

**AN INSTITUTIONAL PERSPECTIVE ON BUSINESS PLANNING ACTIVITIES FOR  
NASCENT ENTREPRENEURS IN SWEDEN AND THE USA**

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## **ABSTRACT**

### **AN INSTITUTIONAL PERSPECTIVE ON BUSINESS PLANNING ACTIVITIES FOR NASCENT ENTREPRENEURS IN SWEDEN AND THE USA**

In this research, we study factors that led 799 entrepreneurs engaged in forming a new organization to write business plans, following 393 in the USA and 406 in Sweden, during a two-year period. We examined relationships influencing the production of written business plans produced during the starting process of organizational activity, from a cultural/institutional perspective. By examining nascent organizations in two countries we are able to refine knowledge about nascent organizations in multiple ways. First, the study clarifies the role institutions play in the behaviors of nascent organizations. Second, by comparing the USA and Sweden, this study investigates the differential effect of institutional pressures in two countries. This research has implications for institutional theory and the study of nascent businesses, as well as for normative business planning literature and practice. Our findings show that assistance agencies significantly influenced entrepreneurs engaged in forming a new organization to write business plans in both countries. In Sweden, institutionally derived influences such as business education, assistance from agencies, and industry sector, as well as managerial experience and encouragement by friends and family, had a significant influence on the likelihood of writing business plans. It therefore followed predictions of DiMaggio & Powell rather well, tracking institutionalization from easily defined and measured external influences. In the USA, we found less clear institutional influences, failing to find significant influences from university education and governmental assistance agencies. The business planning paradigm is so prevalent that entrepreneurs typically write formal plans without the necessity of being influenced by educational or other institutional norms.

Nascent organizations face a different set of problems than their established counterparts. They must raise capital from skeptical sources, recruit employees that are unaware of what the firm is doing, obtain new resources, and initiate their product and market, among other things. In addition, and to some extent exacerbating these problems, nascent organizations have a relative lack of legitimacy (Aldrich and Fiol, 1994; Stinchcombe, 1970). In order for them to successfully come into existence, they have to get know to their stakeholders, earn their respect and follow the norms and rules they pose. In this paper we investigate how cultural factors as well as institutional pressures influence the behaviors of nascent organizations. Specifically, we examine the effects of cultural and institutional influences on the nascent organization's propensity to write business plans in two different cultural environments, Sweden and the USA.

While many perspectives consider the writing of a business plan to be an efficient and profit maximizing process for the development of a new organization, we know of no reputable studies demonstrating such effects in nascent organizations (Castrogiovanni, 1996). While a number of studies have demonstrated that nascent entrepreneurs who do business planning are more persistent than those who do not plan (Delmar & Shane, 2004; Gartner & Liao, 2006; Honig and Karlsson, 2004) studies have not demonstrated a relationship between persistence and success. If producing a business plan is helpful, it should alert budding entrepreneurs regarding the adverse consequences of persisting with a business model that fails to adequately perform (sometimes referred to as the "living dead" by venture capitalists). Many serial entrepreneurs have experienced numerous failures before achieving success. Further, the relationship between planning and persistence may reflect psychological attributes rather than operational relationships, as individuals who are more pro-planning may also be more tenacious – and less willing to abandon their initial stated objectives. Such inflexibility may actually have negative

affects on performance for nascent firms. Thus, since there appear to be no systematic studies demonstrating a performance-planning linkage, we have come to question many economic and rational explanations for the diffusion of the business planning paradigm. In contrast to many normative views, institutional theory does not make the assumption that organizations behave in an efficient or profit maximizing manner.

In this study we utilize an institutional perspective that suggests that writing a business plan is important for nascent organizations in order to gain legitimacy from external stakeholders. These factors are readily evident, as numerous actors promote the view that nascent organizations should write business plans. Among them are universities, consultants, venture capitalists, and governmental agencies. There exists an abundant wealth of literature on the topic, as well as numerous competitions rewarding the best business plan, sometimes with considerable financial rewards. The institutional characteristic of the environment in which the new organization is created, is arguably a highly important factor in determining how the organization will evolve. In this case, we take an interest in the utilization of business plans, comparing the institutional environments of the USA and Sweden. By comparing the institutional environments in two countries, we are able to examine and contrast diffusion by various institutions and identify a point of “saturation”, by which institutional forces are so compelling as to be pervasive in the culture. Thus, we examine the generalizability of the institutional perspective on the diffusion and utilization of nascent business planning activities, and explore cultural and institutional peculiarities in Sweden and the USA.

The institution of business planning is more developed in the USA than in Sweden. Wharton, the very first business school, was established in the USA in 1881, with the concept migrating to Sweden decades later, and expanding at a much slower rate. Today, entrepreneurship

courses are taught at nearly every American Assembly of Collegiate Schools of Business (AACSB) accredited institution, at over 1400 postsecondary schools, and enjoy considerable world-wide growth (Katz, 2003). Most of these courses consist of business planning activities (Honig, 2004). Business plan competitions were also founded in the USA. In 1984 Moot Corp began one of the first business planning competitions in the world (Moot Corp, 2006). The Moot model spread, and by 1989 competitions were conducted at leading U.S. universities including Harvard, Wharton, Carnegie Mellon, Michigan, and Purdue. Further, the popular and trade press in the USA are awash in business planning instructions, including books, manuals, software, magazines, and popular press accounts (over one half million google “hits” on business planning). Thus, we argue that in the USA, most “lay” people, even if they have never read a business plan themselves, are sufficiently familiar with the concept to expect any budding entrepreneur wanting to be taken seriously to have written one. In Sweden, the concept of business planning is much newer, and has not been as diffused through the institutional environment as in the USA.

Our objective in this research is to understand how institutional characteristics influence the behavior of independent nascent organizations with respect to business plans, and how such characteristics may be tempered by cultural factors. Throughout this article, we use the concept of nascent organizations to indicate genuinely new activities that take place before individuals have actually started their firms, but have started a gestation activity (Reynolds, 1997). Our focus is on written formal business plans, typically used for external support, for two populations of nascent entrepreneurs observed over a 24-month period.

Books and guides provide one window for the observation of institutional factors. Educational books on the topic of start-ups and entrepreneurship are generally in favor of business planning, although the reasons are not empirically documented. Entrepreneurship literature abounds with books on business planning, many that solely focus on business plans

(Ames 1989; Barrow, et al. 1998; Blackwell 1998; Burns 1990; Burns 1997; Covello 1998; West 1988). This literature typically targets businesspersons, students, as well as managers in small and new companies. Common to these books and articles are a focus on new or small firms, arguments for and against business plans, and a structure of anywhere from 13 to 200 bullet points that entrepreneurs should cover, when he/she writes a business plan.

Interestingly, entrepreneurship research has recently been rather silent about the nature of planning. Much of the early research within entrepreneurship also promotes business planning (e.g. Drucker, 1959; Halford, 1968), while, in contrast, current entrepreneurship research is generally pro-action. Sarasvathy (2001), for example, argues strongly for an action-based view of entrepreneurship. As opposed to traditional planned activities, Sarasvathy maintains that entrepreneurs should “dive straight into seat-of-the-pants marketing/selling activities and alliances” (2001:261). Examples of other alternative modes of organizational strategy vis-à-vis planning include improvisation and bricolage (Garud & Karnoe, 2003; Moorman & Miner, 1998). Stevenson et al (1999) suggests that entrepreneurs relentlessly pursue opportunities without regard to the resources they currently control, suggesting that they have short planning horizons rather than long ones.

Nascent organizations, virtually by definition, find it difficult to write an elaborate plan about what the organizations will look like in the immediate future (Sarasvathy, 2001). Nascent organizations face different challenges in trying to write a long-term plan than larger, older, more resource laden organizations. They enter a situation that is *a-priori* uncertain, making any forecasting difficult. For example, young organizations are often small. Because of this, planning is difficult to do without halting operations. Initiating a plan takes operational capacity away from the firm. Further, speed of activity is often crucial, and time dedicated to planning simply

prolongs essential time consuming activities such as time to market. Research studying the relationship between plans and performance has primarily been conducted on ongoing organizations, and only rarely on newly established ones. In any case, it has been inconclusive vis-a-vis efficiency gains (Robinson & Pearce 1983; Boyd, 1991). Thus, a reasonable case can be made that nascent entrepreneurs plan for reasons other than efficiency outcomes.

### **INSTITUTIONAL FORCES AND THE BEHAVIOR OF NEW ORGANIZATIONS**

Early versions of institutional theory have realist underpinnings, taking an interest in how institutional systems impose constraints on organizations through rule and norm systems (Parsons 1956). However, in what is often referred to a neo-institutional turn in institutional theory, many institutional theorists began to refer to Berger and Luckmann as their intellectual ancestors (Aldrich, 1999). A central starting point in the neo-institutional turn is the striking homogeneity of practices and arrangements found across organizations (DiMaggio & Powell, 1983). In this paper, we extend linkages to entrepreneurship, especially emerging organizations, with institutional theory. Predominantly, researchers studying institutional pressures have studied older and larger organizations. In fact, the term “institution”, itself, is frequently used to characterize large, inflexible, old organizations. However, entrepreneurship scholars have shown relationships between founding rates and institutional factors at national levels (Reynolds, Hay, and Camp, 1999). Further, they have suggested, based on national infrastructure and institutional characteristics, that nascent organizations are subjected to institutional pressures in a different way than their older counterparts. Little is know about nascent organizations, and even less is know about their ability to respond to institutional pressures in a specific way.

Organizational variables, such as resources and identity, pose a potential influence on the organization's possibility or desire to conform to an institutional pressure. Organizations in munificent environments, enhanced by abundance of unique resources, should be more resistant to power-dependent relations of institutional agents, and less subject to such pressures. This implies that small organizations are less resistant to institutional pressures than their larger counterparts. Thus, nascent organizations are less resistant to institutional pressures than older ones, in part due to their smaller size. Some previous scholarship suggests that nascent organizations are strongly subjected to institutional pressures, as they must establish new connections to the business world (Parsons, 1956, Suchman, 1995) Thus, a nascent organization must show credibility in order to establish necessary exchanges. Arguably, establishing a new exchange is more complex than maintaining an existing one. Hence, some authors claim that nascent organizations maintain a liability of newness, which leaves them more susceptible to institutional pressures (Aldrich and Fiol 1994; Stinchcombe 1970). By studying the responses of nascent organizations to institutional pressures, we are examining how weak power positions are subjected to significant resource scarcities.

DiMaggio and Powell (1983) argue that three forces drive the processes in which firms and organizations become similar, determined by what they call isomorphic pressures. These three isomorphic pressures are coercive, regulative and mimetic. In combining these forces, institutional theory maintains a key focus regarding how social relationships and actions become taken for granted, and how our cognitive set of shared meanings and possible actions are constructed (Aldrich, 1999). However, DiMaggio and Powell's article is often read selectively, where mimetic isomorphism has received the most attention. Following the suggestion of Mizruchi and Fein (1999) we try to understand the process in which organizations become

similar from several different perspectives. Institutional theory thus focuses on how dominant rules, norms and cognitions emerge and what consequences they have, upheld by three pressures, the regulative, the normative, and the cultural-cognitive (Scott, 2001).

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In figure 1 we illustrate the relationship between institutional sources and their institutional forces, referred to as pressures, on planning behavior. We view these primary pressures as originating from specific institutional sources depicted in the figure. Regulative pressure is upheld by government agencies, normative by the educational system and cultural/cognitive by other organizations within the institutional field (Karnoe, 1995). We call these primary reinforcements of the pressures “institutional sources”. Each source exerts a differential influence on the planning behavior of the nascent organization.

#### Regulative

The regulative element of an institution is concerned with formal rules, enforcement mechanisms, and “hard” structures. Studies focusing on the regulative element often include laws, rules and enforcement.

The mechanism in which the regulative element predominantly works is through *coercive isomorphism*. Coercive isomorphism is a term explaining the phenomena of conformity of actors subjected to the regulative element. It results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent. Such pressures may be felt as force, or persuasion (Scott, 2001).

*Sources:* The source for the regulative element is connected primarily with authority. It is commonly connected to governmental activities, be it law and enforcement or benefit programs

of different kinds. Governmental institutions have a unique position because they can influence organizations and individuals with legitimate coercion. Empirical studies have examined governmental influences on organization activities e.g., how property laws have influenced the organizational activity (Campbell and Lindberg, 1990), and how governmental constraints affected organizations in early US telecommunication (Barnett and Carrol, 1993).

Looking at the regular element as a stable formal/informal regulatory system with enforcements, we may find other types of sources for the regulative element than governmental organizations. Organizations such as banks, large and old corporations, and non-governmental institutions are also likely sources for the regulative element. These actors often have stable formal authority with a lot of power that fulfils a similar function to laws, and legitimates coercion. The fact that the actor is powerful makes it also capable of enforcing its rule system such that the organization more or less must comply.

In the case of business planning, to our knowledge, there is no legislative framework that coerces organizations to write business plans, but there are other formalized pressures that influence nascent organizations into doing so. Nascent firms frequently have contact with assistance agencies at both national and regional levels. Examples include the SBA (Small Business Association) in the USA, employment offices, regional development facilities and incubators, world-wide. These organizations often place constraints on nascent entrepreneurs, mandating that specific resources or various forms of assistance are contingent on their participation in other unrelated activities (Honig, 1998). In Sweden, public agency offices provide potential entrepreneurs with technical and financial support on condition that they complete an approved business plan. We formulate our first hypothesis as follows:

**Hypothesis 1: Nascent organizations whose founders contact public support agencies have a greater propensity to produce business plans than those without such contact.**

**Normative element**

The normative element of an institution concerns the nature of what is desirable and considered as good and appropriate behavior. It therefore dictates appropriate goals, as well as the means to get them. For businesses, an appropriate goal is to generate profit and an appropriate way to generate them is through fair business practices and hard work.

The *sources* for the normative element commonly involve professions, literature, family and educational organizations. Professions are strong institutional constituencies influencing organizations. The control they exercise on organizations is different from that of governments. Professions exercise control through ideas, and controlling belief systems. “*They exercise control by defining reality—by devising ontological frameworks, proposing distinctions, creating typifications, and fabricating principles or guidelines for action*” (Scott and Backman, 1990: 290). Several studies with an institutional perspective use professions as their unit of analysis. DiMaggio (1991) studied the US art museums and the professional norms related to them. He found that professionalization both enforced existing institutions and was a source for de-institutionalization. Brint and Karabel (1991) argue in their conclusions that professionals within an organization are the carriers of that organization’s interest. Meyer and Scott (1992), studied performance in educational organizations. Furusten, (1995) argues that management literature can be seen as a representation of the societal level norms, beliefs, behaviors and ideologies. Literature becomes important as it makes it possible for institutional beliefs to travel from the general, societal level to the level of the individual organization. Once published, it may reach organizations in environments that do not usually share ideas and beliefs. Books on business

plans, for instance, appear at business schools, at airport stalls, at governmental institutions and in public. Opinions in books can be spread through many social levels, and ideas presented in books are often presented with a voice of authority, and with expert systems of reviews and critique. The analysis of literature is important for our understanding of “taken for grantedness” at the societal level. Educational systems and family are important sources of institutionalization, as they shape social norms about personal behavior and attitudes to work methods, relevant problems. In addition, they influence actors’ worldviews, and roles (Karnoe 1995).

The entrepreneurship field “abounds with normative literature setting out prescriptions for the creation of a venture’s entrepreneurial business plan” (Hindle, 1997:2). The worldwide growth of the business school at both the undergraduate and MBA level, along with the increasing professionalization and diffusion of management education, are normative processes in their own right. The interests of such stakeholders converge on a number of relevant points. Courses that typically instruct students in the art of writing a business plan support academic scholarship, appointments, journals, conferences, and doctoral programs. Consequently, the publication of business plan literature for universities escalated beginning in the 1980’s. Another large source for normative texts on business plans are educational books in entrepreneurship, typically targeting entrepreneurship students in colleges and universities (Kuratko and Hodgetts 2001; Lambing and Kuehl 2000; Stevenson, et al. 1999; Timmons 1999; Wickham 2001). Many universities, e.g. Babson College, Harvard Business School, and numerous American and European Business Schools give courses in entrepreneurship. A major part of the curriculum in these courses includes business planning exercises, and practical work with the production and even presentation of a business plan.

Because business plans seem to be a major part of much of the curricula at so many schools, we suspect that business plans are taught as something good, something that each and every new organization should do. As a test of a normative isomorphic pressure, we include the importance of business education in our second hypothesis:

**Hypothesis 2: Nascent organizations whose founders have a business education have a greater propensity to produce business plans than those whose founders do not have a business education.**

### **Cognitive element**

The cognitive element is based on the cognitions of individual actors. What an actor does is largely a function of how he/she makes sense of the chaotic reality that surrounds him/her. Taking this notion further, we may view institutions as socially constructed entities developed by groups of individuals trying to make sense of their reality. However, not pushing the cognitive element too far, we can see individual sense-making as a part of an institution, influencing the actor's behavior through mechanisms like uncertainty reduction, to strive towards increased sense-making.

*Sources:* The cognitive element stems essentially from the socio-cultural environment that the organization exists in. Institutional theory holds the assumption that organizations are highly dependent on their inter-organizational context, claiming that institutional pressures are created and recreated by nations and within industrial fields and that these institutional pressures govern organizations within the industrial field. However, other actors in an organization's socio-cultural environment have gained increasing interest. For example, the family in family firms may significantly influence what is taken for granted in such organizations.

Mimetic isomorphism is often a result of organizations attempting to limit uncertainty by modeling their behavior after similar successful organizations in their field (DiMaggio & Powell, 1983; Haunschild, 1994; Haverman, 1993). An entrepreneur familiar with the business plan written by a known successful entrepreneur may endeavor to write one him or herself. From a procedural point of view, TQM, SWOT analyses, and business plans all represent diffusion based on mimetic opportunities that appear in particular sectors. For example, in a recent study of manufacturing firms, all 29 cases were found to utilize business plans, reviewed either annually or at 18 month intervals (Brown, 1998).

Mimetic behavior may also be the result of attempts to gain legitimacy in the eyes of other members of the organization. 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. Thus, we attempt to empirically isolate the individual effects of these forces. Very few studies explicitly control for coercive and normative influences, a critical factor when attempting to isolate mimetic isomorphism (Mizruchi & Fein, 1999).

Institutionalization is frequently determined by industry 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). The emergence and diffusion of the Hollywood studio system is one such example (Lampel & Shamsie, 2000). Jones (2001) demonstrated the liability of new industries by showing how legitimating forces redefined the development of the film industry, as it migrated from regulatory to cultural legitimacy. In the emerging film industry, institutional rules changed for both technological entrepreneurs and content (cultural)

entrepreneurs, so altering the mimetic approaches taken by competitors as the environment matured. Only once the "rules of the game" were well entrenched, were a common set of strategic mimetic approaches possible and/or desirable.

Nascent organizations imitate existing organizations within their industry, particularly in aspects deeply embedded into the industrial sector's cultural norms. This method of measuring mimetic isomorphism has been used by several researchers. Mezas, for example, examined the accounting practices of the largest 200 non-financial corporations in the USA for generally accepted accounting principles, and Burdos examined the adoption of early retirement programs in Canadian Universities (Burdos, 2001; Mezas, 1990).

Manufacturing firms are subjected to similar physical and structural constraints, as well as engaging in more precise, unforgiving, mature and developed processes. They require highly specialized plants with similar human capital, technical, and infrastructural resources. They have been observed to engage in mimetic processes irrespective of economic or efficiency gains. Manufacturing typically requires a more complex supply chain, with revenues allotted at the proper time, reflecting the needs for R&D, prototyping, production, marketing, sales, human resource, and inventory control. Planning, for systems that are well established and do not have too much variance (e.g. producing a refinery) is likely to provide advantages of efficiency, that will be copied by other entrants. For example, in a study examining 39 automotive assembly plants worldwide, high involvement work practices similar to those practiced by Japanese manufacturers diffused irrespective of efficiency gains, such as reduced defects. Further, the rate of adoption of the practices was found to be independent of complementary practices and technologies or factory productivity (Pil & Macduffie, 1996). We maintain that manufacturing firms are more likely to undertake similar mimetic planning activities than other sectors, such as

sales, marketing, and services, whose fundamental processes are more amenable toward new modes of operation, and are more flexible in their structure.

**Hypothesis 3: Nascent organizations in industries where business planning is deeply rooted have a greater propensity to produce business plans than those in other industrial fields.**

### CULTURE AND INSTITUTIONS

We think that culture can have a mediating effect on institutional effectiveness. US corporate culture and Swedish corporate culture are largely similar in many aspects, both cultures are essentially, meritocratic and market oriented. However, the cultures also differ in some significant ways. Swedish culture could be described as egalitarian, and cooperative. Even cooperation between companies within the same industry exists without people taking much notice. This presents a quite different culture from the US which is usually thought as an anti-regulative, non-corporatist, individualist country. The role of the state in the two countries are also largely different, where the Swedish state traditionally have had active policies supporting and Swedish managers are used, and likely to be more positive, to adapting to changing rules and regulations implemented by the Swedish state. In general, we therefore expect institutional pressures to influence Swedish nascent companies more strongly than US companies. In the paragraphs below we will develop the hypothesis towards the specific institutional pressures.

We assume that such regulatory forces should be stronger predictors of business planning in Sweden than in USA because the employment office in Sweden can enforce their evaluation of business plans by distribution of governmental grants. In contrast, the SBA, being a federal authority, adheres to strict bureaucratic evaluation criteria independent of a formal written

business plan. Thus, it does not have the authority to impose a written business plan on a new firm, rather, it relies upon an existing institutional formula of its own. Further, Swedes are culturally known to be more positive about the role of government and community and tend to be more communally oriented than individuals in the USA. Hofstede, for example, when measuring individualism versus collectivism, found the USA to be an outlier with 91, and Sweden a more moderate 71, where the mean of individualism –collectivism was calculated at 50 (Hofstede, 1983). We anticipate these characteristics to influence the impact of assistance organizations on the activities of individual entrepreneurs, including business planning.

**Hypothesis 4a: Effects concerning contact with assistance agencies are greater in Sweden than in USA.**

Positive normative statements regarding business planning in new organizations emerged in USA in the late 50s, and is widely spread through business schools and widely spread books on how to write business plans. The phenomenon, as such, is more novel in Sweden yet, it has already reached the curricula of most business schools.

In 1977, only 4% of Swedish students elected to study in Business subjects, versus 15% for the USA in 1975-1976 (UNESCO, 1980, 1995; USDE, 2001). By 1992, the percentage in Sweden had grown to 11.8% while that in the USA it had grown to 22%. While it is less common for Swedish students to elect a business class subject, the relative impact of taking a business class subject is likely to be greater in Sweden than in the US.

In contrast to the US, there are only a few books written on business planning in Swedish. Therefore, it is not necessary to attend business school or take a business class to be aware of the

business plan in the USA. However in Sweden, business schools will be one of the only sources for normative pressures to write business plans in Sweden.

**Hypothesis 4b: Effects concerning business education and propensity to write business plans are greater in the USA than in Sweden.**

We anticipate higher levels of mimetic pressure by industry in Sweden than in the USA for two reasons. First, Swedish culture is much more collaborative across different companies both within the same industry and to companies outside their industry. Long standing traditions of employers collaborating as a counterforce to the nationally collaborating labor unions have produced a culture of collaboration in general in the top management teams across organizations, particularly within industry sectors. Contrary to this, firms in the United States have very little tradition of intra industry collaboration. Companies within the same industry are generally viewed as competitors, and collaboration if feasible is associated with low levels of trust. Companies outside the industry would usually be perceived as less of a threat. Therefore specific industry belongings would play less of a role in the united states, then it would in Sweden. Second, the total market for organizations in Sweden is smaller, such that Swedish firms must turn outside their own markets to a greater extent. This forces them to participate in a wider, global, and more universal and isomorphic market, than their counterparts in the USA. Firms in the USA, in contrast, are freer to either develop a niche market, given the comparative size, or to pursue a domestic strategy slightly more independent of global industry norms.

**Hypothesis 4c: Effects concerning industry belonging are stronger in Sweden than in the US.**

## **METHODS**

In this research, we examine the role of business planning for 799 nascent entrepreneurs, 406 from Sweden and 393 from the USA. The data were obtained from two different, but conceptually matched, research activities that occurred in the 48 contiguous US states and in Sweden. The research methodology consisted of randomly selecting people and asking them if they, alone or with others, were in the process of starting a new business. Nascent entrepreneurs were individuals actively engaged in trying to start a new firm of their own, that were not covering operating expenses and salaries for more than three months (and so, considered new businesses and excluded).

### **Sample**

The study of emerging organizations is important, but is currently in its infancy (Carter, Gartner, & Reynolds, 1996; Katz & Gartner, 1988). A major reason is that nascent organizations are inherently difficult to study. Most of them do not show up in firm databases, as they have not yet registered their firms. Neither are they captured in databases because of tax payments or the like. Consequently data about them are not readily obtainable from traditional sources. This research was therefore uniquely designed to provide population estimates for business start-up efforts, and to follow a random sample of nascent activities leading to the possible start of new businesses by studying so called gestation activities

In the USA, 15,118 people were approached between July 1998 and April 1999, with 446 completing an initial detailed phone sample (Gartner, Shaver, Carter & Reynolds, 2004:459). A

follow up study; was conducted at 12 and 24 months, but was not used in this research. Missing and erroneous data reduced the sample size to 438, with further reductions (explained shortly) to 393. The Swedish data are based on two samples of randomly selected individuals living in Sweden, individuals aged between 16-70 years and individuals aged between 25-44 years. The purpose of the first sample was to get a representative sample of the adult population in Sweden, and the second to increase the yield of nascent entrepreneurs, as indicated by previous research (Reynolds, 1997). An enriched 25-44 year old cohort biases our population. This over sampling was done to increase the yield of nascents. The initial interviews were conducted during the period of May-September 1998. The qualified nascent entrepreneurs were contacted for follow-up interviews after 6, 12, and 18 and 24 months, but these were not used in our analysis. In Sweden, 35,971 individuals were contacted for telephone interviews, 30,427 individuals (84.6 %) agreed to participate, yielding a sample of 406 for our comparative analyses, with two cases dropped during the analysis due to missing data. Several steps were undertaken in order to ensure that the Swedish and the US data was completely comparable. In the US data set cases where the respondent started up a business for an employer were eliminated (in exactly the same way as it was done in the Swedish cases). The cases coded as 2 in question q101 (start up for employer) were therefore eliminated. In total seven cases were removed due to this reason. Similarly cases coded as 2 (purchase or take over of an existing business) or 4 (Start up sponsored by existing business) in question q190 were removed. In total 37 cases were eliminated due to this reason. Lastly, cases coded as 4 (Spouse only owns the company) in question q195 were removed, as this indicated no respondent continuity between the first interviewee and subsequent interviews. In total 4 cases were eliminated for this reason.

***Dependent Variable:***

We examined factors leading individuals to produce a written formal business plan for external use. Confirmation of writing a business plan was in response to the following question: “Have you prepared a business plan”? Those who indicated they had completed a formal written plan were identified with a dummy variable.

***Independent variables:***

As independent variables we used the variables deducted from institutional theory, c.f. DiMaggio & Powell (1983) and Scott (2001). 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. A dummy variable was created identifying those nascent entrepreneurs who indicated they had contact with a business support agency at any time before the initial interview. Our indicator of normative pressure measured if a nascent entrepreneur had completed a business class. During ad-hoc interviews we conducted, we found that individuals who had business education cited this experience in support of the importance of writing a business plan, whether or not they themselves did so. Business education is well known to follow particular trends and fads (Abrahamson, 1991), and we predicted that nascents who experienced business education would demonstrate their exposure to normative planning forces. A dummy variable indicated those who completed a business class at any time before the initial interview. We used industry measures to identify mimetic isomorphism by identifying the completion rates of nascents by industrial sector. We initially coded dummy variables for industry by service, trading, manufacturing, and undeclared, examining the outcomes. Manufacturing firms

represented the highest percentage of firms that completed business plans. As the previous research and theory discussed earlier supported this finding, we used nascent entrepreneurs in the manufacturing sector to indicate mimetic isomorphism (Honig & Karlsson, 2004).

***Control variables:***

We use the same control variables in all equations. Human capital, such as years of education, managerial work experience, and adult education, are investments that may produce labor productivity increases (Becker, 1964; Schultz, 1959). In theory, human capital should provide the entrepreneur with the ability to be more effective in their organizational activities, administrative systems and routines (Preisendorfer & 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 supporting the probability of becoming an entrepreneur, or in achieving success (Evans & Leighton, 1989; Honig, 2001; Reynolds, 1997).

We controlled for human capital in several ways. Owners indicated the highest level of education they had completed, and this was coded into number of years. Respondents were also asked their total years of supervisory or managerial experience. Individuals who had previously attempted a start-up were also noted, indicated by a dummy variable.

Social capital refers to the ability of actors to extract benefits from their social structures, networks, and memberships (Lin, Ensel & Vaughn, 1981; Portes, 1998). Social networks provided by extended family, community-based, or organizational relationships may enhance the effects of education, experience, and financial capital (Bourdieu, 1983; Coleman, 1988, 1990; Loury, 1987). Social networks may assist entrepreneurs in creating firms, as they often start

businesses related to their former occupations (Cooper & Dunkelberg, 1996). Most of our social capital control variables were designed to examine individual networks. Parental networks were coded from if either parent had ever owned a business before. A variable was also constructed for those individuals who indicated that their family, relatives, and close friends were encouraging of their starting a business. An additional personal network variable controlled for if and when the nascent entrepreneurs indicated they were a member of a start-up team. We also asked respondents if they had received very strong or strong encouragement from family or friends to start a business.

In many countries, gender has been found to be a significant factor in the probability of establishing a business (Bates 1995; Brush & Hisrich, 1991). We thus included gender as a control.

We used hierarchical multiple logistic regressions to determine the influence of predictor and control variables on the dichotomous outcomes specified by our hypotheses. This gave four equations, the first examining the controls, and the second through fourth testing the first three hypotheses. We followed the method developed by Hosmer & Lemeshow (1989) using maximum likelihood estimators to give logistic probabilities, where the computed matrix of covariates and dependent variables are assigned logistic probabilities.

**FINDINGS**

Table 1 provides descriptive statistics for the variables associated with hypotheses.

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Insert Table 1 about here  
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While 20% of all nascents wrote a business plan, the percentage was higher in Sweden, with 22% versus 19% in the USA. These differences were not statistically significant, and we can

conclude that both populations had the same propensity to write a business plan. The population was slightly more educated in the USA, with 15.1 years versus 12.9 for Sweden, a statistically significant difference. US nascents also had more managerial experience (8.9 versus 5.1 years), although their marginally higher previous start-up experience failed to be statistically significant (25% in USA versus 22% in Sweden). The populations were nearly identical regarding having parents in business ( 51% and 48% in Sweden). The Swedish population was much more likely to be encouraged by family and friends (75% versus 58% for the USA). Women were more likely to be nascents in the USA (39%) than in Sweden (28%). A very large gap existed on the measures of agency assistance. While only 15% of the US population of nascents indicated they had contact with assistance agencies, 40% of the Swedish population had such contact. Finally, the US population was somewhat more likely to have taken a business class (41% versus 34 %), and far less likely to be in manufacturing (1.5 % versus 11 %).

Table 2 shows a hierarchical logistic regression, examining who wrote a formal plan as the dependent variable.

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Insert Table 2 about here  
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Equation 1 examines control variables predicting the probability of a nascent entrepreneur writing a formal written business plan. The goodness of fit Chi -square of 24.8 tests the null hypothesis that the coefficients for all of the terms in this model, except the constant, are zero (like an "f test" in regression). Years experience as a manager, being encouraged by friends or family, and being members of a start up team were control variables that demonstrated statistically significant results.

Equation 2 shows the results of adding contact with an assistance agency to the model. All the previously statistically significant results continue to hold, and the effect of agency contact is very strong, and significantly improves the model Chi-square and Nagelkerke  $R^2$ . Converting .90 to probability, more commonly referred to as “odds”, is simply a matter of taking the coefficient to the  $e^x$ . Thus, those nascent organizations who have had contact with an assistance agency increase the odds of their writing a formal business plan by a factor of 2.45. Hypothesis 1a stated that nascent organizations whose founders contact public support agencies have a greater propensity to produce business plans than those without such contact. We interpret this finding as confirming H1a.

Equation 3 adds the variable, business classes taken to the model. The coefficient for contact with assistance maintains nearly the same statistical significance, and the addition of the variable improves the strength of the model for the chi-squared, with nearly the same Nagelkerke  $R^2$ . The computed log odds increase of the coefficient .31 (the coefficient significant only at .10) is a factor of 1.3. Hypothesis 2a stated that nascent organizations whose founders have a business education will have a greater propensity to produce business plans than those whose founders do not have a business education. H2a is thus rejected – but only marginally in this equation, having failed .05 significance or better.

Equation 4 adds manufacturing firms to the analysis. There is a slight improvement of the model chi-squared, despite the additional loss of a degree of freedom, and a small increase in the Nagelkerke  $R^2$ . The increased probability of nascent organizations in the manufacturing industry to write a business plan is 2.5 ( $.93 e^x$ ). H3a maintained an increase in industries where planning is deeply rooted. Our previous discussion of manufacturing suggests it to be a sector where planning is well entrenched, and we interpret this finding as upholding H3a.

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Insert Table 3 about here  
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Table 3 shows the results of separate analyses for the USA and Swedish populations. It is evident that the two populations of nascent entrepreneurs differ regarding relationships to business planning. In equation 5, the USA only population shows no significant coefficients predicting business planning behavior. In comparison, the Swedish only group in equation 6 shows that years of experience, being encouraged by friends and family, having contact with an assistance agency, taking business classes, and being in manufacturing all influence the probability of writing a business plan in a positive direction.

Our first comparative hypothesis predicted that the influence of contact with an assistance agency would be greater in Sweden than in the USA. We found this to be true, as the coefficient in Sweden increases the odds by 2.3, while not statistically influencing the case of the US nascent entrepreneurs. Thus, H1b is upheld.

Our next comparative hypotheses were also validated by this study. We expected that business education would have a stronger effect in Sweden than in the USA (hypothesis 2b). We found that business classes taken had a rather strong statistically significant effect in Sweden (the coefficient of .925 improving log odds by a factor of 2.5). Thus, H2b is upheld.

Finally, hypothesis 3b predicted that the effects concerning industry belonging would be stronger in Sweden than in the USA. Our analysis supported this hypothesis, as while manufacturing was neither statistically significant nor strong in the USA as a predictor of writing a formal business plan, it was both in the case of Sweden (the coefficient of .698 improved the odds by a factor of 2). H3b is thus supported.

## DISCUSSION

In this study, we examined and compared, cross-nationally, factors leading two different populations of nascent entrepreneurs to engage in formal written business planning. Research regarding nascent entrepreneurs is, in itself, very much in its nascence, and accordingly, we believe these findings to be of considerable interest to scholars, consultants, and practitioners. Our data is derived from two of the earliest known studies designed to identify and longitudinally monitor nascent entrepreneurs. Our theoretical perspective utilizes institutional theory, highlighting isomorphic organizational trends world-wide, informed by the historical and cultural differences between Sweden and the USA.

Although we view the importance of business planning activities for nascent entrepreneurs with a healthy skepticism, our findings suggest both the practices and the causes of planning to have certain similarities across two different cultural and national divides. We offer the first confirmatory evidence regarding the generalizability of certain nascent behaviors, as well as differentiating factors that appear to be somewhat more culturally or environmentally determined.

In this research we identified specific environmental characteristics that increased the probability of nascent entrepreneurs engaging in formal business planning. Those who had contact with assistance agencies were significantly more likely to engage in business planning. We interpret this phenomenon as expressing primarily regulative aspects of institutionalization. We do not view this finding to be a result of formal requirements along the road to the establishment of a firm, such as business registration and laws regulating health and public welfare. Rather, we believe nascent entrepreneurs voluntarily comply with practices and formalized routines established by banks, assistance agencies and incubators. This distinction is

important because research has yet to conclude whether or not the planning process provides any technical or organizational efficiency gains (Castrogiovanni, 1996). Should further research determine that formal written plans do not provide any particular gains or efficiencies, the ability to reduce or limit planning activities will be constrained by the established field of actors already teaching, promoting, evaluating, and demanding business plans.

When examined by country, we found the impact quite robust in Sweden, but not statistically significant in the USA. This confirmed our view that the institution of business planning was so deeply embedded in the cultural fabric that secondary sources of institutional pressure were of less importance. For example, fewer nascent entrepreneurs in the USA were in contact with assistance agencies than their Swedish counterparts—only 15%, versus 40% in Sweden, had such contact. Thus, while there may be many more opportunities for nascent entrepreneurs to get assistance in Sweden than in the USA, it may also reflect the lack of entrepreneurial institutional diffusion extant in the Swedish cultural and bureaucratic landscape. For example, in Sweden, the unemployment office assists nascent entrepreneurs in their activities. Our research shows that, in terms of scope and impact, normative practices appear to differ somewhat trans-nationally and trans-culturally. In particular, we believe we are observing a global isomorphic trend toward the overall promotion of entrepreneurial activities, demonstrating how and with what forces such isomorphism occurs.

Although we rejected our hypothesis regarding business education, the coefficients in the model were nearly significant, and positive. This suggests that business education may have a weak impact on the propensity to write a business plan, but it is overshadowed by managerial experience. Business education speaks directly to what many of us, as academics, are engaged in. It should hardly come as a surprise that our business school graduates are more inclined to write a

formal plan than those not exposed. Our finding that individuals so exposed in Sweden were much more likely to plan than those who had completed courses in the USA speaks to the general diffusion of the business planning paradigm in the USA. Due to the historical precedence of business education in the USA, and its relative newness in Sweden, we anticipated that graduates with Swedish business educations would have a greater propensity to plan than similar graduates from US based. In short, we didn't expect the US business education to have a much of an impact on what is now already established to be a normative routine.

However, it may simply be the case that Swedish nascent entrepreneurs experience a different type of business education, either qualitatively or quantitatively, vis-à-vis business planning education than their USA counterparts. We were unable to examine issues of content or quality in our study, and this research suggests the importance of future study. Finally, nascent in the USA may be different from nascent entrepreneurs in Sweden. Differences may be due to cultural factors or environmental factors, including markets and resources. For example, we became aware of the role that the unemployment office plays in Sweden in promoting start-ups and nascent activities. In the USA, the unemployment office does not, for the most part, play a comparable role in small business promotion.

We also found industrial sector (manufacturing) to be a relevant factor in predicting who would eventually complete a formal written business plan. While we found evidence of the role of industry sector in differentiating who would plan and who would not, it appeared that, as with business classes, the effects were primarily relegated to the Swedish cohort of nascent entrepreneurs. Note, of course, the very small numbers of individuals in the US population engaged in manufacturing (2 % versus 11% in the Swedish case). We accede that a more cogent and logical argument for the necessity of formal planning may be made for well known complex

activities such as manufacturing, where the combination of resource constraints and timing present particular obstacles toward successful implementation. For example, plants, machinery, and human resources are often mature aspects of the operational plan, while innovation and unknown market components are likely to occur either earlier or later in the product cycle. However, even mature manufacturing processes are subject to significant adaptation and ongoing innovation, both factors nearly impossible to predict in the business plan format. For this reason, we interpret our findings as reflecting the higher levels of institutionalization evident in certain (manufacturing) fields in Sweden. We expected this mimetic behavior as a result of commonly assumed best practices in well-established fields, such as manufacturing. Given that a higher percentage of Swedish nascent entrepreneurs enter into manufacturing businesses, our findings regarding the differences between the two populations may simply represent the different mix of nascent activities under study.

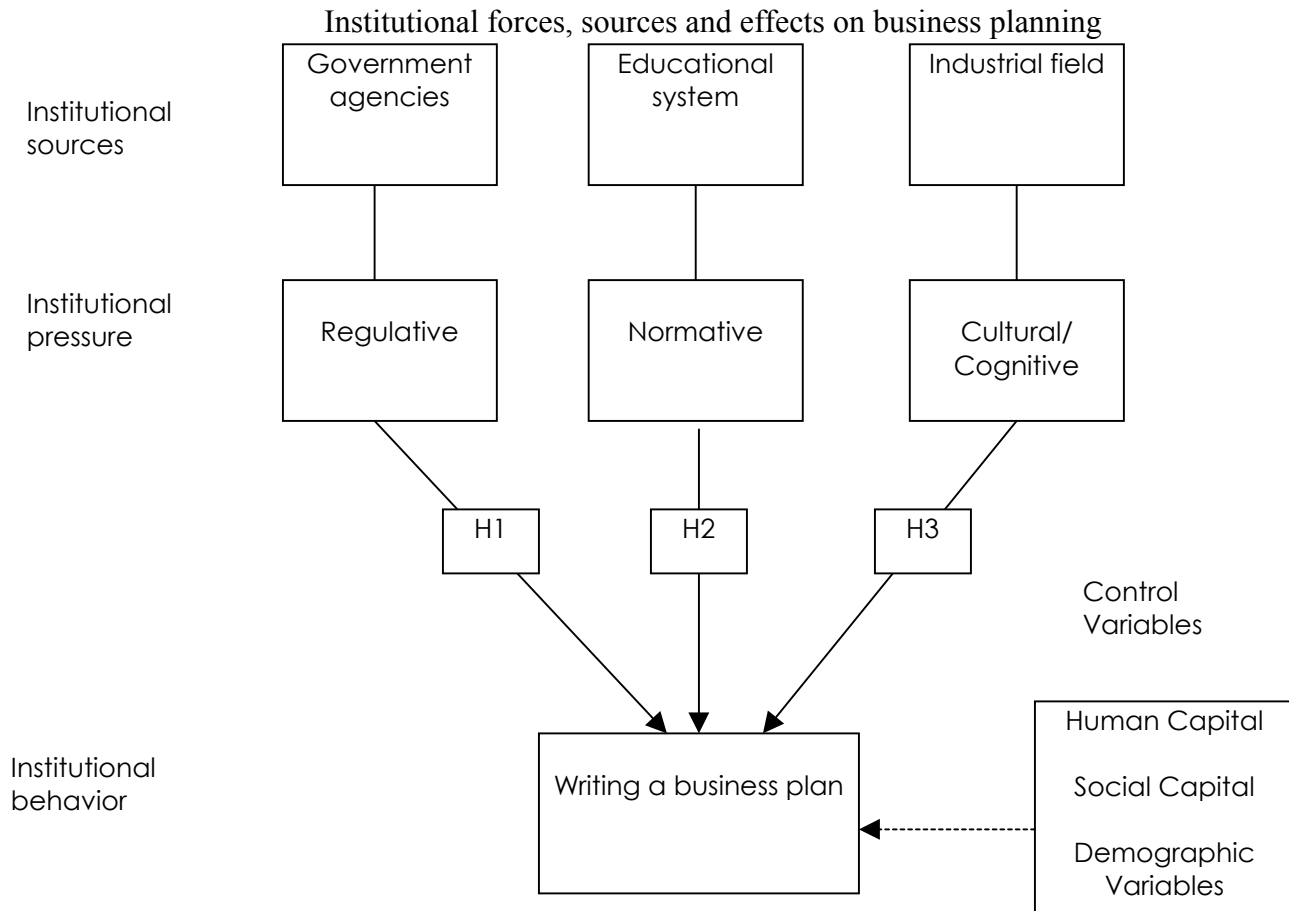
Thus, we found our institutional predictors to be stronger, in general, for the Swedish population than for that of the USA. It may be that an institutional framework works less well in predicting the behavior of USA entrepreneurs. Perhaps Americans are less likely to be subjected to institutional pressures, and more likely to follow their own path(s). Such an explanation fits well with a popular understanding of the American cultural mentality as free and independent. Further, alternative cultural frameworks that support the individual agent as profit maximizing may be a better predictor of business planning in the USA setting than in Sweden i.e. in the USA entrepreneurs write business plans because it is efficient to do so, while in Sweden they do so because it is institutionally demanded. However, there may also be institutional explanations as to why we find weaker results in the USA cases. Based on the higher proportion of business planners and the longer history of business planning in the USA, we suspect that institutional

forces play a greater role. It may simply be that other institutional sources unmeasured in this study, such as pressure from investors to write business plans, or normative expectations due to the more established expectations of writing business plans, work stronger in the USA setting, e.g. a stronger pressure to write business plans from venture capitalists. This also presents an arena for future study. From an institutional theoretical perspective, we suspect that the further institutionalized a phenomena is in any particular environment, the less strength there will be in single measure predictors of institutional forces. As institutions become increasingly taken for granted, additional sources of institutionalization reinforce and supplement each other.

Although the debate regarding the importance of early start-up planning is as yet unresolved, our study has implications for adherents of both sides of the argument. For those that maintain planning is essential, efficient, desirable, and very important, we offer evidence regarding the most effective modes to promote planning activities. These appear to take place through assistance organizations. For those who view planning as a largely futile exercise providing little if any competitive advantages, we provide evidence regarding the impact of competing sources of diffusion and isomorphism. Such information should be useful for those attempting to prevent or moderate the spread and practice of start-up planning.

We suggest that future research examine the complex relationship between planning and performance cross-culturally in order to adjudicate between alternative explanations of planning behavior. A deeper understanding of how institutional forces influence entrepreneurs will also increase our knowledge regarding the relationship between institutions and behaviors in highly and less institutionalized environments.

FIGURE 1



**TABLE 1****Nascent Entrepreneurs: Descriptive Statistics (USA-Weighted)**

Variable	USA and Sweden n (%)	USA (Dummy Mean)	Sweden (Dummy Mean)	T (Sig) (weighted)
Wrote a formal plan	161 (n) (20%)	868 (n) (17%)	93 (n) (22%)	-2.03*
Years Education	14	15.1	12.9	12.52***
Years experience as manager	7	8.9	5.1	6.23***
Previous start-up experience	191 (23%)	101(25%)	90(22%)	.96
Parents in business	395(.49)	200(51%)	195(48%)	.98
Encouraged by friends or family	537(66%)	230 (58%)	307(75%)	-5.26***
Gender	F=267(33%)	F=153(39%)	F=114(28%)	-.21
Contact with assistance agency	223(27%)	60 (15%)	163 (40%)	-8.4***
Ever took a business class	303(38%)	164 (41%)	139 (34%)	2.12*
Manufacturing	51 (6%)	6(1.5%)	45 (11%)	-5.43***
N	799	393	406	799

\* p&lt;.05

\*\*p&lt;.01

\*\*\*p&lt;.001

**TABLE 2**  
**Hierarchical Logistic Regression, Nascent Entrepreneurs:**  
**Most likely to plan USA and Sweden together**

Dependent Variable	Equation 1 controls only USA & Sweden	Equation 2 USA & Sweden	Equation 3 USA&Sweden	Equation 4 USA & Sweden
Years education	.007 (.03)	.009 (.33)	.004 (.03)	.011 (.03)
Years experience as manager	.028*** (.01)	.030** (.01)	.029** (.01)	.028** (.01)
Previous start-up experience	.015 (.21)	-.040 (.21)	-.032 (.21)	-.071 (.22)
Parents in business	.003 (.18)	.059 (.18)	.070 (.18)	.075 (.18)
Encouraged by friends or family	.542** (.19)	.482** (.21)	.470* (.21)	.454* (.21)
Member of a start-up team	.291 (.18)	.341 <sup>†</sup> (.21)	.363* (.18)	.341 <sup>†</sup> (.18)
Gender (f=1)	-.144 (.20)	-.245 (.21)	-.269 (.21)	-.218 (.21)
Contact with assistance agency		.90 *** (.19)	.832*** (.19)	.749*** (.20)
Business classes taken			.318 <sup>†</sup> (.19)	.347 <sup>†</sup> (.19)
Manufacturing				.933** (.31)
-2 log likelihood	780.1	758.2	755.5	746.9
Model X <sup>2</sup>	18.6**	40.5***	43.3***	51.9
df	7	8	9	10
Overall hit rate	79.6%	79.6%	80 %	80%
Nagelkerke R <sup>2</sup>	.037	.079	.084	.10
Cases dropped due to missing data	6	6	6	6
N	793	793	793	793

Standard errors are in parentheses.

<sup>†</sup>p<.1

\* p<.05

\*\*p<.01

\*\*\*p<.001

**TABLE 3**

**Logistic Regression, Nascent Entrepreneurs: Most likely to plan  
USA and Sweden: Separate Analyses**

<b>Dependent Variable</b>	<b>Equation 5 USA Only</b>	<b>Equation 6 Sweden Only</b>
Years education	.033 (.05)	.052 (.05)
Years experience as manager	.018 (.01)	.049** (.01)
Previous start-up experience	-.434 (.36)	.259 (.33)
Parents in business	-.284 (.28)	.366 (.26)
Encouraged by friends or family	.393 (.29)	.701* (.33)
Member of a start-up team	.237 (.29)	.382 (.28)
Gender (f=1)	-.186 (.32)	-.315 (.30)
Contact with assistance agency	.340 (.37)	.852** (.27)
Business classes Taken	-.101 (.28)	.925*** (.28)
Manufacturing	.121 (.81)	.698* (.35)
-2 log likelihood	345.8	380.4
Model X <sup>2</sup>	13.0	55.5***
<i>df</i>	10	10
Overall hit rate	82.7%	77%
Nagelkerke R <sup>2</sup>	.055	.19
Cases dropped due to missing data	4	2
N	393	404

Standard errors are in parentheses.

\* p<.05

\*\*p<.01

\*\*\*p<.001

## APPENDIX

### Unweighted correlations

Correlations	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1 Business Plan	0.202	0.401												
2 Education	14.008	2.693	0.022											
3 Management exp	6.988	8.228	.098(**)	.223(**)										
4 Start up exp	0.239	0.427	0.033	.106(**)	.103(**)									
5 Parent in Bus	0.494	0.500	0.021	0.026	0.051	.156(**)								
6 Encouragement	0.672	0.470	.092(**)	-.079(*)	-0.045	0.010	.099(**)							
7 Team	0.531	0.499	.079(*)	0.061	.071(*)	0.068	0.017	0.022						
8 Age	51.429	15.411	-0.027	-.277(**)	-.096(**)	-0.050	-0.054	.133(**)	-0.031					
9 Gender	0.334	0.472	-0.058	0.060	-0.047	-0.067	0.005	-0.003	-0.052	-0.057				
10 Married	13.789	110.986	0.027	0.067	-0.013	0.016	-0.021	-0.042	.083(*)	-0.060	0.016			
11 Agency contact	0.279	0.449	.160(**)	-0.024	-0.047	0.005	-0.035	.102(**)	-0.047	.208(**)	0.062	0.030		
12 Business class	0.379	0.486	.109(**)	.105(**)	0.055	-0.015	-0.025	0.035	-.071(*)	-.102(**)	.081(*)	0.052	.233(**)	
13 Manufacturing	0.064	0.245	.150(**)	-0.050	0.039	.070(*)	0.008	0.052	0.051	.120(**)	-.098(**)	0.017	.146(**)	-0.014

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