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THE PREDICTING POWER OF BUSINESS PLANS: DOES QUALITY MAKE ANY DIFFERENCE? A STUDY OF 405 BUSINESS PLANS (SUMMARY)

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≈ SUMMARY ≈

THE PREDICTING POWER OF BUSINESS PLANS: DOES QUALITY MAKE ANY DIFFERENCE? A STUDY OF 405 BUSINESS PLANS

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Principal Topic

The quality of founder teams is often cited in the literature as one of the most critical determinants in new technology venture (NTV) success and seen as such by many venture capital investors (Kaplan & Strömberg, 2009). According to the existing literature the practical value of business plans is controversial. Even so business plans are undoubtedly needed in approaching investors, few empirical researches have yet investigated the link between NTV performance and the quality of a written business plan. We address this issue from a new perspective linking the combination of both, the quality of the founder team and the quality of their business plans, to NTV performance.

Method

We examine 405 business plans submitted to three German venture capitalists between 2004 and 2007. We measure performance by survival rate, growth of headcount and growth of balance sheet total, using a novel dataset that we constructed based on publicly available sources and company databases. Then we build composite scales for business plan quality as well as team quality. For this purpose we trained five researchers in examining these business plans and performed factor analysis and PLS regression.

Results and Implications

At first we confirm findings of previous empirical studies that revealed generally significant success factors in new technology ventures. Those are related to firm age, team size and founders' experiences. As a large number of these studies are based on US American samples, our findings show that those success factors are also applicable to German NTVs. We found no clear evidence that ventures with good business plans perform better than others. However, very poor business plans are highly correlated to business failure. Further results indicate that complete and experienced founder teams tend to have better business plans. However, this does not raise their chances to success but at least seem to reduce their risk of failure. One aspect that has been confirmed in other quantitative studies is the positive impact of experienced founders to new venture success. Perseverance could be an additional explanatory factor.

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