

YEARS OF EXPERIENCE EFFECT ON THE BUSINESS PLAN CHARACTERISTICS EVALUATION

Róbert Hanák

Abstract

The management experience is expected to be an intense and practical form of learning new knowledges that managers then apply in new roles. We tested, on two groups of people with work experience, the impact of years of experience on the correctness of the assessment of five major characteristics of the business plan as profitability, payback period, potential sales, the size of the investment and the risk of development. Managers and employees with financial experience with more years in field improved the quality of assessment (3 out of 5 correct trends), while workers without financial and managerial experience even worsened (5 erroneous trends of 5). The results confirm the effects of feedback and environments proposed by other authors.

Keywords: business plan, experience

JEL classification: L260, L210, G320

1 Introduction

This article is a sequel of the articles series (Čavojová & Hanák, 2015; Hanák, R. & Filanová, J. 2015, Hanák, Čavojová, & Ballová Mikušková, 2012) published previously and shows new, not yet published data from larger data set about process of the evaluation of the business plan.

Managerial experiences are in general considered as one of the key factors necessary in successful management. Several ways of measuring experience are at disposal and total years in field are one of the most frequent (Hanák, 2011). Common sense suggests that the more experience and more years in field, the better expert, which is also supported with independent scientific findings (Toft-Kehler, Wennberg, & Kim, 2014, Cassar, 2014). But this claim can be true only in specific environments in which some experts perform, in more complicated domains, we cannot rely on years in field as an objective factor. The reason for this is a proper type of feedback, which working environment offers to the experts. If someone works in an environment which offers small or even no feedback to his actions, he or she has limited or no learning possibilities and therefore can not correct his working procedures, steps or actions (Shanteau, 1992; Klein & Kahneman 2009). As Shanteau (1992) states, it is the working environment which defines experts performance. In complicated environments the expert's results are poor and vice versa in "friendly" environment the expert's performance is good.

A business plan describing the future enterprise can be presented in a structured way. In this presentation mode the business plan is divided into several specific business characteristics such as price, functionality, design and many others and each of them is then described into detail for a specific business plan. It is im-

portant to know that each business characteristic has different relations to the final success. Some of them are very important (crucial) such as profitability and closely correlate with the final success, while others, such as product line potential, have much less impact. In other words, if we do not have very good profitability, no matter how good is the product line potential, in the end we will fail. All these business characteristics are related to future success, this was proved by Canadian innovation centre (Åstebro, Elhedhli, 2006). More than 10 000 business plans were compared to real performance in business. By this process it was possible to identify correlation and further predictive validity of specific business characteristics. We used their data as ideal values to which we compared the individual evaluation of each respondent. We tested this concept in the past and we found out, that managerial experience, defined by years in field, does not significantly improve the understanding, which business characteristics are more important than others. People with more experience are not statistically significantly better than those with less experience (Hanák & Filanová, 2015; Hanák, 2015). The question is, if it does have any positive effect? In other words, improves the experience in business the understanding of the key business characteristics? Are those, who have more experience, getting closer in evaluation to optimal value or isn't there such trend? In our research we tried to answer this question.

2 Methodology

Method

Respondents were asked to rate the business plan, which was described by 25 characteristics, in time stress (to rate the business plan in 3 minutes). The business characteristics were selected from origi-

nal 37 business characteristics (Åstebro & Elhedhli, 2006). Business characteristic were presented in a form of a table in MS Excel file with listed labels (cues) – usually one or two words (price, existing competition). Each cue represented one business characteristics. Respondents were asked to assign weights to each business characteristics they consider as important. Together they should assign 100 points according to their will. All business characteristics have a different predictive value, which means they differ in the scale, how much they affect the final performance of the business. Some of them have very small impact such as new completion, but others are much more important such as profitability. Five, the top fifth, of the most important business characteristics were chosen from 25. These were: profitability, payback period, potential sales, size of investment, development risk.

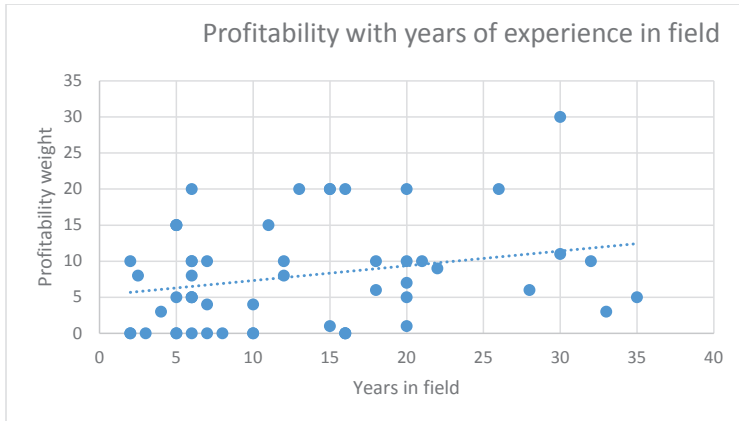
Respondents

We investigated two groups of respondents. First group ($n = 59$) were people who have enough work experience but not in management and finance, they were administrative workers, secretaries, or technicians, mean age Mean (M) = 31,25; Standard Deviation (SD) = 8,23. We will call them “without relevant experience”. The second group ($n = 54$) where people who worked at managerial or financial positions, mean age $M = 36,24$; $SD = 9,98$. We will call them “managers”.

3 Results

In the graph No. 1 we plotted the weight of the probability that respondents assigned to this business characteristics and years they spent in field. Ideal value according to Åstebro & Elhedhli (2006) should be 8.5 (converted from Hanák (2015) calculations). As we

can see in the shape of the trend line it is rising from about 5 points to 13. Here we can conclude that years of experience make positive corrections and with more years of experience managers are more correct.



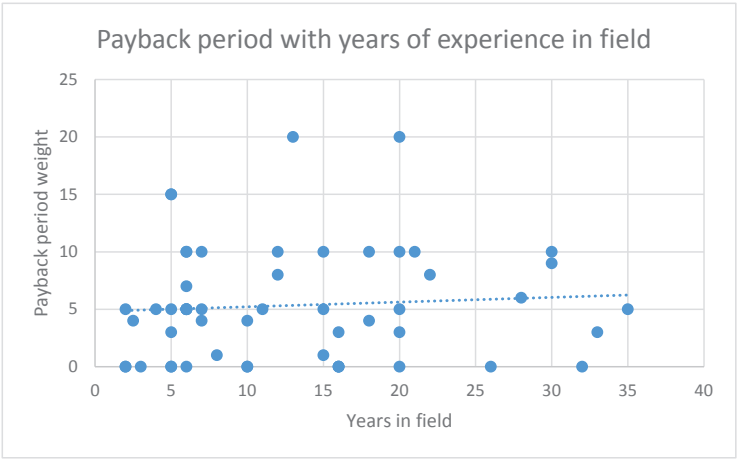
Graph 1: Profitability and years of experience in group of people with financial experience (managers etc.), Own calculation from data.

In the graph No. 2 we did the same graph constellation with different participants. The results are different, which can be especially seen in the trend line. We can conclude that more years of working experience, but not in the field, do not improve the final evaluation and in fact have a directly opposite effect.

Very similar trends could be observed with payback period business characteristics, graph n. 3 with graph n.1 and graph n. 2 compared with graph n.4. Ideal value for graph n. 3 is according to Åstebro & Elhedhli (2006) 7.3. Results of those working with finances starts at five and finishes at about 7.

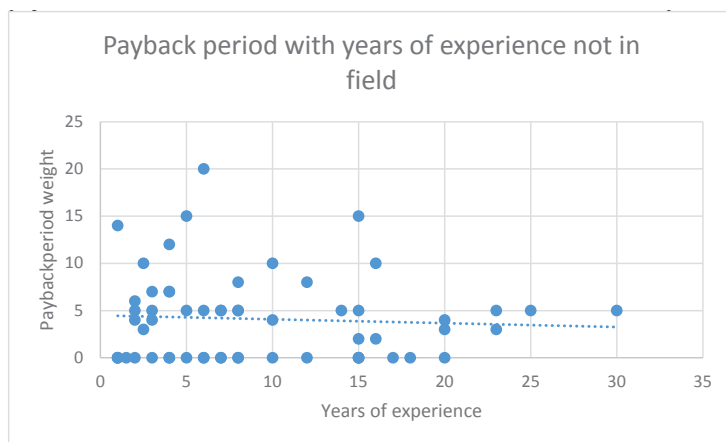


Graph 2: Profitability and years of experience in group of people without financial experience, Own calculation from data.



Graph 3: Payback period and years of experience in group of people with financial experience (managers, owners, accountants etc.), Own calculation from data.

In the next graph (Graph No. 4) are people without relevant experience and relationship between working years and weight they assigned to payback period.



Graph 4: Payback period and years of experience in group of people without financial experience (technicians, administrative works, secretaries etc.), Own calculation from data.

When comparing other investigated business characteristics and their change with age we found out that the third most important - potential sales - shows a different pattern. Both groups underestimated its value but we found the same negative trend in both of them. In other words more experience leads to even deeper underestimation. The size of the investment as fourth most important business characteristics shows expected trends: managers improved with more years in field and respondents without relevant experience were worsening. Development risk is the last business characteristics in the first fifth we investigated. The results were the same as for potential sales in both groups - with age the weight was falling down and in both groups it was much underestimated.

4 Conclusion

Based on results we could conclude that from top five most important business characteristics, managers with experience in the field improve in 3 from five. Respondents with working experience, but not in field, did not show improvement in any of those five business characteristics. In all of them they were in fact worsening, getting farer from the right value. We could conclude that management experiences have in general positive effect and they lead to objective improvement. This is also supported by the findings that in the group without relevant experience we did not find any improvement toward objectively valid value. Based on these we claim that we found a support for Shanteu's (1992) and Klein & Kahneman's (2009) statements and theories.

5 Grant support

This work is a part of the research project KEGA č. 029EU-4/2015, named: Creating an electronic portal and freely accessible system of teaching Analytical - statistical methods in the social sciences using open source software PSPP. From Ministry of Education, Science, Research and Sport of the Slovak Republic.

6 Literature

- [1] Åstebro T, Elhedhli, S. (2006) "The Effectiveness of Simple Decision Heuristics : A Case Study of Experts' Forecasts of the Commercial Success of Early-Stage Ventures," *Manage. Sci.*, vol. 52, no. 3, pp. 395–409,
- [2] Cassar, G. (2014). Industry and startup experience on entrepreneur forecast performance in new firms. *Journal of Business Venturing*, 29(1), 137-151.

- [3] Čavojová, V. & Hanák, R. (2015) How much information do we need? Interaction of intuitive processing with expertise. *Studia Psychologica* Vol. 56, no. 2 (2014), s. 83-97.
- [4] Ericsson, A., Perez, R., Eccles, D., Lang, L. et al. (2009). *The measurement and Development of Professional Performance*. p 1 – 27 In :Development of professional expertise. Cambridge University Press. New York, ISBN 978-0-521-74008-1
- [5] Hanák, R. & Filanová, J. (2015) *Management Experience does not Improve business plan evaluation*, 8 th international conference of education, research and innovation, Seville, 16 -18 November 2015, ISBN 978-84-608-2657-6, ISSN 2340-1095
- [6] Hanák, R. (2011) *Different methods used for selecting and ranking HR experts and relationship among these methods*. In IV. Mezinárodní vědecká konference doktorandů a mladých vědeckých pracovníků 4rd International scientific conference for PhD. students and young scientists conference Karviná : Obchodně podnikatelská fakulta v Karviné SU v Opavě, ISBN 978-80-7248-711-0. - S. 77-82.
- [7] Hanák, R. (2015) Do we know what is important when establishing new business? In *Procedia - Social and Behavioral Sciences International Conference on New Horizons in Education*, INTE 2014. - Paris : Elsevier B.V., 2015. - ISSN 1877-0428. - Vol. 174, (February 2015) p. 3645–3650
- [8] Hanák, R.; Čavojová, V. & Ballová Mikušková, E. (2012)
- [9] Klein, G., Kahneman, D. (2009) Conditions for intuitive expertise, Failure to disagree. *American Psychologist*, 64, (6), 515 – 526 *Preferencia k intuícii a uvažovaniu (PID) a ich súvislosť s množstvom spracúvaných informácií pri rozhodovaní* In Rozhodovanie v kontexte kognície, osobnosti a emócií III = zborník príspevkov z medzinárodnej vedeckej konferencie : Nitra, ISBN 978-80-558-0213-8. - S. 73-79 [CD-ROM].

- [10] Shanteau, J. (1992). Competence in experts. The role of task characteristics. *Organizational behaviour and human decision processes* 53, p. 252–266
- [11] Toft-Kehler, R., Wennberg, K., & Kim, P. H. (2014). Practice makes perfect: Entrepreneurial-experience curves and venture performance. *Journal of Business Venturing*, 29(4), 453-470

Contact

Ing. Mgr. Róbert Hanák PhD.

Ekonomická univerzita v Bratislave, Fakulta podnikového manažmentu

Dolnozemska cesta 1, 852 35 Bratislava

e-mail: robohanak@gmail.com