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BUSINESS PLAN COMPETITIONS?

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Business plan competitions are recognized as an important tool for entrepreneurship education and considered instrumental in spurring entrepreneurial spirit. The current paper attempts to review the academic literature on this subject in order to assess the contribution to the knowledge so far and identify research gaps. The findings suggest that the literature is largely centered on the structure of the business plan competitions and the composition and characteristics of the participating teams. The individual level benefits of business plan competitions include the development of entrepreneurial skills, opportunity for networking, and access to mentors.

Drawing upon the gaps in the literature, the proposed questions for future research include the following: What is the survival rate of ventures initiated by the participants of the business plan competitions? Do the winning and/or losing teams continue to develop the idea and eventually initiate the venture? Do the winning teams get funding from the investors? What are the ethical consequences of business plan competitions in terms of the idea protection for participants? Are the mentors willing to support the business plan participants even after the competition? Why do students decide to opt out of a business plan competition? Exploring the dynamics of business plan competitions is a lucrative area for research. While much is known about the structure and the benefits of business plan competitions, there are various research gaps which need to be addressed. The proposed questions for future research will potentially help in addressing these gaps.

Keywords: Business Plan Competition, Entrepreneurship Education, Centers for Entrepreneurship, Student Entrepreneurs, Technology Transfer, Incubators, Team diversity

Introduction

Business plan competitions encourage interest in entrepreneurship in university community (Barr et al., 2009). A business plan competition is a mechanism that provides the opportunity to find and stimulate business ideas from students or aspiring entrepreneurs (Grimaldi and Grandi, 2005). The first single campus business plan competition in the U.S. was held at Babson college and University of Texas-Austin in 1984 (Katz, 2003).

As a result of the rapid growth in business plan competitions, numerous institutions are increasingly involved in international competitions such as Rice Business Plan Competition, European Business Plan of the Year Competition, and Research Councils UK Business Plan Competition (Grimaldi et al., 2011). Many universities send their teams to participate in business plan competitions at the international level (Hindel, 1997; Maitland, 1996). Top universities including Harvard, Stanford, Wharton, and MIT conduct their own business plan competitions (Honing, 2004). Business plan competitions have gained
significant attention given the priority of the governments to develop entrepreneurial skills and knowledge for shaping enterprising society (Russell et al., 2008).

The current paper attempts to review the extant literature in an attempt to explore the theoretical developments and limitations of the literature on business plan competition. The structure and the effectiveness of business plans have gained significant attention of the entrepreneurship scholars, and consequently limited attention is paid to explore the dynamics of business plan competitions.

The following sections present the extant literature on the structure, team composition, and the benefits of the business plan competitions followed by the set of proposed research questions for future research.

**Structure of business plan competitions**

Business plan competitions often incorporate multiple rounds and involve external evaluators. Edwards and Muir (2005) mention different projects under the University of Glamorgan Enterprise in Education Initiative. One of the initiatives called “Enterprise awards” consists of a business plan competition which is open to anyone across the university in order to encourage aspiring entrepreneurs from multi-discipline areas. Under the initiative “An Enterprise Awareness Campaign”, the Enterprise team develops a business plan competition. A local SME is the sponsor and judge of the competition. The Enterprise team provides business planning workshops to the participants of the competition. One to one business counseling is provided to those who are interested to pursue their entrepreneurial careers and launch a real business.

Weisz et al (2010) also provide the description of the format of a business plan competition at a large graduate business school in Argentina. This annual competition lasts for six months in which participants go through three rounds. At the end of each round, participants receive feedback from the experts. More than 50 judges mainly include entrepreneurs, professional investors, and business executives. All judges use the same evaluation form and evaluate only a few plans. At the end of each round, selected teams advance to the next level. There is no minimum number of plans to be selected at each stage which underpins that the quality of the business plan is a decisive factor. Teams can opt-out at any stage which takes into account the important element of entrepreneurial commitment. Teams present the preliminary business plans and move to the last stage in which the final winners are selected.

Jones and Jones (2011) explore the profile of a business planning competition among business undergraduate students at the University of Glamorgan. On the first day of the business challenge, students make their teams ranging from two to nine members and finalize the business idea. The organizing staff assesses the viability of the proposed idea. The participating students are given £10.00 capital per team member. The competition requires students to run the startup business for two weeks and returning a profit within a week. At the end of the second week, students pitch their ideas to the judges who are the entrepreneurs, competition staff and peer students. Teams receive detailed verbal and written feedback from the judges.
Li et al. (2003) discuss the student business plan competition in China organized by Tsinghua University. It is a team-based business plan competition and divided into three stages starting in April and ending in October. First phase comprises of free seminars, workshops on business plan development, and networking opportunities. Interested students submit business plans at the end of the first phase in June. Selected teams are given the opportunity to participate in a training event in early July. During this time, the teams revise and resubmit their business plans and winners get “excellent business plan award.” Only few teams move to the final round of the competition and present their plans to a panel of judges. Around 12 student startups are launched in the University industrial park. The university has also established a National Entrepreneurship Research Center in 2000 to foster entrepreneurial initiatives in the community. The university also allows students to suspend their studies for up to three years if they wish to pursue entrepreneurial career and intend to start a new venture.

Presenting the plan in a convincing manner to potential investors is an important aspect of the structure of a business plan competition. Limited literature explores the dynamics of presentations in business plan competitions. Chen et al. (2009) investigate the effects of venture capitalists’ perceptions of entrepreneurial passion and preparedness on their subsequent investment decisions. Entrepreneurs persuade the potential investors by presenting the business plan. The study finds that preparedness, not passion, positively affects the VCs’ investment decisions. Cook et al. (2007) report the results of a four year study of a microenterprise business development program developed by a state economic development agency. The results show that women participants score significantly better in presenting their business plans to a panel of judges.

**Centers for entrepreneurship and business plan competitions**

Universities often develop dedicated centers for entrepreneurship in order to foster entrepreneurial spirit among students. Bowers et al. (2005) explore the academically based entrepreneurship centers in the U.S. and report that around 70 percent of the centers are involved in hosting business plan competitions. In another similar study, Finkle et al. (2006) study entrepreneurship centers in the United States and find that around 77 percent of the centers offer business plan competitions. The centers of entrepreneurship based in universities also often provide incubation facilities to the graduate startups. Robertson and Collins (2003) mention the West Yorkshire universities partnership in which they encourage graduate entrepreneurial aspirations by arranging business plan competitions, appraisal, and mentoring. They also provide incubation support in terms of incubation space and financial and business development services. The businesses using the incubator facilities also have access to specialist consultants.

Friar and Meyer (2003) provide description of the Northeastern University Entrepreneurship Center Business Plan Competition. The center runs a yearly business plan competition. The students attending entrepreneurship courses are asked to submit their business plans. Only 20 out of approximately 200 business plans are selected to enter the competition. An outside panel of judges – venture capitalists and successful entrepreneurs –
evaluates the business plans and distributes the award package of $60,000 among the winners. All semi-finalists are also exposed to a group of investors for the possibility of finalizing the deal.

Grimaldi and Grandi (2005) refer to the example of AlmaCube which is the University of Bologna incubator and supports the initiatives of business plan competition called “Start-Cup”. AlmaCube host many of the new venture initiatives and provide space and logistic services. University incubators facilitate aspiring entrepreneurs during start-up lifecycle stage of new venture creation (Mian, 1996; Rothaermel and Thursby, 2005). Startup ventures hosted in university based incubators generally have access to faculty consultants, student employees, and related R&D services (Grimaldi et al., 2011).

**Business plan competitions organized by non-academic entities**

In addition to university based business plan competitions, the literature also reveals studies on business plan competitions organized by non-academic entities. Klinger and Schundeln (2011) examine the effects of a training program implemented by an NGO named TechnoServ on entrepreneurial activity. The main component of the training program is the business plan competition. A fixed number of participants are selected through a preliminary screening process. In the second stage, selected participants receive training which requires them to submit a business plan upon the completion of the training. A panel of judges evaluates the business plans and selects a smaller group of participants for the final phase. Additional training and support is provided to the participants for completing the business plans. At the ends, judges evaluate the complete plans and selected top business plans receive a financial reward.

Fleming (1994) provides detailed account of the Annual Student Enterprise Award in Ireland organized by Industrial Development Authority (IDA). The program focuses on undergraduate students with the aim to encourage them to consider self-employment as a viable career option. Students are encouraged to consider a manufacturing idea or an internationally traded service idea such as software development or international financial services. Interdisciplinary teams first enter a regional level competition judged by the professionals from the business world and representatives from IDA. Successful teams participate in a national final which is televised live.

**Team composition and business plan competitions**

The composition and characteristics of the teams participating in a business idea competition play important role in understanding the dynamics of business plan competitions. Foo (2010) examines the effects of team members’ experience and external interaction on business idea evaluations. He finds that the size of the team, mean work experience, and assistance from individuals
with business founding experience positively relates to the teams’ business idea evaluation. The study further reveals worse evaluation of business ideas by smaller teams without a founder included in the team. Team member characteristics and conflict also affect team effectiveness. In this context, Foo (2011) find the effect of team diversity and conflict on team effectiveness. He studies 73 teams and reports that task conflict negatively relates to team effectiveness. However, member-rated team effectiveness negatively correlates with race, task, and experience diversity. Moreover, average experience correlates positively with member-rated team effectiveness. Weisz et al. (2010) also explore the diversity and social capital of nascent entrepreneurial teams in business plan competitions. They find that teams with higher levels of functional diversity perform better whereas internal social capital may not provide a significant advantage in business plan preparation.

Foo et al. (2005) examine the team diversity and judges’ evaluation of ideas in a business plan competition. They report that task related diversity positively relates to judges’ evaluation while the nontask diversity of age and employment negatively relates to evaluation. Furthermore, larger teams are more likely to have better outcome than smaller teams. They find that team size has positive relation with external evaluation. In the same vein, Cook et al. (2004) find that plans developed by teams get higher scores from the judges in comparison to solo entrepreneurs. They also report that the timely feedback from the instructor/facilitator plays an important role in enhancing the plan quality.

Benefits of business plan competitions

It is pertinent to get insights into the benefits of the business plan competitions given the increase in the popularity of these competitions in recent years. The literature examining the benefits of business plan competitions generally highlights the individual level benefits of participating in a competition.

Individuals are more likely to start new ventures if training supplements traditional business plan competitions (Klinger and Schundeln, 2011). More one-on-one assistance to the individuals encourages them to start a new venture. The participants of business plan competition gain experience with regard to creative product development, sharpen the capability to tackle environmental uncertainties, and experience team-building dynamics (Wen and Chen, 2007).

Russell et al. (2008) find that the business plan competitions provide access to mentors and networking opportunities, develop entrepreneurial skills, enhance self-confidence of participants, and increase their risk-taking propensity. Grimaldi et al. (2011) also contend that the business plan competitions provide opportunity of training in various aspects of new venture creation. Participants get cash reward, consulting services, and opportunity to network with financial and industrial community.

Jones and Jones (2011) find that the participation in a business planning competition enhances participants’ enterprise skills such as team working, sales and marketing, leadership, and communication. Participation in a business plan competition affects subsequent career choices (Fleming, 1994). The involvement in the business plan competitions encourages students to opt for self-employment alongside their graduate studies.
Discussion

Business plan competitions often fall short in focusing on particular industry growth area and guiding the participants in better addressing the societal needs. This may lead towards developing micro-businesses but not the high growth ventures (Friar and Meyer, 2003). Business plan competitions should be more focused on high potential growth areas and encourage participants to target certain industries. This is pertinent as high growth ventures are more likely to generate jobs in comparison to micro-businesses (Friar and Meyer, 2003). In this context, business plan competitions should incorporate guidelines which should require the participants to propose new venture ideas in potentially high growth industries.

Though university based business plan competitions have gained popularity in the recent years, it is unclear what factors discourage students in participating in a business plan competition. It is possible that the students may not see the value in preparing a detailed business plan for participating in the competition. This could be due to the fact that few entrepreneurs prepare a detailed business plan before initiating the venture (Bhide, 1994). Karlsson and Hoing (2009) also contend that writing a business plan is not a necessary condition to start a business. Moreover, some students may not be interested to share or disclose their business ideas and consequently decide not to participate in the competition. Future research will improve our understanding of why students opt out of a business plan competition.

The winning teams of a business plan competition often receive cash rewards and also get the opportunity to incubate their ideas in university based incubators. The panel of judges may include the actual investors. Their likelihood to invest in the proposed venture idea is a significant benefit for the participants in the competition. One of the dimensions of the effectiveness of business plan competitions may relate to the number of business plans which actually receive funding from the investors. However, this area of research largely remains underexplored.

Extant literature on business pitches (Clark, 2008; Pollack et al., 2012) could be helpful in understanding the dynamics of presentations in business plan competitions in an academic setting. Clark (2008) explores the impact of entrepreneurs’ oral pitch presentation skills on investors’ decision making. Though oral pitches may not be based on written business plans but it is helpful to explore critical aspects of presentations in business plan competitions. The literature on presentations in business plan competitions is underexplored with regard to the impact of student entrepreneurs’ presentation skills on judges’ evaluation of the business plan and subsequent decision to invest in the venture. Pollack et al. (2012) explore the linkages among entrepreneurs’ preparedness behavior, perceived cognitive legitimacy and the amount of funding received. In a business plan competition, students’ preparedness and the perceived cognitive legitimacy may contribute toward getting higher scores from the judges.

The use of business plan competitions could be instrumental in developing the enterprising society. Business plan competitions can be better aligned with public policy. Therefore, a more focused and integrated approach among industry, academia, and government in encouraging business plan
competitions could potentially make a far-reaching impact in establishing an enterprising society. The government agencies, universities, and industry partners need to work together for harnessing the youth entrepreneurial spirit and creating the awareness at the societal level. State agencies and academia are often involved in hosting business plan competitions. However, university based competitions have gained more popularity. Though there is a plethora of business plan competitions, somehow the academic literature on the subject is limited.

Questions for future research

The paper draws upon the aforementioned literature and proposes the following set of questions in order to guide future research.

1) What is the survival rate of ventures initiated by the participants of business plan competitions?
2) Do the winning and/or losing teams continue to develop the idea and eventually initiate the venture?
3) Do the winning teams get funding from the investors?
4) What are the ethical consequences of business plan competitions in terms of idea protection for participants?
5) Are the mentors willing to support the business plan participants even after the competition?
6) Why do students decide to opt out of a business plan competition?

Conclusion

The literature on business plan competitions is largely centered on the nature of business plan competitions focusing on the structure of business plan competitions and the characteristics of the participating teams. The individual level benefits of participating in business plan competitions include development of entrepreneurial skills, opportunity for networking, and access to mentors.

The business plan competitions mostly have a preliminary round in which the participants submit their plans which go through the initial screening. The qualified participants move to the next round in which they sometimes get training and further refine their plan. The participants present their plans to a panel of judges and the winners get cash rewards. The judges are often successful entrepreneurs from the industry. The centers for entrepreneurship play an instrumental role in harnessing the potential of student entrepreneurs.
The universities may also incubate the startup ventures and provide a range of incubation facilities.

Exploring the dynamics of business plan competitions is a lucrative area for research. While much is known about the structure and the benefits of business plan competitions, there are various research gaps which need to be addressed. The proposed questions for future research will potentially help in addressing these gaps.
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