Strategic marketing planning for opportunity exploitation in young entrepreneurial companies

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Abstract: Both entrepreneurship and marketing theory and practice are opportunity driven. To exploit opportunities, entrepreneurial companies need to apply so-called professional management instruments, such as strategic marketing planning (SMP). SMP seems to be especially important for young companies in growth industries market. However, research has not addressed whether entrepreneurial companies use SMP, under what conditions and with what effect on performance. In this study we identified and tested antecedents of SMP in young companies in Germany. In our model, we developed a multidimensional model of SMP and tested a series of hypotheses using data gathered from 157 entrepreneurial companies. We found out that environmental uncertainty, external capital and managerial experience and, to some extent, top management team size and intentions to change are linked positively to the use of SMP in such firms.

Keywords: strategic marketing planning; SMP; entrepreneurship; opportunity.


Biographical notes: Bernadette Sager received her Doctoral in 2005 from Faculty of Business and Economics at the University of Regensburg and now works for the Siemens AG.

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1 Introduction

In recent years, the entrepreneurship research has focused a great deal of attention on opportunity recognition as a key aspect of research and practice. Shane and Venkataram (2000) even defined the field of entrepreneurship as the ‘study of the sources of opportunities; the processes of discovery, evaluation and exploitation of opportunities’. Even earlier Kuratko (1995) describe the entrepreneur as ‘an innovator or developer who
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recognises and seizes opportunities, converts those opportunities into workable/marketable ideas...’. This approach to entrepreneurship makes explicit the link to marketing theory which as pointed out by Collinson and Shaw (2001) suggests that ‘successful marketing is undertaken by firms who identify new opportunities (emphasis added) and apply innovative techniques to bring the product/service to the marketplace...’. In other words, both entrepreneurship and marketing are opportunity driven.

Traditionally, the focus of research and education in marketing has been on large incumbent firms. Existing marketing tools were designed and used regardless of the companies’ size and age. In the research literature, many methods of developing a marketing strategy are described, such as the incremental, the political or the command method (Smith, 2003; McDonald, 1992a; Hart, 1992). Strategic marketing planning (SMP) is a management method which involves a planned approach towards developing a marketing strategy. It has been argued that SMP ensures a systematic method of decision making in marketing, makes internal and external relationships transparent, reduces complexity, supports an increase in knowledge about a company’s markets, helps to reduce uncertainty and has an effectiveness and efficiency function (Wiedmann and Kreutzer, 1985; Rühli, 1989; Russi, 1993; Diller, 1998; Böcker 2001).

Indeed, a number of these advantages of SMP address the problems of young entrepreneurial companies. When they are experiencing their initial growth stage, complexity increases and marketing becomes more important, however, the managers of such firms often lack marketing know-how. Furthermore, in terms of the ‘liability of newness’ they represent a risky partner to do business with (Hannan and Freeman, 1984; Woywode, 1998). From this point of view, SMP might really be an important way to ease growing pains (Flahmoltz and Randle, 2000).

However, other characteristics of young companies make the application of SMP difficult. Due to their young age, there are no retrospective internal data which are usually used in the SMP process (Wortmann, 2001; Achleitner and Bassen, 2001). Responsibility for making decisions is often restricted to the company’s founder(s), whose management and industry know-how is critical for a company’s survival. If the founders’ background is more focused on technical issues, then often they do not pay enough attention to marketing issues (Gonschor and Roth, 1990; Spitzer et al., 1989). Because of their smallness, young companies usually show a very low level of delegation in management functions (Gonschor and Roth, 1990). That is why McCartan-Quinn and Carson (2003) and Bjerke and Hultman (2002) argue that SMP is an inappropriate instrument for young companies since they would dilute these firms’ advantage of flexibility. However, it has not actually been shown conclusively whether or not young companies apply SMP. Empirical results in the field of entrepreneurship research show inconsistent results (Stewart, 2002; Gibson and Cassar, 2002; Lotz, 2003). This inconsistency suggests that the degree of SMP in a young company may depend on certain antecedents.

Entrepreneurial firms in Germany that were founded in the last ten years provide interesting data for studying SMP. Because of innovative technologies and new access to capital markets in the mid nineties, the German economy experienced a great increase in entrepreneurial activity during this period. In addition, small entrepreneurial companies were often viewed as being unprofessionally managed, since they were thought not to apply modern management methods. With the downturn of the internet industry starting in 2001, many of these promising new entrepreneurial companies left the market. Besides
the difficult external environment, small high-growth companies were often described as poorly managed. It was often argued that young companies in growth industries had information deficits, did not know their market well enough and had inappropriate marketing strategies. In particular, it was argued that poor performance was due to the absence of SMP, so that these companies were not able to translate their potential into actual growth.

The following research questions arise from the above situation: is it really true that young companies generally do not apply SMP? And assuming that different degrees of planning might be found: under what circumstances are young companies more likely to apply SMP? What is the actual effect of SMP on a young company’s performance?

To study these questions, we first developed a definition of SMP. Based on this definition, we suggest a multidimensional operationalisation of SMP. To identify relevant antecedents for SMP in young companies, we selected theoretical approaches which might explain the relationship between certain antecedents and SMP. Furthermore, we conducted a literature review and case studies to develop a model and a set of hypotheses on how external and internal factors might affect SMP. To test our model, we conducted a mail survey of young entrepreneurial companies in growth industries in Germany. Two linear regression models and one logistic regression model were used to test our hypotheses.

2 Model development and hypotheses

2.1 A multidimensional SMP-construct

SMP, as one method of strategy making in marketing, has been defined by many authors (Solc, 1980; Müller, 1986; Köhler, 1988; McDonald, 1992b; Hentze et al., 1993; Nieschlag et al., 1994; O’Shaughnessy, 1995; McDonald, 2002; etc.). Based on these former works, we used the following definition in this research: ‘SMP, as an integral part of strategic planning, is a comprehensive, information-based – and therefore rational – process, comprising of analytical and decision tasks whose formal output describes marketing goals and strategies’.

When defining a construct like SMP, researchers usually call for a multidimensional approach, to capture the phenomenon as a whole and not just one facet of it. We conducted several case studies in entrepreneurial firms which also indicated that using just one indicator for SMP would deliver a biased picture of the management realities in young companies. Our literature review on strategic planning in general and on SMP in particular suggested a set of dimensions commonly used to conceptualise planning constructs. Those dimensions are formality (Wood and LaForge, 1979; Fulmer and Rue, 1974; Lindsay and Rue, 1980; Piercy and Morgan, 1994; Claycomb et al., 2000; Phillips and Appiah-Adu, 1998; Pulendran et al., 2003), sophistication (Bracker and Pearson, 1986; Bracker et al., 1988; Piercy and Morgan, 1994), comprehensiveness (Fredrickson, 1984; Fredrickson and Mitchell, 1984; McKee et al., 1990; Menon et al., 1999; Pulendran et al., 2003; Atuahene-Gima and Murray, 2004; Slotegraaf and Dickson, 2004), rationality (Dean and Sharfman, 1993a; Fredrickson, 1984) and thoroughness (Stasch and Lanktree, 1980; Piercy and Morgan, 1994; Phillips, 1996). Using the definition of SMP above, we focused on three dimensions of SMP in this research:
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Comprehensiveness means a complete and systematic process when conducting SMP in a company. Comprehensive SMP includes a careful analysis of opportunities and threats and a thorough search, evaluation and selection of different targets and strategies with respect to a company’s marketing approach.

Rationality concerns that part of our definition which says that SMP is information based. Dean and Sharfman (1993a, p.1071) define rationality as ‘...the extent to which the decision process involves the collection of information relevant to the decision and the reliance upon analysis of this information in making the choice’. Fredrickson’s (1984) and Fredrickson and Mitchell’s (1984) initial operationalisation of comprehensiveness also integrated the idea of rationality. However, as a separate dimension of SMP it was used by Pulendran et al. (2003) for the first time.

Formality has been by far the most commonly used dimension. Originating from the early works of Fulmer and Rue (1974), Wood and LaForge (1979) and Lindsay and Rue (1980), the formality concept developed in two different directions. One focus has been on formal output as an indication for an effective SMP process (e.g., Claycomb et al., 2000), the second focus has been on the formalisation of the planning process (e.g., Phillips and Appiah-Adu, 1998). Consistent with our definition of SMP we focus on formality in terms of the documented output of the SMP process.

In summary, our concept of SMP contains two constructs concerning the process of SMP: comprehensiveness and rationality and a third construct concerning the documented output of this process, namely formality.

2.2 Antecedents of SMP

The second component of our model consists of context factors which might impact the degree of SMP in young companies. According to the contingency theory, context factors are separated into company external and company internal conditions (Staehle, 1989; Kieser, 1993; Fallgatter, 2002).

One such external factor is the environmental uncertainty as perceived by the owner/manager of young companies. In previous research, the 'environmental uncertainty' factor has been studied often. This research suggests that planning reduces uncertainty (e.g., Risseeuw and Masurel, 1994). Entrepreneurship researchers have also argued that the more an owner/manager believes he/she can influence the environment, the more he/she applies a planned approach towards marketing strategy (Keats and Bracker, 1988). Some empirical research has shown a positive relationship between uncertainty and planning (Lindsay and Rue, 1980; McKee et al., 1990; Chae and Hill, 2000). A moderating effect of environmental uncertainty was also demonstrated in the relationship between SMP and performance (e.g., Rauch and Frese, 1998; Zahra et al., 2002). Other entrepreneurship literature shows an inconsistent picture of the SMP-performance relationship (Matthews and Scott, 1995; Shrader et al., 1989). We test the following hypotheses:
H1a There is a positive relationship between perceived environmental uncertainty and the rationality of the SMP process.

H1b There is a positive relationship between perceived environmental uncertainty and the comprehensiveness of the SMP process.

Agency theory would argue that another external factor which might influence SMP in young companies is the existence of external capital. The owner/manager then takes on the role of the agent whereas the external investor becomes the principal. According to this theory, control and information systems are powerful solutions for hidden action problems. Case studies conducted prior to our quantitative study showed that at least the formal requirements for SMP seemed to be higher whenever venture capitalists were involved.

So far, few researchers have employed institutional theories in general and agency theory in particular to explain the degree of planning in organisations (Honig and Karlsson, 2004; Schulte, 2002) and ante-investment situation. The plan as a document is seen as an instrument to acquire capital (Schulte, 2002). The agency problem behind this is that of a ‘hidden characteristic’. Our case deals with ‘hidden action’ in a post-investment situation. We therefore hypothesise:

H2a There is a positive relationship between the existence of external capital and a rational SMP process.

H2b There is a positive relationship between the existence of external capital and a comprehensive SMP process.

H2c There is a positive relationship between the existence of external capital and the existence of a strategic marketing plan.

Besides external factors, there are also company internal factors which might have an impact on SMP. One characteristic of young companies is the dominant role of the owner/manager. A great deal of effort has been spent on researching the link between these characteristics and performance. However, there are few articles which focus on the relationship between these characteristics and the strategy making process.

One characteristic of an owner/manager which might influence the method of strategy making in marketing is his/her education in management. According to the resource-based view, the capabilities of a company’s leader(s) are a critical human resource. Capabilities critical for conducting SMP (Slotegraaf and Dickson, 2004) are usually developed as part of management education. Therefore, it might be assumed that owner/managers trained in managerial techniques show a higher degree of SMP than others. From an institutional point of view one could argue that managerial education is a source of normative pressure to plan (Honig and Karlsson, 2004). Gibson and Cassar (2002) and Newkirk-Moore and Bracker (1998) found positive empirical evidence for the relationship between managerial training and planning activities. Therefore, we formulate the following hypotheses:

H3a There is a positive relationship between the management education of the owner/manager and a rational SMP process.

H3b There is a positive relationship between the management education of the owner/manager and a comprehensive SMP process.
Besides management education, the size of the top management team in young companies might influence the degree of SMP. Due to a lack of management capacity in young companies, SMP might be sacrificed in favour of other important strategic or operational tasks if the top management team is small. Jackson et al. (1991), Hambrick and D’Aveni (1992) and Haleblian and Finkelstein (1993) argue that a larger management team means more managerial capacity, which leads to a higher degree of SMP.

Empirical results on the impact of the top management team most often refer to a performance construct and not to a strategy-making construct. Quite frequently studies have found evidence for a positive relationship between the size of the top management team and a company’s performance (e.g., McGee and Dowling, 1994). In the entrepreneurship literature, only the contribution by Talaulicar et al. (2005) deals with the relationship between a planning construct and top management team size. They found that team size and diversity results in constructive conflict and eventually leads to a higher degree of planning. Miller et al. (1998, p.41) also argued that a bigger management team means that the number of different opinions increases and results in more planning efforts ‘…the need to resolve disagreements…leads to a greater willingness to expand the resources necessary for high comprehensiveness…’.

Therefore, we formulate the following hypotheses:

H4a There is a positive relationship between the size of the top management team and a rational SMP process.

H4b There is a positive relationship between the size of the top management team and a comprehensive SMP process.

We also identified the experience of the owner/manager of a young company as a possible factor influencing the degree of SMP. Again, experience – in terms of both management experience and industry experience – has been quite frequently examined with respect to its influence on a company’s performance, but there is less empirical evidence concerning the relationship between experience and SMP. Experience in general helps in recognising and processing relevant information more comprehensively (Choo and Trotman, 1991). According to the resource-based view, it is not only management education which contributes to a higher degree of SMP in young companies, but also experience.

One problem young companies have is a lack of attention to market-oriented tasks (Spitzer et al., 1989). It can be assumed that the awareness of the necessity of SMP for the growth of a business results from relevant marketing and managerial experience. This expertise can come in the form of knowledge and judgement about relevant environmental areas or about relevant data sources or decision-making techniques with respect to SMP.

Gibson and Cassar (2002) found a negative relationship between experience and planning in small companies. They define managerial experience as the number of years for which a person has held a management position. Raymond et al. (2001), on the other hand, found a positive relationship between planning and experience. Our qualitative research suggests that experience does matter so we decided to hypothesise a positive relationship between experience and SMP:
H5a There is a positive relationship between the owner/manager’s experience and a rational SMP process.

H5b There is a positive relationship between the owner/manager’s experience and a comprehensive SMP process.

As mentioned earlier, prior to our quantitative study we did three case studies of SMP in entrepreneurial firms. Two of the companies we studied showed quite a high degree of SMP, while a third did not. The owner/manager of the third company described himself as being profit-oriented; the other two companies can be described as growth-oriented. Therefore, growth aspiration might be another factor influencing SMP. Growth aspiration should lead to the formulation and implementation of growth strategies (Ansoff, 1965). Irrespective of how growth is generated at an organisational level, Ansoff’s (1965) growth strategies affect the SMP. The assumption that growth aspiration is not only wishful thinking but actually influences actions, e.g., preparation in terms of planning, can also be reasoned by personality traits theory. This research approach has examined a large number of characteristics of entrepreneurs, usually relating to motivational characteristics of entrepreneurs. The ‘need for achievement’ (nAch) is one of the central constructs of this research stream. Miller and Dröge (1986) and Miller and Toulouse (1986) formulate a relationship between the entrepreneur’s nAch and an organisational structure which shows characteristics of planning ‘…those with a high nAch are more ambitious and desire to have as much control over their environment as possible. They do not want anything left to change. Thus they will carefully analyse situations so that they can proactively manipulate, rather than having to react to their customers and competitors’ [Miller and Toulouse, (1986), p.1391]. nAch therefore might affect the procedural parts of SMP. Furthermore, there is some empirical evidence suggesting that growth aspiration eventually leads to more growth (Wiklund, 1998; Wiklund and Shepard, 2003). However, little is known about the method of decision making. Based on this research we formulate the following hypotheses:

H6a There is a positive relationship between growth aspiration and a rational SMP process.

H6b There is a positive relationship between growth aspiration and a comprehensive SMP process.

H6c There is a positive relationship between growth aspiration and a comprehensive SMP formality.

While growth aspiration is more a basic goal of the owner/manager of a company, marketing-related intention to change through the introduction of new products or brands, for instance, is a concrete result of those aspirations. Gibson and Cassar (2002) and Morrison et al. (2003) offered empirical evidence that intentions to change had an effect on planning activities. LeBrasseur et al. (2003) showed a link between pre-start-up activities, such as preparing a business plan or market research, and planned and actual expansion. However, there are no studies as yet which focus on the market-related intention to change and SMP. With respect to the relation between financial resources and very high investments, which are related to these changes, we assume that there is no trial and error approach but a more planned method of decision-making. Therefore we formulate the following hypotheses:
H7a There is a positive relationship between the intention to change and a rational SMP process.

H7b There is a positive relationship between the intention to change and a comprehensive SMP process.

H7c There is a positive relationship between the intention to change and a comprehensive SMP formality.

Figure 1 summarises our model with its components and the hypotheses we formulated.

Figure 1 Research model
3 Data and methods

3.1 Measures

For the operationalisation of our model’s constructs, existing measures were adapted from earlier research. As described, our model contains three SMP constructs to comprehensively cover all dimensions of our SMP definition. Measures of comprehensiveness were adapted from Fredrickson (1984) and Fredrickson and Mitchell (1984). The five items used measure a systematic planning process. We calculated the values for comprehensiveness by summing up the ratings for each item. To test the reliability of the measure we calculated Cronbach’s alpha, which was 0.87 and therefore within the acceptable range (Malhotra, 1999). The minimum value for comprehensiveness was eight, the maximum value, 35.

Furthermore, we used seven items to measure the rationality construct. Rationality was used to characterise SMP as an information-based process. This construct originates from Dean and Sharfman (1993a, 1993b). Items used for this study were adapted from Pulendran et al. (2003), Mohan-Neill (1995), Brush (1992) and McGee and Sawyerr (2003). Both the comprehensiveness and rationality items were measured on a seven-point rating scale. Again, we summed up the single ratings for each item to get our rationality values. With a value of 0.76, Cronbach’s alpha was also acceptable. The minimum value for rationality was ten, the maximum, 49.

In our case, formality referred to whether the results of the SMP process were documented or not. A similar approach was chosen by Claycomb et al. (2000). Therefore, compared to the other two comprehensiveness measures, formality was a nominal scaled variable.

The measure for perceived environmental uncertainty originates from Duncan (1972). Our operationalisation of this much discussed construct is based on Zahra et al. (2002). The starting point was six sectors of an external environment, namely competitors, customers, technology, economic cycle, legislation and socio-cultural environment. The respondents had to answer how important each sector was for the success of their business. They then had to rate the degree of environmental dynamic and complexity. Dynamic was defined as the degree to which the six sectors were subject to change. Complexity was defined by how far each sector could be analysed. There was a seven-point rating scale to make a judgement. To calculate the values for perceived environmental uncertainty we multiplied the importance index of each sector with the dynamic and complexity rating. For the purposes of this study we only used the sectors for the immediate environment (McGee and Sawyerr, 2003): customer, competitors and technology. Therefore, we summed up the previously calculated weighted values for those three sectors to get our final uncertainty values. Reliability values for this scale were lower than for the other measures but, according to Malhotra (1999), still acceptable at 0.61.

To find out whether external capital sources were used, we generated an item pool of possible capital sources. This item pool was based on earlier studies by Kulicke (1993), Lessat et al. (1999) and Bindewald (2003), for example. The owner/managers were asked to check which capital source they had used so far. For our regression analysis, we then distinguished whether or not there were external capital sources. Overall, 80.3% of the companies indicated that they had at least one source of external capital.
There was one question referring to the size of the management team. We were able to directly use the answers to this question without any further transformations. For each team member we asked for years of managerial and industry experience and educational background. If the management was bigger than one person, we took the values of that team member who was chosen to represent the company.

The measure for ‘growth aspiration’ is based on Wiklund (1998). Indicators for measuring this were growth in revenues and employees. Respondents were asked to indicate how they wished their company to develop in the next three years. From the answers to this question, we calculated the compounded annual growth rate.

The items for measuring marketing-relevant intentions to change are based on Gibson and Cassar (2002). There were four items to be rated on a seven-point rating scale. Cronbach’s alpha for that variable was 0.74.

3.2 Sample and data collection

Consistent with earlier research, we defined a company as young when it was between two and nine years old (e.g., Begley, 1995; Almus, 2001; Hartl, 2002; Schmidt-Reintjes, 2003) at the time of our sample. All the companies in our sample were in growth industries. We defined growth industries in accordance with the former stock exchange segment NEMAX and the German Association of Venture Capitalists. The companies in our final sample were in the information technology, life science, media, telecommunications, financial services, industrial products and engineering sectors.

Our sample was drawn from two different databases. The first database contained VC-financed companies in German-speaking countries. This database was originally developed by one of the co-authors in 2001. The database was updated and actualised in December 2004. It captures about 80% of the entire population of such privately held companies. Overall, 813 companies fulfilled the selection criteria and were included in the final sample.

We also used the Hoppenstedt commercial database, from which we drew a sample of 618 companies which met our criteria. This database contains information for companies listed in the official commercial registry of the German government. In this database it is not possible to determine the real age of a company or whether the registration was simply made due to an outsourced business unit or a change in the company name, etc. That is why an internet survey was conducted to check whether each of the 618 companies fulfilled the required criteria. About 99 companies did not meet the selection criteria and were dropped out of the sample. Three further addresses were deleted, since they were already listed in the first database.

There were two reasons for drawing an additional sample from another database: First, we wanted to test hypotheses H2a, H2b and H2c, that there is a difference in SMP depending on the financing of a company; and second, for statistical reasons we wanted to increase our total sample for it to be more representative.

We first sent a pre-notification letter to each company containing an explanation of the survey’s purpose, the arrival date of the questionnaire, a contact for further questions and an offer to send back a summary of the survey’s results. By using this procedure another 79 companies dropped out of the sample because they no longer existed, were merged with other companies or indicated that they did not want to take part in the survey.
After one week, we sent out 1,250 questionnaires together with a cover letter and a stamped self-addressed envelope. Four weeks later, we contacted a random sample of non-respondents with follow-up calls. In total, we received 214 responses, yielding a response rate of 17.1%. After a final check to control for under- and over-coverage problems due to certain database characteristics, we excluded 57 responses, leaving a final total of 157 questionnaires in our sample.

3.3 Sampling tests

To test systematic differences between respondents and non-respondents, we compared early and late responses. Then we conducted T-tests with all metrically scaled variables. There were no indications for a non-response bias. Furthermore, we also controlled for the impact of the companies’ age, type of customer they served, kind of activity they performed and type of industry they belonged to. We conducted variance analysis and comparison of means. Overall, we did not detect any biases as far as the variables in this study were concerned.

4 Results

Correlations among the metric scaled independent variables and the SMP measures are shown in Table 1.

To test our hypothesis concerning the process-related SMP constructs rationality and comprehensiveness, we used linear regression analysis. We calculated two different regression models, one using SMP rationality and the other SMP comprehensiveness as the dependent variable. The variables ‘external shareholder’ and ‘managerial education’ were dummy variables in both models. A summary of the regression analysis is given in Table 2.

Both models show a positive link between environmental uncertainty and the SMP constructs. Hypotheses H1a and H1b were supported. Although the relationships between the use of external capital sources and the SMP constructs are weaker, they are still significant. Therefore, we also find support for hypotheses H2a and H2b.

A somewhat surprising result was found for the relationship between management education and the SMP constructs. We hypothesised that there would be a positive relationship between the independent and dependent variables. Our results show, however, the opposite effect with a significant negative relationship in both models. We find no support for hypotheses H3a and H3b.

The next independent variable tested was the size of the top management team. In both models the postulated positive relationship between the size of the top management team and SMP rationality and SMP comprehensiveness was shown. However, only model 1 showed a significant relationship. Therefore, we support hypothesis H4a but do not support H4b.
### Table 1: Correlations of the Variables

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<td>68.54</td>
<td>38.60</td>
<td>3.48</td>
<td>3.64</td>
</tr>
<tr>
<td>Minimum</td>
<td>21</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>-7.17</td>
<td>-12.06</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>-66.67</td>
<td>-100</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Maximum</td>
<td>248</td>
<td>7</td>
<td>35</td>
<td>35</td>
<td>484.8</td>
<td>67.83</td>
<td>693</td>
<td>49</td>
<td>35</td>
<td>333.01</td>
<td>209.57</td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>
Experience was the next independent variable tested. We measured experience in terms of both managerial and industry experience. The relationship between managerial experience and the two dependent variables showed a significant positive relationship. This was not the case for the independent variable ‘industry experience’. Furthermore, this variable showed a negative relationship between SMP rationality and SMP comprehensiveness. In model 1 this relationship was significant. Therefore, we found only partial support for hypotheses H5a and H5b.

In the case of the variable ‘growth aspiration’, we found no support for hypotheses H6a and H6b. In both models, the relationship between growth aspiration with respect to employees showed a significant but negative relationship with the SMP constructs.

Finally, we tested the relationship between the marketing-related intention to change and SMP rationality and SMP comprehensiveness. The pattern of results was similar to that of the independent variable ‘top management team size’. Our results show that there is a significant positive relationship between the intention to change and the SMP construct of rationality. But for SMP comprehensiveness, the relationship was not significant. Therefore, we find support for hypothesis H7a but not for hypothesis H7b.

In order to test our hypotheses with respect to the dependent variable SMP formality, we used a binary logistic regression model, since SMP formality was measured on a nominal scale. Results are summarised in Table 3.

Table 2  Regression results for Models 1 and 2

<table>
<thead>
<tr>
<th></th>
<th>Model 1a: SMP rationality</th>
<th>Model 1b: SMP comprehensiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental uncertainty</td>
<td>0.287**</td>
<td>0.005</td>
</tr>
<tr>
<td>External capital sources</td>
<td>0.172*</td>
<td>0.090</td>
</tr>
<tr>
<td>Managerial education</td>
<td>−0.241*</td>
<td>0.013</td>
</tr>
<tr>
<td>Top management team size</td>
<td>0.182*</td>
<td>0.068</td>
</tr>
<tr>
<td>Managerial experience</td>
<td>0.298**</td>
<td>0.007</td>
</tr>
<tr>
<td>Industry experience</td>
<td>−0.331**</td>
<td>0.003</td>
</tr>
<tr>
<td>Growth aspiration (revenues)</td>
<td>0.034</td>
<td>0.735</td>
</tr>
<tr>
<td>Growth aspiration (employees)</td>
<td>−0.267*</td>
<td>0.013</td>
</tr>
<tr>
<td>Marketing-related intention to change</td>
<td>0.227*</td>
<td>0.050</td>
</tr>
<tr>
<td>N</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>R²</td>
<td>0.428</td>
<td>0.254</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.356</td>
<td>0.159</td>
</tr>
<tr>
<td>F value</td>
<td>5.911</td>
<td>2.680</td>
</tr>
<tr>
<td>Significance</td>
<td>0.000</td>
<td>0.010</td>
</tr>
</tbody>
</table>
Table 3  Logistic regression model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Exp(B)</th>
<th>Wald-value</th>
<th>Sign.</th>
<th>Pseudo-R^2 (Nagelkerke)</th>
<th>Correct classification rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>External capital sources</td>
<td>0.469</td>
<td>1.598</td>
<td>0.412</td>
<td>0.521</td>
<td>0.448</td>
<td>80.6</td>
</tr>
<tr>
<td>Growth aspiration (revenues)</td>
<td>0.035</td>
<td>1.036</td>
<td>10.173</td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth aspiration (employees)</td>
<td>0.047</td>
<td>1.048</td>
<td>6.068</td>
<td>0.014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing-related intention to change</td>
<td>-0.046</td>
<td>0.955</td>
<td>1.765</td>
<td>0.184</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Concerning the independent variable 'external capital sources’, there is no significant relationship with the dependent variable SMP formality. Therefore, we find no support for hypothesis H2c.

Furthermore, the logistic regression shows inconsistent results for the variables measuring growth aspiration. There is a significant positive result for the part of the variable measuring growth aspiration with respect to revenues but not for the part measuring growth aspiration with respect to employees. Therefore, we find only partial support for hypothesis H6c.

Finally, we find support for hypothesis H7c, since there is a significantly positive relationship between the intention to change and the SMP formality.

5 Discussions

This study has added to our knowledge about the antecedent conditions affecting SMP in entrepreneurial firms. In our sample of young German companies in growth industries, we found a positive relationship between environmental uncertainty and SMP. When comparing our results with those of previous studies, we explicitly referred to a certain life cycle stage of entrepreneurial firms, which was not the case in earlier research. However, since we focused on German firms we have to interpret our results against a certain cultural background. According to Hofstede (1993), one important cultural dimension is uncertainty avoidance, which is relatively high in Germany. Therefore, a higher planning level might be due to such uncertainty avoidance.

As far as external capital sources, SMP rationality and SMP comprehensiveness are concerned, our hypotheses, developed on the basis of agency theory, were supported. These results can be compared to the findings of Honig and Karlsson (2004), who did not find such a link. In our sample, we only had companies which were in a post-investment situation. Therefore, SMP might be useful as part of an information and control system for investors in order to avoid hidden action problems.

Surprisingly, management education showed a reverse relation to the SMP variables than we had hypothesised. This result also contradicts the findings of Gibson and Cassar (2002) and Newkirk-Moore and Bracker (1998). Possible explanations for this result can be found in psychology, especially using the concepts of self-efficacy, hubris and
overconfidence. Self-efficacy describes the degree to which a person is convinced of his/her abilities (Gist and Mitchell, 1992). Education increases self-efficacy (e.g., Stone et al., 1996). That self-efficacy leads to sub-optimal decision-making was concluded by Hiller and Hambrick (2005, p.309): ‘Filled with confidence, these executives believe they possess valuable personal insights or understanding of their strategic situations and available alternatives, such that they will not feel the need to exhaustively gather, analyse and discuss data.’. A similar rationale applies to hubris, which refers to overconfidence or overestimating one’s own knowledge (Bank and Kottke, 2005).

With respect to the link between top management team size and SMP, our findings show that a greater management capacity leads to the integration of those managers and to processing a greater amount of information. However, a larger management team does not increase the quality of decision-making in terms of comprehensiveness. If a larger management team does not lead to more comprehensive decision-making in strategic marketing, then the question arises whether this independent variable has a greater effect on other decision-making areas.

Other explanations for our findings can be found in ‘biased information seeking’ in group decision-making. Researchers have found that information in group decisions is selective in order to support preferred alternatives (Schulz-Hardt et al., 2002). These researchers concluded that group decisions are seldomly comprehensive. If one takes into account that our rationality measure focused more on relevant information and not so much on complete information, our findings are consistent with the ‘biased information seeking’ research stream.

Interesting results were found with respect to the experience of the owner/manager of a young company and a positive relationship with SMP. However, a negative significant effect was found for industry experience and SMP. These results are more explainable when one considers certain assumptions behind the two experience variables. While managerial experience refers to the practice of management techniques like SMP, industry experience focuses more on information collected in the past which has been processed to become part of an individual manager’s factual knowledge. The more information that was collected and processed in the past, the less necessary it is perceived to collect new information for current decision-making. This kind of experience is sometimes included in decision-making constructs which deal with intuition (Khatri and Ng, 2000).

The variable ‘growth aspiration’ – in terms of revenue growth – showed a positive relationship to SMP formality. The regression beta for ‘growth aspiration’ with respect to revenues was not statistically significant. ‘Growth aspiration’ with respect to employees shows a significantly negative link to SMP. One possible interpretation of this negative effect is that the growth in the number of employees is not considered to be part of market development. The growth in the number of employees might be subject to the strategic planning in other functional areas.

Our results also support a relationship between marketing related intentions to change and SMP rationality. The link between this antecedent variable and SMP comprehensiveness was not statistically significant. Therefore, the results of Gibson and Cassar (2002) were only partially confirmed. When developing our hypothesis, intentions to change were characterised as clarifying growth aspirations. This clarification was related to the resources employed. This shows that as far as SMP rationality is concerned, SMP is seen as an instrument for efficient resource employment. Furthermore, with an increasing move towards change, planning activities seem to increase.
6 Conclusions

Opportunity recognition and exploitation are key concepts both for entrepreneurship and marketing research and practice. With our study, we have contributed to both marketing and entrepreneurship research. We chose a contingency approach and identified under what conditions young companies in growth industries increase their SMP efforts. We conceptualised SMP in a multidimensional way and have shown how external and internal factors are linked to decision-making in strategic marketing. The factors identified are not only based on former empirical research, but were also developed from theory. Institutional theory and the resource-based view especially showed high potential for further identifying other factors. Further research activities might not only focus on factors influencing the SMP but could also be evaluated in regard to how they moderate the SMP-performance link in young companies. In comparison to previous research, our study indicates that the effect of antecedent factors and SMP may vary depending on the company’s life-cycle stage or nationality.

References


Strategic marketing planning for opportunity exploitation


