PLANNING VERSUS DOING: AN EMPIRICAL RESEARCH ON CUES THAT MATTER FOR FINANCIAL COMMITMENTS AND VENTURE PROGRESS (SUMMARY)

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SUMMARY

PLANNING VERSUS DOING: AN EMPIRICAL RESEARCH ON CUES THAT MATTER FOR FINANCIAL COMMITMENTS AND VENTURE PROGRESS

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Principal Topic

A prominent stream of research on business planning has not taken into account the fact that business planning activities are not randomly occurring phenomenon, but choices of entrepreneurs who have specific cognitions shaped by past experiences. Strikingly, while substantial research is devoted to business planning and its outcomes, little is known about the consequences of customer interaction. In this research, we address this research gap by comparing and contrasting antecedents and consequence of customer interaction and business planning as well as their interrelations. We show how the founder’s cognition, education and experience shape their choice to engage in business planning and/or customer interaction. Subsequently, we develop a research model to control for the endogeneity of the decision to select the respective activity, and examine how business planning and customer interaction impact the investment behavior of the founder and investors as well as the progress of new venture creation.

Method

We use the data set from the Panel Study of Entrepreneurial Dynamics (PSED II) focusing on cognitions of the 474 nascent entrepreneurs in the process of establishing their new firms. The PSED II offers valid and reliable data by identifying a cohort of nascent entrepreneurs from a representative sample of 31,845 adults from the U.S. population. This panel data set allows us to examine a nascent entrepreneur’s choice of business planning and customer interaction activities and their impact on entrepreneurial commitment and venture progress while controlling for various founder-specific and venture-specific fixed effects. In order to account for the endogeneity of a nascent entrepreneur’s choice to engage in business planning and customer interaction, we apply a two-stage regression approach with Heckman correction.

Results and Implications

Our findings are directed to discern patterns that predict how individuals determine their choice of startup activities and the subsequent consequences of each activity. Empirical results suggest that business planning is an activity chosen by individuals that have greater academic experience while customer interaction is selected by individuals with distinct and greater work experience. Importantly, relevant cues that determine the amount of an individual’s investment and investors’ investments in a new venture are predominantly based on business planning activities whilst customer interaction is not relevant to resource commitment made by the founder or external investors. In contrast, venture progress is driven primarily by customer interaction while the existence of a business plan has no direct effect, only with marginal complementary effects. These findings advance our understanding of both the role of business planning and customer interaction for entrepreneurs and investors. Further, this study provides a more replete and fine-grained understanding of the entrepreneurial phenomenon that especially adds to the study of entrepreneurial cognition and cues as a key aspect in entrepreneurship.

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