DO ACTUAL OUTCOMES JUSTIFY WRITING A BUSINESS PLAN EITHER FOR EDUCATING STUDENTS OR FOR STARTING REAL VENTURES? (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

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Principal Topic

Writing a business plan is probably the most widely used teaching tool in entrepreneurship education and training. But as Honig (2004) observed, neither teaching business plans nor writing business plans are sufficiently justified by empirical or theoretical literature. Several recent studies looked at the outcome of writing a business plan; e.g., Honig and Karlsson (2004), Shane and Delmar (2002, 2003, 2004), Gartner and Liao (2005), and Lange et al. (2005). However, the outcome of those studies did not unequivocally demonstrate that writing a business plan had a positive effect on subsequent performance of a venture. Further, there is little evidence - none of it persuasive - that writing a business plan before a business is up and running subsequently produces superior performance. Nor is there convincing evidence that being trained to write a business plan improves new venture performance.

Method

Our paper surveyed 19,500 business school alumni who graduated between 1985 and 2005. Approximately 50% of them wrote at least one business plan as a course requirement while they were in school. We looked at alumni who started full-time ventures from scratch and divided them into subsets who (a) wrote/did not write a student business plan and (b) started a venture with/without a written business plan.

Measures of performance included survival, annual sales, annual income, and number of employees. We controlled for venture age, year the venture began operating, amount of financing that the venture had when it began operating, amount of subsequent financing, source of financing, industry sector, gender of the lead entrepreneur, age of the lead entrepreneur, prior experience of the lead entrepreneur, education of the lead entrepreneur, and institutional effects.

Results and Implications

Despite what Honig (2004) characterized as somewhat feeble and controversial empirical evidence, the benefits of business plan education continue to be taken for granted. Our study provides useful insight into the understanding of whether or not business plan education is beneficial when actually starting and operating a real business and contributes additional evidence to the ongoing debate about whether a written business makes a difference to the subsequent performance of a new venture.

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