STRATEGIC CHOICE IN NEW VENTURE DEVELOPMENT AND THE VALUE OF BUSINESS PLANNING FOR NASCENT ENTREPRENEURS (SUMMARY)

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SUMMARY

STRATEGIC CHOICES IN NEW VENTURE DEVELOPMENT AND THE VALUE OF BUSINESS PLANNING FOR NASCENT ENTREPRENEURS

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Principal Topic

Theory suggests a positive relationship of business planning with venture formation. Yet, empirical evidence is scarce, or ambiguous. In contrast to previous empirical studies, we treat the decision to plan or not to plan as an endogenous strategic choice by entrepreneurs.

Method

Using data from the PSED 2 study, we empirically correct for self-selection and account for endogeneity. We document that endogenous strategic choices with respect to business planning can help to explain entrepreneurial success and/or failure. We extend the literature by not only accounting for self-selection in strategic foundation choices but also by modeling the strategic choice as a treatment effect. Thus, we can estimate how performance changes conditional on the entrepreneur’s choices. In particular, we match the abilities of entrepreneurs with the choice for (or against) business planning (and the extent of it). Thus, we infer the counterfactual to estimate the performance differential caused by strategic decisions made.

Results and Implications

Business planning per se does not have a statistically significant impact on the chances to found a new venture successfully. Rather, it is the content of the plan and the way entrepreneurs perceive and carry out the process that matters for successful venture foundation. When entrepreneurs are seeking outside funding, formal business plans are affecting the founding probability positively. Likewise, the results show that when entrepreneurs are not actively seeking outside financing, business plans serve another purpose: namely learning. Making changes to the business plan significantly reduces the probability of failure. We conclude that understanding when business plans are needed and for which purposes, is crucial in empirically disentangling performance impacts and providing practical advice.

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