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TOO MANY COOKS SPOILING THE STEW? EXAMINING THE ROLES OF BUSINESS PLAN FORMALITY AND TEAM SIZE ON NASCENT REVENUE EXPECTATIONS AND GESTATION ACTIVITY (SUMMARY)

Mark T. Schenkel

Belmont University, USA, mark.schenkel@belmont.edu

Tomas Karlsson

Chalmers University of Technology, Sweden

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≈ SUMMARY ≈

TOO MANY COOKS SPOILING THE STEW? EXAMINING THE ROLES OF BUSINESS PLAN FORMALITY AND TEAM SIZE ON NASCENT REVENUE EXPECTATIONS AND GESTATION ACTIVITY

Mark T. Schenkel, Belmont University, USA

Tomas Karlsson, Chalmers University of Technology, Sweden

Principal Topic

Interest in the nature of the relationship between planning and performance is long and enduring (MacMillan & Narasima, 1987; Miller & Cardinal, 1994; Perry, 2001; Rudd et al., 2008) yet the merits of this idea remain the subject of intense debate and criticisms focusing on the inconclusive nature of previous bi-variate empirical findings. This study examines how business plan formality and entrepreneurial team size influence revenue expectations, gestation activities, and expectation revisions in nascent ventures. We study both the direct effects, as well as moderating effects, of the formality of business planning efforts and team size on these outcomes. Our central hypothesis is that whereas formality and team size add information, coordination, and knowledge benefits that enhance progress through the nascent stages of venture creation, revenue expectations may be adversely influenced by concurrent groupthink dynamics.

Methods

In order to examine the proposed relationships, this project incorporates publicly available archival data from the Panel Study of Entrepreneurial Dynamics (PSED II). Our sample consists of 514 individuals engaged in the process of launching a new venture after correcting for missing data for our dependent and independent variables. We test our hypothesis using a series of hierarchical regression models with planning formality and team size as independent variables (and constituting the interaction term), and revenue expectations, forecasting accuracy, and gestation activities as dependent variables.

Results and Implications

Findings suggest two distinct contributions to debate on the direct effects between planning and performance in new ventures. First, the relationship between planning formality and revenue expectation, as well as planning formality and gestation activity, are moderated by team size. Second, this moderating influence implies a systematic need for a downward revision of revenue expectations one year later. Collectively, these findings extend the literature by showing that business planning formality is related to issues of entrepreneurial over-optimism (e.g., Ucbasaran et al., 2010) and entrepreneurial group think (Schojedt & Kraus, 2009), both of which could impact forecasting accuracy (Gartner & Thomas, 1993).

Simply put, when planning formality is high, too many cooks may spoil the stew!

CONTACT: Mark T. Schenkel; mark.schenkel@belmont.edu; (T): 615-460-5474; (F): 615-460-6605; Belmont University, 1900 Belmont Boulevard, Nashville, TN 37212-3757.