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## New Research Finds Business Plans Are Virtually Useless *Advice to Entrepreneurs: Perfect the Business, Not the Business Plan*

College Park, Md. - April 6, 2009 – A business plan has zero value as a fundraising tool according to new research from the University of Maryland's Robert H. Smith School of Business. Entrepreneurs should be perfecting their business, not spending hours refining how their plan looks on paper, say researchers.

"Spending time and energy tweaking your business plan is a waste of resources," said researcher David Kirsch, associate professor of management and entrepreneurship. "It's a limited-use document that will in no way substitute for the hard work of actually building a business. You're better off investing in your idea, your social network, finding potential investors, potential customers - the intangibles around your business that are going to make it more likely you succeed. Invest your time in any other business-building activity but working on your business plan."

Kirsch and co-authors Brent Goldfarb, assistant professor of management and entrepreneurship, and doctoral student Azi Gera studied the business plans of more than 700 dot-com companies from the late-1990s to early-2000s boom era. Kirsch maintains records from a broad sample of dot-coms in his Business Plan Archive, a historical research and preservation project supported by the Library of Congress' National Digital Information Infrastructure Preservation Program. The researchers compared objective characteristics of each business plan - including the contents, team make-up and business model - and whether the plan received venture capital funding. Their research, "Form or Substance? The Role of Business Plans in Venture Capital Decision Making," appears in the May 2009 issue of *Strategic Management Journal*.

Kirsch, Goldfarb and Gera found that the content of the business plans does not predict which businesses get funded. They don't suggest companies should totally forgo a business plan. They say the document may be useful for organizing thoughts and details of a venture, but they found no evidence that either the content or presentation of the plan influences venture capital funding decisions.

So why do venture capitalists even want business plans if they don't use them to make funding decisions?

"I think VCs like the plans because they skim them to see what people are doing - to get a sense of what entrepreneurial activity is happening," Goldfarb said. But an interested VC will learn the details of a business whether it is in the plan or not.

### **About the Robert H. Smith School of Business**

The Robert H. Smith School of Business is an internationally recognized leader in management education and research. One of 13 colleges and schools at the University of Maryland, College Park, the Smith School offers undergraduate, full-time and part-time MBA, executive MBA, MS in business, PhD and executive education programs, as well as outreach services to the corporate community. The school offers its degree, custom and certification programs in learning locations on three continents - North America, Europe and Asia.

