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PRIOR EXPERIENCE AND SOCIAL CLASS AS MODERATORS OF THE PLANNING-PERFORMANCE RELATIONSHIP IN CHINA'S EMERGING ECONOMY

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This study advances research on business planning by integrating and reconciling the institutional and strategic planning perspectives to explore the performance implications of both formal and informal business planning. We also examine how an entrepreneur's prior experience and social class shape the planning-performance relationship. Using a dataset of two waves of interviews with 313 founders in China, we found that both formal and informal business planning can benefit new ventures. Interestingly, as a unique contingency factor in the Chinese context, social class moderates only the link between formal planning and performance, whereas prior work experience moderates the effects of both formal and informal planning on performance. Copyright © 2013 Strategic Management Society.

INTRODUCTION

Much recent research has focused on the effects of business plans on new venture performance (for a recent meta-analysis, see Brinckmann, Grichnik, and Kapsa, 2010). Proponents claim that preparing a business plan can provide a new venture with legitimacy, resource acquisition, and goal implementation to promote new venture performance (e.g., Delmar and Shane, 2003). However, many others present unfavorable evidence (e.g., Bhide, 2000). Such a theoretical puzzle has generated rich empirical findings, and the divergent nature of these findings has led researchers to advocate contingency models to explain the relationship between business planning and performance (Gruber, 2007). Nonetheless, these theoretical and empirical advances have been confined largely to the situation in developed nations. As a case in point, a recent meta-analysis (Brinckmann *et al.*, 2010) does not cover a single study from China, which is an important emerging economy with an environment quite different from that of more developed nations (Bruton and Ahlstrom, 2003; Tan, Yang, and Veliyath, 2009).

The question whether business planning inhibits or enhances entrepreneurial performance and under what conditions such an effect occurs is especially acute in emerging economies such as China. The traditional personalized transaction structure in China was relationship based and network centered. Recently, China has been shifting from this traditional structure to an impersonal exchange regime which is rule based and market centered (Peng, 2003). Under such circumstances, 'a unique environment has emerged since the 1990s that is neither

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socialist nor capitalist ... The Chinese reform-minded policy makers have attempted to preserve the socialist system in order to maintain its legitimacy and power base. Meanwhile, knowing this system has failed to advance economic growth, the capitalist market-based system was introduced, even though it is an opposing force to the socialist ideology' (Tan and Tan, 2005: 144).

The coexistence of socialist and capitalist systems in China poses unique paradoxical situations of potential interest in studying business plans. Due to liability of smallness and newness (Stinchcombe, 1965), new ventures desperately need resources to grow their businesses. However, entrepreneurial firms in China suffer from a significant shortage of slack resources and legitimacy compared to more established firms (Delmar and Shane, 2004). This is particularly true for entrepreneurial firms in China who operate under the socialist system where 'the government still controls significant portions of strategic factor resources and has considerable power to approve projects and allocate resources' (Li and Zhang, 2007: 793). Further, in the venture capitalist industry, funds are typically associated with state-owned banks or corporations (Ahlstrom, Bruton, and Yeh, 2007). As a result, venture capitalists in China tend to adopt procedures very different from those in the West. That is, they rely on the evaluation of formal business plans to make investment decisions (Bruton and Ahlstrom, 2003; Bajargal and Liu, 2005). Under such conditions, new ventures are prompted to engage in preparing a formal business plan in order to acquire resources and legitimacy through market mechanisms.

The paradox comes because China is distinguished by its imperfect markets for production, ill-defined property rights, and underdeveloped legal system (Peng and Heath, 1996). Further, the inherently chaotic and unpredictable nature of institutional transition (Nee, 1992) requires new ventures to be 'flexible' in dealing with uncertainty (Child and Tse, 2001; Tan, 2005, 2007). Under such situations, entrepreneurial firms may feel 'under the radar' as they are less visible to the public than are established firms and, thus, choose not to spare their limited resources on preparing business plans. Indeed, research has found entrepreneurial firms act opportunistically or unethically to take advantage of the leeway and gray areas due to scant legal protections of consumer interests and unfair competition (Azmat and Samaratunge, 2009). Given this paradox, new theoretical perspectives and empirical evidence are needed to reveal the process through which business planning impacts entrepreneurial firms in China.

Thus, the current study was motivated by two fundamental research questions. First, what is the impact, if any, of business planning on new venture performance in China? Integrating the institutional and strategic planning views, we propose that both formal and informal business planning are beneficial for new venture performance. Further, given the idiosyncratic circumstances in China, we predict that informal planning will have a more potent influence on firm performance than will formal planning. Second, as adopting a strong business plan is increasingly considered necessary but insufficient for wealth creation by new firms (Gruber, 2007), a better understanding of the conditions under which a business plan enhances new venture performance may require a contingency perspective that emphasizes the importance of fit between a business plan and other constructs of interest. Building on the premise that business planning has contingent value, our second research question is: under what conditions does business planning enhance or constrain new venture performance in China? In order to identify the optimal value of business planning, we investigate two individual characteristics as moderators: entrepreneurs' prior experience and social class.

THEORY AND HYPOTHESES DEVELOPMENT

Central to understanding the role of business planning for new ventures, particularly new ventures in China, is the heterogeneity of business planning. A key premise in the literature is that entrepreneurs prepare both formal plans and informal plans that follow different logics and serve different purposes (Gruber, 2007). Formal business plans refer to plans developed to communicate with external stakeholders and to acquire resources, while informal business plans are utilized as an operational guide to facilitate a new venture's development.

The inherent logics to explicate the role of formal and informal business plans are also different. The institutional view regards the preparation of a formal business plan as the entrepreneur's reaction to external forces, that is, entrepreneurs write formal business plans to conform to institutionalized rules and to mimic the behavior of others (Delmar and Shane, 2004; Honig and Karlsson, 2004). The strategic planning view suggests informal business planning

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as an effective mechanism to deal with dynamic external conditions because plans must be informal, adaptive, and incremental to be operational and feasible in a turbulent environment (Hough and White, 2003; Mintzberg and Waters, 1985). Moreover, prior research indicates that the quality of planning depends on the availability and clarity of the information received (Forbes, 2007). The entrepreneurial planning process is typically characterized by scarce, unstructured, and incomplete information (Castrogiovanni, 1996), and the value of informal business planning may be particularly significant for entrepreneurs because of its adaptive and incremental nature. However, to date, no study has examined the influence of informal business planning on new venture performance (e.g., Brinckmann *et al*., 2010). Thus, drawing upon both an institutional view and a strategic planning view, the current research aims to advance our understanding of the value of business planning by integrating and reconciling these perspectives to explore the performance implications of both formal and informal business planning for Chinese entrepreneurial firms.

Further, we aim to extend this line of work by examining how entrepreneurs' prior experience and social class influence the relationship between business planning and new venture performance. The underlying premise for the moderating role of prior experience is that knowledge resulting from prior experience may enhance an entrepreneur's absorptive capacity in collecting and analyzing new information and, thus, in planning (e.g., Burke, Fraser, and Greene, 2010; Castrogiovanni, 1996; Dencker, Gruber, and Shah, 2009), which will, in turn, enhance the effect of business planning. An entrepreneur's social class may moderate the influence of planning on performance because China recognizes a dual social stratification: economic and political. Economic success in the more privatized sectors along with distinctions based on political authority (i.e., rank in the Communist party) can determine the extent to which entrepreneurs acquire key resources and information (Bian, 2002; Bian *et al*., 2005). This suggests that the value of business planning may differ for entrepreneurs from different social classes.

The direct effects of business plans on new venture performance

Turning first to the role of formal business planning, we propose that formal business planning has a positive impact on new venture performance in China through enhancing the new venture legitimacy and reducing information asymmetry between entrepreneurs and resources holders. The institutional view holds that formal business plans are prepared because they are expected by external stakeholders (e.g., Honig and Karlsson, 2004; Stinchcombe, 1965). That is, entrepreneurs write formal business plans to conform to institutionalized rules and to mimic the behavior of others. According to this line of thinking, formal business plans act as effective means for entrepreneurs to communicate with stakeholders, which contribute to the new venture's legitimacy in the eyes of external stakeholders. Legitimacy, in turn, enhances new venture performance (Zimmerman and Zeitz, 2002).

Further, information asymmetry between entrepreneurs and external resource providers prevents these stakeholders from precisely estimating a new venture's potential. Thus, they tend to adopt careful due diligence and rely on formal business plans when making investment decisions (Kirsch, Goldfarb, and Gera, 2009). A formal business plan should include information such as the backgrounds and capacities of the founding team, the new venture's potential, and the planned approach to developing the business (Castrogiovanni, 1996). Done properly, a formal business plan can reduce the information asymmetry between entrepreneurs and stakeholders, improve the possibility of the entrepreneur obtaining external resources (Eckhardt, Shane, and Delmar, 2006), and, thus, facilitate new venture performance.

Hypothesis 1: A formal business plan enhances new venture performance in China.

Alternatively, the strategic view regards business planning as a process by which the entrepreneur, in exploiting an opportunity, creates a vision of the future and develops the necessary objectives, resources, and procedures to achieve that vision (Delmar and Shane, 2003). According to the strategic perspective, planning is beneficial because it guides the entrepreneur to gather and analyze information and to arrive at a more nuanced and thorough understanding of key success factors for businesses (Ansoff, 1991; Castrogiovanni, 1996; Delmar and Shane, 2003). In an uncertain context such as entrepreneurship, business planning has to be an adaptive and incremental learning process (Hough and White, 2003; Mintzberg and Waters, 1985) due to the

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inherently chaotic and unpredictable situation (Campbell, 1988), and it is best informal so that adaptation and modification is always possible.

Overall, the strategic view proposes that informal planning contributes to new venture performance through the mechanisms of promoting efficiency and reducing uncertainty for entrepreneurs. Previous research has offered empirical evidence for these effects. For instance, pre-venture planning has been shown to directly enhance post-start-up efficiency (Castrogiovanni, 1996) because it communicates the operational plans to internal stakeholders for better coordination (Grinyer, Al-Bazzaz, and Yasai-Ardekani, 1986), rapid decision making, and action. Informal business planning can also act as an effective tool to reduce uncertainty by allowing firms to respond quickly to competitors and to adopt the best industry practices in the uncertain environment (Castrogiovanni, 1996; Delmar and Shane, 2003). Together, these effects combine to enhance new venture performance. On the basis of this extensive body of evidence, we propose:

Hypothesis 2: An informal business plan enhances new venture performance in China.

Overall, then, it appears that both formal and informal business plans are beneficial to new venture performance in the current context of China. In this study, we further propose that the influence of an informal business plan exceeds that of a formal business plan. Although there is little or no direct evidence on the relative efficacy of the two forms of business plans for promoting new venture performance, there are theoretical and empirical grounds for its existence in China. Central to understanding the relative influence of different types of business plans is the idiosyncratic institutional context under which entrepreneurs operate their new ventures. For instance, due to private entrepreneurship's significant contribution to economic development, institutional reforms have encouraged the growth of private entrepreneurship in the past decades. As a case in point, the Chinese private equity industry has experienced rapid growth, despite the fact that underdeveloped institutions constrain venture capitalists from operating informally or from dealing with additional systemic risk (Bruton and Ahlstrom, 2003). Meanwhile, the purpose of venture capitalists in China is to secure the public assets instead of pursuing superior returns from risky investment decisions due to their state ownership (Ahlstrom *et al*., 2007). Under such circumstances, although business planning would be very important in attracting venture capital, the social relationship between the entrepreneur and the venture capitalist may have more significant effects on investment decisions (Bruton and Ahlstrom, 2003). Hence, the importance of *guanxi* (personal relationships) in the venture capital process implies that the value of formal business planning is less than it might be elsewhere (e.g., Bajargal and Liu, 2005).

Further, entrepreneurship is inevitably concerned with various forms of newness and uncertainty, so entrepreneurs must always plan informally to be prepared to exploit opportunities as they arise (Sarasvathy, 2007). In China, as the informal aspects of entrepreneurship are emphasized (Peng, 2003), the lack of institutional stability makes informal planning particularly important. The inherently chaotic and unpredictable nature of institutional transition presents additional uncertainty for entrepreneurs to deal with (Tan, 2005). The essence of operating a new business in China is to stay flexible and adaptive, instead of obeying common business rules so as to better take advantage of the vulnerable environment (Tan, 2007). Chinese entrepreneurs not only rely on informal mechanisms such as guanxi, but engage in informal behaviors to moderate risks and uncertainty (Tan, 2005). Under such circumstance, informal business planning can serve as a map for implementation and enhance Chinese entrepreneurs' capability to act boldly in dealing with the inherent uncertainty. As such, Chinese entrepreneurs may benefit more from informal business planning, because the flexibility and adaptive nature of informal business planning may promote their capability to operate in the context lack of institutional stability (Peng and Heath, 1996). On the basis of this reasoning, we propose:

Hypothesis 3: An informal business plan has a more potent influence on new venture performance than does a formal business plan in China.

The moderating role of prior experience and social class

As we have described, there are theoretical and empirical grounds for suggesting that both formal and informal business plans enhance new venture performance in China. It is crucial to note that these effects occur against powerful contingent factors. Indeed, the value of business planning is not only

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determined by the type of plan, but also by the characteristics of the entrepreneur completing the plan (Castrogiovanni, 1996). This study incorporates this perspective by examining the potential moderating effects of entrepreneurs': (1) prior entrepreneurial and work experience; and (2) social class.

The interactive effect between prior experience and formal business plans

An entrepreneur's prior experience may include both prior work experience (i.e., total years of full-time work experience) and prior entrepreneurial experience (i.e., number of new ventures the entrepreneur has helped found) (Tang, 2010). A formal business plan usually contains information about the backgrounds of the entrepreneurs involved, and external stakeholders utilize a formal plan to evaluate entrepreneurs' capacities and competences (Kirsch *et al*., 2009). Having rich work and entrepreneurial experience can convey legitimacy to would-be investors, for the entrepreneurs themselves, as well as for the new venture. For example, previous founding experience has been found to increase the likelihood of VC funding (Hsu, 2007). Similarly, industry experience has been reported to lead to resource acquisition. China has been widely considered to have a turbulent and hostile environment (Tang *et al*,, 2008). Under such circumstances, the influence of a formal business plan on new venture performance will be strengthened when prior experience plays a role because entrepreneurs' rich experience can help counter the uncertainty and instability originated in the external environment. Indeed, successful entrepreneurs in China can capitalize on their prior experience to prepare a better business plan because they are not distracted or constrained by institutional turbulence. Thus, the positive relationship between formal business plans and entrepreneurial performance will be strengthened if the entrepreneurs have more prior work experience and prior entrepreneurial experience.

Hypothesis 4a: The positive relationship between formal business plans and new venture performance is stronger for entrepreneurs with more work experience.

Hypothesis 4b: The positive relationship between formal business plans and new venture performance is stronger for entrepreneurs with more entrepreneurial experience.

The interactive effect between prior experience and informal business plans

Following the same logic, we propose that the advantages of informal business planning also depend on the prior experience of the entrepreneur preparing and implementing the plan. The underlying premise is that utilizing an informal business plan is a learning process (Dencker *et al*, 2009). An informal business plan is based on an array of assumptions about market trends and competitive situations and sets a broad range of goals to guide the new venture (Brinckmann *et al*., 2010). However, some of these assumptions and goals may prove incorrect because situations may change. Under such circumstances, entrepreneurs need to scrutinize the situations accurately and make decisions to respond in a timely manner. Skills in collecting and analyzing new information and in adapting to a changing environment play an essential role in this trial-and-error process (Cohen and Levinthal, 1990). Extant literature offers evidence that experienced entrepreneurs show greater flexibility and willingness to adapt (Reuber and Fischer, 1999). Entrepreneurs in China encounter significant resource scarcity and environmental dynamism during the institutional transitions (Tang, 2010). Entrepreneurs with more prior experience will be better able to disregard these distractions and instead focus on extracting the useful information in the dynamic environment in order to make adjustments to their informal plans accordingly. Thus, the effectiveness of informal business plans will be augmented for entrepreneurs with higher levels of prior work and entrepreneurial experience. On the basis of this reasoning, we propose the following hypotheses:

Hypothesis 5a: The positive relationship between informal business plans and new venture performance is stronger for entrepreneurs with more work experience.

Hypothesis 5b: The positive relationship between informal business plans and new venture performance is stronger for entrepreneurs with more entrepreneurial experience.

The interactive effect between social class and formal business plans

Neo-Marxist social class theory (Wright, 1997) depicts society as a structure consisting of different groupings of people who have distinct interests and

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possess different resources. Property, authority, and skills have been identified as distinct resources that define social class boundaries (Bian *et al*., 2005; Wright, 1997). Whereas market transactions are considered the primary engine that maintains a new class hierarchy in Western economies, China has sets of relatively isolated economic and political strata that define social class. In particular, economic success determines status in the more privatized sectors, yet political authority has its own dynamics, even in the workplace (Bian *et al*., 2005).

The influence of an entrepreneur's social class may be understood from a resource-based view of the firm. Chinese entrepreneurs from higher political or economic strata tend to have more resources in terms of savings, social capital, and human capital (Bian *et al*., 2005). These advantages, in turn, translate into a capacity to acquire resources through informal institutions and channels. Therefore, for high status entrepreneurs, the symbolic and legitimizing functions of formal business planning may be weakened because they can acquire resources in alternative, less formal ways (Castrogiovanni, 1996). Lower status entrepreneurs, however, due to their limited resources and heavy reliance on market mechanisms in obtaining resources, may more readily benefit from formal business planning. On the basis of this reasoning, we offer the following hypothesis:

Hypothesis 6: The positive relationship between formal business plans and new venture performance is weaker for entrepreneurs of higher social class.

The interactive effect between social class and informal business plans

As noted earlier, the learning value of informal planning may manifest itself through the abundant personal experience and diverse knowledge available in personal networks (Cohen and Levinthal, 1990). In particular, as informal planning is adaptive and incremental, accumulated experience heavily determines its quality and value (March, 1991). As a result of China's dual and relatively isolated economic and political stratification, individuals tend to embed themselves in a network mainly consisting of people of the same class (Bian *et al*., 2005), which suggests that each network provides access to relatively homogeneous information and knowledge. Under such circumstances, the value of informal business planning may vary significantly between classes in China. Entrepreneurs with higher class status will have access to more knowledge and information crucial for the utilization and implementation of informal business planning (Anderson and Miller, 2003). This will enhance the positive effect of informal business planning on entrepreneurial performance. On the contrary, entrepreneurs of lower class tend to lack access to human capital which cannot be compensated by assistance from members of their own networks, as the members in the same social class will have access to similar stocks of knowledge. Consequently, the positive effect of informal business planning on new venture performance will be weakened. This reasoning suggests the following hypothesis:

Hypothesis 7: The positive relationship between informal business plans and new venture performance is stronger for entrepreneurs of higher social class.

METHODOLOGY

Survey design

This study utilized data from the first and second wave surveys of the Chinese Panel Study of Entrepreneurial Dynamics (CPSED), modeled on the U.S. PSED (Reynolds and Curtin, 2010). Following previous studies on business planning (Delmar and Shane, 2003; Honig and Karlsson, 2004), we employed a longitudinal study of individuals in the process of starting new businesses. The longitudinal design was intended to reduce hindsight and minimize biases in order to provide an accurate estimate of the effects of business planning on venture outcomes (Castrogiovanni, 1996; Delmar and Shane, 2003). To the best of our knowledge, this study was the first longitudinal study of Chinese entrepreneurship. Data were collected from eight capital cities in four regions of China.[1] Sampling in these cities can capture the characteristics of nascent entrepreneurship in each region as well as represent economic development of China properly (Zhang *et al*., 2010).

[1] The eight cities in the four regions include: *Beijing*, *Tianjin*, *Hangzhou*, and *Guangzhou* in Eastern China, *Wuhan* in Central China, *Shenyang* in Northeastern China, and *Chengdu* and *Xi'an* in Western China. These eight cities are all capital cities and each plays an essential role in the economic development of its region.

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Data collection

Random-digit dialing was used to contact 69, 990 individuals and 20,424 (29.2%) of them agreed to participate. The following questions were asked to identify nascent entrepreneurs in the process of starting a business: (1) 'Are you, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others?'; and (2) 'Did you, alone or with others, consider starting a new business, including any self-employment or selling any goods or services to others, in the last 12 months?' In addition, respondents needed to meet three criteria to be qualified. First, they were expected to have some ownership in a new business. Second, they had been involved in activities to launch a new venture during the previous 12 months. Third, the effort was still in the start-up or gestation phase and was not yet an infant firm.

Only a small number of those contacted were currently starting a business. The initial interview identified 974 (4.77%) nascent entrepreneurs. These participants were directed to a detailed interview (40 to 60 minutes) either following the screening or later by appointment. A total of 601 nascent entrepreneurs completed the first-round interview. Wave 2 interviews were conducted 12 months later and yielded 321 (53.4%) responses due to attrition. Among these 321 nascent entrepreneurs, 29 had businesses in operation, 175 were still starting up, and 117 were no longer continuing their efforts. Eight interviewees did not provide complete responses, so the final sample size was 313.

Attrition of respondents is unavoidable in longitudinal research. The U.S. PSED II reported a 20 percent loss rate in its second wave interviews (Reynolds and Curtin, 2010). The higher loss rate of CPSED was perhaps due to the high mobility of entrepreneurs and the competitive environment in China. Among the 280 dropouts, 103 could not be located anymore, and 177 either terminated the interview early or refused to be interviewed. To check for self-selection bias, the demographic characteristics of those who finished the second interview were compared with the characteristics of those who did not. There were no significant differences in terms of gender, education, marital status, or prior experience, except for age ($F = 4.999$; $p < 0.026$), so it is reasonable to suggest that attrition did not lead to undue bias in the sample. Analysis was, therefore, based on the 313 cases that finished both the first and follow-up interviews.

Measures

Dependent variable

We measure new venture performance by focusing on the firm's *profitability* because profitability is both an essential and a primary goal of nascent entrepreneurs (Honig and Karlsson, 2004). In the second wave interview, each respondent was asked: 'Has your venture been profitable during the last 12 months?' A dummy variable was created with '1' indicating 'yes' and '0' indicating 'no.'

Independent variables

We examined two types of business planning in the current research. As noted earlier, *formal business plans* were intended for external stakeholders, while *informal business plans* were intended for internal use in guiding the venture development. In the first wave interview, each respondent was asked: 'Did you complete a business plan for your venture?' If the answer was 'yes,' the respondent was further asked: 'What is the current form of your plan? Is it unwritten (in your head), informally written for internal use, or formally prepared for external use?' Two dummy variables were created to indicate whether formal or informal business planning had taken place. Those who answered that they had formally written plans for external use were entered as '1' to represent formal business plans. Similarly, those who responded that they had informally written plans for internal use or unwritten (in your head) were entered as '1' to represent informal business plans.

Moderator variables

Following previous studies (Dencker *et al*., 2009), *prior work experience* was measured in terms of the respondent's total years of full-time paid work experience before the current business was launched. *Prior entrepreneurial experience* was measured by the total number of new ventures a nascent entrepreneur had previously been involved with. Those who had prior entrepreneurial experience were coded as '1' and the others were coded as '0.'

The current society in China is characterized by inequality in skills, authority and the control of property based on occupations (Bian, 2002). Thus, Bian (2002) and Bian *et al*. (2005) suggest that a person's occupation is an effective indicator of *social class* status in China. In particular, government officials and employees of state-owned enterprises held

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higher social status and controlled more tangible and intangible resources. The vast peasant class, the unemployed, blue collar workers and students were disadvantaged in terms of social status and resources owned, so they represented a lower class in society. In the current study, we measured a nascent entrepreneur's social class by his/her occupation before the current business was launched. Those whose prior occupation was peasant, unemployed, blue collar worker, or student were coded with '0' and others were coded with '1' so that '1' represented higher social class.

Control variables

At the individual level, *gender* (1 = male), *age*, *degree of education*, *motivation*, and *location* were controlled because previous research has reported that age and gender (Baron, Tang, and Hmieleski, 2011), better education (Reynolds, 1997), and motivation (Schjoedt and Shaver, 2007) all enhance successful new venture creation. Four dummy variables represented a respondent's educational level as: high school, vocational school, bachelor's degree, and master's degree or above. Motivation to launch a new business was measured by a dummy variable with '1' indicating opportunity motivated and '0' indicating necessity motivated. Seven dummy variables were developed to represent the respondents' locations in each of the eight cities.

In addition, industry was controlled because the value of business planning may be different in different industry contexts (Honig and Karlsson, 2004). A dummy variable was coded '1' for the manufacturing sector and '0' otherwise. Another dummy variable was created to distinguish technical sectors (coded '1') from nontechnical ones (coded '0'). Finally, as a new venture launched by an entrepreneurial team may have a better chance of reaching profitability (Honig and Karlsson, 2004), a dummy variable was created with '1' indicating team entrepreneurship and '0' individual entrepreneurship.

RESULTS

Table 1 presents the descriptive statistics for all the variables. The correlation between formal business planning and profitability was 0.04 (n.s.), whereas the correlation between informal business planning and profitability was 0.13 ($p < 0.05$). Hierarchical logistic regressions and maximum likelihood estimation (Hosmer and Lemeshow, 1989) were employed to test the hypotheses. Table 2 shows the logistic regression results.

Model 1 included the control variables only and acted as the baseline for evaluating the hypotheses. Model 2 showed the results for the first two hypotheses. Hypothesis 1 predicts that formal business plans have a positive influence on new venture performance and Hypothesis 2 proposes that informal planning has a significant effect on new venture performance. The results indicate that H1 is marginally supported while H2 is fully supported. The unstandardized logistic regression coefficients for formal business plans ($B = 1.023$, $p < 0.10$) and informal business plans ($B = 0.624$, $p < 0.05$) are both positive and significant. Further, incorporating formal and informal business planning into the Model (Model 2) resulted in a significant change in the model chi-square ($\Delta \chi^2 = 38.18$, $p < 0.05$) and 11 percent increase in Cox's R^2 from the controls only model (Model 1). Both changes indicate that the two variables improve model fit significantly. In terms of effect sizes, nascent entrepreneurs who completed a formal business plan were almost three times more likely to reach profitability than those who did not produce a formal business plan ($1.023e^x = 2.80$). Similarly, completing an informal business plan almost doubled the odds of success ($0.624e^x = 1.87$). Model 2 also indicated that prior work experience was positively related to profitability ($p \leq 0.05$).

Hypothesis 3 proposes that an informal business plan has a more significant influence on new venture performance than a formal business plan. Prior research suggests that standardized regression coefficients be used to compare the strength of the relationship between the dependent variable and different independent variables (Menard, 2002). Specifically, the standardized coefficients can be estimated as $(b_{YX})\ (S_X)/1.838$. Based on the results in Model 2, the standardized coefficients for formal business planning and informal business planning are 0.130 and 0.165, respectively. Comparing the standardized coefficients of formal business plan and informal business plan indicates that informal business plan has a more potent influence on new venture performance than a formal business plan, supporting H3.

Hypotheses 4a and 4b propose that prior work and entrepreneurial experience will strengthen the relationship between formal business plans and new venture performance, and Hypotheses 5a and 5b predict that prior work and entrepreneurial experi-

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Table 1. Means, standard deviations, and correlations (N = 313)

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1. Gender (1 = male)	1.297	0.458	1																						
2. Age[a]	3.406	0.296	0.07	1																					
3. Education (high school)	0.249	0.433	0.07	0.01	1																				
4. Education (vocational school)	0.278	0.449	−0.03	−0.08	−0.36**	1																			
5. Education (bachelor)	0.336	0.473	−0.06	−0.03	−0.41**	−0.44**	1																		
6. Education (master and above)	0.035	0.184	0.05	−0.04	−0.11	−0.12*	−0.14*	1																	
7. Location (Beijing)	0.217	0.413	0.02	0.06	−0.04	−0.02	0.12*	−0.06	1																
8. Location (Shenyang)	0.096	0.295	−0.03	0.03	0.06	−0.08	−0.07	0.06	−0.17**	1															
9. Location (Wuhan)	0.102	0.303	−0.01	−0.01	0.00	0.03	−0.02	−0.06	−0.18**	−0.11	1														
10. Location (Guangzhou)	0.105	0.308	0.07	0.02	0.84**	−0.32**	−0.37**	−0.06	−0.11*	0.01	−0.05	1													
11. Location (Xi'an)	0.080	0.271	−0.02	0.05	−0.03	0.00	0.04	0.01	−0.16**	−0.10–	−0.10	−0.08	1												
12. Location (Tianjin)	0.170	0.376	−0.04	−0.01	−0.01	0.04	−0.03	−0.04	−0.24**	−0.15**	−0.15**	−0.07	−0.13*	1											
13. Location (Hangzhou)	0.096	0.295	0.02	−0.11	−0.01	−0.01	−0.02	0.06	−0.17**	−0.11	−0.11	−0.06	−0.10	−0.15**	1										
14. Motivation	0.521	0.500	−0.06	−0.10	−0.08	0.08	0.06	0.04	0.03	−0.19**	0.03	−0.02	0.02	−0.04	0.05	1									
15. Industry (manufacturing)	0.070	0.256	−0.01	0.23**	0.13*	−0.12*	−0.01	0.02	−0.01	−0.09	−0.05	0.13*	0.15**	0.04	−0.01	0.06	1								
16. Industry (technological)	0.396	0.490	0.07	0.19**	0.00	−0.01	−0.08	0.09	0.00	−0.09	−0.08	0.03	0.12*	0.02	0.03	0.10	0.26**	1							
17. Team entrepreneurship	0.521	0.500	0.02	−0.05	−0.17**	0.01	0.21**	0.11*	−0.04	0.03	−0.04	−0.11	0.12*	−0.11*	−0.04	0.04	−0.06	0.10	1						
18. Formal business planning	0.054	0.227	−0.03	0.00	−0.07	−0.02	0.01	0.26**	−0.06	0.07	−0.08	−0.07	0.03	−0.03	0.07	0.03	−0.01	0.01	0.12*	1					
19. Informal business planning	0.649	0.478	0.18**	−0.03	0.01	−0.02	0.06	−0.08	−0.00	−0.01	−0.04	0.02	0.14*	−0.11*	0.01	−0.02	−0.01	0.06	0.00	−.33**	1				
20. Prior work experience[a]	1.395	1.135	0.12*	0.55**	0.01	0.07	−0.02	−0.03	0.11	−0.11*	0.03	0.03	0.02	0.02	−0.10	−0.05	0.22**	0.09	−0.06	−0.00	0.03	1			
21. Prior entrepreneurial experience	0.275	0.447	0.07	0.20**	−0.01	0.08	−0.10	0.00	0.01	0.12*	0.03	−0.04	0.03	−0.01	−0.10	0.12*	−0.03	0.01	−0.13**	−0.05	0.02	0.11	1		
22. Social class (1 = higher)	0.617	0.487	0.09	0.09	−0.05	0.02	0.09	−0.03	0.03	−0.03	−0.04	0.02	0.01	−0.10	0.01	0.07	0.06	−0.10	0.07	−0.07	0.01	0.26**	0.01		
23. Profitability	0.336	0.473	0.18**	0.01	−0.00	−0.02	−0.03	−0.03	0.10	0.09	−0.08	0.02	−0.04	−0.07	−0.02	0.00	−0.04	0.03	−0.06	0.04	0.13*	0.11*	0.02	0.02	1

[a]Log-transformed. *$p < 0.05$; **$p < 0.01$ (two-tailed test).

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Table 2. Hierarchical logistic regression results of the effects of business planning on profitability

	Dependent variable: profitability (12-month interval)			
	Model 1	Model 2	Model 3	Model 4
Control variable				
Gender (1 = male)	0.964***	0.857***	0.943***	0.871***
Age[a]	–0.211	–0.961	–0.775	–0.989*
Education (high school)	–0.966	–1.148*	–1.084	–1.095
Education (vocational school)	–0.568	–0.873*	–0.908*	–0.971**
Education (bachelor)	–0.592	–0.865*	–0.916*	–0.912*
Education (master and above)	–0.991	–1.431*	–1.590*	–1.842**
Location (Beijing)	0.537	0.531	0.574	0.428
Location (Shenyang)	0.781	0.950*	1.007*	0.826
Location (Wuhan)	–0.517	–0.483	–0.431	–0.550
Location (Guangzhou)	0.383	0.356	0.307	0.216
Location (Xi'an)	–0.055	–0.110	–0.158	–0.147
Location (Tianjin)	–0.226	–0.154	–0.231	–0.213
Location (Hangzhou)	–0.129	–0.145	–0.179	–0.261
Motivation	0.179	0.233	0.320	0.170
Industry (1 = manufacturing)	–0.306	–0.440	–0.429	–0.368
Industry (1 = technological)	0.173	0.175	0.116	0.190
Team entrepreneurship	–0.300	–0.287	–0.311	–0.305
Independent variable				
Formal business planning		1.023*	–0.830	2.347**
Informal business planning		0.624**	0.240	0.783
Moderating variable				
Prior work experience[a]		0.374**	–0.133	0.331**
Prior entrepreneurial experience		–0.109	0.846	–0.062
Social class (1 = higher class location)		–0.085	–0.082	0.288
Interaction effect				
Formal business planning × prior work experience			1.609**	
Informal business planning × prior work experience			0.597**	
Formal business planning × prior entrepreneurial experience			–1.401	
Informal business planning × prior entrepreneurial experience			–1.350*	
Formal business planning × social class				–3.055**
Informal business planning × social class				–0.235
Chi-square	25.681*	38.184**	49.955***	43.383***
–2 log likelihood	373.694	361.192	349.420	355.993
Cox's R^2	0.079	0.115	0.148	0.129
Df, N	17, 313	22, 313	26, 313	24, 313

[a]Log-transformed. *$p \leq 0.10$; **$p \leq 0.05$; ***$p \leq 0.01$.

ence will strengthen the link between informal business plans and new venture performance. Model 3 displays the results for these hypotheses. Incorporating these interaction terms resulted in a significant improvement ($\Delta\ \chi^2 = 49.955$, $p < 0.01$) in model fit over the main effects model (Model 2) and Cox's R^2 explained an additional 14.8 percent of variance. Specifically, the unstandardized logistic regression coefficient for the interaction term of formal business plan and prior work experience (B = 1.609, $p < 0.05$) is positive and significant, supporting H4a. However, the unstandardized logistic regression coefficient for the interaction term of formal business plan and prior entrepreneurial experience

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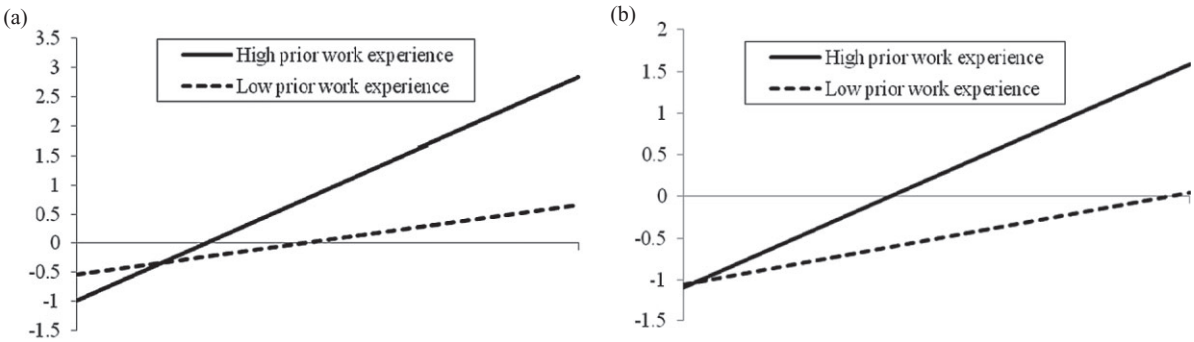

Figure 1(a). Moderating effect of prior work experience on the relationship between formal business planning and profitability

Figure 1(b). Moderating effect of prior work experience on the relationship between informalbusiness planning and profitability

(B = −1.401, n.s.) is not significant. Thus, H4b is not supported. The regression coefficient for the interaction term of informal business plan and prior work experience is positive and significant (B = 0.597, $p < 0.05$), lending support for H5a. Finally, the coefficient for the interaction term of informal business plan and prior entrepreneurial experience is negative (B = −1.350, $p < 0.10$). Thus, H5b is not supported.

Results for Hypotheses 6 and 7 were presented in Model 4, in which interaction terms involving social class and business planning are added. Hypothesis 6 predicts social class weakens the relationship between a nascent entrepreneur's formal planning and new venture performance, whereas Hypothesis 7 proposes that a nascent entrepreneur's social class strengthens the relationship between informal planning and new venture performance. The regression coefficient for the interaction term of formal business plan and social class is negative and significant (B = −3.055, $p < 0.05$). This result supports H6 and implies that nascent entrepreneurs from the lower classes are more likely to reach profitability if they engage in formal business planning. Unfortunately, the regression coefficient for the interaction between informal business planning and social class is not significant (B = −0.235, n.s.), so H7 was not supported. Further, incorporating these two interaction terms resulted in a significant improvement ($\Delta \chi^2 = 43.383$, $p < 0.01$) in model fit over the main effects model (Model 2) and 12.9 percent increase in additional variance explained.

To facilitate interpretation of the significant interaction effects, we plotted the graphs in Figures 1 and 2. Figure 1(a) indicates that when prior work experience is high, the effect of formal business planning on profitability is stronger. Similarly, Figure 1(b) indicates that when prior work experience is high, the effect of informal business planning is strengthened. Figure 2 shows that when entrepreneurs come from low social class, the effect of formal business planning on profitability is reinforced. These results further support the moderating role of prior work experience and social class.

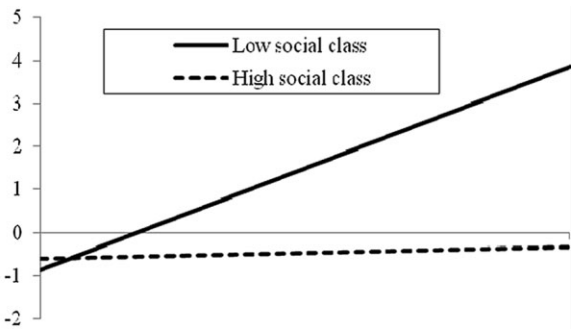

Figure 2. Moderating effect of social class on the relationship between formal business planning and profitability

As a robustness check and to confirm these results, we conducted one additional set of analyses. The regression models were reestimated using an alternative measure of new venture performance-sales of the first 12 months instead of profitability. The results are substantially consistent with those reported earlier except that formal business planning was no longer a significant predictor of a new venture's sales. This interesting finding may suggest a distinctive feature of the Chinese context, as will be discussed in the next section.

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DISCUSSION

Building upon both an institutional view and a strategic planning view, we find that formal and informal planning can benefit new ventures. Further, informal planning seems to be more influential for new firms in emerging economics like China. In addition, our findings indicate that the social class of nascent entrepreneurs moderates the link between formal planning and performance, whereas prior work experience moderates the effects of both formal and informal planning on performance. This is a particularly noteworthy finding, as prior theory has stressed the contingency-based approach to planning (Gruber, 2007).

Our research makes several contributions to business planning literature. First, while prior research suggests that formal business planning is beneficial to venture performance (e.g., Delmar and Shane, 2004; Kirsch *et al*., 2009), our study suggests that in the current institutional and social context in China, informal planning has a more potent influence on firm performance than does formal business planning. Furthermore, prior research has clearly suggested the need for a contingency-based approach to planning and that it is essential to understand what characteristics of entrepreneurs can inhibit or improve the effects of business planning on venture performance (Gruber, 2007; Castrogiovanni, 1996). The current research responds to this call and provides additional knowledge about whether and how entrepreneurs' prior experience and social class affect the benefit of business planning. Last, previous studies have suggested that institutional and cultural variations can alter the relationship between business planning and new venture performance (e.g., Honig and Karlsson, 2004). Thus, our study enriches knowledge of business planning by examining the focal link beyond the boundaries of mature economies.

Theoretical and practical implications

Our research adds to current knowledge in three important ways. First, conflicting empirical findings have prolonged the heated planning debate and suggested the need for an integrated and contingency-based approach to planning (Gruber, 2007). Our study responds to this call and findings not only extend the evidence of the value of formal business planning to China's developing economy, but also offer support for the importance of informal planning. Due to the 'liability of newness' (Stinchcombe, 1965), scarce resources and lack of power dictate that nascent entrepreneurs conform to the external environment. However, our study posits that conformity is not the only option to deal with the liability of newness for new ventures. Instead, new ventures can benefit from interacting with the external environment in an adaptive and incremental manner (Sarasvathy, 2007). More interestingly, our findings suggest that informal business planning has a more potent influence on new venture performance than does formal business planning in China. Such a result may be due to the rapid development of China's private equity and venture capital industries in the past decades. Based largely on *guanxi*, informal venture capitalism relies less on a formal venture capital process (Ahlstrom *et al*., 2007). Under such situations, preparing a formal business plan may not be effective in meeting the challenges. Rather, trial-and-error or improvisational planning has been proven effective for Chinese entrepreneurs (Tan, 2005, 2007).

Second, we found that prior work experience was associated with an increase in the profitability benefits of business planning. This suggests that entrepreneurs with abundant work experiences may be more capable of capitalizing on their prior knowledge to obtain legitimacy and acquire necessary resources; and that they may have a more nuanced understanding of the multiple dimensions of launching and operating a new venture, which allows them to plan more effectively (Alvarez and Busenitz, 2001). Surprisingly, our results indicate that prior entrepreneurial experience does not moderate the relationship between business planning and venture profitability. A deeper examination of the data suggests that one possible explanation for the insignificant relationship between prior entrepreneurial experience and the formal planning-performance link is due to prior failure in new venture creation. Among those with prior entrepreneurial experience, 54.7 percent reported previous failure in attempts to launch new ventures. We suspect that engaging in formal business planning may be detrimental to founders with failure experience because of the negative signal an honest plan would send to external capital providers. Indeed, previous research found that reporting prior entrepreneurial experience in a business plan had no effect in venture capital funding (Wright, Robbie, and Ennew, 1997). Similarly, prior entrepreneurial experience does not enhance the

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effect of informal business planning on profitability because the cognitive biases resulting from previous failure may harm the quality of informal business planning (Ucbasaran, Westhead, and Wright, 2009, 2010).

Another potential explanation is that the dynamism of China's transitional economy suggests that Chinese entrepreneurs need dynamic business skills because the best business practices are in constant evolution in response to institutional changes (Peng, 2003). For instance, although *guanxi* is critical to acquire resources and venture capital funding, the growth of a market system is increasingly encouraging Chinese entrepreneurs to conduct business in a more impersonal manner (Tan *et al*., 2009). In this context, Chinese entrepreneurs' prior entrepreneurial experience may not signal competence for external stakeholders who run their businesses in a Western way. Hence, exploiting prior entrepreneurial knowledge to launch and operate a new business may be in question due to the fast-changing institutional environment.

Third, our data show that nascent entrepreneurs with lower class status benefit more from the preparation of formal business plans. Chinese entrepreneurs with lower class status have difficulty obtaining resources from their networks because their peers from a similar social class also have limited resources (Bian *et al*., 2005). In this situation, a formal business plan adds legitimacy when lower class entrepreneurs communicate with external resource holders to acquire resources. Unfortunately, we found no significant interaction between informal business planning and social class. Although informal business planning is an effective mechanism to cope with uncertainty, prior research suggests that the effectiveness of informal planning in very uncertain situations is in question (Bhide, 2000). As higher class entrepreneurs tend to launch more innovative new ventures (Yang and Zhang, 2010), in this extreme context of innovative entrepreneurship with unknown means and ends, planning may be relatively irrelevant for a venture's survival and growth (Sarasvathy, 2007).

The extant research has intensively explored the effects of entrepreneurs' personal network, human capital, and psychological traits in the entrepreneurial process. However, the social embeddedness of the entrepreneur has been less examined. Future research may further explore the effects of entrepreneurs' social class in various aspects of entrepreneurship. For instance, class location implies information and resource advantages, which may exert effects on entrepreneurs' cognitive capability through information availability and social interaction (Bian *et al*., 2005). So, one may expect that entrepreneurs' class location may affect the number and quality of opportunities recognized. In addition, the information availability resulting from class location may influence entrepreneurs' cognitive capability during decision making. Hence, future research may also benefit from addressing the effects of class location on decision making during the entrepreneurial process.

The results presented in this study also confer some practical implications. Existing textbooks on business planning have largely focused on the content of business plans. Our results suggest that textbooks should also engage in the informal aspects of business planning and emphasize the adaptive and incremental feature of the business plan. More importantly, entrepreneurs should realize that the value of business planning depends on various contextual factors. In particular, entrepreneurs with less work experience may want to enhance their own experience or consult with more experienced entrepreneurs to bring the optimal value out of a business plan.

Limitations and suggestions for future research

Some limitations of this study, along with directions for future research, are also worth noting. The major limitation involves the fact that constructs of focal interest in the present research were gauged with dummy variables. Although this is a common approach (e.g., Delmar and Shane, 2003; Honig and Karlsson, 2004), the behavioral characteristics of formal and informal planning processes should be examined to measure the impact of business planning more precisely. This is important because the heterogeneity of business plans suggests it is crucial to understand the differences between formal and informal planning in terms of the stimulus and development of the plans (Burke *et al*., 2010). Further, the focus of the current study has been on the value of the completed formal and informal plans. However, entrepreneurs may also benefit from the process of preparing formal and informal business plans or the process of preparing a formal plan and supplementing it with an informal plan. Future research would be needed to trace the temporal dynamics of business planning.

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Despite its limitations, our findings indicate several significant opportunities for future research on business planning. First, our results support another theoretical foundation (i.e., the strategic view) that informal business planning can also promote venture profitability. This finding stresses the value of planning with the characteristics of rationality, flexibility, and adaptations in entrepreneurship. In this vein, the value of planning is driven by the possibility of evaluating alternative actions and being able to improve strategies (Chwolka and Raith, 2012). Future research is needed to confirm the integrative and flexible view of business planning to properly understand the planning-performance linkage. Second, the current research also confirms a contextual approach to understand the planning-performance linkage. Future research should further explore whether and how the entrepreneurs' characteristics affect the planning-performance linkage. For instance, prior success or failure of launching a new business and prior industry experience could also influence the planning-performance linkage. Furthermore, previous entrepreneurship research has paid little attention to the moderating influence of social class. Our results support the contingent role of social class for the value of formal business planning in new venture performance. Further research is warranted to investigate whether and how a nascent entrepreneur's class attribution affects other gestation activities. Third, as the value of formal and informal business planning may be very different in other emerging economies, more studies in other emerging economies are recommended to extend the generalizability of our findings. Future research might also implement a comparative research design considering developed and developing economies simultaneously.

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