The Importance of Business Plan Proficiency to Business School Graduates

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Abstract

Small businesses are one of the largest groups of employers in the United States. Success of these businesses is, therefore, very important to the economy at large. Entrepreneurs who write business plans, in general, receive more funding from third parties such as banks and venture capital firms and are more likely to be successful. Entrepreneurs who receive a business education and have the support of a mentor are also more likely to be successful in the long term. Incorporating business planning, and activities such as business plan competitions and building incubators on campus, enhance classroom learning.

Capability of Graduates of Business Programs to Write and Understand Business Plans

Introduction

Entrepreneurship has long been a primary driver of the American economy, with small businesses employing the majority of the working population. Starting a small business, though, is a daunting task, particularly for those who have not received a formal business education. The success of small businesses is dependent on the knowledge and capability of the entrepreneur running it. In the United States, there is a net decrease in the number of small businesses in operation. In a one year period 518,000 new businesses opened, but even more closed their doors (SBA, 2012; Nazar, 2013). 44% of failing businesses close within the first four years of opening (Mansfield, 2019). For the same one year period mentioned above, 680,716 business ceased operations (SBA, 2012). These businesses are major contributors to the economy, supply important services to the communities in which they are located, and provide a livelihood for employees. If it is possible for more small businesses to survive through the writing of better business plans, it will provide a boost to the overall economy, increase the number of available jobs, and provide healthy amounts of competition to local economies. Receiving an education, specifically from a business program, should greatly increase the entrepreneurial success rates (Hopp, 2015).

One of the first tasks that an entrepreneur undertakes in the process of starting a business is the writing of a business plan. Writing a business plan requires some specialized knowledge but can be completed by a layman. Graduating from a business program though, should provide graduates with prior knowledge of the task and insight into what is involved in the process, and provide a better and more successful result. Business plans should be thorough and incorporate large amounts of information with the intention of convincing a third party to loan money to or invest money into the venture. Business school graduates are likely to be hired throughout the business world or become entrepreneurs and create their own companies so understanding business plans is a vital task no matter which field the graduates work in. Graduates should be able to compile and analyze a business plan to evaluate the probability of the business being successful if sitting on the other side of the desk.

Importance of Writing and Understanding Business Plans

While many of the greatest entrepreneurs, such as Steve Jobs and Bill Gates, never wrote business plans before launching their enormously successful businesses, it is a necessary step for most individuals whose goal is to open a business (Lange, Mollov, Pearlmutter, Singh, & Bygrave, 2007). It is especially important for those who require outside funding to get started. Business plans are a part of the everyday lives of both business owners and employees of financial institutions. The importance of business plans is reflected in the time and intensity of the process, with professionals estimating 200 hours of work going into the creation of a business plan (Lange et al., 2007).

Writing Business Plans

For entrepreneurs, the business plan acts as an outline for the business, including policies, practices, and goals for the company. The two main uses of business plans, planning and financial evaluation, are of critical importance to a successful business. Pre-planning for how the business will be run is positively correlated to firm performance, meaning that the higher the quality of the business plan, the greater the chances of success (Hopp, 2015). The planning function of business plans is where the bulk of the research is focused. In addition to outlining how the entrepreneur wants the business to run, an understanding of the industry must also be established. If the entrepreneur is unprepared for issues common to the industry or is unable to match or beat competitors' tactics, the business is unlikely to be successful (Lange et al., 2007). The areas of the market that should be examined specifically have been outlined by Allender (2000) and include demand conditions, supply conditions, market structure, market conduct, and market performance.

Market conditions can also help to determine whether or not a business idea could even be feasible. For example, if the industry is in decline, it is unlikely that the existing level of demand would be enough to support an additional business. Alternatively, if the industry is on the rise, it is likely that the business would be supported by both existing and growing demand. Some challenges presented by the market, such as barriers to entry in the form of required licensures are not make or break factors, but are additional steps to be done before the business can be opened that the entrepreneur may not have been aware of otherwise (Allender, 2000). Porter's Five Forces Model provides a method to analyze the competitive environment to determine which barriers to entry may or may not exist for the proposed company. The five forces that need to be considered are the threat of new entrants, bargaining power or buyers, bargaining power of suppliers, threat of substitute products and services, and intensity of rivalry among existing competitors (Dess, McNamara, Eisner, & Lee, 2019).

Regarding financing, the business plan is how information is presented to potential investors regarding opportunities for investment, amount of financing needed, how the financing would be used, and a plan for repayment (Ashamalla, Orife, & Abel, 2008). For many entrepreneurs, the financial aspect is not the primary driver behind writing the plan, but it does often end up being the most beneficial result of the plan (Lange et. al., 2007). Additionally, research conducted by Hopp (2015) shows that having a formal business plan and business education results in significantly larger amounts of financing. The difference in financing awarded allocates a monetary value to business plans beyond planning purposes (Hopp, 2015). This monetary value marks financing as the primary reason for writing a business plan between the two main motivators that drive business plan creation.

Understanding Business Plans

Business plans are assessed by financial institutions, such as banks and venture capital firms, to determine whether or not the institution should provide funding based on probability of success. The plan should convey the business goals and how the entrepreneur intends to reach those goals. The external perspective is that the business plan can be used as a means of communication between the business and third parties on the topics of goals, organizational structure, and financial position (Olokundun, Ibidunni, Peter, Amaihian, & Ogbari, 2017).

Having a successful business requires more than just having a profitable idea. A good idea must be supported by an effective plan and business practices. Even a bad idea can be the basis of a profitable business if it is equipped with well thought out plans for financing, management, and sales. Research has shown that the nonhuman assets are what venture capital firms deem as most critical for success because the ideas owned by the company are seen as the primary source of profits rather than management. (Kaplan, Sensoy, & Stromburg, 2009). In all likelihood, the business plan is the first impression that a venture capital firm will have of a company, making it the most valuable nonhuman asset in an aspiring company’s arsenal (Ashamalla et al., 2008).

The study recorded by Lange et. al. (2007) found that while the entrepreneurial respondents ranked fundraising among the lowest of reasons to write a business plan, it was statistically the most influential determinant of the amount of financing that was received. Having a business plan that can convince a firm to supply reliable financing further increases the company's chance of success by giving the company means to operate. If the business plan is good enough to secure funding, it is likely to serve as a quality base for the company.

Business Plans

Writing a business plan is the first step in the process for a variety of reasons. Especially in the early stages, the process of writing and researching can be a great way to form concrete details from ideas (Ryans, 1997). Business planning is a highly customizable practice, with each one being compiled according to the needs and specifications of the writer for their particular business venture. Generally, plans are written for the long term, but can be written for time periods as short as one year. This type of plan, known as a tactical plan, would be most relevant to a pre-existing business rather than an entrepreneur (Fry & Stoner, 1985). Business plans may also be used post-formation for companies in times of transition or crisis, but are most often used by new businesses as a basis for the company's structure and to secure funding (Dordevic, Jevtic, & Jevtic, 2013).

Business Planning for New Companies

With business plans being such an important part of opening and running a business, it is also one of the most widely written about topics in the realm of entrepreneurship. A simple Google search renders millions of results (Lange et al., 2007). An effective business plan

> should include a company's charter and goals for the product and/or service, market and market share data, detailed department plans, a marketing plan, projects and project timing, personnel requirements and financial data, and expected profits and return on investment (Ryans, 1997, p. 95).

As mentioned, writing a business plan is a time-intensive process that requires copious amounts of research. Sometimes, the necessary research is simply not available because it has not yet been conducted. This is an issue that is more common in countries with developing economies, because the infrastructure may not yet be in place. There are a few ways around this: one is to take a case study approach and use the data of a similar market, another is to conduct the research (Miller, Bahn, Drygas, & Rust, 1995).

A study conducted by Kaplan et al. (2009) analyzed the business plans of fifty companies that successfully went public. Included in the results section of the study is a table that lists summaries of the primary focuses of each of the companies studied. Due to the wide variety of business included in it, the table provides evidence that any entrepreneur can benefit from a business plan no matter what type of business it is.

Business Planning for Existing Companies

The planning portion involves running through different scenarios that could affect the business, developing contingencies for any potential issues that are identified, and often involves researching extensively. Research should be conducted on the industry, any firms who would be the primary competitors, and many other topics. Business plans may also be written by owners or management teams of existing businesses if they are in a time of transition or financial need. A business in transition also stands to benefit from further research, particularly if the company is attempting to enter a new market, reach a new group of customers, or some other change that alters foundational aspects of the business (Olokundun et al., 2017). Having the knowledge that is gained through building the plan helps to protect the company by having strategies in place for possible issues before they arise (Olokundun et al., 2017).

After the housing market crash in 2008 and the following recession, many companies struggled, and there was an increase in the number of post-formation business plans as those companies attempted to find a way to survive (Dordevic et al., 2013). For companies who are building plans after the original formation of the company, there are a few different aspects that must be taken into consideration. First, the focus of the plan is the crisis or new direction of the company instead of in a pre-formation plan that focuses on the product or service that the company intends to sell. From there, it is best to focus on how to meet the goals of the company, while considering the limiting factor identified as the focus (Dordevic et al., 2013). The aim of the planning process under these conditions is to find a solution to the limiting factor or focus that enables the company to profit and continue operations (Dordevic et al., 2013).

Research for post-formation plans during times of economic crisis, such as the 2008 recession, include all of the same areas as pre-formation plans with a few additions. Extensive research should be conducted on current economic and market conditions, and a defense should be prepared to explain how the company plans to survive the troubled times. An analysis of fixed and variable costs should also be included to provide evidence of the strength of company (Dordevic et al., 2013). During times of crisis, the strongest companies have low fixed costs because there is decreased flexibility regarding selling price. While the plans may only be written for the company’s use in a crisis scenario to try to get back on track, many may also need funding from a third party in order to put the plan into effect. Financial institutions are less likely to provide funding during these time periods so the quality of the plan should exceed what would be done under pre-formation conditions to increase the chances of receiving funding (Dordevic et al., 2013).

Developing a new plan is generally the best strategy for a company that is in crisis but anytime a company makes a drastic change, there will inevitably be tension. Sund, Bogers, Villarroel, and Foss (2016) identified three areas of tension that must be handled by management to help ensure a successful transition. First, no solution should be settled on too quickly. As was discussed earlier, extensive amounts of research must be completed for post-formation plans to ensure that the best decision possible is made regarding the new direction of the company. If a conclusion is reached too quickly, the company is unlikely to end up in a better position than they were in before deciding to make a change. Second, a balance must be found between the support of top management and experimentation. Any major change within a company needs the support of upper level management, but will ultimately be implemented by lower level employees. Because of this, it is important to not let a disconnect develop between the direction that management wants to steer the company and where the employees are willing to go. Lastly, prepare for a power struggle for company resources (Sund et al., 2016). Whenever a company attempts to move in a new direction, especially in a time of crisis, resources are scarce and will be diverted to key areas. If the company is attempting to secure additional funding to support a change, the money will likely be earmarked. Upper management needs to be prepared to field requests for the funds before it becomes an issue (Sund et al., 2016).

Financial Statements

A significant portion of the research and analysis that is conducted over the course of the business planning process is related to the formulation of financial statements. Each plan should include the primary financial statements; income statement, balance sheet, and statement of cash flows. Initial statements should be created before any transactions have occurred. The initial financial statement should use estimates of sales and expenses, but all subsequent statements will include the actual revenues and expenses of the company. Assets, liability, and equity accounts are displayed on the balance sheet. The initial balance sheet would include the balances that the owners are able to contribute in addition to what they are hoping to receive from investors. The statement of cash flows is the most important for entrepreneurs, because it is where they can prove whether or not they are capable of effective management of cash inflows and outflows. One of the most significant threats to a new business is low liquidity, so predicting cash flows on the initial statement is a quality planning tool (Hormozi, Sutton, McMinn, & Lucio, 2002). For companies that are creating post-formation business plans, it is a good idea to include an audit report to prove that the company is in good standing with accounting regulations to help build trust with the potential investor (Foster, Garrett, & Shastri, 2016).

Business Plan Software

Business plans are generally assembled by hand, especially in an academic setting. The research and writing are completed by the aspiring entrepreneur, possibly alongside a mentor who is assisting with the process. Since the rise of personal computers, software has been developed to assist with the decision-making aspects of business planning. 39 percent of small business owners have reported that they have used some form of planning software (Hell, Krneta, & Krneta, 2013). Students will most likely continue to write business plans by hand while in the classroom, but will want to be familiar with the software that is available to use after graduation.

The software is particularly helpful with analysis and decision making. Inputting market and forecasted data into the program can result in graphic representations, what-if or risk analyses, and financial models. Using software has also been associated with increased adaptability because it has been deemed easier to make changes. Analytic Hierarchy Process was studied specifically for its decision decision-making capabilities by Hell et al., (2013) because it is able to handle multiple criteria at a time. Decisions are made by pairing alternatives and comparing each. Every alternative is assigned an intensity and a weight preference which is used to calculate the statistically strongest alternative. Various alternatives can be linked into a hierarchical structure starting with the goal at the top and with each level below broken into criteria and sub-criteria necessary to achieve the ultimate goal. Having a computer to run the more complex calculations can increase the credibility of the resulting information, especially in the eyes of a third party lender or investor. In the coming years, the prevalence of business planning software is expected to increase as each generation becomes more technologically adept (Hell et al., 2013).

Effect of Business Programs on Graduates' Abilities

Entrepreneurship education has increased in quantity and quality over the past few decades. In one specific case study recorded by Lange et. al. (2007), every respondent carried either a bachelor's or master's degree in business administration, indicating that a business education is a reliable marker for success. Interestingly, the study also found that the entrepreneurs with bachelor's degrees ran businesses that produced higher revenues than those with MBAs. This finding leads to the conclusion that while having an education is an indicator of success, higher levels of education do not increase the probability of success. The study was concluded with a note to educators calling entrepreneurship "a contact sport" where action is required instead of mere theory in a classroom (Lange et. al., 2007, p. 254). Many business schools have incorporated more action oriented tasks and opportunities into their programs (Turner & Gianiodis, 2018).

Activities

Incorporating writing business plans into entrepreneurship education helps to prepare students for life after college. Having additional incentive outside of the classroom can help to motivate students to produce plans that they are excited about and will pursue until a successful business has been created. Activities such as competitions and trips also allow students outside of the school of business who have entrepreneurial aspiration to learn about the business planning process (Turner & Gianiodis, 2018).

Business plan competitions. For the particular school studied, Babson College, the action was worked into the program through a business implementation competition with the winner receiving funding for the idea. The winner of the competition in 1987 was Mario Ricciardelli who wrote the business plan on a student travel business that he had started out of his dorm and ended up selling the company for $40 million in 2004. In recent years, "universities appear to take as much pride in winning business plan competitions as in fielding championship athletic teams" (Lange et al., 2007, p. 238).

While the natural talents and ideas of the student cannot be discounted, the program and competition most likely pushed him and his business in the upward direction. Many other winners of this particular competition also went on to run successful businesses, making the competition a valuable tool to be employed by business schools (Lange et al., 2007). In addition to business programs, business plan competitions have also been held in Nigeria for post-formation companies. With post-formation plans, the companies who participated in the competition were 20 percent more likely to survive than other similar businesses in the same industry. The act of winning the competition can instill the competitor will the confidence necessary to see the process through to completion (McKenzie, 2017). Currently, business plan competitions are reasonably common but business plan implementation competitions are not. While both can be useful tools that enhance a business student's education, the implementation competition is the most effective (Lange et. al., 2007). Regardless of the type, the active learning aspect of the competitions forces students to practically apply what they have learned in the classroom, while also requiring them to critically evaluate business plans from multiple directions in a supportive environment (Russell, Archison, & Brooks, 2008).

Entrepreneurial excursions. Another activity recommended for business programs is "entrepreneurial excursions" to successful businesses in fields that are popular in the local economy (Olokundun et al., 2017, p. 9). Since the study recommending this activity was conducted in Nigeria, the industries listed to visit are "oil, communication, agriculture, manufacturing and real estate" (Olokundun et. al., 2017, p. 9). The industries chosen can of course be customized depending on location. Each visit can help to motivate students because they can see the tangible results of those who were once in a comparable position as business students.

Students

Overall, entrepreneurship education is a relatively new addition to business school programs. The ultimate goal of entrepreneurship programs is to get students to the point where their skills, knowledge, and competencies are enough to not only write a business plan but to start a successful business (Turner & Gianiodis, 2018). Students with entrepreneurial aspirations are more likely to follow through with starting a business, including writing a business plan, because of the education and mentorship received while still enrolled in a business program. Students who already exhibit a strong commitment to learning are more likely to involve themselves in the opportunities made available by their business school's program (Olokundun et al., 2017). Students with entrepreneurial aspirations are not confined to the school of business, so the opportunities should be available to the entire student body whenever possible (Turner & Gianiodis, 2018). Motivated students are more likely to seek out a mentor or participate in business plan competitions regardless of their degree program.

Turner and Gianiodis (2018) identified a quality deemed essential to success that they have named entrepreneurial passion (EP). In addition to commitment to learning, students should also possess an advanced level of creativity. Creativity is important not only for being able to create an idea for a new business, but also for being able to think of solutions to possible issues that may arise and to promote risk-taking, as starting a business is an inherently risky endeavor. EP also includes an "unwavering belief in a dream," a commitment that goes beyond learning and helps to keep the student motivated once the business opening process in initiated

(Turner & Gianiodis, 2018, p. 137). Essentially, in order to become a success entrepreneur, it is important for the individual to believe that they are a successful entrepreneur.

The students who are not initially interested, or lack the commitment to learning at the onset, are less likely to start their own business (Olokundun et. al., 2017). This means that the education received is also beneficial to students who do not initially aspire to open a business, because commitment can develop over time and it can often lead to entrepreneurial aspirations. In this same way, students who were initially motivated are likely to lose interest and give up on entrepreneurial ventures if they do not receive adequate support and education while involved in the program (Ahsan, Zheng, DeNoble, & Musteen, 2018).

Educators

For those who do not start out wanting to be an entrepreneur, the presence of supportive infrastructure, including incubators, act as a powerful motivator in deciding to open a business. Incubators are particularly important because they offer a place where guidelines, resources and a supportive environment can all be found on a single location on campus. Incubators also allow students to grow under the leadership of faculty mentors. Having a supportive base to operate out of gives entrepreneurs access to invaluable resources and advice that increases success rates for every step in the process (Ahsan et al., 2018).

The earlier mentioned commitment to learning is heavily influenced by the teachers leading the program. If those at the helm are motivated and inspired, the students are more likely to feel the same way, especially those who enter the programs as aspiring entrepreneurs (Olokundun et. al., 2017). The importance of the teacher’s knowledge, enthusiasm, and motivation is echoed by the Polish-American Extension Project (PAEP) workshops that will be discussed in greater detail later on. The fact that the teachers in Poland had to speak through interpreters was not an inhibiting factor so long as the translator was already familiar with economic concepts and could convey the attitude of the teachers (Miller et.al., 1995).

Learning to assemble and assess business plans can be a valuable teaching tool because it incorporates so many different aspects of business into one document, while also instilling the importance of research outside of academics. Business plans include aspects of management, accounting, finance, human resources, marketing, and much more. Using business plans to teach one or many of these topics incorporates real world application and can help to keep students interested in topics that they may otherwise not have taken seriously. Knowing how different areas of business work together develops a holistic approach to business education (DeBoer, 1998). It can be treated as an all-inclusive teaching tool and usually is in Nigerian universities. The findings of the study conducted by Olokundun et al., (2017) conclude that the Nigerian programs' focus on business plan writing has influenced students to become entrepreneurs and improved their likelihood of success by increasing their commitment to learning. The main criticism addressed in the study is that an education focused on business plan writing may limit students to thinking inside the box, but the findings led to the conclusion that the writing process leads to the development of ideas. The results of the study also recommend that teachers go through training in business plan writing and be required to have real world entrepreneurial experience in order to teach entrepreneurial classes (Olokundun et al., 2017).

Mentorship. The capability of graduates to successfully write and analyze business plans is shown to be affected by the level and kind of support that they received from the business program attended. On-campus programs that include mentors specifically for entrepreneurship are the most effective. An entrepreneurial mentor should be one who pays specific attention to recognizing a good idea and putting it into action by not only encouraging the student but also by assisting in the steps to implement the idea. The mentors and teachers were most effective whenever they have prior experience and skills in the area of entrepreneurship (Olokundun et al., 2017).

A conceptual model was developed by Ahsan, et al. (2018) to describe the mentoring relationship. The mentorship process is initiated when a student comes up with a business idea to fill a gap in the existing market. The authors refer to this type of student as having an “inventor identity” that needs to be cultivated in order to become “founder identity” and “developer identity” (Ahsan et al., 2018, p. 96). Later, the founder and developer identities will be useful for the day to day operations of the created business. Once the relationship has been established, it is the mentor who can help to build the founder identity. Mentor quality, mentor availability, and the types of support offered by the mentor are the three primary factors that help the student to manage negative affect, project positive affect, and manage non-venture affect. Positive and negative affect refer to the individuals’ attitudes towards the venture and non-venture affect refers to distractions from the process. Through this process, depending on the level of support offered by the mentor, it will result in one of the four following options. Either a successful business will be launched, slow progress will be made, the original idea will undergo reorientation, or the venture will fail and conclude the entrepreneurial process (Ahsan et al., 2018).

Business Courses

Creating a business plan requires knowledge from a variety of disciplines within the broad field of business. The courses included in a business degree should cover each of these topics. An accounting and finance course is important to acquire knowledge on how to create financial statements and how to make better investment decisions (Rampton, 2014). Economics would also be a useful class for similar reasons. Knowledge of the economy would help the entrepreneur to know what investment decisions are appropriate in the existing economic climate (Rampton, 2014). For small businesses, the owner should take a course on marketing to learn how to push their brand and product because it is unlikely that they will be able to afford to hire out this task (Rampton, 2014). Regardless of the size of the business, the entrepreneur should take a management class. If the entrepreneur does not know how to effectively manage employees and assets, it will be very difficult for the company to succeed (Rampton, 2014). Lastly, it is important to learn written and verbal communication skills. This can be learned through a separate course or integrated into other courses through papers and presentations. Being able to communicate well helps to better convey the plan to investors, the product to its intended audience, and to build relationships with customers (Rampton, 2014). Having the knowledge acquired from a well-rounded business education is invaluable both during the planning process and beyond.

Education Outside the Classroom

Not every country or established university has the infrastructure to support a formal business program where aspiring entrepreneurs can learn how to write and understand business plans. In such cases informal institutions can be an acceptable replacement. Informal institutions are most effective whenever they lead to more permanent versions where ongoing support can be offered.

Different strategies have also been employed with success such as in Poland in the 1990s as the result of the Polish-American Extension Project (PAEP) whose goal was to assist Poland in becoming a market economy. The initiative's primary focus was on a workshop where business plan writing would be taught along with other economic principles specific to agriculture. Each lecture was brief and accompanied by practical application and regular feedback, which was readily accepted by the participants. Successfully completed business plans would be defended at the end of the workshop and then the teachers would assist in the filling out of loan applications. Once the original workshop had concluded, participants were selected to be trained to teach other workshops later on. This form of passing on the torch is an effective way to teach and empower more individuals at a time. The original teachers of the workshops trained 340 participants to lead their own groups which resulted in workshops being held in all forty-nine provinces of Poland (Miller et. al., 1995).

In the case of the PAEP workshop program, the business plan education led to the writing of 23,800 business plans in a single year and received total funding in excess of $600 million. Having successful entrepreneurs in Polish agriculture is of particular importance as the farms had been owned by the government for many years and were in the process of being privatized. Having those who are running the farms backed by the knowledge they learned in the workshop greatly increased their chances of success. The success of the work has spurred the development of more programs like it in Poland and was adopted by 600 hundred schools by the year 1995 meaning that it would continue to aid aspiring entrepreneurs in the years to come (Miller et. al., 1995).

Capability of Graduates

There have been successful companies launched by college dropouts who did not start out with a business plan, such as Bill Gates and Microsoft, but situations such as this should be treated as exceptions rather than the rule. Multiple studies, such as Hopp (2015), Lange et al. (2007), and Ahsan et al. (2018), have shown that having received a business education affects the quality of the business plan and the long-term success of the company. The quality of the education received seems to be the best indicator of success over the quantity of education, as the study by Lange et al. (2007) found that businesses run by individuals with master's degree do not consistently outperform businesses run by individuals with bachelor's degrees.

The average amount of financing received for a business plan is $24,000. For those in the group that developed a business plan (the planning group) studied by Hopp (2015), financing averaged $68,509 while those in the non-planning group only received $14,930. Hopp (2015) identified numerous qualities that affect the success of a business plan. The qualities deemed statistically significant were education, entrepreneurial experience, ability expectation, startup commitment, and social support.

Success with Mentor Support

Building off of the previously mentioned conceptual model that was developed by Ahsan et al. (2018), different levels of success were identified depending on the combination of mentoring support and founder affect for business students who wrote business plans and started businesses based off of those plans. Founder affect is a mixture of the qualities of startup commitment and ability expectation identified by Hopp (2015). The study followed fourteen different ventures. Of those fourteen ventures, those who were successful were the ones that experienced high support from mentors and a positive founder affect. They were able to secure the funding necessary for the ventures and were more likely to adapt instead of giving up whenever reaching a roadblock. The combination of support and positive affect motivates the entrepreneur and provides guidance in areas where the student lacks the knowledge or experience (Ahsan et al., 2018).

The next category of students experienced slow progress, meaning that the idea was developed over a year or longer without making significant progress. This is the result of positive affect and low mentor support. For this category, the student desires to be an entrepreneur but lacks a support system to subsidize the student's lack of knowledge or experience. The lack of support could be due to the student not seeking out a mentor or that the mentor was not able to help the student. The majority of these students were eventually successful (Ahsan et al., 2018).

Reorientation was experienced by students who received a high level of support but a negative founder affect. Reorientation has been defined as taking the original idea developed in the campus incubator and substantially altering it into a new venture at the time of attempting to start the business (Ahsan et al., 2018). Four of the fourteen ventures followed by the study fell into this category and only one of the four were successful by the time the study concluded (Ahsan et al., 2018). These students experienced multiple issues throughout the process but were able to resolve most issues through the help of a mentor but struggled with maintaining the drive necessary to follow the entrepreneurial process all of the way to the end (Ahsan et al., 2018).

The final group of students experienced low support and negative founder affect. Each of these students either quit the process or their ventures failed. Five of the ventures in the study fell into this category. These students encountered numerous roadblocks throughout the process which discouraged their efforts and without a mentor to help solve the issues, decided to venture was not worth continuing (Ahsan et al., 2018). In these cases, the disconnect between student and mentor was generally due to miscommunication, either the students were afraid to ask questions or incompatible availabilities kept the student from being able to meet with the mentor (Ahsan et al., 2018).

Venture Capitalists

A company attempting to raise funding through venture capital firms faces slightly different criteria than those who apply for loans from banks. Venture capitalist firms will look at the management team and the applicant’s human and nonhuman assets in addition to the written business plan. Based on the information that the firm receives to analyze, a decision will be made (Kaplan et al., 2009). If the decision is favorable and is the result of a strong business prospect as displayed in the business plan, it is referred to as “betting on the horse” (Kaplan et al., 2009, p. 75). If the favorable decision is based, instead, on the merits of management or other human capital, it is referred to as “betting on the jockey” (Kaplan et al., 2009, p. 75).

The human capital approach has become increasingly popular in recent years as intellectual property has increased in importance, but the plans for the company cannot be discounted. Kaplan et al. (2009) conducted research on fifty firms that were originally funded by venture capital firms and were successfully taken public. The research found that most firms do not stray from their initial business plan trajectory, but many replace upper management after the founder retires or the company goes public. Given this information, leaning on the business plan during the decision making process is more likely to yield a decision that is successful in the long-term. While a strong management team can be an intangible asset for the company, it is not always a reliable basis for deciding if a business will be successful in the long run (Kaplan et al., 2009).

Conclusion

Overall, the education received by business students, in the form of resources and mentors, greatly benefits their capability to write and analyze business plans as well as the likelihood of success for the business. The most successful businesses overall were run by those who had both formal business education and experience either in the field or as an entrepreneur (Lange et al., 1995). Whenever a formalized business education is not available, informal programs will also produce successful entrepreneurs. Having the chance to enter written plans into competitions helped to motivate students to enact their plans. Winners of the competitions generally received funds and went on to run successful businesses (McKenzie, 2017). Regardless of the how the education is received the important part is having the knowledge and support.

With small businesses being the largest employer in the country, the success of entrepreneurs is paramount. Having entrepreneurs who know how to effectively write a business plan and employees at financial institutions who know how to correctly read and analyze business plans, reduces the overall risk involved in loaning or investing money. Of course, it is not likely to change the interest rates or other direct costs, but the loans are more likely to be paid back or a return made on the investment (Miller et al., 1995). Overall, business plans written by individuals who received a formal or informal business education produce business plans that are likely to receive funding and build businesses that are successful in the long term.

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