Business planning and beyond?

Qualitative approaches in entrepreneurship

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Editorial

Qualitative approaches in entrepreneurship research have been noted to be a particular European feature (e.g. Welter & Lasch, 2008). Hence, I considered appropriate that this particularity and strength is highlighted also in the Inter-RENT process and publication.

An important aspect hampering the development of qualitative research in entrepreneurship is the misconception that gathering qualitative research materials automatically involves interviewing. Interviewing is by far the most common way of gathering research materials within business studies (Eriksson & Kovalainen, 2008). There are problems and challenges associated with the use of interviews, such as the interviewer imposing their categories on the participant and an asymmetric interviewing format that remains visible in the one-way issuing of questions (Silverman, 2001, Silverman, 2005). I might argue that these challenges are even more pronounced when researching entrepreneurs. Since entrepreneurs and entrepreneurship have been demonstrated to be particularly mythical concepts (Mitchell, 1997, Ogbor, 2000), it may be that by inviting individuals to tell their stories and give answers to our questions from this mythical position, we are actually emphasising and reconstructing this particular position. For example, entrepreneurs are described in the media to be working 24h/7 days a week and hence if we ask them about their working hours they may feel obliged to confirm to this ideal. Hence, it could be interesting and beneficial for further theorising about entrepreneurship to aim at identifying other qualitative research materials than just interviews (Eriksson & Kovalainen, 2008). For example, personal journal diaries of entrepreneurs would be helpful in analysing how central entrepreneurship and the business are really in their lives compared to their other roles. This type of material has been applied for example in a study of lone mothers (May, 2004) producing very different results than in previous studies applying standard interview or survey data.

Alternatively, rather than asking how entrepreneurs make decisions about new ventures, we might design experiments that put them into the decision-making situation (Sarasvathy, 2008). Hence, we are not asking them to describe how they think they will act in a hypothetical situation but enact that situation where we ask them to make decisions. This is the process Daxhelet and Witmeur have conducted in their study with the investors. Rather than asking the investors directly how they will typically assess new businesses and their potential, the investors were confronted with an imaginary project for a new company and they were posed questions about this project. Based on their responses, the researchers classified whether they followed the causal or effectual logic in their reasoning. Daxhelet and Witmeur's paper tackles an important and topical question if business planning as a process has become obsolete or if the different investors follow different logics that need to be met with different types of business plans. Their theoretical framework is based on Sarasvathy's (2001) effectuation and causation logic framework. Their reasoning is derived from the idea that if entrepreneurs and investors alike resort to effectuation logic, then, clearly the need for business plans is diminishing. The results suggest that while the effectuation is preferred by certain type of investors it is not yet time to announce the 'death' of business plans.

For some years now there have been two parallel publication processes taking place as a follow-up from the annual RENT conference: the Inter-RENT and the RENT Anthology. The aim of the Inter-RENT is to help younger scholars on their way to publishing in journals and other academic outlets. The Inter-RENT process allows researchers to get familiar with an important part of scholarly work, i.e. reviewing; both giving comments to other papers and receiving constructive feedback on their papers in order develop them further. The papers that are able to progress and develop along the lines of the reviewers' and editor's recommendations are then published in the Inter-RENT online publication. The RENT Anthology process aims at a book to be published by the Edward Elgar publishing house.

This is the 8th edition of the Inter-RENT publication and in comparison to Inter-RENT publications from previous years this is by far the smallest edition with only one 'surviving' paper. Besides chance this reflects at least two issues. First, as an editor my shortlist of papers selected in the process was probably too short to begin with. I acknowledge this shortcoming but then again there were not that many to choose from. The RENT Anthology rightfully has the first 'pick' of the papers presented in the annual conference limiting the number of potential papers in the Inter-RENT process, as noted already by a previous editor of the Inter-RENT (Mets, 2009). Second, some of the authors declined to participate in either of the Inter-RENT or the RENT Anthology processes because they had, wanted or needed to submit their papers into academic journals. In addition, some of the authors withdrew their papers from the process after having benefited from the first round of reviews in order to use these comments to 'turn around' their paper and potentially to submit it to a journal at a later stage.

Hence, we can conclude that the art of publishing is ever more important. The researchers in the ECSB and RENT conference community are indeed actively publishing their work. In most academic institutions the standards for publishing have been raised. It no longer suffices just to publish but the goal is set to publish in the best possible outlets, the famous "A-level journals". In my perspective this does not mean that the Inter-RENT process has become obsolete, on the contrary. Help and support in the form of constructive criticism are greatly needed and appreciated by the authors targeting the journals with fierce competition. However, maybe the outcome for the Inter-RENT should be the process, not the publication?

I would like to thank all the authors that participated in this 8th Inter-RENT process and also the reviewers that helped the authors to develop their papers.

Ulla Hytti

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WHAT INVESTORS EXPECT FROM BUSINESS PLANS: EFFECTUAL VERSUS CAUSAL LOGIC

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ABSTRACT

Aim of the Paper: For years, business planning (BP) has held a central role in the new venture creation literature. However, existing research has provided us with mixed results about its usefulness. Part of the argument against BP is that it relies on top-down logic while emerging bottom-up logic may be more relevant. Sarasvathy (2001) proposed that successful entrepreneurs tend to be *effectual* rather than *causal*. Sarasvathy & Wiltbank (2002) also suggested that business angels (BAs) and venture capitalists (VCs) tend to be more effectual than causal and should then pay less attention to BP.

This paper has two objectives. It first analyses to what extent different kinds of financial backers, i.e. BAs, VCs, and bankers, are generally causal or effectual. Then, it clarifies if entrepreneurs have to prepare different types of the so-called ‘business plan’ when they approach different kinds of financial backers and why.

Contribution to the literature: This paper advances the literature on the use of BP when entrepreneurs are searching for financial support. It contributes to a better understanding of the expectations of different financial backers and the logic behind their project evaluation process.

Methodology: The research is qualitative. It relies on interviews of eight Belgian investors three commercial bankers, three VCs, and two BAs. The interviews followed a systematic and replicable protocol, which included the “venturing experience” developed by Sarasvathy & al. (2001).

Results and Implications: Bankers, VCs and BAs follow different logic and have different expectation in terms of business plan. BAs are more effectual than VCs, whereas commercial bankers are more causal. Regarding the content of the business plan, BAs and VCs pay more attention to the entrepreneur, while commercial bankers pay more attention to financials and the plan itself.

From a theoretical point of view, the research confirms the importance of adopting a contingent approach when analysing the expectations and behaviour of investors and what they mean by BP. For practitioners, the research contributes to the discussion about the usefulness of BP and confirms that it is not the time to ‘burn business plans’ since investors still expect to receive one. However, the results suggest that it is time to reconsider the way we analyse the new venture preparation process and its outcome as a ‘business plan’ since the effectual logic is central for many investors.

INTRODUCTION

For years, the writing of a business plan has played a central role in the practice of new venture creation. Indeed, when dealing with the creation of a venture, entrepreneurs and their investors typically rely on a business plan to explain and assess the quality of the project. The topic has been researched extensively. Over time, e.g. from McMillan, Siegel & Narasimha (1985) to Kirsh, Goldfarb & Gera (2009), the overall conclusions suggest that business planning cannot be overlooked, especially when entrepreneurs are looking for finance from external sources.

However, existing research has provided us with mixed results about the usefulness of business plan and the logic of the business planning process. In the field, the confusion is reinforced by the relentless debates fueled by academics and practitioners. On one hand, one single search for "business plan" in the books section of Amazon.com points out more than 76.000 items, including many very recent ones. On the other hand, there are multiple calls for developing new approaches, giving the impression that the right thing to do now may be to "burn business plans" in favour of a new approach (e.g. Gumpert, 2002).

Part of the argument against the business planning is that it relies on top-down strategic approach, while the newly emerging bottom-up or prototyping-first logic may be more relevant and efficient (e.g. Mintzberg, 1994; Avenier, 1997, Blank, 2005; Ries, 2011). In other words, Sarasvathy (2001) proposes that successful entrepreneurs tend to be 'effectual' rather than 'causal'. She further suggests that business angels (BAs) and experienced venture capitalists (VCs) also tend to be more effectual than causal. This would suggest that both entrepreneurs and their investors should pay less attention to formal predictive logic, i.e. business planning. Wiltbank, Sudek & Read (2009) confirm this line of thinking.

This paper refines the above idea and extends its scope by including commercial bankers into the analysis. Our objectives are twofold. First, we want to empirically investigate to what extent different kinds of investors (i.e. business angels, venture capitalists, and bankers) are generally 'causal' or 'effectual' when they analyze new venture projects. Secondly, we want to check the necessity of a written document, i.e. the business plan to be prepared by entrepreneurs looking for financial support and clarify to what extent the content should differs from one type of investor to another. Our research question is then: "Do entrepreneurs have to prepare a written document when they approach investors, should they prepare different types of the so-called 'business plan' depending on the kind of investor and why?".

The structure of the paper is the following. In section 2, we review the literature on business planning, investment criteria, and effectuation. We then highlight connections between them. In section 3, we explain the methodology of the study based on in-depth and theme interviews with commercial bankers, venture capitalists, and business angels in Belgium. In section 4, we present our results. Section 5 is then devoted to the analysis, the implications of the findings and the limitations. Finally, in the conclusion, we present our contribution to the literature and suggest future research.

LITERATURE

The Business Plan

Business plans are well known by investors, entrepreneurs, and students. *"A business plan describes the business's vision and objectives as well as the strategy and tactics that will be employed to achieve them. A plan may also provide the basis for operational budgets, targets, procedures, and management controls"* (Frien G. and S. Zehle, 2004). The underlying logic behind a business plan is to try to predict the future of a company by using specific marketing, strategy, and financial research and planning tools. In fact, while engaging time and money, entrepreneurs desiring to increase their chance of success should plan their business and test it against multiple scenarios. Ettinger & Witmeur (2003) observed four uses for the business plan. First, it is a decision-making tool that helps entrepreneurs to review the most important success factors of a venture. Second, the business plan is an analytical tool. It integrates multiple techniques (e.g. SWOT analysis or Porter's five forces model), that help to analyze the pros and cons of different options. Third, the business plan is a communication tool that is required when entrepreneurs want to attract new business partners, including investors. Finally, the business plan is a controlling tool that can be applied to monitor the short and long-term evolutions of the project. A business plan's typical structure includes four main chapters: the context (including team, opportunity, market, and industry), the strategy (including vision, core business, and position), the action plan (including production, sales & marketing, and R&D plans), and the financials. The financial section should contain the projections and the investment requirements.

Investors investment decision criteria

Multiple scholars in entrepreneurial finance have addressed the criteria used by different kinds of investor. E.g., Mason & Stark (2004) have already analyzed the differences between bankers, venture capitalists and business angels in their investment criteria when screening business plans. Beyond the fit of the projects with their investment portfolio strategy, venture capitalists and business angels are looking for high growth projects and focus on the quality of the entrepreneurial team, the uniqueness of the offering, the focus and the scalability of the strategy, and the possible routes to exit. Many of these aspects are expected to be clearly articulated in a business plan and its financial section which are a clear focus point of the due diligence process (McMillan, Siegel & Narasimha, 1985; Hall & Hofer, 1993, Manigart & al, 1997 and Kirsh, Goldfarb & Gera, 2009).

The criteria used by commercial bankers are rather different since they pay most of their attention to purely financial aspects and more precisely on the reimbursement capacity of the firm and to the quality of the collaterals and/or guaranties. Because of the lack of track record of new firms, the assessment of the first item is performed through the analysis of the business plan that typically includes a 3 to 5-year financial plan.

Because of these differences, Mason & Stark (2004) suggested that business plans must be customized to fit with the investors' criteria. Nevertheless, there is a consensus about the need to write a business plan when entrepreneurs are looking for financial support.

Limitations of Business Planning

Today a huge amount of literature on business planning is available and most business schools offer a business planning course. However, the relationship between the practice of formal planning and superior company performance is far from obvious. Six typical arguments against business planning are briefly summarized in this next section.

First, writing business plans is based on a top-down approach, which is not suitable in every situation. The Segmentation-Targeting-Positioning (STP) formula explained by authors such as Kotler (1994) is widely used by entrepreneurs who have to launch their venture and define who their customers are. However, Sarasvathy (2008) proposes that the entrepreneurial decision-makers do not always start with a predetermined goal or target. She suggests that they rather start with a predetermined set of means and later select a market, i.e. they do not follow the STP sequence. In fact, the 'reversed' sequence is more relevant when the market does not yet exist at the inception of the venture. Secondly, writing business plans is very time consuming. Indeed, it may take a lot of time (about 3 months) to collect data and properly formalize the plan in writing (i.e. most business plan guides advise to write a 30-40 page document). Many specialists suggest this time could be better spent in doing actual business (e.g. Mintzberg 1994).

Thirdly, writing plans is useless in an unpredictable market. Armstrong (1982) suggested that the relevance of formal planning is limited under high uncertainty. Despite this theoretical view, he made the hypothesis that high uncertainty would require more planning. However, his study could not confirm it. Fourthly, the importance of BP business planning depends on cultural aspects. Rauch, Frese, and Sonnentag (2000) found that the relationship between planning strategies and success in small-scale enterprises was positively correlated in West Germany and East Germany, but negatively in Ireland. They proposed that business planning only has a positive impact in cultures that value uncertainty avoidance. They also proposed that the professional background of stakeholders has to be taken into consideration. For example, if the entrepreneur only deals with business angels, the importance of planning would be lower than if he deals with commercial bankers.

Fifthly, formal planning is not dynamic and could prevent entrepreneurs from exploiting contingencies. As explained by e.g. Ardichvili, Cardozo, and Ray (2003), opportunities are made, not found. Flexibility in the development of opportunities should then be the entrepreneur's number one priority. Consequently, rigid business plans could prevent them from properly developing their project when opportunity arises. In other words, Baker, Miner, and Eesley (2003) explained that formal planning obscures the potential value of improvisational skills. They highlighted the necessity of training in improvisational skills so that entrepreneurs can use and combine both rigid and flexible methods when appropriate. Sixthly, traditional business plans typically look the same and do not always convince stakeholders anymore (e.g. Kirsh, Goldfarb, & Gera, 2009). In fact, business plans often appear as being part of business tradition, but do not include enough valuable insights on the business itself since the plans often pay more attention to the form than to the substance. Nevertheless, this traditional view of business plans by investors highlights the consensus about the need to write a business plan when entrepreneurs are looking for financial support.

Relationship between business planning and company performance

Results on the impact of planning on company performance are contradictory. On one hand, Brews and Hunt (1999) found a positive relationship between formal planning and the company performance. They also suggest that the environment has no influence on these results. As a conclusion, they felt entrepreneurs should always plan. The authors only suggest that plans should be flexible in uncertain markets. Based on a study of 223 new companies, Delmar and Shane (2003) argue that business planning has a positive impact since it reduces the likelihood of the venture disbanding, accelerates product development, and reinforces organizing activities. On the other hand, Lumpkin, Shraeder, and Hills (1998) analyzed 94 companies and observed that writing a formal business plan had no influence on company performance, neither for established firms, nor for new ventures.

Brinckmann, Grichnik, and Kapsa (2010) applied a meta-analysis to reanalyze the empirical findings of 46 studies on 11,046 new and established firms to test the influence of planning on venture performance. They also paid attention to the influence of the context (i.e. newness of the firm, nature of business planning practice, and cultural variables) to mitigate the relevance of business planning. Their findings confirm the positive influence of planning on firm performance, but they also highlight that there are some factors that can strain the relationship. First of all, firm newness reduces the return of planning, i.e. planning should start to be used after the gathering of all information by the entrepreneurs and once the influence of contingencies is being reduced. Secondly, they found that written business plans have the same impact as informal business planning activities. In other words, there is no best way to plan. Finally, they observed that business planning is less effective under high uncertainty. An interpretation of this could be that entrepreneurs that have high uncertainty avoidance may more closely stick to their plan, reducing their scope of decisions.

Effectuation

Sarasvathy (2001) has introduced the difference between the causal and effectual approaches. The causal approach (i.e. causation) assumes that the goal associated with one opportunity is predetermined and that the entrepreneurs will select the appropriate resources and best way (among many available options) that will lead to the desired objectives. In contrast, the effectual approach (i.e. effectuation) first focuses on existing resources, aspirations, and abilities in order to reduce the uncertainty and increase the controllability of the future. In other words, effectuation proponents suggest that entrepreneurs should start with their means, imagine what they could do with them, and then create new opportunities. Sarasvathy (2010) explained that effectuation is neither an irrational approach, nor a random process. Instead, it integrates important theoretical insights from existing research but differs from the traditional approach for three main reasons. The first being because the goal is not predetermined, effectual entrepreneurs go through experimentation and learning. In addition, because entrepreneurs do not start with a definite set of means, they often transform possibilities into opportunities. Lastly, because the market is not always known, or in some cases does not even exist, entrepreneurs are not afraid to create new markets.

To make the distinction between causation and effectuation as clear as possible, Sarasvathy (2001) explains effectuation with four pillars. The first pillar is called “affordable loss rather than expected returns.” It states that effectual entrepreneurs prefer deciding what they are ready to lose rather than investing the amount that will maximize their returns. In other words, effectual entrepreneurs would rather engage limited time and money and try as many strategies as possible to reach success. According to this process, a scenario that leads to new opportunities is considered as positive, even if it does not directly generate profit.

The second pillar is “strategic alliances rather than competitive analysis.” The focus is on strategic alliances and early partnerships that entrepreneurs may develop. Instead of spending time in analysing the competitive landscape, the effectual process leverages on connections with potential partners whose involvement will help reduce uncertainty.

The third pillar is the “exploitation of contingencies rather than exploitation of pre-existing knowledge.” It relies on the entrepreneurs’ ability to act according to contingencies and to try to convert them into opportunities. Consequently, effectual entrepreneurs do not worry about surprises, while causal practitioners see unexpected outcomes as negative and prefer developing plans and scenarios to anticipate them.

Lastly, the fourth pillar is called “controlling an unpredictable future rather than predicting an uncertain one.” It suggests that effectual entrepreneurs do not need to predict the future because they focus on controlling it. For example, effectual entrepreneurs do not start with the world population only to then segment it; instead, they start with a small group of people they know as their first customers, and then develop the market with this basis.

According to Sarasvathy (2001), the four pillars are used together by expert entrepreneurs when they create a new venture. Chandler, DeTienne, McKelvie, & Mumford (2009) only partially agree with this statement. They argue that effectuation is a formative and multidimensional construct with three sub-dimensions, which are pillars 1, 3, and 4. They found that pillar 2 is shared with causation. Indeed, partnerships are a key part of the effectual approach, but they are also used in the traditional managerial literature as a way to acquire resources and implement plans. According to these findings, the measurement of effectuation should include experimentation, affordable loss, and flexibility.

METHODOLOGY

The research is purely qualitative and follows the guidelines on case study suggested by Yin (2003), Eisenhardt (1989) and Eisenhardt & Graebner (2007).

Sampling

The main investors for Belgian entrepreneurs are family & friends, subordinated loans, subsidies, Business Angels, VCs and banks. We have chosen not to focus on subsidies or on subordinated loans, because the financing decision depends on exogenous factors, such as the number of local jobs created. It is important to mention that private investors' networks are not well developed in Belgium and therefore banks are important partners, even in early-stage financing.

We adopted a purposeful sampling strategy (Patton, 2002) in order to have maximum variation inside the sample, i.e. we wanted to interview people from different areas of the start-up financing practice. We carefully selected three types of profiles: (1°) commercial bankers who finance new ventures with traditional short and long-term bank debts, (2°) professional full-time venture capitalists who finance new venture with equity and (3°) business angels who also finance new venture with equity coming from their own pockets.

In 2008, we conducted interviews with eight Belgian financial partners: three commercial bankers, three venture capitalists and two business angels. The bankers were all branch managers of a local SME Business Unit in three of the four largest Belgian banks. The venture capitalists all worked as analysts in established venture capital firms. Their funds were invested in Belgium. Some funds were partially state-financed. Both business angels were former employees of big corporations (i.e. not previous entrepreneurs) and had decided to invest in new ventures as a full-time job. Their investments were not only located in Belgium.

All subjects were between 26 and 55-years-old and were dedicated full-time to their respective jobs for more than two years. Only one of our subjects was female.

Data collection

The interviews followed a systematic and replicable three-step model that allowed for cross case comparison (Miles & Huberman 1994). All interviews were taped.

The first step to the interview mimics the "venturing experience" developed by Sarasvathy & al. (2001). Here, investors were asked questions about the identification of the market for a given new product. Their answers were then sorted into two categories: one for the effectual approach (coded "EFF"), and one for the causal approach (coded "BP"). To do so, we created a situation where a company called "Venturing" wanted to develop and sell a software game. The situation was uncertain and could be addressed with multiple possible strategies. Although imaginary, the project was supposed to be technically feasible and financially viable. The subjects were asked to put themselves in the position of the entrepreneur and had to answer five questions: (i) "Who could be your potential customers for this product?," (ii) "Who could be your potential competitors for this product?," (iii) "What information would you seek about potential customers and competitors?," (iv) "How will you find out this information, what kind of market research would you do?" and (v) "What do you think are the growth possibilities for this company?" Their answers were read several times in order to isolate relevant quotes. A relevant quote can be a sentence or a group of sentences forming a meaningful idea. We then classified all relevant quotes into two groups: "BP" and "EFF". For example, when someone said: *"The only way to know your customers is to use the STP model. After that, I would ask a market researcher to calculate the number of potential customers in the area,"* this would be coded "BP" because it demonstrated the causal approach. On the contrary, when a respondent answered: *"I do not believe in market research; I would do better crossing the street and asking the Video Store to distribute the* *game to some clients and see what they think about,"* this was coded "EFF" as it is a clear example of the effectual approach. As we wanted to avoid any influence on respondent attitude and answers, we proceeded without telling them the purpose of the study. The concept of effectuation was only explained after the third step.

In the second step, we tested the four pillars of effectuation individually. As the venturing experience does not necessarily cover all the aspects of effectuation logic, we asked fifteen additional questions related to the four pillars. Three questions (coded E.1.x) tested the first pillar (i.e. affordable loss rather than expected returns); three questions (coded E.2.x) tested the second pillar (i.e. strategic alliance rather than competitive analysis); four questions (coded E.3.x) tested the third pillar (i.e. exploitation of contingencies rather than preexisting knowledge); and five questions (coded E.4.x) tested the fourth pillar (i.e. controlling an unpredictable future rather than predicting an uncertain one). An example of this can be seen in question E1.1, which tested the first pillar. The question was "It is more important to limit losses in case of failure than to maximize profits in case of success. Do you agree?" If the subject answered "yes," he validated pillar 1, while if he answered "no," he invalidated it. Another example is question E.3.4: "At which moment in the development would you present your product to the potential clients?" Possible answers were: a) Idea, concept; and b) Final product, ready to deliver. If the subject answered "A" he validated pillar 3, if he answered "B," he invalidated it.

In the third step, we focused on the relative importance of the six typical elements of a business plan, i.e. (1°) entrepreneur(s) profile, (2°) product description, (3°) market research, (4°) competitive analysis, (5°) marketing strategy, and (6°) financial plan. In short, we asked respondents to rank the six elements, to elaborate on the meaning of each item, and to comment on their classification.

We present the findings of each step in the next three subsections.

RESULTS

Step 1: The venturing experience

The descriptive results for the venturing experience are detailed in the Table 1. The first group, venture capitalists (VC1, VC2, and VC3) uses effectual reasoning 63% of the time. The second group, commercial bankers (B1, B2, and B3), uses effectual reasoning 31% of the time. The third group, business angels (A1 and A2), chooses effectuation 69% of the time. While these differences are interesting and follow the trend we assumed, analysing their relevance statistically is of course beyond the scope of our paper.

Table 1

	EFF quotes	**BP quotes**	**% of EFF quotes**	**% of EFF quotes Average by category of investors**
VC1	6	3	66%	
VC2	6	4	60%	63%
VC3	5	3	62%	
B1	4	9	31%	
B2	3	4	43%	31%
B3	1	4	20%	
A1	4	2	66%	69%
A2	5	2	71%	

Based on our analysis, the commercial bankers adopt more frequently the causal approach. Indeed, they start with a very formal quantitative market research as the following quote illustrates:

"The market study will tell us which type of customer will buy our product. I believe that the quantitative method is valid because it is a tool that allows us to target more customers. (B1)."

Accordingly, they are even ready to pay for this kind of information:

"I would pay for a market research. I know that professional associations can provide me with these datasets for EUR 3.000 to 5.000. (B3)."

Many other quotes reveal their causal logic by focusing on market analysis and segmenting:

After the analysis of the market, they move to the classical STP (Segmentation, Target, Positioning): It is a lot better to know your customers first. (B2)."

"I would target my customers. After that, I will try to find a niche market so that my prices can be higher. What you want is to collect monopoly profits. (B1)."

Finally, the commercial bankers focused on financial projections:

"I would make financial projections on 3 years. (B1)."

"I would try to make a P&L to have an idea of the future profits, especially if I need bank financing. (B3)."

This last comment highlights the fact that financial analysis is critical for commercial bankers because credit analysts who "care a lot about numbers (B3)" scrutinize credit requests. In fact, every project has to be quantitatively rated and a positive decision will only be made if minimum ratios are reached.

The venture capitalists, however, used effectual reasoning more often than causal logic. Their main logic clearly differs from the commercial bankers. They tend to start with what they have and who they know:

"Well, I will first send an email to my contacts to see what they think. (VC2),"

Early in the process, they try to limit potential losses:

"I would start on a local basis and later expand step by step, i.e. when I can afford for it. (VC1)."

"I would not make huge investments at the beginning. At the beginning, you limit costs. (VC1)."

Later on, they will look for more partners:

"I would show the game as soon as possible to potential clients. To be faster I will find an external commercial agent. Starting alone is a too big challenge, I will not try to do everything myself. (VC1)."

The business angels also use effectual logic more frequently than causal logic. A notable difference between the business angels and the commercial bankers is their idea to test the product as soon as possible. They do not spend time planning, prefer testing the product on the market, and adapt it as they get the first feedback. Another recurrent observation is that the business angels would outsource as much as possible:

"I will first outsource distribution and marketing. I will not take care of the development. It costs too much money, even if you can do it in India. I will try to put in place a network, so that I can meet developers and distributors. I would share everyone's skills to reduce investments. (A1)."

Step 2: Effectuation Pillars

Table 2 shows the descriptive results for testing of the effectuation pillars' questions. If the subject validated the effectual logic, he scored a 1, if not he scored 0. When he was unclear, we marked the area with the symbol '/'.

Table 2

	Pillar 1			**Pillar 2**			**Pillar 3**				**Pillar 4**				
	E1.1	**E1.2**	**E1.3**	**E2.1**	**E2.2**	**E2.3**	**E3.1**	**E3.2**	**E3.3**	**E3.4**	**E4.1**	**E4.2**	**E4.3**	**E4.4**	**E4.5**
VC1	0	0	1	/	1	1	1	1	0	0	0	1	1	1	0
VC2	1	1	1	0	1	1	1	0	1	0	1	0	1	0	0
VC3	1	0	1	1	1	0	1	1	0	/	0	1	1	1	1
B1	1	1	0	0	0	/	0	0	0	1	0	0	0	0	0
B2	1	0	1	1	1	0	0	0	1	0	0	0	0	0	0
B3	1	1	0	0	0	1	0	0	0	0	0	0	0	0	0
A1	0	1	1	0	1	1	1	1	1	1	1	0	0	1	1
A2	0	1	0	0	1	1	1	0	1	1	1	1	0	1	1

Table 3 summarizes the use of causal or effectual logic by each subject. It summarizes results from Tables 1 and 2 with the percentage of quotes classified "EFF" or "BP" (data from Table 1) and shows which pillar of effectuation is validated (Yes), unclear (=) or invalidated (No) (data from Table 2).

Table 3

	% EFF Quotes	**% BP Quotes**	**Pillar 1**	**Pillar 2**	**Pillar 3**	**Pillar 4**
VC1	67%	33%	NO	YES	=	YES
VC2	60%	40%	YES	YES	=	NO
VC3	63%	38%	YES	YES	YES	YES
B1	31%	69%	YES	NO	NO	NO
B2	43%	57%	YES	YES	NO	NO
B3	20%	80%	YES	NO	NO	NO
A1	67%	33%	YES	YES	YES	YES
A2	71%	29%	NO	YES	YES	YES

Overall, the findings were in line with the trend we observed in the first step. On average, VC's and BA's followed the principles of each effectuation pillars, while commercial bankers rejected most of them. However, the results for pillars 1 and 2 are more surprising.

First, all commercial bankers validated the effectuation logic in pillar 1. Indeed, bankers tend to stick to their financial projections, but according to our results, none of them believes that maximizing returns is critical. Indeed, bank employees would rather generate lower returns and prefer avoiding bankruptcy:

"If I recommend 5 projects per year and if they all go bankrupt, I will have big problems with the manager (B2)."

Second, pillar 2 offers mixed results. Commercial bankers think that finding early partners is as important as analysing competitors. They would definitely not go through SWOT analysis to understand their competitors better:

"The competition is so huge, that I would not take care at all (B2)."

For the rest, pillar 3 was generally accepted by VC's and BA's and clearly rejected by all commercial bankers. For example, while B1 talked about investing in R&D, VC1 said :

"I would start with what I have, so I will get feedbacks as fast as possible (VC1)."

Pillar 4 also offered very clear results. VC's and BA's do not focus on financial planning, while none of the commercial bankers would start a business without drawing at least a projected P&L and a cash flow statement:

"How can you deal with your investments if you do not know your return and when it will be paid (B1)."

Step 3: Business Plan Content

The investors were given six components of a classic business plan and asked to rank them from one (most important when analyzing a business plan) to six (least important when analyzing a business plan). We then allocated a score to every element. For each subject, if an element was classified number one, it received 6 points, number two received 5 points, etc. The detailed data is annexed in Table 4. The score column represents the sum of the investors score for each business plan component.

Based on the total scores, we compared the ranking per type of investor.

Table 5

Bankers' ranking	**VC's ranking**	**Angels' ranking**
Financials	Entrepreneur(s) profile	Entrepreneur(s) profile
Product description	Product description	Product description
Market research	Market research	Market research
Action plan	Action plan	Action plan
Entrepreneur(s) profile	Competitive analysis	Competitive analysis
Competitive analysis	Financials	Financials

The contrast between bankers and equity investors is straightforward. The entrepreneur's profile and his personality are by far the most important items for venture capitalists and business angels:

"According to me, you need a good team and the right people. People make the difference. It is really the most important aspect. (VC2)."

According to the commercial bankers in our survey, financial projections are the most important items:

"I need a P&L on 3 or 4 years, a working capital requirement projection, the projected balance sheet and classical ratios. I prefer them to be conservative. For example, for a hotel, I will only assume a 30% occupancy rate. (B1)"

Need for a business plan

At the end of the interview, we asked each financial backer if he wants to receive a written business plan when entrepreneurs submit a financial request. Despite criticisms about the accuracy of the plans, they all clearly answered “Yes!”.

Finally, we asked each of them to give their best advice to entrepreneurs trying to convince them (beyond the preparation of the business plan). A recurring comment from venture capitalists and commercial bankers was to pay more attention to the preparation of the very first meeting:

“I would advise them to come with the right team and to be well prepared for the interview. It is not compulsory to have a business plan at the first meeting, but they should be very well prepared. I always say: you only have one opportunity to make a good first impression (VC2).”

A commercial banker also insists on the necessity to be very precise about the needs of the company:

“Too often, I meet with people who ask for more money than they actually need. Sometimes they do not even need any additional financial support. You should tell entrepreneurs to analyze their financial requirements and call bankers after they determined precisely what they want from us (B3).”

A business angel insisted on his advisor role and on the fact that he is not only interested in financing the project:

“I do not only invest in projects in order to make money and attend the annual general assembly. Investors take time to coach the entrepreneur and participate in main decisions ... I think that entrepreneurs should seek for BA from their own region who have had a successful experience in the business. If they meet with the right investor, it will be much easier to convince him and to take advantage of his knowledge. (A2).”

DISCUSSION & IMPLICATIONS

Effectuation vs. Causation?

Starting with the idea that different types of investors use ‘effectual’ or ‘causal’ reasoning in different extent, we assume that they will have different expectations in terms of so-called business plan content. Gaining insights on this topic is expected to provide guidance to entrepreneurs who have to prepare a written document when they approach potential investors.

Our study confirms that business angels and venture capitalists use effectuation more often than the so-far unexplored commercial bankers. Overall, this is in line with the previous work of Sarasvathy & Wiltbank (2002). Our findings confirm their previous results, which suggested that business angels use effectuation as often as expert entrepreneurs do. Nevertheless, we were not able to confirm that experienced venture capitalists should use effectual logic more often than novices should, since our sample was too small. Finally, commercial bankers only use effectuation about one-third of the time and tend to stick to a causal approach. They still seem to use effectuation more often than MBA students, whom 78% never use it at all (Sarasvathy, 2001).

The first step of our study concludes that, overall, investors use both causation and effectuation. There are differences between the different types of investors. Since the current practice and content of the business planning process mainly reflect a causal process, this suggests that it should be adapted and refined to better meet the expectations and needs of investors.

From a theoretical point of view, our study confirms the importance of adopting a contingent approach when analyzing the expectations and behavior of investors and what they mean by a business plan. The research advocates the relevance of the ‘effectuation vs. causation’ framework to do so. The results also suggest that the contingency should not only focus on the different kinds of ventures but also on the different kinds of investors that are targeted.

Our results suggest that entrepreneurial education probably overestimates the power and importance of formal business planning. Sarasvathy has confirmed that expert entrepreneurs use more effectual reasoning than causal, we have shown that financial partners do the same as well. In this context, researchers have suggested new alternatives models of teaching entrepreneurship. Honig (2004) suggested a contingency model of entrepreneurial education, providing more flexibility to deal with unexpected environmental factors. He argued that entrepreneurs should be free to select specific modules derived from Business Planning approach (such as market research, strategic planning, financial planning) only when appropriate. The rest of the time, entrepreneurs should bypass those modules and pursue the opportunity using a more effectual approach. This kind of model should be part of entrepreneurship classes where the business plan should be presented as one tool inside a wider entrepreneurial toolbox. Instead of focusing on producing good-looking plans, students should learn which tools to use according to the situation they face.

Effectuation pillars

Based on our study, we found two unexpected results while testing the four pillars of effectuation.

First, the “affordable loss pillar” is confirmed by commercial bankers but not by venture capitalists or bank angels. On one hand, the interviews suggested that bankers tend to focus on the repayment ratio instead of maximizing the return on investment. Even if they do not play with their own money, bankers use the affordable loss principle because they care about their own internal reputation. On the other hand, venture capitalists manage a portfolio of investments. They want to maximize the average return, which is why they prefer high-risk projects with high-expected returns, rather than focus on minimizing risks.

The second anomaly, the “strategic alliance pillar,” is not clearly rejected by commercial bankers. Indeed, while focusing on firms at early stages even commercial bankers believe that partners are important and help entrepreneurs to grow. In fact, new companies dramatically need references to get clients. In this context, a partnership with a well-known agent is a fast way to improve their reputation. Because of this, many commercial bankers think that it is worth losing part of the profit margin to get support from more experienced partners. This suggests that the principles associated with the four pillars of effectuation are independent and should be managed with prudence. This is in line with the idea that effectuation is a multidimensional construct (Chandler & al., 2009).

These two findings suggest that researchers have to be cautious when they use the concepts of effectuation and causation with investors. We can also elaborate that the theoretical framework needs to be adapted to this kind of setting. Indeed, effectuation is a rather new concept and its usability in other settings than pure entrepreneurial opportunity exploitation has still to be further investigated. This is consistent with another finding of Chandler & al. (2009) who concluded that the search for business partners is also part of traditional planning activities while it was coded ‘EFF’ in our research.

Business Plan Content

Our study confirms that all investors clearly want to receive a well-written document, even if their expectations differ in terms of content. This is in line with Wiltbank, Sudek & Read (2009).

Moreover, it confirms that, on one hand, the three groups of investors agree on the importance of product description, market research, and marketing strategy and do not expect much from the competition analysis. On the other hand, while venture capitalists and business angels first focus on the entrepreneur(s) and give less importance to the financial plan, commercial bankers prefer to focus on the financial plan and pay less attention to the entrepreneur's profile.

For practitioners, the research contributes to the discussion about the usefulness of business plans. Firstly, our study confirms that now is not the time to 'burn business plans'. Secondly, our results indicate that the content of the business plan should change and must be tailored to the audience as already suggested by Mason & Stark (2004). However, the main point in our paper goes beyond the formal aspect and reflects more fundamental differences in the approach of the new venture preparation process and the relevance of the traditional business planning. The typical top-down approach advocated by most textbooks and the 'how-to' literature needs to be challenged with more emergent approaches especially when entrepreneurs try to attract venture capitalists or business angels. In such cases, entrepreneurs have to demonstrate their ability to exploit an opportunity with predetermined resources, while adopting an emergent strategy to be able to deal with unforeseen with scenarios, both good and bad. As Wiltbank, Sudek & Read (2009, p.8) concluded: "*Knowing how a particular investor approaches venture development – his or her relative emphasis on prediction and control – can then inform an entrepreneur's prioritization of different strategic moves as well as the positioning of moves already made, in terms of justifying predictions or demonstrating an ability to control how the uncertainty surrounding the venture opportunity is resolved*."

The fact that every category of investor wants to receive a business plan also confirms its ceremonial role (Kirsh, Goldfarb & Gera, 2009). This can be explained by the fact that such preparatory information reduces information asymmetry and eases the work of any financial analyst who does not have to pay for it or do it himself.

Limitations

There are of course limitations associated with this study. Most of them are typical to qualitative research and/or experimentation. Most of them can only be addressed with further research that would complement this project.

First, elements that characterized the Belgian context have to be taken into account: e.g., the level of entrepreneurial activity in Belgium is low, venture capital is not very developed, the number of business angels is low, and through multiple public incentives banks are driven to finance start-ups. All these elements may influence the behaviour of the research participants. Research in other national and other type of contexts may help to corroborate our findings.

Secondly, we selected interviewees on purpose but only got in touch with those who were ready to play the game. This can be a source of sampling bias that can be addressed with further quantitative work.

Thirdly, there may be some biases associated with the way interviewees answered the questions. It is impossible to assess to what extent their answers were biased by the fact they wanted to look smart by giving provocative answers. On the same line, it is not possible to check if their answers to 'experimental' questions reflect their day-to-day practice. Analysing actual day-to-day work of investor is probably the best way to check this possible bias but is out of the scope of this project.

CONCLUSION

While most of the entrepreneurial finance literature suggests that the business plan plays a central role in the investment decision of bankers, VC and business angels, less attention has been paid to the logic of these three types of investors and its implication in terms of business plan content. This research demonstrates slight differences in their decision-making logic and connects them with rather different expectations in terms of ‘business plan’ content. In particular, the financial plan is clearly not always as central as it is supposed to be according to the literature in entrepreneurial finance. Indeed effectual decision-making style gives almost no importance to it. However, if the results highlight that there are multiple conceptions about new business preparation process and the business plan, they also confirm that all investors still want to receive a so-called business plan.

These findings reinforce the need to continue the current research effort about the new venture development process and the need to balance the role and format of the business plan. More precisely, the results challenge the traditional top-down view that has been prevailing for years where the ultimate focus was on the financial plan that was supposed to be the definitive argument to convince every financial backer. This clearly offers an additional support for the effectual approach initiated by Sarasvathy even though it also challenges the conception of the ‘affordable loss’ and ‘strategic alliance’ pillars.

The research suggests multiple avenues for future research including further work on (i) the operationalization of the effectuation framework, (ii) comparison of the points of view of investors, entrepreneurs and coaches on the same projects, (iii) the way to assess an entrepreneurs readiness for emergent strategy and, of course, (iv) a broader and quantitative validation.

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Annex 1: Table 4

Table 4

	B1	**B2**	**B3**	**Score**
Market research	2	5	3	11
Product description	6	1	2	12
Competitive analysis	3	4	6	8
Financials	1	2	5	13
Action plan	4	3	4	10
Entrepreneur(s) profile	5	6	1	9

	VC1	**VC2**	**VC3**	**Score**
Market research	6	2	3	10
Product description	1	5	2	13
Competitive analysis	5	4	4	8
Financials	4	6	5	6
Action plan	3	3	6	9
Entrepreneur(s) profile	2	1	1	17

	BA1	**BA2**		**Score**
Market research	3	4		7
Product description	2	2		10
Competitive analysis	4	5		5
Financials	6	6		2
Action plan	5	3		6
Entrepreneur(s) profile	1	1		12