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SUMMARY

IS THE QUALITY OF ENTREPRENEURIAL BUSINESS PLANS RELATED TO THE FUNDING DECISION?

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Principal Topic

The inputs for the financing decisions of privately held new ventures are based on the proposed execution of an opportunity articulated in an Entrepreneurial Business Plan (EBP). Even though the business plan is a key component of the new venture funding decision, there is little formal research in this area.

Method

The quality of business plans (decision input) will be measured by using “The Enhanced Entrepreneurial Business Planning Paradigm” (Hindle 1997). This paper is the second phase of a 3-phase research project focused on enhancing the business plan screening process through standardization. Phase 1 one of this project (Mainprize et al. 2002, presented at BKERC 2002) explored the effectiveness of business plan evaluation (process) using viable venture attributes to predict new venture success (output). The results of phase one indicated significantly higher “hit-rates” (% of correct decisions) by using a standardized decision process. In this paper (phase 2) we will examine the primary decision input, the Entrepreneurial Business Plan as it affects the decision process.

This study utilizes data gathered over 4 years of academic-practitioner collaborative efforts with a major North American venture capital conference provider. The research is empirically based, comprising two major components: (1) an analysis of the quality (measuring 10 principles derived from Hindle 1997) of 129 quasi-standardized new venture business plans submitted and presented through national Venture Capital Conferences over a 4 year period; and (2) the rating scores for a standardized set of 6 venture attributes used to screen the respective 129 business plans submissions. As a decision input, each business plan will be assessed according to (1) quality of communication and (2) control articulation by rating 10 variables. In terms of the business plan evaluation process, each plan will be rated using 6 viable venture attributes of innovation, value, persistence, scarcity, flexibility and competence. Rating the 6 viable venture attributes will produce an invest/ not invest decision. For the regression, the dependent variable will be the investment decision and the 10 business plan quality ratings (for decision input) will be the independent variables. Hypotheses to be tested relate the quality of the business submitted in the screening process to the funding decision (invest or not).

Results and Implications

We believe that the main contribution of our research is twofold. First, it will advance the field of business planning by providing and testing an assessment regime that extends the theory of entrepreneurial business planning (Hindle, 1997). Second, the study will provide insight into the potential of standardizing entrepreneurial business plans to enhance the decisions made in the screening process.

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