WHY DO ENTREPRENEURS WRITE BUSINESS PLANS? A STUDY OF 457 NEW VENTURES (SUMMARY)

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SUMMARY

WHY DO ENTREPRENEURS WRITE BUSINESS PLANS? A STUDY OF 457 NEW VENTURES

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Principal Topic

A widely-held business school mantra is that a new venture should start with a written business plan. Business plan advocates state that for an aspiring entrepreneur a written business plan has many benefits including articulating the business model, strategic, operational, and financial planning, examining critical assumptions, and fundraising. While there is no argument in the prescriptive literature on the importance of having such a plan in approaching investors, there is much more controversy concerning a business plan’s practical value. Empirical studies into the effectiveness of business plans have produced mixed results. But there is general agreement that two important reasons for writing a business plan are institutional and mimetic pressure. When those two factors are combined, it is expected that would-be entrepreneurs who are seeking external funding and have taken a basic entrepreneurship course are more likely to write a business plan than those who are not seeking external funding and have never taken an entrepreneurship course.

Method

We surveyed alums of a business school that is a leader in entrepreneurship education. The survey was emailed to all alums who graduated between 1985 and 2006 and for whom the school has an email address. From approximately 2,000 responses we culled the alums who had started at least one full-time venture. Our final data set comprised 457 entrepreneurs and their companies.

Results and Implications

Companies started with written plans were more likely to have raised external startup funding than those without one (p<.001); but companies with written business plans raised no more external funding than those without one. Entrepreneurs who had been taught how to write a business plan were more likely to have written a business plan before starting new ventures. Our findings suggest that institutional pressure (raised capital externally) and mimetic pressure (taught to write a business plan) are important determinants of who writes business plans for new ventures. When we combine these findings with our finding that there is no difference in the operating performance of businesses started with or without written business plans, we believe that writing a business plan before launching a new venture is only necessary for those entrepreneurs who are seeking external startup funding.

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