

The power of planning for entrepreneurs

Don't underestimate the importance of planning. Beyond keeping banks happy, IESE's Govert Vroom finds planning can transform the entrepreneur's approach.



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"A goal without a plan is just a wish," the adage goes. Entrepreneurs looking to launch a new business should take heed.

The planning phase of a start-up isn't just providing a song and dance to please banks or investors. It plays a vital role in building the entrepreneur's self-belief and helps gauge the chances of success with greater accuracy. That is according to a [2015 study](#) by Brian McCann and [Govert Vroom](#) published in the *International Small Business Journal*.

Analyzing data from a major U.S. survey of entrepreneurs over time, McCann and Vroom find that entrepreneurs who take more actions during the planning stage of a business help reduce the uncertainty surrounding it and realize their plans.

An opportunity, not an imposition

Many entrepreneurs regard business plans and financial projections as obligations imposed on them by banks or investors. Notably, Guy Kawasaki, a serial entrepreneur and venture capitalist, told IESE MBA students in November 2014 that he believes "it is no longer necessary to write a business plan. You can't foresee the future five years from now."

And while that may be patently true, the very exercise of trying to foresee the future five years from now is helpful, McCann and Vroom's study finds, and it is a helpful reminder in the power of processes to help entrepreneurs learn and profit from their knowledge.

Their study says entrepreneurs should take a wider view of planning, which may include actions such as defining potential markets and drawing up business plans with projections. These actions do not only help by possibly bringing in funding and other external resources, they also help develop the entrepreneurs *themselves*. Planning actions can indeed change the way entrepreneurs view their prospective business and their own competence to run it.

"Overall, our work provides unique evidence from a large-scale, representative sample of nascent entrepreneurs working to set up real businesses that nascency involves 'a critical, albeit often underestimated, learning process,'" they write, quoting from peers D. Ravasi and C. Turati who study entrepreneurial learning.

Survey says...

For this research, the authors work with the Panel Study of Entrepreneurial Dynamics (PSED), a large-scale survey of entrepreneurs in the process of starting businesses in the United States tracked over multiple waves of data collection.

Starting with over 1,000 survey respondents, McCann and Vroom first weeded out respondents who didn't meet their study's interest in individuals working to launch new ventures, such as those involved with restarting existing corporations or operating franchises. They then focused on the responses over time that addressed three key issues:

- **Uncertainty.** How much uncertainty did respondents perceive in their business environment in terms of how markets would develop, the competition and how key stakeholders would react to the start-up?
- **Self-efficacy.** How confident did they feel about their abilities to effectively run their businesses?
- **Expectations of financial performance.** How well did they feel their business would perform in financial terms? Did expectations grow or fall over time?

It adds up

The authors found that engaging in planning activities over a period of 12 months led to significant changes in perceptions in each of these three areas — increasing certainty, self-efficacy and sales projections. Even experienced entrepreneurs seemed to learn and change their beliefs through planning activities. In fact, serial entrepreneurs' beliefs changed to a similar extent as novice entrepreneurs'.

In terms of reducing uncertainty, the data suggests planning actions are most helpful for understanding financial and competitive factors — namely, attracting funding, attracting customers, competing with other firms, complying with regulations, and keeping up with technological advances. Meanwhile, operational uncertainty — specifically, how to obtain raw materials, attract employees and deal with distributors — was reduced a bit, but not enough to be statistically significant.

On a side note, there was also evidence to suggest that entrepreneurs who were part of larger teams saw more positive results, perhaps (and commonsensically) due to their pooled knowledge and experiences.

Previous studies on nascent entrepreneurs have tended to concentrate on how the planning process helps them gain legitimacy or gather external resources. But McCann and Vroom's study looks at how entrepreneurs make ongoing assessments of their fledgling businesses — transforming their internal views in the process.

"Focusing on the legitimation aspects of planning might lead nascents to see it largely as an obligation imposed by external parties," they write. "Our research indicates that planning also serves an important complementary role of generating information and driving changes in beliefs, which will ultimately foster development of the opportunity."

Planning may not make perfect, but budding entrepreneurs should ignore it at their peril.

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