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A systematic approach to writing and rating entrepreneurial business plans.

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There is a small but growing body of research that details many desirable attributes and qualities that, at a general level, any entrepreneurial business plan should contain. It is a reasonable proposition that this research, and any principles it may contain, can and should provide the basis for a systematic approach to both the writing and evaluation of entrepreneurial business plans. Despite this, the majority of entrepreneurial business plan writing and evaluation is unsystematic--if systematic is taken to mean "based on empirical evidence and developed theory." The vast majority of the abundant literature on "how to write a successful business plan" is not research-based (Hindle [1997]). The espoused criteria of its authors far outweigh the formal application of the known attributes of successful ventures (Hindle and Mainprize [2002]). This article seeks to articulate a research-based system for assessing the content quality of entrepreneurial business plans (EBPs) from the point of view of an investor (more specifically, a venture capitalist investor). As a natural corollary, its findings may also serve as a guide to writers of entrepreneurial business plans.

As the primary source of information for the investment screening decision, venture capital firms rely almost exclusively on the entrepreneurial business plan (Zacharakis and Meyer [2000]). Though research and theory concerning this important tool are sparse, there is an opportunity to improve the deal-screening effectiveness of venture capital firms by articulating and applying theory-based principles in the writing and assessing of entrepreneurial business plans. For this task, three questions must be addressed:

(1) What is the theoretical basis for writing entrepreneurial business plans?

(2) What are the fundamental principles synthesized from the literature?

(3) How can these principles be operationalized?

If these questions are answered, entrepreneurs stand to benefit by having a guide to writing entrepreneurial business plans based on research principles, and venture capital firms will have a system for rating the quality of these plans and thus potentially improving their investment decisions.

General Context

Entrepreneurial business planning is vital to the creation of new ventures.

Entrepreneurship is an economic phenomenon existing since the beginning of society. No single widely accepted definition of entrepreneurship exists. This article uses the definition: "the pursuit of opportunity without regard to resources currently controlled" (Stevenson et al. [1994]).

An entrepreneurial business plan can benefit an entrepreneur who engages in entrepreneurship. With a good plan in hand, an entrepreneur should not let a lack of resources inhibit his or her pursuit of opportunity. Gaining control of financial resources during the process of entrepreneurship is necessary, but not sufficient for the entrepreneur to create a new venture to exploit an opportunity. Control of financial resources is often achieved through planning. An entrepreneurial business plan is considered the primary planning document for a new venture, defined as "the formal argument used to secure, from prospective investors, resources for a proposed entrepreneurial process" (Hindle [1997]).

Venture capital is a common source of financial resources for entrepreneurs. The process of entrepreneurship is risky. Prospective investors in a new venture need to have an understanding and tolerance for risk. Formal venture capital is risk-financing managed by venture capital firms. Entrepreneurs endeavoring to control financial resources often choose to seek venture capital, defined as: "equity or equity-linked investments in young, privately held companies" (Lerner [2000]). Entrepreneurs initially communicate their proposed venture to a venture capital firm by presenting an entrepreneurial business plan. It is used in the deal screening stage of the venture capital process. Deal screening is defined as: "The initial decision process by a venture capital firm where many entrepreneurial business plans are screened down to a few that are deemed to have high probability of success and warrant further due diligence."

The concept of "being systematic" in an evaluation process is closely related to standardizing deal screening by making it more consistent. This could improve the quality of venture capital investment decisions. Seeking and using similar information to evaluate an entrepreneurial business plan is an important step toward standardizing deal screening in the venture capital process. Standardizing is defined as "the adoption of a consistent process leading to material improvements in practice and results; it establishes a compromise between state-of-the-art knowledge and practical techniques" (adapted from de Vries [1999]). Venture capital firms could potentially benefit from standardizing many aspects of their approach to deal screening. The concept of standardization will always potentially suffer from connotations that include lack of flexibility, sensitivity, and adaptability. Our approach to standardization is sensitive to these important issues, but focuses on "being systematic": applying sound principles in a consistent framework.

The Specific Problem

Relevant literature (see References) supports two very broad generalizations:

(1) Entrepreneurs write business plans capriciously.

(2) Venture capitalists rate entrepreneurs' business plans indiscriminately.

The primary objective of the study behind this article was to discover research-based principles that serve dual duty as a guide for writing and rating entrepreneurial business plans. If entrepreneurial business plans are written consistently and investment decisions are made systematically, the authors believe that venture capital will be dispersed more effectively.

From Grand Systems Theory to a Simple Attempt to be Systematic

Consistency and accuracy in human decision making can improve with a system. Systems theory was introduced by Bertalanffy in 1951. He proposed that problems can be better solved if component parts are viewed as integral to a whole. A system is a set of related components that work together in a particular environment. The use of systems theory in management is a product of the merger of many ideas from scientific, human relations, and operations management (Ackoff [1964]). The input-process-output model is a subset of systems theory that originated during the Industrial Revolution. It has been used to great benefit in many domains, from manufacturing to communications to computer programming.

The input-process-output model can be used to frame the deal-screening process in venture capital firms. Enhancing the input of any procedure naturally improves the process and output. Venture capital decision making should be no different. The decision input, and the procedure's process, can be improved by making the writing and rating, respectively, of entrepreneurial business plans more consistent. And this has the potential of improving the decision output of deal screening. In other words, standardizing the content of entrepreneurial business plans and the assessment regime has the potential to improve the results of venture capital investment decisions. This article makes no pretence to be elaborately grounded in formal systems theory. But our methodology--otherwise our attempt to be systematic in a quest for an improved VC deal-screening process--is compatible with the fundamental tenets of systems theory.

METHODOLOGY

This article sets out to answer three questions: (1) What is the theoretical basis for writing entrepreneurial business plans? (2) What are the fundamental principles synthesized from the literature? (3) How can these principles be operationalized?

Three methods are used to answer these three questions.

Review of the Literature to Find Themes

The theoretical basis for writing entrepreneurial business plans was determined by reviewing literature related to business planning. Twenty-two pieces of selected literature were summarized into three areas: (1) The level of theoretical rigor employed in each paper; (2) the overall goal(s) of a business plan as stated by the author(s); and (3) the presence of fundamental entrepreneurial business-planning principles. Exhibit 3 provides a visual summary. It was important to this study that the most enduring common themes of entrepreneurial business planning should be identified. To ensure this, literature used in the review was published over a 30-year period. Each piece of literature was reviewed to determine the primary goal of a business plan as identified by the author(s). The most commonly cited goals were then identified as the theoretical basis for writing business plans.

Synthesis of the Literature into Fundamental Principles

Terminology for the specific fundamental principles of entrepreneurial business planning were then identified, largely, by adapting the twelve laws and the six success rules from Hindle's [1997] Enhanced Entrepreneurial Business Planning Paradigm. Hindle discovered, applied, and drew inferences about the utility and applicability of an enhanced paradigm of entrepreneurial business planning. The primary utility of Hindle's research is "a basis for systematic comparative inquiry and a template for quality assessment of the Entrepreneurial Business Planning process and its outputs" (Hindle [1997]). The resulting Enhanced Entrepreneurial Business Planning Paradigm is a complex construct embracing:

(1) precise definition of application boundaries;

(2) twelve laws;

(3) six success rules; and

(4) specified instrumentation requirements.

The laws and success rules of the Enhanced Entrepreneurial Business Planning Paradigm (Hindle [1997]) are listed in Exhibit 1.

A total of 10 fundamental principles were identified by adapting Hindle's Laws of Success and Rules of Entrepreneurial Business Planning. A summary matrix of the 10 principles and their link to Hindle's Enhanced Entrepreneurial Business Planning Paradigm is found in Exhibit 2.

A synthesis of the 22 pieces of literature was used to determine: (1) the presence of each of the fundamental principles, and (2) a description and rationale for each principle.

Distillation of the Fundamental Principles into a Practical Assessment Survey
The rationales of the ten principles synthesized from the literature were then

operationalized by converting them into a practical assessment

EXHIBIT 2

Ten Entrepreneurial Business Planning Principles and Their Link to Hindle [1997]

Identified Principle	Source of Principle from Hindle [1997]
(1) Expectations	Law #1: Codify the selected strategy as a multi-disciplinary continuum. Law #3: Nominate the intended audience Success Rule #1: Adapt plan length and depth of detail to the interest level and stage of involvement of the target audience. Success Rule #4: Anticipate and address the target audience's due diligence requirements.
(2) Milestones	Law #4: Identify all major plan objectives, primarily as financial targets. Law #8: Seek and respond to feedback Success Rule #3: Create investor confidence by providing flexible credibility.
(3) Opportunity	Law #6: Distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages. Law #7: Provide comprehensive statements of opportunities and risks.
(4) Context	Law #7: Provide comprehensive statements of opportunities and risks.
(5) Business Model	Law #1: Codify the selected strategy as a multi-disciplinary continuum. Success Rule #2: Empower the EBP reader.
(6) Team	Law #1: Codify the selected strategy as a multi-disciplinary continuum.
(7) Elaboration	Law #9: Elaborate the selected strategy as a set of sub-plans.
(8) Scenario Integration	Law #1: Codify the selected strategy as a multi-disciplinary continuum. Law #2: Integrate the codified strategy as a 'base case' scenario. Law #12: Be able to answer the audience's 'what if' questions in financial terms. Success Rule #4: Anticipate and address the target audience's due diligence requirements. Success Rule #6: Employ simulation techniques to obtain the most plausible 'base case' scenario which can withstand rigorous due diligence investigation.
(9) Financial Link	Law #10: Convert the selected strategy into a differentiated suite of financial budgets. Law #11: Re-combine the differentiated budgets into an integrated suite of financial projections.
(10) The Deal	Law #5: Define the investment offer(s) as an expected ROI. Success Rule #5: Create a value-adding deal structure. Success Rule #6: Employ simulation techniques to obtain the most plausible 'base case' scenario which can withstand rigorous due diligence investigation.

tool.

EXHIBIT 1

Laws and Success Rules for the Enhanced Entrepreneurial Business Planning Paradigm (Hindle [1997])

Paradigm Laws	Law #1	Codify the selected strategy as a multi-disciplinary continuum
	Law #2	Integrate the codified strategy as a 'base case' scenario.
	Law #3	Nominate the intended audience
	Law #4	Identify all major plan objectives, primary as financial targets.
	Law #5	Define the investment offer(s) as an expected ROI.
	Law #6	Distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages.
	Law #7	Provide comprehensive statements of opportunities and risks
	Law #8	Seek and respond to feedback
	Law #9	Elaborate the selected strategy as a set of sub-plans.
	Law #10	Convert the selected strategy into a differentiated suite of financial budgets.
	Law #11	Re-combine the differentiated budgets into an integrated suite of financial projections.
	Law #12	Be able to answer the audience's 'what if' questions in financial terms.
Paradigm Success Rules:	Success Rule #1	Adapt plan length and depth of detail to the interest level and stage of involvement of the target audience.
	Success Rule #2	Empower the EBP reader.
	Success Rule #3	Create investor confidence by providing flexible credibility.
	Success Rule #4	Anticipate and address the target audience's due diligence requirements.
	Success Rule #5	Create a value-adding deal structure
	Success Rule #6	Employ simulation techniques to obtain the most plausible 'base case' scenario, which can withstand rigorous due diligence

RESULTS

Literature Review: New Ventures Require a Plan Distinct From Existing Ventures

Planning generally produces better results than does trial-and-error learning (Ansoff [1991]). A proliferation of academic and practitioner literature stresses the importance of planning by promoting models of the planning process and offering normative advice on how to effectively design and implement strategic and operational plans. Fundamentally, the objective of planning in business is to minimize the uncertainty of future events in the pursuit of a goal.

The nature of planning is distinctly different for new ventures than for existing ones. A critical review of the business-planning literature (Pearce [1987]) and a meta-analysis (Schwenk [1993]) reveal that both firm size and stage of development are critical factors in understanding business planning. Hindle [1997] and McGrath and MacMillian [1995] suggest that planning for new ventures is entirely different from planning for firms in later stages of development. These scholars argue that new ventures begin with a high ratio of assumption to knowledge, and inevitably experience deviations from original targets that require fundamental redirection. Thus, new ventures must practice more discovery-driven planning. Applying business practices valid for a mature business can cause failure for new ventures (Block [1982, 1985, 1993], Kanter [1989], and Sykes [1995]). Greiner [1972] concluded that what works for a mature business will cause failure for an early-stage business.

A distillation of 22 pieces of literature related to business planning with varying levels of theoretical rigor suggests that an EBP has two fundamental purposes (see Exhibit 3): (1) communication--EBPs must be a tool that clearly communicates the future and its uncertainty; and (2) credibility--EBPs must portray credibility by providing for revision and iteration.

EXHIBIT 3

Results of Selected Literature Relating to Business Planning: Summary of Theoretical Rigor, Overall Goals, and Presence of Fundamental EBP Principles

Selected Literature Relating to Business Planning	Theoretical Rigor (High, Medium., Low)	Overall Goal(s) of a Business Plan	10 Fundamental Principles of an Entrepreneurial Business Plan									
			Expectations	Milestones	Opportunity	Context	Business Model	Team	Elaboration	Scenario Integration	Financial Link	The Deal
Amis & Stevenson [2001]	H	Communication document to secure capital										x
Muzyka [2000]	M	Mapping and defining opportunity			x							
Hindle [1997]	H	Communication, Control & Simulation of the new venture	x	x	x	x	x	x	x	x	x	x
Bers et al [1997]	H	Presenting multiple future scenarios								x		
Sahlman [1997]	M	Communication of the opportunity and team			x	x	x	x		x	x	
McGrath & MacMillan [1995]	M	Communication of the venture assumptions and learning (discovery) plan		x								
Sykes [1995]	M	Minimizing risk by communicating critical assumptions									x	
Weltman [1995]	M	Forecasting the financial future								x	x	
Timmons [1994]	H	Communication document to secure capital			x	x		x				
Block & MacMillan [1993]	M	Communication document to secure resources		x								
Schwartz [1991]	M	Communication of the venture's future								x		
Sandy [1990]	L	A 'conversation' of business objectives into performance objectives	x			x	x					
Wyckham & Wedley [1990]	M	Communicates the feasibility analysis process								x	x	x
Rich & Gumpert [1985]	M	Accurately and attractively communicate the proposed project	x		x		x	x			x	x

EXHIBIT 3 (CONTINUED)

Block & MacMillan [1985]	M	Communication of quantitative milestones		x			x		x			
Fry & Stoner [1985]	H	Communication of the vision to internal and/or external audiences	x		x			x			x	
Hills [1985]	H	Communication of the market analysis and opportunity			x	x				x		
Timmons [1980]	M	Communication document to secure capital			x			x			x	
Webster & Ellis [1976]	H	Communication of the characteristics of the company, competition and financial projections						x			x	x
Mancuso [1974]	L	Communication of the risk and reward structure of a new venture	x			x		x	x		x	x
Deweerd [1967]	M	Communicate multiple future scenarios								x		
Schumpeter [1934]	M	New venture must be founded on a new combination			x							

Communication of an uncertain future. The amount of uncertainty embraced in an entrepreneurial business plan is markedly greater than in a plan for an existing business. The fundamental element underpinning this difference stems from the "liabilities of newness" (Stinchcombe [1965]). The liability of newness is a new venture's greatest nemesis. The entrepreneurial business plan is the quiver that carries the arsenal of arrows to overcome this deadly enemy. Mature businesses have already overcome this liability. The role of planning for new ventures must include clear communication regarding the future and its uncertainty.

Framed in terms of a medical analogy, business planning for an existing venture is like an annual check-up with the family physician. Blood pressure, cholesterol levels, and other indicators are compared against data from previous years. The physician and patient update the latter's health plan by evaluating the effectiveness of diet and exercise strategies executed (or not) throughout the year. The patient proceeds to live another year and strive for improved milestones before the next anniversary check-up. On the other hand, business planning for new ventures is analogous to a midwife aiding in childbirth. Without a business plan, "new ventures are likely to be stillborn through a lack of ability to attract vital physical and financial resources" (Hindle [1997]). A midwife plans for multiple scenarios during the birth process. An entrepreneurial business plan must clearly communicate dynamic strategies to deal with inherent uncertainty as the new venture is born.

From the communication perspective, the EBP presents projections that include a rationale that is "testable and replicable by the reader." Similar to a midwife's plan in childbirth, the entrepreneur's aim is to communicate the future uncertainty of the new venture. The communication mandate of the EBP is to "anticipate the target investor's due diligence questions and provide answers to them before they are asked" (Hindle [1997]). An EBP must be a "unique, purposedesigned document--embodying high standards of literacy and numeracy--of the minimum length appropriate to the subject matter and target audience's information needs" (Hindle [1997]).

Credibility by providing for revision and iteration. All organizations must deal with uncertainty; it is therefore dangerous for them to articulate one rigid strategy. Inflexible strategies "are blinders designed to focus direction and block out peripheral vision" (Mintzberg [1990]). According to Mintzberg [1987]: "setting oneself on a predetermined course in unknown waters is the perfect way to sail straight into an iceberg." Steadfast planning in business may inhibit changes in two ways. First, it discourages the organization from considering disruptive alternatives; second, it might inhibit creativity (Mintzberg [1994]). A conflict lies inherent in the desire to "retain the stability that planning brings to an organization ... while enabling it to respond quickly to external changes in the environment" (Mintzberg [1994]). The reality that nearly anyone involved in managing and planning actually knows but is hesitant to face is that an initial plan rarely accomplishes what it was intended to do. Mintzberg cites the most devastating example of a planning disaster as the battle of Passchendaele, where military planners formulated tactics suitable for dry land. They had never visited the field where thousands fell to their death in a sea of mud.

Hindle [1997] coined the term provision of flexible credibility to describe the dynamic nature of entrepreneurial business planning. Credibility of an EBP is achieved if the document effectively matches the resources of the entrepreneurial team (resource seeker) needs with the expectations and criteria of the investor (resource provider). The credibility quotient is necessary but not sufficient. The EBP must also be flexible, able to adopt and adapt to the reader's criteria. An EBP "which presents a 'take it or leave it' set of propositions or has its financial forecasts 'set in cement' has a high likelihood of failure" (Hindle [1997]).

Opportunistic planning is described in the strategic planning literature as allowing organizations to be flexible and open to making changes in the planning process.

"Organizations need a good combination of formal and opportunistic planning. Organizations that rely exclusively on formal planning could trap themselves in unbearable rigidities. Those whose decision-making capability is entirely opportunistic will be constantly reacting to external forces, without a clear sense of direction" (Hax [1996]).

Hindle [1997] argues that, initially, credibility springs from effectively communicating a compelling case that convinces the audience (investors) that the volume of funds required and the resource control and allocation strategies will achieve the new venture's objective. Subsequent credibility is built by the plan's capacity to adapt. The initial version of an EBP "assumes the role of the opening address in a constructive dialogue; not final oracular proclamation requiring only assent or dissent" (Hindle [1997]).

Corporate managers of existing firms are judged against meeting a rigid plan. In growing new ventures, however, strict adherence to "the plan" can lead to business failure. An EBP should portray an entrepreneur's ability and willingness to deal with multiple future scenarios. Whereas managers of mature businesses practice the ethic of predictability, entrepreneurs must follow a learning ethic (Sykes [1995]).

According to Hindle [1997], an EBP embodies a learning ethic by effectively using the power of simulation to represent the new venture's most likely feasible future. Simulation "commences a dialogue with investors whose perspectives, responses and queries can then be used to forecast multiple alternative scenarios" (Hindle [1997]). From the credibility perspective, an effective EBP has the capacity to enable the target investor to "gain flexible perspectives on the desirability and feasibility of the new venture" (Hindle [1997]).

Synthesis Reveals 10 Entrepreneurial Business Planning Principles

Enhanced Entrepreneurial Business Planning Paradigm. A total of ten fundamental principles were identified, largely, by adapting the twelve laws and the six success rules from Hindle's [1997] Enhanced Entrepreneurial Business Planning Paradigm.

We found that five principles relate to the first goal of an EBP (see Exhibit 4). Communication of an uncertain future includes the principles of: (1) expectations, (2) milestones, (3) opportunity, (4) context, and (5) business model. The second goal of an EBP, credibility by providing for revision and iteration, includes the principles of: (1) team, (2) elaboration, (3) scenario integration, (4) financial link, and (5) the deal.

As previously stated, the synthesis of 22 papers related to business planning and their support for each of the ten respective principles is reported in Exhibit 3.

EXHIBIT 4

Two Common Goals of a Business Plan and Their Related Principles

Common Goal of a Business Plan	Identified Principle
(1) Communication: EBPs must be a tool that clearly communicates the future and its uncertainty.	(1) Expectations
	(2) Milestones
	(3) Opportunity
	(4) Context
	(5) Business Model
(2) Credibility: EBPs must portray credibility by providing for revision and iteration.	(6) Team
	(7) Elaboration
	(8) Scenario Integration
	(9) Financial Link
	(10) The Deal

Rationale for each principle. The results of the synthesis in the form of rationales for each of the ten principles are:

Principle 1: Expectations. Physically putting a business plan together requires the entrepreneur to translate the vision of the new venture and how it will perform into a format that is dictated, in large part, by the audience (Rich and Gumpert [1985]). All readers of EBPs can be said to have one crucial thing in common: they use the information the plan contains to aid decision making about the "provision of resources to the venture" (Hindle [1997]). Thus, the prime audience for an EBP is always an investor. The type of investor and its stage of involvement should dictate the depth and breadth of the contents in the EBP The third law of Hindle's Enhanced Business Planning Paradigm states that the EBP must "nominate the intended audience." For example, at the screening stage, a venture capital firm is expecting that business plans include an overview of the market opportunity, the distinctive competence of the management team, the business model, and the deal structure. In later stages of the investor-entrepreneur relationship, more detail will be expected in subsequent iterations of the EBP (Mancuso [1974]).

In the deal-screening stage, a venture capital firm expects an EBP to communicate that (1) key success factors and risks can be clearly identified and are understood; (2) the venture has a large projected market with good potential market penetration; (3) a strategy for commercialization, profitability, and market dominance is present; and (4) a strong proprietary and competitive position can be established and protected (Sahlman [1997], Timmons [1994], Stevenson et al. [1994], Rich and Gumpert [1985]).

Principle 2: Milestones. The milestone approach satisfies the dual need for planning and flexibility, and makes obvious the hazards of neglecting linkages between certain events. An effective EBP embodies the principle that "milestone planning takes entrepreneurs at the lowest possible cost to the next important stage, where they can make informed decisions rather than blunder along adhering to a fixed plan that out of ignorance they have based on faulty projections" (Block and MacMillian [1985]).

Milestones are effective signposts and tools for go/no-go strategies in an EBP (McGrath and MacMillian [1995]). Quantitative values rather than chronological dates must anchor milestones. Hindle's [1997] fourth law states that the writer of an EBP must "identify all major plan objectives, primary as financial targets." Hindle's paradigm reinforces the critical importance of using milestones in EBPs that are anchored with financial and quantitative values.

Principle 3: Opportunity. No opportunity lasts forever. Consumer trends and tastes, competitive landscape and technological innovation, all evolve over time to inevitably change an initial opportunity. There are four aspects that must be described in an EBP to fully articulate the opportunity principle: (1) the new combination of the venture (Schumpeter [1934]); (2) the magnitude of the opportunity or market size (Muzyka [2000]); (3) market growth trends (Timmons [1994]); and (4) the venture's value from the market, or the percent of market share proposed or market share value in dollars (Rich & Gumpert [1985]). Hindle's [1997] sixth law calls for the EBP to "distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages." The distinctive competencies and sustainable competitive advantage of an entrepreneurial venture are results of discovering a new combination. Finding new combinations involves a process of entrepreneurial discovery that will become the engine that drives a new venture. According to Schumpeter [1934], "Everyone is an entrepreneur when he actually carries out new combinations, and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses."

Principle 4: Context. A high-quality EBP should contain certain pieces of evidence related to the context in which the new venture will be launched. According to Hindle's seventh law [1997], an EBP must "provide comprehensive statements of opportunity and risks." More specifically, Sahlman [1997] identifies four key aspects that a business plan should cover to adequately describe context. First, the entrepreneurs should show a heightened awareness of the new venture's context and how it helps or hinders their specific proposal. Second, and more importantly, they should demonstrate that they know the venture's context will inevitably change and describe how those changes might affect the business. Further, the EBP should spell out what management can (and will) do in the event the context grows unfavorable. Finally, the business plan should explain the ways (if any) in which the entrepreneurial team can affect context in a positive way. For example, the team might be able to have an impact on regulations or on industry standards through lobbying efforts. From a communications perspective, heightened awareness of the context is demonstrated through the understanding underlying primary assumptions in the market (Rich and Gumpert [1985]). Quantifying these primary assumptions is the most effective demonstration of this principle. For example, an EBP could contain the line: "Each one-month delay in market introduction beyond 15 months from now will cost us a 2% market share." By exhibiting heightened awareness of context, this sample provides some incentive to draw increased resources to expedite the new venture.

Principle 5: Business Model. In an EBR a business model should be described with simplicity. It is a brief statement of how an idea actually becomes a business that makes money. It tells who pays, how much, and how often. The same product or service may be brought to market with several business models. Any entrepreneurial task is made up of a combination of individual activities. When they are systematically represented in relation to one another, the result is a business model. The business model describes the activities a company needs to perform to produce its product, deliver the product to its customers, and earn revenue. Sahlman [1997] states that the EBP must describe an attractive, sustainable business model; one that is possible to create a competitive edge and defend it.

A clear description of a business model shows potential investors that the entrepreneurial team has thought through the key drivers of the venture's success or failure. In manufacturing, such a driver might be the yield on a production process (Block and MacMillian [1985]). In magazine publishing, the anticipated renewal rate is often the key driver. In software, the impact of using various distribution channels is fundamental to the venture. A business model that is clearly described and based on a reasonable revenue driver will prove to satisfy success rule #2, "empower the EBP reader" and law #6: "distinguish the venture's business concept, distinctive competencies and sustainable competitive advantages" (Hindle [1997]). These "three Cs"--business concept, distinctive competency, and sustainable competitive advantage--form the trinity of message content that describes the business model and thus empowers the reader or investor. Empowerment through the description of a business model "involves employing information that makes the potential investor to feel competent--i.e, sufficiently potent--to make a decision" (Hindle [1997]).

Principle 6: Team. An effective description of the entrepreneurial team in an EBP is critical. Not because people are the most important part of the new venture, but because--without the right team--none of the other parts really matter (Sahlman [1997]).

Many new ventures have an excellent team in reality, but fail to describe themselves adequately and highlight their strengths to potential investors through an EBP (Sahlman [1997]). The prospective investor is looking for the experience the entrepreneurs have in the market they are selling to or intend to sell to; the investor is also looking to see if the entrepreneurial team has the skill necessary to carry out its plan (Timmons [1994], Mancuso [1974]). If the entrepreneurial team does not have all of the skills needed to carry out the plan, the EBP should state what specific skills the team has, what specific additional skills are needed, and identify how they will be acquired. If the team has identified candidates, those candidates should be revealed. If candidates have not been identified, then the EBP should discuss what skills the team intends to look for in prospective candidates. Hindle [1997] confirms the importance of an effective description of the entrepreneurial team. Comparing the skill attributes of the entrepreneurial team in four business plans, Hindle concludes that the "application of the enhanced EBP paradigm produced business plans which overcame many of the weaknesses of the less skilled entrepreneurs and augmented many of the strengths of the more skilled entrepreneur."

Sahlman [1997] suggests that investors require an EBP to answer three questions about the members of an entrepreneurial team: (1) What do they know? (2) Whom do they know? and (3) How well are they known?

What and whom they know are matters of insight and experience. The description of the team should address the familiarity of the team members with industry players and dynamics. An EBP should candidly describe each team member's knowledge of the venture's product or service, its production processes, and the market itself-from competitors to customers.

Principle 7: Elaboration. Building a new venture involves a great deal of detail work, which makes the EBP vitally important to not only keep an eye on the whole but to further break down individual tasks (Block and MacMillian [1985]). Law #9 from Hindle's Enhanced EBP Paradigm calls to "elaborate the selected strategy as a set of sub-plans." Elaboration of strategy is the "decomposition of the codified strategy into a three-part hierarchy: sub strategies; ad hoc programs and specifc action plans" (Hindle [1997]). The result is % timed sequence of conditional moves in resource deployment" (Katz [1970] cf. Hindle [1997]).

EBPs can be clarified by breaking down the overall strategy into a series of subplans where individual tasks are grouped (Mancuso [1974]). The EBP should elaborate plans by: (1) linking the milestones to subplans; and (2) using a timeline to show how tasks, milestones, and subplans interconnect.

Setting reasonable and achievable milestones in an EBP is critical to ensuring that the plan is credible to investors (McGrath and MacMillian [1985]). There is always the danger that EBPs will be too optimistic or too pessimistic. Both errors can have serious consequences for the future of the new venture (Block and MacMillian [1995]).

Principle 8: Scenario Integration. Building a new venture is like chess: to be successful, the entrepreneurial team must anticipate several moves in advance. An EBP that describes an "insuperable lead or a proprietary market position is by definition written by naive people" (Sahlman [1997]). All opportunities have promise; all have vulnerabilities. An effective EBP doesn't whitewash the latter. Rather, it proves that the entrepreneurial team knows the good, the bad, and the ugly that the venture faces ahead (Sahlman [1997]).

In terms of scenario integration, the discriminative of a good EBP from a bad one can be described using a photography analogy. Many entrepreneurs believe that a good EBP is a snapshot of an event in the future. Sahlman [1997] goes further to state that the best business plans go beyond a single snapshot: "they are like movies of the future. They show the people, the opportunity, and the context from multiple angles. They offer a plausible, coherent story of what lies ahead. They unfold possibilities of action and reaction."

The most effective EBPs discuss the team (principle #6), opportunity (principle #3), and context (principle #4) as a moving target. All three principles (and the relationships among them) are likely to change over time as a company evolves from start-up to ongoing enterprise. The entrepreneurial team must focus on the dynamic aspects of the entrepreneurial process when writing the EBP. Hindle's enhanced EBP paradigm places considerable focus on scenario integration to build the "provision of flexible credibility."

Principle 9: Financial Link. In the presentation of financials in an EBP, the income and cash flow statements are preceded by operational statements setting forth primary planning assumptions about market size, sales, productivity, and basis for revenue estimates (Rich and Gumpert [1985] and Mancuso [1974]). Too often, entrepreneurs focus on the derivative assumptions such as forecast revenue and return on investment. The forecast profit or return on investment is meaningless by itself. Investors (especially venture capitalists) are well aware of that fact and spend most of their efforts understanding the assumptions that compose the basis of the forecast (Rich and Gumpert [1985] and Mancuso [1974]). They place the highest credibility on the assumptions made by entrepreneurs who have direct experience with the proposed market or technology (Sykes [1995]). The key assumptions related to market size, penetration rates, and timing issues of market context substantiated in the text of the EBP should be linked directly to the financial statements (Hindle [1997]).

Principle 10: The Deal. An EBP is written to attract an investor. The goal of the EBP is to land a deal with the prospective investor. The entrepreneur must realize when crafting an EBP that "different categories of potential investor stand to gain different levels of benefit From different aspects of a potential investment situation" (Hindle [1997]).

Professional investors view a business plan from a holistic perspective. Rather than judge entrepreneurs or their business plans as winners or losers, it is most productive to look at the investment opportunity as an interconnected combination of Four elements: people, context, business opportunity, and deal (Amis and Stevenson [2001]). The right combination, which is often manageable, means a high-potential opportunity. A bad combination, or the lack of any single element, is a recipe for failure. In any investment opportunity, there is usually some potential for a win if only the right investor would join it, or if the right changes would be made. If an entrepreneur implements this integrative philosophy of investing into the designing of the deal, the EBP will have a higher chance of successfully securing funding. Hindle's success rule #5 encapsulates this philosophy: "create a value-adding deal structure."

Operationalization: EBPAR

The ten principles synthesized from the literature and described in the previous section of this paper are operationalized by converting them into an assessment tool. We name this survey tool the Entrepreneurial Business Plan Assessment Regime (EBPAR). The goal of the EBPAR is to create a systematic means to assess the extent to which a given entrepreneurial business plan complies with researched principles.

To operationalize an EBP assessment tool, communication and credibility become the dependent variables to which the ten fundamental principles are independent variables. Communication is assessed by evaluating the five principles of: (1) expectations, (2) milestones, (3) opportunity, (4) context, and (5) business model. Credibility is assessed by evaluating the five principles of: (1) team, (2) elaboration, (3) scenario integration, (4) financial link, and (5) the deal.

The tool is designed for the user to literally check boxes indicating the presence of elements important to each principle. The user then simply circles a high-med-low rating based on the number of boxes checked For a respective principle. The survey tool is found in Exhibit 5. EBPAR is designed for simplicity. And simplicity is utility's greatest friend.

A visual summary can be created from the results of EBPAR to further extend its utility. The visual summary uses communication and credibility as dependent variables on a graph when applied respectively to X and Y axis (see Exhibit 6).

Exhibit 5

Entrepreneurial Business Plan Assessment Regime (EBPAR) (Mainprize and Hindle [2003])

<table>
<tr><th>Goal</th><th>Principle</th><th>Assessment Questions</th><th colspan="2">Rating Criteria</th></tr>
<tr><td rowspan="9">Communication</td><td rowspan="3">Expectations</td><td rowspan="3">Does this EBP meet my expectations for efficient provision of sufficient information upon which to make the screening decision? As a Venture Capitalist I am expecting that:
❐ key success factors and risks can be clearly identified and are understood
❐ the venture has a large projected market with good potential market penetration
❐ a strategy for commercialization, profitability and market dominance is present
❐ a strong proprietary and competitive position can be established and protected.</td><td>Low</td><td>Only 1 or 2 of the expectation items are present in the EBP</td></tr>
<tr><td>Med</td><td>3 of the expectation items are present in the EBP</td></tr>
<tr><td>High</td><td>All 4 of the expectation items are present in the EBP</td></tr>
<tr><td rowspan="3">Milestones</td><td rowspan="3">Are milestones in the EBP are clearly communicated primarily as:
❐ quantitative values
❐ financial targets</td><td>Low</td><td>Either there are no milestones or they are without any quantitative values or financial targets.</td></tr>
<tr><td>Med</td><td>Some of the milestones use quantitative values or financial targets.</td></tr>
<tr><td>High</td><td>All milestones use quantitative values or financial targets.</td></tr>
<tr><td rowspan="3">Opportunity</td><td rowspan="3">Does this EBP fully describe the venture opportunity by describing the following:
❐ the new combination of the venture
❐ the magnitude of the opportunity (market size)
❐ market growth trends
❐ venture's value from the market (% of market share proposed market share value in dollars).</td><td>Low</td><td>Only 1 or 2 of the opportunity items are described in the EBP</td></tr>
<tr><td>Med</td><td>3 of the expectation items are described in the EBP</td></tr>
<tr><td>High</td><td>All 4 of the opportunity items are described in the EBP</td></tr>
</table>

Exhibit 5 (Continued)

	Context	Does this EBP demonstrates awareness of the context by describing the: ❒ industry structure ❒ competition ❒ the predicted changes to the industry over time ❒ factors that will inevitably change but cannot be controlled by the team.	Low	Only 1 or 2 of the content items are described in the EBP
			Med	3 of the context items are described in the EBP
			High	All 4 of the context items are described in the EBP
	Business Model	Does this EBP outline the business model by explaining: ❒ who pays (paying customer) ❒ how much (average transaction value) ❒ how often (repetition)	Low	Only 1 of the business model items is explained in the EBP
			Med	2 of the business model items are explained in the EBP
			High	All 3 of the business model items are explained in the EBP
Credibility	Team	Does this EBP describe the entrepreneurial team addressing: ❒ What do they know? ❒ Whom do they know? ❒ How well are they known?	Low	Only 1 of the aspects of the entrepreneurial team is addressed in the EBP
			Med	2 aspects of the entrepreneurial team are addressed in the EBP
			High	All 3 of the aspects of the entrepreneurial team are addressed in the EBP
	Elaboration	Does this EBP elaborates the overall strategy into sub-plans by: ❒ linking the milestones to sub-plans ❒ using a timeline to show how tasks, milestones and sub-plans interconnect	Low	Either there are no sub-plans or they are without any linkage to milestones.
			Med	Some of the milestones linked to sub-plans.
			High	All milestones are linked to sub-plans and a timeline show their interconnectedness

Exhibit 5 (Continued)

	Scenario Integration	Does this EBP employs simulation techniques to obtain a variety of plausible future scenarios by establishing a: ❒ most likely case ❒ best case ❒ worst case	Low	Only a one scenario is presented
			Med	2 scenarios are presented
			High	3 scenarios are presented
	Financial Link	Does this EBP link the selected strategies discussed in the body of the plan to the financials by addressing:	Low	1 or 2 of the aspects of the financial link are addressed in the EBP
		❒ How much money does the company need over what period?	Med	3 of the aspects of the financial link are addressed in the EBP
		❒ The level of sales to break-even? ❒ When established, how much profit is the company likely to make? ❒ When does cash flow turn positive? ❒ What are the main assumptions that the forecasts are based on?	High	4 or 5 of the aspects of the financial link are addressed in the EBP
	The Deal	Does this EBP articulate a value-added deal structure by describing: ❒ funds required; the amount of cash investment required for growth and the use of the proceeds. ❒ the offer; for equity financing the offer in almost always stated as a % of the equity in the venture. ❒ the return; is commonly stated as an annual return on investment. ❒ exit strategy; the most likely mechanism in which in the investor can expect to receive the initial investment back plus the return. ❒ Exit horizon; the approximately length of time the investment will be illiquid.	Low	1 or 2 of the aspects of the deal are addressed in the EBP
			Med	3 of the aspects of the deal are addressed in the EBP
			High	4 or 5 of the aspects of the deal are addressed in the EBP

Exhibit 6

Visual Summary of EBPAR Results

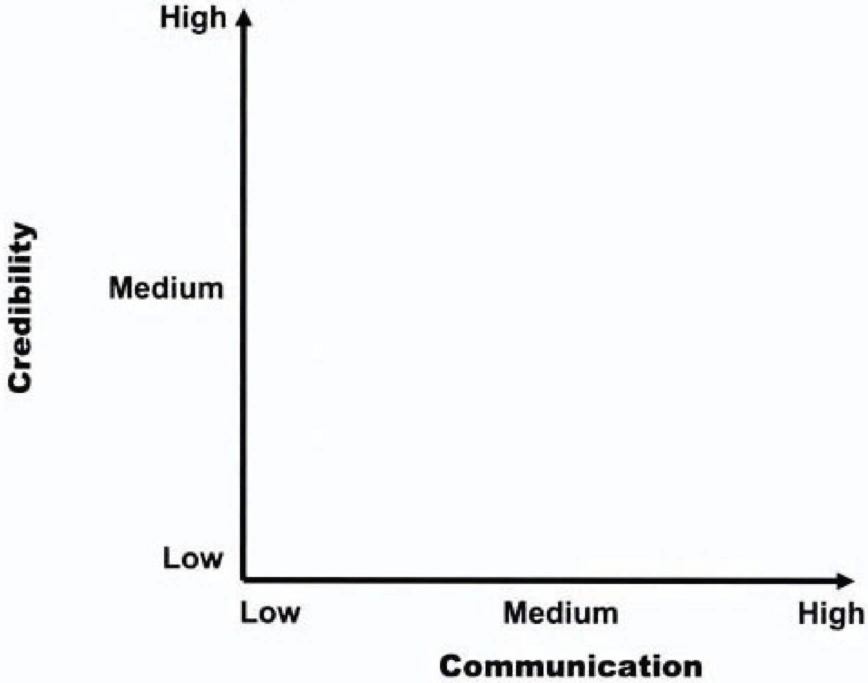
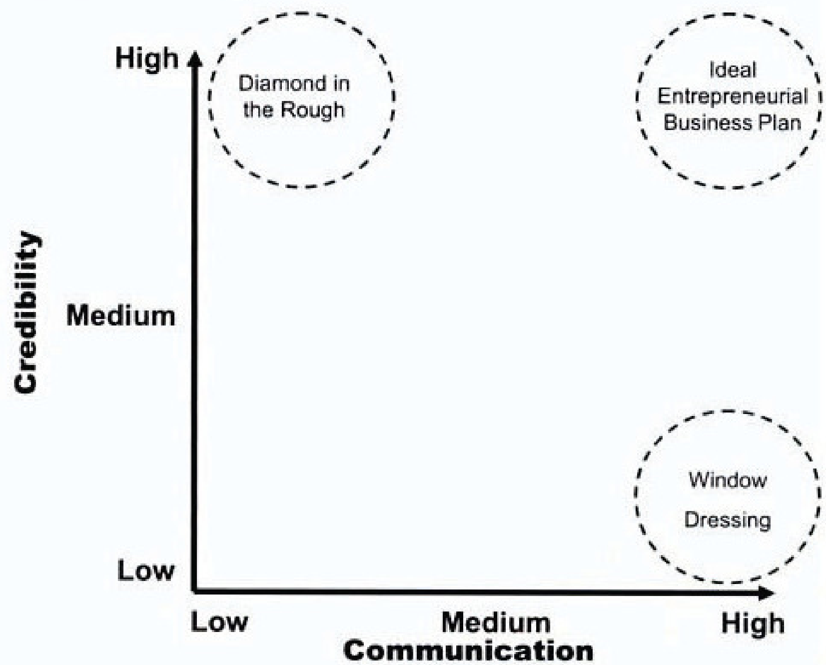


Exhibit 7

Selected Positioning Profiles of EBPs Using EBPAR Visual Summary



DISCUSSION

Initial Utility of the Assessment Regime

Our search for an entrepreneurial business plan assessment regime began with three questions: (1) What is the theoretical basis for writing entrepreneurial business plans? (2) What are the Fundamental principles synthesized from the literature? (3) How can these principles be operationalized? The discovered regime provides some answers. The new question becomes, How can the assessment regime be best used?

Initially, its principal utility will be as a taxonomic device. Entrepreneurial business plans can now be practically classified and arranged in meaningful clusters. Two brief examples of hypothetical entrepreneurial business plans will be used to illustrate the groupings. EBP 1 describes a venture that proposes to manufacture a new type of sailboat. The vision For the sailboat, the market opportunity, and the revenue model for the new venture are articulated with excellence through out the plan. However, the plan fails to demonstrate credibility by not discussing possible scenarios and contingency strategies. This entrepreneurial business plan would rate high on communication and low on credibility using EBPAR. It would be positioned as "window dressing"; it reads well but lacks credible flexibility (see Exhibit 7). EBP 2 describes a 10-minute oil change service. Present in the plan are a variety of capacity scenarios, detailed timelines, financials, and management team responsibilities. However, the vision for the service and its execution are poorly articulated. This entrepreneurial business plan would rate high on credibility and low on communication. It would be positioned as a "diamond in the rough": the well thought-out, credible flexibility of the venture is eclipsed by poor expression (see Exhibit 7). An EBP positioned as a "diamond in the rough" goes undiscovered by the typical venture capital firm and often remains in the ground unmined.

Assessment of both entrepreneurial business plans would result in very different positioning profiles, but the insight would be equally valuable. The principles important for the assessment of EBPs can be used as guidelines for their improvement. The intended goal is to improve the fundamentals that are identified as weak by the EBPAR. Improving individual fundamentals move an EBP toward the position of "Ideal Entrepreneurial Business Plan" (see Exhibit 7). More generally, entrepreneurs and academe benefit from EBPAR during the writing process by illustrating principles to improve the quality and consistency of an EBP. Venture capital firms have a system for rating the quality of EBP and thus potentially improving their investment decisions.

Future Research Directions

This article has focused on the primary source of decision input in the deal screening process by venture capital firms: the entrepreneurial business plan. What about process? Does the quality of an entrepreneurial business plan affect the deal-screening process? What about actual venture outcome? Is the quality of entrepreneurial business plans related to the actual performance of a new venture? An empirical study using EBPAR to rate the quality of EBPs is a natural extension of this article. Relationships among the EBPAR rating, the funding decision, and the actual venture outcome could be explored. It seems at least possible that the assessment system described in this article--or another theoretically substantiated rating system for the new venture articulation process--could be adapted to increase standardization of business plan content (decision inputs) in much the same way that the model represented by Generally Accepted Accounting Principles (GAAP) did for financial reporting. This could be a very fruitful area of investigation.

CONCLUSION

Our study has shown that the quality of EBPs can be assessed systematically based on theoretical principles. Improving the communication and credibility aspects of an EBP could have the potential to improve the likelihood that the plan passes the venture capital deal-screening process. Determining a visual profile of a particular EBPprovides insight for the entrepreneur and venture capital firm alike. This helps entrepreneurs improve the articulation of their plans. For the venture capital firm, the EBPAR is a refined lens providing new insight to improve deal-screening. The focus of future research should progress towards greater standardization of the writing and rating of entrepreneurial business plans. Standardization--the formal framework of a systematic approach to process improvement--is not an end in itself. But it could become a means of achieving more consistency and greater transparency in the venture capital deal-screening process.

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