



ACE Research Vignette #049: How Do Business Founders Use Business Plans?

This series of research vignettes is aimed at sharing current and interesting research findings from our team of international Entrepreneurship researchers. In this vignette [Per Davidsson](#) and [Christophe Garonne](#) examine the use of business planning among business start-ups.

Background and research question

Academic programs as well as start-up support agencies focus a lot on business planning and hundreds of books and internet websites spell out how an effective plan should be developed in order to appeal to investors. Academic researchers have therefore taken an interest in whether and how business planning is helpful for start-ups—with mixed results. In this research we take a step back: instead of focusing on the effects of business planning, we delve deeper into whether and how business founders actually use business plans. Specifically, we at the following issues:

- Use vs. non-use of business plans
- Degree of formalization, that is, whether the plan is an informal document for internal use or a formally prepared document intended for others to see.
- Revision of the plan, and
- Four types of use of planning: 1) As an action plan to be followed step by step; 2) As a means to obtain funding or other benefits from external sources; 3) As an analytic tool to help seizing opportunities and avoiding mistakes, and 4) As an internal communication tool.

For effects of planning on outcomes see instead [ACE vignette 025](#), [ACE vignette 041](#) and this [ACE video vignette](#).

How we investigated this

We used data from several hundred, randomly sampled nascent ventures (on-going start-up attempts) and young firms using data from the [CAUSEE](#) project at the [Australian Centre for Entrepreneurship Research](#). The founders were interviewed three times at 12 months interval (Wave 1, Wave 2, and Wave 3). The questions about business planning were repeated in each wave. The 259 nascent and 309 young ventures that survived and continued to participate through Wave 3 are the most relevant group for our current purposes. Some analyses were limited to those who reported using a business plan in every wave (regular planners). Such analyses include 98 nascent and 99 young firms. A random sample of start-ups is numerically dominated by relatively modest efforts with small financial investments and limited ambitions or prospects for growth; however a significant minority may be destined for such a future.

What we found?

1. *Roughly half of all start-ups report having a business plan at any given time.* This means business planning is prevalent, but also that many start-ups move forward without any type of written business plan.
2. *Only about half of the planners have prepared a formal document suitable for external use.* Thus, what many business founders' use is something far less ambitious than the formal document business students or venture capital hopefuls are asked to present.

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3. *There seems to exist a sizeable group of “dedicated non-planners”.* Some 75-80 percent of those who do not report a plan when first contacted still have no plan 24 months later. By contrast, there is more switching between formal and informal forms of planning and movement from having to not having a written plan.
4. *The “planning intensity” often decreases over time.* The presence of a business plan decreases slightly over time among nascent firms and is lower still among young firms. Among the latter, the proportion of informal (compared to formal) plans increases over time. More founders downgrade rather than upgrade their “level” of planning over time. The importance attributed to the plan as an analytic tool, action plan, or funding attractor also decreases over time. There even appears to be some tendency towards decrease in planning revision over time.
5. *“Regular planners” take their planning more seriously.* They are more likely to have a formal plan; to revise the plan, and rate all uses of the plan as more important. They also have less of a discrepancy between actual and expected use of the plan. The regular planners seem to be dedicated planners who put some serious thought and effort into the development and use of business plans.
6. *Revision of the plan is the rule, not the exception.* This finding is clearly an important contrast to claims that the business plan typically is a mere symbol used to gain external legitimacy (and then put aside). Among regular planners, 40 percent report having revised the plan (again) in every interview.
7. *The most important use of the business plan is as an analytic tool.* This holds true for all covered stages of development, even if the rated importance for this use declines somewhat over time.
8. *Helping to obtain external finance is the least important of the four possible uses of the business plan.* This is another important contrast to received views. Most of the time, most start-ups in random samples are not looking for external infusions of capital. Hence, they do not rate this as an important reason for having a business plan.

Business and policy advice

These results describe what business founders actually do in terms of business planning and not necessarily what they should be doing. However, for business advisors and educators it is important to have a realistic view of how business planning is “spontaneously” used in start-ups. Many do not use a written business plan at all and among those who do so it is often an informal plan for internal use as an analytic tool. Fundraising is the least common reason for having a plan. It is somewhat encouraging that revision of the plan is commonplace; this shows that the plan is usually not just done “for show” and then quickly forgotten. At the same time it is perhaps a bit ironic that the “planning intensity” often decreases over time. One line of argumentation suggests that planning does not make much sense until the founders’ have decided on a main path forward. There should therefore be more planning when the start-up has “found its way” and there is less uncertainty about what it wishes to offer, to whom, and how to make profits from this. One explanation would be that once things have settled and the firm has developed routines there may be less need for using a plan.

This research vignette was written by Professor Per Davidsson, Director of ACE and Dr Christophe Garonne, Assistant Professor at IESEG and former PhD Student at ACE. Check the source & learn more from:

Garonne, C. & Davidsson, P. (2016). An Exploration of the Phenomenon of Business Planning in Nascent and Young Firms. In: Corbett, A. & Katz, J. *Advances in Entrepreneurship, Firm Emergence, and Growth*, Vol. 18.

See also:

Garonne, Christophe (2014). [*Business planning in emerging firms: uses and effects*](#). PhD thesis, Queensland University of Technology.