



Clear and Present Danger: Planning and New Venture Survival Amid Political and Civil Violence

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AMID POLITICAL AND CIVIL VIOLENCE**

ABSTRACT

Although entrepreneurs constitute a key economic driving force for many emerging economies, they often face unstable environments due to the failure of governments to maintain civil and political order. Yet, we know very little about how environments characterized by weak institutions and high levels of political and civil violence directly affect new venture survival. Moreover, it is unclear whether standard theories about organizational strategy, such as planning, hold true in such environments. Building upon the institution-based view of strategy and past research on planning, we explore these issues using a sample of 730 new ventures in Colombia from 1997 to 2001. We find that political and civil violence decreases firm survival, increases the benefits of incremental planning, and decreases the benefits of comprehensive planning.

Key words: Institution-based view of strategy, planning processes, entrepreneurship, political environments, emerging economies, institutional theory, terrorism, violence

INTRODUCTION

The relationship between the institutional environment and organizational outcomes is of great concern to strategy researchers and has recently been the topic of several important studies (Hoskisson *et al.*, 2000; Ingram and Silverman, 2002; Peng *et al.*, 2009). For example, scholars have examined the effects of state policies (Garcia-Canal and Guillen, 2008; Henisz and Delios, 2001), culture (Bae and Lawler, 2000; Zaheer and Zaheer, 2006), turbulent economic environments (Dowell and Killaly, 2009), and informal ties to powerful actors (Peng and Luo, 2000; Webb *et al.*, 2009) on organizational performance, personnel strategies, alliances, and foreign-entry decisions. Despite this surge of attention, most studies have taken for granted the role of state institutions in providing stable, predictable environments in which new firms are founded (Dacin, 1997; Henisz, 2000; Spicer, McDermott, and Kogut 2000), and none have examined how such environments affect strategic planning by new ventures.

Yet, many states around the world (such as Iraq, Sudan, South Sudan, Syria, Egypt, Libya, Tunisia, Afghanistan, Pakistan, and the Democratic Republic of Congo) lack political institutions of sufficient strength to ensure personal safety and public order, thereby creating environments where civil and political violence can ferment. In such extreme contexts, we ask: How do high levels of violence affect new venture survival and moderate key entrepreneurial processes such as business planning, a fundamental strategic activity in which entrepreneurs engage (Hills, 1988)?

This study builds on both research in strategic planning and the institution-based view of strategy by empirically examining how the expected outcomes of activities such as planning are contingent on the institutional environment. This paper makes several theoretical contributions to the strategic management literature. First, it contributes to research on strategic planning. Past

studies are deeply divided on the utility of business planning for the survival of start-up firms (Delmar and Shane, 2003; Honig and Karlsson, 2009; Pearce, Freeman, and Robinson, 1987). Much of this conflict may be due to prior research failing to differentiate between various types of planning or to take into account the moderating effect of the institutional environment. We contribute to research by theorizing and empirically testing the differential effects of incremental (day-to-day routine) and comprehensive (forward-looking) planning on new venture survival rates and the extent to which these effects are contingent on local levels of political and civil violence. By differentiating between types of planning and examining their effects in settings characterized by high violence and uncertainty, this study builds on prior research by showing how predicted outcomes of previous studies change in such contexts.

Second, it this paper contributes to the institution-based view of strategy (Peng *et al.*, 2009). While the institution-based view of strategy has demonstrated how formal and informal constraints can affect managerial strategy (Henisz and Delios, 2001; Ingram and Silverman, 2002; Webb *et al.*, 2009), the most basic role of political institutions, to ensure personal safety and public order (Weber, 1978), and its effect on new ventures has received little empirical attention from strategy researchers (Hoskisson *et al.*, 2000; Vaaler, 2008). In this paper we theorize and test how contexts characterized by weak political institutions and ensuing high levels of violence create uncertain and unpredictable environments that alter entrepreneurial behavior and disrupt resource flows and organizational routines, thereby increasing new venture failure rates.

THEORY AND HYPOTHESES

Violence, uncertainty, and new venture survival

The institution-based view of strategy highlights how formal (i.e., regulations, policies) and informal (i.e., norms, culture) constraints can shape strategic decision making and performance (Ingram and Silverman, 2002; Makino, Isobe, and Chan, 2004; Peng and Heath, 1996; Peng *et al.*, 2009). By treating institutions as independent explanatory variables, this perspective ‘focuses on the dynamic interaction between institutions and organizations and considers strategic choices as the outcome of such an interaction’ (Peng *et al.*, 2009: 66). While this view has broadened strategy research beyond industry- and resource-based factors, it has largely focused on established organizations in relatively stable environments with strong political institutions and has generally overlooked new ventures struggling for survival in countries with weak institutions (but see Honig, 2001). We build on this past research by examining the question: ‘How do weak political institutions and resulting high levels of violence affect new venture survival and planning?’

This is an important question for many new ventures throughout the world where stable conditions in which state institutions properly function are more often a dream than a reality (Hendrix, 2010). Political revolutions and extreme civil violence have affected over 30 percent of the earth’s land mass and 35 percent of its population in the last century (Carroll, Delacroix, and Goodstein, 1988). Violence is often the product of weak governmental institutions that lack the capacity to maintain social order and control or to protect personal safety (Neumayer, 2004; Hendrix, 2010). Remarkably, in many of these emerging economies in which political and civil violence is extremely high, entrepreneurial organizations are vital to the local economy (De Soto, 1989; Honig, 2001).

Environments characterized by weak institutions and high levels of political and civil violence are inherently unstable, difficult to predict, and uncertain (Bonanate, 1979). It is precisely the inability to anticipate where and against whom the violence will occur that causes extreme levels of uncertainty. However, unlike uncertainty described in traditional strategy literature (Miles and Snow, 1978; Ireland *et al.*, 1987; Sawyerr, 1993), the uncertainty created from violence is far greater in magnitude because it includes an additional, yet heavily weighted dimension: the individual's physical security (Bonanate, 1979). When violence-induced uncertainty is high, it instills fear and concern for personal safety, which can affect the rational economic decisions of all individuals in the marketplace (Friedland and Merari, 1985). Consequently, violence can lead founders, investors, buyers, and suppliers to make overly pessimistic risk estimates and more risk-averse choices, thereby creating erratic and at times irrational behavior (Lerner *et al.*, 2003). Because of the power of violence to foster enormous uncertainty among those geographically and temporally proximate, its impact on society is far greater than its impact on the immediate victims who suffer loss of life or infrastructure such as buildings, equipment, and roads (Czinkota *et al.*, 2010). Thus, we argue that high uncertainty from violence will negatively affect new venture survival by biasing entrepreneurial risk propensity and inducing unpredictable behavior among important venture constituents such as suppliers, customers, and creditors.

Effects of violence on entrepreneurs. Uncertainty from political and civil violence can negatively affect new venture survival by shaping entrepreneur and employee behavior. High levels of violence can create uncertainty and fear among entrepreneurs and employees and bias their risk assessment, leading them to change or forgo important operational activities that are likely tied to organizational survival. High levels of violence may cause entrepreneurs to not

engage in certain marketing and sales activities or customer relations that are necessary to maintain and grow clientele. Yet, for small firms with few spare resources, any actions on the part of the entrepreneur or employee that reduce sales could spell disaster for the venture.

In our study, for example, an entrepreneur from Medellín remarked that between 1997 and 2000 he avoided economic transactions with customers and suppliers outside his own neighborhood out of fear that rival militias in the city might view him as a threat and kill or kidnap him. ‘We were isolated in our neighborhoods,’ he remarked, ‘which became small islands in the city.’ Similarly, an entrepreneur from Bogotá recounted that when she entered a new neighborhood on the outskirts of the city to contact potential customers, members of a paramilitary group recorded her license plate number and asked neighborhood residents about her. The mere suggestion by a local competitor that she had politically left leanings could endanger her life.¹ The entrepreneur’s husband asked her to stop marketing products in unfamiliar neighborhoods and even suggested that she return to her previous job as a travel agent at lower pay. Forgoing opportunities in new geographical markets directly affected her ability to find and service new customers, reducing her sales dramatically. Another Bogotá entrepreneur recalled a sales visit to a distant neighborhood: as she pulled up to a red light, two men smashed the window of the car in front of her and kidnapped the driver, eventually holding him for ransom. After this experience, she left her office and its environs as rarely as possible. This negatively affected her business, because few of her existing and potential clients had telephones, resulting in a decline in her client base and lost future opportunities.

Effects of violence on suppliers, customers, and creditors: Political and civil violence can also negatively affect new venture survival by fostering erratic behavior on the part of

¹ Safford and Palacios (2002) found that noncombatants often settled scores by denouncing family or business rivals to militant groups.

suppliers, customers, and creditors. Just as uncertainty from violence can compel entrepreneurs and employees to make risk-averse choices, it can also lead suppliers and customers to abruptly forgo important economic tasks in their quest for greater personal safety. This can create ‘unpredictable shifts or interruptions in supply and demand’ in which value and supply chains are interrupted or delayed and entrepreneurs are forced to quickly adjust (Czinkota *et al.*, 2005: 6). For example, Neumayer (2004) found that violence had a swift negative effect on tourism in violent areas: tourists chose to avoid places where the possibility of becoming involved in stressful or life-threatening situations was perceived to be higher. Another example is demonstrated in the significant decline in demand for industrial and consumer goods in New York City and Washington, DC, after the 2001 terrorist attacks (Czinkota *et al.*, 2010). Not only can violence have a negative effect on ventures that rely on a steady customer and supplier-base, but it can make it dangerous for organizations to rely on set routines that simplify operations and increase efficiency (Nelson and Winter, 1982). In these contexts ventures must remain flexible because if they cannot adjust quickly enough to environmental changes or if the adjustments are too costly, the firms may fail.

This is illustrated by the case of a Colombian owner of a small store that sold basic food items on the outskirts of Cartagena who said that as violence in surrounding neighborhoods (*barrio*) increased, it abruptly changed people’s habits: Neighborhood residents were less likely to go outside and ‘hang out’ in public areas because of uncertainty about possible violence. This drastically reduced the number of customers available to purchase items from her small store and disrupted her operational activities. Similarly, a mechanic in Medellín remarked that violence within the city created an environment in which customers were more likely to stay home and to forgo servicing their cars. He complained that the violence was unpredictable; no one knew

when or where the next incident would take place. Not only did random violence decrease overall customer demand, it also made customer behavior more unpredictable, making it difficult for the entrepreneur to rely on existing customer routines to staff his shop, which led to operating inefficiencies, poor customer service, and near insolvency.

Additionally, violence can negatively affect new venture survival by mitigating the ability of new ventures to obtain credit and investment, thereby reducing the availability and stability of resource flows. As uncertainty from violence increases, it reduces confidence that contracts will be honored and that the rule of law can be used to enforce prior agreements, resulting in fewer loans and investments (Blomberg, Hess, and Tan, 2011; Jensen and Young, 2008). For example, in a case study of seven villages affected by the Sri Lankan civil war, Goodhand, Hulme, and Lewer (2000) found that higher violence rates increased uncertainty and mistrust within the community and reduced small business investments. This effect persisted after the violent incidents because investors feared that violence would occur again in the future. Similarly, Enders and Sandler (1996) found that terrorist violence in Spain and Greece increased the uncertainty of doing business and reduced foreign direct investment in these countries by over 13 percent.

Entrepreneurs we interviewed in Colombia who had worked in areas of high incidence of political and civil violence complained that it was difficult to obtain capital from friends and family because these potential resource providers felt that violent environments were bad for business and were afraid that new attacks might happen in the near future and negatively affect the venture economically. Thus, a violent incident could inhibit resource flows for months because of uncertainty about the possibility, timing, and location of future attacks.

In sum, political and civil violence creates high uncertainty about where and against whom physical harm will occur. This uncertainty not only affects the willingness of entrepreneurs to take risks and engage in important entrepreneurial tasks, but also fosters erratic behavior among suppliers, customers, and creditors, thereby rendering inadequate the benefits of important operational routines such as marketing, staffing and production activities. Given that new ventures often have few slack resources to shield them from abrupt changes in supplier, customer, and creditor behavior, such disruptions are likely to lead to venture failure.

Hypothesis 1: Higher levels of political and civil violence will negatively affect the likelihood of survival of entrepreneurial ventures.

New venture planning and political and civil violence

Organizations often cope with uncertainty by turning to planning processes (Armstrong, 1982; Bracker and Pearson, 1986). However, there is little research about whether planning improves organizational performance in highly uncertain environments or not. Given that many countries around the world experience political and civil violence, planning concepts developed and taught in countries that have predictable environments, stable governments, and low levels of violence may not be appropriate for entrepreneurs in contexts with weak state institutions and very high levels of uncertainty. The organizational effects of planning as posited in traditional strategy theory may differ significantly in such extreme environments.

Mintzberg defined planning as the act of coordinating and directing organizational activities, routines, and policies at a common set of goals in preparation for expected future events (Mintzberg, 1994). Although planning is the cornerstone of most strategy and entrepreneurship curricula, empirical results of new venture planning are mixed (Hills, 1988;

Honig, 2004). Researchers who advocate planning argue that it enables entrepreneurs to establish routines and competencies that are aligned with future environmental opportunities (Mintzberg, 1994), and that it improves decision-making processes and enhances organizational learning (Delmar and Shane, 2003; Leblebici and Salancik, 1981). Other scholars, however, have argued that entrepreneurial ventures should not engage in business planning because it consumes scarce time and effort, resources better expended on more pressing problems such as marketing, delivering a product or service, obtaining financing, and recruiting and training new employees (Bird, 1988; Mintzberg, 1985; Mintzberg and Waters, 1982; Robinson and Pearce, 1984).

These mixed findings may result from the fact that most past research has treated new venture planning as a single construct. Decision-process researchers point out that individuals and organizations engage in different types and magnitudes of planning in order to deal with uncertainty, ranging from *incremental* day-to-day routine planning to *comprehensive* forward planning (Fredrickson and Mitchell, 1984). Incremental planning is an evaluative process that focuses on the congruence between the current environment and daily operating activities such as input and output levels and targets. It entails frequently appraising operational processes in functional areas such as sales, production, and staffing, and modifying them in accordance with changes in the environment. Incremental planning simplifies the decision-making process by considering only a few alternatives to the status quo, restricting reference to previous plans, and limiting integration with other key decisions (Mintzberg, 1985, 1994). Accordingly, it provides an accessible set of actions for organizations to readily implement as environments change and reduces uncertainty by putting in place organizational routines that rapidly react to changes in the environment rather than trying to predict them (Nelson and Winter, 1982; Winter, 2000).

Given that new ventures are prone to failure due to resource constraints (Aldrich and Ruef, 2006), we posit that incremental planning can increase new venture survival by improving efficiency and reducing costly errors. First, incremental planning can help firms improve operational performance by regularly evaluating and refining current processes. Second, incremental planning can help firms make quicker decisions regarding their day-to-day operations by revealing where they should place their attention when operational variance occurs. For example, if a disruption in the supply chain or a change in the amount of sales were to occur, frequent evaluation of operational activities would enable entrepreneurs to make timely adjustments in their functional areas, and thus prevent mistakes that could quickly lead to insolvency (Shrader, Mulford, and Blackburn, 1989). Third, as entrepreneurs engage in incremental planning, it can help them recognize the relationships between resource flows and their daily actions. Because incremental planning couples scanning of the environment with scanning of venture operations, it can help entrepreneurs better estimate what they need and what they can produce and sell, thereby preventing potential bottlenecks and overproduction (Delmar and Shane, 2003). In sum, we posit that new firms that engage in incremental planning will increase their probability of survival because such planning helps firms increase operational efficiency, adapt quickly to changes in the environment, and reduce costly mistakes.

Hypothesis 2: Higher levels of incremental planning will positively affect the likelihood of survival of entrepreneurial ventures.

While incremental planning is concerned with reacting to environmental issues at the operational level, comprehensive planning is focused on proactively planning at the strategic level (Bracker and Pearson, 1986; Bracker *et al.*, 1988). Comprehensive planning is future-

oriented and often focused on making significant changes based on assumptions about future trends and organizational needs. The comprehensive planning process is characterized by exhaustiveness and inclusiveness when searching for information, analyzing it, and making detailed business plans. Just as incremental planning can increase new venture survival by reducing costly mistakes, we posit that comprehensive planning can also foster survival by helping ventures increase their margins and cost savings in a number of ways. First, comprehensive planning sets a clear vision for the future and establishes concrete objectives and steps (Shrader *et al.*, 1989). Not only can this help entrepreneurs obtain their long-term objectives in a systematic way, it can also foster internal commitment to the proposed actions and prevent the venture from deviating from the set course (Armstrong, 1982). Second, comprehensive planning can also help founders evaluate the feasibility of engaging in a particular action, enabling ventures to avoid costly errors. For example, if an entrepreneur were interested in changing locations or opening a new facility, engaging in comprehensive planning would allow the entrepreneur to compare the potential increases in revenue with the costs of moving or expanding (Bracker and Pearson, 1986). Finally, comprehensive planning can also benefit new ventures through organizational cost savings. Part of the process of future-oriented strategic planning involves communicating to employees venture goals, the result of which can improve long-term coordination among functional areas, increasing future organizational efficiency (Castrogiovanni, 1996).

While comprehensive planning can benefit new firms by building new competencies and routines that increase efficiencies, it is not without cost. Because it is a resource-intensive process, as comprehensive planning increases the costs of planning also increase (Castrogiovanni, 1996). New ventures, like all organizations, face resource limitations, and at

some point the search costs may become prohibitive (Simon, 1947). Consequently, while comprehensive planning can provide benefits to new ventures, it is likely to be characterized by diminishing returns: Highly detailed plans require substantial increases in resources to create behaviors and routines that accomplish long-term goals, but may not produce a corresponding impact on organizational performance and survival (Leontiades and Tezel, 1980). We thus posit that as the comprehensiveness of planning increases, its benefits relative to its costs will produce diminishing returns.

Hypothesis 3: As the level of comprehensive planning increases, new venture survival will initially increase and then decrease. (There is an inverse U-shaped relationship between comprehensive planning and venture mortality.)

While both incremental and comprehensive planning make basic assumptions about the stability and predictability of the environment and are used by organizations to deal with environmental uncertainty (Castrogiovanni, 1996), their effects are likely to change under conditions of very high uncertainty. As mentioned earlier, incremental planning is a reactive process focused on aligning day-to-day routines with current environmental changes. It entails active scanning of the environment coupled with continual monitoring and updating of operational processes, with a goal of synchronizing inputs and outputs with the environment (Nelson and Winter, 1982; Winter, 2000). By setting up evaluative organizational routines that focus on the present, incremental planning allows entrepreneurs to better deal with environmental uncertainty.

The assumption underlying regular incremental planning is that environments change and thus the implementation of incremental planning helps the venture respond to environmental

changes more quickly and effectively. Consequently, as market environments become more turbulent as a result of violence, such planning processes would likely better help entrepreneurs react and adjust daily production, supply, and sales accordingly. For example, Luis, an entrepreneur working in the southern barrios of Bogotá, stated that he focused heavily on incremental planning by monitoring his production and sales frequently and actively adjusting his prices, inventory, and product selection when violence between guerrillas and paramilitaries was high. This helped his leather-goods shop quickly adapt to a changing environment and survive when others failed. Given that incremental planning can lead to greater venture agility in uncertain and threatening environments, we argue that very high uncertainty caused by violence will augment the benefits of incremental planning on new venture survival.

Hypothesis 4: Political and civil violence will positively moderate the effect of incremental planning on new venture survival.

Entrepreneurs also use comprehensive planning to reduce environmental uncertainty, yet as with incremental planning, there is no research that examines the effectiveness of comprehensive planning in environments plagued by high violence and uncertainty (Shrader *et al.*, 1989). Comprehensive planning differs from incremental in that instead of concentrating on the present, it focuses on the future and helps organizations make significant changes over time that improve their long-term capabilities. The success of long-term comprehensive planning is linked to the predictability of the environment because comprehensive plans are based on the entrepreneurs' best prediction about future market needs and growth opportunities (Mintzberg, 1994). The precision of such predictions is likely to be higher when uncertainty is lower. In environments of low to moderate uncertainty such as those studied in traditional strategy

literature, comprehensive planning can provide guidelines that help organizations create the competencies and routines that will provide future advantage (Armstrong, 1982; Castrogiovanni, 1996).

However, in environments with high levels of uncertainty such as those plagued by civil and political violence, comprehensive planning may lose its benefits and even become harmful to new venture survival. As mentioned earlier, deadly violence and terrorism are unpredictable acts that create unpredictable environmental consequences, such as erratic customer, supplier, and creditor behavior. This can make strategic predictions less accurate and lead the venture to invest in building capabilities that are not aligned with future environmental changes, resulting in incongruence between organizational capabilities and market opportunities.

For example, Maria, an entrepreneur living in a barrio on the outskirts of Cartagena, Colombia, an area with little police presence, decided in 1999 to expand her ice cream business into a small restaurant; she compiled a plan, and paid a deposit for the necessary equipment. Despite a few violent incidents in surrounding barrios, she stuck to her plan and used her savings to purchase additional inventory and make payments on her new equipment. Unfortunately, at the same time, the violence abruptly changed local habits—people spent less time out of their houses, which meant they purchased less ice cream. Within six months she fell behind in her payments and lost her equipment, her savings, and her business. In sum, we argue that environments with high levels of violence and accompanying uncertainty will decrease the benefit of comprehensive planning to new venture survival.

Hypothesis 5: Political and civil violence will negatively moderate the effect of comprehensive planning on new venture survival.

THE RESEARCH CONTEXT: COLOMBIA

We examine the impact of political and civil turmoil, planning, and their interaction on entrepreneurial ventures in Colombia, an emerging economy well known for its regional ‘hot spots’ of political and civil turmoil. Since its founding in 1830, Colombia has maintained a strong tradition of civilian government and regular elections; its military has seized power three times, briefly, after which democracy was restored. Notwithstanding its longstanding democratic tradition, Colombia’s political institutions have often failed to control widespread political and civil violence. Two civil wars have resulted from bitter fighting between the Conservative and Liberal political parties. The most recent civil war, in the late 1940s and early 1950s, often referred to as *la Violencia*, broke out in the wake of the assassination of the Liberal presidential candidate Jorge Eliécer Gaitán. Political rioting and violence during this period cost over 400,000 lives (Safford and Palacios, 2002).

La Violencia left many scars in the rural areas where the fighting was fiercest, especially among Liberal party members who saw their power dwindle under the archconservative dictator Gustavo Rojas Pinilla, who ended the civil war. During the 1960s some Liberal party members, many of whom were peasants and university students sympathetic to Fidel Castro’s revolution in Cuba, formed leftist guerrilla groups such as the May 19th (M-19) movement, the Revolutionary Armed Forces of Colombia (FARC), and the National Liberation Army (ELN) to regain power lost during the civil war. In an effort to overthrow the government and replace it with a communist regime, these guerrilla groups seized government agencies, kidnapped wealthy landholders and conservative politicians for ransom, and orchestrated urban terrorism. In response, wealthy Conservative party members formed underground paramilitary counter-guerrilla groups (Safford and Palacios, 2002). The paramilitaries hunted down guerrillas and

slaughtered anyone who appeared sympathetic to guerrillas, leftists, or labor unions; they were responsible for the deaths of thousands of Colombian civilians, most of whom were not formally affiliated with any armed group. (One example that occurred during the time frame of our study was the murder of Isidro Segundo Gil, a union leader at a factory that bottles Coca-Cola.)

Until the late 1970s, the paramilitaries and guerrilla groups were small (500 or fewer members). Then the illegal drug trade grew and drug-cartel members began financing the paramilitary groups in return for protection against the rural guerrilla organizations (Dudley, 2004). The guerrilla groups also benefited from the illicit narcotics industry; they ‘taxed’ narcotics-related activities in the regions where they were active, substantially increasing their revenue base and funding additional recruits and armaments. By 2000, total paramilitary and guerrilla membership had surpassed 25,000.

Guerrilla and paramilitary organizations carved Colombia up into territories, and the fiercest fighting occurred where the groups’ borders met. Both kinds of groups have also used kidnapping and extortion to generate revenue. For the three decades prior to 2004, homicide was the chief cause of mortality for men between the ages of 16 and 34 in Colombia’s principal cities (Safford and Palacios, 2002). Many of the targets of assassination were civilians who are not directly involved with any armed faction. By the year 2000, Colombia averaged 30,000 murders a year (about 1,000 percent higher than U.S. homicide rates), 75 political assassinations a week, and 10 kidnappings a day (Dudley, 2004). One entrepreneur from the city of Medellín described the particularly brutal period between 1999 and 2001:

There were weeks when 70 people died each day. Violence and theft were common. The government had no control. Sometimes when you caught a bus, five men would grab you and take everything out of your pockets. You couldn't defend yourself, even if you had a gun. Every day they killed a bus driver. Buses stopped going to some neighborhoods, cutting those people off from the rest of the city.

In sum, the failure of the state to protect personal safety, maintain order, and control violence had created highly uncertain environments for Colombian entrepreneurs, but this turmoil varied in intensity from region to region and from year to year. Colombia thus presents a unique and valuable context in which to study how business planning, political and civil turmoil, and their interaction affect entrepreneurial survival.

METHODS AND ANALYSIS

We examined the impact of the presence of weak institutions and its associated violence, planning, and their interaction on 770 entrepreneurial ventures in Colombia, an emerging economy well known for its regional ‘hot spots’ of political and civil violence from 1997 to 2001. (We dropped 40 firms because of missing data, leaving 730 for analysis.) These small and medium-sized ventures were located in Colombia’s five largest cities: Bogotá, Medellín, Cartagena, Cali, and Barranquilla.²

Data sources

We obtained data from Fundación Corona, a large nonprofit that offers training and loans to small entrepreneurial start-up firms in Colombia. Corona administered three longitudinal surveys to start-up owners that had used their services as well as others that they randomly contacted. The first survey was given in 1997, the second in 1998, and the third in 2001. The surveys captured information about current and future business plans, entrepreneur and employee human capital, firm growth, firm strategy, and human resource practices. We took multiple trips

² Of these enterprises 19.9 percent were located in Bogotá, 19.8 percent in Medellín, 13.8 percent in Cartagena, 25 percent in Cali, and 21.6 percent in Barranquilla. Of the entrepreneurs, 47.5 percent were female, and 52.5 percent were male; their formal education ranged from none to a four-year university degree. Between 1997 and 1998, 29.7 percent of the 770 firms failed. Of those that survived, 30.6 percent failed between 1998 and 2001, leaving 40 percent of the original 770 firms surviving in 2001.

to Colombia to check the robustness of the data and to gather additional qualitative and quantitative data. We supplemented the survey data with environmental data (described below) that we obtained from Colombia's National Administrative Department of Statistics and from the Ministry of Defense.

Dependent and independent variables

Our dependent variable is firm survival. Our independent variables are political and civil violence and incremental and comprehensive business planning. Because homicides and kidnappings are prominent features of *political and civil violence* in Colombia and many other emerging markets (Safford and Palacios, 2002), we constructed our measure of violence using a factor analysis postestimation of two measures: annual regional homicides and annual regional extortive kidnappings. Varying over time and geography, the two variables loaded onto a single factor with an eigenvalue of 1.10. A Cronbach's alpha test reported a scale reliability coefficient of 0.80. The item's values ranged from -1.133 to 2.509, with a mean of around zero. The five cities in the study are located in separate regions of Colombia, and each city accounts for well over 70 percent of its region's population; thus political and civil violence in a given region largely represents that of its largest city.

Incremental planning involves appraising and coordinating business operation activities such as production, sales, and staffing with changes in the environment. Prior planning studies have noted frequency and scope as important features of the appraisal process in incremental planning (Bracker and Pearson, 1986; Shrader *et al.*, 1989). Accordingly, we operationalized incremental planning using the product of two variables. The first was a scale measure that captured the extent to which the entrepreneur monitored, updated, and compared production and sales activities to changes in the environment. The second was a binary variable that captured the

extent to which an entrepreneur went into detail when appraising production and sales activities (see Appendix). Using these two variables that captured both the frequency and the scope of the appraisal process allowed us to measure the extent to which an entrepreneur engaged in incremental planning (Fredrickson and Mitchell, 1984; Shrader *et al.*, 1989).

Comprehensive planning involves crafting goals with specific details of how objectives will be accomplished (Bracker and Pearson, 1986). Previous studies have captured comprehensive planning by quantifying the details of the plans: strategic plans that contained more objectives indicated greater information gathering and analysis, and hence greater comprehensive planning (Robinson and Pearce, 1988; Bracker *et al.*, 1988). In a similar fashion, we measured comprehensive planning using a series of nine questions that addressed the extent to which the entrepreneur made detailed future plans regarding market growth, equipment purchases, raw-material purchases, new product development and introduction, management training, location strategies, firm expansion, debt financing and payments, and customer credit (see Appendix). We aggregated these questions into a single item using post-factor estimation to create a scale representing the extent to which an entrepreneur engages in comprehensive planning.³ Finally, we created a squared term for comprehensive planning to capture curvilinear effects.

Control variables

At the founder level, we included a dummy variable to indicate whether the owner of the organization was male (*entrepreneur's gender*). We controlled for previous work experience by

³ We conducted an exploratory factor analysis on the variables to verify that they did in fact represent the same underlying planning construct. Nine items loaded maximally and uniquely onto a single factor, which had an eigenvalue of 1.863 and accounted for 93.1 percent of the variation. Only the first factor yielded eigenvalues greater than one. A Cronbach's alpha test of the nine items reported an acceptable scale reliability coefficient of 0.702 (Nunnally, 1978).

measuring the number of years the entrepreneur had worked before founding the business in question (*entrepreneur's years of prior work experience*) and the *entrepreneur's age*. We controlled for whether the entrepreneur concurrently owned one or more businesses in addition to the one in question using a binary variable (*entrepreneur owns another business*). Using a dummy variable, we also controlled for whether the entrepreneur worked elsewhere in addition to working at his or her entrepreneurial business (*entrepreneur has a secondary job*). Education was operationalized using an ordinal scale that reported the entrepreneur's highest attained *education level*. We also controlled for whether the entrepreneur was currently taking classes at a university or trade school (*entrepreneur currently studies*) (1 = yes).

At the organization level we controlled for the number of *temporary employees*, the number of employees who worked without monetary compensation (*nonpaid employees*), *the number of apprentices*, and whether the principal method of employee search was through family and friends (*recruitment practices*) (1 = yes). We also included a dummy variable to control for whether the organization offered *product/service guarantees* with after-sales/service support. We controlled for *organizational age* in years and *organizational size* in terms of the number of actual employees. Additionally, we controlled for 10 industry types using sector dummy identifiers (*industry controls*). At the environment level, we also controlled for the percentage of *regional unemployment*, the *regional gross domestic product per capita*, regional inflation using the *regional consumer price index*, and *regional exports per capita*.

Analysis

Although we know the year in which failed ventures ceased operation, the exact day of failure was missing for 80 percent of the firms.⁴ We therefore conducted a discrete-time history analysis to test our theory using a complementary log-log specification, which accounts for both the continuous nature of the actual exit process and the discrete nature of the data (Allison, 1982). These models are of the form

$$\log \left[-\log \left(1 - p_{it_1t_2} \right) \right] = \alpha + \beta X_{it_1},$$

where $p_{it_1t_2}$ is the probability that firm i will survive during the period t_1 to t_2 , X_{it_1} is a vector of covariates associated with firm i at time t_1 , β is its corresponding parameter vector, and α is a constant. We also conducted a logistic regression on the same model and produced similar results. Some of our variables were highly correlated (such as planning and planning squared, and GDP and violence), which can inflate standard errors and make regression coefficients unstable. We used a Gram–Schmidt procedure to partial out the common variance between the highly correlated variables (Saville and Wood, 1991). We then tested for multicollinearity and found that all variance-inflation factors were less than 3.71 and that the majority were less than 1.91, indicating an acceptable level (Afifi, Clark, and May, 2004).

Results

Descriptive statistics and bivariate correlations appear in Table 1. The results of the discrete-time logistical model of firm survival appear in Table 2. In Table 2, the first model presents the control variables, the second model adds political and civil violence, the third model adds incremental planning, the fourth model includes comprehensive planning, and the fifth

⁴ If a business was missing when we returned for the second or third wave of interviews, and if neighboring firms had no knowledge of its whereabouts, it was coded as failed. In-depth follow-up studies on a random sample of these firms, conducted with Fundación Corona, showed that over 95 percent of missing firms had not moved but had failed (Castañeda and Cubillos, 2005).

model includes the squared term of comprehensive planning. The sixth model adds the interaction between incremental planning and political violence, the seventh model includes the interaction between comprehensive planning and political violence, and the eighth model includes the interaction between comprehensive planning squared and political violence.

Several control variables significantly affect firm survival. Contemporaneous educational pursuits reduced organizational survival, suggesting that time spent away from the business is detrimental. Organizational age had a positive effect on survival, suggesting that younger firms suffer from high liabilities of newness. Turning to the environmental context, the results indicate that high per-capita regional exports increased survival, whereas regional unemployment decreased it.

---Insert Table 1 and Table 2 about here---

The results support hypotheses 1, 3, 4, and 5, but not Hypothesis 2. Hypothesis 1 posits that political and civil violence increases firm mortality; accordingly, we find that an increase in violence of one standard deviation increased the likelihood of failure by 10 percent. According to Hypothesis 2, greater incremental planning should have a positive impact on firm survival; however, the results indicate that such planning does not differ significantly between ventures that survived and ventures that did not.⁵ This suggests that generally, the cost of regularly scanning and updating organizational routines is greater than its benefits. Hypothesis 3 posited a curvilinear relationship between comprehensive planning and entrepreneurial firm survival. After controlling for other factors, an increase in comprehensive planning of one standard deviation significantly increased firm survival by 2 percent; however, an increase in comprehensive

⁵ We tested for curvilinear effects of incremental planning, but they were not statistically significant, suggesting that the effect of incremental planning is linear.

planning of two standard deviations reduced firm survival by 3 percent, suggesting a curvilinear relation.

Hypothesis 4 posits that political and civil violence increases the benefits of incremental planning. The interaction between incremental planning and a high level of political and civil violence increased firm survival by 4 percent, supporting Hypothesis 4. Hypothesis 5 posits that political and civil violence will decrease the value of comprehensive planning on firm survival. The interaction between comprehensive planning and high levels of political and civil violence significantly decreased firm survival by 12 percent, supporting Hypothesis 5. In Model 8, the interaction between comprehensive planning squared and political and civil violence was not significant, suggesting that political and civil violence exerts a negative linear effect on comprehensive planning, as hypothesized. Figure 1 illustrates the moderating influence of political and civil violence on the impact of incremental planning, showing that greater incremental planning reduces the negative effects of violent environments. Figure 2 compares comprehensive and incremental planning in environments of high political and civil violence.

---Insert Figure 1 and Figure 2 about here---

DISCUSSION

Although past research on the institution-based view of strategy has focused on how formal and informal constraints can shape strategic decision making, we find that the absence of strong political institutions that maintain public order and stability significantly affects new venture mortality. We argue that it was not political and civil violence per se that decreased the survival rates of entrepreneurial firms: less than 0.1 percent of the firms in our sample were

direct targets of organized violence. Instead, we argue, violent contexts affect new ventures in two ways. First, violence leads to unpredictable and uncertain environments that increase variance in resource flows and disrupt existing organizational routines. Much of this stems from the uncertainty and fear caused by higher levels of violence, which increase risk-averse behavior among important constituents such as customers, suppliers, and investors, thereby making it difficult to obtain needed resources and creating unpredictable environments. Uncertainty may also lead entrepreneurs to forgo economic activities that are vital for new venture survival.

Second, violence and the resulting uncertainty moderate the effects of entrepreneurial planning by increasing the adaptive benefits of short-term incremental planning and decreasing the benefits of forward-looking comprehensive planning, thereby affecting new venture longevity. The differential effects of these two types of planning are impressive. Whereas incremental planning has no significant impact on venture mortality in stable environments, it can be an effective strategy for mitigating the effects of high levels of violence.

Figure 1 shows that new ventures with high levels of incremental planning in violent contexts had virtually the same probability of survival as ventures in environments characterized by average violence levels. However, unlike incremental planning, high levels of comprehensive planning can be debilitating and can have a significant negative effect on survival in high-violence contexts (Figure 2). Overall these results suggest that entrepreneurs need to pay close attention to their institutional environment and align their planning strategies accordingly.

CONCLUSION

Our study makes several contributions. In particular, it contributes to studies on new venture strategy in a couple of ways. First, our paper demonstrates how prior theory on planning

changes when it is applied in areas characterized by high violence. Previous studies on planning assert that planning is beneficial in uncertain environments because it provides firms with valuable information, contingencies, and an accessible set of actions to readily implement (Armstrong, 1982; Delmar and Shane, 2003). While we found that this proposition holds true in extreme environments for incremental planning, the results showed that comprehensive planning was negatively correlated with survival in such environments. In contexts of high uncertainty as a result of violence, the benefits of comprehensive planning vanish as prior predictions become obsolete and even harmful to venture survival.

Second, prior work has been deeply divided on the utility of business planning for the survival of start-up firms (Delmar and Shane, 2003; Honig and Karlsson, 2009; Pearce, Freeman, and Robinson, 1987). Much of this conflict may be due to previous studies failing to differentiate between various types of new venture planning and treating it as a single construct as well as treating comprehensive planning as a linear measure. We offer a potential explanation for the discrepancies between past empirical studies by distinguishing incremental (day-to-day routine) from comprehensive (forward-looking) planning, exploring the curvilinear nature of comprehensive planning, and theorizing and empirically testing the differential effects of these planning processes on new venture survival rates.

The results also build upon the institution-based view of strategy in a couple of ways (Peng *et al.*, 2009). First, while the institution-based view of strategy has demonstrated how cultural and regulatory constraints can affect managerial strategy (Ingram and Silverman, 2002; Webb *et al.*, 2009), few studies have explored how a lack of institutions can affect managerial strategy, notwithstanding calls from scholars to pay more attention to the differences ‘in institutional frameworks between emerging economies and developed economies’ (Peng *et al.*,

2009: 66; Khanna and Yafeh, 2007). In this paper, we explored the impact of political and civil violence—a product and ingredient of weak political institutions and a prevalent feature of many governments throughout the world—on new venture processes. We showed that high levels of violence reduce new venture survival by fostering uncertainty and erratic behavior among entrepreneurs, suppliers, customers, and creditors, thereby disrupting resource flows and organizational routines. Moreover, these results suggest that taking into account the relative strength of institutions is critical for understanding the boundaries within and conditions under which theoretical predictions that have been developed and tested in one particular type of institutional environment apply in others. This study calls into question the generalizability of strategy theories that assume specific types of environments and suggests that future research consider carefully macro institutional factors that can challenge existing theories.

Second, this study answers the call of strategy researchers to develop alternative measures of institutions as prior institutional variables have tended to be vague and applied universally (LaPorta *et al.*, 2008; Peng *et al.*, 2009). Because institutional environments vary, taking measures of institutions developed for one context and indiscriminately implementing them in all others precludes us from truly understanding the rules of the game and can ‘lead us down a path toward highly stylized idiosyncratic examples that prevent the development of a generalizable theory of the firm’ (Gomez-Mejia *et al.*, 2005: 1512). Civil and political violence is just one measure of institutional weakness (Weber, 1978); future research should consider other key characteristics of the institutional environment.

This study is relevant to entrepreneurs and organizations promoting new venture planning in less-developed countries, particularly those experiencing political and civil turmoil. Currently, prospective entrepreneurs are taught the importance of business planning by both universities

and non-governmental organizations that offer entrepreneurial training. Qualitative interviews at non-governmental organizations and universities in Colombia suggest that these organizations train prospective Colombian entrepreneurs to engage in comprehensive planning in great detail. Our empirical data indicate a strong and significant correlation between nonprofit training and comprehensive planning: Entrepreneurs who had received training were more likely to engage in long-term planning, and to plan extensively.⁶ This study suggests that such training will have mixed effects on new venture survival, depending on the extent to which these entrepreneurs pursue ventures in violent and uncertain environments. In such contexts where governments fail to maintain public safety and order, these training programs may actually increase the likelihood of new venture failure.

Fruitful avenues for future research include exploring other types of strategic actions that entrepreneurs and managers can take to reduce the negative impact of uncertain institutional environments. For instance, how would ties to powerful actors such as the military in developing economies allay the negative effects of contexts characterized by weak governmental institutions and property-rights protection? Similar inquiries in need of future research include how high levels of violence shape the types of ventures that are founded, survive, and grow. Understanding how politically tumultuous environments affect organizational outcomes and what strategies can be employed to mitigate the negative effects of such environments will provide needed guidance to policy makers and practitioners struggling with these challenges and will extend the generalizability of strategy research to millions of people living in very turbid and uncertain environments.

⁶ Participation in new-business training increases the amount of comprehensive planning by 1.58 times ($p < .001$).

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TABLE 1
Descriptive Statistics and Bivariate Correlations

Variables	Mean	St. Dev.	1	2	3	4	5	6	7	8	9
1 New venture survival	0.584	0.493	1								
2 Political and civil turmoil	-0.090	1.026	-0.068	1							
3 Incremental planning	2.618	4.616	-0.036	-0.003	1						
4 Comprehensive planning	-0.066	1.174	0.086	-0.253	0.102	1					
5 Entrepreneur's gender (male)	0.381	0.486	-0.050	0.224	0.017	-0.115	1				
6 Entrepreneur's education level	4.299	1.685	-0.019	0.083	0.164	0.097	0.043	1			
7 Entrepreneur's prior years of work experience	5.166	7.416	0.003	0.096	-0.061	0.007	0.112	-0.067	1		
8 Entrepreneur owns another business	0.170	0.375	0.041	-0.084	0.041	0.081	-0.071	0.051	-0.044	1	
9 Entrepreneur currently studies	0.452	0.498	-0.142	0.025	0.038	0.035	-0.043	0.068	-0.033	0.015	1
10 Entrepreneur has a secondary job	0.056	0.230	-0.027	-0.013	-0.024	0.078	0.000	0.092	-0.044	-0.008	0.004
11 Entrepreneur's age	42.390	11.754	0.053	0.055	-0.124	-0.182	0.013	-0.266	0.196	-0.006	-0.014
12 Number of nonpaid workers	0.275	0.731	0.047	-0.111	0.026	0.006	-0.042	-0.126	-0.057	0.028	0.030
13 Number if apprentices	0.042	0.268	0.050	0.050	0.000	-0.011	0.126	-0.004	0.177	-0.001	-0.059
14 Number of temporary workers	0.591	6.290	0.049	-0.015	0.020	-0.003	-0.035	-0.029	-0.027	0.014	-0.050
15 Recruitment practices	0.536	0.499	-0.022	0.087	0.072	-0.052	0.246	0.080	0.047	-0.035	0.001
16 Offers product/service guarantees	0.708	0.455	-0.038	0.080	0.099	0.076	0.107	0.074	0.033	0.032	0.137
17 Offers after-sales support	0.197	0.398	-0.028	0.094	0.129	0.125	0.079	0.176	0.081	-0.014	0.008
18 Organizational age	6.525	5.070	0.141	-0.042	-0.022	-0.040	0.034	-0.030	0.065	0.011	-0.067
19 Organizational size	3.604	5.912	0.001	0.101	0.253	-0.022	0.075	0.237	0.012	0.028	0.043
20 Consumer price index	17.087	2.293	0.094	-0.054	-0.296	-0.024	-0.172	-0.181	0.001	0.002	-0.276
21 Gross domestic product per capita	6.781	2.069	-0.116	-0.094	0.260	0.074	0.132	0.159	0.021	-0.003	0.438
22 Exports per capita	394.384	219.484	0.003	0.779	0.041	-0.103	0.082	0.039	0.026	-0.008	0.012
23 Unemployment	14.654	3.097	-0.147	0.395	0.259	-0.050	0.160	0.153	0.005	-0.038	0.414

TABLE 1 (continued)
Descriptive Statistics and Bivariate Correlations

	10	11	12	13	14	15	16	17	18	19	20	21	22
10	1												
11	-0.060	1											
12	-0.040	0.075	1										
13	0.014	0.036	-0.025	1									
14	0.001	0.009	-0.018	-0.004	1								
15	0.019	-0.018	0.222	0.123	-0.042	1							
16	-0.069	-0.067	-0.044	0.050	0.034	0.050	1						
17	0.045	-0.019	-0.065	0.029	-0.007	0.030	0.126	1					
18	-0.047	0.299	0.030	0.081	0.011	0.006	0.020	0.104	1				
19	0.009	0.016	0.027	0.091	0.050	0.131	0.087	0.227	0.099	1			
20	0.045	0.028	0.066	-0.007	0.026	-0.207	-0.181	-0.111	0.040	-0.241	1		
21	-0.029	-0.010	-0.027	-0.016	-0.041	0.205	0.159	0.114	-0.053	0.220	-0.860	1	
22	-0.026	0.012	-0.073	0.034	-0.047	-0.007	0.059	0.091	-0.037	0.031	-0.017	-0.206	1
23	-0.043	-0.015	-0.078	-0.015	-0.056	0.142	0.181	0.173	-0.044	0.198	-0.697	0.599	0.449

TABLE 2
Discrete-time logistic regression of organizational survival

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
<i>Independent variables</i>								
H1 Political and civil violence		-0.204*** (0.066)	-0.208*** (0.066)	-0.166** (0.069)	-0.160** (0.068)	-0.201*** (0.072)	-0.195*** (0.073)	-0.176** (0.089)
H2 Incremental planning			-0.004 (0.009)	-0.005 (0.009)	-0.005 (0.009)	-0.002 (0.009)	-0.001 (0.009)	-0.001 (0.009)
Comprehensive planning				0.094** (0.037)	0.103** (0.042)	0.097** (0.042)	0.096** (0.043)	0.091** (0.045)
H3 Comprehensive planning squared					-0.070** (0.032)	-0.072** (0.032)	-0.065** (0.032)	-0.068** (0.033)
H4 Incremental planning X Political violence						0.018** (0.009)	0.021** (0.009)	0.022** (0.009)
H5 Comprehensive planning X Political violence							-0.100** (0.047)	-0.106** (0.050)
Comprehensive planning squared X Political violence								-0.027 (0.073)
<i>Entrepreneur variables</i>								
Entrepreneur's gender (male)	-0.187** (0.086)	-0.129 (0.088)	-0.129 (0.089)	-0.115 (0.089)	-0.113 (0.089)	-0.108 (0.089)	-0.109 (0.089)	-0.109 (0.089)
Entrepreneur's education level	0.013 (0.026)	0.018 (0.026)	0.019 (0.026)	0.014 (0.026)	0.013 (0.026)	0.015 (0.026)	0.013 (0.026)	0.013 (0.026)
Entrepreneur's years of prior work experience	-0.002 (0.005)	0.000 (0.005)	0.000 (0.005)	-0.001 (0.005)	-0.000 (0.005)	-0.000 (0.005)	-0.001 (0.005)	-0.001 (0.005)
Entrepreneur owns another business	0.123 (0.104)	0.097 (0.104)	0.098 (0.104)	0.091 (0.105)	0.085 (0.104)	0.088 (0.105)	0.091 (0.105)	0.092 (0.105)
Entrepreneur currently studies	-0.242** (0.096)	-0.250** (0.097)	-0.256*** (0.098)	-0.264*** (0.102)	-0.249** (0.098)	-0.264*** (0.099)	-0.272*** (0.099)	-0.272*** (0.099)
Entrepreneur has a secondary job	-0.138 (0.177)	-0.126 (0.178)	-0.128 (0.179)	-0.165 (0.179)	-0.167 (0.179)	-0.166 (0.179)	-0.164 (0.179)	-0.167 (0.179)
Entrepreneur's age	0.001 (0.004)	0.002 (0.004)	0.002 (0.004)	0.003 (0.004)	0.003 (0.004)	0.003 (0.004)	0.003 (0.004)	0.003 (0.004)

Organizational variables

Number of nonpaid employees	0.052 (0.052)	0.035 (0.052)	0.035 (0.052)	0.036 (0.052)	0.028 (0.052)	0.023 (0.052)	0.027 (0.052)	0.029 (0.052)
Number of apprentices	0.273 (0.167)	0.239 (0.164)	0.238 (0.164)	0.238 (0.162)	0.252 (0.162)	0.255 (0.161)	0.242 (0.162)	0.243 (0.162)
Number of temporary employees	0.063 (0.043)	0.071 (0.045)	0.071 (0.046)	0.061 (0.045)	0.060 (0.045)	0.060 (0.044)	0.068 (0.046)	0.069 (0.047)
Recruitment practices	-0.034 (0.086)	-0.004 (0.087)	-0.004 (0.087)	0.003 (0.088)	-0.002 (0.087)	-0.002 (0.087)	-0.014 (0.088)	-0.015 (0.088)
Offers product/service guarantees	-0.025 (0.089)	0.000 (0.090)	0.001 (0.090)	-0.008 (0.090)	-0.018 (0.090)	-0.012 (0.090)	-0.025 (0.091)	-0.023 (0.091)
Offers after-sales support	-0.109 (0.107)	-0.106 (0.107)	-0.106 (0.108)	-0.138 (0.109)	-0.135 (0.108)	-0.135 (0.108)	-0.142 (0.109)	-0.142 (0.109)
Organizational age	0.038*** (0.008)	0.039*** (0.008)	0.039*** (0.008)	0.039*** (0.008)	0.038*** (0.008)	0.039*** (0.008)	0.040*** (0.008)	0.040*** (0.008)
Organizational size	-0.001 (0.009)	0.001 (0.008)	0.002 (0.009)	0.003 (0.009)	0.002 (0.009)	0.002 (0.009)	0.003 (0.009)	0.003 (0.009)
Industry controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Environmental variables								
Regional consumer price index	-0.019 (0.041)	-0.004 (0.041)	-0.004 (0.041)	-0.009 (0.041)	-0.006 (0.041)	-0.004 (0.041)	-0.010 (0.042)	-0.011 (0.042)
Regional gross domestic product per capita	0.090 (0.147)	0.126 (0.146)	0.133 (0.146)	0.094 (0.148)	0.099 (0.147)	0.112 (0.148)	0.084 (0.148)	0.082 (0.149)
Regional exports per capita	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Regional unemployment	-0.091*** (0.027)	-0.086*** (0.026)	-0.085*** (0.026)	-0.079*** (0.026)	-0.083*** (0.026)	-0.083*** (0.026)	-0.084*** (0.026)	-0.084*** (0.026)
Constant	1.059 (0.889)	0.338 (0.902)	0.321 (0.904)	0.302 (0.907)	0.397 (0.906)	0.304 (0.909)	0.495 (0.913)	0.520 (0.915)
Wald chi squared	83.60***	92.02***	91.76***	78.94***	100.80***	104.18***	108.50***	108.56***

Standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

APPENDIX

Incremental Planning (day-to-day, operational routine evaluation)

- A. How often do you evaluate your operational processes of what, how, and when to produce and sell?
0=Never, 1=annually, 2=biannually, 3=bimonthly, 4=monthly, 5=fortnightly, 6=weekly, 7=daily
- B. During the evaluation, do you significantly delve into the details of your operational processes of what, how, and when to produce and sell? (yes=2, no=1)

Comprehensive Planning (forward-looking goals)

- A. Have you created plans related to increasing or decreasing the number of workers in the next 12 months?
- B. Have you created plans related to changing, updating, or increasing machinery in the next 12 months?
- C. Have you created plans related to increasing or changing raw materials in the next 12 months?
- D. Have you created plans related to refurbishing the existing location in the next 12 months?
- E. Have you created plans related to changing your present location in the next 12 months?
- F. Have you created plans related to introducing new products or entering new markets in the next 12 months?
- G. Have you created plans related to opening a new subsidiary (branch) business in the next 12 months?
- H. Have you created plans related to starting a new business in the next 12 months?
- I. Have you created plans related to enrolling in business classes in the next 12 months?
- J. Have you created plans related to training and educating your employees in the next 12 months?
- K. Have you created plans related to extending credit to your clients in the next 12 months?
- L. Have you created other related plans you expect to accomplish in the next 12 months?

Figure 1

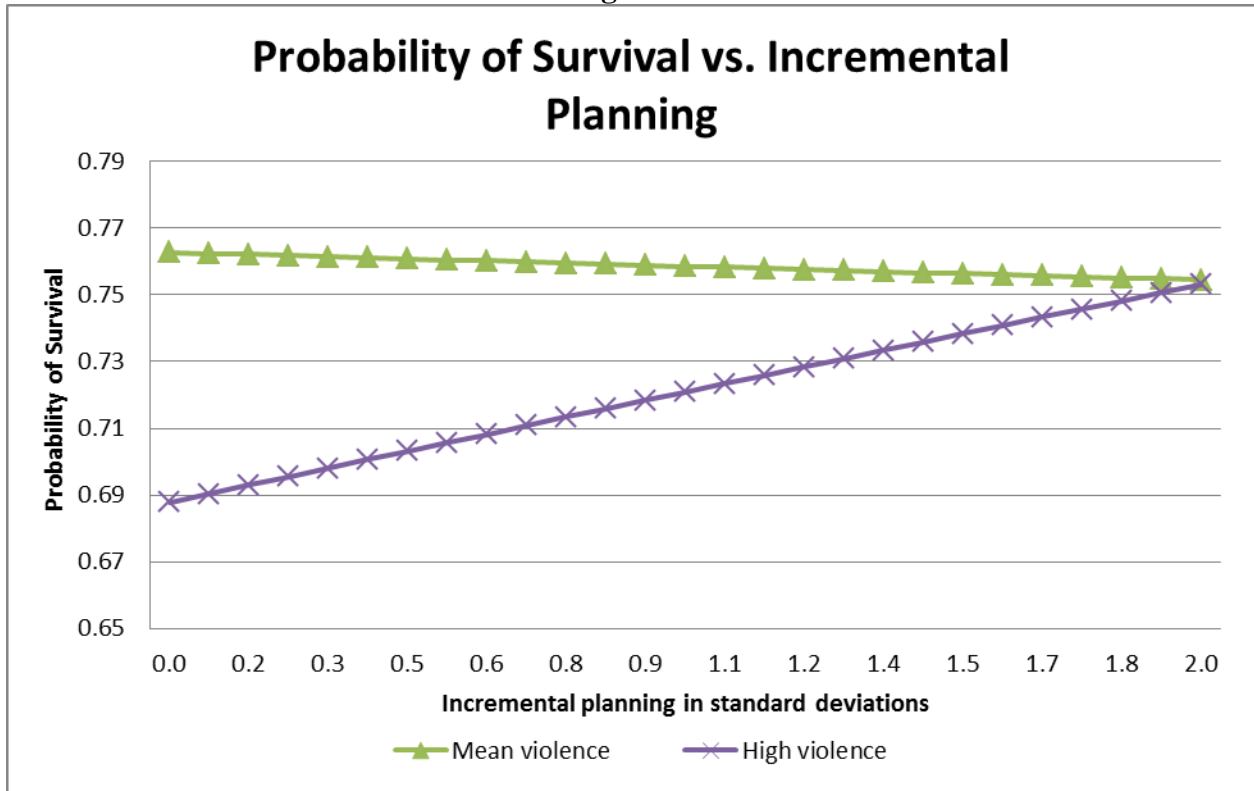


Figure 2

