

Cultural Differences in Planning/Success Relationships: A Comparison of Small Enterprises in Ireland, West Germany, and East Germany*

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Research has already examined the relationship between planning and success of small firms, but the conclusions drawn are inconsistent. In this study, we argue that the relationship between planning and success is dependent on the cultural context. Planning strategies and their relationship to success were compared in 77 Irish, 102 East German, and 98 West German small-scale enterprises. In Germany, planning had a positive influence on success, while this

relationship was negative in Ireland. Moreover, planning strategies were found to mediate the relationship between business owners' achievement orientations and success. This mediating influence was positive in Germany and negative in Ireland. These differences are interpreted to be due to a higher level of uncertainty avoidance in Germany (Hofstede 1991), which makes planning culturally appropriate and successful.

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Planning, Success, and Culture

This study looks at the correlation between planning and small business success in two different cultures, Ireland and Germany, to examine how cultural context might affect this correlation. Much of the literature on success in small business seems to assume the importance of planning for small firms' performance (for example, see Ryans 1997). However, empirical investigations of the planning/success relationship have not led to consistent results. While some studies have shown extensive planning in the founding phase to be related to small-scale business success (Jungbauer-Gans and Preisendörfer 1991; Ackelsberg and Arlow 1985; Bracker, Keats, and Pearson 1988), others found no correlation between planning and suc-

cess (Robinson and Pearce 1983; Shuman, Shaw, and Sussman 1985; Lumpkin, Shrader, and Hills 1998). Although Lyle et al. (1995) found a significant correlation between formal planning and the growth rate of sales in small enterprises, they found no effects on return on equity or return on assets. In a recent meta-analysis, Schwenk and Shrader (1993) reported a significant but small relationship between planning and small venture performance.

In the literature, two arguments are generally proposed to explain the low and sometimes conflicting relationships between planning and success of small enterprises. The first argument focuses on the methodological quality of entrepreneurship research (see Low and McMillan 1988). For example, planning has been operationalized in a number of different ways. It has been defined as a characteristic of the business owner (Frese, van Gelderen, and Ombach, 2000) or as a business activity. Some researchers have evaluated the formality of planning (Robinson and Pearce 1983), while other authors have measured planning sophistication (Capon, Farley, and Hulbert 1994) or differentiated between strategic and operational planning (Shrader, Mulford, and Blackburn 1989). Like planning, sample and performance measures have also been operationalized in a variety of ways.

A second explanation for the inconsistent findings about the planning/success relationship is concerned with other variables that impact the relationship between entrepreneurs' planning and success (Schwenk and Shrader 1993). Thurston (1983) argued that planning can hinder firm performance because it reduces the flexibility of small businesses, and that "the relevance of planning to a particular company situation ... is the key" (p. 164). Risseeuw and Masurel (1993) found that small firms' planning was negatively related to success in a highly dynamic environment. Another prominent potential moderator is culture. Different cultures lead to different organizational

structures (Adler 1991) and ask for different leadership and management theories (Erez and Earley 1993). Similarly, a theory of entrepreneurial success has to make the cultural (and potentially sub-cultural) issues explicit. Hofstede (1991) defined cultural values as broad tendencies to prefer specific behavioral patterns over others. He identified four value dimensions that pattern behavior—uncertainty avoidance, power distance, individualism versus collectivism, and masculinity versus femininity. A given culture's alignment in the uncertainty avoidance dimension is particularly relevant to planning. One way to overcome uncertainty is to plan carefully. Founding an enterprise is a large step into an uncertain future, and plans can be seen as an attempt to minimize this uncertainty (Thurston 1983). Thus, in cultures that value uncertainty avoidance, such a behavior may be rewarded and meet with success, while in other cultures planning may be detrimental.

To explore the effect of this cultural dimension on the planning/success relationship, Irish and German small business owners were chosen for comparison because the two countries are quite similar in all of Hofstede's (1991) value dimensions except for uncertainty avoidance. In three of these dimensions, Hofstede (1991) reported no differences between Germany and Ireland. However, in the dimension of uncertainty avoidance, clear-cut differences appeared between these two countries (see Table 1).

Ireland ranks as one of Western Europe's countries least concerned with avoiding uncertainty. In contrast, Germans tend to feel more easily threatened by unknown and uncertain situations. Therefore, planning may be differentially important—and effective—in these two cultures. Germany is a culture in which business owners are expected to plan more and in detail, while Ireland is a culture in which detailed planning is not called for.

Moreover, people are judged by whether or not they conform to expectations. When

Table 1
Cultural Values of Ireland and Germany^a

Values	Ireland		Germany	
	Score	Rank	Score	Rank
Power distance	49	28	42/44	35
Individualism/collectivism	12	70	15	67
Masculinity/femininity	7/8	35	9/10	66
Uncertainty avoidance	47/48	35	29	65

^aAdapted from Hofstede (1991).

a culture is high in uncertainty avoidance, there are general expectations that one will deal with uncertainty by careful planning. Since entrepreneurial success depends on doing things "right" from the customers' perspective, planning will likely be more successful in Germany. Since everyone around the entrepreneur also plans, only the well-planning entrepreneur will have a good fit with the culture and be successful.

By contrast, in Ireland—a culture with low uncertainty avoidance—detailed planning will have a poor fit with other people's behaviors. Planning in detail is an investment not easily abandoned. As a result, planning always carries the risk of inflexibility. In cultures where people do little planning, there will be a higher degree of unplanned behavior by others, more tolerance of unplanned behavior, less respect for a plan, and more demand for flexibility. For all of these reasons, planning may even seem dysfunctional in such a culture. In practical terms, a German business will have customers who expect (and reward) precise timing according to a plan, whereas an Irish business needs to please customers expecting flexible service, and failing to meet this expectation means losing business. Thus, the first two hypotheses are:

H₁: Small businesses in Germany do more planning than their counterparts in Ireland.

H₂: Planning has a positive relationship with success in Germany while the relationship between planning and success is negative in Ireland.

This line of argument can be extended to a fuller model of entrepreneurial success. There is evidence that the personality characteristics of small scale business owners impact both business strategies and business outcomes (Baum 1995; Kotey and Meredith 1997; Rauch and Frese 2000). Need for achievement is a concept which is related to entrepreneurship because entrepreneurs must perform well at challenging tasks, they must take responsibility for results, and must seek feedback on their business' performance (McClelland 1986). Research has shown that achievement-oriented business owners are more successful than those who are not (McClelland 1986; Singh 1978; Cooper and Gimeno-Gascon 1992; Spencer and Spencer 1993). By reviewing studies on achievement orientation quantitatively, Rauch and Frese (2000) concluded that achievement orientation is positively related to the success of small

enterprises. In addition to achievement orientation, internal locus of control and self-efficacy are owner/manager characteristics that are closely related to entrepreneurship. Internally controlled business owners believe that business outcomes are in their control, not simply the result of chance events. Brockhaus (1980) showed that successful entrepreneurs scored significantly higher on measures of internal control than did unsuccessful entrepreneurs. The same is true of self-efficacy (Baum 1995).

While these findings on the relationship between owner/manager personality and success are still contradictory (Brockhaus 1980; Begeley and Boyd 1987; Lorrain and Dussault 1988) and controversial (see Gartner 1988), there is enough evidence to lead one to propose that an owner/manager's achievement orientation would result in the use of strategies that are culturally successful. Thus, achievement-oriented owner/managers will plan more in a culture that values uncertainty avoidance and will plan less in a culture that does not. Thus, planning can be seen as a mediator between achievement orientation and success (James and Brett 1984). Thus, the third hypothesis is:

H₃: In Germany, achievement orientation is positively related to planning, while in Ireland, achievement orientation is negatively related to planning. In both cultures, planning is a mediator in the achievement orientation/success relationship.

The Possible Effect of Environment

Doing a cross-cultural study often presents certain methodological problems. For example, it is difficult to control context variables in cross-cultural studies, making it very difficult to rule out alternative explanations (Poortinga and Van de Vijver 1987). Triandis (1984) argued, for example, that planning is more common when the environment is predictable, because planning does not get

rewarded in unpredictable environments. In an unpredictable environment, one is better off reacting spontaneously to the current situation. Matthews and Scott (1995) also found that planning in small enterprises declined with increasing environmental uncertainty.

Adding a sample from East Germany makes it possible to test this alternative explanation. East and West Germans belong to the same core culture, but there are clear differences in their business environments. Since 1989, the East German economy changed from a socialist to a market economy, creating unpredictable turbulence and a deep economic depression. In 1993 (the time of our study), East Germany had high rates of unemployment, decreasing industrial production, and a small number of small business owners. The unemployment rate in 1993 was 15.4 percent in East Germany, compared to 5.6 percent in West Germany (*Statistisches Jahrbuch* 1994). East German businesses were undercapitalized, and many of its small-scale enterprises had problems with liquidity (Knipper 1994). Thus, compared to West Germany, small-scale enterprises in East Germany have to maneuver in a much more uncertain environment. To some extent, similar arguments hold for Ireland—although Ireland's economy is stronger than East Germany's, its economic situation is weaker than West Germany's. In 1993, the unemployment rate in Ireland was about 18.4 percent, and the gross domestic product was only half of that of West Germany (*Statistisches Jahrbuch* 1994). However, like West Germany, Ireland is a market-oriented economy. Within the last 30 years, Ireland's economy changed from an agricultural economy to an industrial economy (Glebe 1991). Today, Ireland is a well-integrated member of the European Community and has overcome its historical dependency on the British economy. Thus, compared to Ireland, East German business owners actually face a more uncertain environment.

Based on Triandis' (1984) argument, planning should be less important in East Germany than in either West Germany or Ireland because East German business owners are confronted with a much more turbulent environment than are West German or Irish business owners. By the same logic, the relationship between planning and success would not be expected to vary as much between East and West Germany because of their shared cultural values. Thus, this three-sample design allows this study to test the impact of cultural differences while controlling for environmental differences. Therefore, the fourth hypothesis is:

H₄: There are similar and positive relationships between achievement orientation, planning, and success in small firms in East and West Germany.

Methods

Sample

The study was done between October 1993 and February 1995. The sample of West German business owners was drawn from Giessen and surroundings, the East German sample from Jena, and the Irish sample from Galway. There are some structural similarities between these cities. They all have universities. Galway had 51,000 inhabitants in 1994 (*Statistisches Jahrbuch* 1994), Giessen nearly 75,000, and Jena about 100,000 inhabitants. The German participants were chosen from lists provided by the respective Chambers of Commerce (in which registration is mandatory in Germany). The Irish business owners were chosen mainly from lists provided by the Chamber of Commerce and the IDA (Industrial Development Agency).

Three criteria were used for participating in the study. First, the enterprises had to have between one and fifty employees because the European Union uses this measure to define a small busi-

ness. Second, the participants had to be the founders and owners of the enterprise; and third, the business had to be a stand-alone or a franchise business.

The business owners participated in a standardized interview (about 60 minutes) and completed a questionnaire. In West Germany, 98 owners participated, for a response rate of 52.1 percent. In East Germany, there were 102 businesses (response rate of 63.7 percent), and the Irish sample consisted of 77 enterprises (response rate of 69.4 percent).

Measures

The questionnaire items were translated into English and back translated. Translation errors revealed by the back translation were corrected. Achievement orientation was measured with three scales: (1) need for achievement—the willingness to carry out difficult tasks (Modick 1977); (2) locus of control—the extent to which a person is confident that (s)he is able to modify events in the environment (Levenson, 1972; translated to German by Krampen, 1981); and (3) self-efficacy—the subjective perception of one's efficacy at work (Bandura 1986; Speier and Frese 1997). Descriptive statistics for the scales are displayed in Table 2 (East and West Germany) and Table 3 (Ireland). Since there was multicollinearity among the scales, we combined the three scales into one second-order factor (which in the following discussion is referred to as the achievement orientation of small business owners.) Cronbach's alphas for the scales were .73 in Ireland, .67 in East Germany, and .67 in West Germany. This combining is justifiable in that the concepts of need for achievement and internal locus of control share common variance (Ward 1994), and internal locus of control has been correlated with self-efficacy (Chen, Greene, and Crick 1998).

Planning was conceptualized as a continuum ranging from no planning at all to very detailed planning. A respondent's

Table 2
Intercorrelations and Descriptive Statistics
for Achievement Orientation Scales of East and West Germany^a

Questionnaire Scales	1	2	3	4	5	6	7
1. Need for achievement		.39*	.36*	.75	4.49	.72	1-6
2. Internal locus of control	.46*		.45*	.71	4.87	.54	1-6
3. Self-efficacy	.34*	.42*		.67	4.04	.45	1-5
4. Reliability	.80	.66	.72				
5. Mean	4.97	5.13	4.07				
6. Standard deviation	.60	.55	.46				
7. Range	1-6	1-6	1-5				

^aCorrelations above the diagonal are for West Germany; those below the diagonal are for East Germany.

* $p < .01$, one-tailed.

Table 3
Intercorrelations and Descriptive Statistics for
Achievement Orientation Scales of Ireland

Questionnaire Scales	1	2	3	Reliability	Mean	Standard Deviation	Range
1. Need for achievement		.42*	.52*	.87	4.41	.88	1-6
2. Internal locus of control			.50*	.71	4.92	.67	1-6
3. Self-efficacy				.67	3.90	.55	1-5

* $p < .05$, one-tailed.

placement on the continuum was determined by responses in the interview that were coded by two independent raters. A first measure explored the business plan prepared at the start-up of the business. If a business plan existed, its level of detail was rated on a five-point scale. The inter-rater reliabilities on this measure were .94 for Ireland, .85 for West Germany, and .79 for East Germany. A second measure of planning examined plans for the future. Participants were asked to report goals for their enterprise for the next year and how they planned to reach these goals. An index called "target planning" was developed that rated each plan's level of detail and quality. The reliabilities (Cronbach's alphas) of this scale

were .81 for Ireland, .85 for West Germany, and .76 for East Germany. The inter-rater reliabilities were .62 in Ireland, .51 in West Germany, and .53 in East Germany. Since inter-rater reliabilities were low in this variable, the chance of getting significant results was reduced.

Small-scale business research should use multiple measurements of success because any single measure is prone to errors (Frese, van Gelderen, and Ombach 2000). For example, the profit rate is affected by tax structures, and sales volume is often dependent on the type of industry. Wages are often the main expenses in the service sector whereas some manufacturing industries need expensive raw materials. In this study,

three different measures of success were summarized into a total success index: growth of the enterprise (measured by a change in the number of employees over the three years), the owner's income, and the owner's level of work satisfaction.

Additionally, three control variables were measured by single items: start-up capital, company age, and industry type (craft, service, trade, and manufacturing). Prior research has found the amount of capital available at start-up to be related to success and company age to be related

to failure (Brüederl, Preisendörfer, and Ziegler 1992). Because the study samples include a variety of industries, this variable was included to control for that potential influence.

Results

According to the first hypothesis, mean differences in planning were expected between Germany and Ireland. As Table 4 indicates, this hypothesis was not supported. German business owners reported less often having had a business plan when

Table 4
Mean Differences in Planning between Ireland and Germany

Measures of Planning	Ireland		Germany		t-Test
	Mean	Standard Deviation	Mean	Standard Deviation	
Level of detail in start-up plan	3.23	1.35	3.39	1.25	-.33
Target planning	3.27	.94	3.34	.83	-.59

* $p < .05$, one-tailed.

Table 5
Partial Correlations of Variables for East and West Germany^a

Variables	1	2	3	4	5
1. Achievement orientation		.10 (89)	.24* (48)	.05 (89)	.35** (89)
2. Start-up business plan (yes/no)	.02 (84)		.43** (48)	.05 (89)	-.02 (89)
3. Level of plan's detail	.12 (66)	.26* (66)		.50** (48)	.27* (48)
4. Target planning	.11 (84)	-.07 (84)	.21* (66)		.14 (89)
5. Success	.27** (83)	.03 (83)	.22* (66)	.20* (83)	

^aCorrelations above the diagonal are for West Germany; those below the diagonal are for East Germany. Controls: age of enterprise, start-up capital, and type of industry.

* $p < .05$, one-tailed.

** $p < .01$, one-tailed.

they started than did the Irish business owners ($\chi^2(1, n=280) = 4.66; p<.05$). This contradicts our hypothesis. However, as this item was rated without any quality evaluation, the business plans reported could range from very detailed to a sketchy outline. When the content of the business plan was rated, German business owners had a slight but non-significant tendency to plan in more detail. Similarly, the Germans scored higher in target planning.

Tables 5 (Germany) and 6 (Ireland) present the bivariate relationships found between planning and success. As shown, the relationships were all in the expected direction. The existence of a start-up business plan was not correlated with success in any of the three samples. However, the level of the plan's detail did show a significant positive relationship with success in East Germany (partial $r=.22; p<.05$), as well as in West Germany (partial $r=.27; p<.05$). In Ireland, the level of detail was significantly and negatively related to success (partial $r= -.36; p<.01$). Target planning was positively related to success in East Germany (partial $r=.20; p<.05$) and in West Germany, although it

was not significant there (partial $r=.14; ns.$). In Ireland, there was a negative but non-significant correlation between target planning and success ($r=.13; ns.$).

As Table 7 indicates, there were significant differences in the planning/success relationship between the German samples and the Irish sample. The Irish and West German samples differed significantly in the relationship between success and the business plan's level of detail ($z=3.06; p<.01$); this was also true between Ireland and East Germany ($z=2.99; p<.01$). Additionally, there was a significant difference between Ireland and East Germany in the relationship between target planning and success ($z=1.94; p<.05$). These results show sophisticated planning to be positively related to success in Germany. In Ireland, on the other hand, sophisticated planning had a negative relationship with success. Thus, the second hypothesis was supported.

Achievement orientation was positively correlated with success in all three samples: East Germany (partial $r=.27; p<.01$); West Germany (partial $r=.35;$

Table 6
Partial Correlations of Variables for Ireland^a

Variables	1	2	3	4	5
1. Achievement orientation		.06 (66)	-.38* (44)	-.18 (65)	.23** (59)
2. Start-up business plan (yes/no)				-.10 (65)	-.02 (59)
3. Level of plan's detail				.12 (44)	-.36* (40)
4. Target planning					-.13
5. Success					

^aControls: age of enterprise, start-up capital, type of industry.

* $p<.05$, one-tailed.

** $p<.01$, one-tailed.

Table 7
Differences in Partial Correlations between Ireland, West Germany, and East Germany Using *r*-to-*z* Transformation

Correlations	Ireland vs. West Germany	Ireland vs. East Germany	West Germany vs. East Germany
Start-up business plan with success	.24	.24	.52
Detail of plan with success	3.96**	2.99**	.26
Target planning with success	1.57	1.94*	.40
Achievement orientation with success	.81	.17	.64
Achievement orientation with detail of plan	2.96**	2.59**	.61
Achievement orientation with target planning	1.39	1.72*	.32

* $p < .05$, one-tailed.

** $p < .01$, one-tailed.

$p < .01$), and Ireland (partial $r = .23$; $p < .05$). There were no significant differences among the three correlations. However, there were differences in the correlations of achievement orientation with the planning measures. In East Germany, the correlations were positive but not significant. In West Germany, achievement orientation was positively and significantly related to level of detail in the start-up business plan (partial $r = .24$; $p < .05$). In contrast, this relationship was significantly negative in Ireland (partial $r = -.36$; $p < .01$). Similarly, the relationship between target planning and achievement orientation in Ireland was negative, although the correlation was not significant. As Table 7 indicates, the correlations between achievement orientation and business plan detail differed significantly between Ireland and West Germany ($z = 2.96$; $p < .01$), as well as between Ireland and East Germany ($z = 2.59$; $p < .01$). Additionally, there was a significant difference between East Germany and Ireland in the correlation of achievement orientation with target planning ($z = 1.72$; $p < .05$). Thus, the German achievement-oriented

business owners practiced careful planning, whereas the Irish achievement-oriented business owners did not. As expected, there was no difference between the correlations of East and West Germany.

The bivariate relationships reported so far between achievement orientation, planning strategies, and success are necessary but not sufficient conditions for the validity of a mediator (James and Brett 1984). In Ireland and in West Germany, the strategy of developing a detailed business plan at start-up satisfied the necessary condition of a mediator test because it was correlated significantly with both achievement orientation and success. Multiple regression analysis (Cohen and Cohen 1975; Baron and Kenny 1986) was used to test whether level of detail is a mediator between success and achievement orientation in Ireland and in West Germany. Table 8 shows the results of the mediator analysis.

As Table 8 shows, the third hypothesis was supported—the strategy of making a detailed business plan at start-up did mediate the relationship between

Table 8
Hierarchical Regression Analysis of Detail of Start-up
Business Plan Mediating the Relationship between
Achievement Orientation and Success^a

	ΔR^2	R^2 Difference	R^2 Reduction
Ireland			
Non-mediator model ^b	.04*		
Mediator model ^c	.01	.03	75 percent
West Germany			
Non-mediator model ^b	.09*		
Mediator model ^c	.07	.02	22 percent

^aControls are age of enterprise, start-up capital, type of industry.

^bAchievement orientation on success; no control for detail of start-up business plan.

^cAchievement orientation on success; detail of start-up business plan controlled.

* $p < .05$, one-tailed.

** $p < .01$, one-tailed.

achievement orientation and success in Ireland and in West Germany, but in opposite directions. In West Germany, detailed planning positively affected the relationship between achievement orientation and success, while in Ireland it was a negative mediator.

Discussion

In this study, the relationships between planning strategies and success in small-scale enterprises were examined in West Germany, East Germany, and Ireland. It was found that the quality of planning was positively related to success in both East and West Germany, while this relationship was negative in Ireland. Moreover, achievement orientation correlated with success in all three countries. The level of detail in the start-up business plan was found to mediate the relationship between achievement orientation and success.

According to the first hypothesis, more precise planning was expected in East and West Germany than in Ireland.

When asked whether a business plan had been prepared, the Irish business owners said "yes" more often than the Germans. This does not mean, however, that these plans were developed in any detail. In fact, there were no mean differences in the quality of planning between Ireland, East, and West Germany. Thus, our first hypothesis was rejected. However, mean scores derived from culturally different samples are vulnerable to the effects of large sets of antecedent differences (Malpass and Poortinga 1986). For example, different raters of the different samples may have developed different anchor points to define a detailed plan. Such a bias is liable to reduce differences in mean scores but would not affect the relationships posited in the other hypotheses.

In the second hypothesis, it was posulated that planning has a positive relationship with success in East and in West Germany, while this relationship is absent or even negative in Ireland. The mere existence of a start-up business

plan did not contribute to success. However, detailed planning was positively related to success in both East and West Germany and negatively related in Ireland. The planning/success relationship in the Irish sample differed from the relationships found in the two German samples. This difference can be explained by the effect of different cultural values, with uncertainty avoidance being the most likely value dimension at work. Uncertainty avoidance is related to planning because planning is perceived to help one control future events (Thurston 1983) and thus to reduce the uncertainty of running one's business. Since Germans as a whole value planning highly, only business owner/managers who plan in detail have a good fit with their culture and achieve success.

Why is planning negatively related to success in Ireland? Planning does have some potential disadvantages. Planning requires time and money, and such investments are not easily abandoned. This reluctance to deviate from a plan risks creating a certain amount of inflexibility that can be detrimental. In a culture that does not value planning, there is more tolerance for unplanned behavior and more expectation for quick solutions made "on the spot." For this reason, planning might be maladaptive in Ireland and thus negatively related to success.

In all three samples of small business owners, achievement orientation was correlated with success. This is interesting, because in the field of entrepreneurship research, relationships of personality characteristics with success have been controversial (Begley and Boyd 1987; Gartner 1988; Chell, Haworth, and Brearley 1991; Rauch and Frese 2000). Our study supports the proposed relationship between achievement orientation and success. This relationship was found consistently in three different samples. Moreover, the level of planning detail mediated the relationship between achievement orientation and success. Detailed planning was a negative mediator in Ireland and

a positive mediator in Germany. Thus, the results indicate that an achievement orientation is related to the use of strategies that are culturally successful.

The study has some important implications. Many small business owner/managers do not plan at all—this is true of our sample and has been found in previous research (see Robinson and Pearce 1984). However, this lack of planning need not necessarily be viewed with alarm. Based on our findings, it would be ill-advised to recommend a firm do extensive planning without considering its cultural context. The results of this study suggest that planning in small-scale enterprises is related to success only in cultures that value uncertainty avoidance. Our findings on the effects of culture may allow a reinterpretation of some contradictory findings. While studies done in Germany have shown planning to be related to success (Jungbauer-Gans and Preisdörfer 1991), studies done in Anglo-American cultures often found no relationship and even questioned the usefulness of planning (Robinson and Pearce 1984; Lyle et al. 1995). The contingency view of our study suggests that research on planning/success relationships should take cultural conditions into account.

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