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IT’S THE BUSINESS PLAN, OR IS IT? (SUMMARY)

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SUMMARY

IT’S THE BUSINESS PLAN, OR IS IT?

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Principal Topic

While teaching students how to write a business plan constitutes a large part of teaching in academic entrepreneurship education and business plans are pervasive in practice, the results of empirical studies on the performance effect of planning are mixed. The business planning literature mostly uses a simple measure of planning and finds both positive and not significant effects. However theories suggest a differentiated view when relating business planning to performance.

Four different arguments can be raised, two that support a positive effect of planning, namely (i) the completed plan is a symbol that lends legitimacy to the entrepreneur and the envisioned new venture, (ii) the written plan firmly outlines goals which help the entrepreneur to focus attention and energy on attaining these goals, as well as two that support both positive and negative effects. These include (iii) learning, which reduces uncertainty about cause-effect relationships through a process of pro-active learning and which helps the entrepreneur to act better through more thorough understanding and quicker in changing environments, but can also give rise to mental rigidities and inflexibility. The last argument (iv) is increased efficiency through planning, but the activity of planning could also become so costly that its benefits are outweighed.

In an attempt to improve the measurement of business planning and to resolve a potential source for mixed findings we suggest to differentiate business planning by including indicators for the business plan’s quality, such as its formality and breadth as well as the time spent planning. Based on theoretical rationale we expect a positive performance effect of systematic business planning as compared to a more haphazard, ad-hoc planning activity.

Method

We use data from the Panel Study of Entrepreneurial Development II, which is a representative sample of U.S. adults active in the business creation process (“nascent entrepreneurs“). The dataset includes time information on planning activities and extensive background on the entrepreneurs, while at the same time reducing survival and hindsight bias through a longitudinal survey design. We have estimated a logit model including systematic business planning and time spent planning and controls.

Results and Implications

Results from this study generally sustains the intuitive importance of business planning in the area of nascent entrepreneurs, but we should reassess our reliance on the fact that planning has occurred and instead focus more on the process, i.e. on time spent planning and quality, in which it is produced.

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