

IS BUSINESS PLANNING PRE-CONDITION FOR THE FUTURE SUCCESS OF IMMIGRANT ENTREPRENEURS IN GERMANY?

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ABSTRACT

In this study, we challenge the negative view of business plan activities, arguing that business planning is not only a rational decision-taking instrument for potential entrepreneurs in the framework of start-up capital constraints, but also an important precursor to action in new venture. We investigated both the production and the outcomes of written business plans following 647 immigrant entrepreneurs during a two-year period in the city of Colon.

Our empirical findings show that institutional variables, such as coercive, mimetic and normative isomorphic pressure are significant predictors influencing the propensity to incline towards business plan activities. Interestingly, our results indicate that performance, measured by profitability and survival, is an outcome of organisational isomorphism.

INTRODUCTION

The impact of business planning on the economic performance of immigrant entrepreneurs in Germany is essential for better understanding of the factors improving their economic success. The evidence on the effectiveness of business planning is scant when comes to immigrant entrepreneurs, and shows, in general, controversial results. Therefore, there is a need for detailed research, exploring the propensity drivers for engaging into writing business plans, and on the other hand, their outcomes.

Although some exceptions exist (McGrath and MacMillan, 2000), the earlier literature contends that business planning offers little advantage to new venture founders (Bhide, 2000). Arguing that planning interferes with the efforts of firm founders to undertake more valuable firm actions to develop their fledgling enterprises, the extant literature views business planning as a form of 'administrative behaviour' that is harmful to new venture creation (Bhide, 2000). Instead of engaging in business planning, the literature generally suggests that firm founders should move directly to activities such as acquisition of facilities and equipment, seeking external capital, and initiating marketing and promotion (Bhide, 2000; Carter et al., 1996). However, an existing start-up capital should be present to enable firm founders to move directly to business actions.

We challenge the negative view of business plan activities, arguing that business planning is not only a rational decision-taking instrument for potential entrepreneurs in the framework of start-up capital constraints, but also an important precursor to action in new venture. We define a business plan as those efforts by firm founders to collect information about a business opportunity and to specify how this information will be used to establish a new enterprise and to exploit the opportunities perceived. Despite the ubiquity, a serious research gap exists regarding why newly established firms write business plans, and what consequences result from them (Castrogiovanni, 1996). The value and the positive effect of business plans have been taken for granted rather than critically investigated.

In this study, we examine empirically a number of factors influencing why immigrants to Germany expend effort writing business plans, as well as exploring outcomes measured by profitability and survival to assess what, if any, effect the planning process has on new firms. Our empirical evidence is important for several reasons. First, we fill a void in the existing literature, which offers little in the way of theoretically grounded explanations for how business planning should enhance performance, organising activities, or survival of new enterprises with respect to immigrant founders. Second, by examining the relationship between business planning and *post ante* economic performance, we provide insight into an important but poorly understood business phenomenon: the creation of new business organisations (Aldrich, 1999). Finally, we seek to offset a bias present in the existing literature. Although some researchers argue in favour of the business planning (see, for instance, McGrath and MacMillan, 2000; Matthews and Scott, 1995), the literature generally holds that business planning is not a worthwhile activity for firm founders.

IMPACT OF INSTITUTIONAL SOURCES

An enormous body of research has argued that writing a business plan is not very helpful under the uncertain conditions that surround new enterprise formations. Four explanations have been offered in the existing literature. First, business planning takes time away from more valuable firm organising activities that signal the reality of the new venture to stakeholders. Acquisition activities, for instance, may show others that the entrepreneur has made a significant commitment to creating a new business compared to writing a business plan (Carter et al., 1996). Second, firm founders have limited downside risk if they make a mistake. Bhidé (2000) explains, for example, that entrepreneurs have not that much to lose from an incorrect forecast of relative ability or market size. Third, founders possess attributes that make them better off relying on intuition than engaging into planning activities. Allinsons et al. (2000) is the opinion that entrepreneurial intuition improves their ability compared to other individuals to identify and evaluate opportunities. Finally, the uncertainty and fast pace of entrepreneurial situations undermine the value of business planning (Bird, 1988). As a result, entrepreneurs could profit from relying on intuition than seeking information that is likely to be inaccurate and outdated (Allinson et al., 2000).

However, the above-stated arguments conflict with the principles of organisational theory, which holds that planning before taking actions improves the quality of most human actions (Ansoff, 1991), and suggest that business planning should facilitate the establishment of new enterprises. In particular, planning provides three benefits to individuals engaging into business activities. First, planning facilitates faster decision-making by identifying missing information without first requiring the commitment to resources. By planning and then acting, potential entrepreneurs can investigate their assumptions without undertaking the time-consuming process of expending resources *post ante*. This argument could be of great importance for immigrants, which have to deal with a business environment that is not well-known to them.

Second, planning provides tools for managing the supply and demand of resources in a manner that avoids time-consuming bottlenecks. By assisting potential entrepreneurs recognise the relationship between actions and resource flows, planning allows them to more accurately estimate the timing of resources needed, as well as the resource slack (Armstrong, 1982). Additionally, MacMillan and Narasimha (1987) argue that business planning supports a firm founder determines when to focus effort and attention in different areas (product or service development, marketing, purchasing, etc.) and lead thereby to minimising the likelihood that the venture will be delayed by undertaking activities in an ineffective sequence. Consequently, the business planning process will lead to minimising the occurrence of bottlenecks that cause delays.

Third, planning identifies actions steps to achieve broader objectives in a timely manner. By setting concrete targets for the future, business planning helps founders develop specific steps and measures for the achievement of their goals (Brews and Hunt, 1999), thereby facilitating the timely pursuit of their objectives. In particular, planning helps entrepreneurs approach their goals in a systematic way (Shrader et al., 1989), and keeps them from focusing on other activities that sidetrack their effort. Research in both psychology and organisational behaviour has confirmed that setting objectives enhances people's ability to achieve their goals by focusing their attention (see Rousseau, 1997, for reviews). Furthermore, when outcomes deviate from stated goals, planning facilitates the rapid correction of that deviation by allowing entrepreneurs to identify the source of deviation more quickly (Smith et al. 1990). Planning allows people to clarify preferences for timetables in ways that can be easily transmitted to others (Bird, 1992). Finally, planning helps people communicate their objectives to other (Locke and Latham, 1980), thereby enhancing the pace at which others can act on these objectives.

The institutional context when studying the impact of business planning on the economic performance should also be taken into consideration. Institutional theory suggests that institutionalisation is a social process by which structures, policies, and programmes acquire 'taken for granted' status (Meyer and Rowan, 1977). Many studies with an institutional perspective focus on the issue of why organisations seem not only to take things for granted, but also why assumptions spread and make organisations more similar. Institutional forces drive organisations to become similar in the ways in which they act and in how they develop, it means, firms homogenise over time. The concept that best captures the process of homogenisation is isomorphism (DiMaggio and Powell, 1983).

Drawing upon an institutional framework, we suggest that business-planning behaviour in nascent organisations is best explained as a result of isomorphism, which is created by institutional agents. While many studies of institutional processes focus on the self-reinforcing process of institutionalisation, we investigate who and how institutionalisation is reinforced. Institutional pressures are often of three kinds: coercive, mimetic, and normative (DiMaggio and Powell, 1983). We view these primary pressures as upheld by specific institutional sources. Coercive pressures are upheld

by government agencies, normative by the education system and mimetic by other organisations within the institutional field (Karnoe, 1995), which we will discuss in turn below.

Public Agency

Coercive isomorphism is the result of formal pressures on organisations by exogenous forces (Oliver, 1991). In the case of business planning, to our knowledge there is no legislative framework that coerces organisations to write business plans, but there are other formalised pressures that influence new organisations into doing so. Nascent enterprises have frequently contact with assistance agencies at both national and regional levels. These organisations often place constraints on nascent entrepreneurs, mandating these specific resources or various forms of assistance are contingent on their participation in other unrelated activities. In Germany, public agency offices provide potential entrepreneurs with technical and financial assistance on condition that they complete an approved business plan. This lead to our first hypothesis:

Hypothesis 1: Nascent enterprises whose founders contact public support agencies have a greater propensity to write business plans than those without such contacts.

Field of Industrial Activities

Mimetic isomorphism results often from organisations that attempt to limit uncertainty by modelling their behaviour after similar successful organisations in the field (DiMaggio and Powell, 1983; Haunschild, 1994). An entrepreneur familiar with the business plan written by a known successful entrepreneur may endeavour to write one himself.

Mimetic behaviour may also result from the attempts to gain legitimacy in the eyes of other members of the organisation. Actors may provide what seems to be a rational approach to planning, one that appears to have succeeded elsewhere. We theoretically and empirically distinguish mimetic isomorphism from coercive and normative forces. Hence, we aim to empirically isolate the individual impacts of these factors. However, very few studies explicitly control for coercive and normative effects, a crucial factor when attempting to isolate mimetic isomorphism (Mizruchi and Fein, 1999).

Institutionalisation is frequently determined by industrial location, where mimetic processes are easily observed. Mature industries provide the opportunity for mimetic isomorphism because new entrants have an opportunity to observe and learn from the established competitors (Castrogiovanni, 1996). New organisations imitate existing ones within their industry, particularly in aspects deeply embedded into the industrial sector's culture norms. Several researchers have used this method of measuring mimetic isomorphism. Burdos (2001), for instance, examined the adoption of early faculty retirement plans along Canadian universities. He ascertained that the adoptions are spurred by mimetic isomorphism, as the prevalence of retrenchment schemes act as a legitimising force, inducing institutions to adopt the schemes.

Manufacturing firms, however, are subjected to similar physical and structural constraints, as well as engaging in more precise, unforgiving, mature and developed processes. They require highly specialised plants with similar human capital, technical, and infrastructural resources. They have been observed to engage in mimetic processes irrespective of economic or efficiency gains. Furthermore, the rate of adoption of the practices was found to be independent of complementary practices and technologies or factory productivity (Pil and Macduffie, 1996). We maintain that manufacturing firms are more likely to undertake similar mimetic planning than other sectors, whose fundamental processes are more amenable toward new models of operation, and are more flexible in their structure. In this context, we propose that

Hypothesis 2: Nascent enterprises in industries where business planning is deeply rooted have a higher likelihood to produce business plans than those in other industrial sectors.

Educational System

Normative isomorphism forces influence customary and professional procedures and activities deemed socially expected and responsible (Meyer, Ramirez and Soysal, 1992). Writing a business plan provides legitimacy, signals professionalism and indicates that the person involved is 'serious' to the outside world. For those individuals who do not otherwise obtain any particular benefits from the activity, we suppose normative forces to be of central importance. The entrepreneurship field 'abounds with normative literature setting out prescriptions for the creation of a venture's entrepreneurial business plan' (Hindle, 1997:2). We, therefore, include the importance of business education in our next hypothesis:

Hypothesis 3: Nascent enterprises whose founders have a business education have a greater propensity to produce business plans than those without.

CONSEQUENCES OF INSTITUTIONAL CONFORMITY

We test two outcomes of writing a business plan, the first that institutional conformity leads to survival, and the second that it yields increased profitability. Our decision to investigate survival and profitability separately is motivated by two reasons. First, we wish to add to the discussion within institutional theory pertaining to whether or not conformity leads to profitability or survival (Scott, 2000). Second, we use these performance indicators to evaluate the economic rational explanation why nascent entrepreneurs incline towards writing business plans. If our argumentation is valid, writing a business plan should result in beneficial outcomes such as prolonged survival or enhanced profitability.

Institutional Survival

The interaction between business planning and firm survival has implications for arguments based both on economic rationality and institutional theory. Survival represents the success of a particular enterprise from economic perspective, while institutionally viewed, completing a business plan yields the nascent entrepreneur increased legitimacy. Legitimizing can be a principally difficult factor either constraining or supporting growth of the newly founded venture (Aldrich and Fiol, 1994). It can be a matter of life and death for the new firm, as audiences indicate higher likelihood to supply resources to organisations that appear desirable or appropriate (Parsons, 1956) and less willing to do so if they are not (Suchman, 1995).

Institutional theorists often use survival as a dependent variable in a way that, when correlated with conformity, indicates that conformity legitimates (Oliver, 1991). Thus, we propose that

Hypothesis 4: Writing business plans will increase the likelihood of newly founded company to survive.

Institutional Profitability

Business plans are based on the assumption of the rational economic agent. Consequently, the business plan can be viewed as a rational activity that assists the nascent entrepreneur to earn larger profits through efficiency gains and/ or increased volume of sales. The apparent success of the business plan paradigm is seen as proof that most firms obtain considerable value from producing business plans. Testing this interdependency relates our work to previous research conducted on business planning and performance (Boyd, 1991; Schwenk and Shraeder, 1993).

There exist two ways of looking at the antecedents of isomorphism from institutional point of view; institutional and competitive isomorphism (DiMaggio and Powell, 1983). Institutional theory holds that organisational conformity to institutional pressures is a consequence of the willingness to conform to institutionally prescribed expectations (Meyer and Rowan, 1977). Non-conformity is unwanted and viewed as deviant behaviour. However, institutional isomorphism appears even if the actual behaviour is not competitive and profitable. Believers in competitive isomorphism argue that isomorphism occurs because competitive forces eliminate non-competitive forms, or that certain environments have different sets of technologies that have to be dealt with in specific ways (Slack and Hinings, 1994). Thus, argumentations from a competitive isomorphic resemble those from an economic rationality view and give support to our last hypothesis.

Hypothesis 5: Writing business plans is positively correlated with the profitability of a newly establish company reaching this status.

METHODS AND DATA

Sample Design

The empirical analysis in our study is based upon detailed unique survey of 647 nascent immigrant entrepreneurs operating in the city of Colon. We concentrated only on those originating from countries such as Afghanistan, China, Former-Yugoslavia, Iran, Poland and Turkey. The motivation for questioning only entrepreneurs from the above-mentioned six countries is caused by the fact that they show the highest propensity to engage into business activities among the foreign population resident in the city of Colon.

The survey was conducted during the period November 2003-October 2005 by means of telephone interviews using detailed questionnaire to examine various aspects of immigrant entrepreneurship in Germany. The questionnaire consists of 40 questions divided in the categories: (i) general, (ii)

consulting prior to enterprise foundation, (iii) capital and investment, (iv) obstacles with regards to the German authority, (v) problems subsequent to the foundation, (vi) employment issues, (vii) country of origin as well as (viii) a rich set of background variables attached to the immigrant entrepreneur. Finally, a set of supplemental longitudinal questions were asked, including changes in the profitability or survival of the nascent ventures.

The research design specifies various stages for data collection. First, we randomly selected 3,597 immigrant entrepreneurs from the six countries of origin for telephone interview. Second, of those contacted by telephone, 3,043 entrepreneurs (84.6 %) agreed to participate. A final sample of 647 verified and accessible nascent immigrant entrepreneurs were identified, who formed the basis of our empirical analysis.

We believed that six-month periods would provide adequate time for changes in the gestation of the firm to take off, as well as useful balance between research resource constraints and respondent cooperation. Therefore, successive surveys were conducted on the immigrant entrepreneurs after 6, 12, 18 and 24 months.

To obtain a first impression on the data set, we derive various basic characteristics in a descriptive manner. More precisely, we present, first, the propensity to incline towards entrepreneurial activities among the six different groups taking into account certain socio-economic indicators such as age, education and German language skills. Subsequently, we address the company's characteristics such as volume of sale by industrial sector and country of origin. Finally, we conclude with the business planning activities.

Age of Entrepreneur

The average age of entrepreneur calculated for the sample accounts for 41 years old (table 1). The youngest immigrant founders are of Turkish while the oldest of Chinese origin. However, based on other immigrant entrepreneurship studies in Germany (Fertala, 2003), the age of entrepreneurs included in the sample is noticeable higher but the empirical evidence in this field of research is rather mixed. In this context, the results obtained for the city of Colon are not surprising at all.

In half of the cases, the enterprise formation proceeded after a phase of dependent employment in Germany except for the Chinese, Polish, and partially, for the Iranian entrepreneurs. It is a matter, therefore, of rather original establishments in the latter three cases even though the residence regulations imply a longer stay in Germany prior to inclining towards entrepreneurial activities. Additionally, one should consider that the personal career development also impacts the entrepreneur's qualification, and on the other hand, the professional knowledge acquired either by formal education or by vocational training.

[Table 1 about here]

Education and German Language Skills

The formal education, both general and vocational, as a proxy for the human capital endowment, and the German language skill can provide further insight concerning the overall sample, as the human capital is known to influence noteworthy the economic performance of a firm.

[Table 2 about here]

The education is regarded as received in Germany if the surveyed immigrant entrepreneur has either visited the school solely in Germany, or the years of schooling obtained in the country of origin are less than these in Germany. In this sense, table 2 uncovers that receiving education in Germany is atypical for entrepreneurs stemming from China and Afghanistan, due to the so-called original establishments or engaging into entrepreneurial activities after a period of dependent employment in Germany. A second group including Iran, Former-Yugoslavia, and Poland shows a mixed pattern, while half of the Turkish entrepreneurs have obtained their education predominantly in Germany, which in turn signifies firm foundations in the second generation to a greater extent.

In addition, the average years of schooling received in Germany and the level of German language skills are supposed to be positively correlated. The surveyed immigrant entrepreneurs ought to evaluate their language skills by considering the alternatives 'fluent' (1), 'professionally sufficient' (2), and 'could be better' (3). The results are presented in figure 1. Accordingly, 45 per cent indicated fluent language skills, 37 per cent sufficient, and the remaining 18 per cent pointed out demand for improvement. This uncovers already the frequently stressed obstacles reported by the consulting

services in Germany, which have to deal rather with different language fields compared with the occupation ones. Moreover, the Turkish entrepreneurs account for the highest level of German language skills, i.e. the ratios are 49 per cent for ‘fluent’, 37 per cent for ‘sufficient’, and 14 per cent ‘could be better’, respectively.

[Figure 1 about here]

It is not surprising at all, given the result on formal education, that entrepreneurs of Polish and Turkish origin account for the highest level of German language skills, while the Chinese ones show the lowest level due to less formal education obtained, and the immediate commencement of the business in Germany. In total, the language skills of the questioned immigrants converge to the category of sufficient to perform the business activity.

Sales by Country of Origin and Industrial sector

Numerical data on lump or capital sums were practically impossible to obtain. However, the overall sample does contain figures on the realised volume of sales, which in turn can illustrate the dimension of the entrepreneurial activities performed by immigrants in the city of Colon. The information (mean values) is pooled by country of origin and industrial sector, and the results are presented in figures 2 and 3.

[Figure 2 about here]

Figure 2 depicts that entrepreneurs from Former-Yugoslavia realise nearly sales volume of 500,000 Euros and feature besides the Polish entrepreneurs the smallest revenues. Despite the fact that Chinese enterprises deal predominantly at retail, they have only comparatively narrow markets. As opposed to, the Turkish enterprises (on average the youngest) account for the highest volume of sales. Multifarious motives and factors might account for those divergences among the groups of immigrant entrepreneurs. For instance, the volume of sales is strongly related to the vocational education, and on the other hand, it is for technicians and university diploma holders notably higher than for skilled and semi-skilled labourers. Another reason to be taken into consideration is the number of employees and their productivity. And finally, the business revenues depend on the industrial sector, which the enterprise is performing in. However, it is not much stated when considering the realised sales, but it depicts one of the economic indicators for entrepreneurial dynamics.

In addition, figure 3 shows that manufacturing (930,000 Euros) accounts for the highest sales followed by handicraft (675,000 Euros) and wholesale (665,000 Euros). The volume of sales with respect to handicraft seems to be overrated in the sample due to the fact that entrepreneurs who hold both commercial degree and are members of the Chamber of Handicraft are classified as handcrafter. Among the sectors retail and wholesale, a few enterprises conduct vertical integration with correspondingly high business revenues. Moreover, the transportation sector including largely taxicabs and couriers reports the lowest volume of sales in the overall sample. Lastly, retail and other services are each represented by nearly one fifth in the sample. While retail as a rather traditional activity accounts for lower sales among the immigrant entrepreneurs in Colon, the situation within the sector other services starting with cleaning companies over Internet services, and ending with finance service providers and freelancers appears significantly sustainable.

[Figure 3 about here]

Business Planning Activities

The surveyed immigrant entrepreneurs were asked whether they engaged in business planning activities prior to establishing their company: ‘Have you prepared a business plan?’. More precisely, information was conducted for the following seven elements of business planning activities: industrial sector, market potential, competition, location, need for capital, manpower requirements, sales and profit. The majority of the questioned entrepreneurs (70.1%) have written a concept on the need for capital, followed by sales and profit (64.2%) and location (58.6%). The remaining components are represented by less than 50.0 %. In other words, we observe rather low planning activities in the first three areas, which deal with disposal. A sound reason for this development could be the fact that 85.7% of the immigrant entrepreneurs possess working experience and 31.4% indicated having business proficiency. However, entrepreneurs establishing companies in the manufacturing and wholesale sectors indicated the highest business planning activities, while the remaining sectors are below average. In sum, the business planning activities are correlated with the volume of sales. The higher the sales the higher the number of elements included in the business plan.

CONSTRUCTION OF VARIABLES

Dependent Variables

We examine the effect of two outcomes of writing business plan to test hypotheses 4 and 5. Survival was defined as continuance of an enterprise throughout the time horizon of the study. A dichotomous variable was coded 1 if the enterprise survived throughout the time considered and zero if it failed at any point during the time horizon. This was done to better understand the relationship between business planning and longevity. Those companies, whose owners indicated that they were profitable at any of the survey interviews, during the 6-, 12-, 18-, or 24-months intervals, were identified as profitable. As profitability is both nominally essential and a primary goal of entrepreneurs, we consider this to be a particularly good indicator of economic success.

Independent Variables

As independent variables for our empirical investigations, we used the variable deduced from the institutional theory. Contact with a business support agency indicated coercive pressure. Interviews with both agencies and respondents showed that completing a business plan was frequently a required conditional activity in order to obtain further financial and/or training assistance in Germany. Accordingly, a dummy variable was created identifying those immigrant entrepreneurs who indicated they had contact with a business support agency. Our indicator of normative pressure measured if an entrepreneur had completed a business class. During our interviews, individuals who experienced business education cited this experience in support of the importance of writing business plan, whether or not they themselves did so. Business education is well known to follow particular trends and fads (Abrahamson, 1991), and we assumed that entrepreneurs who experienced business education would demonstrate their exposure to normative planning forces. Including a dummy variable for those who completed a business class captures the normative pressure. Firms engaging into manufacturing represented the highest percentage of firms that completed a business plans. As the previous research and theory discussed earlier supported this finding, we used entrepreneurs in the manufacturing sector to indicate mimetic isomorphism.

Control Variables

We include in the empirical analysis various control variables. Human capital, such as university education, work experience, and non-formal education, are investments that may produce labour productivity increase (Becker, 1964; Schultz, 1959). Theoretically seen, human capital should provide the immigrant entrepreneurs with the ability to be more effective in their business activities, administrative systems and routines (Preisendörfer and Voss, 1990). Previous research has demonstrated a range of results regarding the relationship between education, entrepreneurship and success, with education frequently producing non-linear effects in achieving success (Reynolds, 1997; Honig 2001).

We controlled for human capital in several ways. Immigrant entrepreneurs indicated the years of education they had completed. Respondents were also asked their total years of work experience in the country of origin and in Germany. We argue that this experience obtained outside Germany might be less valuable; thus their effect on the economic performance should be of minor relevance for our explorations. Human capital consists not only of formal education, but tacit experience accumulated as life-experience. Older entrepreneurs, by virtue of their age, will have a higher probability of exposure to institutional phenomenon than younger entrepreneurs. Thus, we included age of entrepreneurs as control variable in our analysis.

We also control for the impact of the social capital by including the variable family members employed in the business venture. This is the only characteristic derived from the sample that can be considered in the further empirical analysis.

ESTIMATION RESULTS

We apply the techniques of the hierarchical logistic regression analysis to study, first the propensity of an immigrant entrepreneur to incline towards business planning activities, and second the determinants of business planning and institutional forces on performance measured by survival and profitability.

Which are the factors driving the propensity of writing a business plan? We estimated two specification of the econometric model and the results are presented in table 4. The first specification examines control variables predicting the probability of a nascent immigrant entrepreneur to write a formal business plan. The logistic regression uses maximum likelihood estimators to calculate the log odds of an event occurring. Computing from log odds to probability is a matter of taking the coefficient to e^x .

[Table 4 about here]

Accordingly, years of education produced the strongest statistically significant coefficient (0.45), indicating that generally, entrepreneurs with higher education attainment are one and a half times more likely to produce business plans comparatively to those with lower educational levels. The same effect holds true for the variable working experience in Germany. The estimated odds amounted to 1.53. Surprisingly, years of working experience gathered in the country of origin reduce the likelihood of writing a business plan. Each additional year of entrepreneur's age increased the probability of engaging into business planning activities very slightly (1.01).

The first three hypotheses were tested in the full model (table 4), where contact with assistance agencies, manufacturing companies, and business classes were added to the model. Hypothesis 1 indicated that immigrant entrepreneurs having contact with public assistance agencies, where business plans were a conditional factor in obtaining monetary assistance, increased the odds of doing a plan by a factor of 3.28. Hypothesis 2 maintained that entrepreneurs operating in the manufacturing sector were three times (3.25) more likely to produce a written business plan than the reference groups (sales, wholesales, handcraft, transportation, hotel and catering, other sectors). Finally, hypothesis 3 predicted that founders who have taken a business class did show higher probability to prepare a formal business plan (4.18). In total, among the institutional characteristics the business classes indicated the strongest impact on producing a business plan and the first three Hypotheses were confirmed by the empirical analysis.

Table 5 depicts the logistic regressions performed for the two dependent variables - survival and profitability, respectively. The first model tested Hypothesis 4 stating that companies with business plan would have a higher likelihood to survive, by investigating those firms that survived during the 24-month period of the study, as well as those that wrote a formal plan. Writing a business plan had a significant coefficient increasing the survival by 2.49. Hence, Hypothesis 4 was supported by our empirical analysis. Manufacturing firms account for a moderate impact on survival (1.96), but this may be caused by longer development cycle necessary for enterprises operating in this industrial sector. The strongest influence on survival is caused by the variable business classes taken, which increased the probability to survive by 4.92.

[Table 5 about here]

Finally, we tested Hypothesis 5 stating that those enterprises writing business plans would be more likely to reach profitability, by examining firms reporting profits at any time during the 24-month period. The model estimated is statistically significant, and the variables included have an important influence on profitability, with a McFadden R^2 explaining 0.34 of the variance. Writing a formal business plan had a significant effect, raising the profitability by 2.89. Thus, Hypothesis 5 is confirmed by the data. For the strongest impact on profitability across the institutional indicators accounted the business education. Taking business classes increased the likelihood of an immigrant entrepreneur to be profitable by 3.29.

CONCLUSION

In this research we investigated the impact of commonly accepted practice of writing business plans from institutional perspective on the economic performance of immigrant entrepreneurs to Germany. We empirically verified that they conformed to coercive, mimetic and normative isomorphic pressures. Contact with assistance agencies, where plans were a conditional factor in obtaining governmental monetary assistance, was used to demonstrate coercive pressures. To demonstrate mimetic processes, we adopted measures examining specific practices embedded in a particular industry, following a tradition used in other empirical studies (Burdos, 2001; Mezas, 1990).

We also analysed normative forces, as studied by Mezas (1990), represented in this study as having a business education. Our normative measure was found to significantly influence the economic performance of immigrants establishing companies in the city of Colon. In line with our expectations, immigrant entrepreneurs seem to regard the normative advice provided them in business classes.

Interestingly, our results indicate that performance is an outcome of organisational isomorphism. We suspect that new firms conform to institutional pressures independently of competitive selection mechanisms. Thus, from an economic efficiency perspective, writing of business plans in new established companies cannot be questioned. In this context, we found that those immigrant entrepreneurs who wrote a business plan did perform better compared to non-planners. It appears that new enterprises do write business plans rather to improve their economic performance and not only to conform to institutionalised rules and to mimic the behaviour of other entrepreneurs.

In sum, we propose that new enterprises plan because they are reacting to how they are expected to plan, because they imitate other successful companies in their fields that plan, or because they are told to plan. If the idea to establish an enterprise does not have sufficient merit, it may be a more beneficial outcome for the economy and for the entrepreneur himself to terminate his business activities at an earlier stage. While this study examines the antecedents and effects of writing a business plan, we encourage future research that addresses more fine-grained definitions of plans and planning. Do certain types of planning activities outperform others? Is there an optimum time in the life-cycle of a firm to write a business plan? Longitudinal research is necessary to provide answer to the questions stated above.

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APPENDIX

Table 1: Entrepreneur's Age and Previous Working Experience by Country of Origin

Entrepreneur's Nationality	Entrepreneur's Age Mean	Former Dependent Employment in Germany ¹ , in Percentage
Afghanistan	43	58.6
China	48	32.6
Former-Yugoslavia	42	50.0
Iran	46	43.8
Poland	42	26.1
Turkey	38	58.1
Total Sample	41	50.4

Note: ¹The professional experience is comprised as percentage of the total for the particular country, for instance, 58.6 per cent of all Afghanistan entrepreneurs revealed having former work experience in Germany.

Source: Own calculations based on the overall sample.

Table 2: Received Education in Germany by Country of Origin in Percentage

Entrepreneur's Nationality	Received Education in Germany ¹
Afghanistan	3.6
China	4.3
Former-Yugoslavia	29.2
Iran	18.8
Poland	39.1
Turkey	51.1
Total Sample	33.9

Note: ¹The education obtained abroad or in Germany is computed in per cent of the total for the particular country, for instance, 96.4 per cent of surveyed Afghanistan entrepreneurs have received their education in the country of origin, and only 3.6 per cent in Germany.

Source: Own calculations based on the overall sample.

Table 4: Hierarchical Logistic Regression: Propensity to Engage into Business Plan Activities

Independent Variable	Written Business Plan (Control Variables Only)		Written Business Plan Full Model	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	1.6239***	5.0728	1.5239***	4.5901
Entrepreneur's Characteristics				
Age of the Entrepreneur,	0.0059*	1.0059	0.0050	1.0050
Years of Education	0.4494**	1.5674	0.3848**	1.4693
Working Experience in Germany	0.4278***	1.5339	0.4019***	1.4947
Working Experience in Country of Origin	-0.0845**	0.9190	-0.1198**	0.8871
Family Capital	0.3486	1.4171	0.3585	1.4312
Institutional Characteristics				
Contact with Assistance Agency			1.1891*	3.2841
Manufacturing			1.1799***	3.2540
Business Class Taken			1.4312*	4.1837
Number of Observations N	647		647	
McFadden- R^2	0.2199		0.2643	
LR Statistics (P-value)	40.5040	0.0000	48.6655	0.0000

Note: Level of statistical significance are * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 5: Hierarchical Logistic Regression: Business Planning and Economic Performance

Independent Variable	Survival		Profitability	
	Coefficient	Odds Ratio	Coefficient	Odds Ratio
Intercept	1.8139***	6.1343	1.7039***	5.4953
Entrepreneur's Characteristics				
Age of the Entrepreneur,	0.0039*	1.0039	0.0042*	1.0042
Years of Education	0.5034**	1.6543	0.4838**	1.6222
Working Experience in Germany	0.4468***	1.5633	0.4113***	1.5088
Working Experience in Country of Origin	-0.0645**	0.9375	-0.0898**	0.9141
Family Capital	0.3365	1.4000	0.3184	1.3749
Institutional Characteristics				
Written Business Plan	0.9152**	2.4973	1.0614**	2.8904
Contact with Assistance Agency	1.0514*	2.8617	0.9834*	2.6735
Manufacturing	0.6750***	1.9640	0.5891***	1.8024
Business Class Taken	1.5936*	4.9214	1.1903*	3.2881
Number of Observations N	647		647	
McFadden- R^2	0.31959		0.3368	
LR Statistics (P-value)	61.4783	0.0000	68.6897	0.0000

Note: Level of statistical significance are * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Figure 1: Average Years of Schooling Received in Germany and Language Skills

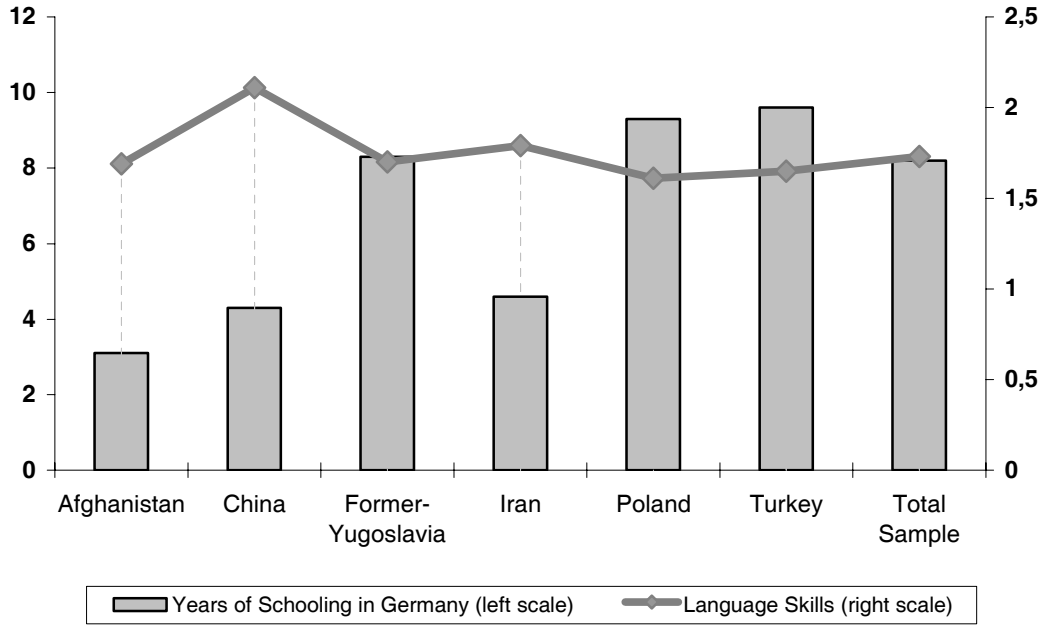
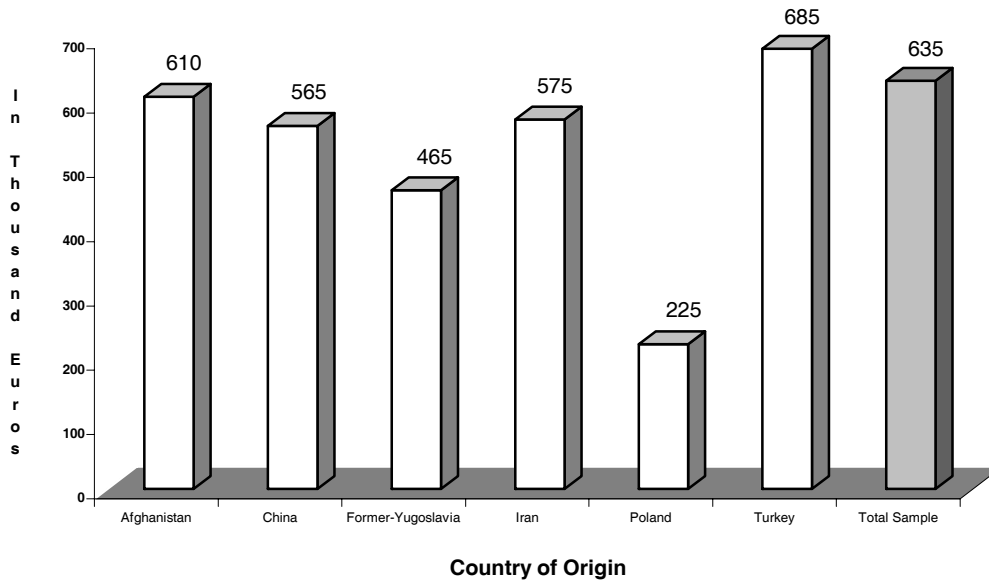
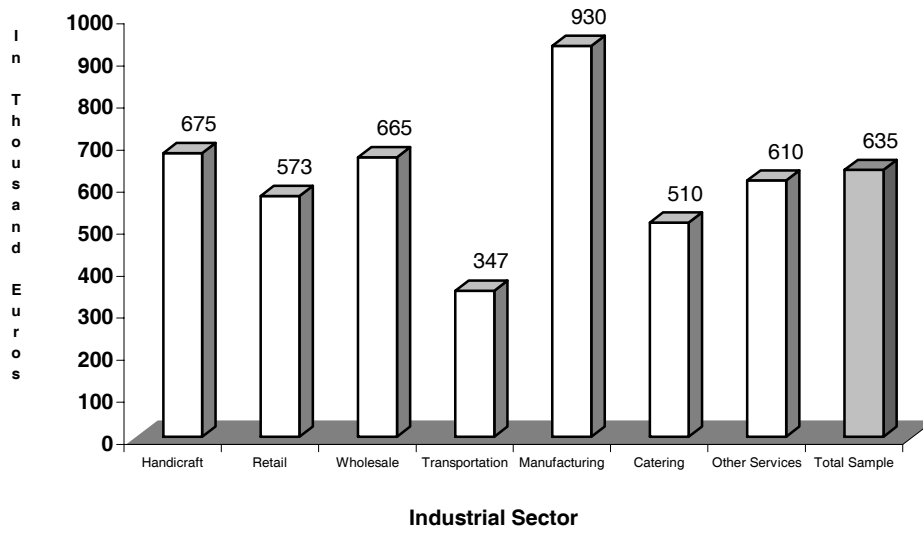


Figure 2: Sales Structure by Country of Origin in Thousand Euros



Note: The volume of sales realised by the immigrant entrepreneurs are rounded to nearest 500 Euros.

Figure 3: Volume of Sales Structure by Industrial Sector in Thousand Euros



Note: The volume of sales realised by the immigrant entrepreneurs are rounded to nearest 500 Euros.