

# **Strategic Entrepreneurship and Performance of Small and Medium Enterprises in South Africa**

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**A research report submitted to the Faculty of Commerce, Law and  
Management, University of the Witwatersrand, in partial fulfilment of the  
requirements for the degree of Master of Management in Entrepreneurship  
and New Venture Creation**

**Johannesburg**

**(February, 2012)**

## **ABSTRACT**

The aim of this paper is to investigate the link between strategic entrepreneurship and company performance. For the purpose of this study, strategic entrepreneurship is divided into two sections; entrepreneurial orientation and planning flexibility. The entrepreneurial orientation factors used are proactiveness, risk-taking and innovativeness.

A survey was conducted on 133 SMEs' representatives on a purposive and convenience basis. The results of the study indicate that, in the South African context, SMEs need to be proactive, take risks and be innovative to influence their own performance. The study further indicates that flexibility in planning is vital for the improved performance of SMEs. The external environment influences the relationship between entrepreneurial orientation, planning flexibility and a firm's performance. These results correlate with the existing literature on the entrepreneurial orientation, flexibility in planning and performance of SMEs.

The findings of this survey and this research paper should serve to benefit entrepreneurs and SME owners and managers and encourage them to develop entrepreneurial orientation and planning flexibility programmes.

## DECLARATION

I, Moshe Mohutsiwa, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in Entrepreneurship and New Venture Creation in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

.....

Moshe Mohutsiwa

Signed at .....

On the ..... day of ..... 2012

## **DEDICATION**

This dissertation is dedicated to my father, Maseng Mohutsiwa, the first entrepreneur I got to know. Papa ke a leboga.

## **ACKNOWLEDGEMENTS**

I wish to extend my grateful thanks to all those who assisted me in the preparation of this research report.

In particular, I would like to thank my supervisor, Dr Jose Barreira, for his guidance and supervision.

I would also like to thank Merle Werbeloff for her advice and assistance, and, in particular, for her valuable guidance in the analysis of the statistical results contained in this report.

I would also like to express my gratitude to Anglo Zimele for giving me access to its database of entrepreneurs.

To my wife Samu who has supported me through my Masters studies, thank you .

And lastly, I would like to thank my brother, sister, nieces and nephews for their support and prayers.

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# **CHAPTER 1: INTRODUCTION**

## **1.1 Purpose of the study**

The purpose of this dissertation is to add to the research literature in the area of strategic entrepreneurship and SME performance in South Africa. This will be achieved by an assessment of the level of entrepreneurial orientation and strategic planning within SMEs and linking these factors to the firms' performance. Strategic entrepreneurship is the combination of opportunity-seeking actions and advantage-seeking actions to design and implement entrepreneurial strategies that create wealth.

Strategic planning is defined as “a tool for organising the present on the basis of the projection of the desired future” (O'Regan and Ghobadian, 2002). Shane and Venkataraman (2000) describe strategic planning as “an approach by management to devise strategy on the basis of complete analysis of the of the firm's environment.”

## **1.2 Context of the Study**

This aim of this study, *Strategic Entrepreneurship and Performance of SMEs in South Africa*, is to assess the use of strategic entrepreneurship within South African SMEs and the link between these factors and a firm's performance. This study was inspired by the findings of Olawale and Garwe (2010); namely that the failure rate of South African SMEs is one of the highest in the world, and currently stands at 75%. Improving the performance of South African SMEs will contribute positively to their success, which will, as a result, contribute to national job creation objectives in the country. The South African Government has put in place several measures, such as tax relief for SMEs, incubation programmes and Khula Enterprise Finance to encourage and support SME activity, sustainability and success in the country.

However, despite the support programmes implemented by the Government, SMEs are not achieving the Government's desired performance and growth rate of 5% per annum (Olawale and Garwe, 2010). Failure of SMEs to reach the desired performance levels has motivated this study to examine other areas of SME management and operation that could, potentially, stimulate higher performance. Although many studies have been conducted on the SME sector in South Africa, this is the first study that attempts to show the correlation between strategic entrepreneurship and performance in this sector.

According to Robinson (1982), small business owners and managers in South Africa do not engage in systematic planning. Studies conducted (Trombetta, 1976; Shane and Venkataraman, 2000) show that a thorough planning effort and adoption of the strategic plans result in increased sales. The business gap identified in the South African SME sector is the empirical study that links strategic planning, entrepreneurial orientation and performance. The results of the studies, and the recommendations resulting from them, can be used to encourage small business owners and managers to engage in strategic planning and entrepreneurial activities, and advice on the best methods to do so.

### **1.3 Problem Statement**

The creation and sustainability of SMEs are critical to the economic prosperity of South Africa. However, the reality is that SMEs have an extremely high failure rate in South Africa. Indeed, the probability rate of a new SME surviving beyond 42 months in South Africa is the lowest of any GEM-sampled country. In the current competitive business environment, to succeed, firms are required, or even forced, through their products and services, to remain competitive both locally and globally, regardless of their size and resources.

The competitive global business environment forces firms to assess their own internal framework. They are required to identify opportunities to develop

capabilities and competencies that allow them to be innovative, proactive and willing to take risks to improve performance and gain, or maintain a competitive advantage. SMEs need to improve performance by identifying and implementing strategic planning and management processes, innovation programmes and entrepreneurial orientation. In addition, they must continuously assess the external business environment within which they operate, to be in a position to react to changes in the environment rapidly and effectively to maintain a competitive edge.

Planning is a vital aspect of strategic entrepreneurship because it offers firms flexibility in strategy implementation. With strategic entrepreneurship, firms are able to table their development and growth options, look deeply into their opportunities and strategically plan to fully exploit the opportunities presented. It is problematic that SMEs utilise more of operational planning rather than strategic planning. This element needs to be considered when assessing the correlation between strategic entrepreneurship and the performance of SMEs.

Currently, there is a knowledge gap in understanding the link between strategic entrepreneurship and firm performance in South Africa that this report serves to address.

#### **1.4 Purpose Statement/Objective**

The proposed research will contribute, on both a theoretical and empirical level, to the enhanced understanding of the correlation between the implementation of strategic entrepreneurship and SME performance.

#### **1.5 Hypotheses**

The following hypotheses are tested in this research:

H1: There is a positive relationship between the entrepreneurial orientation of a firm and its performance.

H2: There is a positive relationship between the planning flexibility of a firm and its performance.

H3a: The external environment will moderate the relationship between entrepreneurial orientation and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static (Ensley, Pearce and Hmieleski, 2006).

H3b: The external environment will moderate the relationship between planning flexibility and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static (Ensley, Pearce and Hmieleski, 2006).

#### **1.4 Significance of the Study**

This study attempts to provide clarity on the relationship between the implementation of strategic entrepreneurship and company performance. The study also aims to highlight aspects of strategic planning and entrepreneurship that can assist SMEs in improving performance, creating wealth and achieving a sustainable competitive advantage.

In a country like South Africa, in which the Government is under significant pressure to create jobs, the formation of new SMEs and the improvement of existing SMEs will contribute to alleviating this pressure.

#### **1.5 Delimitations of the Study**

This study had several delimitations. It was delimited to strategic entrepreneurship and the performance of SMEs in South Africa, as opposed to SMEs across all over Africa. Strategic entrepreneurship is delimited to strategic management, strategic planning and entrepreneurial orientation. Strategic management influences the development and the performance of a firm (Rouse and Daellenbach, 1999). Strategic management levels within firms is not

empirically measured in this research, however, principles of strategic management are used in the discussion of strategic entrepreneurship.

Strategic planning is delimited to planning flexibility and the influence of the external environment. Planning flexibility is measured by indicators such as: technology, economic conditions, new competition, government regulations, customer needs, supplier strategies and political factors. The examination of the external environment in the context of this study focuses on the issues specific to small business performance, rather than broader business performance issues that mostly affect larger, more well-established businesses. In addition, entrepreneurial orientation is delimited to innovativeness, risk-taking and proactiveness and excludes competitive aggressiveness and autonomy

Performance was delimited to the importance of, and satisfaction levels in, the following areas:

- 1) Sales growth rate
- 2) Market share
- 3) Operating profit
- 4) Market development
- 5) New product development

## **1.6 Definition of Terms**

For this study, the definitions for the key terms and concepts used are as follows:

*Small and Medium Enterprise (SME)* – The National Small Business Act of South Africa of 1996, as amended in 2003, defines a SME as: “a separate and distinct entity including cooperative enterprises and non-government organisations managed by one owner or more, including its branches or

subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and can be classified as a SME by satisfying the criteria mentioned in the schedule of size standards” (Government Gazette of the Republic of South African, 2003).

The quantitative definition of SMEs in South Africa is shown in Table 1 below.

**Table 1.1: Schedule of size standards for the definitions of SMEs in South Africa**

Type of firm	Number of Employees	Turnover	Balance Sheet
Small	1- 49	Maximum R13m	Maximum R5m
Medium	51 – 200	Maximum R51m	Maximum R19m

Source: Government Gazette of the Republic of South Africa (2003)

*Entrepreneurship* – Entrepreneurship is a dynamic process of innovation, opportunity recognition and creation of a new venture to create wealth, and includes the assumption of the risks and rewards of new venture (Hisrich and Peters, 1998; Shane and Venkataraman, 2000). The discovery and exploitation of opportunities also fall within the definition of entrepreneurship.

*Entrepreneurial Orientation* – Entrepreneurial orientation has been defined as the processes and decision-making activities that lead to a new market entry and the support of business activities (Kropp, Lindsay and Shoham, 2006). Entrepreneurial orientation also refers to the strategy making practices that businesses implement to identify and launch new ventures.



*Strategic Management* – Strategic management is the set of analyses, decisions and actions an organisation undertakes in order to create and sustain its competitive advantage. The prominent topics in strategic management are long-range planning and strategy to determine the long-term performance of a company (Rouse and Daellenbach, 1999).

*Strategic Planning Process* – Strategic planning processes are the activities a company utilises to develop and decide its mission and goals, explore the competitive environment and analyse any strategic alternatives it may be required to implement (Anderson, 2004).

*Strategic Entrepreneurship* – Strategic entrepreneurship refers to the connection between entrepreneurship and strategic management literature (Kuratko and Audretsch, 2009). It can also be described as the integration of entrepreneurial (opportunity-seeking actions) with strategic (advantage-seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth (Hitt, Duane, Camp and Sexton, 2001).

*Firm's Performance* – Performance is defined as a measure of how well or poorly the firm is doing (Phandya and Rao, 1998). Financial measures such as return on investment, return on equity, return on capital, etc. and non-financial measures such as employee retention, market share, etc. are used holistically and collaboratively to measure a company's performance.

## **1.7 Assumptions**

The following assumptions have been made with regards to this study:

- The respondents will be able to understand and adequately respond to the questions asked in the questionnaire.
- The respondents will have had exposure to entrepreneurship as defined in this study, in some form; whether by association, exposure or training.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews the theoretical background, constructs and concepts of entrepreneurship, entrepreneurial orientation, strategic management, strategic-planning processes and strategic entrepreneurship. The background and characteristics of entrepreneurship are presented, the primary concepts of entrepreneurial orientation, specifically innovation, risk-taking and proactiveness, are discussed, a review of strategic management and strategic entrepreneurship is presented; as well as a breakdown of strategic entrepreneurship concepts.

The chapter continues with a review of company performance and the complexity involved in applying performance measures within SMEs.

The chapter concludes with a statement of the problem and the hypothesis tested.

### **2.2 Entrepreneurship**

The use of the term entrepreneurship dates back to the work of Richard Cantillon in 1734, but the concept of entrepreneurship has only become an area of intellectual and academic study since the late 19<sup>th</sup> Century (Katz, 2003), and the bulk of entrepreneurship research has only been undertaken since the last quarter of 20<sup>th</sup> Century. Central to these discussions have been a number of theoretical views on the definition of entrepreneurship (Hisrich and Peters, 1998). However, to date, consensus has not been reached on the definition of entrepreneurship and the elements that characterise it (Shane and Venkataraman, 2000; Hitt et al., 2001).

According to Shane (2003), the lack of a consistent conceptual framework for entrepreneurship is as a result of researchers considering only one part of the

entrepreneurial process rather than all relevant aspects collectively. Other authors and academics have cited the lack of both definitive development and a specific theory of entrepreneurship as the true causes for absence of agreement on the definition of entrepreneurship (Phan, 2004; Kuratko, Ireland, Covin and Hornsby, 2005). This disagreement can be further attributed to other elements, including the way various researchers view the role or action of an entrepreneur (Vesper, 1980). Thus the question remains as to what defines and characterises entrepreneurship.

Past definitions of entrepreneurship have varied in both content and focus, often placing emphasis on individual characteristics, organisational attributes or the practices of either the individual or organisation in business strategy and process. Furthermore, some scholars argue that the definitions of entrepreneurship can be classified into three groups: definitions based on traits or qualities, roles or functions of the entrepreneur in the economic process, and behaviours and activities of entrepreneurs (Kaufmann and Dant, 1998).

Some scholars have classified the definition of entrepreneurship into, two mainstream research approaches as follows the individual approach and the organisational approach. In the individual approach, psychological traits, sociological characteristics and contextual factors of individuals are examined and classified as important for entrepreneurship (Shane and Venkataraman, 2000). In the organisational approach, entrepreneurial activities of organisations, regardless of their type, size, age and the environment in which they operate, are examined. On the theoretical side, elements that are dominant in the definition of entrepreneurship are risk-taking (Cantillon, 1734), representation or meaning of profit (Vesper, 1980), innovation (Schumpeter, 1934), inherent personal attributes (McClelland, 1962) and the importance of the environment and the opportunities it presents (Acs and Audretsch, 2003).

Earlier studies in entrepreneurship research highlighted new venture creation as the primary criteria for something to be considered entrepreneurial (Schumpeter, 1934; McClelland, 1961). Even in recent literature, many

entrepreneurship scholars acknowledge new entry as the “fundamental act of entrepreneurship” (Lumpkin and Dess, 1996:139). Lumpkin and Dess (1996:136) indicate that new entry refers to “entering new or established markets with existing goods or services, by starting a business or through an existing business.” Thus, this definition inherently includes the existence of entrepreneurship in large, established firms, referred to as corporate entrepreneurship or intrapreneurship (Verheul, Uhlaner and Thurik, 2005).

Another foundation for the development of a definition of entrepreneurship has been opportunity recognition (Venkataraman, 1997; Shane and Venkataraman, 2000). Drucker (1964) originally popularised the idea that entrepreneurs maximise opportunities and several recent studies have included the role of opportunity recognition as a key element in the definition of entrepreneurship. This concept is illustrated by the work of Hitt et al.(2001:481), which refers to entrepreneurship as “the identification and exploitation of previously unexploited opportunities”. In a similar manner, George and Zahra (2002:590) refer to entrepreneurship as “the act and process by which societies, regions, organisations, or individuals identify and pursue business opportunities to create wealth”.

When defining entrepreneurship, it is critical that a distinction is made between the process of entrepreneurship and the content, or event, of entrepreneurship (Lumpkin and Dess, 1996). Following this distinction, the definition of entrepreneurship adopted for this study is that “entrepreneurship is a dynamic process of innovation, opportunity recognition and creation of a new venture to create wealth, and includes the assumption of the risks and rewards of new venture” (Hisrich and Peters, 1998; Shane and Venkataraman, 2000). This definition encompasses both individual and organisational approaches that are clarified in most of the definitions of entrepreneurship examined above.

### **2.2.1 Entrepreneurship and Economic Growth**

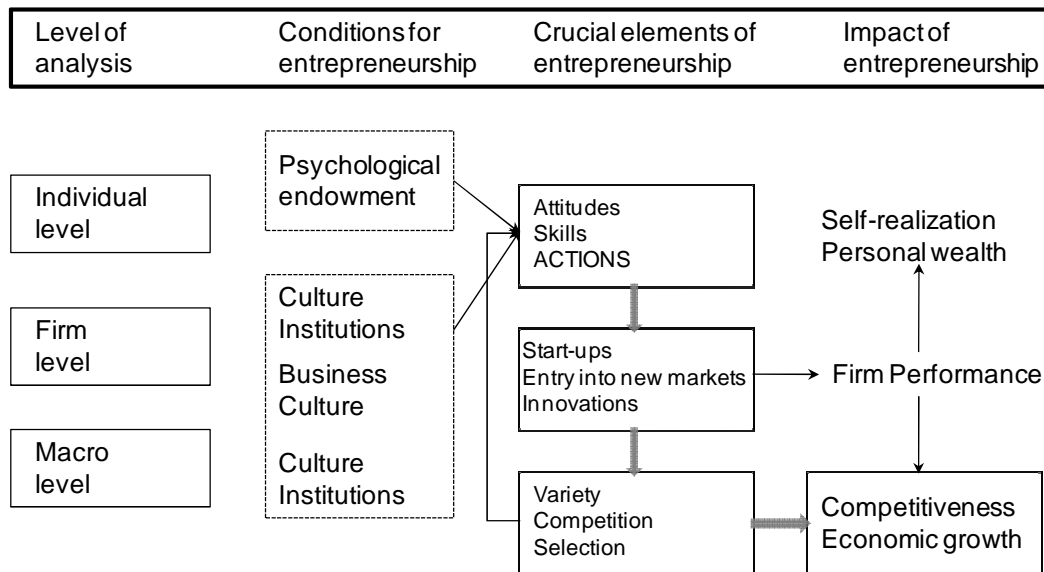
Entrepreneurship is a crucial factor in the economic development of any country, and is even more significant in a developing country such as South Africa (Haasje, 2006). Small enterprises play a valuable role in employment creation, stability, competitiveness, developing skills and ensuring economic growth. In South Africa, the Government, in an attempt to provide favourable business environment, has put in place strategies and policies, and provided a large amount of resources and financial support to encourage the development small medium and micro-enterprises (SMME) (Ahwireng-Obeng, 2005).

The hypothesis that entrepreneurship is linked to economic growth finds its most basic foundation in simple intuition, common sense and economic observation: activities to convert ideas into economic opportunities and, by extension, growth lie at the very core of what entrepreneurship is. Entrepreneurship was a central area of interest and research for a number of leading economic theorists in the early 20<sup>th</sup> Century, then the level of interest diminished for a period of time until it increased again in the 1970s (Karlsson, Friis and Paulsson, 2004). The positive connection between entrepreneurship and economic growth is based on the entrepreneur identifying and profiting from a situation of disequilibrium by improving the inefficiencies or deficiencies in a specific economic market (Kirzner, 1973). In extension to Kirzner's model, Holcombe (1998) argues that these opportunities must come from somewhere; namely the insights of other entrepreneurs. Thus, entrepreneurship generates more entrepreneurship and further economic growth.

According to Schumpeter (1942), "an entrepreneur is a person who carries out new combinations". New combinations comprise better ways to increase existing demand or develop new products, and in a process referred to as "creative destruction" the new combinations often render the current technologies and products obsolete. Finding new combinations of factors of production is a process of entrepreneurial discovery that will become the engine that drives economic development. The process of "creative destruction" is built

on dynamic, deliberate entrepreneurial efforts to change market structures and can be an invaluable element for additional innovation and profit opportunities. The concept of creative destruction is the basis for Schumpeter's theory of long waves of business cycles and economic growth. Business cycles are seen as the result of innovation, which consists of the generation of a new idea and its implementation in the form of a new product or process of service, which in turn leads to the dynamic growth of the national economy, an increase in employment and creation of pure profit for the innovative enterprise (Schumpeter, 1911; Schumpeter, 1942; Dejardin, 2000; Thurik and Wennekers, 2001).

There are two models that have succeeded in linking entrepreneurship to economic growth (Anon, 2004). These models are proposed by (Wennekers and Thurik, 1999) and the GEM research programme. Wennekers' and Thurik's model distinguishes between three levels of analysis: individual level, the firm level and the macro level. According to the authors, entrepreneurial activity originates at the individual level and can always be traced to a person, the entrepreneur. The individual entrepreneur operates within a given space, the firm level, which has a specific culture, institutional factors and business environment that will have either a positive or negative effect on entrepreneurial activity. Figure 2.1 shows the Wennekers and Thurik Model.

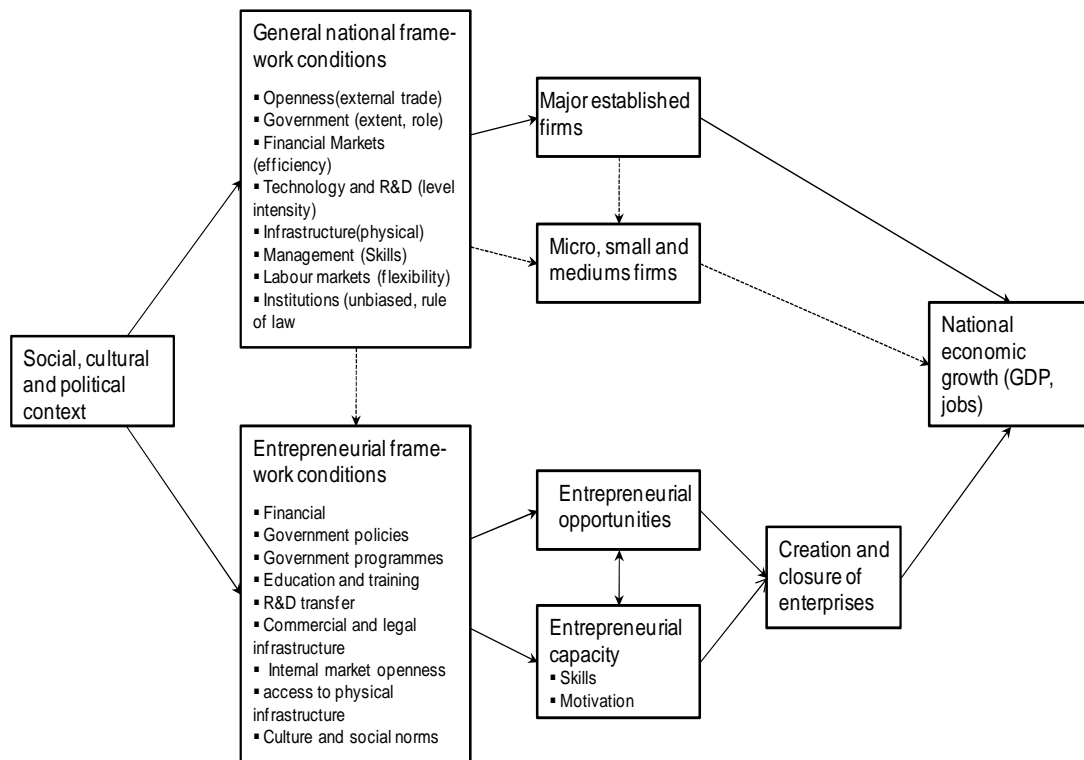


Source: Carree and Thurik (2002): 20

**Figure 2.1: The Wennekers and Thurik Model**

The model indicates that innovations and start-ups are vehicles for transforming personal entrepreneurial qualities and ambitions into actions. The innovations and start-ups foster an environment of competition that translates into actual changes in the market. As the market changes, new opportunities are created and the macro level of the economy is influenced. The Wennekers and Thurik model indicates that entrepreneurial activity expands and transforms the productive potential of the economy by inducing higher productivity, an expansion of existing industries and the creation of new niches.

The GEM conceptual model approaches the concept from a different angle compared to the Wennekers and Thurik model. It analyses the success of large firms in advancing market opportunities for SMEs and the role of entrepreneurship in the enterprise creation/growth process. It suggests entrepreneurship is one of the main instruments driving macroeconomic growth along with the entrepreneurial complementary nature.



Source: Geneva 2004

**Figure 2.2: The GEM Conceptual Model**

The uppermost portion of figure 2.2 above shows the role of large established firms. Depending on whether or not the national framework conditions allow for it, large firms are generally integrated in the international financial markets, areas of technology and play a role in research and development (R&D). Large firms are able to stimulate the SME sector through technological spill-overs, spin-offs and increased domestic demand for goods and services that the SME sector can supply. The created opportunities require a competitive and stable SME sector for them to be successfully exploited and be profitable. The bottom portion of figure 2.2 shows the second mechanism driving economic growth, the role of entrepreneurship in the creation and growth of firms. The entrepreneurial process occurs in the context of a set of framework conditions as illustrated in the diagram above. The creation of enterprises is dependent on the entrepreneurial opportunities and entrepreneurial capacity. As much as large



firms can assist in the creation and stimulation of smaller enterprises, SMEs are also capable of improving the profitability of large firms by supplying competitively priced and reliable products and services to the large firm to improve its bottom-line.

The link between entrepreneurship and economic growth has been established through entrepreneurial activities namely, competition, innovation and job creation through business start-ups. According to Geroski (1994), competition plays a significant role in stimulating productivity, with both new firms and new ideas provoking movements towards, and movements of, the production frontier, which would not have occurred in its absence. An econometric study of the United States (US) telephone industry by Gort and Sung (1999) shows that increased competition has led to greater efficiency within the industry. Competition can influence efficiency in four ways: greater incentive to stimulate demand, higher quality of capital inputs, lower monitoring costs and greater efficiency of firm-specific organisational capital (Gort and Sung, 1999).

In terms of business start-ups and economic growth, a study by (Baldwin and Picot, 1995) shows that small firms have a higher gross volatility in job growth creation the study also show a higher net employment growth than that of large firms. The Global Entrepreneurship Monitor (GEM) 2000 concludes that there is a strong relationship between entrepreneurial activities, defined as start-up activities, and economic growth. The GEM report 2000, claims the definition of entrepreneurship constitutes the singularly most important factors for economic growth. The relative importance of small firms is not undisputed as Davis, Haltiwanger and Schuh (1996) and Bednarzik (2000) remark in their studies, but Davis et al., (1996) argue that, although smaller firms have a higher gross job creation rate, large firms simply supply more in terms of net job creation.

The findings of the study by Davis et al (1996) are contrary to the findings of Baldwin and Picot (1995). The former's conclusion is drawn from a study of data from the U.S Census Bureau between the years of 1972 and 1998, whereas Baldwin and Picot (1995) studied the Canadian manufacturing sector from 1970

to 1976. This difference indicates that, while an international comparison of the relative importance of small firms with respect net job creation is critical, the results are likely to differ between countries due to institutional reasons and the time the study was conducted (different economical times). The above research shows that the results of this study cannot be extrapolated to other countries without prior research.

### **2.3 Entrepreneurial Orientation**

The contemporary research on entrepreneurship began with the work of Joseph Schumpeter (1883–1950), who emphasised the importance of new entry for business innovation in one of his earliest works: *The Theory of Economic Development* Schumpeter (1936), which refers to the process as creative destruction. Schumpeter focused on innovation and the individual entrepreneur and maintained that wealth was created when factors were changed, whether by introduction of new products, new services or within an organisation, such as the creation of a new section within an established firm. According to Dess & Lumpkin (2005), the entrepreneurial orientation concept draws upon prior research that views strategy development in terms of patterns of action or decision-making styles that can be generalised across organisations.

Entrepreneurial orientation refers to a firm's strategic orientation and capturing of specific aspects of decision-making styles, methods and practices. As such, it reflects how a firm *operates* rather than what it *does* (Lumpkin and Dess, 1996). The importance of entrepreneurial orientation to the survival and performance of a company has been acknowledged in a variety of entrepreneurship literature (Miller, 1983; Zahra and Covin, 1995; Lumpkin and Dess, 2001) and many fast-growing corporations attribute much of their success to an entrepreneurial orientation (Dess and Lumpkin, 2005). Five dimensions: autonomy, innovativeness, proactiveness, risk-taking and competitive aggressiveness, have been useful in characterising and distinguishing key entrepreneurial processes, that is, a firm's entrepreneurial orientation. However, in this study we

limit the focus to only the innovativeness, proactiveness and risk-taking constructs of entrepreneurial orientation.

Entrepreneurial orientation generally involves a willingness to innovate, engage in risky exercises, take self-directed actions and be more proactive and aggressive in exploiting new opportunities in the marketplace (Lumpkin and Dess, 1996). Innovativeness refers to the propensity of a firm to implement new ideas and creative processes that may result in the development of a new product, service or technological process (Wicklund, 1999). The proactiveness element of entrepreneurial orientation reflects the extent to which a firm can be defined as a leader or a follower, and it is associated with aggressive posturing in relation to competitors (Teece, Pisano and Shuen, 1997). Risk-taking refers to the extent to which a firm is willing to invest resources in significant, and potentially risky, investments (Freel, 2005).

According to Wicklund & Shepherd (2003), firms with entrepreneurial orientation possess the ability to discover and exploit new market opportunities. Further research has also shown that companies with entrepreneurial orientation can respond to challenges effectively and prosper in a competitive and dynamic environment (Shane and Venkataraman, 2000).

This research evaluates the three elements of entrepreneurial orientation further below.

### ***2.3.1 Innovativeness***

Increased and ongoing product innovation is of major importance in today's highly competitive environment. The entrepreneurial orientation subdivision of innovativeness examines a company's ability to engage in, and support, new ideas, novelties, experimentation and creative processes that may result in new products, services or technological processes (Lumpkin and Dess, 1996). Innovativeness has been widely considered to be a component of the entrepreneurial process since Schumpeter recognised it as the fundamental

undertaking of the entrepreneurial organisation. Many scholars agree with Schumpeter's statement that innovation is a driving force behind the creation of new ventures and new products (Lindelof and Lofsten, 2006; Kroeger, 2007). However, managing innovativeness within a firm can be challenging. Challenges may arise from funding of R&D departments that drive innovation to acquiring competent human resources for the departments.

Entrepreneurial innovation can be defined as the willingness to support creativity and experimentation in the introduction of new products or services and the use of technological leadership and research and development (R&D) in developing processes (Lumpkin and Dess, 2001). Inventions and new ideas need to be nurtured even when their benefits are not immediately clear, because should the new concept prove successful, it will result in profits and project the company to greater heights of performance. Innovativeness requires that firms move away from existing technologies and practices and undertake new ideas and ways of doing things (Lumpkin and Dess, 1996). Innovation comes in many different forms; the prominent three are as follows:

- Technological innovation: this consists of research and engineering endeavours aimed at creating new products and services;
- Product market innovativeness: this is comprised of market research, product design and innovations in advertising and promotion; and
- Administrative innovativeness: this refers to novelty in management systems, control techniques and organisational structure.

These innovative processes offer the advantage of low costs, rapid production, faster distribution, better quality and improved customer service (Lumpkin and Dess, 1996). According to Dess, Lumpkin & Covin (1997), product-market innovativeness includes an emphasis on product design, market research, advertisement and promotion. Dess et al. (1997) states that technological innovativeness focuses primarily on product and process development, engineering, R&D, technical expertise and industry knowledge. A study by Roberts (1999) clearly demonstrates that innovative propensity influences the

extent to which abnormal profit outcomes persist over time, that is, more innovation = greater profit.

Innovation is dependent on a variety of factors, such as innovative behaviour, work environment, learning orientation and organisational learning procedure (Hult and Ferrell, 1997; Zahra and Ireland, 2000; Kleysen and Street, 2001). The particular capabilities of organisations for creating and sharing knowledge derive from a range of factors, including, but not limited to, the specific facilities organisations have for the creation and transfer of tacit knowledge, and the organising principles by which individual and functional expertise are structured, coordinated, and communicated, and through which individuals cooperate and organisations as social communities (Kogut and Zander, 1993; Spender, 1996; Nahapiet and Ghoshal, 1998). Table 2.1 shows the factors influencing an organisation's ability to manage innovation.

**Table 2.1: Factors influencing a firm's ability to manage innovation**

<b>Factor</b>	<b>Sub-Factors</b>	<b>Study</b>
Technology	Utilisation of technology; Technical skills and education	Erdener & Dunn, 1995
Innovation process	Idea generation; Implementation mechanism	Knight, 1987; Amar, 2004
Corporate strategy	Organisational strategy; Strategic decision making	Damanpour & Evan, 1984; Read, 2000
Organisational structure	Centralisation; Formality	Mintzberg, 1992
Organisational culture	Communication; Attitude to risk	Hofstede, 2001
Employees	Motivation to innovate; Training	Ahmed, 1998; Mostafa, 2005
Resources	Utilisation of slack resources; Financial resources	Nohria & Gulati, 1996; Knight, 1987
Knowledge management	Organisation learning; Utilisation of knowledge repositories	Salavou, 2004
Management style and leadership	Management style; Motivation of employees	Hyland & Beckett, 2005

Source: O'Regan and Ghobadian ( 2002), Effective Strategic Planning in Small and Medium Sized Firms.

Innovativeness can be a source of significant growth and development in new firms and according to Drucker (1985), innovation is the primary activity of entrepreneurship. Companies need to take a conscious decision to support and invest in innovative research and development and to create an environment in which it can develop. However, there are also major pitfalls for firms that invest heavily in innovation. Expenditure on R&D aimed at identifying new products or processes can be a waste of resources if the effort does not yield results.

Therefore, while innovativeness is a vital aspect of company performance, it also involves major risks (innovative ideas do not always yield profits) of which the company must be aware and prepared for, because investments in innovations may not pay off.

### ***2.3.2 Measures of Innovation***

Some scholars have used different measures to account for innovativeness within a firm and measures have differed based on the type of innovativeness being measured; technological or product/market. According to Lumpkin & Dess (1996), firms lie along a continuum of innovativeness, ranging from a willingness to try a new product line or new technology to a enthusiastic pursuit of, and commitment to, an industry-leading technological product advancement.

Innovation measurements within firms have mainly existed in the form of individual responses from surveys or an analysis of existing financial, and other organisational, data such as resources and structure (Zahra and Covin, 1993). Technological innovation focuses on the pursuit of new processes or production methods, thus indicating a need for alternative measurements to those that measure product innovation. These measurements are based on a firm's levels of focus on technological development, ability to adopt new processes and its desire to gain a reputation for trying and producing new processes (Zahra and Covin, 1993). This is in contrast to a previously used measure for product/market innovation; a count of the number of new products or services introduced by an organisation (Covin and Slevin, 1989).

Measures of innovation have historically focused on measuring the resources a company has invested in R&D. Miller (1988) examined R&D expenditure as a percentage of total sales as an indicator of how innovative a particular company is. The variety of measures that can be used to identify and analyse the innovativeness of an organisation provides a strong foundation for future investigation of this variable, thus making the different measures useful in examining the overall innovative nature of a firm.

### **2.3.3 Proactiveness**

A firm's propensity to identify and seize new opportunities can be referred to as proactiveness (Lumpkin and Dess, 1996). Proactive firms monitor trends, identify the future needs of existing customers and anticipate changes in demand or potential problems that could lead to new venture opportunities. Kocel (1995) described the concept of proactiveness as "giving direction" to the events by identifying and forecasting the future needs, expectations and changes instead of taking action and responding only once they have already emerged. Proactiveness is an attitude of anticipating and acting on future wants and needs in the marketplace and creating a "first mover advantage" (Lumpkin and Dess, 2001). "First mover advantage" refers to the benefit gained by firms that are the first to enter new markets, establish brand identity, implement administrative techniques or adopt new operating technologies in an industry (Dess and Lumpkin, 2005).

There are several advantages attached to being a first mover. Where competition would usually drive down the price of the product or service, industry pioneers often capture unusually high profits because of a lack of competition. First movers that successfully establish brand recognition are usually able to retain their image once other players enter the market and hold on to the market share gains they earned by entering the market first. In general, first movers have an advantage that can be sustained until the industry enters the maturity phase of its life cycle (Freel, 2005). At products' maturity



phase, competition from new players as well as development of new products that can likely substitute the product at maturity phase may result in the first mover losing advantage. The first mover advantages identified by Freel (2005) concur with a definition of proactiveness offered by Dess & Lumpkin (2005), in that proactiveness involves recognising changes and having the willingness to act on those insights ahead of competitors in an attempt to gain higher profits.

The two main attributes of proactiveness are aggressive competitive behaviour directed at rival firms and the organisational pursuit of favourable business opportunities (Stevenson and Jarillo, 1990). According to Aloulou and Fayolle (2005), it has been a challenge to investigate whether or not these concepts can be applied to SMEs. Proactiveness is effective in creating competitive advantage because a company that is an initiator is able to penetrate the market first and its competitors are forced to respond to the initiator's actions rather than initiate their own (Lumpkin and Dess, 1996). According to Knight (1997), proactiveness is an important vehicle for the survival of firms and for higher performance and, therefore, sustainable success.

However, Dess & Lumpkin (2005) argue that being an industry leader does not always lead to competitive advantage. Some firms that have launched pioneering new products or staked their reputation on new products have failed to get the pay-off they hoped for. Therefore, careful monitoring and scanning of the environment, as well as extensive feasibility research is needed for a proactive strategy that will result in competitive advantage. Firms that do this well usually have significant growth and internal development.

#### ***2.3.4 Measures of Proactiveness***

Determining ways in which to accurately measure proactiveness has been the focus for a number of scholars and is a topic of ongoing discussion. One topic of particular interest arises when attempting to measure proactiveness as a continuous variable. Proactive firms are viewed as aggressive in response to

competitors, while a company on the opposite spectrum of the continuum would be labelled as “reactive” (Knight, 1997). However, Lumpkin & Dess(1996) suggest that the use of the term “reactive” is inappropriate, as it suggests the company is still responding to its competitors, and not simply doing nothing at all. Thus, they suggest measuring proactiveness on a continuum ranging from “proactive” to “passive”. Using the concepts of proactiveness as the anchors of the continuum, reactiveness would fall in the middle and represents firms which are not market leaders, but have the ability to adapt to change and recognise the need to pursue developing markets, but are not pioneers in doing so.

One of the measures for proactiveness used by scholars is that of the tendency of a firm to be a leader, rather than a follower, in the development of new technologies, products, processes, etc. (Miller, 1983; Covin and Slevin, 1989). This approach removes the possibility of a purely objective measure but allows for a more realistic examination of how proactive a company actually functions, as it does not require the organisation under examination to be the first mover. It must be noted that some studies have failed to find a significant difference between innovativeness and proactiveness when factor-analysing the latent constructs of the variables (Morris and Paul, 1987), thus resulting in a single dimension representing both constructs. In this study, innovation and proactiveness will be treated individually.

### ***2.3.5 Risk-taking***

The concept of risk-taking in entrepreneurship refers to the willingness of entrepreneurs to take calculated business-related risks (Brockhaus, 1980). To be successful, SMEs usually have to take on riskier projects, even if it means foregoing the methods or products that have worked for other businesses (Lumpkin and Dess, 2001). For better firm performance and high returns, firms take risks such as accumulating high levels of debt, committing large amounts of resources, introducing entirely new products into new markets and investing in unexplored technologies (Dess and Lumpkin, 2005).

The three types of risk that firms face are business risk, financial risk and personal risk (Dess and Lumpkin, 2005):

- Business risk is the risk involved in a firm entering into a business venture without knowing the probability of success.
- Financial risk is the risk a firm takes when borrowing or committing significant amounts of money in order to increase returns, with no absolute guarantee of return.
- Personal risk refers to the risks that an entrepreneur assumes when deciding in favour of a strategic course of action.

Risk-taking behaviour dominates entrepreneurial literature, and entrepreneurial firms are characterised by their confidence and the high tolerance they have for risk that could potentially lead to new opportunities (Chow, 2006). According to Covin and Slevin (1991), a company that does not take risks in a dynamic environment will lose market share and will not be able to compete successfully with the other entrepreneurial firms in the same sector.

As is highlighted in most entrepreneurship literature, the strength of an entrepreneur lies in his or her ability to identify and exploit opportunities. Successful entrepreneurs avoid focusing on potential risk and rather centre their attention on exploiting opportunities (Drucker, 1985). The significance of adaptation to environmental change and exploitation of opportunities is extensively analysed in existing strategic management and entrepreneurship literature (Shane and Venkataraman, 2000).

Risk-taking, by its very nature, involves potential dangers and pitfalls and only risks managed by vigilance are likely to lead to competitive advantage. In contrast, actions taken without sufficient forethought, research and planning may prove to be very costly, due to losses resulting from poor risk analysis, assessment and mitigation.

### **2.3.6 Measures of Risk Taking**

The amount of risk firms are willing to accept has been researched in many different ways (Brockhaus, 1980; Miller, 1983; Sitkin and Pablo, 1992). The threat of organisational risk is present in every firm; Lumpkin and Dess (1996) claim no firm operates at a level of zero risk. This leaves firms to consider the level of risk they are willing to actively pursue, or tolerate in many cases. Risk is assumed through heavy borrowing, excessive resource commitments and/or entering an unknown market environment. Based on this, the level of risk in a firm can be plotted along a continuum, ranging from low risk to high risk.

A common measure of risk focuses on the risk level of projects assumed by an organisation (Miller, 1983). This approach measures the number of high-risk R&D projects pursued, and the resources allocated to those projects, to assess an organisation's propensity for risk-taking. Other approaches used include examination of the risk orientation of individuals, risk analysis by decision makers, past history of performance in high-risk situations, risk preferences of organisations or individuals and the perceptions of risk-related problems (Brockhaus, 1980; Miller, 1983; MacCrimmon and Wehrung, 1990; Sitkin and Pablo, 1992). The extensive research undertaken on the many areas of risk illustrates the influence of this variable on organisational action and its importance in research.

## **2.4 Strategic Management**

The fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage. According to Barney (1991), strategic management frameworks enable firms to gain competitive advantage by strategically positioning themselves to "exploit the internal strengths, through responding to the environmental opportunities, while neutralising external threats and avoiding internal weaknesses." A company's strategic management research may focus on the internal strengths and weaknesses, or focus on the

external opportunities and strengths (Porter, 1980; Duschek, 2004). The majority of the research conducted in this field has focused on the external factors.

Strategic management consists of the analysis, decisions and actions an organisation undertakes in order to create and sustain competitive advantage (Dess, Lumpkin and Marilyn, 2005). The aim of strategic management is to decide on organisational goals, the means required to achieve these goals and to ensure that the firm is suitably positioned in order to pursue these goals (Browne, 1994).

From this definition of strategic management, three ongoing processes can be recognised: analysis, decisions and actions. The analysis process of strategic management is concerned with analysing the goals of the organisation (vision, mission and strategic objectives) in the context of the internal and external environment in which it operates (Dess et al., 2005). Once analysis has been done, decisions need to be taken based on the information gathered and analysed that will result in competitive advantage for the company. The last process of strategic management is the implementation of the decisions made.

Various researchers have conducted studies to determine whether firms that engage in strategic management outperform those that do not (Herold, 1972; Karger and Malik, 1975). Powell (1992) observed that, generally, research reveals that strategic management leads to improved performance far more frequently than it results in no change or in even poorer performance.

The real value of strategic management for SMEs lies in the future orientation of the planning process rather than in any written strategic plan (Bryson and Bromiley, 1993). Some studies revealed that an overly formal process may, in fact, have negative effects on the development and sustainability of an SME (Robinson and Pearce, 1983). A reliance and emphasis on a rigid and written strategic plan may prove to be disabling to some SMEs because it restricts the flexibility that is crucial to their success

## 2.5 Strategic Planning Process

Research has consistently shown that most SMEs do not engage in strategic planning activities (Robinson and Pearce, 1984; Sexton and van Auken, 1985; Beaver, 2003). This is in conflict with much of the strategy literature that dictates that enterprises must actively plan for the future to compete effectively and survive (Ennis, 1998). The concern here is that in neglecting strategic planning, SMEs may not achieve their full performance and growth potential, and their survival could be placed at risk (Berry, 1998). Subsequently, considerable research effort has been expended on identifying barriers that hinder planning so these may be overcome or, at least, mitigated and strategic planning encouraged in SMEs.

Strategy is defined by Farjoun (2002:572) as: “the planned or actual co-ordination of the firms major goals and actions in time and space, that continuously co-align the firm with its environment”. This definition encapsulates three inter-related points: behaviour, co-ordination and adaptation. Strategy is arguably one of the most challenging tasks facing any firm, given the increasingly volatile business environment. It is necessary to ensure that, as far as possible, the firm ‘fits’ the outside environment and meets its customer needs both effectively and efficiently (Drihlon and Estime, 1993). Strategy is the core aspect of strategic planning.

Strategic planning is concerned with the setting of long-term organisational goals, the development and implementation of plans to achieve these goals and the allocation or diversion of resources necessary for realising the set goals (O'Regan and Ghobadian, 2004). Essentially, strategic planning is a set of concepts, procedures and tools designed to assist managers, owners and leaders to act strategically in order to gain competitive advantage. According to O'Regan and Ghobadian (2002), the purpose of strategic planning is to enable a business to gain, as efficiently as possible, a sustainable edge over its competitors. Porter (1996:52) states that effective strategic planning gives a firm competitive advantage over its competitors as it “renders choices about what

not to do, as important as choices about what to do". He continues by saying that "the root of the problem is the failure to distinguish between operational effectiveness and strategy," as the firms pursue the same goal of organisational effectiveness, which he compares with "a series of races down identical paths, that no one can win," instead of clarifying their strategies, which will give them competitive advantage.

Comprehensive review of small business literature suggests that, *ceteris paribus*, strategic planning is generally more common in better performing enterprises (Lurie, 1987; Miller and Cardinal, 1994; Hormozi, Sutton, McMinn and Lucio, 2002). Small businesses that engage in strategic planning are likely to be more innovative, develop newly patented products and employ new process and management technologies that will enable them to achieve international growth (Upton, Teal and Felan, 2001; Gibbons and O'Connor, 2005). Roper (1997) reached a similar conclusion in his study of strategic planning in 703 small firms. Berman, Gordon and Sussman (1997) found that "firms that plan produce better financial results than firms that do not plan." Ghobadian and O'Regan (2000) carried out a comprehensive review on previous empirical research as they examined the link between strategy and performance. The findings of this review showed a positive correlation between strategy and performance, meaning that, firms which strategise stand to be more profitable and successful than firms which do not strategise.

Numerous writers argue that these mixed results are due to the lack of a clear definition of strategy and a consistent method for measuring performance in the study (Snow and Thomas, 1994; Boyd and Reuning-Elliott, 1998). Others suggest that the differences in the empirical study findings can be attributed to lack of industry variety (Risseeuw and Masurel, 1994) or a small sample size (Matthews and Scott, 1995).

Despite all the advantages gained through the application of strategic planning, research shows that most SMEs do not engage in strategic planning (Robinson and Pearce, 1983; Orser, Hogarth-Scott and Riding, 2000; Sandberg, Robinson

and Pearce, 2001). The primary focus of small business operators is on short-term operational actions, rather than long-term strategic issues, and their decision-making is generally reactive and intuitive as opposed to proactive and deliberate (Gaskill, van Auken and Manning, 1993; Brouters, Andriessen and Nicolaes, 1998; Mazzarol, 2004). The ways in which small firms tend to respond to change exemplifies this. Firstly, they tend to look inwards rather than outwards at the external environment and ignore change, or do not see that there is change. Secondly, some continue to rely on efficiency-based measures as their 'strategic plan' for the future, rather than real strategic planning. Thirdly, some believe that, as they are part of a localised supply chain, they are immune to any external influences; which they are not. For those small business operators that do plan, planning is commonly *ad hoc* rather than formal and therefore provides little basis upon which performance can be measured (Kelmar and Noy, 1990).

According to Mazzarol (2004), SME owners and managers have been accused by scholars of being strategically myopic and lacking in long-term vision as to the strategic direction of their companies. The concern is that, by not focusing on strategic planning, SMEs may not reach their full performance and growth potential, and their survival could be placed at risk (Berry, 1998). The main influences on strategic planning are arguably, organisational culture and leadership.

Culture is defined as 'the way things are done in business' illustrating a company's philosophy or characteristics that distinguish one organisation from another (Hofstede, 1984:328). Organisational culture is often seen as a conduit through which top management can encourage the development and implementation of corporate strategy (O'Regan and Ghobadian, 2005). Conversely, culture can be a major obstacle in the implementation of new ideas, processes and systems. Depending on the culture of the firm and its propensity to innovate, employees may be discouraged to be innovative and come up with new products and process.



## 2.6 Strategic Entrepreneurship

Strategic entrepreneurship has emerged through a combination of strategic management literature and entrepreneurship literature (Simmons, 2010). It incorporates aspects from both fields to combine entrepreneurial actions with strategic perspective (Ireland, Hitt and Sirmon, 2003; Simmons, 2010). According to Ireland et al. (2003), strategic entrepreneurship is the action of simultaneously engaging in the search for opportunities and competitive advantage for devising and implementing entrepreneurial strategies that create wealth. Therefore, strategic entrepreneurship involves opportunity-seeking and advantage-seeking behaviours that result in superior firm performance (Ireland et al., 2003). Strategic entrepreneurship is a new concept in entrepreneurship literature, however, it is an important one, in that effective strategic entrepreneurship practices result in a firm being able to form a balance between opportunity-seeking and advantage-seeking behaviours (Ireland et al., 2003).

Due to the extremely competitive business environment, the integration of entrepreneurship (entrepreneurial orientation) and strategic management (strategic orientation) has been increasingly explored by numerous researchers based on the concept of strategic entrepreneurship (Ireland et al., 2003). Scholars have debated whether strategic entrepreneurship is a framework, model, theory, paradigm, concept or a simple point of reference (Schindehutte and Morris, 2009). During the course of this process, four distinctive dimensions of strategic entrepreneurship have been identified: entrepreneurial mindset; entrepreneurial culture; entrepreneurial leadership; and applying creativity and developing innovation (Ireland and Webb, 2007).

Entrepreneurial mindset is both an individualistic and collective phenomenon in that it is important for individual entrepreneurs *and* for managers and employees in established firms to think and act entrepreneurially (Covin and Slevin, 2002). Entrepreneurial mindset is a way of thinking about business that focuses on, and captures the benefits of, uncertainty (McGrath and MacMillan, 2000). Organisations that are capable of successfully dealing with uncertainty

tend to outperform those that are unable to do so (Brorstrom, 2002). Based on academic literature, it is believed that effective strategic entrepreneurship helps a firm position itself in such a way that it is capable of successfully responding to the types of significant environmental changes that affect many firms in the current competitive business arena (Ireland and Webb, 2007).

Entrepreneurial culture is a system of shared values and beliefs that shape a firm's structural arrangements and its members' actions to produce behavioural norms (Dess and Picken, 1999). A firm's culture affects its employees' expectations of one another as well as their expectations of interactions with external stakeholders.

Entrepreneurial leadership is the ability to influence others to manage resources strategically in order to identify and display both opportunity-seeking and advantage-seeking behaviours (Covin and Slevin, 2002). Covin & Slevin (2002) argue that entrepreneurial leadership is characterised by six essential elements: supporting an entrepreneurial capability, protecting innovations threatening the current business model, making sense of opportunities, questioning the dominant logic, revisiting the deceptively simple questions and linking entrepreneurship and strategic management.

Further constructs of strategic entrepreneurship are the application of creativity and the development of innovation. First movers in innovation impact significantly on competitors' market power and enjoy, potentially transient, monopoly advantages and abnormal profits because of the slower actions of competitors (Thesmar and Thoenig, 2000). According to Hitt et al., (2001), innovations resulting from new combinations of production factors are critical to a firm's wealth-creating efforts. Innovation is linked to successful performance of organisations in both the industrial and service sectors as well as to the greater economy as a whole (Kluge, Meffert and Stein, 2000). Effective innovations create new value for customers (Mizik and Jacobson, 2003) , and therefore the organisation performs well.

Creativity is also an essential element for increased performance. Barney & Arikan (2001) argue that creativity is increasingly important, especially for companies operating in markets with multiple opportunities to differentiate goods and services. Creativity is a continuous process rather than the outcome of a single act, is the basis of innovation and is encouraged when the resources supporting it are managed strategically (Barney and Arikan, 2001).

## **2.7 External Environment**

The understanding of environments, in the context of environmental studies, generally draws upon three dimensions; munificence, complexity and dynamism (Freel, 2005). Munificence indicates a firm's dependence upon environmental resources, while complexity and dynamism reflect the degree of uncertainty the firm faces. According to Milliken (1987), there are three types of environmental uncertainty in which a company could operate:

- Effect uncertainty is the inability to predict the nature of the effects of a future state of the environment on the organisation.
- Response uncertainty is the inability to predict the likely consequences of a response choice.
- State uncertainty is the situation that occurs when managers do not feel confident that they understand the significant events in an environment or feel unable to accurately assign probabilities to the likelihood that a particular change or event will occur.

It is generally accepted that a manager's perception of the environment is more important than the actual state of the environment (Duncan, 1972; Miller, 1988). If managers perceive an environment to be uncertain they are likely to make decisions that are designed to deal with uncertain environments. According to Freel (2005), environments are neither certain nor uncertain in themselves but perception makes them so. Perceptions of environmental uncertainty occur when executives fail to predict the future changes in the mechanisms of the

environment or possess an incomplete understanding of the relationship between components of the environment (Buchko, 1994). Furthermore, uncertainty is considered to be a function of dynamism and complexity; the more complex and shifting the environment, the higher the level of environmental uncertainty (Damanpour, 1996).

A study by Russell & Russell (1992), shows that one of the few sets of consistent findings in innovation literature is that innovation is positively correlated with environmental uncertainty. The explanations for the findings are that:

- A high degree of innovation leads to perceptions of increased uncertainty among managers, that is, innovation causes environmental uncertainty. By contrast, the alternative reasoning suggests that high levels of uncertainty generate more innovation through greater scope for opportunity-seeking and adaptive behaviour (Russell and Russell, 1992).
- Environmental uncertainty requires firms to change and adapt.

Dynamic environments are associated with high unpredictability levels in terms of customers and competitors that trade within them and high rates of change in market trends and industry innovation (Dess and Beard, 1984). In dynamic environments within which levels of demand change rapidly, opportunities become abundant and performance should be highest for those firms that have an orientation to actively pursue new opportunities. In other words, it is expected that the alignment of entrepreneurial orientation and a dynamic environment would have a positive effect on performance (Wicklund and Shepherd, 2005). Firms that are not flexible enough to adapt to a dynamic environment are less likely to benefit from the environment in which they operate, because market demand might shift from a firm's existing products. This will inevitably negatively impact performance if it does not have new products that align with the changes and movements in the environment.

A study by Zahra (1993), found that a strong positive relationship exists between entrepreneurship and performance among firms in dynamic environments, whereas there was a predominantly negative relationship between the two factors in firms that operated in static and impoverished environments. These findings correlate with the findings of a study by Miller (1988), in that innovative strategies in dynamic environments were associated with higher performance.

## **2.8 Firm Performance**

Accurate and appropriate measurement of performance is a critical element in entrepreneurship research (Murphy, Trailer and Hill, 1996). According to Laitinen (2002), a well-organised system of performance measurement may be the single most powerful mechanism at management's disposal to enhance the probability of successful strategy implementation. In many of the studies in the field of strategic entrepreneurship, firm performance is defined as a dependent variable and the entrepreneurship activity of the firm is considered an independent variable. There is strong agreement among the researchers that the results of successful entrepreneurial activities positively correlate with the improvement of a company's performance (Zahra, 1991; Zahra and Covin, 1995; Wicklund and Shepherd, 2005).

Measuring absolute firm performance is very difficult, because the concept is complex and multi-dimensional. Researchers suggest that multiple performance indicators should be used to measure this complex construct (Lumpkin and Dess, 1996). The predictable approach to firm's performance has been to consider financial performance (Slater, Olson and Venkateshwar, 1997). Another approach to organisational performance is to use measurement against purpose, using perceptual measures of company performance (Steiner, 1979). A similar approach to assessing the level of satisfaction arising from specific factors and actions was adopted by other researchers such as Luo & Park (2001). The literature suggests that responses on performance approach are

reliable (Nayyar, 1992; Tan and Litschert, 1994) as compared to independent data from the organisation.

Much of the research on performance measurement has come from the areas of organisational theory and strategic management. As discussed previously, organisational performance can be measured using financial measures, non-financial measures or a combination of both. The financial measures include profit before tax and turnover while the non-financial measures focus on issues pertaining to customer satisfaction, customer referral rates, delivery time, waiting time and employee turnover (Haber and Reichel, 2005). The performance measures used in this report are a combination of financial and non-financial measures.

Several researchers have suggested that subjective performance measurement may be appropriate given the restrictions imposed by objective measures (Dess and Robinson, 1984; Gupta and Govindarajan, 1984c). Objective measures works mostly with more developed companies and do not fully accommodate SMEs.

### ***2.8.1 Entrepreneurial Orientation and Firm Performance***

The relationship between entrepreneurial orientation and firm performance has been at the forefront of entrepreneurship literature for many years. Numerous scholars have theorised about the positive relationship that exists between entrepreneurial orientation and profitability and/or growth of the firm (Covin and Slevin, 1991; Lumpkin and Dess, 1996). However, the studies have differed in their approaches to measuring entrepreneurial orientation, with some using a multi-dimensional approach and others using a uni-dimensional approach.

When entrepreneurial orientation was examined as a uni-dimensional construct, many researchers obtained results that supported the existence of a positive relationship between entrepreneurial orientation and firm performance (Zahra and Covin, 1995). Zahra & Covin (1995) found a significant positive relationship

between entrepreneurial orientation and performance and claimed that the relationship is increased over time. A separate study by Becherer and Maurer (1997) confirmed a positive relationship between entrepreneurial orientation and firm performance. A study by Wiklund (1999), which took a longitudinal approach by examining 132 Swedish firms over a two-year period to assess the relationship between entrepreneurial orientation and firm performance. The findings of this study confirmed a positive relationship between these two factors, and concurred with Zahra & Covin (1995) in that this relationship is enhanced over time.

Other studies have revealed insignificant, and sometimes negative, relationships between entrepreneurial orientation and firm performance (Covin, Slevin and Schultz, 1994; Kaya and Syrek, 2005). However, empirical results obtained by analysing the relationship between these variables continue to correlate with the wide majority of research supporting the relationship as a positive one. It has become increasingly evident that an entrepreneurial orientation and performance relationship will likely result in a positive relationship between the two variables.

### ***2.8.2 Innovativeness and Firm Performance***

A multi-dimensional approach to the entrepreneurial orientation construct requires the individual assessment of the relationship between each unique dimension of entrepreneurial orientation and firm performance. The first of the three dimensions to be examined is that of firm innovativeness. Many scholars have offered suggestions for the measurement of firm level entrepreneurship, most of which include the innovative nature of an organisation as a key component. Some researchers have suggested the use of product innovation as a sole predictor of firm-level entrepreneurship (Jennings and Lumpkin, 1989).

In his study, Schumpeter (1934) claims that innovative thinking within a firm can result in two types of innovation, namely a slight improvement to existing

products to increase efficiency or productivity, and the development of new products or processes resulting in new market creation. These two types of innovation are known as incremental and radical respectively. The presence of innovation and the resulting advantages highlight how important it is to a company's success.

The idea of innovation as the sole predictor of entrepreneurship has been generally dismissed; however, the importance of innovation as a *contributing* variable to an overall measure of firm level entrepreneurship is indisputable. The findings of an empirical study by Zahra & Bogner (2000) supports the positive relationship between innovation and performance.

### ***2.8.3 Proactiveness and Firm Performance***

Empirical evidence has shown the impact of proactiveness on firm performance. A study by Becherer & Maurer (1999) found a significant positive relationship between proactiveness and a firm's change in sales levels. Becherer and Maurer's (1999) study surveyed the managers of 215 small firms and the results provided evidence to support the importance of proactiveness in an organisation. The results of many other studies have also found a strong positive correlation between proactiveness and firm performance (Lumpkin and Dess, 2001; Krauss, Frese, Friedrich and Unger, 2005).

### ***2.8.4 Risk-taking and Firm Performance***

The relationship between a firm's level of risk-taking and performance has been a topic of interest in the field of entrepreneurship for almost two decades. Lumpkin & Dess (1996) suggest that entrepreneurial firms often make large investments in resources with the aim of capitalising on available opportunities in the market, resulting in higher returns. Firms willing to take risks by committing resources can benefit by receiving significant financial gains.



As clarified previously, an entrepreneurial firm is one that engages in product-market innovation, undertakes risky ventures and is the first to come up with proactive innovations (Miller, 1983). Focusing on the risk portion of the definition of entrepreneurial firms by Miller (1983), entrepreneurial firms are expected to take risks while non-entrepreneurial firms are expected to be risk averse. The above statement implies that entrepreneurial behaviour, when measured by the risk-taking variable, maximised at a moderate level of risk, results in a curvi-linear relationship between the variables (Miller, 1983). Following this logic by Miller (1983), a non-linear relationship between risk-taking and entrepreneurship can be expected.

The results of a study by Begley & Boyd (1987) supported the existence of a curvi-linear relationship between risk-taking and performance, in that firm performance was maximised at a moderate level of risk-taking. These findings suggest that an overall analysis of the individual dimension of risk-taking in relation to firm performance will reveal a non-linear relationship.

### **CHAPTER 3: RESEARCH METHODOLOGY**

Based on the problem statement and hypothesis outlined in Chapter 1, this chapter will cover the research design and research methodology used to test the hypothesis. Firstly, the research methodology and research design are discussed. Secondly, the sample population is identified and described. Thirdly, the research instrument, procedure for data collection, data analysis, data interpretation and the limitations of the study are discussed. Lastly, the tests for hypothesis are presented.

### **3.1 Research Methodology**

The data was collected from 133 firms across South Africa. Most of these firms are based in the provinces of Mpumalanga, Gauteng, The Free State, Kwazulu-Natal and The North West. Closed-ended, quantitative data was collected that related to each organisation as a whole and also personal characteristics of the respondents. Responses and information were collected from the firms' representatives using an online survey method. The respondents were requested to complete a prepared questionnaire, an example of which can be found in APPENDIX 1 and administered through an online survey website called Survey Monkey.

The qualitative method used for the purposes of this study allows the researcher to gain insight into the nature of the relationship between strategic entrepreneurship and firm performance and to test the validity of the literature. The sample was selected and administered on a convenience basis.

### **3.2 Research Design**

The study "Strategic Entrepreneurship and SMEs Performance in South Africa" attempts to prove the relationship between strategic entrepreneurship and SME performance. This study is classified as an exploratory study. Exploratory research is often utilised to yield information that may reveal problems which are not yet clearly defined or for which the real scope is still unclear. The researcher makes use of new data collected through an online survey in an attempt to add to the existing knowledge on strategic entrepreneurship and firm performance in South Africa.

### **3.3 Population and Sample**

#### **3.3.1 Population**

The target population is small and medium enterprises in various provinces in South Africa, across all sectors of the economy. The criteria that these targeted companies had to meet for this study was that they had to fit into the definition of an SME as per the National Small Business Act of South Africa of 1996, as amended in 2003. This implies that they were selected based on number of employees and annual sales income.

Selection based on sales posed challenges because some of the companies' revenues could not be confirmed. Most of SMEs are not comfortable with divulging their sales and profit figures, and as they are not public companies they are not required to. The questionnaire was designed to identify the SMEs classification and those that did not fall within the required classification were removed from the sample before analysis.

### **3.4 The Research Instrument**

A number of scales are used to assess the various constructs. Measures from prior studies on strategic entrepreneurship and firm performance are used and all scales used are supported by literature. The table below identifies the scales used and provides evidence of the literature support for their reliability and validity.

**Table 3.1: Literature support for scales**

<b>Instrument</b>	<b>Literature Support</b>
Entrepreneurial orientation scale	Kwandalla (1977); Miller (1983); Covin & Slevin (1989)
Planning flexibility scale	Barringer & Bluedorn (1999); Entrialgo, Fernandez & Vazquez (2000)
External environment scale	Kwandalla (1977); Zahra (1991); Naman & Slevin (1983); Wicklund & Shepherd (2005)
Performance scale	Gupta & Govindarajan (1984); Naman & Slevin (1983); Covin, Slevin & Schultz (1997); O'Regan & Ghobadian (2004)

### **3.4.1 Sample**

The sample was based on convenience and snowball methods (Leedy and Ormond, 2001). Firms on the Anglo Zimele SMEs database and SME owners known to the researcher as well as Entrepreneurship Magazine database were approached. 206 firms were identified and questionnaires sent to the representatives. A total of 133 representatives responded to the survey, and these constituted the sample. The sample contains firms based in five provinces in South Africa, namely The Free State, Gauteng, Mpumalanga, The North West and Kwazulu Natal.

The questionnaire contained closed-ended questions, which allowed the respondents to choose from specified answers. Closed-ended questions were selected because the researcher wanted to be more specific in the information gathered and require less time from the respondents to complete the questionnaire. Likert-type Scale questions were included in the questionnaire.

### **3.4.2 Entrepreneurial Orientation Scale**

The entrepreneurial orientation used in this study is based on the original work of (Khandwalla, 1977), which was subsequently modified by (Covin and Slevin, 1989). In this study, the scale is a reduced seven-point Likert-type scale that is used to measure the three dimensions of entrepreneurial orientation (innovativeness, risk-taking and proactiveness). The combination of the levels innovativeness, risk-taking and proactiveness has been concluded by research to measure an organisation's entrepreneurial orientation (Aloulou and Fayolle, 2005; Wiklund and Shepherd, 2005). This combination has shown high levels of validity and reliability in numerous studies, as discussed previously.

The first three items of the nine-item entrepreneurial orientation scale will be used to measure risk-taking, the fourth and fifth items will assess innovativeness and the remaining four items will assess proactiveness. The respondents are asked to indicate their responses to each question on a seven-point Likert-type scale (1 = strongly agree, 7 = strongly disagree and 4 = neutral). The ratings of these responses will be averaged to generate an entrepreneurial index, with the result that the higher the index, the more entrepreneurial the firm.

### **3.4.3 Planning Flexibility Scale**

Planning flexibility refers to the extent to which the organisation has the ability to change and respond quickly to changes in external and internal environmental dynamics. Planning is measured using a nine-item scale that identifies the

degree of planning flexibility. The items used in this scale are taken from an instrument developed by (Barringer and Bluedorn, 1999). For assessment, respondents are asked to indicate on a seven-point Likert-type scale (1 = very difficult and 7 = not at all difficult) the degree of difficulty they believe exists for their firm to change its strategic plans in response to environmental change. The ratings of these items will be averaged to assess the degree of planning flexibility in the firm, with the result that the higher the score, the more flexible the strategic planning process. The coefficient alpha for the planning flexibility scale is 0.8 (Entrialgo, Fernandez and Vazquez, 2000).

#### **3.4.4 External Environment Scale**

External environment refers to the uncertainty and prevailing dynamics that changes in the external environment have on the firm. The characteristics used to describe the environment include turbulence, hostility and dynamism (Wicklund and Shepherd, 2005). Higher levels of turbulence, hostility and dynamism create greater levels of uncertainty and unpredictability in the organisation. This study uses the turbulence scale of the environmental uncertainty scale developed by (Naman and Slevin, 1993). The scale uses a seven-point Likert-type scale (1 = strongly disagree and 7 = strongly agree). The mean score, averaged across the items, assesses the degree of uncertainty facing the firm. With the result that the higher the score, the higher the degree of uncertainty.

#### **3.4.5 Firm Performance Scale**

The performance scale used in this report is motivated by the findings of Naman and Slevin (1993) and assumes that SMEs owners and managers are often not willing to disclose the performance of their firm. Seven-point Likert-scales are used to assess the importance of, and satisfaction with, an organisation's performance. The research shows that managers' perceptions of the

performance of their firm are highly consistent with how the firm actually performs, as indicated by objective measures (Dess and Robinson, 1984).

The performance measure used in this study was originally developed (Gupta and Govindarajan, 1984b). The first section of the performance scale asks the respondents to indicate on a five-point Likert-type scale (1 = of little importance and 5 = extremely important) the degree of importance to their firm of the stated items. The factors assessed are sales growth rate, market share, operating profit, profit to sales ratio, market development and new product development. The second section of the performance scale uses the same factors as the first but measures the satisfaction of respondents rather than degree of importance.

### ***3.4.6 Demographics***

The survey instrument includes a number of demographic questions, which are included for descriptive and control purposes. These questions address the following: age of a firm, gender of respondents, education level of respondents, classification of industry, net sales and past description of firm performance. The age of a firm will be determined by the number of years since the establishment of that firm. According to Durand & Courderoy (2001), older firms are more likely to compete in mature industries and might be slower in reacting to change, which could result in a negative impact on their performance. Younger firms pursue radical innovations more often than older firms (Rosen, 1991). It is further noted that a firm's age influences its entrepreneurial activities, and that older organisations are expected to be less entrepreneurial in their operations and more conservative in their market orientation (Zahra, 1991). Based on literature that assesses the relationship between the age of a firm and performance, a firm's age will be used as a control variable in this study.

The second control variable used in this study is the classification of the industry in which the firms operate. The type of industry in which a firm competes has been shown to exert an influence on the entrepreneurial process

(Kreiser, Marino and Weaver, 2002). According Wicklund & Shepherd (2005), firms in different industries may demonstrate different environmental and organisational characteristics which may, in turn, influence performance.

The third control variable used in this research is the size of the firm. According to Zahra (1993), there is a significant relationship between the size of a firm and innovation. Literature shows that smaller firms may exhibit different organisational characteristics compared to their larger counterparts and that the difference in size may influence performance (Robinson, 1982). Difference in company size also influences entrepreneurial orientation and organisational processes (Covin and Slevin, 1989; Zahra, 1991). Big firms are more entrepreneurially orientated than small firms and this is attributable to availability of funding.

### **3.6 Procedure for Data Collection**

The data was gathered by means of an online survey tool; Survey Monkey. A convenience sample of SMEs on Anglo Zimele's database and entrepreneurs known to the researcher as well as Entrepreneurship Magazine database were selected. An electronic survey link was emailed to the owners, managers or representatives of the selected firms with a cover letter, and the respondents were requested to complete and return the questionnaire within a timeframe of 10 days. A reminder email was sent to all potential respondents who had not replied by the 10<sup>th</sup> day, and all others who had not replied by the 15<sup>th</sup> day were called and asked to respond. It was expected that it would not take respondents longer than 12 minutes to complete the questionnaire.

### **3.7 Limitations of the Study**

The most significant limitation in terms of this research was the inability to generate a random sample. This was due to the difficulty faced in obtaining information on SMEs across all provinces within South Africa. As a result, a



convenient snowball sampling was used to generate the sample. The results from the use of such inferential statistics from a non-random sample are valid, as long as it is understood and accepted that they cannot be extended to the rest of the population.

The main *research* limitation of this study is that it does not cover all nine provinces of South Africa. The Anglo Zimele and Entrepreneurship Magazine databases used to obtain the list of SMEs do not have details of the small businesses that operate in rural areas.

### **3.8 Validity and Reliability**

The validity and reliability of a portion of research provide the basis upon which a decision can be made on whether it can be considered knowledge (Rowley, 2002). This is vital, because if the requirements for the constructs are satisfied, the research can be incorporated into the body of existing knowledge in a specific field.

#### **3.8.1 External Validity**

External validity is the extent to which the findings of a study can be generalised to other populations (Struwig and Stead, 2001). In this research, the sample consists of company representatives, mostly entrepreneurs from various sectors across South Africa. The sample size consists of 133 representatives from various sectors. The sample is a partial representative of the population.

#### **3.8.2 Internal Validity**

Internal validity is the extent to which it can accurately be stated that the independent variable produced an observed effect (Rowley, 2002). In this study, the researcher ensures that the statements in the questionnaire have a logical link to the issue under study in order to strengthen the validity of the responses (Kumar, 1999).

### **3.9 Reliability**

Reliability is the extent to which a study could be repeated and yield similar results (Rowley, 2002). This can be achieved by ensuring that data is collected in a consistent and transparent manner. In this study, Survey Monkey was used to collect data in a consistent manner and saved in an electronic format as evidence. Therefore, this study can be repeated with the expectation of similar results.

## **CHAPTER 4: PRESENTATION OF RESULTS**

### **4.1 Introduction**

This chapter is concerned solely with presenting the results of the analysis. Tables and figures are used for ease of reading and interpretation of results. This chapter begins by presenting the demographic profile of the companies used in the research. Thereafter, the analyses of independent variables are presented using descriptive statistics measures such as means, medians, reliability analysis and Cronbach's coefficient.

Frequency measures were used for demographic variables and ordinal variables in examining the firm's performance. Performance was measured by a Likert-type scale in order to analyse its relationship with entrepreneurial orientation measures and planning flexibility. Performance was assessed using the respondents' views on importance of, and satisfaction with, performance. The importance of performance to the firm was measured using a five-point Likert-type scale, with 1 indicating 'of little performance' and 5 indicating 'of extreme importance'. In relation to performance satisfaction, a five-point Likert-type scale was also used with 1 indicating 'highly dissatisfied' and 5 indicating 'extremely satisfied.'

The last part of this chapter focuses on the testing of the hypothesis using the following procedure:

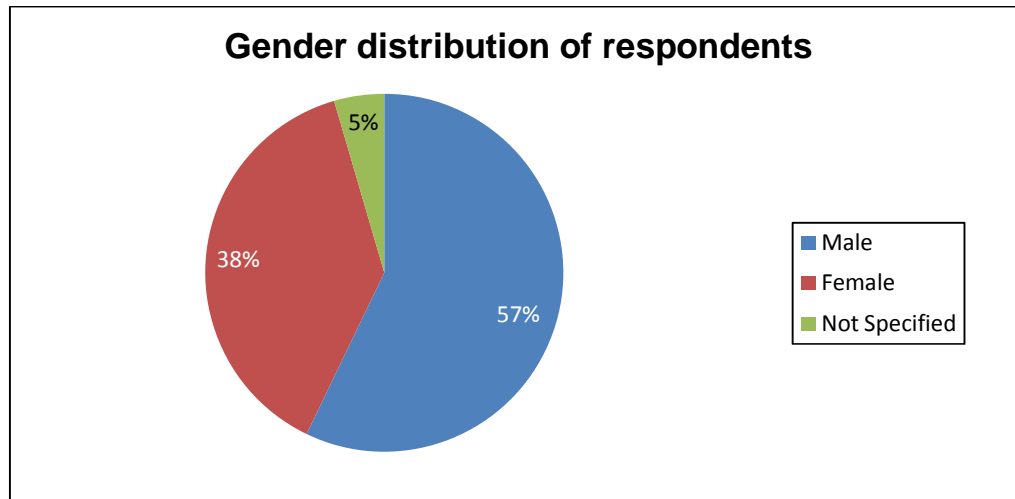
The three variables of entrepreneurial orientation were entered into a regression model simultaneously to determine significance of the combined entrepreneurial orientation variables. Thereafter, a forward stepwise regression was carried out on the individual entrepreneurial orientation variable to determine the significance of each variable independently. The significance of planning flexibility was also tested using regression analysis. Finally, the moderating effects of the external environment on entrepreneurial orientation variables and planning flexibility were tested. Scatterplots were used to test for moderation.

## **4.2 Demographic Profile of Respondents**

Respondent demographics were measured by asking the respondents their classification of the industry in which they work, how many years the company had been in business, the number of employees in the company, annual net sales, their position within the company, their gender and their formal education level.

### ***4.2.1 Gender***

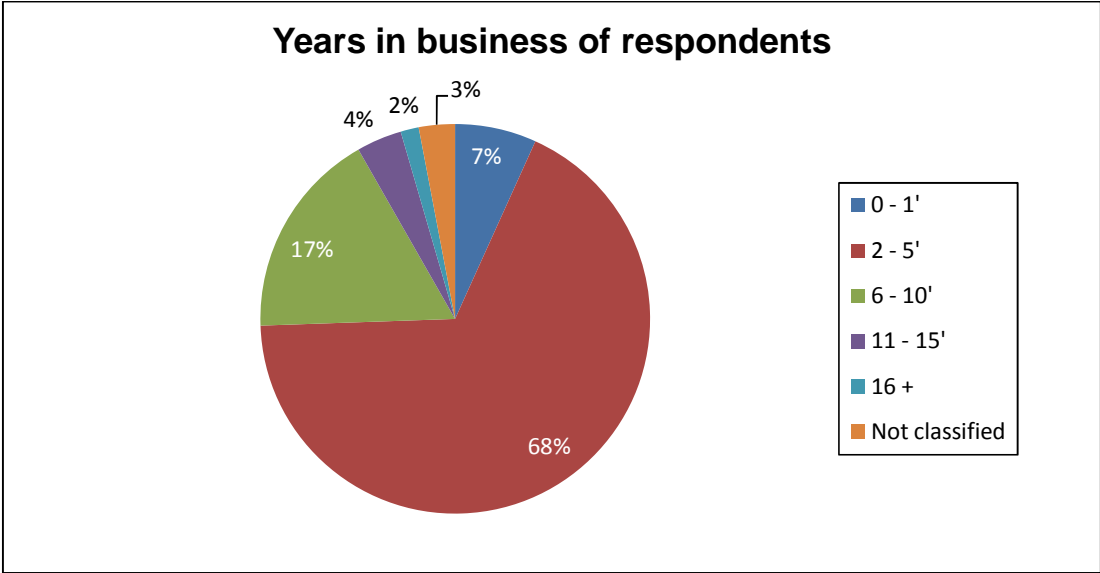
Out of the 133 respondents, Figure 4.1 below demonstrates the gender distribution of the sample. Males constitute a larger percentage (57%) than females (38%) and 5% of the respondents did not specify their gender.



**Figure 4.1: The gender distribution of the respondents**

#### **4.2.2 Firm Age**

Figure 4.2 shows the distribution of the number of years firms have been in business. Most of the firms have been in business for two to five years (68%), followed by firms who have been operating for six to 10 years. This finding (majority of firms being two to five years old) may be linked to the support measures that the SA government has put in place to support SMEs. It is also expected that after 5 years most firms will either not qualify under SMEs definition (More employees/income) or have failed. Only 2% of respondents firms have been operation for more than 16 years, which correlates with the literature reviewed previously, that states most SMEs have been in operation for fewer than five years. Figure 4.2 also reflects that 3% of the respondents did not state the number of years their firms have been in business.



**Figure 4.2: Years in business of the respondents firms**

**4.2.3 Business Sector**

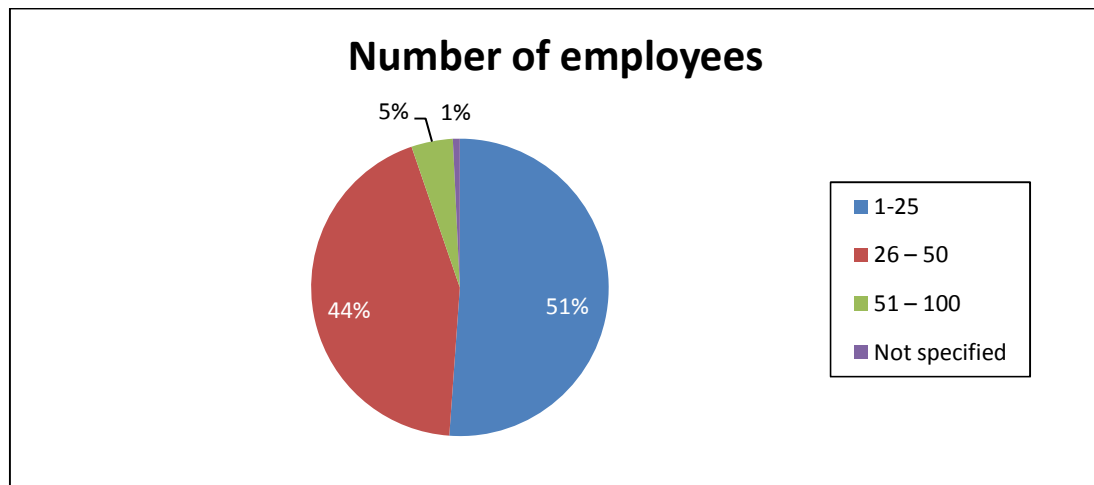
23% of respondents indicated that their firms operate within the services sector. 12% of the respondents indicated that they operate in the distribution and construction industries. The agricultural sector is the least represented in this study at only 3%. Sixteen respondents (12%) indicated that they operate within sectors not classified in this research, and only one respondent did not specify the industry in which his or her firm operates. Table 4.1 below shows the distribution of firms per sector.

**Table 4.1: Business sectors within which respondents operate**

<b>Sector</b>	<b>Count</b>	<b>Percentage</b>
Service	31	23%
Distribution	16	12%
Construction	16	12%
Retail	15	11%
Wholesale Trade	13	10%
Manufacturing	12	9%
Mining Trade	9	7%
Agriculture	4	3%
Other	16	12%
Missing	1	1%

#### ***4.2.4 Number of Employees***

One of the classifications of SMEs is based upon the number of employees a firm employs. Figure 4.3 demonstrates the distribution of number of employees the firms surveyed employ. From the surveyed sample, 51% of the respondents' companies employ one to 25 employees. 44% of the respondents' companies employ 26 to 50 employees. Only 5% of the respondents' companies employ 51- 100 employees and 1% of the respondents did not reveal how many people their companies employ.



**Figure 4.3: Number of employees**

#### ***4.2.5 Net Annual Income***

The results of the study further demonstrate that 25% of the respondents' organisations have net sales of less than R500,000.00 per annum. Nearly half (44%) of the respondents' companies have net sales of between R500,001.00 and R1,999,999.00 per annum. Few respondents' companies show net sales of more than R2,000,000.00 per annum with 17% of respondents stating their companies achieved net sales of between R2,000,000.00 and R4,999,000.00. 3% of respondents' organisations show a net sales of between R5,000,000.00 and R9,999,999.00 and 5% of the respondents stating net sales of more than R10 million. 2% of the respondents did not indicate their companies' annual net sales.

#### ***4.2.6 Description of Industry and Firm***

59% of the respondents indicated that the industries within which they operate have remained stable over the preceding three years, while 33% of the respondents demonstrated that their specific industries are growing and 6% indicated that the industries in which they operate are declining. These results are contrary to what the respondents answered when asked about firm growth

over the last three years; out of the 133 responses received, 43% of the respondents indicated that their firms are growing, 45% of the respondents demonstrate that their firms are stable and 10% show that their firms have declined over the preceding three years.

#### **4.2.7 Educational Level of Respondents**

Table 4.2 reflects the educational level of the respondents. 13 (10%) of the respondents did not finish high school and 35 (26%) respondents have a Grade 12 qualification. 52 (39%) of the respondents have completed either college or Technikon studies. 22 (17%) respondents indicated that they have obtained a Bachelor’s degree, while eight respondents (6%) have achieved a Master’s degree and only one respondent (1%) has a Doctorate degree.

**Table 4.2: Education level**

<b>Education level</b>	<b>Count</b>	<b>Percentage</b>
Less than High School	13	10%
High School	35	26%
College/Diploma	52	39%
Bachelor's Degree	22	17%
Master's Degree	8	6%
Doctoral Degree	1	1%
Missing	2	1%

### **4.3 Data Analysis**

#### **4.3.1 Reliability Analysis**

For a better understanding and interpretation of how each of the entrepreneurial orientation constructs (innovativeness, risk-taking and proactiveness) influence performance, the research treats these factors independently of each other.



Reliability analyses were conducted on the scales of all survey items used in this research and Table 4.3 contains simple correlations of these scale means. Based on previous research (Hair, Anderson, Tatham and Black, 1995), a threshold value coefficient alpha score above 0.70 is considered acceptable to confirm the reliability of experimental research.

The Cronbach coefficient alpha used showed satisfactory internal consistency reliabilities for each of the constructs: Innovativeness - 0.89, Risk-taking - 0.79 and Proactiveness - 0.79. In the study by Gupta and Govindarajan (1984a), the inter-item reliability is 0.88 for performance compared to 0.89 in this study. The environmental uncertainty scale had a mean value of 48.60, standard deviation of 13.53 and alpha reliability of 0.94. A study by Barringer and Bluedorn (1999) reported an inter-item reliability of 0.80 for planning flexibility. In this study, alpha reliability for planning flexibility is 0.94.

In assessing the correlation matrix, some variables are identified as being correlated, but no evidence of multi-co-linearity exists. When reliability is examined using Cronbach's alpha, all variables exceed the 0.70 threshold criteria. Based on prior research by Hair et al.(1995), this study is deemed to be reliable.

**Table 4.3: Cronbach's Coefficient**

Variables	Cronbach alpha	Average inter-item correlation
Innovativeness	0.89	0.59
Proactiveness	0.87	0.68
Risk taking	0.79	0.65
Planning flexibility	0.94	0.68
External Environmental uncertainty	0.94	0.59
Performance	0.89	0.59

### 4.3 Results Pertaining to Hypothesis 1

H1: There is a positive relationship between the entrepreneurial orientation of a firm and its performance.

The first hypothesis was tested by assessing the significance of the regression of firm performance on the three dimensions of entrepreneurial orientation: innovativeness, risk taking and proactiveness.

When all three predictors of entrepreneurial orientation are entered into a regression model simultaneously, none of these predictors is significant, although the overall model is significant (Adjusted  $R^2 = 0.132$ ;  $F(3,118) = 7.271$ ;  $p < 0.001$ ). However, when the three predictors are entered into the forward stepwise regression, proactiveness is the single significant predictor, model (Adjusted  $R^2 = .135$ ,  $F(1,120) = 19.352$   $p < 0.001$ ).

These results imply that proactiveness is the most strongly correlated predictor of performance, and that neither of the other two predictors contributes additional significant variance in the presence of proactiveness. Furthermore, when the three predictors are considered jointly, none of them reflects significant unique variance. It must be emphasised that entrepreneurial orientation explains a mere 13.2% of the variance in organisational performance which means that 86.8% is not explained.

There is thus support for Hypothesis 1 as proactiveness is a significant predictor of company performance.

**Table 4.4: Regression Summary for Dependent Variable: Performance**  
**Adjusted R<sup>2</sup>= .139; F (1,120)=19.352; p<0.001**

	B	SE B	$\beta$	SE $\beta$	T Value
Intercept	5.092	1.296			3.928
Proactiveness	1.327	0.302	0.373	0.085	4.399
R <sup>2</sup>	0.139				

\*p < .05, \*\*p < .01. \*\*\*p < 0.001.

**Table 4.5: Regression Summary for Dependent Variable: Performance**  
**Adjusted R<sup>2</sup>= .136; F(3,118)=7.271; p<0.001**

	B	SE B	$\beta$	SE $\beta$	T Value
Intercept	4.393	1.439			3.052
Innovativeness	0.720	0.525	0.193	0.141	1.370
Proactiveness	0.852	0.437	0.239	0.123	1.949
Risk taking	-0.033	0.428	-0.009	0.120	-0.078
R <sup>2</sup>	0.156				

\*p < .05, \*\*p < .01. \*\*\*p < 0.001.

### 4.3 Results Pertaining to Hypothesis 2

H2: There is a positive relationship between planning flexibility of a firm and its performance.

The second hypothesis was tested by assessing the significance of the regression of firm performance on planning flexibility.

**Table 4.6: Regression Summary for Dependent Variable: Performance**  
**Adjusted R<sup>2</sup>= .362; F(1,121)=70.349 p<0.001**

	B	SE B	$\beta$	SE $\beta$	T Value
Intercept	0.528	1.248			0.423
Planning flexibility	2.377	0.283	0.606	0.072	8.387
R <sup>2</sup>	0.362				

\*p < .05, \*\*p < .01. \*\*\*p < 0.001.

Planning flexibility is a significant predictor ( $p < 0.001$ ), and explains 36.2% of the variance in firm performance according to the regression analysis carried out. When the three entrepreneurial orientation variables are entered into the forward stepwise regression equation, planning flexibility remains the only significant predictor as, in its presence; no other predictor contributes to the explanation of firm performance.

There is thus support for Hypothesis 2 as planning flexibility is a significant predictor of company performance.

#### **4.4 Results Pertaining to Hypothesis 3a**

H3a: The external environment moderates the relationship between entrepreneurial orientation and performance with the effect that the relationship is more positive when the external environment is dynamic than when it is static (Ensley, Pearce and Hmieleski, 2006).

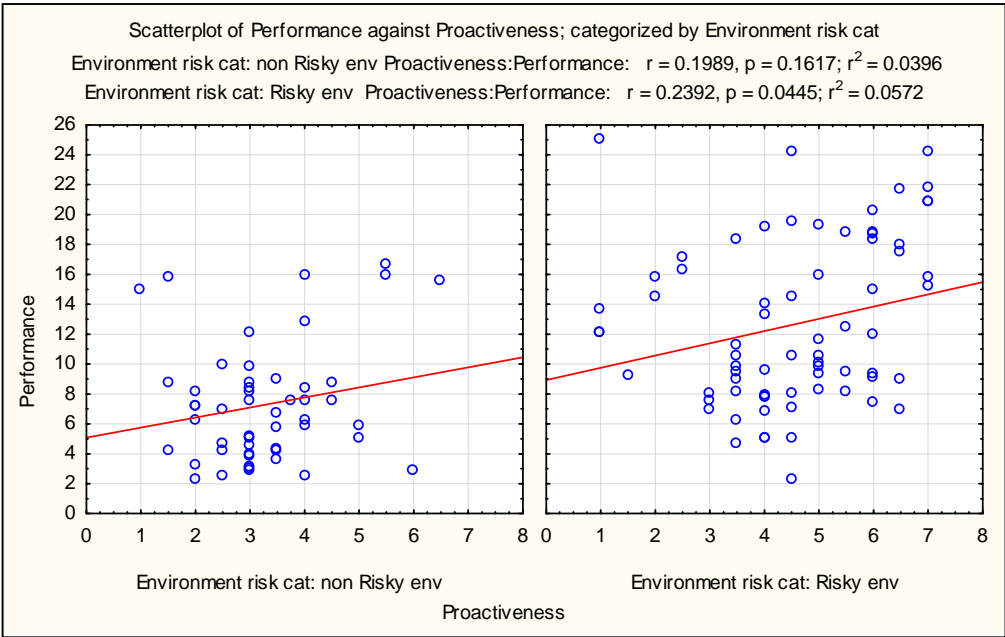
As shown in Table 4.7, the interaction of proactiveness and external environment risk is significant, implying that the relationship between proactiveness and firm performance is different for varying external environment conditions. The categorised scatterplots of these relationships are shown in Figure 4.4 and reflect a non-significant prediction of performance in a non-risky or static external environment, and a significant prediction of increased performance in a risky or dynamic external environment. However, the relationship is tenuous, with only 5.7% explained variance in the risky environment.

There is thus support for Hypothesis 3, albeit weak support.

**Table 4.7: Regression Summary for Dependent Variable: Performance**  
**Adjusted R<sup>2</sup>= .344 F(2,119)=31.203 p<0.001**

	<i>B</i>	<i>SE B</i>	$\beta$	<i>SE</i> $\beta$	T Value
Intercept	9.490	1.346			7.053
Proactiveness*Ext env	0.585	0.096	1.158	0.190	6.100
Proactiveness	-2.467	0.676	-0.693	0.190	-3.651
R <sup>2</sup>	0.344				

\*p < .05, \*\*p < .01. \*\*\*p < 0.001.



**Figure 4.4: Scatterplots of Performance against Proactiveness**

**4.4 Results Pertaining to Hypothesis 3b**

H3b: The external environment will moderate the relationship between planning flexibility and performance, such that the relationship is more positive when the environment is dynamic than when it is static (Ensley, Pearce and Hmieleski, 2006).

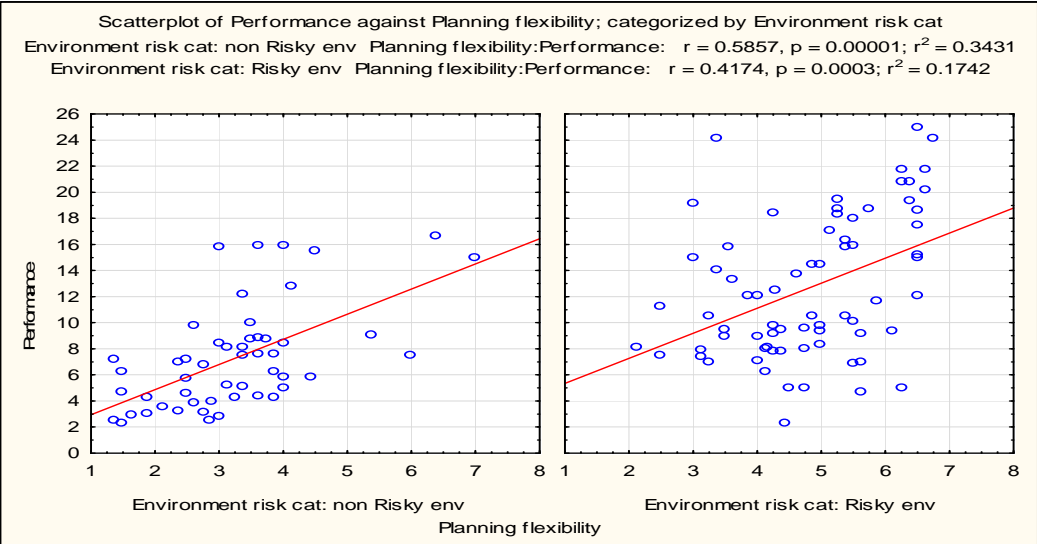
Hypothesis 3b tested the potential moderating effect of environmental uncertainty on the relationship between planning flexibility and firm performance. This interaction effect is significant as shown in Table 4.8.

**Table 4.8: Regression Summary for Dependent Variable: Performance  
Adjusted R<sup>2</sup>= .420 F(1,121)=89.387; p<0.001**

	<i>B</i>	<i>SE B</i>	$\beta$	<i>SE</i> $\beta$	<i>T</i> Value
Intercept	3.831	0.797			4.809
Planning flexibility*Ext env	0.341	0.036	0.652	0.069	9.454
R <sup>2</sup>	0.420				

Moreover, the relationship between these variables is more positive in the riskier environment than in the non-risky environment, as shown in Figure 4.5

There is thus support for Hypothesis 3b.



**Figure 4.5: Scatterplots of Performance Against Planning Flexibility**

## **4.5 Summary of Results**

The presentation of results has portrayed the following:

- The reliability analysis using the Cronbach coefficient alpha;
- The means of multiple independent variables compared to performance;
- Forward stepwise regression analysis to determine the significance of entrepreneurial orientation variables in relation to performance;
- Regression analysis to test the significance of planning flexibility in relation to the independent variable; and
- Scatterplots of dependent variables and independent variables categorised by the moderating variable.

# **CHAPTER 5: DISCUSSION OF THE RESULTS**

## **5.1 Introduction**

The previous chapter dealt with the presentation of results and this chapter will discuss those results in detail. In this chapter, the research results are compared to the theoretical assertions examined in depth in the literature review section (Chapter 2) of this research.

This chapter begins with a discussion and comparison of the results of the demographic profile of the respondents with theory on the subject. The association between different constructs and its relation to the literature review is then discussed.

## **5.2 Demographic Profile of Respondents**

The literature has emphasised the fact that in South Africa there are twice as many men in business than there are women (DTI, 2005). This study has

correlated with the literature, in that there are more men than women in the sample. Men constitute 57% of the sample and women 38%, indicating that there is still a prevalence of men within the SME sector. It was expected that most SMEs are “young” (operating for < five years), and the results of this study has confirmed this, as there are more firms that have been in existence for fewer than five years compared with those that were established more than five years ago; “young” firms constitute 75% of the sample. Literature has shown that beyond five years, SMEs either grow out of the SME classification or cease to exist.

In terms of the business sectors, the results of the survey indicate that 23% of the SMEs in the sample fall within the category of services. Construction and distribution have 12% representation each in the sample. The agriculture and mining sectors are the least represented with 3% and 7% representation respectively. The results relating to business sector are in agreement with the internal report by ‘The Task Group of the Policy Board for Financial Services and Regulations’ that SMEs activities are not popular with the mining and agriculture sectors. The report also shows that most of the small businesses operating in the agriculture sector are informal. Based on this study, the business environment within the mining and agriculture sectors is not favourable for SMEs.

It was expected that most of the firms sampled would have net sales income of less than R500,000.00 per annum. However, only 25% of the firms sampled had net sales of less than R500,000.00 per annum. This survey shows that most of the SMEs sampled (44%) have net sales of between R500,001.00 and R1,999,999.00 per annum. According to the internal report by ‘The Task Group of the Policy Board for Financial Services and Regulations’, most of the SMEs’ income is below R500, 000.00.

The survey results on education revealed that 39% of the respondents have a college qualification. As expected, there are entrepreneurs or firm representatives with an education status of less than a high school qualification,



who are operating in the same arena as entrepreneurs with higher qualifications.

### **5.3 Discussion Pertaining to Hypothesis 1**

#### **H1: There is a positive relationship between the entrepreneurial orientation of a firm and its performance**

Analysis of hypothesis 1 provided several points of discussion. The ANOVA test was performed and the p value was found to be  $p < 0.05$  and this allowed the rejection of the null hypothesis. Regression analysis was carried out on the three variables of entrepreneurial orientation simultaneously and none of these variables was significant. A decision was then taken to perform a stepwise regression on the three entrepreneurial performance variables. The decision to perform a stepwise regression is supported by Lumpkin and Dess (1996).

As indicated in Table 4.4, the overall model is partially significant and it confirms that entrepreneurial orientation is a partial predictor of firm performance. The results of hypothesis 1 show that a propensity of a firm to be innovative, proactive and willing to take risks has a positive relationship with the performance of a firm (Lumpkin and Dess, 1996). The influence of entrepreneurial orientation has been studied on numerous occasions and the results vary from high positive relation to no significant relation (Rauch, Wiklund, Lumpkin and Frese, 2009). Some empirical studies show that the relationship between entrepreneurial orientation and firm performance differs depending on the type of industry and the characteristics of the environment in which the company operates. The relationship between entrepreneurial orientation and firm performance based on industry classification was not examined in this study.

One of the most intriguing findings relates to the dimensionality of the entrepreneurial orientation construct. Even though there is only a slightly significant positive correlation between entrepreneurial orientation and firm

performance, there is a difference in significance of each entrepreneurial orientation variable and performance. For instance, the correlation between proactiveness and firm performance was found to be significantly stronger than either the relationship between innovativeness and performance or risk taking and performance. This provides clear evidence in support of Lumpkin's and Dess's (1996) argument that the variables can, and do, vary independently.

The results of hypothesis 1 agree with a study by Knight (1997) that argued that proactiveness is an important vehicle for the survival of firms and for higher performance. This study further supports, albeit indirectly, an argument by Olawale and Garwe (2010) that claims a lack of entrepreneurial orientation application in South Africa is a contributing factor to the poor performance of SMEs in the country.

In concluding the analysis pertaining to hypothesis 1, the three components of entrepreneurial orientation were both individually and collectively confirmed to have a positive relationship with organisational performance, which concurs with many research theories in the field of entrepreneurship (Teece et al., 1997; Roberts, 1999; Shane and Venkataraman, 2000).

## **5.4 Discussions Pertaining to Hypothesis 2**

**H2: There is a positive relationship between planning flexibility of a firm and its performance.**

The second hypothesis aims to measure the relation between planning flexibility and firm performance. The ANOVA test was performed to test the means differences and the results are as shown in Table 4.6. From the ANOVA test results, the significance level of  $p < 0.05$  is achieved and this allows the rejection of the null hypothesis. As depicted in table 4.6, planning flexibility explains 36.2% of the variance in firm performance according to the regression analysis performed.

According to Clarkin & Rosa (2005), the frequency of change in today's competitive environment requires firms to have strategic planning flexibility to achieve successful performance. The support for hypothesis 2 suggests that respondents in this study perceive a need to rapidly develop and implement strategic plans. The originator for the scale used in this study is Barringer and Bluedorn (1999), who originally developed the scale for large manufacturing firms. This study provides evidence that the scale items used are meaningful and convenient when applied to SMEs in South Africa.

This study further confirms that SMEs that engage in strategic planning are more likely to achieve higher than normal sales growth, higher profits and perform better (Carland and Carland, 2003; Gibson and Casser, 2005). In addition, this research supports a study by Berry (1998) suggests that a lack of focus on strategic planning may prevent firms from achieving their full potential and might compromise their survival.

## **5.5 Discussion Pertaining to Hypothesis 3a**

**H3a: The external environment will moderate the relationship between entrepreneurial orientation and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static.**

The third hypothesis involves assessing the moderating effect of external environment on entrepreneurial variables and performance. Dynamic environment analyses measure the casual relationship between entrepreneurial orientation and firm performance using regression coefficient. The results of the regression analysis and scatterplot are shown in Table 4.7 and Figure 4.4 respectively. As depicted in Table 4.7 there is weak support for the moderating effect of a dynamic environment on entrepreneurial orientation and firm performance. A scatterplot generated also shows that a dynamic environment is

a weak moderating variable. For the purpose of the analysis, a dynamic environment was treated as risky and a static environment as non-risky.

An expected finding was the impact of the environment as a moderator variable between entrepreneurial orientation and firm performance, specifically a risky environment. This result supports a study by Wicklund and Shepherd (2005) that claims entrepreneurial orientation has a greater effect on performance in a hostile environment than in a benign one. Likewise, Miller (1983) posits that a benign environment results in a less positive relationship between entrepreneurial orientation and performance.

## **5.5 Discussion Pertaining to Hypothesis 3b**

**H3b: The external environment will moderate the relationship between planning flexibility and performance with the effect that the relationship is more positive when the environment is dynamic than when it is static.**

The fourth and final test conducted for this study was to assess the moderating effect of the environment on planning flexibility and firm performance. Again, a dynamic environment was treated as risky and a static environment as non-risky. The results concluded for hypothesis 3b are presented in Table 4.8 and Figure 4.5 respectively. When performing the ANOVA test, the significance level of  $p < 0.05$  is achieved and this allows the rejection of the null hypothesis.

Figure 4.5 shows that the relationship between planning flexibility and firm performance is more positive in a riskier environment than in a non-risky environment. The results therefore support the hypothesis. The results of this research further indicate that a higher level of planning flexibility combined with a high level of environmental uncertainty results in significantly higher performance. This means that planning flexibility within a dynamic environment would have a positive performance implication (Miller, 1988). In a similar way, Lumpkin and Dess (2001) stressed the importance of proactive behaviour in

dynamic environment and highlighted how proactive firms were better able to identify and capitalise on emerging opportunities.

## **5.6 Conclusion**

This chapter deals with the overall findings of the research study. Demographic results from the study firmly support the literature reviewed and discussed in Chapter 2. Conclusive remarks on whether South African entrepreneurs practice or apply strategic entrepreneurship cannot be definitively drawn due to the limitations in the size of the sample as well the types of questions asked.

Descriptive analysis was used to describe the data by comparing and discussing the means of the constructs. ANOVA analysis was also used to test the means of the differences and to test for significance level. The results found in this study conform to the basis of entrepreneurial orientation, planning flexibility and strategic entrepreneurship theories. The strategic entrepreneurship construct showed construct reliability.

The findings strongly support the concept of strategic entrepreneurship being positively related to a firm's performance. Moreover, proactiveness, as a dimension of entrepreneurial orientation is vital for the performance of SMEs. The research findings confirm that the strategic entrepreneurship dimensions examined in this report are essential for an SME to enhance its performance and enable it to create and sustain a degree of competitive advantage. Additionally, the findings of this study reflect that an SME needs to be flexible and able to respond quickly to environmental opportunities and threats, if it is to survive and thrive in today's dynamic and turbulent business environment.

Finally, the findings of this study that;

- Entrepreneurial orientation of a firm is directly proportional to firms' performance. That is, firms which are innovative, proactive and are

willing to take risks are likely to more successful than the firms which are not,

- Application of planning flexibility positively affects firms' performance,
- Environment is a moderator between entrepreneurial orientation and firm performance in that, firms are able to be more successful in dynamic environment than in static environment,

are consistent with the findings reported by previous authors (Covin and Slevin, 1989; Dess et al., 1997; Baum, Locke and Smith, 2001; Anderson, 2004)

## **CHAPTER 6: CONCLUSIONS AND ECOMMENDATIONS**

### **6.1 Introduction**

This chapter summarises the findings of this study. It then states the recommendations for the SME representatives and entrepreneurs in South Africa. Suggestions for further research are then tabled.

### **6.2 Conclusions of the Study**

There are several conclusions that can be drawn from this research. Firstly, SMEs are facing increasingly competitive challenges in an external environment that is dynamic, turbulent and volatile, which requires rapid development of technology and products as demanded by the market. The challenges in the external environment can be overcome by efficiently implementing entrepreneurial orientation and planning flexibility programmes.

It is evident that the propensity of an SME to be innovative, take risks and be proactive has a positive impact on its performance. It is therefore critical for

business managers and owners to consider implementing policies and procedures to promote entrepreneurial orientation and planning flexibility.

In closing, this study highlights that significant external factors affect SMEs' performance. A firm's entrepreneurial behaviour has been emphasised as the key construct in enhancing business performance, and the study suggests that managers need to be quick to react, be proactive, take risks and be innovative in order to survive and be successful in today's competitive business world. Entrepreneurial orientation and planning flexibility should be adopted as integral components of SME performance and success.

### **6.3 Recommendations**

The first consideration is that the entrepreneurial orientation of a particular firm is positively related to that organisation's performance. Moreover, proactiveness, as a dimension of entrepreneurial orientation, is vital for improved performance. This suggests that a company may benefit from implementing proactive measures when dealing with its competitors. Managers have control over the strategy development and implementation of entrepreneurial orientation actions.

The second consideration is that a firm must be flexible and able to rapidly respond to environmental opportunities and threats, if it is to survive and thrive in today's dynamic and turbulent business environment. According to Clarkin & Rosas, planning flexibility is a requirement for today's businesses to support successful performance, and these findings are supported by this study.

Lastly, the effect of external environment on entrepreneurial orientation, planning flexibility and firm performance must be considered. The external environment places substantial pressure on performance (Kroeger, 2007). The results of this study indicate that a higher level of entrepreneurial orientation and higher level of planning flexibility in a risky or turbulent external environment results in significantly increased performance.

Since the current external business environment is dynamic and turbulent, and strong entrepreneurial orientation and planning flexibility can enhance firm performance, managers should consider developing programmes that aim to increase and improve entrepreneurial orientation and, as a result, firm performance.

#### **6.4 Suggestions for Further Research**

Further research could explore SMEs in industries that are least represented in this study (agriculture and mining) to determine outcome similarities or differences. Since the sample population was based in South Africa, other countries could be examined, again to assess outcome similarities or differences.

This study shows that entrepreneurial orientation and planning flexibility are beneficial to the improvement of SME performance. Future research could explore potential programmes and methods to encourage higher levels of entrepreneurial orientation and planning flexibility that would result in enhanced performance.



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## APPENDICES

## **APPENDIX A**

### Questionnaires

# THE IMPACT OF STRATEGIC ENTREPRENEURSHIP ON SME PERFORMANCE IN SOUTH AFRICA

## DEMOGRAPHICS

Background information: Please circle your response or fill-in the appropriate answer blanks.

1. Generally classify your industry

- |  |                                       |
|--|---------------------------------------|
| <input type="checkbox"/> Service         | <input type="checkbox"/> Retail       |
| <input type="checkbox"/> Manufacturing   | <input type="checkbox"/> Mining trade |
| <input type="checkbox"/> Distribution    | <input type="checkbox"/> Agriculture  |
| <input type="checkbox"/> Construction    | <input type="checkbox"/> Other        |
| <input type="checkbox"/> Wholesale Trade |                                       |

2. How many years has your firm been in business?

- 0 – 1 year
- 2 – 5 years
- 6 – 10 years
- 11 – 15 years
- 16 +

3. How many employees does your firm have?

- 1 - 25
- 26 – 50
- 51 – 100
- 101 – 250
- 251+



4. What are your annual net sales?

Below R500, 000

R500, 001 – R1, 999,999

R2, 000,000 – R4, 999,999

R5, 000,000 – R9, 999,999

R10, 000,000 +

5. Which best describe *your industry* in the last three years?

Growing

Stable

Declining

6. Which best describes *your firm* within the last three days

Growing

Stable

Declining

7. How long have you been with the firm?

<1 year

2- 4 years

5-7 years

8-10 years

> 10 years

8. Position within the firm?

- Non Management
- Junior Management
- Middle management
- Higher Management
- Director
- Owner

9. Where you hired from within firm?

- Yes
- No

10. Gender

- Male
- Female

11. Formal education level

- Less than High School
- High School
- College
- Bachelor's Degree
- Master's Degree
- Doctoral Degree

## Entrepreneurial Orientation

The following statements are meant to identify the **collective management** style of your firm's key decision makers. Please indicate which response **most clearly matches** the management style of your business key managers by ticking the box that corresponds to the number that best represents your views. *Selecting a 1 a complete agreement with the statement, selecting a seven indicates complete agreement with the statement, and selecting a 4 indicates neutrality.*

Strongly Agree	Neutral			Strongly Disagree		
1	2	3	4	5	6	7

### In general, the top managers of my firm favour ...

A strong emphasis on the marketing of tried and true products and services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Low risk projects with normal and certain rates of return	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A cautious, 'wait and see' posture in order to minimise the probability of making costly decision when faced with uncertainly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### How many new lines of products or services have your firm marketed in the past years...

No new lines of products or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changes in product or service lines	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

have been mostly of a minor nature

--	--	--	--	--	--	--	--

**In dealing with its competitors, my firm...**

Typically responds to actions which competitors initiate

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

Is very seldom the first firm to introduce new products/services, operating technologies, etc.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

Typical seeks to avoid competitive clashes, preferring a 'live-and-let-live' posture

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

**In general, the top managers of my firm believe that...**

Owing to the nature of the environment , it is best to explore gradually via cautious behavior

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

## The Planning Flexibility Scale

Please indicate how difficult it is for your firm to change its strategic plan to adjust each of the following contingencies/possibilities. *Selecting a 1 indicates a high degree of difficulty, selecting a 7 indicates no degree of difficulty, and selecting a 4 indicates neutrality.*

	<b>Very difficult</b>					<b>Not at all difficult</b>	
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
The emergence of a new technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shifts in economic conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The market entry of new competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changes in government regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shifts in customer needs and preferences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Modification in supplier strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The emergence of an unexpected opportunity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The emergence of an unexpected threat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Political developments that affect your industry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: Barringer and Bluedorn (1999).

### The External Environment Scale

The following statements pertain the external environment affecting your firm. Please review each of the following statements and circle the item that appropriates your response. *Selecting a 1 indicates that you strongly disagree with the statement, selecting a seven indicates that you strongly agree with the statement, and selecting a 4 indicates neutrality.*

	<b>Strongly Agree</b>			<b>Neutral</b>			<b>Strongly Disagree</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
The external environment our firm operates in has a high level of risk and uncertainty.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The external environment poses serious threats to our firm's survival and well-being.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our firm must deal with a wide range of external environment influences (e.g., competitive, political, social/cultural, or technologic).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Declining markets for products are a major challenge in our industry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tough price competition is a major challenge in our industry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Our business environment causes a great deal of threat to the survival of our firm

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

The rate of product and service obsolescence in our industry is high

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

In our firm, the modes of production and service change often and in many ways.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

Our firm must change its marketing practices frequently

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

In our industry, actions of competitors are unpredictable

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

In our industry, demand and customer tastes are unpredictable

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------	--------------------------

Source: Kroeger (2007).

## Performance Scale

### Importance

The following pertain to the important performance areas of your firm. Please review each of the following and select a number between 1 and 5 that best represents your views. *Selecting a 1 indicates the performance area is of no importance, selecting a 5 indicates the performance area is extremely important and a selection of 3 indicate neutrality.*

Identify your rating of importance with:

Importance	Of Little	2	3	4	Of
	Importance				Extreme
	1				5
Sales Growth Rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market Share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Operating Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit to Sales Ratio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New Product Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: Gupta and Govindarajan (1984).



## Satisfaction

The following pertain to the satisfaction with performance areas of your firm. Please review each of the following and select a number between 1 and 5 that best represents your views. *Selecting a 1 indicates that you are highly dissatisfied with the performance of your firm, selecting a 5 indicates that you are highly satisfied with the performance of your firm, and a selection of 3 indicates neutrality.*

Identify your rating of satisfaction with:

Importance	Highly Dissatisfied				Extremely Satisfied
	1	2	3	4	5
Sales Growth Rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market Share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Operating Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit to Sales Ratio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
New Product Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: Gupta and Govindarajan (1984).

**Appendix B:**

Cover letter

Dear Respondent,

My name is Moshe Mohutsiwa and I am a Masters Student at Wits Business School. I am conducting a research on strategic entrepreneurship and firms' performance. I hereby request you to follow the link below to answer a short questionnaire that consist of 5 sections would take approximately 12 minutes of your time.

Your assistance is highly appreciated

Thanks,

Moshe Mohutsiwa (Student Researcher, 076 627 7925)

Dr Jose Barreira (Supervisor)