is generally prescriptive in nature, envisaging a process of “formulation” (deciding what to do) followed by implementation (taking action). The production of a written statement of business objectives, namely the “mission statement”, is a key feature of strategic planning (Barnes 2002:131).

This is supported by Daft (2002:139), who points out that strategic planning set out decisions and actions used to “formulate” and “implement” strategies that will provide a competitively superior fit between the business and its environment in order to achieve business goals.

Kargar and Parnell (1996:41) posit that strategic planning is an attitude and a process concerned with the future consequences of current decisions and that it links short, intermediate, and long-range plans. It does not attempt to make future decisions or even forecast future events. It adjusts plans to the emerging business environment, manages the business analytically, links, directs and controls complex business through a practical working management system which plays a vital role in the performance of a business.

Morris and Kuratko (2002:153) point out that strategic planning is the formulation of long-term plans for the effective management of external threats and opportunities in the light of a business’s internal strengths and weaknesses. It defines the future of the business. This includes defining the business’s mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Smit and Cronje (2002:138) point out that strategic planning has as its objective the long-term survival of the business in a volatile environment. To survive the management has to formulate a vision and mission statement, scan the internal and external environment for opportunities and threats, formulate long-term goals and choose a strategy that will lead to goal attainment.

**3.3 Strategic planning perspectives**

Parnell (2005:159) presents two approaches to strategy: strategy as an art and as a science. According to the art perspective, the lack of environmental predictability and the fast pace of change suggest that the inherent value of strategic planning is limited. Strategists should incorporate substantial creativity and intuition in order to design a comprehensive strategy for the business. The science perspective views the business environment as largely objective, analysable and to a great extent predictable. Strategic managers therefore follow a systematic process of environmental, competitive and internal analysis and build the business strategy on this foundation.

Grattan (2004:66) supports the assertion that strategy formulation is an art, guided by whatever science can be brought to bear, and that when it comes to strategy formulation, positioning and resources need to be considered since these are complementary and not alternative.

Pitcher (2003:50) cites George Santayana, who wrote that "man's progress has a poetic phase in which he imagines the world, then a scientific phase in which he sifts and tests what he has imagined".
The resources premise is in agreement with Chandler's (1962:13) classic definition of strategy, that it is " the determination of long-term goals and objectives of business and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.

Kim and Mauborgne (1999:197) provide two differing strategic planning logics. They call these "conventional" and "value innovation." The distinguishing presumption of value innovation is that the industry's conditions are not given but can be shaped. A business therefore pursues a quantum leap in value to dominate the market and does not view competitors as a benchmark. These same approaches, outlined by Miller (1998) under the terms “rational” and “incremental”, are briefly discussed below.

### 3.3.1 The incremental approach

According to the incremental approach, strategy is not designed from the start in any comprehensive way and managers know that the environment they operate in is uncertain and ambiguous. Strategy then emerges from interaction between different groupings of the people in the business (Quinn 2003:16).

The incremental approach to planning assumes that the future is unknown and unpredictable. External forces are assumed to be too powerful to be controlled by businesses and therefore managers find it difficult to control plans. The assumption is therefore that managers should constantly adjust strategies as plans are overtaken by developments outside their ability to predict and control. The incrementalists stress the flexibility to react to unpredictable opportunities and accidents and to “muddle through” without a defined or sustained sense of direction.

### 3.3.2 The rational approach

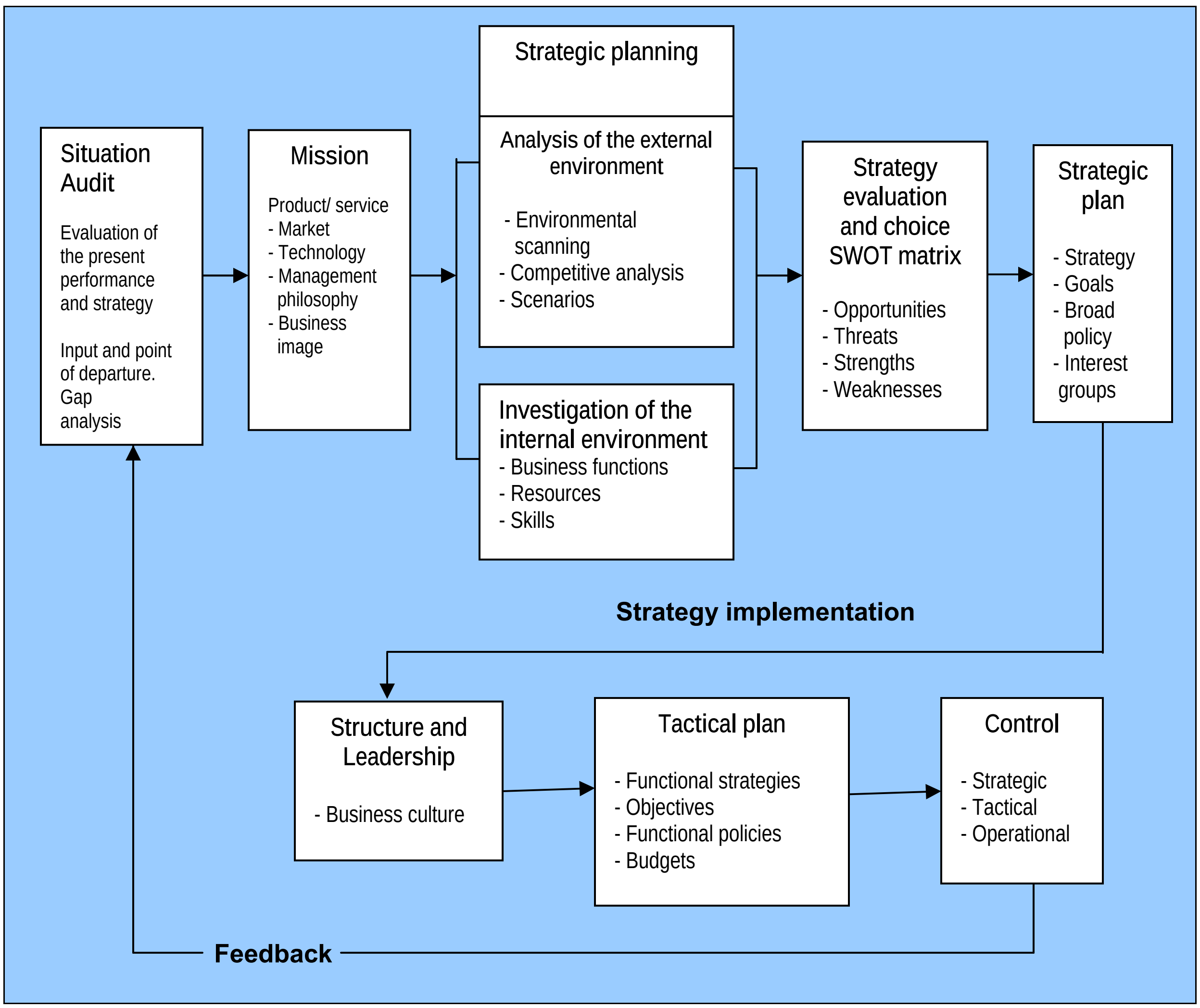
In contrast, “rational planning”, also referred to as formal planning, is a process of logically approaching the task of identifying the ends a business pursues and determining the means by which those ends can be reached. This is a process designed to translate strategic intentions into manageable agendas for action (Miller 1998:39).

According to Szulansky and Amin (2001:541), the problem to be solved and all the alternatives available for its solution are known in advance. The strategist’s main role is to collect information diligently, develop alternatives and choose the one that maximises value. Strategic planning instils discipline in strategy-making with its formal process that allows planners to consider issues consistently and systematically, using such tools as the planning cycle, capital budgeting procedures and integrated decision making at different levels.

A deliberate (rational) approach to strategy creation is where the entrepreneur sets out to define a strategic policy for the venture in which the future goals and competitive approach of the business are clearly defined and translated into specific objectives. This is then attained through an explicit process of implementation in which instructions as to objectives and budgets are passed down the business (Wickham 2001:166).

The rational approach to strategic planning will be discussed in detail, stage by stage. These stages are reflected in Figure: 3.1.

**Figure 3.1 A model for strategic planning**




*Kroon 2004:141*

Mintzberg *et al.* (2003:5) present the "5Ps" definition of strategy: plan, ploy, pattern, position and perspective. When strategy is presented as a position, this means locating the business in an external environment, while the perspective approach looks inside the business, inside the heads of the collective strategists. Strategy as a perspective is what personality is to the individual.

These five different aspects complement one another, adding an important element to the understanding of strategy.

According to Graetz (2002:456), the 5Ps rational planning approach views strategic decision-making as a step-by-step process, in which the strategic management process is always "deliberate" and the strategies are realised as intended. The reality is that the successful or realised strategies are often "emergent" and emerge from the preconceived plan.

### 3.3.3 The emergent approach

This is an approach to strategy creation in which the entrepreneur sets out to define a strategic policy for the venture in which future goals and competitive approaches of the business are not clearly defined and translated into specific objectives but are left more ambiguous. The entrepreneur concentrates on managing the venture's short-term capabilities and exploiting the opportunities that present themselves as the business moves forward (Wickham 2001:166). He adds that in practice the deliberate and emergent debate has developed into a broader perspective in which both perspectives are integrated, because it is difficult to separate the "formulators"from the "implementers".

Wickham also cites research by Jenkins and Johnson (1977), who found that many entrepreneurs adopt the emergent approach to strategy creation and are adept at using it.

According to Rowe (2001:83), the strategic leader understands the emergent strategy process as more important than the intended strategic planning process for business performance. This is because it assumes a shared vision of what a business is to be, so that the day-to-day decision or "emergent strategy" is consistent with this vision.

Porter (2003:99) notes the following about strategic planning;

- Strategies need to be deliberate, but they can also emerge, more or less
- Effective strategies develop in all kinds of ways
- Strategic reorientation happens in brief quantum leaps
- To manage a strategy is to craft thought and action, control and learning stability and change.

This means that strategy is both “planned” and “emergent” and that it is difficult to separate the two aspects. It also shows that it is impossible to separate thought and action and not to stabilise the effects of change while promoting change.
The stages reflected in Figure 3:1 will form the basis of the following discussion, starting with the situation audit.

**3.4 Situation audit**

The author claims that the starting point in any strategic planning process would be a situation audit. This simply becomes the point of departure to a destination. This is a “stop-start” stage that identifies whether planning is for a new business / business with no previous plans or if some plans are in existence and whether these have to be thrown away or built on. This is also the phase that points out whether the planning is taking place at a crisis point or a comfort point. At this point of review, the business is either on its toes, its feet or its knees. The present performance and strategy are evaluated in order to establish a strategic gap. It is the filling of this gap (new plan) that will take the business forward.

Strategy development rarely starts with a blank piece of paper. Often the aim is not to create a new strategy, but to examine the suitability of the existing strategy with the help of external scenarios. Strategy evaluation processes can discover problems and inconsistencies in the current strategies as well as new market opportunities. Both could lead to a revision or abandonment of the current strategic direction. This is why the traditional scenario planning process starts with an analysis of the impact of external scenarios on the business or business unit in question (Fink *et al.* 2005:363).

According to Thompson and Strickland (2001:116), the audit should ask how well the present strategy is working; what the business’s resource strengths and weaknesses are; current opportunities and threats; the business's competitive position and what the business's strategic position is.

As a result of the audit, a strategic intent is established.

### 3.4.1 Strategic intention

According to Hamel and Prahalad (2003:88) strategic intention is more than simply unfettered ambition. The concept encompasses an active management process that includes: focusing the business's attention on the essence of winning; motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocation. Businesses that set corporate challenges to create new competitive advantages quickly discover that engaging the entire business requires top management to do the following;

- Create a sense of urgency
- Develop competitor focus at every level through widespread use of competitive intelligence
- Provide employees with the skills they need to work effectively
- Give the business the time to digest one challenge before launching another
- Establish clear milestones and review mechanisms.

Hitt *et al.* (2003:22) note that a strategic intent is the leveraging of a business's resources, capabilities and core competencies to accomplish the business's goals in the competitive environment. This exists when all employees and levels of the business are committed to the pursuit of a specific and significant performance criterion. For employees, this should be understood to provide the only goal worthy of personal effort and commitment: to unseat the best or remain the best in the world.

According to Grattan (2004:66) the process of collective strategy making cannot truly begin until an explicit, collective aim has been achieved. The leaders' approach should be through questioning, which enables learning from others and exposes muddled thinking.

In addition, when the situation is at its most unclear and uncertain, understanding and consensus have to be allowed within the dominant coalition, and this process is best led by a facilitator, rather than an authoritarian. Positioning is ineffective without adequate resources, but resources do not, of themselves, produce strategic advantage.

Entrepreneurial actions and the corporate entrepreneurship strategy result from intentional decisions. Experience shows that forming an entrepreneurial vision, using new venture teams and relying on a compensation system that encourages and supports creative and innovative behaviours are products of careful and deliberate planning (Kuratko, Ireland & Hornsby 2001:68).

It is this background that forms the foundation of the planning process. The background establishes where the business is. The next step would be to establish the business's "new" identity and its new strategic direction.

## 3.5 Mission and vision statement

### 3.5.1 Strategic mission

Every business, irrespective of industry or nature of products or services, exists to meet certain needs. It has to continue to meet and satisfy these needs for its continued existence. Thompson and Strickland (2001:32) note that the starting point in direction setting is a clear concept of "What is our business, what will it be and what should it be?" Additional and related questions would be, "Who are we?", "Who do we want to be?" and "Where are we headed?"

According to Thompson and Strickland (2001:36), the answers to the above questions will be in terms of the following:

- The products and services to be provided
- The technology or methods to be used
- The broad customer groups to be served
- Specific products / services and specific segments to be served
- The customer needs and wants to be met

- The scope of activities in an industry, either to specialise a niche or diversify into related or unrelated business, anywhere where the money is.

These stop-start points are long term. The terms should not be cast in stone, but be determined by environmental conditions.

Strategic mission flows from strategic intent. A strategic mission is the statement of a business's unique purpose and the scope of its operations in product and market terms. It provides a description of the products a business intends to produce (needs), the markets it will serve (customers), using its core competencies (technologies). An effective strategic mission establishes a business's individuality and is inspiring and relevant to all stakeholders. Together strategic intent and strategic mission yield the insights required to formulate and implement strategies (Hitt *et al.* 2003:23).

Lissack and Roos (2001:55) posit that a mission statement provides a current focus and defines what a business does to accomplish its vision and keep it focused on its key customers, products and services. It also helps when evaluating new business opportunities to make sure they fit in with the scope of the business's mission.

A business's purpose is the reason that it exists and why it will continue to exist. A business serves a need in society and will continue to exist as long as it continues to serve that need (Reading 2002:17).

#### 3.5.1.1 Business definition

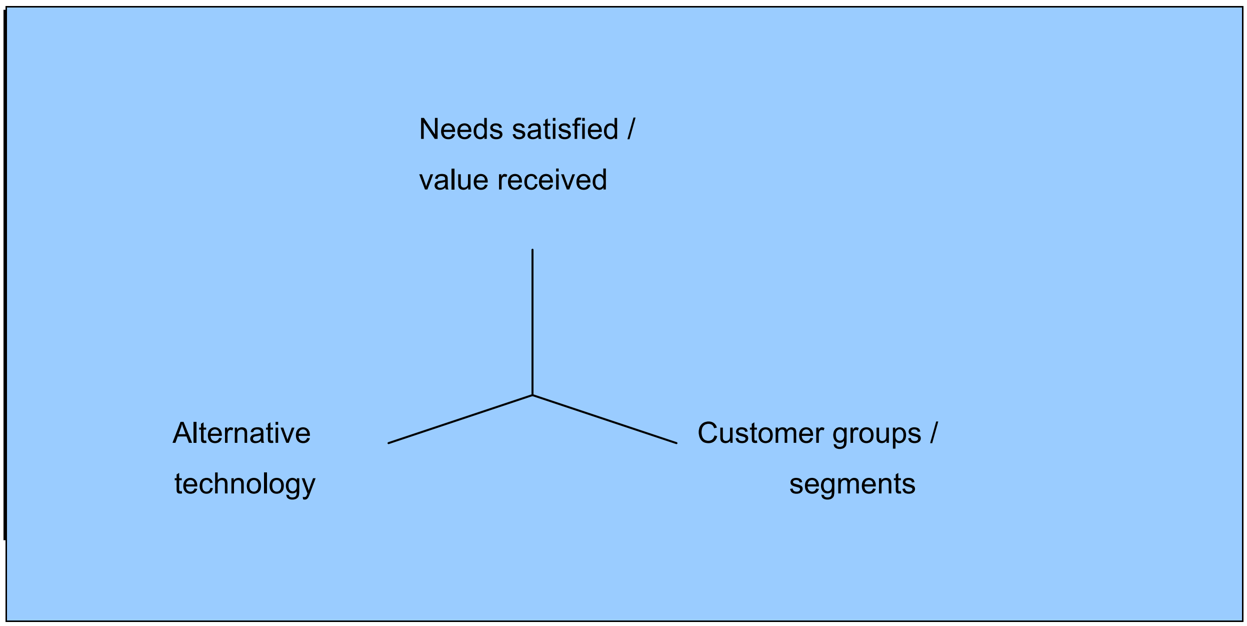
Drucker (1974:79) points out that a business is not defined by the business's name, statutes, or articles of incorporation but by the want the customer satisfies when he buys the product or service. To satisfy the customer is the purpose of every business.

The primary work of defining "what is our business" by Abell (1980:69) outlines three dimensions, (1) the needs satisfied / value received (the core of what is being satisfied), (2) customer groups (who has the particular need) and (3) technologies (the methods, "the how to" satisfy the needs). Markides (2001:460) adds that with strategic choices, a business has to ask the following questions:

- Who are the business' targeted customers?
- What products and services should the business offer?
- How should the business efficiently conduct activities?

This is illustrated in the three-axis diagram, Figure 3.2.

**Figure 3.2 Business definition**




*Abell 1980:30*

The three-axis diagram is an encompassing definition of a business, in that it justifies the reason why a business exists. The approach has both an internal and external environmental focus. The internal aspect includes technology / methods and products / services. The external aspects are the needs and values, and the market groups and segments. The three facets are a key to any strategic mission.

The question of "What will our business be?" in essence answers the question "Where do we go from here?" (Thompson & Strickland 2001:7). This definition should not be viewed too narrowly or it will constrict the development of the business into other business areas (Strydom, Jooste, Cant 2000:477).

The future is unknown and uncertain. Uncertainty brings risk. Strategic planning attempts to predict the unknown. In attempting to determine direction, the process of trying to predict begins.

Mullane (2002:448), quoting a study of 500 American businesses by Rigby (1994) says that managers were satisfied mission statement users. The satisfaction rested on the mission statement's efficacy at creating business integration, getting everyone focused on common objectives and working together to pull in the same direction.

#### 3.5.1.2 Mission content and positioning

The mission statement of a business is the unique purpose that sets it apart from other businesses of its type and describes the business's products, its market and its technological area of emphasis in a way that reflects the values and priorities of the decision makers (Pearce & Robson 2000:12).

Wickham (2001:163) points out that strategy content relates to three things; the financial product range, the customer scope it serves, and the competitive advantage it seeks in the market place. The strategy content which the business aspires to achieve must be consistent with the entrepreneur's vision and mission defined for the venture.

The essence of strategy is selecting one position that a business can claim as its own. A strategic position is simply the sum of a business's answers to the three questions raised above. Strategy entails choosing, and a business will be successful if it chooses a distinctive strategic position that differs from those of its competitors. The most common source of strategic failure is the inability to make clear and explicit choices of these three dimensions (Markides 2001:458).

#### 3.5.1.3 Strategic mission and culture

Creating and using a mission statement can foster a shared value system, a focus on common objectives, teamwork, behavioural guidelines and an emotional commitment to the business. Proper processes must be used to develop a useful mission statement, specifically one that the top management must be committed to and value.

A business's members must be involved in producing a mission that will evoke positive emotional response (Mullane 2002:449). The evoking of a positive emotional response becomes an inherent part of the business's technology.

### 3.5.2 Vision

#### 3.5.2.1 Vision and strategy

Vision and mission are widely accepted as key variables in the formation of strategic and operational plans and construction of cohesive business structures (French, Kelly & Harrison 2004:765).

The vision is the starting point for giving shape and direction to the venture. Some sense of vision must exist before strategy development and planning can start for it to lead the business in the right direction. The vision must be properly examined, refined and evaluated, according to (Wickham 2004:269).

The vision is not a mission. Unlike the mission, which tends to justify the reason for existence, the vision is a larger, never-quite-to-be-achieved super ordinate goal. It is the long-term dream of a desired outcome which the business wishes to achieve. Since the desired end state of the business is embodied in the vision, all the strategic actions of the members should be directed towards eventually achieving the vision. It should be communicated to both the internal and external publics (Van Veirejen 1994:52).

In addition, Van Veirejen (1994:52) points out that a vision should be like a dream, that dream / vision should be "real" and be largely "achievable", but still remain a dream for it to drive the business and should provide direction for further planning and continuous re-alignment. If the dream comes to an end, there will not be anything to drive the business forward. The dream should never be realised though it can be reshaped and reconfigured.
Research by Collins and Porras (1998) show that businesses with a strong sense of purpose or vision outperformed the general stock market. In addition, a vision that is shared throughout the business fosters commitment rather than compliance and creates a sense of commonality that permeates the whole business. It inspires people's imagination and

provides a focus that allows individuals to contribute in ways that make the most of their expertise and talents. At senior level, a common vision helps to provide meaning and gives a sense of direction in the decision-making process (Bonn 2005:339).

As noted by Lissack and Roos (2001:56), missions are cast in visions: first to see a future that is virtually inevitable, and then to adopt a mission to participate in that future. A meaningful vision is sensible in employees eyes if it is easily understood, suggests a higher calling and creates a cultural glue that binds people together in ways that help them share knowledge competitively (Kuratko & Welsh 2004:368).

#### 3.5.2.2 Vision and performance

High-performance businesses have a simple, compelling vision of the future, one that resonates with employees, is easy for everyone to understand, and is a picture of what the business can become that goes beyond just making money, that is, an emotionally packed vision. Everyone believes in the vision of the business and that it will bring certain success. People believe that they are involved in something bigger than simply their own interests and have a strong sense of identity with the business and act as if they were owners (Osborne & Cowen 2002:227).

The larger number of businesses citing vision / mission statements and business objectives as part of their strategic plans might be viewed as indicative of an emergent or learning approach to strategy allowing the flexibility of responding to rapidly changing conditions. The greater use of these strategic planning tools for the analysis of the business environment as well as for the internal analysis facilitates improved business learning, enhances strategic thinking and helps reduce failure among businesses (Stonehouse & Pemberton 2002:853).

Kuratko and Welsh (2004:355) maintain that corporate entrepreneurship results from the creative talents of people in the business and so the people need to know and understand the vision. Developing this shared vision requires identification of specific objectives for corporate entrepreneurial strategies.

### 3.5.3 Mission, vision and strategic intent

A mission is a central leadership task, a vitally important way of gaining commitment to, loyalty for, and consensus around the nature and purpose of the existing business. A vision is usually taken to mean a picture of a state for a business, a mental image of a possible and desirable future that is realistic, credible and attractive. Mission differs in that it refers not to the future but to the present, a way of behaving, the way a business is managed today and its purpose or reason of being. Strategic intent is a desired leadership position; it is also a desired future state, a goal to do with winning (Stacey 2003:76).

According to Wickham (2001:175) vision, mission, and strategies are intertwined aspects of the entrepreneurial perspective, each of which represents a different aspect of the world the entrepreneur seeks to create and the means with which he or she will create it. The vision is reconciled with actual possibilities and capabilities and it is articulated so that it can be communicated to others by defining the actions necessary to progress the venture.

Bonn (2001:63) supports the view that visions are pictures or images people carry in their heads and hearts and that these should represent fundamental intrinsic values and a sense of purpose that matters deeply to the people in the business.

Nonaka and Takeuchi (1995:74) view strategic intent as knowledge creation where the essence of strategy lies in developing the business capability to acquire, create accumulate and exploit knowledge. The most critical element of corporate strategy is to conceptualise it into a management system for implementation.

## 3.6 Environmental analysis

A business's environment can be split broadly into two parts, the external and the internal (micro) environment. The external environment can further be divided into market and macro-environments. The micro-environment, which is composed of factors such as consumers, suppliers, threats, opportunities and competitors, has a direct effect on the business. Factors which make up the macro environment include political, economic, social and technological factors. These normally have an indirect effect on the business. External factors that have a direct effect on the business are market factors, which like the micro environment include customers, competitors, suppliers, threats and opportunities (Cronje, Du Toit, Mo, Van Reenen & Motlala 2000:46).

### 3.6.1 External environment

In strategic planning, there is a need to match the internal capacities of the business with its environment. There is a need for a continuous environmental scanning in order to maintain a fit that ensures the survival of the business. Though at strategic planning level the interface has more to do with the macro-environment, it is the market environment that has a direct impact on the business. It is for this reason that the market environment (industry analysis) is discussed next.

#### 3.6.1.1 Industry analysis

In industry analysis, the purpose is to identify opportunities and threats in the industry in which a business operates. The more opportunities there are in an industry the more attractive the industry.

The assessment of the industry and competitive environment has many facets. These include analysing, predicting or attempting to change the environment, deciding how best to adapt to it, or choosing to get in or out of some products / customer groups, customer needs and/or technologies.

This means looking at all industry aspects such as size, trends, direction, industry economics, competitive structure, competitive forces, competitor strategies, technologies, government policies and regulations, buyer demographics and profiles, competition and general economic trends and conditions (Thompson & Strickland 2001:75). All these factors will impinge on the strategic plan.

#### 3.6.1.2 Porter’s five forces framework

A number of approaches are used in carrying out an industry analysis. Porters’ five forces framework is one such common method. It is used to determine the underlying structural changes of an industry. Adapting timeously to these structural changes is a key aspect of strategic planning.

According to Porter (2003:94), the state of competition in an industry depends on five basic forces; suppliers, substitutes, new entrants, buyers, and industry competitors.

There are six major barriers to entry into an industry, namely;

- economies of scale (large scale or cost advantage)
- product differentiation (need to overcome customer loyalty)
- large capital requirements
- cost disadvantages independent of size (learning and experience curves)
- access to distribution channels
- government policies (regulations)

The barriers to entry have an effect on the competitive climate in an industry. This climate is also dependent on the power of supplier and buyer groups. The conditions in which buyers and suppliers are powerful are summarised below. A supplier group is powerful if:

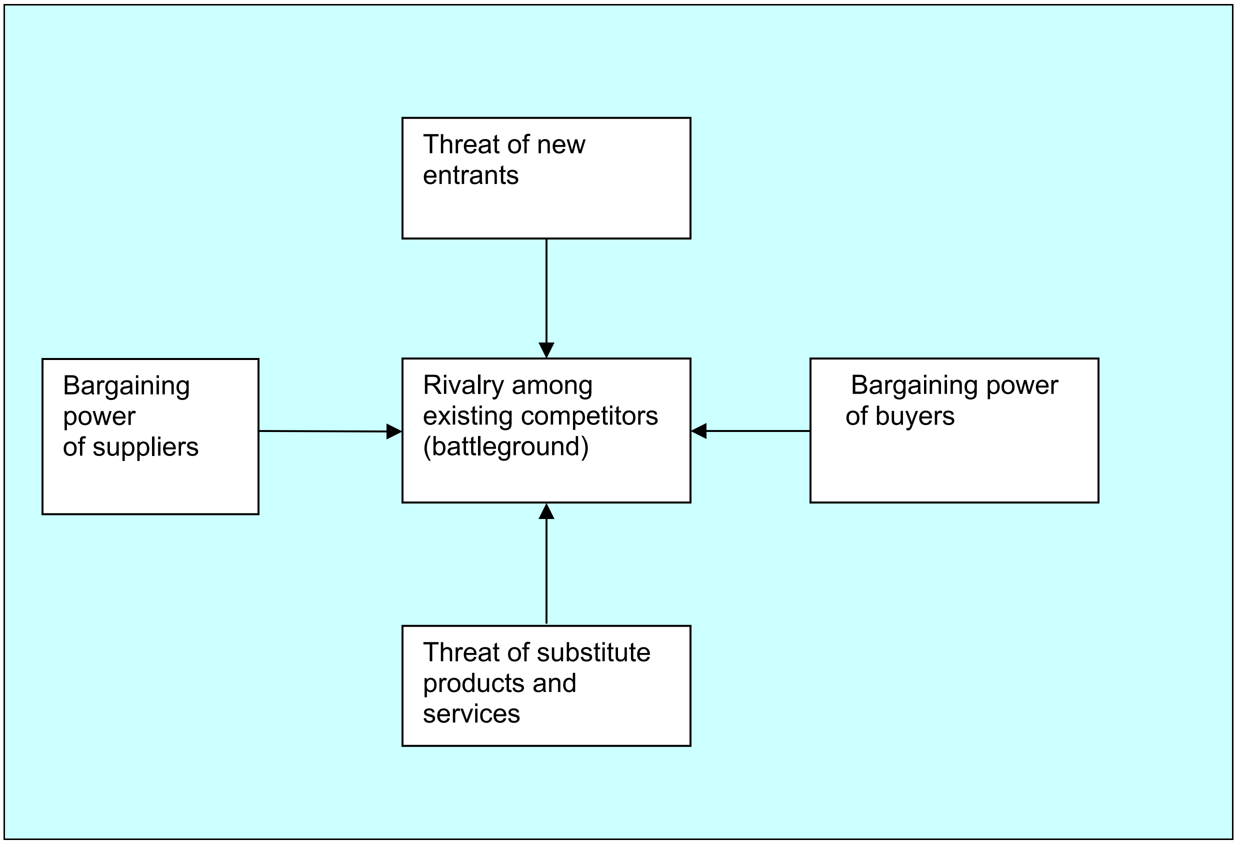
- it is dominated by a few businesses and is more concentrated than the buyer group
- its product is unique or differentiated
- it poses a credible threat of forward integration
- Industry is not an important customer of the supplier group

A buyer group is powerful if:

- It is concentrated or purchases in large volumes
- products purchased from industry are standard or undifferentiated
- products purchased form a component of its product and represent a significant fraction of its cost
- It earns low profits
- the industry's product is unimportant to quality of buyers' product, does not save the buyer money and
- the buyer poses a credible threat of backward integration to make the industry product.

Porter's framework is diagrammatically shown as Figure: 3.3:

**Figure 3.3 Porters' five forces framework**




*Pearce and Robinson 2000:86*

According to this model, the greater the threat from new entrants into the industry or the greater the threats of substitute products, the more the rivalry on the competitive market (battleground). Increases in the bargaining power of buyers or suppliers increases the threat on the competitive market or competitive rivalry.

Porter's factors should be analysed, well understood and taken into account in the strategic planning process. The entry of new competitors is often a response to high profits earned by established businesses and/or rapid growth in an industry. The difficulties that new competitors face depend mainly on the barriers to entry and the reactions of established competitors. Examples of such barriers are economies of scale and large capital requirements.

The bargaining power of suppliers increases when they (suppliers) can increase or protect market share, raise prices, and eliminate certain features of their goods or services with little fear of losing customers. The situations that make suppliers powerful tend to be the same as those that make customers powerful. This is when they can play off one business against another in order to force down prices, obtain higher quality or buy more goods or services for the same price. The threat of substitute goods and services depends on the ability and willingness of customers to change their buying habits. Substitutes limit the price that businesses in a particular industry can charge for their products without risking loss in sales (Pearce & Robinson 2000:90).

The rivalry among existing businesses in an industry varies with top management's view of threats or opportunities, the strategy the business pursues, and competitors' reactions to those strategies. The extent of rivalry depends on the movement in any of the factors (Hellriegel *et al.* 2004:79).

The factors of Porter's framework are more market environment-related and therefore at the business level of planning, they are of strategic importance. This is because they form the basis on which strategies are formulated. Porter's framework should be read in conjunction with the summary of industry and competitive analysis in Figure: 3.4.

**3.6.1.3 Industry and competitive analysis**

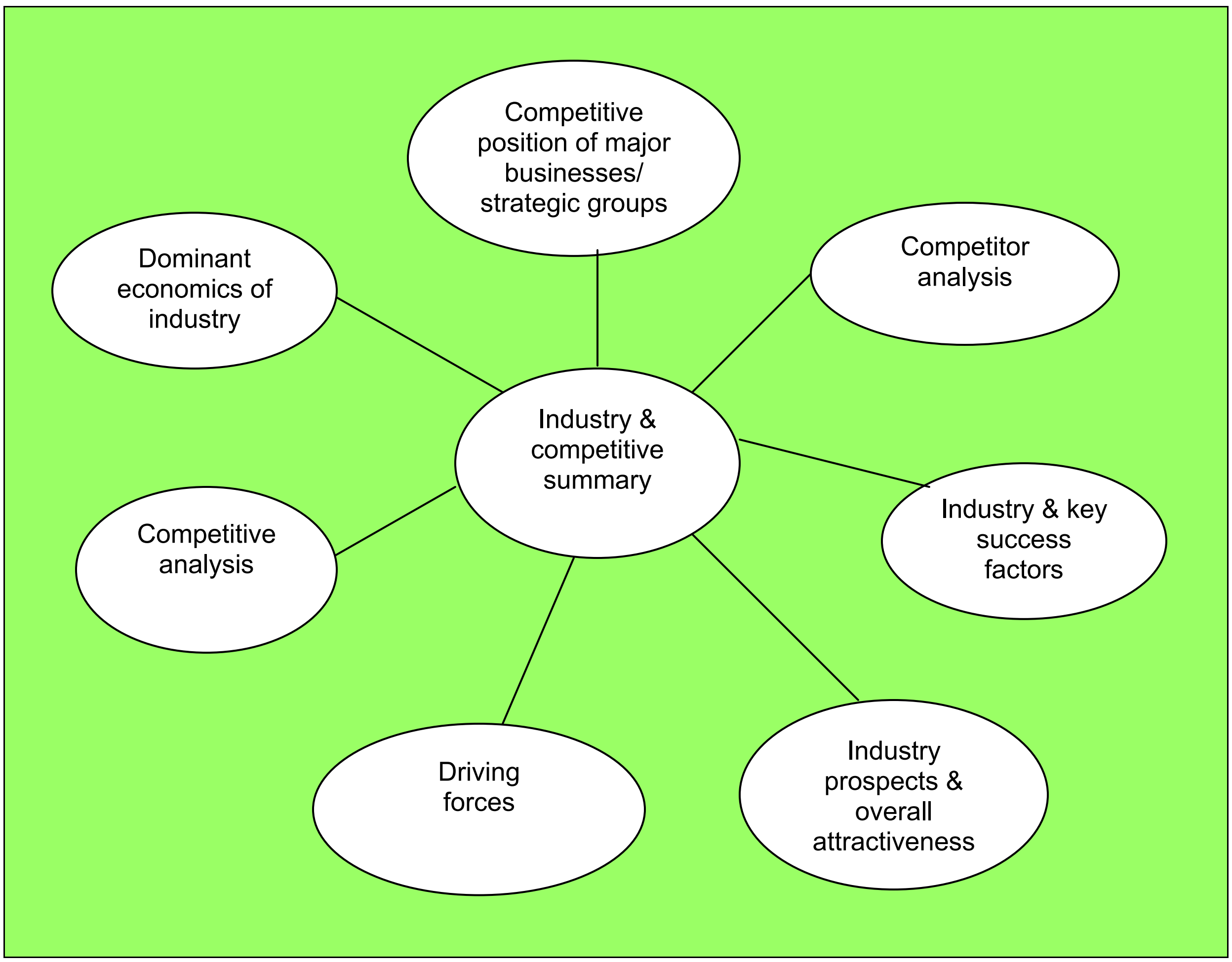
Thinking strategically about a business's external situation involves probing for answers to the factors noted in Figure:3.4. Answers to the question of what the industry's dominant economic characteristics is will be found in factors such as market size and growth rate, geographical scope, number and size of buyers and sellers, pace of technological change and innovation, scale economics, experience curve effects and capital requirements.

Answers about competitive analysis will be found in factors such as rivalry among competing sellers, weapons that rivalries are relying upon in their efforts to out-compete one another, and factors such as threats of potential entry, competition from substitutes, power of suppliers and power of customers. One will have to ascertain whether the competitive position is strong, moderate or weak, and why.

Driving forces are those factors that are forcing the industry's competitive structure and business environment to change. This could be a result of a host of factors ranging from political, social and institutional to technological, according to Thompson and Strickland (2001:110).

In competitive analysis, attempts are made to try to predict the strategic approaches or moves of key competitors. This will enable one to know who to watch and why.

**Figure 3.4 Summary of industry and competitive analysis**




*Thompson and Strickland 2001:110*

**3.6.1.4 Key success factors**

An industry's key success factors (KSFs) are those particular strategy elements, product-competitive attributes and business outcomes that spell the difference between profit and loss, or success and failure. Key success factors by their nature are so important that all businesses in the industry must pay attention to them because they are prerequisites for industry success. They are the rules that shape a business's financial or competitive success (Thompson & Strickland 2001:110).

The author contends that, in ascertaining the industry's prospects and overall attractiveness, one looks at the factors that contribute to that attractiveness or unattractiveness. There may be special industry issues or problems to take into account. These "issues" are the "rules and regulations", written or unwritten, or the "politics" that a business needs to understand in order to survive or succeed. In short, all will point to whether industry profitability is favourable or not.

### 3.6.2 Internal environmental analysis

A business's internal environment depicts who the business is, what it represents, its resources and its competencies. These aspects will be discussed next.

#### 3.6.2.1 Business analysis

Business analysis starts from questioning, "Where are we now?", "Where do we want to be?" It includes the questions, "Who are we?", and "Who do we want to be?" These questions are asked at the "cut off" point, which was earlier referred to as the stop-start points, or as gap analysis.

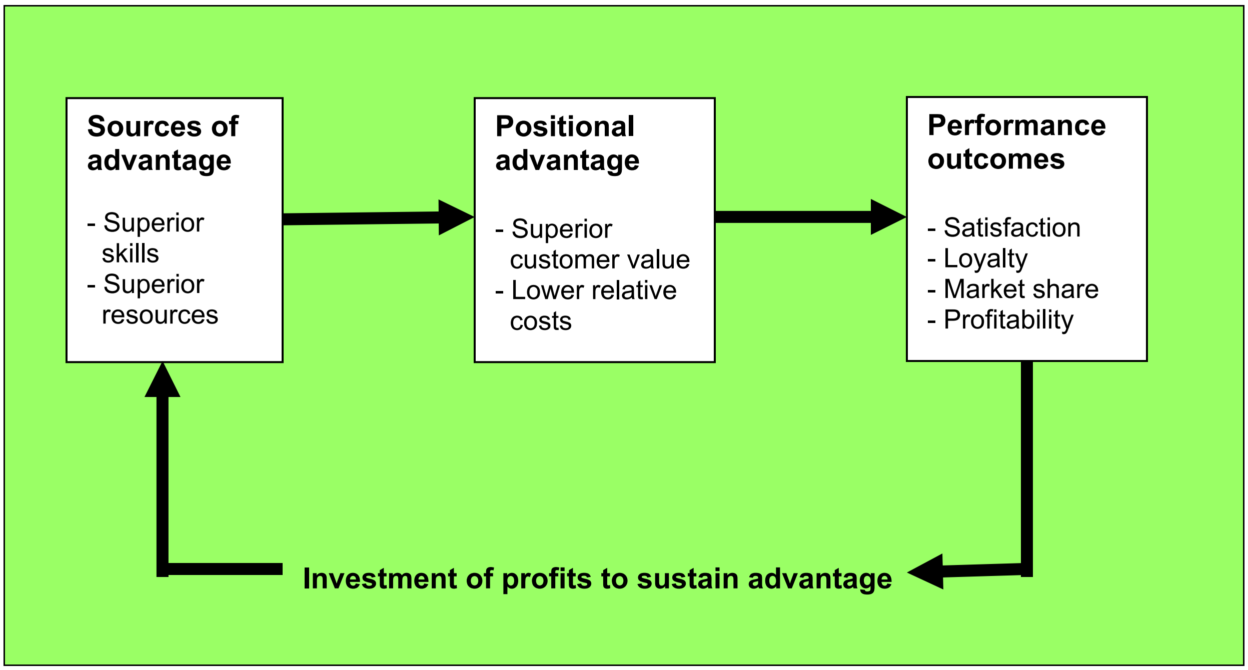
This entails analysis of the business's skills competencies and resources. No matter how appealing or abundant a business's opportunities are, in planning one should always validate each "opportunity" by analysing whether the business has the means to capitalise on it, given the opposing forces of competition and business circumstance. Opportunity without resources and competence to capture it is an illusion. A business's potential strengths may enable it to seize some opportunities and its weaknesses may make the pursuit of others extremely risky or disqualify it entirely (Thompson & Strickland 2001:120).

**3.6.2.2 Distinctive competency**

A distinctive competency is a distinct resource that differentiates a business from its competitors (Rigwema & Venter 2004:180).

Some elements of competitive advantage are shown in Figure: 3.5.

**Figure 3.5 Elements of competitive advantage**.




*Day and Wensley 1988:3*

A superior or rare resource can be in the form of an entrepreneur (Rwigema & Venter 2004:180). If the superior skills are entrepreneurial this puts a business apart from its competitors because it will be possessing intangible skills which are difficult to copy and therefore allow for a sustained advantage that results in high profits for a prolonged time.

In strategic planning, the business should consider what distinctive skills and capabilities it has that can give it a competitive advantage or give it a unique capability to pursue an attractive opportunity. Distinctive competencies include quality products, creative marketing approaches, technological innovation, new product development, customer support and production efficiency. Distinctive competency should be viewed relative to competitors and successful business strategies are usually built around a competitive approach that will set a business apart from its rivals and give it a strategic advantage (Thompson & Strickland 2001:122).

Resources are normally categorised as physical, financial, human and technological. A business should always analyse these for it to be able to know its capability. Its capacity measures its capability. Strategies should be based on what the business can do (Rwigema & Venter 2004:186).

#### 3.6.2.3 The resource-based view

The resources-based view (RBV) groups the business's resources into tangible, intangible and business capabilities. Unlike the tangible and intangible assets, business capabilities are not specific "input" assets, but are the skills, the ability and ways of combining assets, people and processes that a business uses to transform inputs into outputs (Pearce & Robinson 2000:194).

The RBV views a business as a blend of resources that enable certain capabilities, options and accomplishments. These internal capabilities are what enable a business to exploit external opportunities. Competitiveness is a function of the exploitation and leveraging of these internal resources. Strategies are then designed to capitalise on core competencies, and distinctive assets form a basis for creating a sustainable competitive advantage. To prevent imitation, attention is focused on the intellectual capital, business-specific practices, relationships with customers and other intangible ways of working together (Stacey 2003:73). Pearce and Robinson (2000) and Rwigema and Venter (2004:184) provide facts and questions (given below) which enable one to assess whether a resource is valuable or not:

- ***Competitive superiority:*** Does the resource help fulfil customers' needs better than those of the business's competitors? Only resources that contribute to competitive superiority are valuable.
- ***Resource scarcity:*** Is the resource in short supply? Possession of a scarce resource can become a business's distinctive competence.

- ***Inimitability:*** Is the resource easily copied or acquired? A resource that competitors can easily copy can generate only temporary value. Forms of inimitability would include:
  - Physically unique resources, which are virtually impossible to imitate, such as mineral rights and patents.
  - Path-dependant resources are difficult to follow because of the path the other business has to follow to create the resource.
  - Casual ambiguity is a third-way resource which needs competitors to understand exactly how the resource was created.
  - Economic deterrence, which involves large capital investments.
- ***Appropriability:*** Who actually gets the profit created by a resource? Bottom-line resources that one develops and controls are more valuable than resources that can easily be bought or sold.
- ***Durability:*** How rapidly will the resource depreciate? The slower a resource depreciates the more valuable it is.
- ***Substitutability:*** Are other alternatives available? Resources easily substitutable are less valuable.

De Toni and Tonchia (2003:953) state that core competencies are the business's roots which supply food, support and stability. For a factor to be a core competency, it should:

- permit potential access to a high number of markets
- be seen by the end customer as the principal source of value added to the product and
- be difficult to imitate by the competitors.

As a result of the above, a business is able to assess its strengths and weaknesses. Christensen (2004:306) notes the reason for focusing on internal resources in relation to corporate entrepreneurship as that businesses possess a bundle of unexploited resources, mainly intangible knowledge resources especially held by employees that cannot be easily articulated or imitated by others.

To achieve a sustainable competitive advantage every business should utilise its dominant logic (Bettis & Prahalad 1995) that captures the prevailing mindset and drives the overall focus of the systems and routines of the business. This filters and interprets information from its environment, attenuates complexity and guides its strategies, systems and behaviour (Morris & Kuratko 2001:152).

**3.6.3 The SWOT analysis (strengths / weaknesses / opportunities / threats)**

The business analysis (internal / micro environment) culminates in identifying the business's weaknesses and strengths.

Opportunities and threats in the external environment (macro-environment) are also identified. The whole point of carrying out an environmental analysis is for the business to be able to come up with appropriate strategies.
As pointed out by Stacey (2003:60), strategic logic requires that future actions to be taken should match strengths with opportunities, ward off threats and seek to overcome weaknesses.

Good strategies are based on the business's strengths (capabilities and competencies) and take advantage of the opportunities in the external market. Crafting strategy is partly an exercise in entrepreneurship which involves actively searching for opportunities to do new things in new ways. The faster the environment is changing, the more critical it becomes for its managers to be good entrepreneurs in making both predictions and timely adjustments (Thompson & Strickland 2001:13).

The SWOT analysis is a well-known process which, if used correctly, is a powerful information and analytical tool. However, it is more often used as a means by itself and as an end result of all the processes preceding it. When it is used as an end in itself its whole essence is lost and work experience and observations have shown that this is normally the case. The SWOT analysis is a basis of strategy formulation, a basis of action. Strategic planning is action planning. The SWOT analysis should further be developed into a *Quad chart* as it is a strategy formulation tool (Argenti 1989:99). This is reflected in Figure 3.6.

**3.7. Developing strategies**

A strategy is a pattern or plan that integrates major objectives, plans, policies and action sequences into a cohesive whole (Quinn 1980:84).

### 3.7.1 The traditional approach

The way the Quad works is that opportunities and threats are identified, evaluated, distilled, ranked and the most important ones selected. This is done in most cases through group consensus from brainstorming sessions. The same selection process is taken with regard to strengths and weaknesses. When looking at the four Quad factors, the definition of the particular industry and the relevancy to it should always be borne in mind.

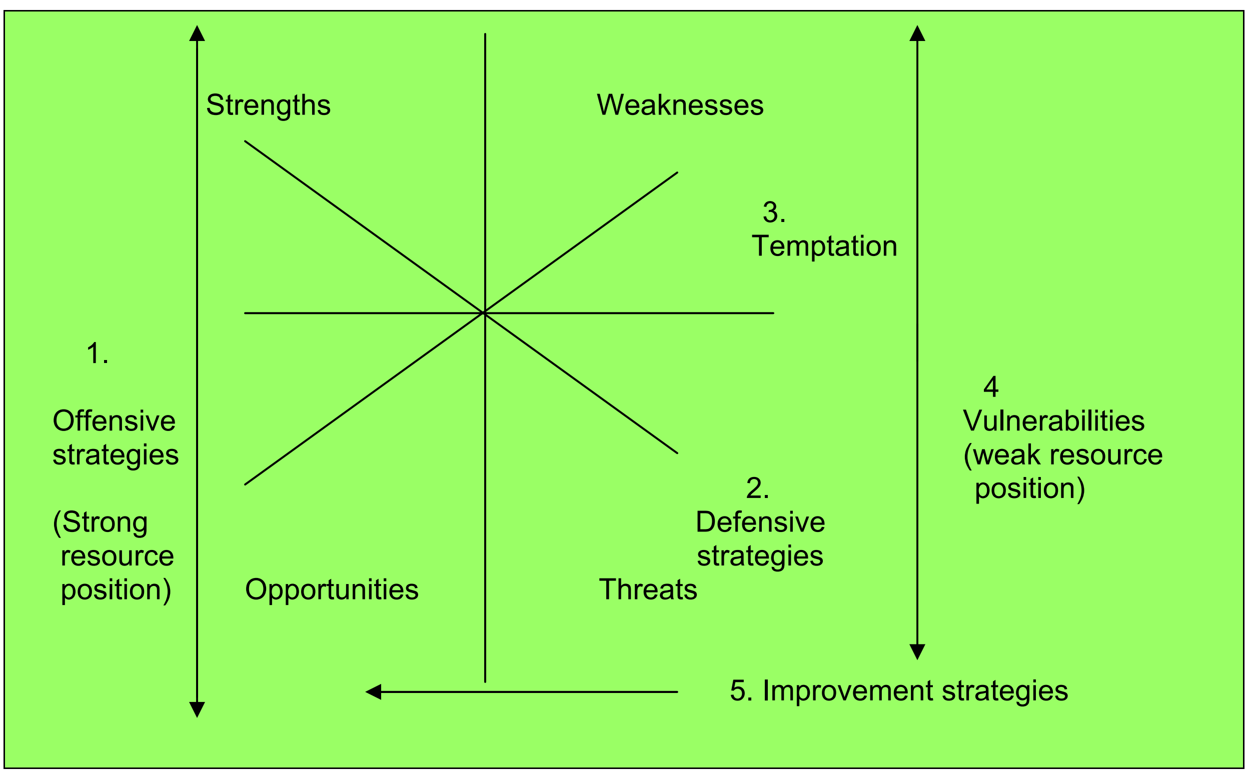
Traditionally strategies were developed by:

- capitalising on opportunities and avoiding threats
- building on strengths and
- improving on weaknesses

(Thompson 2001:393; Van Veijeren 1994:72;McNeilly 1996:21).

These concepts are reflected in the Quad diagram in Figure: 3.6.

**Figure 3.6. The Quad chart and core strategies**




*Van Veijeren 1994:7*

The strategic options available using the Quad chart are as follows:

- ***Offensive strategies*** (opportunities and strong) should combine the business's strongest competencies with the best opportunities available. Should adopt attack strategies.
- ***Defensive strategies*** (threats and strong). If left unattended certain threats may become significant. Resources applied to defensive strategies should be enough to ensure that threats do not become significant in the long term. The normal tendency is to use strengths for offensive strategies.
- ***Temptations*** (opportunities but weak); trying to exploit an opportunity but without the capacity. These should be best avoided.
- ***Vulnerabilities*** (threats and weaknesses). A vulnerable position. Should attempt to improve the weakness then deal with the threat as a defensive strategy.
- ***Improvement Strategies*** (weaknesses and threats). There is need to improve weaknesses to strengths. It may take time to change weakness to strengths.

The left side of the Quad chart in Figure 3.6 represents the strong or positive resources; the right side, the weak or negative factors. Movements to the left of any of the factors that are listed on the right represent improvement to the system. The movement of a factor from left to right represents deterioration (Labuschagne 2001:54).

As rightly stated by Sun Tzu, "invincibility lies in the defence, the possibility of victory in the attack. One defends when his strength is inadequate. He attacks when it is abundant" (McNeilly 1996:36).

### 3.7.2 Strategy-making modes

Brown (2005:213) identifies five strategy-making modes, namely;

- The ***command mode,*** where a strong individual leader is supported by a few top managers
- The ***symbolic mode,*** where the leader creates a clear and compelling vision which gives meaning to the business's activities and provides a sense of identity (prospector or analyser strategy)

- The ***rational mode*** indicates the existence of a comprehensive strategic planning system (defender strategic posture likely)
- *The* ***transactive mode*** is based on interaction and learning rather than execution of a predetermined plan (analyser strategy)
- The ***generative mode,*** in which new ideas emerge upwardly from entrepreneurship. Top managers encourage experimentation and new innovations are germinated by separating innovative activity from the day-to-day work of the operating business. Strategy is continuously adjusted to reflect a pattern of high potential innovations. This mode best suits turbulent environments and prospector strategies.

### 3.7.3 Grand strategies

Grand strategies fall into three general categories, namely growth, stability and retrenchment. ***Growth*** can be promoted internally by investing in expansion or externally by acquisitions or diversification. ***Stability*** or pause strategy maintains current strategies or grows slowly in a controlled fashion. ***Retrenchment*** implies liquidating some units / assets, divestiture or downsizing (Daft 2003:241).

This approach of grand strategies does not differ from the strategies discussed in the Quad or traditional approach. Growth strategies can be equated with offensive strategies, retrenchment with defensive, while stability is represented by improvement / hold strategies.

Pearce and Robinson (2000:241) define grand strategies as comprehensive general approaches that guide the business's major actions and provide the basic direction for strategic actions. The authors provide the following as examples of such strategies: concentrated growth, market development, product development, innovation, integration, diversification turn-around, divesture liquidation / bankruptcy, joint ventures and strategic alliances.

These could still be grouped under the three basic grand approaches. From the Quad chart, a possible suitable strategy is then adopted. This can be offensive, defensive or improvement.

### 3.7.4 Other strategic options

There are a number of other strategic methods, most of which can be related to the ones already discussed. Some of these are as follows,

1. The Boston Consulting Group (BCG) matrix.
2. The product life cycle (PLC).
3. Porter's three generic strategies (focus, differentiation, cost leadership).
4. Ansoff's strategic matrix.

A corporate-level (strategy) plan pertains to the business as a whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new business, additions or divestments of business units, product lines and joint ventures with other corporations (Daft 2003:245).

The BCG "portfolio" matrix and the product life-cycle approach relate more to business-level planning. The BCG deals with the strategic options and management of a portfolio of strategic business units (SBU) or products portfolio. The product life cycle relates products, technologies or industries to developments relative to time. Ansoff's matrix relates products and markets to past and currency. These approaches are reviewed further.

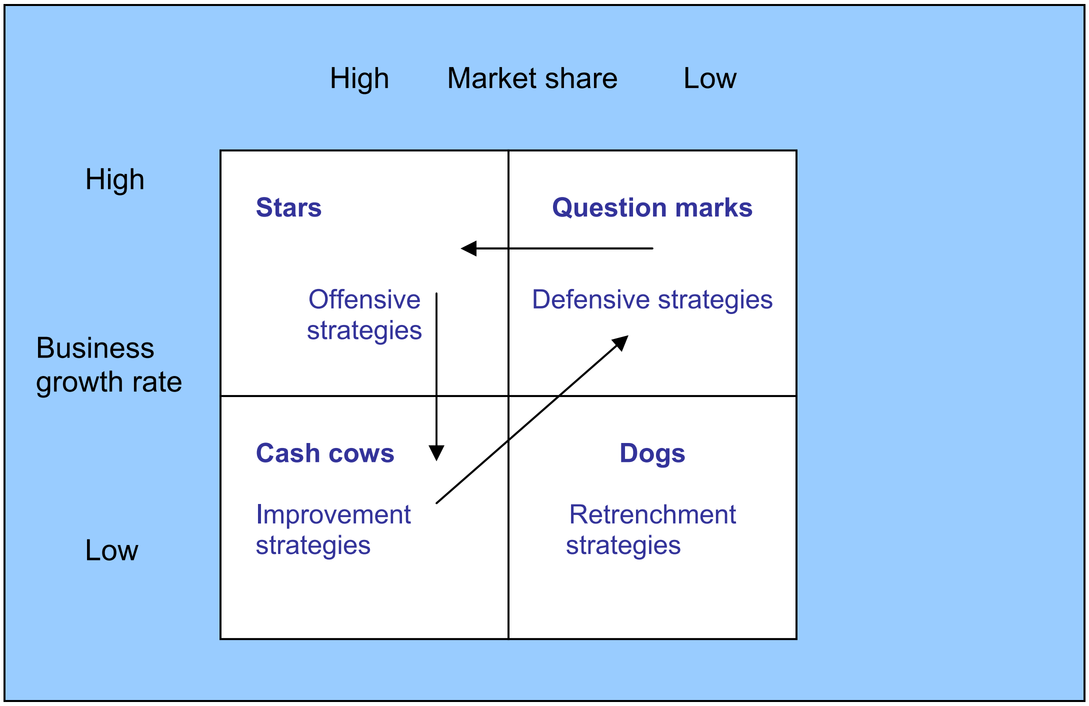
#### 3.7.4.1 The Boston Consulting Group matrix (BCG)

Taking cognisance of the fact that business, functional and operational level strategies feed in or feed from the corporate strategies, a combination of the grand (core) strategies and BCG matrix is reflected in Figure: 3.7 and the PLC in Figure: 3.8., the combinations are the author's own developments.

Fink *et al.* (2005:364) note that traditionally businesses obtain sustained competitive advantage by implementing strategies that exploit their internal strengths through responding to environmental opportunities, while neutralising threats and avoiding internal weaknesses.

Fink *et al.* (2005) add that strategy is about building long-term defensive positions or sustainable competitive advantages and that these strategies must be based on continuous adaptation and improvement and be "constantly shifting and evolving in ways that surprise and confound competition".

**Figure 3.7 The BCG Matrix (and core strategies)**




*Henderson 1984:3*

Based on the understanding presented by Fink *et al.* (2005:364) and analysis by Thompson (2001:417), the following deductions can be made:

- Stars should be grown/ expanded.
- Question marks are risky. Though there are opportunities to build market share and become a star, it may be best to defend what one already has by applying available resources. Resources may be wasted by trying to pursue opportunities which may be elusive.
- Cash cows should be maintained (stability strategy). The cash cows should be milked to finance question marks and stars. If cash cows face problems they should be improved and recycled (improvement strategy) to question marks and should not be left to fall and become dogs.
- Dogs should be divested / harvested.

#### 3.7.4.1.1 Product portfolio (BCG) and product life-cycle (plc)

Stacey (2003:59) notes that rapid rates of growth indicate the entrepreneurial and growth stages of evolution. Different combinations of market share and growth rates yield the following possibilities;

- Question marks are products, market segments or business units that are growing rapidly and the business has a relatively low share. The product life-cycle indicates that question marks will require heavy investment, are unlikely to yield profit for some time and may face strong competitors.
- Stars are products, market segments or business units that are growing rapidly and have a business or high relative share. Product life-cycle indicates that these products will require heavy investment but must produce high levels of profit. The strategy indicated is one of concentrating effort and money on the stars.
- Cash cows are products in mature, slow growth markets in which a business has a relatively high market share. The prescription is to cut down on investment in the products and harvest the cash.
- Dogs are products in slowly growing markets in which the business has a low share. Both cash flow and profit could be negative. It is in a weak position and the business should withdraw.

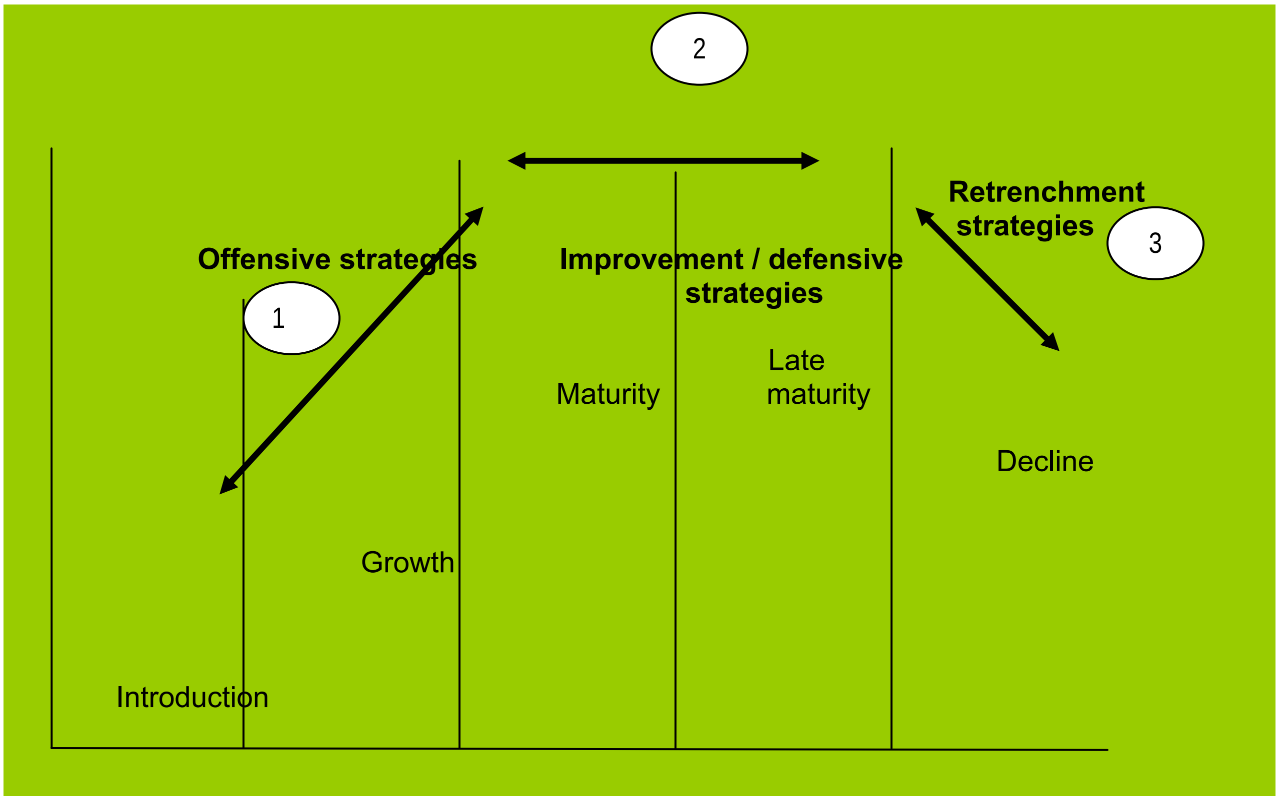
The feasible options will be those that have some balance between the different possibilities.

The same strategy principles are applicable in the product life cycle (PLC) approach as reflected in Figure 3.8 and next discussion.

#### 3.7.4.2 The product life-cycle (plc) and strategy

According to Stacey (2003:59), the generic strategy is appropriate and is said to be dependent upon the stage of evolution of the product's market and the competitive strength of the business producing it. A business with a strong capability should invest heavily in the embryonic stage and establish a position before others arrive. During the growth phase it should continue investing, push for rapid growth and defend its strong position against new arrivals. By the time the mature phase is reached, it should have established a market leadership and as it reaches the saturation level, the dominant business should defend its position and in a declining market, withdraw cash and be able to continue harvesting cash while weaker competitors withdraw.

**Figure 3.8.The product life cycle (and core strategies)**




*Strydom, Jooste & Cant 2005:244*

Early in the product life cycle (PLC), customers go for new features. As customers learn competitors imitate, and as the competences improve, customers get used to features that excited them and start to look for new attributes. Innovation and creativity are greatly called for to enable the continued competitiveness of the product of a business as it moves through the phases, for differentiation lurks at every step the customers take, from the time they are first aware of their need for a product / service to the time they finally dispose of the remnants of the used-up product (McGrath and Macmillan 2000:45).

#### 3.7.4.2.1 Corporate entrepreneurship and the product life cycle (plc)

The life-cycle approach as a strategic approach is linked to entrepreneurship in a number of ways. As Thornberry (2003:330) points out, corporate entrepreneurship includes corporate venturing (new ventures) and business transformation (corporate renewal).

This is related to the life cycle in that the more a business introduces new products / services / processes (Morris & Kuratko 2001), the more entrepreneurial it is. When these new introductions are made, the business reinvents itself and gets into a growth stage and a better competitive position. This is related to what Hitt et al. (2002:7) and Kreiser, Marino and Weaver (2002:20) refer to as proactive ness. New product introduction goes hand in hand with first-mover advantage, such as patents, thereby providing competitive advantage.

The characteristics of this state include new business venturing, product / service innovation, process innovation, self-renewal, risk-taking, proactive ness and competitive aggressiveness (Antoncic & Hisrich 2003:9).

*Entrepreneurship* by definition means creating something new, engaging in product and market innovation, being proactive and, according to Wickland and Shepherd (2005:75), beating competitors to the “punch”. This relates to the offensive strategy.

The processes that go into new venture creation in a corporate through the birth of new businesses is more or less the same as that of the introduction of new products and services in that it puts the business on a growth stage, which requires an offensive mindset. A business that is not entrepreneurial can be equated with being at a maturing stage of its life cycle and struggling to avoid decline and death.

When products are maturing or the business is in a maturing industry, they resign to defensive postures. Only an entrepreneurial orientation can revitalise the business. This can be through product improvements, self-renewal, competitive aggressiveness, all characteristics of entrepreneurship, as noted by Antoncic and Hisrich (2003:9).

This is supported by Wright, Hoskisson and Busenith (2001:3), who claim that there are few opportunities for strategic innovation in mature industries because the “managerial mindset” as opposed to an "entrepreneurial mindset" normally found at this stage fails to exploit brief windows of opportunities that close too quickly before all relevant information can be gathered and processed. Instead the entrepreneurial management may enable the business to identify radically new competitive spaces in their industries through innovative learning and thinking out of the box.

Srivastava and Lee (2005:461), quoting Charney *et al.* (1991), Eddy and Saunders (1980), and Lee *et al.* (2000) show that a number of empirical studies link the introduction of new products to wealth creation.

As stated by Kelly *et al.* (2002:1), the creation of new businesses in existing businesses is appealing in that it can re-invent mature entities. They add that radical innovations change the face of the competitive landscape critical to long-term competitiveness.

#### 3.7.4.3 Porter's three generic strategies

Jennings and Hindle (2004:150) argue that businesses set out to be low-cost producers, through achieving a cost advantage by efficiency in operations, economies of scale, technology or preferential access to raw materials.

Businesses that seek to be unique to buyers (through differentiation) in an industry do so through emphasising high quality, extraordinary service, innovative designs, technological capability or an unusually positive brand image. The key is that the attribute chosen must be different from those of rivals and be significant enough to justify a price premium.

- The focus strategy aims at either a cost advantage or a differentiation advantage in a narrow segment.
- The focus strategy may be the most potent for a small business that normally does not have economies of scale.

Rigwema and Venter (2004:210) point out that low costs should be emphasised without compromising quality and that differentiation works best on distinct products with inelastic demand, such as luxury goods.

### 3.7.4.4 Ansoff's strategic matrix

In addition to Porter's three generic strategies of cost leadership, focus and differentiation, a business can develop its market via new segments, new channels or new geographical areas, or can push the same products more vigorously through the same markets (Mintzberg 2003:122). This is what is normally termed Ansoff's strategic matrix, as reflected in Figure 3.9, covering penetration strategies, market development strategies, geographical expansion strategies, and product development strategies.

**Figure .3.9. .Ansoff's strategic matrix**

| **Existing products** | **New products** | |
|---|---|---|
| **Penetration Strategies**<br>▪ Increase market share<br>▪ Increase product usage (frequency / quantities used / new applications) | **Product development Strategies**<br>▪ Improvements<br>▪ Line extensions<br>▪ New products for same markets | **Existing market** |
| **Market development Strategies**<br>▪ Market expansion (geographic & new segments) | **Diversification Strategies**<br>▪ Vertical integration (forward / backward)<br>▪ Diversification (concentric / conglomerate) | **New markets** |

*Mintzberg 2003: 126*

Mintzberg (2003:142) discusses formulation of strategy instead in terms of crafting strategy, where the resultant product encompasses the crafters, past traditions, new directions and that past projects itself into the future.

As Kirby (2003:148) points out, it is possible to establish a successful business by bringing a new product to a current market or a current product to a new market. It is also possible to bring a current product to a current market provided it is better or cheaper than the previous product or that of the competitors.

## 3.8 Goal formulation

### 3.8.1 Strategic goals

Strategic goals are broad statements of where the business wants to be in future and pertain to the business as a whole rather than to specific divisions or departments. This differs from tactical (functional) middle-management goals and operational (lower-level) goals which are specific, measurable results expected from departments, work groups and individuals within the business (Daft 2003:216).

It is the functional goals that are supposed to be SMARTER, an acronym for specific, measurable; acceptable; realistic; time bound; extending (challenging) the capabilities of those working to achieve goals; and rewarding (MacNamara 2005:1).

#### 3.8.1.1 Smarter goals

The strategic goals are encapsulated in the vision, mission and the strategic intent. Long-term objectives tend to form in terms of the following:

- Profitability
- Productivity
- Competitive position
- Employee development / relationships
- Technological leadership
- Public responsibilities.

Objectives at acceptable levels for the above factors are set to enable the long-term survival of the business. Profitability would be expressed in terms of earnings per share or return on equity, productivity in terms of costs, quality and quantities, competitive position by relative market dominance and employee development through employee growth and career opportunities (Pearce & Robinson 2000:244).

On the qualities of long-term objectives, the author adds that objectives should be acceptable (to all stakeholders), flexible and adaptable to unforeseen changes in the environment. Objectives should be measurable, clear and concretely say what will be achieved and when it will be achieved. As the adage goes, "what's measured gets done".

Objectives should be motivating, in order to get the best productivity out of people and they should be suitable (congruent) to the mission and vision of the business. Objectives should be simple to understand at all levels in the business and must also be achievable and challenging.

Kaplan and Norton (2001:77) developed the balanced scorecard, which provides a framework for translating a strategy into operational terms. The scorecard allows a business to link its long-term strategy with tangible goals and actions.

### 3.8.2 The balanced scorecard

The architecture of the balanced scorecard defines the objectives and activities that will differentiate a business from its competitors and create a desired outcome, long-term shareholders and customer value. It begins by clearly defining strategy from the perspective of shareholder and customers: "What are the financial objectives for growth and productivity?" When the financial objectives have been satisfied, the process asks who the target customers are who will generate revenue growth and a more profitable mix of products and services. It also asks what the customers' objectives are and how success with them will be measured. The internal business process defines the activities needed to create the desired customer value, differentiation and the desired financial outcomes. The learning and growth factors recognise the business's ability to execute internal business processes, and how to achieve the desired customer and shareholder outcomes (Kaplan & Norton 2001:77).

The scorecard contains a definition of the business's vision and strategy, which is balanced by four different aspects, namely financial, customer, internal business process and learning and growth. Each of these has objectives, measures, targets and initiatives.

For each of the four perspectives, the following questions are asked:

- ***Customers:*** "To achieve our vision how should we appear to our customers?"
- ***Financial:*** "To succeed financially, how should we appear to our shareholders?"
- ***Internal business process*****:** "To satisfy our shareholders and customers, what business processes must we excel in?"
- ***Learning and growth:*** "To achieve our vision, how will we sustain our ability to change and improve?"

According to Kaplan and Norton (2001:8), research on successful balanced scorecard businesses showed a consistent pattern of achieving a strategic focus and alignment.

However, for years businesses felt a need to add a fifth component which they saw as lacking. This is the specific assessment of management training, slack time and issues relating to the business's global employee population (Maltz, Shenhar & Reilly 2003:191).

There is little research on how to connect the balanced scorecard with other management tools, reinforcing the impression that the method is far from being fully developed. More effort is needed to create coherence between the method and other additional management systems (Ahn 2001:459).

### 3.8.3 Entrepreneurial strategic choice positioning (attributes mapping)

McGrath and Macmillan (2000:35) provide insight into building what they term blockbuster products and services as mapping attributes, checking assumptions, prioritising action and keeping an eye on dynamics.

They note that a product / service's attributes can be categorised as follows:

- non-negotiable
- differentiation
- exciters
- tolerables

- dissatisfiers
- enragers
- neutrals
- parallels

Attributes are only assumptions, so they need to be rechecked in order to establish which attitudes require attention. Top priority should be given to attributes that represent lurking enragers.

The neutral features should be included for all customers and since non negotiables no longer give competitive advantage the challenge is to reduce the cost of delivering them.
The purpose of keeping an eye on the dynamics is to enable the business to focus on the next generation differentiators and exciters and diminish current dissatisfiers through distinctive skills and competencies. This is shown in Table 3.1below.

**Table 3.1 The attributes map**

| CUSTOMER ATTITUDE | ATTRIBUTE OF PRODUCT OR SERVICE, RELATIVE TO COMPETING OFFERINGS | | |
|---|---|---|---|
| | **Basic** | **Differentiator** | **Energizer** |
| **POSITIVE** | **NONNEGOTIATIABLE** Performs at least as well as competition | **DIFFERENTIATOR** Performs better than competition where it counts | **EXCITER** Performs better than competitors |
| **NEGATIVE** | **TOLERABLE** Performs no worse than competitors | **DISSATISFIER** Performs below the level of competitors | **ENRAGER** Must be corrected at any cost (to capitalise on competitors' negatives) |
| **NEUTRAL** | **SO WHAT?** Does not affect the purchasing decision in a meaningful way | **PARALLEL** Influences segment attitudes but is not directly related to product or service performance | |

*McGrath and MacMillan 2000:25*

Ghemawat and Pisano (2003:105) point out that a superior product position is likely to yield sustained superior performance to the extent that it satisfies the two conditions of *scarcity* and *appropriability.* Scarcity value is the actual or potential for imitation and / or substitution. *Appropriation* is described by the concepts of *hold up* and *slack.* Hold up is a problem in negotiation rather than competition and it is a threat whenever perpetuation of a superior competitive position depends on continued cooperation or complementation.

According to McGrath and MacMillan (2000:48), entrepreneurial opportunities are present in current product and service offerings and they present themselves in changes in customer needs, which translate into obsolescence for particular attributes, growth rates of major markets segments, and external trends in the marketplace, technology, demographics, regulation environments and competitors.

**3.9 Strategy implementation and control**

When the strategy is broken down to the lower levels the issues at hand in the strategic planning process become the following:

- Who will execute which part of the strategy and when (who will do what and when?)
- What resources will be needed to execute the plans?

These would include human resources, physical resources, financial, information (knowledge) and technological resources.

Kaplan and Norton (2001:292) assert that strategy is not about managing initiatives. According to their balanced scorecard, the planning process is about strategy, objectives, measures, targets and initiatives. While the functional / operational budget reflects incremental improvement to existing operations, the strategic budget (plan) authorises the initiatives required to close the planning gap between desired breakthrough performance achievable by continuous improvement and that of business as usual. The strategic budget identifies which new operations are required, which new capabilities are to be created, which new products / services are to be launched, which new markets are to be served and which new alliances and joint ventures are to be established.

Fink *et al.* (2005:364) mention that within businesses there are different perspectives on current problems, unresolved conflicts, inconsistent compromises, different priorities on resources allocation and interests which should be taken into consideration. Not doing so in the strategic formulation stage can turn the strategy implementation into “a suicide mission” right from the beginning. The above challenges should be dealt with during the alternative strategy scenario analysis.

### 3.9.1 Strategy implementation

The principal strategy implementation tasks which should be built into the plans are outlined by Thompson and Strickland (2001:347) as follows:

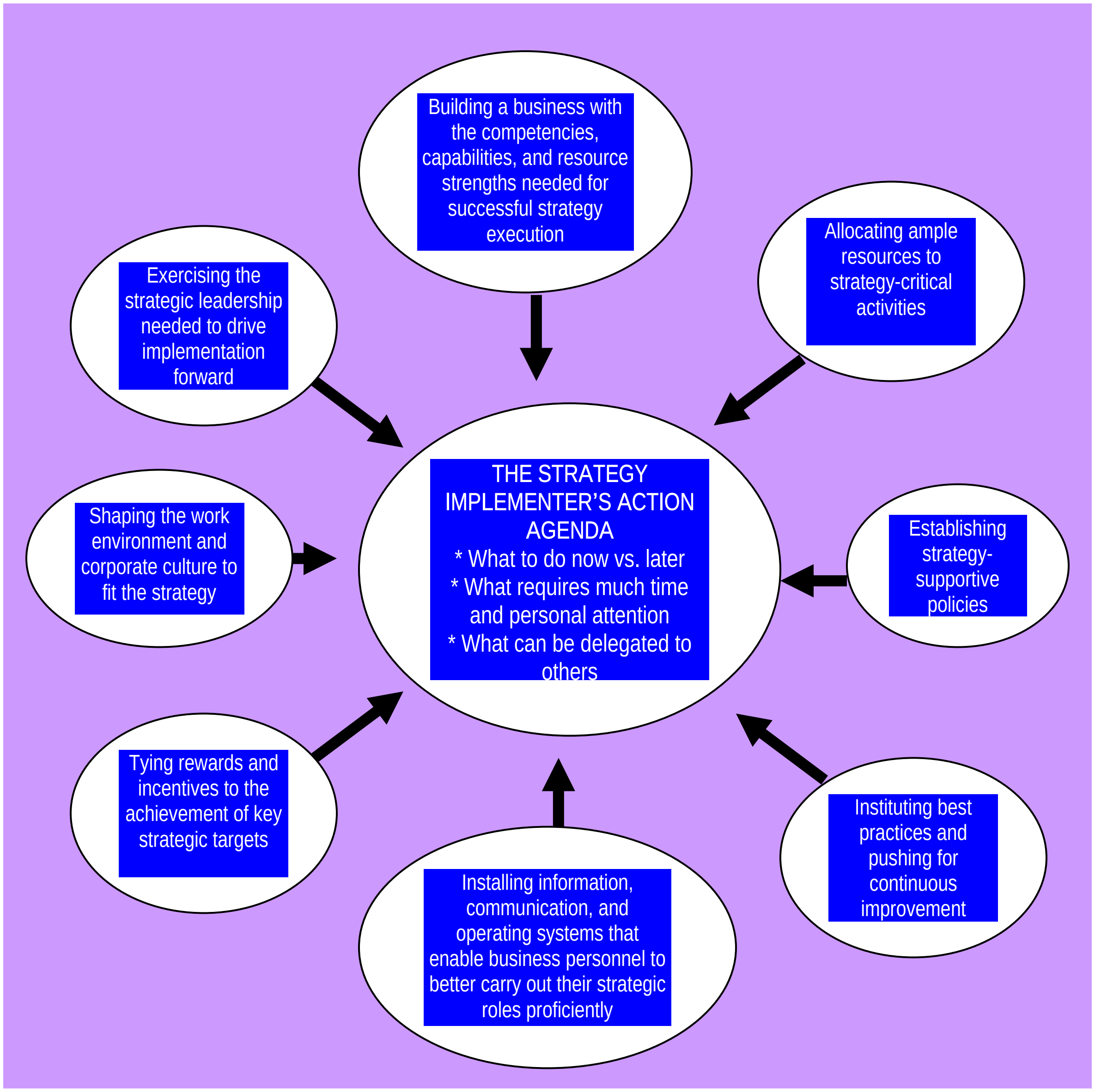
- Building a business with the competencies, capabilities, resources, and strengths to carry out the strategy successfully
- Developing budgets to steer ample resources into value-chain activities critical to strategic success
- Establishing strategy supportive policies and procedures
- Instituting best practices and pushing for continuous improvement of the performance of value-chain activities
- Installing information, communication, e-commerce and operating systems that enable the business personnel to carry out their strategic roles successfully day in, day out
- Tying rewards and incentives to the achievement of performance objectives and good strategy execution
- Creating a strategy supportive work environment and corporate culture
- Exerting the executive leadership needed to drive implementation forward and to keep improving the way the strategy is executed.

These aspects are presented in Figure 3.10.

Kaplan and Norton (2001:9) provide the following principles of a strategy-focused business.

- To mobilise change through an executive leadership
- Translate the strategy into operational terms
- Make strategy a continual process
- Align the business to the strategy and
- Make strategy everyone’s everyday job.

**Figure 3.10 The managerial components of strategy implementation**




*Thompson and Strickland 2001:348*

Continuous improvement (of products, services, processes) and making it everyone's job are key elements of strategic entrepreneurship. The author argues that involving everyone in the business in strategy making enhances "ownership", a total buy in and successful implementation.

### 3.9.1.1 Strategic fit (strategic entrepreneurship)

A strategy tends to yield a superior performance when it "fits" the business's environment. Without strategic flexibility a business cannot adapt to a changing environment and even if a business's strategy and its environment are in concert, an environment shift may necessitate strategy change to maintain alignment (Parnell 2005:150).

Bowman and Helfat (2001:1) in answering what corporate strategy is, identify the following as its components:

- Composition / scope of the business
- Resource allocation
- Formulation of business unit strategies
- Control of business unit performance
- Co-ordination of business units
- Creation of business cohesiveness and direction.

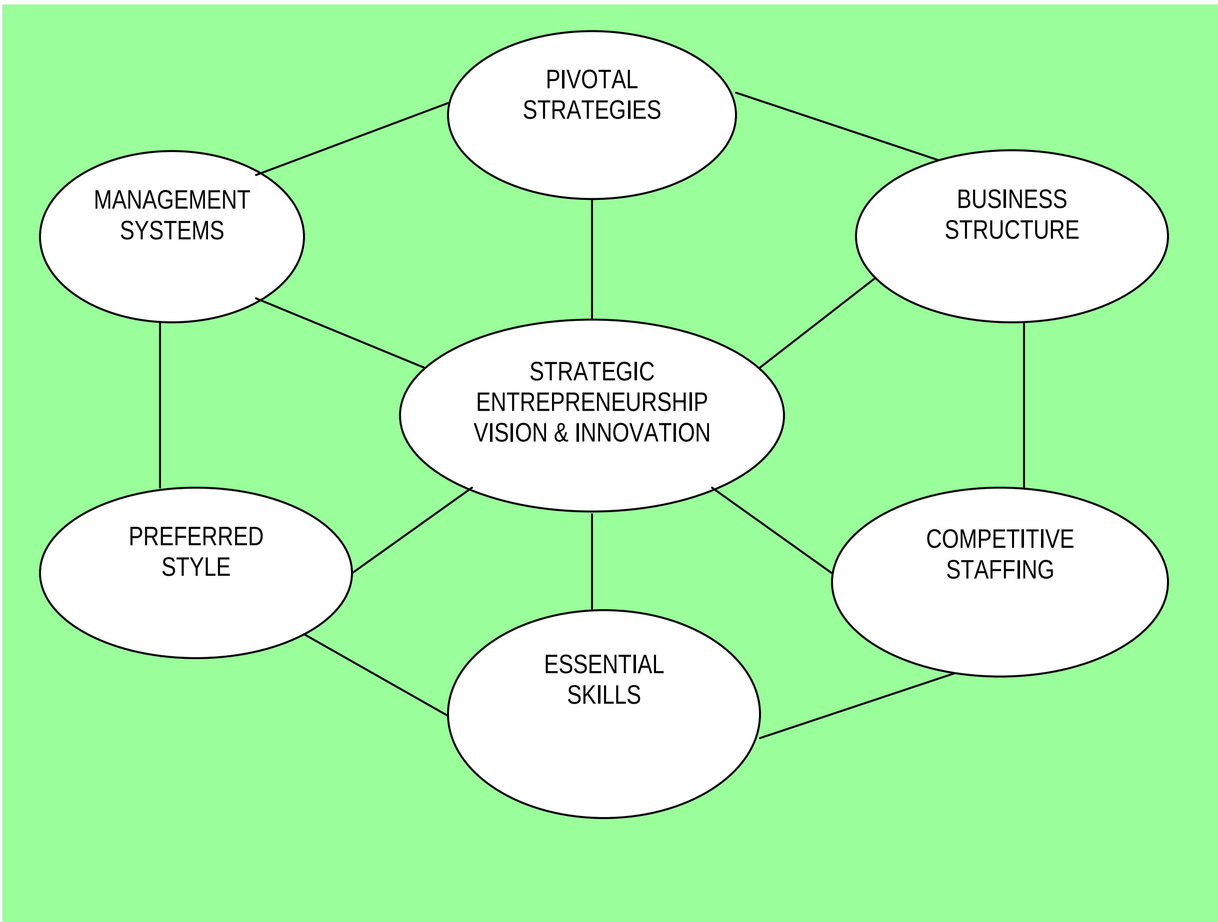
Zhao (2005:35) puts forward what he terms the five S's model of entrepreneurship and creation. The five S's are strategy, system, staff, skills and style. If one adds structure, then a congruency is created between this model and McKinsey seven S's model of strategic fit, presented by Peters and Waterman (1982:10).

The Zhao / McKinsey 5 / 7 S's model can be used to assess the state of the business in terms of the staff, its skills, management style, belief systems, culture, structures, and current strategies and assess if there is a strategic fit with the shared vision. This is illustrated in Figure 3.11.

The framework highlights the interactions and interconnections and how the fitted parts bond together. It is a simple way to illustrate that the real job of planning and implementation is one of bringing all 7 S's into harmony. When they are in good alignment, the business is poised and energised to execute strategy to the best of its ability. The framework provides a convenient checklist for judging whether and when a business's internal climate is ripe for accomplishing the strategy. This is a checklist of how good the strategy is before implementation.

Strategic planning attempts to establish a strategic fit between the market opportunities available to a business and its goals. It constitutes a process that simultaneously looks outwards towards the ever-changing external environment and inwards at its resources to maintain congruence through a cycle of adjustments (Herremans & Isaac 2004:145).

**Figure 3.11. Organisational effectiveness model for strategic entrepreneurship**




*Zhou 2005:36*

Strategic planning should take into account all the factors illustrated above with the aim of striking an operational fit. The core mission / vision of the business should be driven by entrepreneurship and innovation (as the dominant logic) and all the other factors should rally around this.

#### 3.9.1.2 Strategic implementation

Research has shown that it is easier to formulate a strategic plan than to implement it, and it is at the implementation stage that strategies often fail. The ability to implement strategy is considerably more important than the quality of the strategy itself. When looking at the problems of implementation, one should be mindful of the difference between formulation (an intellectual thinking phase) and implementation (operational). Formulation requires good intuitive and analytical skills while implementation requires motivation and leadership skills. In addition, implementation is not a well-structured, rational and controlled process like strategy formation (Ehlers & Lazenby 2004:177).

##### 3.9.1.2.1 Skills and participation

The unstructured nature of implementation calls for the full participation of the implementers in the formulation of the plans. The limited skills of intuition and analysis can be imported. If the “well-structured” and controlled strategy (activities) is put together by the implementers, then these will be put together in a way that is practical and easy to implement. Therefore, it is important to understand and appreciate the architecture of the implementation plan (as a component plan) as separate from the actual implementation process (Burns 2005:1).
According to Markides (2001:466), *strategy* is a learning process which seeks to challenge assumptions and beliefs, shift paradigms and create visions of the future. As an action process, it should be a dynamic yet responsive, behavioural process.

##### 3.9.1.2.2 Competitive advantage

Incentives, motivation and leadership skills should be built into the plan itself. There are several viable positions that businesses can occupy, and the essence of strategy is selecting one position that a business can claim as its own. Strategy involves tough choices on three dimensions, namely which customers to focus on, which products to offer and which activities with which to best meet these offers. Strategy entails choosing, and a business will be successful if it chooses a distinctive strategic position that differs from those of its competitors (Markides 2001:458).
In dealing with the issue of how a business achieves sustainable advantage, Morris and Kuratko (2001:152) look at the concept of dominant logic that was introduced by Bettis and

Prahad in 1995. This is a way in which managers conceptualise the business and make critical resource allocation decisions. One way of creating a dominant logic is to make entrepreneurship the basis upon which the business is conceptualised and resources are allocated. Entrepreneurship as a dominant logic promotes strategic agility, flexibility, creativity and continuous innovation throughout the business.
An emphasis on entrepreneurial activities should be translated into objectives, strategies, reward systems, control systems, planning approaches and appropriate structures. Strategic planning should be a way of thinking, which implies a continuous search for new sources of competitive advantage.

According to O'regon and Ghobadian (2004:292), the literature suggests that one of the most effective means of achieving competitive advantage is by using the business's "competencies" or "capabilities". Ability refers to a business's performance of a co-ordinated task utilising resources for the purpose of achieving a particular end result. Strategy consists of five separate but interdependent phases, namely establishment of business intent, strategic analysis, strategy formulation, strategy deployment and monitoring and evaluation.
The best way of achieving an end result is through what Wickham (2001:167) calls"making a good strategy happen". This is done through leadership. Leadership entails listening to people, learning from them, taking their ideas on board, giving them the latitude to make their own decisions and putting the decisions into practice.
Influencing employees to make decisions that enhance the business is the most important part of strategic leadership (Rowe 2001:83).

Individuals who seek entrepreneurial opportunities usually generate lots of ideas. However entrepreneurs cannot rely on first inventing or anticipating a trend but must also execute well, especially if their concepts can be easily copied (Bhide 2003:327).

### 3.9.2 Control

Cronje and Smit (2002:391) maintain that *control* is a continuous process and is interwoven with planning, organising and leading. It is probably the most important link in the management cycle because it evaluates the management effort. The knowledge, experience, information and facts acquired and collected during the implementation process become the most important inputs in the next round of the "continuous" strategic planning process.

The authors add that because of this importance implementation and control should be a solid component of the strategic plan. In the control process, management endeavours to make planning and performance coincide and this bridges the gap between formulating goals and attaining them.

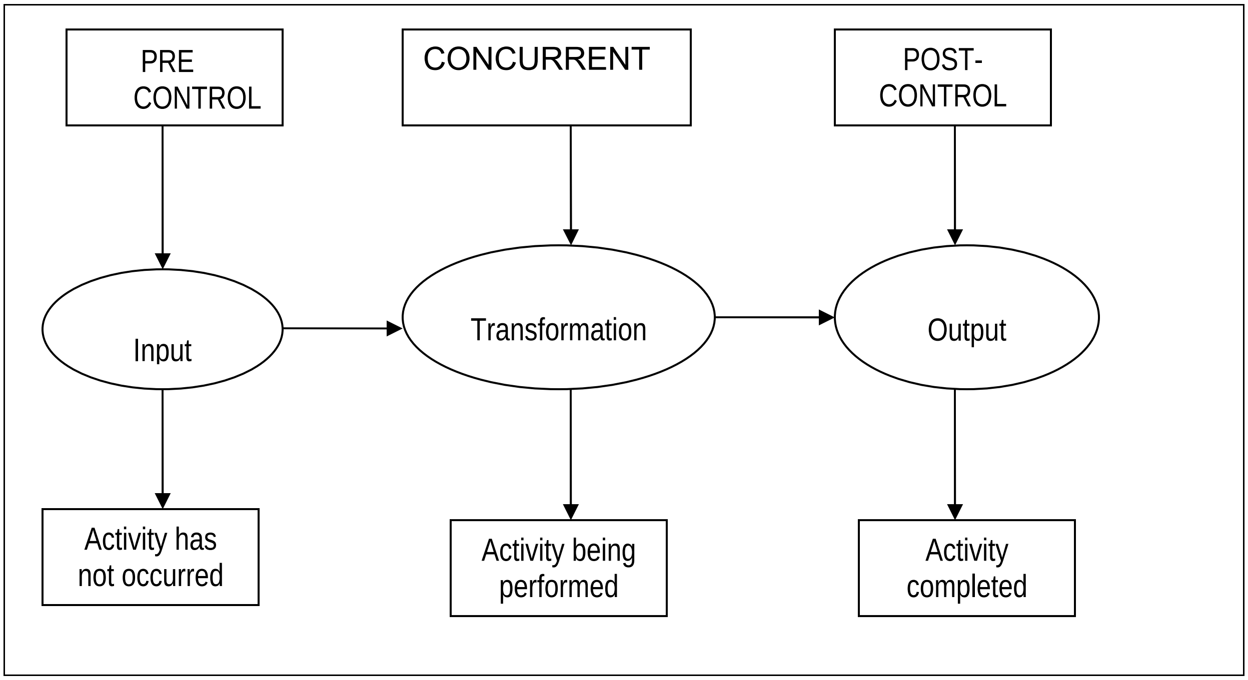
Controls are intended to guard against the possibility that people will do something the business does not want them to do or fail to do something they should. Without control it will be almost impossible to determine what goes on, distinguish high and low performance, satisfy customers on a continuous basis, be cost-competitive and find ways to continuously improve (Morris & Kuratko 2001:216).

Control usually occurs at three stages, pre process (input), concurrently during transformation and post process, as shown in Figure 3.12. As noted by Hellriegel *et al.* (2004:409), preventive control (pre-process) is intended to reduce errors proactively and therefore minimise the need for corrective action. Concurrent control is usually continuous in nature, while post control focuses on rectifying problems that have already occurred.

The author is of the opinion that preventive control, which include rules and regulations, standards and procedures, is administrative (mechanistic) in nature and not entrepreneurial. Entrepreneurial control is achieved if each individual at his or her work station at all levels is empowered through decision making to quality inspect his or her output. They become creative and innovative with the productivity dynamics. This becomes important if that output contributes significantly to the whole and they are aware of it. This motivates employees to be more entrepreneurial.

Rwigema and Venter (2004:217) note that strategic control helps to determine the degree to which strategies fulfil goals and objectives, but only the broad environmental trends (macro, micro, and industry) are monitored. Quantitative standards such as return on investment, return on assets, market share based on benchmarked competitive industry leaders are considered. In addition quantitative standards involving product quality and innovation are also considered.

**Figure 3:12 Types of control**



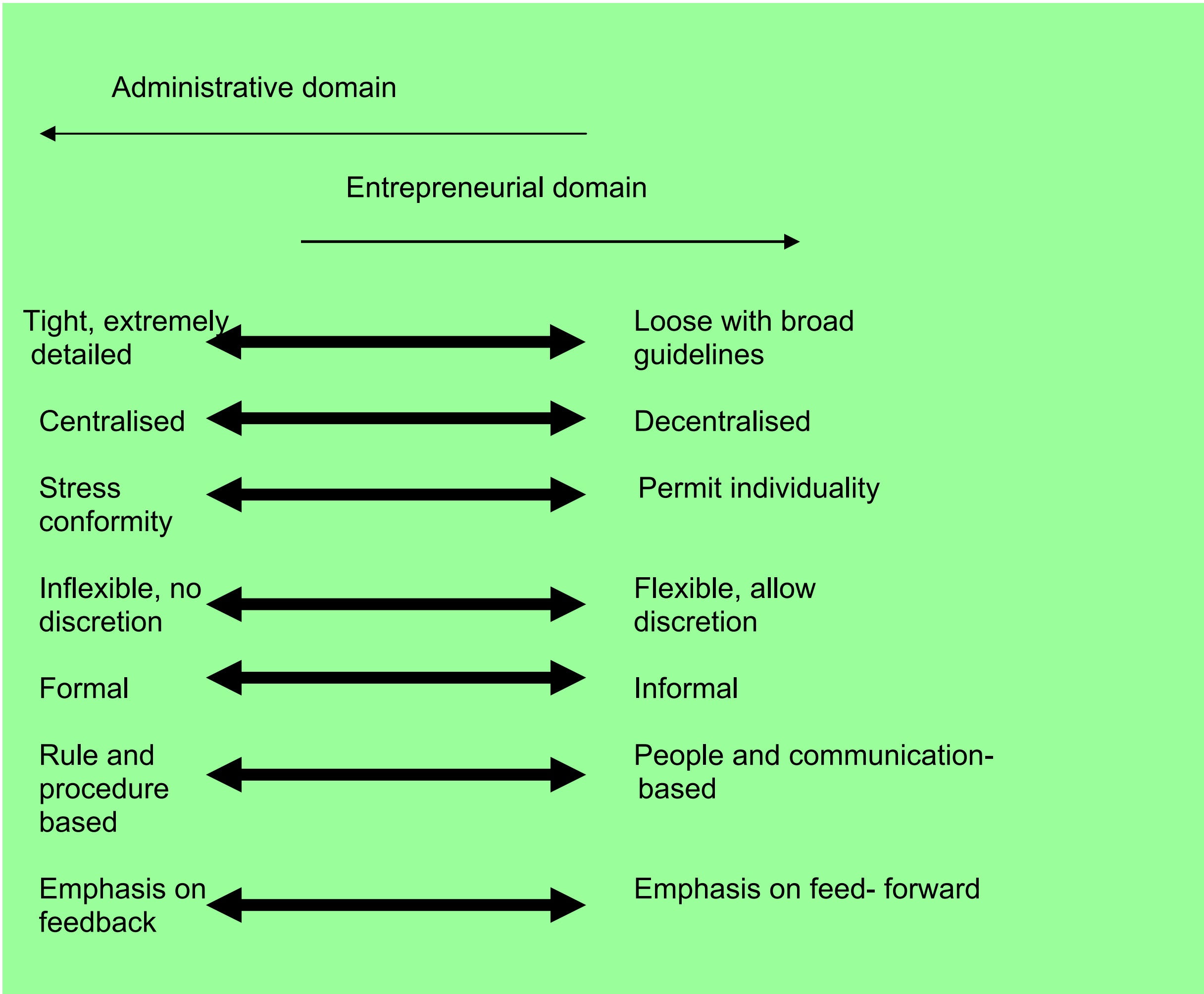

*Hellriegel et al. 2004:410*

#### 3.9.2.1 Control and entrepreneurship

The development of control systems has implications for the levels of entrepreneurship exhibited in a business. Control systems that attempt to influence the way in which resources are used and monitor how efficiently they are being used undermine employee motivation and creativity (Morris & Kuratko 2001:215). This is summarised in Figure 3:13.

A control system is characterised by the following attributes: degree of formality and prescriptiveness, desire before conformance and compliance, degree of rigidity, desire for consistency, use of coercive power, distribution of authority and responsibility, desire for individual initiative, levels of freedom and discretion, degree of horizontal interaction and communication, and level of detail (Morris & Kuratko 2001:220).
Morris and Kuratko (2001:221) state that, unlike the normal perception that control is inconsistent with entrepreneurship, it actually facilitates it, as reflected in Figure 3:13.

**Figure 3.13 Characteristics of a business's control system**




*Morris and Kuratko 2001:220*

Morris and Kuratko (2001:221) show that entrepreneurship appears to be more consistent with risk tolerance rather than risk reduction, because in a risk-tolerant environment there is less rigidity in the structure, there is a greater degree of empowerment and autonomy, conduct is less prescribed and administrative consistency is expected. The entrepreneurial philosophy of control is built on the premise of "giving up control to gain control".

Simler (2003:479) points out that, great businesses can be built without fixed plans, rules and control. Creativity can be unbuttoned without sacrificing profit, led without wielding power and all it takes is faith in people.

#### 3.9.2.2 Management without control (empowerment)

In order to create an adaptive, creative business, Simler (2003:477) points out that the business should adopt the following:

- Forget about the top line; it is fine if the business's top line remains the same or shrinks, as long as the bottom line is healthy. Size is not a measure of success.
- Every business should continuously justify its continued existence.
- Don't be a nanny, with the "boarding school syndrome" where employees are treated as children, told for instance what to do at what time according to what dress code.
- Let talent find its place; don't box people into jobs or career tracks.
- Make decisions quickly and openly.
- Partner promiscuously; to explore and launch new businesses quickly and efficiently you need "many partners" and these should be as part of the family as the employees.

According to Mintzberg (2003:480) businesses that have real empowerment don't talk about it. Those that make a lot of noise about it generally lack it; they have been spending too much time of their past disempowering others. Then suddenly, empowerment appears as a gift from the gods. To "turn around" is to end up facing the same way. Maybe this turning around is the problem.

As noted by Wenger (1998:77), in real life, mutual relations among participants are complex mixtures of power and dependence, pleasure and pain, expertise and helplessness, success and failure, failure and hatred, and communities of practice have it all.

## 3.10 Strategic planning and performance

### 3.10.1 The mission and performance

The relationship between formal planning and performance has been the subject of numerous statistical studies and no clear picture has emerged because these two concepts have faced the issue of causation, that is: when two things seem to correlate, how can we be sure which is the cause and which is the effect? (Wickham 2004:320).

Despite the above, literature abounds with the apparent benefits of planning. Collins and Porras (2001:442) note that businesses that enjoy enduring success have values and a core purpose (mission) that remains fixed while their business strategies and practices endlessly adapt to the changing world.

Brown (2005:213) found that business performance was highest when levels of both commitment to the strategic planning process and the frequency of strategic planning training were high.

Since strategic planning is concerned with vision, mission, long-term goals and strategies, it integrates all management functions and focuses on the exploitation of opportunities through the business's resources (Cronje & Smit 2002:111).

Mullane (2002:448) quotes Bart *et al.* (2001), who claim that mission statements could positively affect employee behaviour when the business displayed commitment and established internal policies and programmes that supported the statement, and that positive changes in employee behaviour had a direct effect on the business's financial performance.

Bonn (2005:346) notes that one aspect of organisational culture is that participation by lower-level employees in the strategy development process has been linked to higher job satisfaction by employees and to improved decision-making by senior managers.

### 3.10.2 Planning and performance

Every business, regardless of size, needs an effective comprehensive strategic plan. This is because the process of developing the strategic plan forces the entrepreneur to think about the "harsh reality" of the business world (French *et al.* 2004:765).

Fayol (1949 in Wren 2001:483) argues that planning is useful and that "the best plans cannot anticipate all unexpected occurrences which may rise, but they do include a place for these events, and prepare the weapons which may be needed at the moment of being surprised".

Businesses that employ structured planning procedures outperform all other businesses that do not. The most important aspect of planning is the level of sophistication applied to the planning process and the quality of planning, not the time spent on the planning.

Sophistication is the most important determinant of financial performance (French *et al.* 2004:768).
The culture of high-performing businesses is that they hire people who are competitive and their incentive systems, which foster competition, are built into business strategies (Osborne & Cowen 2002:227).

Joyce and Woods (2003:145) show that the use of strategic planning in businesses to bring about change and innovation is correlated with business growth. Research indicates that businesses that engage in strategic planning are more effective than those that do not.

### 3.10.3 Sustaining superior performance

Bonn (2000:39) points out those businesses that used a formalised strategic planning system were more likely to survive than those which operated without such a system. This research also indicated that there was a positive relationship between survival and the existence of an explicit corporate direction. Taking into account that planning system and corporate direction are core-related to each other, it could be argued that an important benefit of the strategic planning process is its provision of a long-term corporate direction. Bonn (2000) further notes that the strategic plan in survivors is the “living, breathing thing” integrated completely into the business’s life.

Strategic planning can enhance the strategy environment fit of any business and it can open new dimensions of competitive advantage previously untapped by competitors and can also improve a business’s ability to adapt by forcing healthy changes within the business (Karger and Parnell 1996:44).

Businesses that continuously focus on finding better solutions maintain their competitive advantage and they manage to do so through effective strategic planning (Lewis *et al.* 2001:149).

Planning is associated with profitability when the business is large, operates in an unstable industry and pursues cost leadership strategy. Planning helps identify future threats and opportunities, enables a more effective allocation of time and resources, provides a framework for integration, co-ordination and communication and a symbolic value of reassuring stakeholders that the business has a proactive course for the future (Bonn 2000:33).

### 3.10.4 The importance of strategic planning

According to the *navigational risk approach,* Desai (2000:686) strategic planning is important because it takes into account the following pivotal factors:

- Successful implementation hinges on the ability to foresee changes in the larger system
- Determining where a business is going and knowing how it will get there, is a basic concept of strategic planning
- Planning provides alternative answers to important but nebulous questions that are critical to developing a plan
- Plans are based on careful environmental analysis, knowledge of business goals and objectives and the salient characteristics of management that reduce perceived uncertainty
- Strategic planning includes a review of known risk, though all risk cannot be foreseen
- Planning is associated with higher performance in presence of environmental uncertainty
- Strategic planning processes afford managers a holistic approach to evaluating business strengths and weaknesses and environmental opportunities and threats in today's uncertain times.

In addition Wickham (2001:173) notes that a well-defined strategy can help the venture in the following ways. Strategy,

- encourages entrepreneurs to assess and articulate their vision
- ensures auditing of the business and its environment
- illuminates new possibilities and latitudes
- provides business focus
- guides the structuring of the business
- acts as a guide to decision making
- provides the starting point for the setting of objectives
- acts as a common language for stakeholders.

In summary, the author notes that planning identifies who the business is, for whom it exists, and how it is going to ensure continued survival. Without planning (formal or informal), there is no business or its life cannot be secured by itself.

### 3.10.5 Threats to strategy and entrepreneurship

Simler (2003:479) notes with concern that the traditional ways of doing business are reasserting their hegemony. Young start ups are being forced into the moulds of the past, and CEO's from old-line businesses are being brought in to establish "discipline" and "focus", while the truly creative types are being caged up in service units and kept further from decision makers.

As earlier pointed out in Chapter one, Drejer (2004:513) noted that large established businesses are disassociating themselves with the entrepreneurial "heroes" and "visionary" managers to hire more quiet "bookkeeper" types of manager in an apparent attempt to assure shareholders that nothing unexpected is about to happen.

## 3.11 Chapter summary

The chapter delved into the strategic planning process, starting from the establishment of strategic intent right through to strategy implementation. The different planning approaches such as traditional and emergent were discussed in detail. Different strategic approaches such as Ansoff's matrix, Porter's generic strategies and Five Forces model, among others, were discussed in relation to entrepreneurship. The discussion showed how strategic planning, strategic control and implementation can be carried out entrepreneurially (with entrepreneurial strategic fit) in order to realise maximum benefits.

Although this chapter's focus was on strategic planning it also shows how this construct (strategic planning) interfaces / relates to entrepreneurship. The presence of the different strategic planning approaches, rational, incremental and emergent bears testimony to the inseperation of the two constructs. All the approaches encompass entrepreneurship in that they have the entrepreneur as the main actor and they trace how best the same entrepreneur interacts with the external environment to realise the business mission. As noted by Wickham

(2001) the core mission / vision of the business should be driven by entrepreneurship and innovation (as the dominant logic) and all the other factors should rally around this.
Control, a major aspect of strategic planning is normally associated with rigidity and therefore perceived as unentrepreneurial. How ever an example of entrepreneurial control is *preventative control* in which as stated by Morris and Kuratko (2001) control is given up in order to gain control.

Every business, regardless of size, needs an effective comprehensive entrepreneurial strategic plan. This ensures the articulation of the vision, auditing of the competitive environment and illuminates new possibilities and latitudes.

The process of developing the strategic plan forces the entrepreneur to think about the “harsh reality” of the business world in an entrepreneurial way.