



Revising the predictive capability of business plan quality for new firm survival using qualitative comparative analysis[☆]



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ABSTRACT

This work analyzes the relationship between business plan quality and survival rates of new ventures. Because no consensus exists on the literature about this topic, the main goal of this study is to prove if a high quality of business plan does imply a great survival chance. In order to do so, this study discusses other antecedent conditions, such as entrepreneur and firm characteristics. Both authors of the study performed this kind of research 3 years ago using another kind of statistical method, logistics regression; this research uses fsQCA. The study includes a discussion on the differences between both methods.

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1. Introduction

New ventures play an important role in economic growth, job creation, and innovation (Johnson, 2004; Wu and Huang, 2015). However, these ventures present great failure rates (Brüderl and Schüssler, 1990; Simón-Moya, Revuelto-Taboada, and Ribeiro-Soriano, 2012). Because of these results, since the 1980s, public and private institutions and governments are making an effort to support new ventures. The aids are usually available to the population in general; nevertheless, some financial programs target segments of the population with specific employability issues. See Model and Model.

Considering the experience that institutions have in assessing entrepreneurs' applications, the application form is now different. Nowadays, one of the more frequent forms to present a standardized application is the business plan. Thereby, institutions that provide this kind of aids evaluate the quality of the business plan as a good indicator of future business success trying to ensure that beneficiaries make an appropriate use of public funding.

However, is really the quality of business plan a good predictor of future venture success? Some research on entrepreneurship focuses on the same question, but no consensus exists. This study explores the

relationship between the quality of business plans and the probabilities of ventures survival. The main objective is testing whether the business plan can predict ventures survival. Specifically, this study retakes the analysis by Fernández-Guerrero, Revuelto-Taboada, and Simón-Moya (2012). Their results demonstrate that business plans do not predict business success of new ventures. The authors consider that when studies include other variables, business plan quality does predict business success. This result implies the existence of a more or less complex interplay between business plan quality and the other factors, rather than the sum of the effect of single factors.

Fernández-Guerrero et al. (2012) use multivariate logistic models, a conventional quantitative method that has important limitations to study the effect of different causal recipes on a given outcome. Therefore, analyzing this phenomenon applying configurational comparative methods is necessary because, as Schneider et al. (2010, p. 247) state, configurational comparative methods “can be employed to test whether all, or only a fraction of, the causal conditions are related to the outcome, and how the relevant conditions must be combined.”

Consequently, a second contribution of this research consists in demonstrating the value of applying fuzzy-set qualitative comparative analysis (fsQCA) in these cases, even in the case of large sample.

The structure of this study is as follows: Section 2 reviews the literature of business plan predictive capability and other business success factors that scholars consider relevant to explain firms' survival, especially when these factors converge with a good business plan. Sections 3 and 4 explain the fsQCA method of the research and the results. The final discussion section presents the main conclusions and limitations of the study.

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Model

$$\text{survival}_3 = f(\text{KE}, \text{fs_WF}, \text{fs_REx}, \text{fs_IK}, \text{fs_EV}, \text{fs_FV}, \text{fs_OV}, \text{fs_REd}, \text{fs_LEd})$$

2. Theoretical background

2.1. Business plan predictive capability

The business plan of a new venture is a mechanism to project the firm into the future (Honig and Karlsson, 2004). The business plan also helps to identify solutions to possible problems that may arise (Liu and Hsu, 2011). Therefore, the business plan should develop the necessary procedures and strategies to turn a business opportunity into a reality (Fernández-Guerrero et al., 2012). In addition, in uncertain environments as the current one, the business plan as a project should include a scheduling for uncertain outcomes that may arise from the constitution of the venture; a balance among flexibility, reliability, and accountability; an equilibrium between decisions quality and decisions speed; and a timing scope (Collyer and Warren, 2009).

Regarding the predictive capability of the business plan, no consensus exists on the literature. Nevertheless, the business plan represents an important tool, with a positive effect on the chances of firm survival, but only if the development of this plan is adequate, thus requiring the concurrence of other firm and entrepreneur characteristics (Lussier and Halabi, 2010).

H1. The quality of a firm's business plan alone can be a necessary condition but not a sufficient condition to explain firm survival.

2.2. Firm and entrepreneur characteristics as concurrent antecedent factors

Trying to give a response to the high rates of firm failure, literature on entrepreneurship usually distinguishes three groups of factors, or antecedent conditions in QCA terms: entrepreneur's characteristics, venture's characteristics, and environmental factors. Taking into account the objectives of this research, the analysis and the results of previous research about business plan predictive capability, this study focuses on the analysis of the first two groups of antecedent conditions.

2.2.1. Entrepreneur's characteristics

The entrepreneur's background—education and experience—is one of the most important factors to consider because of its relationship with the chances of survival (Headd, 2003).

Regarding education, some of the studies show that the entrepreneur's overall education improves management ability for developing a new business; furthermore, knowledge that comes from the overall education helps the entrepreneur to acquire and transform information into know-how (Castrogiovanni, 1996).

Nevertheless, the level of the education that an entrepreneur possesses is not the only factor that could be related to business success, according to Say (1803)—in Van Praag (2003)—“judgment, perseverance, and a knowledge of the world as well as of business” (p. 330). In this statement, Say does not refer to the level of overall education but to a more specific one, that is, education related to the activity

Model

$$\text{survival}_6 = f(\text{KE}, \text{fs_WF}, \text{fs_REx}, \text{fs_IK}, \text{fs_EV}, \text{fs_FV}, \text{fs_OV}, \text{fs_REd}, \text{fs_LEd})$$

of the business. This kind of knowledge focuses on technologies, processes, or relevant products of the sector (Ribeiro-Soriano and Castrogiovanni, 2012) and through that knowledge, an entrepreneur detects customer needs, uses resources more efficiently, and reduces costs (Castrogiovanni, 1996).

On the other hand, an entrepreneur's background also comprises his/her experience. At this stage, most authors agree in that only the experience in the activity of the business is important to determine business success (Van Praag, 2003).

Finally, literature also focuses on entrepreneurs' motivation. According to Global Entrepreneurship Monitor (GEM), two general types of entrepreneurs' motivation exist: the opportunity and the necessity. The opportunity motivation refers to those entrepreneurs that seek autonomy and independence, and follow their vocation of constituting their own business. These entrepreneurs constitute a venture because they find a market opportunity (Shane and Vankataraman, 2000). In contrast, necessity motivation indicates that if the entrepreneur has no interest in the business in itself, he/she begins the activity to avoid unemployment (Reynolds, Camp, Bygrave, Autio, and Hay, 2001). Survival rates of opportunity entrepreneurs' ventures are usually higher than in the case of necessity entrepreneurs' ventures (Headd, 2003; Reynolds et al., 2001). The reason of this difference in survival is that opportunity entrepreneurs are usually more innovative (Ho and Wong, 2007).

2.2.2. Venture characteristics

Only for being new in an existing market, a new venture presents more probabilities of failure than an established business. GEM distinguishes between new entrepreneurship and established business (Xavier, Kelley, Kew, Herrington, and Vorderwülbecke, 2012), a difference of stages of entrepreneurship. Whereas new entrepreneurs are in the first stage and seek to achieve consolidation, the established business represents the long-term sustainability and economic stability (Kelley, Bosma, and Amorós, 2010).

New ventures are more likely to fail because of the liability of newness (Brüderl and Schüssler, 1990). Infant industry theory explains the implications of this liability (Aghion, 2011). This theory indicates that a new venture has a set of entry barriers that could result in the failure of the business. For example, Stinchcombe (1965) explains that every venture needs a period to develop new roles and to build the relationships with its environment, especially with customers and suppliers. Another disadvantage of new ventures is the fact that new entrepreneurs do not know the environment as well as established entrepreneurs do; therefore, this uncertainty provokes in some cases a “trial-and-error” process (Starr and MacMillan, 1990, p. 81).

Furthermore, another well-known liability exists, very common in new ventures: the liability of smallness (Brüderl and Schüssler, 1990). This liability, although not present in every new venture, is very usual. Smallness refers to the fact that almost all of new ventures begin with a little amount of capital, which hinders the competence with established ventures.

Hence, two of the most common factors in the literature that show a consistent, positive, and relevant relation with success of new ventures are the number of employees (Agarwal and Audretsch, 2001) and financial start-up capital (Brüderl, Preisendörfer, and Ziegler, 1992, Mas-Verdú, Ribeiro-Soriano, and Roig-Tierno, 2015).

H2. The combination of a good plan and an adequate entrepreneurial profile (with training and experience relevant to the line of business and driven by opportunity) and firm profile (firms with a minimum size in terms of human and financial resources) could be a sufficient antecedent configuration to explain firm survival.

H3. The influence of firm profile as antecedent condition is greater in the first stages of firm's life, new firm, than in following stages, established business.

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