THE RELATIONSHIP BETWEEN STRATEGIC PLANNING AND ENTREPRENEURSHIP: A PARADOX

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ABSTRACT

The purpose of this research is to find out if the supposedly diametrically opposed constructs of strategic planning and entrepreneurship can be executed jointly for the competitiveness of the firm. A total of 232 South African public companies were studied. A questionnaire was utilised to collect data on the companies’ practice of strategic planning, the extent of entrepreneurship and financial performance. Factor analysis was carried out to structure data for better analysis. A correlation analysis was done to determine the significance of the relationships between the two constructs, strategic planning, entrepreneurship and performance. The research found out that there was a positive but weak correlation between the practice of strategic planning and corporate entrepreneurship. There was a weak but positive correlation between strategic planning and performance and also a weak but positive relationship between corporate entrepreneurship and performance. This implies that South African public companies do practice strategic planning but this practice is low-level or insignificant. The companies’ corporate entrepreneurial orientation is also low, (insignificant). This result is consistent with prior studies. This may be the first empirical research done on the subject in South Africa and its contribution is therefore important. An integrative empirical study of the two areas, strategic planning and entrepreneurship is important since most such integrative studies have mainly been theoretical.

Key Words: strategic planning, entrepreneurship, correlation, performance, strategic entrepreneurship.

INTRODUCTION

Strategic planning is usually associated with order and stability through its aligning of the organisation with the environment and entrepreneurship with chaos, disorder and creative destruction. On the other hand strategic planning and entrepreneurship are expected to be practised in the same organisation for the success of the business. The purpose of this research is to find out whether the supposedly diametrically opposed constructs of strategic planning and entrepreneurship can both be executed jointly for the competitiveness of the firm. The study presents a literature background first, then the research methodology. Research findings are then presented analysed and recommendations made before concluding.
LITERATURE BACKGROUND

Research shows that businesses continuously focus on finding better solutions to maintain competitive advantage and in doing so require effective strategic planning and entrepreneurship throughout the ranks of the business (Lewis, Goodman & Fandt, 2001). However, though Skrt and Antoncic (2004) argue that strategic planning has become a prerequisite for entrepreneurs in this time of global competition, technological change and dynamics in markets, Yamada (2004) notes that the entrepreneurial activity tends to lead to some conflicts and misalignment within the business. Strategic planning, entrepreneurship and the respective sub-constructs, (strategic control and new product introduction) are discussed briefly and there after the study’s propositions presented.

Strategic planning- entrepreneurship interface

In today’s highly competitive environment where change is constant, strategic planning and entrepreneurship should be integrated in practice (thinking and behaviour) as “strategic entrepreneurship” Hitt, Ireland, Camp and Sexton (2002); Meyer, Neck and Meeks (2002); Hebert and Brazeal (1999); Kirby (2003); Kuratko and Welsh (2004) and Wickham (2006) or what is called entrepreneurial business planning by Legge and Hindle (2004). The integration entails the creation and practice of a unitary construct strategic entrepreneurship (Dhliwayo & Van Vuuren, 2007). This is what Meyer et al. (2002); refer to as “strategic management-entrepreneurship” arguing that this is necessitated by today’s rapidly changing business environment which is about speed and action. In addition, Schendel and Hoffer (1979), Slater and Olson (2000), and Meyer et al. (2002) identify and discuss the “entrepreneurial” and the “integrative” components of strategy and note that the entrepreneurial aspect is about creation and resource allocation, while integration is about managing what entrepreneurship creates. The interplay between the entrepreneurial and integrative strategy components determines how business achieves competitive advantage.

Michael, Storey and Thomas (2002) view strategic planning and corporate entrepreneurship as “substitutes” and point out that tension between the two create “a conflict potentially fatal for the business”. Operating results of real businesses demonstrate that continued reinvention of the corporation through entrepreneurial activity is necessary for its survival. The term substitute means to replace one thing with another. The “things” replace each other because they serve the same purpose. Strategic planning should therefore be entrepreneurial and entrepreneurship, strategic. Meyer and Happard (2000) report on an entrepreneurial dominant logic which leads a business and its members to constantly search for and filter information for new product ideas and process innovations that will lead to greater profitability. As pointed out by Antoncic and Hisrich (2004) it is this fit between entrepreneurial orientation (as a strategic element) and its business and environmental context that have a positive impact on performance, not just the existence of such an orientation per se.

Sathe (2003) point out that strategic entrepreneurship is the integration of entrepreneurial/ opportunity-seeking actions and strategic/ advantage-seeking actions to design and implement entrepreneurial strategies that create wealth. He adds that strategy provides a starting point for the examination of entrepreneurship in which core competences can be leveraged to create new businesses. However De Toni and Tonchia (2003) argue that entrepreneurship comes first because it deals with creation, and strategic management / planning second, for it is about how advantage is established and maintained from what is created. Business is all about sustaining advantages, failure of which, what-ever is created is lost to others. As noted by Kazanjian, Drazin and Glynn (2002) the link between strategic planning and entrepreneurship is a fundamental one. This implies that the desired business outcomes would not be maximized by isolating the two.
The study therefore proposes that there should be a significant universe relationship between strategic planning (and its sub construct, control) with entrepreneurship (sub constructs, entrepreneurial orientation and new product introduction)

**Strategic control**

Literature tends to suggest that strategic planning and entrepreneurship cannot be practised simultaneously and that they are mutually exclusive. The reasoning behind this being that you cannot find order and chaos in the same situation. When analysing the relationship between the two concepts Kirby (2003) cites Mintzberg's (1983) classification of businesses in terms of structure, where entrepreneurship is associated with adhocracy and strategic planning with the bureaucratic structure (control). This only implies the structural forms in which either of them will thrive better and not that there is no planning in organic (adhocracy) systems.

One can only control against a plan (or expectation), therefore as stated by Smit and Cronje (2002) strategic control is a continuous process that is interwoven with planning, organising and leading. Rwigena and Venter (2004) note that strategic control helps to determine the degree to which strategies fulfil goals and objectives (planning). This is because control is one of the states or an activity of the planning process.

Morris, Kuratko and Covin (2008) state that unlike the normal perception that control is inconsistent with entrepreneurship, it actually facilitates it. This is because the entrepreneurial philosophy of control is built on the premise of “giving up control to gain control”. This would be a situation where employees’ creativity is allowed to flourish through empowerment.

The role of entrepreneurial activity is to provide required diversity, whereas order can be achieved through planning and structuring. However, creativity is not encouraged by planning and control (structuring) and diversity is a result of entrepreneurship (creativity). Strategic management (planning) should maintain a balance between these fundamentally different processes (Ferreira, 2002). As noted earlier, a significant and positive relationship between strategic planning and strategic control is expected, since control is part of the planning process.

**New product introduction**

New product introduction is a sub-construct of entrepreneurial orientation. The propensity to introduce new products/services (systems, processes, technologies) is part of an organisation’s entrepreneurial orientation. It is for this reason that the study proposes that a significant relationship exists between new product introduction and entrepreneurial orientation. Most entrepreneurial businesses exhibit, to a larger extent than other businesses, entrepreneurial activities such as pursuing new businesses, innovativeness in terms of products, services, processes, strategic self renewal, risk taking and pro-activeness (Antonicc & Hisrich, 2004) The propensity to innovate (employ new product introduction) enables businesses to achieve competitive advantage and performance. The relationship that strategic planning (and strategic control) has on entrepreneurial orientation is expected to be the same on new product introduction since this (new product introduction) is a sub-construct of entrepreneurial orientation.

**Performance**

To ensure survival, it is important that a business performs well. Business performance is an integral part of the “paradox debate” since a positive performance is the primary objective of any business. Performance is therefore an important element of this study. According to Kuratko and Hodgetts (2007), a number of researchers have found planning to be an important criteria for differentiating successful from unsuccessful firms, and that those firms that engaged in strategic planning out performed those that did not plan.
Meyer and Happard (2000) note that, businesses pursuing entrepreneurial strategies experiment more, are futuristic and their portfolios of products and services have more new risky elements than typical businesses. In addition, the entrepreneurial strategies focus primarily on the internal business, on how people can be innovative and creative and on building responsibilities and trust. It is this posture by entrepreneurial businesses that is expected to improve business performance. Performance is linked to both entrepreneurial behaviour and strategic planning and as shown by Kreiser, Marino and Weaver (2002) entrepreneurial businesses maximise overall performance by matching levels of innovative, proactive and risk-taking behaviours with characteristics of strategic planning. Effective strategic planning, not only the process, is also associated with performance.

Entrepreneurship and strategic planning are both dynamic processes concerned with performance. Strategic planning calls for firms to establish and exploit competitive advantages within a particular environmental context. Entrepreneurship on the other hand promotes the search for competitive advantages through product, processes and market innovations (Kuratko & Hodgets, 2007). We therefore propose that there exist a significant and positive relationship between performance and strategic planning, strategic control, entrepreneurial orientation and new product introduction.

To find out the extent to which companies practise strategic planning and are entrepreneurial (the strategic planning – entrepreneurship paradox) and how each of these impacts on performance a summary of propositions is presented.

**STUDY PROPOSITIONS**

The propositions are based on the 5 factors, namely strategic planning, strategic control (as sub-constructs of strategic planning) entrepreneurial orientation, new production introduction (sub-constructs of corporate entrepreneurship) and performance. They are derived from the research problem which is studying the relationship between strategic planning and entrepreneurship. The constructs under study were isolated using factor analysis. The propositions are as follows;

**Proposition 1:** Businesses that practise strategic planning do not show significantly higher levels of; strategic control (P1.1); entrepreneurial orientation (P1.2); new product introduction (P1.3); performance (P1.4)

**Proposition 2:** Businesses that practise strategic control do not show significantly higher levels of; entrepreneurial orientation (P2.1); new product introduction (P2.2); performance (P2.3)

**Proposition 3:** Businesses that are entrepreneurially oriented do not show significantly higher levels of; new product introduction (P3.1); performance (P3.2)

**Proposition 4:** Businesses that have a high product introduction rate do not show significantly higher levels of performance (P4)

The propositions were tested using the methodology out lined below.

**DATA ANALYSIS**

The study used the census or population of the businesses that were registered on the JSE Securities Stock Exchange South Africa as at 1 September to 30 November 2005, the period of data collection. The population consists of 340 businesses, which include the main bourse as well as the alternate bourse (composed of mainly small companies). It also comprises all business sectors such as financial services, mining and retailing. A total of 232 companies responded to the questionnaire which was e-mailed, faxed or administered physically according to the prior agreed arrangement. The response rate is very good at 68%.

The Public Companies as defined in the South African Companies Act 61 of 1973 are businesses that are basically profit seeking and trade their shares publicly on the JSE
Securities Stock Exchange, South Africa. Some companies are also dually listed on foreign stock markets.

The instrument used for data collection was constructed from Parnell and Karger (1996) for the strategic planning component and from Morris, Kuratko and Covin (2008) for the entrepreneurial orientation component. The performance element of the instrument measures financial aspects in terms of returns on investment, equity, sales; net profit after tax and present value.

DESCRIPTIVE STATISTICAL ANALYSIS

In order to have a broader appreciation of the data collected, descriptive statistical techniques were used to analyse the data and obtain research results. The descriptive statistical analysis findings show that the shape and spread of the data is normal and therefore acceptable. This finding is consistent across the data set. Data reliability and validity were further tested through factorial designs.

Factor analysis which isolated five factors, strategic planning, control, entrepreneurial orientation, new product introduction and performance was carried out.

FACTORIAL DESIGN

Factor analysis is carried out to further understand the data, whose characteristics were found to be normal through descriptive statistical analysis. Factor analysis is used in this study for data reduction, easy usage of data and structure validation and reliability checks. It also assists in classifying variables and developing / refining research questions, ensuring meaningful results.

The two component instruments used in the study, strategic planning Parnell & Karger (1996) and entrepreneurial orientation Morris, Kuratko and Covin (2008) were all re-validated in order to determine structure and reliability using factor analysis.

- Eigenvalues > 1.00 were identified.
- The differentiation of possible factors was identified through clear breaks in the screen tests between eigenvalues >1.00.
- Variables were subjected to Exploratory Data Analysis (EDA) and where variables loaded were found to be < 3.00, they were removed and another round of exploratory analysis carried out.
- The procedure was repeated until five (5) “clean” structures emerged, namely; two factors under strategic planning, two under entrepreneurial orientation and one factor under performance, as earlier stated.

The isolated factors are named, “strategic planning”, “strategic control”, “entrepreneurial orientation”, “new product introduction” and “performance”.

Rotated, unrotated and sorted rotated factor analysis was carried out for “strategic planning”, “strategic control” and the “entrepreneurial orientation” factors. Item analysis was carried out for the “new product” and the “performance” factors. Cronbach’s alpha results are shown in Table 1 and then discussed briefly.

Table 1; Factor Cronbach's alpha

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<th>Strategic planning</th>
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<td>Cronbach's alpha</td>
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The Cronbach’s alpha for strategic planning of 0.85947; strategic control; 0.76218 entrepreneurial orientation; 0.92 new product introduction and 0.879 for performance are all greater than 0.7 (Cronbach’s alpha > 0.7), which shows a good factor structure and reliability.

The instrument used was validated for reliability and consistency. The five factors are structurally sound and reliable as reflected by the respective factor Cronbach’s alphas that are all above 0.7.

Cronbach’s values of above 0.6 are considered strong measures of reliability (Nunnally & Bernstein 1994).

**FINDINGS**

Pearson’s correlation is carried out on five factors: strategic planning (strpl); strategic control (strco); entrepreneurial orientation (entor); new product introduction (newpr); and performance (perfm).

The results of the correlation test carried out are shown in Table 2. The results are discussed thereafter.

**Table 2: Pearson’s correlation coefficient**

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**STRATEGIC PLANNING (STRPL) FACTOR**

The Pearson’s correlation, in Table 2 above, shows that there is a relationship between strategic planning (strpl) and each of the following factors: strategic control (strco); entrepreneurial orientation (entor); new product introduction (newpr) and financial performance (perfm).
This is shown by the respective p-values of, $< 0.0001$ (strcon), $< 0.0001$ (entor), 0.0023 (newpr) and 0.0232, (perfm) as reflected in Table 2. All the p-values are within the range -1 to +1, showing the existence of the correlation.

However, though correlations exist between strategic planning and each of the factors, the relationships are weak, as reflected by the correlation values of 0.46929 for strategic control, 0.35156 for entrepreneurial orientation, 0.23844 for new product introduction and 0.16419 for performance. The relationship is weak because each of the values is far less than 0.6 which is conventionally regarded as a minimal level measure of a strong correlation. Each of these correlations is discussed in detail in conjunction to the relevant proposition, starting with the strategic planning factor.

**Proposition P**, stated that businesses that practise strategic planning do not show significantly higher levels of; strategic control (P1.1), entrepreneurial orientation (P1.2), new product introduction (P1.3) and performance (P1.4). The relationship is not significant and **Proposition P1.1, P1.2, P1.3 and P1.4 is therefore accepted**. The correlation between the factor strategic planning and each of the other factors: strategic control; entrepreneurship orientation; new product introduction; and performance are weak although positive.

This result does imply that those businesses that practise strategic planning relate more closely to the practice of strategic control at (0.46929) than to the other three factors especially performance at (0.1649). The finding (closer relationship) is expected, considering the fact that strategic control is an integral part of the strategic planning process, while the factors entrepreneurial orientation and new product introduction are more associated with entrepreneurship. However the non-significance of the relationship between strategic planning and strategic control is somewhat surprising, considering that control is part of strategic planning. This may imply the poor application of the strategic planning process among the companies surveyed.

The result also shows that the practice of strategic planning does not significantly lead to higher performance levels. It confirms the finding by Lumpkin, Hills and Shrader (1998), Ensley and Banks (1994) and Wickham (2006), which shows that empirical investigations of established businesses have failed to find a strong link between business planning and performance. It however shows that strategic planning leads to higher performance though not in a significant way.

Though Wickham (2006) points to an inconclusive relationship, he concedes that this should not be taken to mean that performance is not affected by planning, but that these studies (inconclusive correlations) would have reduced complex organisational phenomena to simple variables. This may imply that those businesses that practise strategic planning may not be doing so properly. As stated by Drejer (2004) it is not the planning that is important, but the quality thereof.

This is also an indictment of South African businesses and suggests why the country has a relatively low entrepreneurial orientation score (GEM reports). The results clearly show that businesses do not build in entrepreneurship in their strategic planning.

**Proposition 2**, stated that businesses that practise strategic control do not show significantly higher levels of; entrepreneurial orientation (P2.1), new product introduction (P2.2) and performance (P2.3).

The results reflect weak but positive correlations between strategic control and the factors, entrepreneurial orientation, new product introduction and performance as reflected by the correlation values of 0.27585 for entrepreneurial orientation, 0.20532 for new product introduction and 0.23761 for performance, as shown in Table 2. The relationship is weak because each of the values is far less than 0.6 which is conventionally regarded as a minimal level measure of a strong correlation.

The results of the study show that businesses that practise strategic control do not necessarily show high levels of entrepreneurial orientation. This finding is consistent with the literature, which shows that control tends to restrict entrepreneurship in a business. As
Morris, Kuratko and Covin (2008) put it, “one should give up control in order to gain control” as a way of cultivating an entrepreneurial culture. The result shows the weak practice of entrepreneurial strategic control as a management style. This is a management style where employees are empowered in order to allow their entrepreneurial spirit to flourish. Morris, Kuratko and Covin (2008) term this as the entrepreneurial domain as opposed to the administrative domain. The entrepreneurial domain reflects a higher level of trust between management and subordinates.

The finding of a weak relationship between control and new product introduction is consistent with the weak link between strategic planning and entrepreneurial orientation. However one should note that the correlation is positive and not negative. The relationship between strategic control and performance is not significant, as reflected by a p-value of 0.0009 and a correlation value of 0.23761, which is far below the significant measure of 0.6. Propositions 2.1 to 2.3 are accepted.

Proposition 3 stated that businesses that are entrepreneurially oriented do not show significantly higher levels of; new product introduction (P3.1) and performance (P3.2). However, the relationship between entrepreneurial orientation and each of the factors: new product introduction (0.25362); and performance (0.18183) is weak, (Table 2). The above values are far below the measure of 0.6, a level which would reflect a minimally strong correlation. There is therefore not a significant relationship between entrepreneurial orientation and each of the factors new product introduction and performance. Propositions P3.1 and P3.2 are therefore accepted.

The weak relationship finding is surprising considering the fact that new product orientation is supposed to be one of the key elements of an entrepreneurial business. Entrepreneurially orientated businesses should reflect a high level of new product introduction because new product introduction results from high levels of innovation and creativity. The result is a reflection of the low entrepreneurial orientation of South African businesses, as reflected also in the GEM reports throughout the period in which the country was included in the survey, beginning in 2001.

The need for new product introduction / entrepreneurial orientation cannot be over emphasised, if businesses are to be global players. Research has shown that entrepreneurial businesses are expected to perform better than non-entrepreneurial ones (Pearce & Robinson, 1984), in addition, Pearce and Carland (1996) note that several researchers have found links between performance and the presence of entrepreneurship. Research by Antoncic and Hisrich (2003) found that entrepreneurial orientation is strongly, positively and significantly related to profitability, thereby indicating that entrepreneurship tends to be a “good” predictor of performance.

However Wickland and Shepherd (2005) found that entrepreneurial orientation “generally” leads to improved performance. The fact that their finding was not without exceptions is consistent with the weak relationship between entrepreneurial orientation and performance found in this study.

A weak relationship between entrepreneurial orientation and performance is consistent with the weak relationship between entrepreneurial orientation and new product introduction. New product introduction is usually associated with high performance. As shown by Durant and Coeurderoy (2001), the propensity to innovate (employ new product introduction) enabled businesses to achieve competitive advantage and performance.

Proposition 4: Businesses that have a high product introduction rate do not show significantly higher levels of performance (P4).

A correlation exists between new product introduction and the performance factor, as reflected by the p-value of 0.0039. However that relationship is weak, as reflected by the value 0.22493, which is far below 0.6. There is therefore not a significant relationship between new product introduction and performance. Proposition P4 is therefore accepted.
The result does support the empirical studies by Antoncic and Hisrich (2004) and Hitt et al. (2002) that have linked the introduction of new products to wealth creation for shareholders or to better business performance. Zhao (2005), researching perceptions of entrepreneurship and innovation, also found that entrepreneurial businesses that were continuously creating new products and services, projects, new business opportunities and markets, regardless of size and the industry, showed positive performance, not necessarily a significant relationship.

New product introduction is associated more with entrepreneurship than with planning. If businesses are not entrepreneurial or do not build in entrepreneurship into their planning, then the prevalence of new product introduction is likely to be low. As a result they lose out on the usage of new product introduction as a competitive tool, since strategic planning is about building competitiveness. New product introduction has to do with innovation and creativity, so this weak correlation shows that businesses do not emphasise or build creativity and innovation into their planning and activities. The result also supports the GEM report findings on South Africa’s low entrepreneurial activity.

**POLICY IMPLICATIONS**

The fact that all the correlations are positive (though insignificant) and not negative, mean that strategic planning and entrepreneurship are practiced together in organisations. This practice results in improved performance. The quality of application and not just the practice should be emphasised to managers, individual entrepreneurs and those involved in entrepreneurship development. It might be the poor application of strategic entrepreneurship that brings about the weak correlations.

The joint practice of the two constructs (strategic entrepreneurship) should be considered an investment (time and resources) and be viewed in terms of returns it offers the business. It should be promoted in all businesses irrespective of size and sector.

Strategic entrepreneurial control which is premised on self control, through employee empowerment should be promoted in all businesses. This type of control promotes entrepreneurship instead of curtailing it as is the case with “normal” control. Strategic entrepreneurial control results in improved financial performance.

It should also be emphasised that entrepreneurship is not the domain of small businesses and planning that of big businesses. The respondents in this research though mainly big businesses also included small businesses. Big businesses should build in entrepreneurship in their planning to enhance flexibility, (overcome inertia) and small businesses should be encouraged to plan so as to stabilise operations within the context of entrepreneurial strategies.

Businesses should generate as many ideas as possible so as to build and populate a pool from where possible viable new products and processes can be developed. New product introduction has first mover advantages. All businesses big and small should utilise this competitive tool, critical in today’s dynamic environment where product life-cycles are very short.

Since the strategic planning, entrepreneurship paradox is not supported in the study’s findings business should understand that they should strategically plan and be entrepreneurial in-order for them to derive the benefits brought about by both strategic planning and entrepreneurial activities.

**RESEARCH LIMITATION**

The study limited its analysis only to correlations to test its propositions and this compromised the quality of the study. The quality could have been enhanced by carrying out analysis of variance tests between the factors and some independent variables such as age or sector. Another limitation is that it covered only listed companies, thereby excluding
many other business types and sizes. Studying only public companies left out other business ownerships forms. The study did not delineate the different type of businesses or sectors which would have vastly improved the focus and application of results. This would have improved the quality of the research. More empirical research on the relationship between the two constructs is needed, more so given the mixed results. A cross cultural study is called for.

CONCLUSION

The study shows that there is a positive but weak relationship in the practice of strategic planning and entrepreneurship in South Africa. The two diametrically opposed constructs can both be executed jointly as one concept for the competitiveness of the firm.

The results did not show a strong (significant) and / or opposite (negative) relationship, but a mild (weak) positive correlation between strategic planning and entrepreneurship. The strategic planning, entrepreneurship paradox is therefore not supported.

REFERENCES


