Uncovering value of planning in new venture creation

Business

Gruber article 2007: Uncovering the value of planning in new venture creation: A process and contingency perspective The topic discussed in the article is whether business planning has positive impact on firm performances. The existing view on this topic is dichotomous. One group of scholars think planning is important for successful firm creation, another group disagrees strongly. Findings from strategy research conclude there are two dominant models of strategy formulation.

One is a rational paradigm, and the other one is an incremental paradigm.

However, the strategy research has been done only for established firms. Findings from entrepreneurship research point out that planning process and its efforts on performance differ between emerging firms and established firms. Emerging firms face high level of uncertainty, and thus planning is more based on assumption to knowledge, while established firms can base their plans on past performance and historical trends.

Three problems with previous research have been identified by Gruber. First, contingent factors such as environmental uncertainty should be examined when evaluating the planning-performance relationship in start-ups. Second, process attributes such as entrepreneurial information search, time spent on planning, and efforts put into different activities should be studied as well.

Third, functional areas should be planned differently depending on the importance to venture success.

Marketing planning is the functional area Gruber focused on in the article. Gruber’s research indicates that the use of secondary information, the planning of customer relationship and marketing mix will have positive effect on venture performance without considering the founding environments. When taking he founding environments into consideration, the effect of time spent on marketing planning will be more positive in low dynamism environments than in high dynamism environments.

The above results suggest that planning is valuable to emerging firms even in highly dynamic environments, but the key aspects (trade-off regimes) must be identified for planning to achieve superior outcomes.

The following table illustrates the application of some selected variables from Gruber’s research to the Ockham case. Variables I Application in Ockham case I Use of primary information sources I The validation of the business idea is either rom Jim’s consultancy experience with prior customers or from the feedback of potential customers and potential investors.

No secondary data was used. I Planning of the marketing mix I The only P planned was Product. There is no clear information about planning price in the case, but I think the founders have their own estimation.

Promotion and place were not planned. They sold thru personal contact, and took places best suited for the situation. I Planning how to establish customer relationships I Customer relationship was established through Jim’s personal contact. I Total time spent on planning and organizing I Less than a year.

They contact with more potential investors I Founding environment I High-tech, high-velocity environment I Technology areas I Technology area 1, operating in software field I Innovativeness I The offering is new from a market perspective I VC prior to market entry I No VC financing prior to the market entry I Organizational mode I Jim wanted to make strategic decision excluding Mike I The information showed in the above table indicates that Ockham needed more business planning. Finding a good development team and establishing contacts with more potential investors were the trade-off regimes at the planning phase.