

SUMMARY

EXTENSIVENESS OF BUSINESS PLANNING AND FIRM SURVIVAL: AN EXAMINATION INTO THE DRIVERS OF SUCCESS AND SURVIVAL FOR KNOWLEDGE INTENSIVE START-UP FIRMS

Paula D. Englis, Berry College USA & Nikos, University of Twente Netherlands

Tiago Ratinho, University of Twente, Netherlands

Basil G. Englis, Berry College USA & Nikos, U. of Twente, Netherlands

Rainer Harms, University of Twente, Netherlands

Principal Topic

A number of studies have found that writing a business plan increases the likelihood of firm survival. For instance, Liao and Gartner (2006) found that firms that completed a business plan were nearly three times more likely to launch their business than those that did not. On the contrary, other studies have found no association between writing a business plan and success. For example, Honig and Karlsson (2004) found evidence that entrepreneurs only write business plans because they are required to do so by investors, educators and advisors. While the evidence is mixed on the effectiveness of business planning, previous research has not examined individual elements of business plans. Thus, it is not clear which aspects (e.g., financial projections v. marketing strategy) of business planning are positively (or negatively) related to performance and survival. Our study addresses two main issues concerning the impact of business planning in firm survival: 1) Are surviving firms different in the extent of their business planning? 2) Which topical areas within business planning are more (or less) predictive of firm survival? To seek answers, we reconceptualize business planning along four dimensions: service/product description, marketing strategy, financial projections and organizational planning.

Method

Data were collected from archival records of one of the oldest incubation programs for high-tech knowledge intensive start-ups in Northwestern Europe. Our database includes about 280 of 300 incubated firms. Business planning included existence of a business plan and its extensiveness (presence and extensiveness of four sub-sections: product description, marketing strategy, financial projections and the description of the firm's organizational structure). Size of initial team, age of firm, number of employees and amount of support were used as control variables.

Results and Implications

Results show that business planning is not always beneficial for knowledge intensive start-ups. While we found differences among the extensiveness of business planning for firms that survived as compared with firms that failed, not all of these differences predict survival. In fact, we found a negative relationship between developing an extensive marketing strategy and firm survival. A possible explanation of this finding is that incubated knowledge intensive and high-tech start-up firms are likely to develop businesses based on novel technologies that may not necessarily be understood by the market. Alternatively, surviving firms may have been led by experienced entrepreneurs who are more likely to "avoid analyzing ideas to death" than novice founders (cf. McGrath and MacMillan 2000: 3).

CONTACT: Paula Englis; pengles@berry.edu; (T): 706-290-2683; (F):706-238-5843; Campbell School of Business, PO Box 495024.